PulteGroup

March 29, 2018

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 Ladies and Gentlemen:

Thank you for the opportunity to again provide feedback regarding the credit scoring requirements held by Fannie Mae and Freddie Mac. Since 2004, I have served as President and Chief Executive Officer of Pulte Mortgage LLC in Englewood, Colorado and have nearly 40 years of experience in the residential mortgage industry, the last 30 of which have been with Pulte Mortgage. Since our founding in 1972, we have helped more than 400,000 homebuyers finance their new home purchases. Pulte Mortgage is a part of PulteGroup, one of America's largest homebuilders with operations in over 700 communities across the United States. PulteGroup is proud to offer a broad array of homes, from starter to move-up to active adult.

I have also served as the Chairman of the Board of Directors of the Mortgage Bankers Association and previously held a variety of industry leadership positions, including as a member of the Fannie Mae and Freddie Mac National Advisory Councils and Chair of the MBA's Residential Board of Governors (RESBOG).

I first wrote about the topic of credit score requirements in a 2015 issue of American Banker. Now, I am encouraged to see FHFA's process approach its conclusion. At a speech in August of last year, Director Watt commented that this has been "among the most difficult evaluations undertaken during my tenure as Director of FHFA." This is understandable for two reasons.

First, credit scores are a gating factor. They contribute to determining not just eligibility and pricing, but also channel and selection. Borrowers without credit scores or with scores lower on the common lending spectrum may, despite hypothetically qualifying through a nontraditional credit program, self-select out of the process. Those that continue will likely face higher fees.

Second, the current credit score requirement has not changed in almost two decades. The entire system—from lenders, buyers, and investors to vendors, analysts, and data providers—has hardened around that requirement. While Fannie Mae and Freddie Mac have continued to evolve their underwriting engines, many in the industry have developed a false sense of comfort and an over-reliance on this single measure of credit.

I appreciate that something as integral as credit scores would present challenges to study. I therefore appreciate that the FHFA has undertaken a thorough examination of this issue and should now be in a position to announce a decision worthy of its effort. It is time that we move to a system that can accommodate more than one credit scoring model, so long as all models used meet high standards. Accordingly, and for the reasons described below, I urge you to *modify* the Request for Information ("RFI") Option 3, and eliminate the constraints.

The RFI poses questions about costs and risks. While each of the four options presented carries a slightly different profile, many of the costs and risks are inherent to a change of any kind. The FHFA's goals for implementation should be to maximize competition between model developers, minimize costs to industry participants, mitigate all known risks, and definitively prevent market disruptions. Adequate lead time, a transparent process, and a copious supply of historical data will form the baseline for a smooth transition toward the use of additional models. Implementations should also include publication of validation results for any models to be used, so that the credit providers and other uses of credit scores have confidence in the predictive power of new tools.

Assumedly, Option 3 as written proposes protections to prevent adverse selection by preventing originators from switching between models too frequently. I believe that these restrictions are neither necessary or practical and they could be disruptive to the primary market. I would suggest that much like the mortgage insurance business, lenders should be able to create a "best execution" for the consumer. If competition between credit score providers will enhance innovation, and all versions of each model will be approved by the GSEs, innovative changes will happen more frequently. It is unreasonable to assume that a lender could be locked into a potentially "older model" for as long as 12 months. If lenders cannot choose a best execution for their consumer, the consumer will ultimately shop and find a lender using a more current model. While considering Option 3 without restrictions, it is also important to make certain that consumers are not charged unreasonably for multiple credit scores.

Option 3 without the 12-month restriction is an important step forward. For borrowers at the margins of eligibility, it may mean an opportunity to buy a home or to pay a mortgage rate that more accurately reflects their risks. Whatever that impact today, there is reason to believe that it will grow with the homebuyers of tomorrow. Perhaps more importantly, however, Option 3 without restrictions will create an incentive for model developers to keep innovating.

Further, I encourage the FHFA to publish a transparent process by which models developed in the future will be tested and evaluated. This process will extend the benefits of Option 3 without restraints by signaling to model developers a willingness to reward innovation. It will also ensure that the onerous process of today is not repeated the next time someone builds a better model. This will make the industry more adaptable and responsive.

Respectfully,

Debra W. Still
Pulte Mortgage LLC
President and Chief Executive Officer