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Federal Housing Finance Agency
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JPMorgan Chase Bank, N.A. ("Chase") appreciates the opportunity to comment on the Federal Housing Finance Agency's ("FHFA's") review of updated credit score models. A summary of our feedback is as follows:

- FHFA should retain a single credit score requirement but should not update its credit model at this time. Chase appreciates the impact that credit score models shape consumers' access to credit and homeownership. However, FHFA's determination that FICO 9 and VantageScore 3.0 provide only "slight" improvements in risk prediction accuracy leads us to conclude that the cost to the industry of updating to a new credit model outweighs these marginal benefits. We urge FHFA to maintain its current requirements until it determines that an updated model would provide a substantial increase in accuracy, homeownership, and access to credit.
- FHFA should not adopt a multi-model system. Doing so would impose significant costs and challenges on the industry that outweigh the marginal effect on credit availability and risk prediction that such a change would provide at this time.
- FHFA should not adopt a system that allows lenders to choose which credit score model to use. The industry would face costs and challenges and a risk of arbitrage that would outweigh any benefit of adopting such a system. Further, providing lenders with discretion to choose between credit score models could create confusion in the secondary mortgage market and expose lenders to Fair Lending risks.
- FHFA should take a comprehensive and transparent approach to any changes to its credit score requirements. Before making any changes to its credit score requirements, FHFA should develop a decision-making process that includes establishing an advisory panel of consumer and industry groups and ensuring coordination with industry regulators. Any data that forms the basis for a change in FHFA's requirements should be subject to independent peer review and analysis. Any decision should result from a comparison of the cost of implementation to the industry and the potential consumer benefit. Credit scoring model data should be publicly released to ensure validation and clear understanding of any changes.

I. Updating Credit Score Model Requirements

General Questions on Credit Scores

A1.1. *When and how do you use credit scores during the mortgage life cycle to support your business?*

Credit scores are used to make lending decisions at origination. For HELOCs, credit scores are used for account management to ensure that a customer with an open line of credit remains creditworthy. A customer's credit score may also be a factor in a customer's eligibility for various mortgage assistance options, depending on investor/guarantor requirements.

A1.2. *Do you use the same credit score version for all of your lending business lines, whether it is mortgage lending or non-mortgage lending (e.g., credit card and/or auto loans)? If so, why? If you use multiple credit scores (e.g., FICO and VantageScore) in making credit decisions for any one line of business, please identify which credit score you use for the type of lending and why? Are you considering updating credit scores that you use in your non-mortgage lending business lines?*

Different lines of business may use different credit score models – including internally-developed, proprietary models – based on product-specific risk and market strategy considerations. These same considerations drive decisions about when to update to more recent versions of credit score models.

A1.3. *Is it necessary for any new credit score policy from the Enterprises on credit score models to be applicable in all aspects of the loan life cycle, or could there be differences, such as in servicing?*

Yes. The same credit score requirements should apply at all stages of the loan life cycle. This allows credit scores to be comparable, contemporaneous benchmarks of default risk throughout the loan's life.

A1.4. *How would mortgage lenders and investors manage different credit score requirements from primary and secondary mortgage market participants? Is it important for your business processes that government guarantee programs in the primary mortgage market (e.g., FHA, VA, USDA-Rural Development) have the same credit score requirements as the Enterprises?*

Consistent alignment on credit score requirements across all market participants, including lenders, the Enterprises and government insurers/guarantors, is critical for maintaining capitalization and liquidity across the market. Differences in credit score requirements create the opportunity for arbitrage and the uncertainty of the risk level associated with specific loans. Misalignment between Enterprise and government insurer/guarantor requirements is a key source of inefficiency and risk. Even slight misalignments require lenders/servicers to develop redundant processes, procedures, and quality controls. This diverts industry resources away from financial and technological innovation, improvements to customer experience, and efforts to add value to customers' financial decisions.

A1.5. *How would updating credit score requirements impact other industry-wide initiatives that affect your organization? What is the relative priority of this initiative compared to other industry-wide initiatives?*

As discussed above, changes in credit score requirements could have serious impacts on servicing cost and risk, and these impacts could divert resources from innovation and improvement. In addition, a dramatic change during periods of interest rate volatility could have adverse impacts on market stability and liquidity as it becomes more difficult to compare the relative risks associated with different loans.

A1.6. *Do you have a recommendation on which option FHFA should adopt?*

FHFA should require delivery of a single credit score, but should not update its required credit score model at this time. FHFA should continue using FICO 5 (“Classic FICO”) unless and until it finds that the benefit of an updated model’s improved accuracy outweighs the implementation cost to the industry. This should only be the case when an updated model provides a *substantial* increase in accuracy. FHFA determined that FICO 9 and VantageScore 3.0 provide only a “slight” increase in accuracy. (FHFA RFI, p. 15). As a result, the cost to the industry likely outweighs the benefit of adopting either model at this time.

FHFA should not adopt any option that requires lenders to use multiple credit scores, as it would likely impose substantial cost on the industry. FHFA should also refrain from adopting a permissive option (like Option 3), because forcing a lender to choose between credit score models could expose lenders to Fair Lending risks.

A1.7. *Do you have additional concerns with or insights to share on the Enterprises updating their credit score requirements?*

FHFA should recognize that changes to credit score requirements can have far-reaching and unanticipated effects due to the highly regulated nature of the mortgage industry. For example, substantial changes to credit scoring requirements could have significant impact on the safety and soundness standards that mortgage lenders and servicers are held to by regulators such as the Office of the Comptroller of the Currency (the “OCC”) and the Board of Governors of the Federal Reserve System (the “FRB”). These safety and soundness standards impose rigorous scoring and monitoring requirements that would likely cause the use of multiple credit score models to be challenging and unnecessarily costly.

Operational Questions on Credit Scores

A2.1. *What benefits and disadvantages would you envision for your business, your business partners, and/or borrowers under each of the options?*

As discussed above, any option involving retention and use of multiple credit score models would have significant impacts on the mortgage industry, both in terms of implementation cost and market uncertainty.

A2.2. *How significant are the operational considerations for a single score update? Please discuss any comparison of operational considerations between a single score (option 1) and multiple score options (options 2-4).*

The direct cost of implementation would be substantial. Implementing a credit score model update in a single-score paradigm requires changing all bank servicing systems and rigorous back-testing and documentation to meet the requirements of our safety and soundness regulators (OCC and FRB), including the FRB SR11-7 standards. It would require a multi-year project with significant information technology, capital markets, business, risk, and other resources to support the update.

The costs of moving to a multiple-score paradigm would be expansively more costly and also impose far greater risk management challenges on the industry. Mortgage servicing systems generally are not designed to store different credit scores from different sources and to track which was used for what purpose. As a result, fundamental technological updates would be required.

Apart from the direct costs, the opportunity costs of the use of these resources would be sizable in the face of ongoing regulatory and business initiatives. The resources discussed above would be diverted from other important projects, including compliance with a rapidly changing regulatory landscape, development and utilization of innovative financial and technological products, upgrades to our technological infrastructure, and improvements to customer experience.

All of these costs would be even greater if FHFA made a change that put it out of alignment with government insurers/guarantors.

As a result, the direct costs and opportunity costs outweigh the “slight” increase to risk projection accuracy that FHFA found would result from a credit model update.

A2.3. *What operational considerations are there for preferring one of the multiple credit score options (options 2-4) over the others? For industry participants, are there unique operational considerations for your segment of the industry that FHFA should consider? If so, what are they? Are there unique operational considerations in a wholesale environment with mortgage brokers or correspondents under each of the multiple score options? If so, what are they?*

FHFA should not adopt any multiple credit score option. None of the multiple credit score options presented by FHFA would significantly change the challenges and costs to the industry.

A2.4. *Please provide an estimate of how much it would cost your organization to implement each option and how much time it would take to implement each option.*

The direct costs of resources needed to implement, verify, and maintain any change is difficult to estimate because they are based on numerous variables. It is likely that these costs would reveal themselves throughout the process as additional technological and control needs were identified.

Adopting a multiple credit score option would establish a new level of heightened complexity that would increase the annual overall cost of risk and control maintenance. Similarly, as mentioned above, these costs would be magnified if FHFA made a change that put it out of alignment with government insurers/guarantors

All options have corresponding opportunity costs when resources are diverted from other initiatives.

Any kind of change to credit score requirements would require a multi-year implementation for the development, testing, and deployment of technology changes and controls.

A2.5. *Could using any of the multiple credit score options affect the way investors view, and therefore price, Enterprise securities? Could any of the multiple credit score options reduce liquidity in the TBA market and/or increase the volume to the specified market? Are there any unique considerations among the multiple score options (options 2-4) in evaluating their impact on MBS liquidity and/or demand for credit risk transfer transactions?*

Yes. Credit score comparability would become uncertain and multiple credit scores would create the potential for arbitrage and adverse selection. This would make it more difficult for market participants to determine relative value of loans originated using different credit score models, and thereby curtail market liquidity. The difficulty of ascertaining relative value in a volatile economic environment could lead to an increase litigation, which would further discourage market participation. Even in a stable economic environment, this additional requirement would create a heightened barrier to entry in the market. The effects on mortgage liquidity are likely to be felt along the entire mortgage value chain, including in warehouse financing, loan sales, servicing transfers, and servicing advance financing.

A2.6. *Under the multiple score options (options 2-4), if other mortgage market participants have different credit score requirements, such as requiring dual credit scores, what operational and resource issues would that present for you?*

Servicers would likely have to perform the same fundamental technology changes as though they were implementing a multiple score option themselves – incurring the same considerable direct costs and opportunity costs that likely outweigh the marginal benefit of moving to a new system.

A2.7. *What impact would any of the credit score options have on a need for consumer education? What impact would the multiple credit score options (options 2-4) have on consumers? Are there steps that FHFA, the Enterprises, or stakeholders could take that would mitigate any confusion about multiple credit score options?*

Consumers already face significant challenges and lack of transparency regarding how credit scores are derived and used. The use of multiple credit score models would make these issues even more complex, which would be detrimental to consumer understanding.

A2.8. *Under option 3 (lender choice with constraints), how would the Enterprises protect against adverse selection and ensure that a lender is not selecting a credit score at the loan level that results in preferential pricing or eligibility? Instead of attempting to reduce adverse selection through setting certain selling requirements for lenders, should the Enterprises instead adopt underwriting and pricing policies that account for any increased risk of adverse selection between the two credit score models? Are there ways to control this risk?*

FHFA should not adopt this option because of the costs to the industry, the potential effects on the secondary market, and because this option could expose lenders to Fair Lending risks. The possibility for arbitrage and adverse selection would make values less certain and therefore constrain market liquidity.

- A2.9.** *Because credit score models are not interchangeable, what issues or challenges would you face if the Enterprises were to have different eligibility or pricing based on the credit score version? What implementation hurdles might exist? How would the differences in pricing be perceived by borrowers?*

The potential need for such a significant new complication for the industry illustrates why FHFA should not adopt a multi-model system. Adopting a multiple-model system would impose substantial direct costs, opportunity costs, implementation hurdles, and risk challenges on the industry. Increased costs and risks of servicing/originating and detrimental effects on the market would likely have detrimental effects on cost of and access to credit.

- A2.10.** *How would you approach evaluating when the benefits of new or multiple credit scores sufficiently exceed the costs and potential risks associated with making such a change?*

We would develop metrics that would allow us to analyze whether any potential change would have a meaningful, substantial difference in access to homeownership, taking into account the possible detrimental effects on cost of/access to consumer credit that would result from the increased costs, increased risks, and likely effect on market participation and liquidity discussed above.

Questions on Credit Score Competition

We take no position on whether any of FHFA's proposed changes would impact the efficient operation of the credit reporting market, incentives to maintain quality, or incentives to innovate. FHFA, other industry participants, and state/federal fair competition authorities are best positioned to objectively analyze any potential impacts to competitiveness in the credit reporting market.

II. Modifying the Required Number of Merged Credit Reports

Questions on Merged Credit Reports

- B1.** *If you have used a single credit report or two-file credit report in your business, please share any empirical information about how much incremental information/benefit is gained as a result of using a second or third credit report.*

Trade associations and industry groups are better positioned to provide useful cross-entity data on the incremental utility of additional credit reports.

- B2.** *If the requirement to pull data from all three credit agencies were replaced with the flexibility to pull data from just two CRAs or one CRA, what could be the benefits or disadvantages to borrowers and your business? What could be the benefits or disadvantages to the credit reporting industry and the mortgage industry in general?*

The cost associated with producing a tri-merged credit score outweighs the marginal benefit (if any) to accuracy of credit risk assessment. Eliminating this requirement would reduce operational cost and complexity and would therefore allow lenders and servicers to devote resources to other initiatives, such as technological innovation and improving the customer experience. The decrease in origination costs would likely result in savings for consumers.

- B3.** *If presented with the flexibility to pull data from just two CRAs or one CRA, would your business likely take advantage of this flexibility? If not, why not? If so, what steps would you need to take to be comfortable with that change?*

It is likely that many lenders would take advantage of this opportunity and reallocate operational resources more efficiently.

- B4.** *If presented with the flexibility to pull data from just two CRAs or one CRA, would you want the lender to choose the credit agency or would you want the Enterprises or some other market participant to mandate the agency?*

It is likely that lenders would prefer to choose between CRAs when pulling Classic FICO scores.

- B5.** *If the option of using one repository were available, how would the Enterprises ensure that the lender is not electing to use the CRA with the highest credit score (best credit profile) at the loan level that results in preferential pricing and eligibility?*

This minimal risk is unlikely to materially impact pricing or credit risk for market participants. The deviation between CRA scores using the Classic FICO model is not as significant as the deviation that would make adverse selection a risk if lenders could choose between models (Option 3). For similar reasons, the ability to choose between CRAs using the same model is not likely to expose lenders to Fair Lending risks.

- B6.** *What issues would this flexibility create if other mortgage participants (investors, insurers, guarantors) continued to require credit data from all three CRAs?*

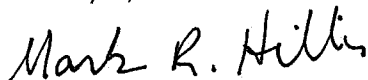
Because most market participants do not rely on tri-merged data for analysis and pricing, this scenario would not result in significant challenges.

- B7.** *If the Enterprises had to increase pricing for using less credit data from fewer than three credit agencies to account for the additional risk, would the flexibility still be attractive?*

The Enterprises should not increase their pricing. The current pricing is sufficient to account for the negligible impact to risk assessment accuracy that this change might present.

We appreciate the opportunity to provide our feedback on these matters, and we look forward to working with FHFA further as it considers changes to its credit score and credit report requirements.

Thank you,



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