RBFCU

March 29, 2018

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

RE: Credit Score Request for Input

Dear Sir or Madam:

On behalf of Randolph-Brooks Federal Credit Union ("RBFCU"), this letter is being submitted in response to the Federal Housing Finance Agency's ("FHFA") Request for Input ("RFI") on credit score models. We greatly appreciate the opportunity to comment.

Introduction

The *Housing and Economic Recovery Act of 2008* established the FHFA to supervise, regulate, and provide oversight of Fannie Mae and Freddie Mac (the "Enterprises") and the Federal Home Loan Bank System. Since 2008, the FHFA has served as conservator of the Enterprises. The FHFA's *2015 and 2016 Scorecards for Fannie Mae, Freddie Mac, and Common Securitization Solutions* required the Enterprises to assess the potential impact of updating the Enterprises' credit score requirement from Classic FICO to another score or scores. The Enterprises analyzed the scores from three credit score models – Classic FICO, FICO 9, and VantageScore 3.0 – and evaluated the impact of a new credit score model on access to credit, operations in the mortgage finance industry, and competition in the credit score market. The FHFA is now using this RFI to gather feedback from stakeholders on various credit score model options.

Reasons for Modifying the Credit Score Model

Although the Classic FICO credit score model is more than 12 years old, FHFA and the Enterprises believe that this score remains a reasonable predictor of default risk for the Enterprises' internal uses. However, FHFA has stated there are other compelling reasons for the Enterprises to update their credit score requirement including:

(1) The new models provide a slight increase in accuracy, which would ultimately benefit borrowers and investors.
(2) In building the models for FICO 9 and VantageScore 3.0, both companies have incorporated economic changes since the financial crisis following 2008.
(3) Third-party collections that have been paid no longer negatively impact applicants' credit scores in the new models

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(4) Medical collections are now treated differently than other types of debt, resulting in medical debt having less of a negative impact than with Classic FICO.
(5) Rental history, when reported to the CRAs, has been incorporated into the new models.

New Credit Score Models

As a result of the above considerations, FHFA is now evaluating the following updated credit score model options:

(1) Requiring delivery of a single score – either FICO 9 or VantageScore 3.0 – if available, on every loan;
(2) Requiring delivery of both scores, if available, on every loan;
(3) Allowing lenders to deliver loans with either score, when available, with certain constraints such as using one score or the other for a defined period of time; and
(4) Allowing delivery of multiple scores through a waterfall approach that would establish a primary credit score and secondary credit score.

RBFCU Supports Option 1

RBFCU believes the adoption of a single score, either FICO 9 or VantageScore 3.0, will best serve consumers and credit unions. This option will serve as a predictive, independent, and reliable indicator of credit risk and create the most simple and transparent process for lenders and consumers. If multiple scores are used, costs will increase and institutions must either absorb these costs or pass these costs to the consumer through higher fees. The single score requirement has the additional benefit of taking less time to implement than any of the multiple credit score options which increases complexity.

RBFCU believes aligning the mortgage industry with one credit score option will bring standardization and consistency in the marketplace and ultimately be more beneficial to consumers and lenders through lower costs. For the reasons stated, we ask the FHFA to adopt Option 1.

Tri-Merge Report

In the non-mortgage lending market (e.g., credit card, auto loans) it is common practice to use a single consumer reporting agency ("CRA") source for credit scores and credit reports when underwriting credit risk. Because non-mortgage lenders are able to choose which CRA to pull credit data from, these lenders receive competitive pricing on credit scores and credit reports from the CRAs. Unlike non-mortgage lenders, the mortgage industry standard requires lenders to use a borrower's credit report and credit score from each of the three national credit reporting agencies (commonly referred to as a "tri-merge credit report"). The FHFA is now evaluating whether to require lenders to obtain only one or two reports and scores from the credit reporting agencies for each mortgage application.

Because the price for a tri-merge report can be more than three times the cost of a single credit report, RBFCU believes changing the existing requirement to pull data from all three CRAs to pulling data from just two or one CRAs would be very beneficial to lenders from a cost perspective. These savings can be passed to the consumer through lower fees when they apply for a mortgage. Additionally, moving away from a tri-merge report will not sacrifice consumer credit accuracy, and lenders will still have a reliable indicator of credit risk.

Implementation Times

RBFCU believes implementation of a new credit score model will take at least 12-24 months. Adjusting to a new credit score model will require software and system updates as well as an adjustment of business processes. The publication of the Enterprises' loan level data and historical data in advance of the credit score model change would greatly assist companies in efficiently updating their models. By publishing this data, companies will better understand how the new credit score model requirements compare to Classic FICO.

Conclusion

Credit unions are well recognized for their adherence to service and their dedication to members. For this reason, credit unions make decisions with an eye towards helping their members. Overall, RBFCU believes Option 1 will be the most cost effective solution for consumers and credit unions. As such, we advocate FHFA to choose this option. We greatly appreciate FHFA's decision to modernize the credit score model. In closing, we thank you once again for allowing us to comment on this important issue.

Sincerely,

Sonya McDonald

Sonya McDonald
Executive Vice President, Chief Lending Officer
Randolph-Brooks FCU