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February 9, 2018

Mel Watts

Federal Housing Finance Agency,

Office of Housing and Regulatory Policy,

400 7th Street SW, 9th floor,

Washington, D.C., 20219

Subject: Federal Housing Finance Agency Alternative Credit Score

Dear Director Watts:

Coastal Credit Union appreciates the opportunity to respond to the Federal Housing Finance Agency (FHFA) Alternative Credit Scores Request for input. Coastal is headquartered in Raleigh, North Carolina with $2.9 billion in assets and 22 branches serving more than 240,000 members.

We would like to commend the Federal Housing Finance Agency (FHFA) for taking this opportunity in soliciting information regarding its evaluation of whether to change the current credit score requirements of the government-sponsored enterprises (GSE's), Fannie Mae and Freddie Mac.

We understand The Credit Score Competition Act would authorize the Federal Housing Finance Agency to set standards and criteria for any process used by either enterprise to validate and approve credit scoring models. It would not mandate that Fannie and Freddie adopt other scoring models, but allow for consideration of different ones. Regarding this consideration, we have
found the current Classic FICO serves to disqualify, or 'price out,' many would-be borrowers whose credit reports cannot generate a credit score, or who end up paying significant penalties based on their credit scores. Earlier this year, Rep. Ed Royce, R-Calif., introduced a bill (H.R. 898) that would require Fannie Mae and Freddie Mac to consider alternative credit scores. There are several compelling reasons to update to a more current credit scoring model such as FICO 9, or VantageScore 3.0, these are listed below:

- The newer models provide an increased accuracy, which benefits all parties.
- The referenced newer models have incorporated economic changes since the financial crisis.
- Third Party Collections that have been satisfied/paid no longer negatively impact applicants' credit scores in the newer updated models, i.e., FICO 9 or VantageScore 3.0.
- Medical collections are given a different weight compared to other collections, resulting in a less negative impact with the more current models than with the Classic FICO.
- Rental History, when reported, is incorporated into the newer models.

Coastal would like to take advantage of the opportunity to comment and respond to the following questions that are posed in the RFI. Our responses are as follows:

General Answers on Credit Scores:

A.1.1. We use credit scores as a guide on the credit worthiness of the borrower, in addition to pricing the loan for delivery to Fannie Mae.

A1.2. We do not currently use the same credit scoring model for all lending, non-mortgage loans use a more accurate and updated FICO model. Due to 70% of our mortgages being delivered to Fannie Mae, we are mandated to use the Classic FICO for those loans. Using the same model would create a better and more efficient experience for our member. Yes, we are considering using the same Credit Scoring for both lending areas, due to the efficiencies and member experience. The FHFA's decision to update the current model would impact our decision.

A1.3. Consistency in the credit scoring models for all areas in the primary mortgage market would be our most desired option.

A1.4. N/A

A1.5. In our opinion adapting a more accurate and updated credit scoring model takes priority in the industry initiatives, the impact of the consistency and efficiencies would be industry wide game changers. Our first recommendation would be Option 1, a secondary would be Option 2. Given the option to choose the credit reporting agency, whether it's one or two, would be enable us to be consistent with non-mortgage lending.

Operational answers on Credit Scores:

A2.1. Due to our recommendation of Option 2 or 3, the benefits would be numerous in the consistency and efficiencies operationally, in addition to the added value of the member experience. I don't see a disadvantage, there would be some level of effort and expense on updating the Lending Platforms LOS to be universal within all Lending Platforms.

A2.2. The single score would be a great advantage due to our non-mortgage lending platforms use a single score, this would create a higher level of efficiency, consistency and minimize cost. In addition to elevating the members experience. Single Score has the advantage over the other Options.

A2.3. The operational advantage for Option 1 is the universal effect with non-mortgage lending. This option enables both lending platforms to use the same credit model.

A2.4. The operational cost for option 1 would be a cost savings, we would have to differ to the LOS-systems on the reconfiguring costs, if any. At this time, we would not be able to define those costs, with that said these would not be costs we would absorb. The timeline estimate could be from six months to one year.

A2.5. The Enterprise Securities would need to adjust and reconfigure the loan level price adjustment tiers. There could be many impacts to using multiple score models and therefore, costs would be a factor, especially in assessing the credit risk and impact on MBS liquidity and/or demand. We would hope FHFA's algorithm for pricing and/or loan level price adjustments would be consistent and transparent for all borrowers no matter the model used.

A2.6. Using a multiple score model would be put unnecessary strain on our resources, and costs.

A2.7. Updating the current score model would be an advantage to the consumer, due to the many already stated.

A2.8. Option 3 with constraints would not be our first option to the control risk and potential to game the credit scoring model.

A2.9. The LOS would need to integrate with Desk top underwriting to support the various eligibility pricing grids that would be needed for multiple scoring models, this could cause various hurdles and compromise the member experience. Option 1 would not cause the issues. Increased pricing for less data or using fewer than three credit reporting agencies would not be advantageous or an added benefit to our member experience.

Credit Score Competition

A3.1. Now, we do not have concerns about competition.

A3.2. Yes, using multiple credit score models would open the door to possible new entrants into the credit scoring marketplace, this may not have a negative impact. Whether you pull data from three or two credit reporting agencies, the accuracy of the data and the integrity, in addition to the impact on the credit score is the benefit to our borrowers and the credit union, there are no disadvantages.

A3.3. Any increase to qualified borrowers would be deemed as a success. Especially with first time home buyers. Even if the number of qualified borrowers did not change by using a more updated credit score model, the enhancements previously listed on the data integrity alone would ensure a better member experience.

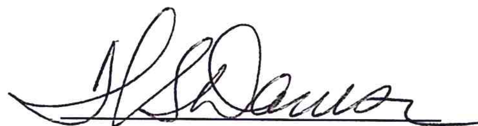
A3.4. Thin credit files or no credit history continues to be a challenge, especially first-time home buyers. Adapting to a credit scoring model that supports the non-traditional credit would be a major advantage for these buyers, in addition to other buyers using nontraditional credit.

A3.5. By updating to a more current model such as FICO 9 or VantageScore 3.0, it may help consumers by increasing competition among credit score providers in the mortgage market. This will especially help unbanked or under-banked consumers.

We again are appreciative of the FHFA's efforts and the opportunity to opine on this worthwhile initiative.

Sincerely,

Marty Pell
Chief Lending Officer



Wendy Dawson
VP of Mortgage Lending