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March 26, 2018

Federal Housing Finance Agency
Office of Housing and Regulatory Policy
400 7th Street, N.W., 9th Floor
Washington, D.C. 20219

Re: **Credit Score Request for Input** (RFI)

Dear Coordinator:

Attached, please find NAMB's answers to relevant questions in the recent Credit Score RFI. Thank you for your interest in the opinions of all mortgage origination channels and the impact your decisions could have on small business mortgage broker companies.

National Association of Mortgage Brokers (NAMB), represents the interests of individual mortgage loan originators and small to mid-size mortgage businesses across the United States. Since 1973, NAMB has been the voice of independent mortgage professionals nationwide. NAMB offers professional education and certification programs for its members and advocates for common sense legislation and regulation aimed at helping consumers and improving business conditions for small businesses, independent mortgage companies and licensed mortgage loan originators.

Respectfully,

John G. Stevens

John G. Stevens, CRMS

President, NAMB

Credit Score Request for Input for FHFA

NAMB Response March 23, 2018

Question A1.1:	When and how do you use credit scores during the mortgage life cycle to support your business?

The Broker/ Originator/ Correspondent: The Credit Report and Credit Scores are ordered in the preparation of a mortgage loan application package to be submitted through a wholesale or correspondent origination channel. The scores are used for determining compliance with underwriting guidelines for a specific mortgage type. The scores and other documentation are used in selecting the wholesale lender or correspondent's investor most likely to approve the loan. The credit scores are a heavy factor used in setting the pricing at various lenders or investors and becomes a major factor when selecting the best wholesale lender or correspondent investor to achieve the best available pricing for the consumer and have the loan approved.

Question A1.2:	Do you use the same credit score version for all of your lending business lines, whether it is mortgage lending or non-mortgage lending (e.g., credit card and/or auto loans)? If so, why? If you use multiple credit scores (e.g., FICO and VantageScore3) in making credit decisions for any one line of business, please identify which credit score you use for the type of lending and why? Are you considering updating credit scores that you use in your non-mortgage lending business lines?

Mortgage Broker/Originator/Correspondent: As Wholesale Originators or Loan Correspondents we all use the same versions of Credit Scores which are dictated to us by the Enterprises and Secondary market guidelines. Currently we all use the approved FICO scoring system for each National Credit Reporting Agency that is approved by the Enterprises and the Secondary Marketplace. The only time any of these origination sources would use a different scoring model would be if that company was also providing Insurance to the consumers and they would then be using scoring models for the insurance industry. **[Note: throughout this document we will refer to CRAs as defined by Section 603(p) "Consumer Reporting Agency" found in the Fair Credit Reporting Act 15 U.S.C 1681a]**

Question A1.3:	Is it necessary for any new credit score policy from the Enterprises on credit score models to be applicable in all aspects of the loan life cycle, or could there be differences, such as in servicing?

Wholesale Broker/Originators/Correspondent Lenders: Any new policy would need to be applicable for all phases of the loan life cycle whether for Wholesale Brokers/Correspondent lenders or Servicers to minimize or eliminate confusion not only in the origination guidelines but the pricing structures of the loans and the delivery to the secondary market investors and any hedging done by correspondents.

Question A1.4:	How would mortgage lenders and investors manage different credit score requirements from primary and secondary mortgage market participants? Is it important for your business processes that government guarantee programs in the primary mortgage market (e.g., FHA, VA, USDA-Rural Development) have the same credit score requirements as the Enterprises?

Wholesale Broker/Originators/Correspondents: All would need the same consistent credit score requirements from both the primary and secondary mortgage marketplace including government loans and loans from the Enterprises. Otherwise pricing grids would be impossible to sort through if multiple scoring models were used by multiple entities in the marketplace. The Wholesale Broker Originator delivery system and the consumers who choose that delivery method would be at a great disadvantage in the marketplace. Consumers would have their ability to shop and compare loans without the security of knowing what their credit score is and that the score is a stable component of having their loan request underwritten. Broker and Correspondents would be compelled to purchase all applicable scoring models to ensure that the borrower is getting the best loan and pricing for his or her specific scenario. Increased costs would ultimately be paid for by the consumer.

Question A1.5:	How would updating credit score requirements impact other industry-wide initiatives that affect your organization? What is the relative priority of this initiative compared to other industry-wide initiatives?

Wholesale Broker/Originators/Correspondents: The industry is moving toward smooth Point-of-Sale systems that will provide transparency to the consumer throughout the loan origination cycle. All systems would have to consider new credit score requirements for which programming multiple scoring options would be expensive and confusing for consumers, stifling the adoption of these POS systems.

Question A1.6:	Do you have a recommendation on which option FHFA should adopt?

Broker/Originators/Correspondents: NAMB is recommending Option 1 utilizing FICO 9 (and upgrades to that system) be adopted for the greatest benefit to the consumers in their ability to shop for the best transaction for themselves and to avoid fraud in the marketplace by bad actors potentially gaming the system. This option would also require the least amount of adjustment to the industry's technology requirements and in all likelihood could be transitioned to within 90 to 180 days. Additionally, utilizing a score from a company with no financial interest by the National CRAs creates a layer of accountability and prevents consolidation of power preventing future abuses.

Question A1.7:	Do you have additional concerns with or insights to share on the Enterprises updating their credit score requirements?

Broker/Originators/Correspondents: NAMB welcomes the use of FICO 9 but has concerns with placing control of the scoring models with the National CRAs which have often proven difficult to work with from a consumer's position in improving the accuracy of the credit information stored there. VantageScore3 has not been utilized on a full-scale basis for the mortgage industry and these Vantage Score Solution LLC scoring models do not bring much additional to the table in improving risk assessment already produced by the FICO models since they are both looking at the same information stored in the consumer's credit file. Multiple models actually open the door to fraud by those that would choose the models that would benefit the situation not necessarily provide the most accurate picture of the consumer's credit risk profile.

Question A2.1:	What benefits and disadvantages would you envision for your business, your business partners, and/or borrowers under each of the options?

<u>Option 1:</u> Improved use of information in the calculation of the scores for the consumer by FICO 9 models. The Enterprises will need to pick one scoring model (FICO 9 or VantageScore3) to be used otherwise there will be no consistency in underwriting or pricing for the consumers and confusion with different scores from two different scoring model systems.

<u>Option 2, requiring both models</u>: No significant information gained for the scoring models to utilize in computing the scores. It would mean higher cost to the consumers ordering multiple scores from two systems and confusion by everyone. How do originators and underwriters underwrite and price the different scores from each model?

<u>Option 3, Lender's Choice:</u> This would severely impact the use of the Wholesale Broker delivery channel and restrict the consumers from shopping. It would also create a major hedging issue for the Correspondent Lender when they are working with several Investors for their warehouse lines. For example, if a Consumer submits an application direct to Lender A or through a Wholesale Broker Originator who utilizes FICO 9 models to calculate the credit scores for that consumer and then for whatever reason that lender does not or cannot provide the loan requested, the consumer's loan application would either have to be submitted to another lender who accepts FICO 9 or have another credit report run utilizing VantageScore3. Again, costing the consumer more money in origination cost and less freedom to shop for the best pricing structure for themselves. Lender's Choice also creates an opportunity for fraud (choosing only the scores that benefit the situation) and potential discrimination/UDAAP lawsuits because of the scoring model selected.

<u>Option 4:</u> Sounds great until you look at what additional information is likely to be secured. If for instance, FICO 9 pulled no credit score and recognizing that VantageScore3 delivers additional information from public records (generally bad) or unpaid collection accounts and information for a credit card that has been active for 3 months, the scores are not going to be great and probably not a very positive result for the consumer from a pricing perspective.

Question A2.2:	How significant are the operational considerations for a single score update? Please discuss any comparison of operational considerations between a single score (option 1) and multiple score options (options 2-4).

<u>Broker/Originator/Correspondent:</u> The single scoring model consideration is the safest and least confusing structure to use for underwriting, pricing and the consumer's ability to shop. Options 2 – 4 will have added cost for the consumer with very little added benefit. The single scoring model versus option 2 – 4 operationally will be simpler, cleaner underwriting, less potential for fraud and much faster to enact.

Question A2.3:	What operational considerations are there for preferring one of the multiple credit score options (options 2-4) over the others? For industry participants, are there unique operational considerations for your segment of the industry that FHFA should consider? If so, what are they? Are there unique operational considerations in a wholesale environment with mortgage brokers or correspondents under each of the multiple score options? If so, what are they?

<u>Broker/Originator/ Correspondent:</u> Option 1 utilizing FICO 9 is the only commonsense option that should be used for all of the previously mentioned reasons. Using more than one scoring model type will require technology companies to program and map for delivery of scores from various scoring models adding to cost without significant benefit.

Question A2.4:	Please provide an estimate of how much it would cost your organization to implement each option and how much time it would take to implement each option.

Wholesale Broker/Originators: Option 1 would be the easiest and least expensive transition for our LOS systems to implement and could most likely be done in 90 to 180 days. And as we all recognize those development costs ultimately trickle down to the consumers in added origination cost.

Question A2.5:	Could using any of the multiple credit score options affect the way investors view, and therefore price, Enterprise securities? Could any of the multiple credit score options reduce liquidity in the TBA market and/or increase the volume to the specified market? Are there any unique considerations among the multiple score options (options 2-4) in evaluating their impact on MBS liquidity and/or demand for credit risk transfer transactions?

Wholesale Broker/Originator/Correspondent: The multiple score model options make hedging difficult at best and impossible at worst. Segmenting pools of loans becomes granular to which score/multiple scores were used to price the loan. Post close QC work would show defects between models as well.

Question A2.6:	Under the multiple score options (options 2-4), if other mortgage market participants have different credit score requirements, such as requiring dual credit scores, what operational and resource issues would that present for you?

Wholesale Broker/Originators: Multiple score options will complicate an already complicated process, much more difficult to get technology for the LOS systems and AU systems modified if even possible. It certainly won't be one credit score or the other, underwriters will want to see both sets of scores so they won't miss any information and the cost to the consumer will escalate for no significant benefit to the consumer. All scoring models will look at the same information stored in the National CRA files about a consumer.

Question A2.7:	What impact would any of the credit score options have on a need for consumer education? What impact would the multiple credit score options (options 2-4) have on consumers? Are there steps that FHFA, the Enterprises, or stakeholders could take that would mitigate any confusion about multiple credit score options?

Wholesale Broker/Originator/Correspondent: No, consumers are already confused between FICO scores and Vantage Scores and Educational scores. When the consumer has a lower score disclosed to them due to a difference in the scoring models, they assume the loan originator has done something to the score so the consumer can be charged a higher rate or fee. There will need to be a major educational process about a process that is already laborious, frustrating and confusing to the consumer. Consumer education resources would have to disclose the differences in each models' treatment of different factors; explain why certain actions would impact one score positively and perhaps not impact the other at all. Inquiry explanations are a common example. Confusing enough to require a law to address them, for which the cost was deferred to consumers (FACTA recovery/leg fee)

Question A2.8:	Under option 3 (lender choice with constraints); how would the Enterprises protect against adverse selection and ensure that a lender is not selecting a credit score at the loan level that results in preferential pricing or eligibility? Instead of attempting to reduce adverse selection through setting certain selling requirements for lenders should the Enterprises instead adopt underwriting and pricing policies that account for any increased risk of adverse selection between the two credit score models? Are there ways to control this risk?

Wholesale Broker/Originator/Correspondent: Because both FICO 9 and VantageScore3 are available to consumers via most consumer-direct websites, there are no protections to prevent a consumer advising a lender which scores are higher prior to loan application. This negates lender constraints. Many lenders have programs to already know this information before prequalification/application. They will be able to select the score they use for the end result the lender is choosing not necessarily the end goal of the consumer.

Question A2.9:	Because credit score models are not interchangeable, what issues or challenges would you face if the Enterprises were to have different eligibility or pricing based on the credit score version? What implementation hurdles might exist? How would the differences in pricing be perceived by borrowers?

Wholesale Broker/Originators/Correspondents: Mass confusion in underwriting, technology hurdles and cost to the consumer with no significant benefit for the changes. The consumer advocates will scream predatory lending practices and you will not convince them otherwise.

Question A2.10:	How would you approach evaluating when the benefits of new or multiple credit scores sufficiently exceed the costs and potential risks associated with making such a change?

Wholesale Broker/Originators/Correspondents: Consumer Cost vs. Improved loan performance (not just how many have scores).

Question A3.1:	Given that the CRAs own Vantage Score Solutions, LLC and set the price for both FICO and VantageScore3 credit scores, and own the data used to generate both scores, do you have concerns about competition? If so, please explain your concerns?

Wholesale Broker/Originators/Correspondent: If the system is one of Options 2 – 4 there would become a definite lack of competition as the CRAs would be pricing FICO 9 significantly higher than VantageScore3. These concerns are the cornerstone of the balance of power issue. The National CRAs have been conspicuously raising prices under the guise of improved data (trended data, secondary use fees) with no proven or publicly validated benefit to the consumer. Having the National CRAs also control the score pricing provides an opportunity to price competitors out of the market, then raise prices after widespread adoption.

Question A3.2:	Would allowing multiple credit scores in the mortgage underwriting process encourage new entrants into the scoring marketplace? If the requirement remains to keep a single credit score in the mortgage underwriting process what impact would this have on whether new entrants join the credit scoring marketplace?

Wholesale Broker/Originators: If another entrant feels it has a better scoring model, it will approach the Enterprises just as Vantage Score Solutions, LLC did. However, giving the CRAs an opportunity to underprice competing models would stifle innovation for more predictive scores.

Question A3.3:	What would be the benefits of lender choice if the number of qualified borrowers remained unchanged or changed only modestly from the credit score you are using today to underwrite borrowers for loans sold to the Enterprises?

Wholesale Broker/Originators: None

Question A3.4:	If FHFA allowed the Enterprises to use multiple credit score models by adopting options 2, 3, or 4, would this competition translate into far-superior credit scoring models available to the housing finance markets? Would competition in the mortgage origination process create an incentive to incorporate more credit data for consumers with “thin files” or no credit history? How should FHFA balance these considerations with accuracy and mortgage credit risk?

Wholesale Brokers/Originators/Correspondents: There is a limited data set available for analytic companies to use in developing scoring models, and that data is controlled by the National CRAs. The National CRAs would have the power to allow or disallow competing models. It would move further toward a monopoly in the credit marketplace with no additional benefit to the consumer and ever increasing costs for scores and reports.

Question A3.5:	Could competing credit scores in the mortgage underwriting process lead to a race to the bottom with different vendors competing for more and more customers? What steps could FHFA take to mitigate any race to the bottom?

Wholesale Brokers/Originators/Correspondents: Given an option, some consumers and some originators will find a way to use the highest scores possible regardless of their performance. History shows this from the mid-2000s when multiple versions of Transunion’s models were available concurrently. Traditional the FICO scoring models have multiple years of credit data on consumers to test to make sure the risk assessment is accurate in it predictive capabilities. It would be incumbent on FHFA to make sure the scoring models used go through that intensive testing process before adopting any new model as in the past.

Question B1:	If you have used a single credit report or two-file credit report in your business, please share any empirical information about how much incremental information/benefit is gained as a result of using a second or third credit report.

Wholesale Brokers/Originators/Correspondents: Since not every creditor reports credit history to all three National CRAs and they don't necessarily report at the same time, not every National CRA has all of the available information about a consumer at any one time. Most of the time it is local department stores and utilities and collections or public records that may not be available in all three National CRAs. If we only pull one National CRA report instead of a tri-merged report, our wholesale lender would invariably pull another National CRA report for quality control and as an originator it would be like playing Russian Roulette – last minute surprises are not a good way to assess risk for our wholesale and investor partners or effectively arranging a loan for our customer, the consumer. Supported by CFPB data and independent National CRA data, using less than 3 National CRAs reports, results in about 10% of the population not qualifying for a loan that they would have qualified for using score from all three National CRAs.

Question B2:	If the requirement to pull data from all three credit agencies were replaced with the flexibility to pull data from just two CRAs or one CRA, what could be the benefits or disadvantages to borrowers and your business? What could be the benefits or disadvantages to the credit reporting industry and the mortgage industry in general?

Wholesale Broker/Originators: The originator would not have a complete picture and would be leaving the consumer open to a surprise in reports that were not pulled by the originator but were pulled later by the wholesale lender or investor as part of their QC. The consumer doesn't get the loan and the wholesale lender or investor decides the broker/originator or the correspondent was trying to conceal a credit issue and the originator's business ends up on a list of originators that are committing fraud. The only minor benefit to some consumers might be cost. Because the data is available prior to loan application, consumers will know which National CRAs are the most advantageous to their loan and would suggest pulling from those National CRAs. If a lender determines which National CRAs would be used and the consumer knows all three and one is better, consumers can claim UDAPP violations and sue.

Question B3:	If presented with the flexibility to pull data from just two CRAs or one CRA, would your business

	likely take advantage of this flexibility? If not, why not? If so, what steps would you need to take to be comfortable with that change?

Wholesale Broker/Originators: What we pull is dictated by secondary and the wholesale partner we are choosing to utilize for the consumer's loan. Since underwriters would want to know all three scores and since we don't like surprises that flexibility would not be used and we would explain to the consumer why.

Question B4:	If presented with the flexibility to pull data from just two CRAs or one CRA, would you want the lender to choose the credit agency or would you want the Enterprises or some other market participant to mandate the agency?

Wholesale Broker/Originators: That needs to be dictated by the Enterprises so neither the Broker or the wholesale lender is accused of possible fraudulent activity.

Question B5:	If the option of using one repository were available, how would the Enterprises ensure that the lender is not electing to use the CRA with the highest credit score (best credit profile) at the loan level that results in preferential pricing and eligibility?

Wholesale Broker/Originators/Correspondent: If history is an accurate picture, the potential for this to occur is very high. We don't believe that you could prevent some participants in the industry from doing this. This is why we feel a tri-merged report is the best option.

Question B6:	What issues would this flexibility create if other mortgage participants (investors, insurers, guarantors) continued to require credit data from all three CRAs?

Wholesale Brokers/Originators/Correspondents: Lenders would not be able to qualify or price loans effectively.

Question B7:	If the Enterprises had to increase pricing for using less credit data from fewer than three credit agencies to account for the additional risk, would the flexibility still be attractive?

Wholesale Brokers/Originators/Correspondents: NO.