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Federal Housing Finance Agency
Office of Housing and Regulatory Policy
400 7th Street, SW
Washington, DC 20219

Re: Request for Input on Fannie Mae and Freddie Mac Credit Score Requirements

To Whom It May Concern:

On behalf of America's credit unions, I am writing the Federal Housing Finance Agency (FHFA) regarding its request for input (RFI) on Fannie Mae and Freddie Mac Credit Score Requirements. The Credit Union National Association (CUNA) represents America's credit unions and their 110 million members.

We appreciate the FHFA's inquiry into the issue of credit score requirements. We encourage the FHFA to continue to work to find the right balance between safety and soundness on the one hand, and credit availability for American consumers on the other. Since the financial crisis, mortgage credit has become less available for many Americans as underwriting standards have tightened.

CUNA believes FHFA should continue to work with lenders, including credit unions, to improve and promote the housing market. Having a housing finance market that provides liquidity throughout the country requires strong participation by a wide range of lenders, including small lenders and lenders serving rural areas. Qualified financial institutions and creditworthy eligible borrowers should have fair and equitable access to the financial services offered by Fannie Mae and Freddie Mac (the Enterprises).

FHFA Request for Input

The FHFA is seeking feedback about the operational and competition considerations of changing the Enterprises' current credit score requirements. The credit scores being evaluated by FHFA and the Enterprises are Classic FICO, FICO 9, and VantageScore 3.0. The Enterprises currently use Classic FICO for product eligibility, loan pricing, and financial disclosure purposes. In addition, the Enterprises have recently implemented changes that allow their automated underwriting systems to evaluate borrowers who do not have a Classic FICO credit score.

As part of FHFA's review of credit scoring requirements, it is evaluating the following updated credit score model options. Each of these options would also need to analyze how best to incorporate the Enterprises' current capability to evaluate borrowers without a credit score.

- Option 1 – Single Score: The Enterprises would require delivery of a single score—either FICO 9 or VantageScore 3.0—if available on every loan.

- Option 2 – Require Both: The Enterprises would require delivery of both scores, FICO 9 and VantageScore 3.0, if available, on every loan. This option would require policy decisions about how to treat borrowers with a credit score from one provider but not the other.

- Option 3 – Lender Choice on which Score to Deliver, with Constraints: The Enterprises would allow lenders to deliver loans with either FICO 9 or VantageScore 3.0, when available. Lenders would have to choose one score or the other for a defined period of time (e.g., no less than 12 months). This option would require policy decisions on the length of time a lender or correspondent would need to commit to a certain credit score. Additionally, policy decisions would need to be made on whether to require mortgage aggregators and brokers to adopt a single score approach or whether to allow them to aggregate loans underwritten with FICO 9 or VantageScore 3.0 scores.

- Option 4 – Waterfall: The Enterprises would allow delivery of multiple score(s) through a waterfall approach that would establish a primary credit score and secondary credit score. Where a borrower did not have a credit score under the primary credit score, a lender would have the *option* to provide the secondary credit score. FHFA and the Enterprises would need to determine how a secondary credit score option would interact with each Enterprises' automated underwriting systems' ability to evaluate a loan application where the borrower(s) do not have a credit score and how to apply the policy for manually underwritten loans.

While the FHFA is seeking input on several specific questions, many of which pertain to operational issues, our responses are limited to those questions we believe will be most helpful in framing the issues from the credit union perspective.

General Questions on Credit Scores

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

- The majority of credit unions offer mortgage loans to their member-borrowers. Credit unions regularly use credit scores to assess a borrower's propensity to repay at loan origination.

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 VantageScore) 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?

- Credit unions may use different credit scoring models to determine borrower creditworthiness across product lines. This decision may be made for a variety of reasons, including pricing, strength of default predictive ability, or availability.

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

- While we do not have a recommendation that FHFA adopt a particular option, we discourage the agency from choosing Option 2, which would require credit unions to deliver both FICO 9 and VantageScore 3.0 scores, if available, on every loan. Whichever option FHFA ultimately chooses it should minimize prescriptive requirements and maximize flexibility.

Operational Questions on Credit Scores

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).

- Any changes to the score models required for underwriting Enterprise-eligible loans could present significant operational challenges. For larger lenders who develop and maintain their own underwriting systems, there would likely be direct costs and delays associated with implementing any changes, while for smaller lenders who may be reliant on third-party vendor systems, there may be indirect costs or waiting periods for relevant updates, any of which could prove disruptive to mortgage lending credit unions and the borrowers they serve.

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 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 mortgage-backed securities (MBS) liquidity and/or demand for credit risk transfer transactions?

- We cannot speak directly for the investor community, but acknowledge this concern may be legitimate because having Enterprise securities on the market which consist of loans underwritten using different models could have an impact on the fungibility and price transparency of Enterprise securities, or create a multi-tiered market where securities may trade at a premium or discount simply depending on the credit scoring model used in underwriting.

Questions on Merged Credit Reports

Question B3: If presented with the flexibility to pull data from just two credit reporting agencies (CRA) 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?

- Provided the option, it is likely some credit unions would take advantage of this, particularly depending on pricing or operational factors. Again, we encourage policy and regulatory decisions by FHFA that maximize flexibility, including by deferring to the decision of credit union management.

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?

- Again, we would support an approach that provides greatest flexibility for the lender (credit union). Thus, we support allowing the lender to choose which credit agencies to pull data from for a particular loan.

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?

- While we are unsure how exactly the Enterprises could avoid such a result, we recognize the legitimacy of this concern. We ask FHFA to examine the comments received in response to this question and further analyze this issue if necessary.

Conclusion

On behalf of America's credit unions and their 110 million members, thank you for the opportunity to share our views regarding the FHFA's RFI on Fannie Mae and Freddie Mac Credit Score Requirements. If you have questions about our comments, please do not hesitate to contact me at (202) 508-6743.

Sincerely,

Luke Martone

Luke Martone
Senior Director of Advocacy & Counsel