March 26, 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 opportunity to weigh in on this very important topic. I appreciate that this has been a long and complicated evaluation, and we look forward to a conclusion that results in lenders like Union having a choice in which credit scoring model they use.

Union Home Mortgage is an independent mortgage company based in Ohio with a track record spanning more than 40 years. We operate in 34 states and the District of Columbia and across all major lending channels. We take particular pride in having been named one of the best lenders for minority groups, women, and LMI borrowers by the National Community Reinvestment Coalition.

As you know, credit is more complicated than any one credit score. This is why all types of lenders undertake expansive evaluations of each borrower's full credit history and financial status. Freddie Mac and Fannie Mae report that they'd expect very little lift from using newer FICO or VantageScore models. Below I'll offer three reasons why I believe them and three reasons why lender choice is still the right outcome for consumers and the industry.

#1: Neither DU nor LP put much weight on FICO Scores. Both Fannie and Freddie have built their own, presumably better, internal models. If they're hardly using Classic FICO, then the upside to modifying it to include the VantageScore 3.0 and/or FICO 9 is necessarily limited. Everyone else, however, relies on credit scores quite a bit. Many lenders, including Union, have built credit overlays around FICO scores. An applicant's score determines the availability and pricing of insurance. It determines which lenders will bid for his or her loan and at what price. It determines whether a borrower applies in the first place and where he or she begins that journey. And, in the end, it's still one of only two factors that determine

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the delivery fees charged by Fannie or Freddie. For these reasons, the "lift" to the industry as a whole could be substantially greater than the inside view at Fannie or Freddie.

#2: You can't study the loans you don't see. Fannie and Freddie have made good strides in streamlining their programs for nontraditional credit. But let's face it: they have not been the primary channels for financing borrowers with FICO Scores in the 600s, let alone borrowers without a FICO score . Some people get discouraged and don't apply. Some may be advised against applying because they don't fit in the box. Others are steered towards FHA, VA, USDA, or portfolio products. There is a chicken and egg problem in this analysis. By opening the door to other models, there is an opportunity to collect data on underserved and currently unscored markets.

#3: You're looking from the top down. What could be a rounding error for Fannie and Freddie could be very meaningful for a given community or niche or strategy. It's certainly meaningful for those consumers on the cusp of eligibility or affordability. VantageScore claims that almost 8 million consumers would have a 620 or better on its scale despite having no score at all using FICO. This doesn't mean those millions would clear underwriting, but doesn't it suggest that *at least* a few might get a shot at eligibility or a fairer price? Without a doubt, it gives more consumers a view of their credit profile and a path to homeownership.

I don't know which scoring model is right for my business and my customers. During my almost 30 years in the industry, it's never been a question I've had the luxury of asking. Rather than debate these questions from the top down, I'd like to see the market decide. I'd like to see FHFA put policies in place to ensure fair competition, like high standards for accuracy and limitations on how often lenders can change models.

Your RFI outlines four potential options. I join with many of my colleagues in echoing that every single one of those options will impose costs on the industry. Likewise, I join with many of them in acknowledging that the time has come to take the bitter medicine. If we are to pay the price of change, let's get it right. I urge you to move forward with Option 3. To prevent any disruptions or unnecessary costs, I encourage FHFA to provide for a long, transparent implementation process and to share as much information about the new models as possible. A loan level modeling dataset could go a long way for everyone.

While Option 3 clearly rewards competition, FHFA can take this one step further by *encouraging* it. The bar should always be very high for new models in the mortgage market and that bar should always be set by the experts at Fannie and Freddie. But for those model developers able to surpass it, there should be a transparent, predictable, and thoughtful process for market entry. As a first step, FHFA might require that any model developer, as a precondition for entry, provide the market enough data to study performance and draw comparisons. This process would make sure that, the next time someone builds a better mousetrap, the industry is in a better position to evaluate and benefit from it.

This industry has outlived a tidal wave of change in recent years. This topic has always fallen into the "important but not urgent" category. But the time to address it is now. The tone of the questions in the RFI is a list of hurdles to overcome in the planning and implementation. These hurdles are not insurmountable. The value and opportunity for the consumer far outweighs the challenges in getting there. As a recent Board Chairman of the Mortgage Bankers Association, I encourage FHFA to work closely with MBA and other industry groups towards a safe implementation.

Sincerely,

Bill Cosgrove, CMB
President/CEO

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