

March 14, 2018

The Honorable Melvin L. Watt
Federal Housing Finance Agency
Office of Housing and Regulatory Policy
400 7th Street Southwest, 9th Floor
Washington, DC 20219

Re: Request for Input on Credit Score Requirements

Dear Director Watt:

Thank you for the chance to contribute to this important evaluation.

New American Funding is a family-owned, nationwide independent mortgage lender. Since our founding in 2003, our operation has expanded to 145 nationwide branches, a servicing portfolio of \$23 billion, and roughly \$900 billion in monthly originations across Fannie Mae, Freddie Mac, and Ginnie Mae programs.

As a leading lender and servicer in the Latino community, we have seen firsthand how many creditworthy borrowers struggle to access credit at a competitive price due to a gateway defined by credit scores. Both Fannie Mae and Freddie Mac have made progress in piloting new approaches to serving applicants with nontraditional credit. In order to move these programs into the mainstream, however, it's time to rethink today's outdated credit score mandates.

While hardly a factor in underwriting, an applicant's credit score says a lot about his or her ability to access a mortgage. Scores impact eligibility for certain types of products; pricing, on multiple levels; the availability of mortgage insurance; and the types and number of lenders willing to work with you. While Fannie Mae and Freddie Mac clearly understand the limitations of credit scores, as evidenced by their limited roles in DU and LP, many other market participants treat them as the first and final word.

We work extensively with nontraditional credit applicants and see firsthand how limited the options can be for prospective borrowers without a credit score or those on the margins of eligibility.

Hispanic families have led new household formation over the last decade. According to the National Association of Hispanic Real Estate Professionals (NAHREP), Hispanics will add approximately 6 million new households by 2024. We see every day how cultural differences, like an aversion to credit or a reliance on family members for financial help, can make it difficult for Latino applicants to access mainstream mortgage credit. While a Classic FICO Score may work overall and on average, we see many deserving people struggle or fall through the cracks.

We have not studied any credit scoring model closely enough to know which one would be the solution. We know that VantageScore claims to be designed to more accurately score consumers with thin or

sparse credit histories, and that Hispanics disproportionately fall in that camp. We know that Oportun, which has had great success in making installment loans to Latino borrowers, uses VantageScore as one of many factors in making underwriting decisions. We further know that VantageScore has been active and engaged in our community for a decade.

But ultimately, we will only know whether VantageScore or FICO 9 or any future model is right if we are given permission to look. We ask you, respectfully, to give us that choice. We ask you for the option to choose—presuming the available models meet FHFA’s high standards—the model that best fits our business. We ask you to move forward with Option 3.

As you have rightly noted throughout the RFI, a change from the current requirements would bring meaningful costs to the industry. As with all change, it would also pose new risks in transition and over the long run. This is clearly why FHFA has been so judicious in studying this opportunity over the past several years.

If we’re going to open up the patient, let’s make sure to permanently fix the problem by establishing a safe, transparent system through which model developers compete on accuracy and coverage. We propose that Fannie Mae and Freddie Mac, together with FHFA, should establish a transparent, diligent process to evaluate new models then let lenders choose which to implement. To prevent gaming, lenders should be limited from switching back and forth between models. To provide a safe transition in the correspondent and capital markets, FHFA should require meaningful advanced notice and work with the model developers to publish plenty of historical and comparative data.

Let’s make sure that, as demographics and technology and consumer behaviors change, we are in a position to consider and adopt the latest tools. Done right, competition can help lenders to better serve the borrowers of tomorrow. The first step is to replace today’s outdated and overly rigid credit score requirement with one that promotes choice.

Thank you,

A handwritten signature in black ink, appearing to read 'Patricia Arvielo', written over the printed name below it.

Patricia Arvielo