

# Competing Mortgage Credit Scores: A decision for those who take the risk

The use of credit scores by Fannie Mae and Freddie Mac, as one part of their decisions about which mortgages they will buy and guarantee, is by nature an “inside baseball” mortgage-finance discussion, but it has made its way into the [regulatory reform bill](#) passed by the Senate March 14.

How such scores are statistically created, how predictive they are of loan defaults, how to improve their performance, whether to introduce new scoring methods and the relative predictive ability of alternative methods are above all technical matters of mortgage credit-risk management. These questions are properly decided by those who take the mortgage credit risk and make profits or losses accordingly. This applies to Fannie and Freddie (and equally to any holder of mortgage credit risk with real skin in the game). Those who originate and sell mortgages, but bear no credit risk themselves, and those with various political positions to advance, may certainly have interesting and valuable opinions, but are not the relevant decision makers.

Should Fannie and Freddie stick with their historic use of FICO credit scores, or use VantageScores instead, or both or in some combination? Naturally, their own scores are favored by the companies who produce them and they should make the strongest cases they can. Should Fannie and Freddie more experimentally use other “alternative credit scores” different from either? This can also be argued, although it remains theoretical.

The Senate bill requires Fannie and Freddie to consider alternative credit-scoring models and to solicit applications from competitive producers of the scores for analysis and consideration. That is something a rational mortgage credit business would want to do from time to time in any case, and in fact, Fannie and Freddie have analyzed alternative credit scores. The bill further requires that the process of the review and analysis of credit score performance must itself be reviewed periodically, which is certainly reasonable.

Thus the bill would require a process. But when it comes to the actual decisions about which credit scores to use and how to use them in managing the credit risks they take, Fannie and Freddie themselves are the proper decision makers. In my view, they would not necessarily have to make the same decision. Moreover, either or both could decide to run pilot program experiments, if they found that useful.

The Federal Housing Finance Agency (FHFA), Fannie and Freddie’s regulator and conservator, has in process a thoughtful and careful project to consider these questions, has solicited and is gathering public comments from interested parties and displays a very good grasp of the issues involved. But I do not think that, at the end of this project, the

FHFA should make the decision. Rather, Fannie and Freddie should make their own credit-scoring decisions, subject to regulatory review by the FHFA—and of course in accordance with the regulatory reform bill, if it becomes law, as I hope it will.