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March 26, 2018
Melvin L. Watt
Director
Federal Housing Finance Agency
Constitution Center
400 7th Street, SW
Washington, D.C. 20219

RE: Credit Score Request for Input

Dear Director Watt:

The Housing Policy Council[1] ("HPC") of the Financial Services Roundtable recognizes the challenges posed by an industry-wide conversion to new credit scoring models and appreciates the complexity of the FHFA decision. We fully understand and agree that such a decision requires a disciplined, well-informed, and comprehensive cost-benefit assessment, performed on behalf of the full marketplace. In the Request for Input ("RFI"), the agency has articulated the difficulty of this assessment and significant consequences of the ultimate decision, highlighting the various ways in which scores are used, the host of affected parties, and the multitude of issues that must be considered. A good deal of the RFI's excellent contextual overview reflects information and insight that the industry provided to FHFA on this subject.

HPC members support the goal of ensuring that the most accurate and effective credit scoring models be available for use in the mortgage market, under a transparent and sound regulatory regime that encourages competition. While we are willing to offer another round of input on the matter, we believe that it may be more efficient to address what actions we would like FHFA and the GSEs to take to help all stakeholders understand the true implications of replacing Classic FICO as well as what type of process FHFA and the GSEs should establish before adopting a new scoring model or models. To that end, in this letter we provide three key recommendations for FHFA, as the agency's assessment continues:

(1) FHFA should publish, or enable the publication of, data sets that would permit industry participants to conduct cost-benefit analyses, performance assessments, or other relevant evaluations;

[1] The Housing Policy Council (HPC) is a division of the Financial Services Roundtable (FSR). Our members are 30 of the leading national mortgage lenders, servicers, mortgage insurers, and title and data companies. HPC advocates for the mortgage and housing marketplace interests of its members in legislative, regulatory, and judicial forums. For additional information, visit: http://www.fsroundtable.org/category/hpc/

(2) FHFA should establish a process by which the agency, working in conjunction with the federal prudential regulators, continuously evaluates new and existing scoring models for reliability, predictability, accuracy, fairness, and equivalency; such an approach should be put in place **prior** to replacing the existing scoring model or adopting multiple scoring models; and
(3) In the interim, FHFA should actively pursue an alternative to the tri-merge credit report, a decision which is far less complicated than the replacement of the scoring model or models to be used and yet may come with significant benefits in reducing costs and increasing competition.

To be clear, HPC is not taking a position at this time on the best path forward of the four options outlined in the RFI. Without FHFA releasing more information and data, HPC is unable to properly evaluate the four options detailed in the RFI. In reviewing those options, however, we would warn against any option that would require mortgage lenders to use more than one credit score model for any single loan transaction. While we need more information to assess what model or models should be used, fundamentally, requiring lenders to use two models for every single loan would be inefficient, costly, unnecessary, and confusing to all parties involved including consumers, lenders, the Enterprises, mortgage insurance companies, and mortgage investors. It is our hope that by following the recommendations outlined in this letter, FHFA, the GSEs, and all interested stakeholders can work thoughtfully and pragmatically towards a solution.

FHFA should publish more information to ensure an informed and thorough assessment.

While FHFA is seeking detailed feedback and opinions on a variety of aspects of a change in the credit score model used by the Enterprises, FHFA has not provided enough information for those affected by any change to the model to fully assess the potential impact, including the costs or benefits of such a change. FHFA must publish or enable the publication of more information and data, which will allow stakeholders to assess the potential impacts of a shift in the credit score model.

For example, the FHFA could require that the GSEs permit the Credit Risk Transfer ("CRT") reference pool loan-level data sets to be appended with FICO 9.0, VantageScore 3.0, and VantageScore 4.0 scores, subject to appropriate safeguards for consumers' privacy. This data could be used by interested parties across the industry – from investors to lenders to mortgage insurance companies – to observe loan performance for the same set of loans under each of the scoring models. Public release of this type of comprehensive data would allow stakeholders in the marketplace the opportunity to evaluate the models in a way that only the GSEs and FHFA can do today. This also would provide an opportunity for a full assessment of the potential ramifications of the use of more than one credit score model at one time on the TBA market, to prevent any unintended pricing, stipulations, arbitrage activities. Frankly, this type of transparency would relieve the FHFA and GSEs from the burden of making this difficult decision alone, without the benefit of well-informed, analytical insight from other parties in the industry.

In addition, the industry would appreciate learning the findings and methodology used in the empirical evaluation of Classic FICO, FICO 9, and VantageScore 3.0 While the full analysis may be proprietary in nature, some high-level descriptions of the approach and observations would be useful for the industry. The empirical evaluation discussed in the RFI appears to be narrow in scope, and yet, with very few details released, a full understanding of the evaluation is unobtainable.

As an alternative or supplemental approach, FHFA and the GSEs could identify objective and independent third parties with whom they could share data for analysis and ultimate publication, perhaps with some form of industry advisory committee involved in formulating the methodology or a peer review that would ensure industry engagement and input over the course of the research and analysis.

FHFA should establish a process for continuous validation and evaluation of credit scoring models – existing and new.

Moving forward, FHFA and the GSEs should establish a clear, detailed, and transparent process to continuously validate all credit score models, both those being utilized by the Enterprises and those being considered for potential future use. The evaluation should be focused on the risk-management capabilities of the models, such as predictability, reliability, and accuracy through a complete economic cycle, as well as the fair lending implications of various models. Finally, and perhaps most important, if the FHFA were to determine that multiple scores can co-exist within the mortgage market, the agency must have a continual assessment of the models for fundamental equivalency, an understanding of the costs and benefits of multiple scores, a formal process by which that information would be uniformly available to all market participants, and a plan for implementing effective consumer education.

As part of the model validation process, we ask that FHFA and the Enterprises be cognizant of the risks involved in the use of credit score models. FHFA and the Enterprises' validation and oversight processes of these models must address those inherent risks, such as fair lending, adverse selection, and the implications for capital markets and pricing. A key part of addressing those risks is through constant and careful coordination with the federal banking agencies, as those agencies have strict guidance and oversight of the credit models used by depository institutions. Additionally, FHFA should work closely with Ginnie Mae to ensure coordination and consistency in the federally-backed mortgage market.

FHFA should actively pursue an alternative to the tri-merge credit report in favor of one that reduces costs and increases competition, while preserving accuracy. (Questions B2 & B3)

HPC appreciates that FHFA is evaluating whether to change from the current approach of using a borrower's credit report from each of the three national consumer reporting agencies ("CRAs") ("tri-merge credit report"). FHFA appears to be evaluating whether to change this to requiring lenders to obtain only two or one report and score from the CRAs for each mortgage applicant.

HPC encourages FHFA to consider replacing the tri-merge model, assuming that FHFA's evaluation determines that doing so will not sacrifice accuracy. It is our view the competition created from requiring the report and score from two CRAs, rather than all three, may significantly reduce costs and improve efficiencies, without sacrificing accuracy and quality. Further, we believe that the change to a bi-merge model would provide an opportune time to permit consideration of Innovis as another CRA option. All four national CRAs have fairly similar data sets, which result in less variation from one score to the next than was once the case (when regional differences were common). We note that the shift to a bi-merge or single report policy could be done prior to any changes in credit score model or models. We encourage FHFA to engage with the industry and other stakeholders to replace the tri-merge model.

As we noted earlier, HPC and its member companies support competition in credit score models as a means to ensure that the most effective credit score models are available for use in the mortgage market. We stand ready to work with FHFA and the Enterprises to further evaluate the issues presented in a potential change of credit score models used by the Enterprises, and we look forward to continuing this important dialogue. If you would like to discuss this further, please contact our Senior Vice President for Mortgage Policy, Meg Burns, at 202-589-1926 or Meg.Burns@FSRoundtable.org.

Yours truly,

Edward J. DeMarco

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