March 29, 2018

The Honorable Melvin Watt
Director
Federal Housing Finance Agency
Office of Housing and Regulatory Policy
400 7th Street SW
9th Floor
Washington, DC 20219

Dear Director Watt:

U.S. Mortgage Insurers ("USMI")[1] appreciates the opportunity to submit this response to the Federal Housing Finance Agency's ("FHFA") Request for Input ("RFI")[2] concerning credit scores and supports FHFA's initiative to thoroughly review the interplay between credit scoring and access to mortgage credit. USMI supports the agency's review of the government-sponsored enterprises'("GSEs") credit score requirements in order to increase transparency, marketplace competition, and access to mortgage credit, and we appreciate the FHFA's outreach to industry as it examines a critical component of risk management and pricing within the housing finance system. USMI's responses to the specific questions presented in the RFI can be found on the following pages.

The FHFA's *2017 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions*[3] directed the GSEs to "conclude assessment of updated credit score models for unwriting, pricing, and investor disclosures, and, as appropriate, plan for implementation." As the agency and the GSEs examine potential changes to credit score requirements, it is important to consider whether introducing competition among credit score providers will truly expand access to prudent mortgage credit for borrowers, as well as the operational issues and expenses associated with implementing a new credit score system. Credit scores are used by virtually all housing finance market participants – lenders, servicers, mortgage insurers ("MIs"), GSEs, and investors – and changes in credit scoring will materially affect their operations, processes, and technologies. It is imperative that the FHFA and GSEs proceed in a manner that balances the concerns of industry participants with the promises of the expansion in mortgage credit. As stated in the RFI, the GSEs have conducted empirical evaluations of Classic FICO, FICO 9, and VantageScore 3.0 to assess score accuracy, borrower coverage, and interaction with the GSEs' automated underwriting systems ("AUSs"). USMI believes it would be beneficial to this process to make the GSEs' empirical evaluations public to allow industry stakeholders to better identify potential issues and challenges associated with changes to the GSEs' credit score requirements. In addition, given the extensive use of credit scores throughout the mortgage finance system,

[1] USMI is a trade association composed of the following private mortgage insurance companies: Essent Guaranty, Inc.; Genworth Mortgage Insurance Corporation; Mortgage Guaranty Insurance Corporation; National Mortgage Insurance Corporation; and Radian Guaranty Inc.
[2] Federal Housing Finance Agency, "Credit Score Request for Input," December 20, 2017, *available at* https://www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/CreditScore_RFI-2017.pdf.
[3] Federal Housing Finance Agency, *2017 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions* (December 15, 2016), *available at* https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/2017-Scorecard-for-Fannie-Mae-Freddie-Mac-and-CSS.pdf.

USMI firmly believes that, in the event FHFA determines to make changes, a longer implementation timeline is appropriate. While the RFI indicates a timeline of 12-24 months, USMI urges the FHFA to adopt a lead time of *at least* 24 months should FHFA decide to allow any new credit score model(s).

USMI's member companies have a unique perspective due to serving as sources of private capital in the first-loss position and we appreciate the opportunity to submit comments on the FHFA's review of credit scoring. Questions or requests for further information may be directed to Lindsey Johnson, President of U.S. Mortgage Insurers, at ljohnson@usmi.org or 202-280-1820. USMI member companies hope to serve as resources and to work with the FHFA as the agency assesses the GSEs' credit score requirements and explores potential updates to the requirements.

Sincerely,

Lindsey Johnson
President

A1.1	**When and how do you use credit scores during the mortgage life cycle to support your business?** Mortgage insurers currently use credit scores in a variety of ways, including to determine underwriting eligibility, price for the industry's suite of products, and determine the amount of capital required to comply with the industry's updated capital and operational standards, Private Mortgage Insurer Eligibility Requirements ("PMIERs"), which were established by the GSEs in 2015. To actively manage risk at the individual loan level, MIs formulate rate cards comprised of premiums based on product, original loan-to-value ("LTV"), and credit score. A borrower's credit score is a primary factor for MIs' pricing models and is integral to analyzing a borrower in order to properly price for the risk associated with that individual mortgage. Changes to MIs' premium/rate schedules must be filed with and are subject to approval by their state insurance regulators. PMIERs capital requirements, as established by the GSEs, prescribe granular capital requirements at the loan level using defined risk characteristics, including the borrower's credit score, LTV, origination year, and whether the mortgage is a purchase loan or refinance. Credit scores play a critical role in determining how much capital MIs need to hold against individual loans. Any changes to the GSEs' credit score requirements could materially affect required capital calculations and asset amount factor tables, ultimately impacting consumers' pricing. A borrower's credit score is a significant metric that factors into a decision regarding his/her creditworthiness and mortgage terms available from the lender.
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?** USMI contends that it is important to consistently apply a scoring methodology or policy throughout the life cycle of a mortgage loan. The consistent use of a singular credit scoring system establishes a common language to evaluate credit and communicate for all the relevant stakeholders (lenders, servicers, MIs, investors, etc.) through all phases of the mortgage life cycle. This will be particularly important during periods of stress in the housing finance system when a common understanding of credit quality is critical to effectively implement, track, and analyze the success of loss mitigation initiatives. A uniform credit scoring methodology will be important to implement programs such as the Home Affordable Modification Program ("HAMP") and Home Affordable Refinance Program ("HARP") that were established following the 2008 financial and housing crisis.
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? USMI has long supported the notion that the government and conventional mortgage markets should use the same credit score requirements in order to assess risk and borrower profiles across mortgage markets using a single set of standards. For analytic purposes, uniform credit score requirements for the GSEs and government programs would allow housing finance system stakeholders to determine if overlap exists between the two markets and to modify/adjust policy to ensure that government programs are serving their missions. For pricing purposes, a common standard across markets would optimize the comparison between private MI and government MI for both consumers shopping for a loan and for broader policy concerns.
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?** Updating GSE credit score requirements broadly impacts the private mortgage insurance industry, including the areas of MI eligibility and guidelines, rate cards filed with all the states, MI application data, MI underwriting, eligibility and pricing rules engine, quality control processes, Fair Credit Reporting Act letters, loss mitigation programs, and reporting (SEC, PMIERs, etc.). Given the critical role that credit scoring plays in the MI industry with regard to risk management and pricing, several specific industry-wide initiatives would be affected should the FHFA require changes in the GSEs' credit scoring requirements, including: • PMIERs 2.0: USMI member companies are currently working with the FHFA and the GSEs on updates and modifications to the GSEs' PMIERs, that establish the eligibility standards for private MIs to provide credit enhancement for high LTV conventional mortgages. These eligibility requirements set the financial and operational standards that MIs must meet in order to receive "Approved Insurer" status with the GSEs. PMIERs stipulate the risk-based capital an MI needs to hold for individual loans and one of the primary asset factors is the borrower's credit score (the other being the original LTV of the mortgage). Implementing changes under the forthcoming PMIERs 2.0 in conjunction with adapting to new GSE credit score requirements creates severe operational complexities. The simultaneous introduction of a new credit score regime and new PMIERs asset tables would make it more difficult for USMI member companies to successfully manage pricing and risk management processes. Further, if a Multiple Score option is adopted, it would be very complex and burdensome for an MI to create and maintain two separate asset tables for purposes of calculating PMIERs capital requirements. • Loss Mitigation Programs: Last August the FHFA announced that it would extend the HARP through 2018 and the MI industry continues to work closely

	with FHFA and the GSEs on HARP and potential successor programs. Changes to the GSEs' credit score requirements would require all the stakeholders – including MIs – to reassess and recalibrate the mechanics, including eligibility, of high-LTV loss mitigation programs. • Credit Risk Transfer ("CRT"): As MIs and other housing finance stakeholders explore ways to further participate in the GSEs' CRT pilot programs, credit scoring is central to investors' analysis of specific structures, transactions, and pools of mortgages, and is a critical component of assessing and managing risk that is transferred from the GSEs to sources of private capital. Updates or changes to the GSEs' credit scoring requirements will require that investors and credit risk-takers modify how they analyze CRT transactions' risk profile and pricing. Should the FHFA direct the GSEs to adopt multiple scoring models, it is critical that investors know which model was used to generate a particular score to bring transparency to what exactly the score represents. • Master Policy Updates: The Master Policies, last updated on October 1, 2014, outline the terms of business between MIs and policyholders, and define the policies and practices governing MI coverage, claims processing, and appeals processes. The MI industry is currently working with FHFA and the GSEs on modifications to MIs' Master Policies and credit scoring changes would impact the development and implementation of the modifications, including in the critical area of "Rescission Relief."
A1.6	**Do you have a recommendation on which option FHFA should adopt?** Credit scoring is a core component of the housing finance system and is used by a broad swath of market participants (MIs, lenders, GSEs, investors, etc.) to determine eligibility for conventional financing and to manage and price mortgage credit risk. Updates to the GSEs' credit score requirements should take into account the extensive implications for market participants and recognize the potential operation risks associated with the implementation of updated or new scoring regimes. While USMI members support competition in the marketplace, the MI industry believes that utilizing a single score is the best option for preserving the necessary tools to actively manage mortgage credit risk while simultaneously expanding access to credit in a prudent and sustainable manner. From the perspective of the MI industry, the disadvantages of a Multiple Score system outweigh the advantages and our concerns include the following: • The Multiple Score options would require significant updates to MI systems (as well as systems used by lenders, servicers, investors, etc.) that could take several years to develop and implement. • We are concerned about the current lack of research and data on the statistical validity of dual score alternatives. To date, our industry has not received or been able to internally analyze a performance validation of the score providers' score when no score is obtainable from the alternative provider. And the GSEs have yet to determine exactly how the representative score would be determined for

	the various alternatives (evidencing the difficulty of designing a workable approach for these alternatives). • The housing finance system should also recognize that it may be confusing for borrowers to understand and difficult for industry participants to explain how the two different score models are used to evaluate creditworthiness and determine mortgage eligibility and pricing. The Multiple Score options run the risk of having multiple borrowers on the same loan with scores from different providers that could lead to significantly different conclusions. There are a number of various outcomes that could be quite complicated to understand or explain, not to mention concerns with Fair Lending compliance. • The introduction of a second score may create new opportunities for "gaming" by industry participants and/or applicants, and could create significant legal and regulatory risks for industry participants (please refer to part 2 of our response to question B5 for more details on this point). • Industry and risk management reporting and analysis would be materially complicated if individual loans are assessed via different scores.
A1.7	**Do you have additional concerns with or insights to share on the Enterprises updating their credit score requirements?** As noted in the RFI, credit scoring plays a critical role in the housing finance process today. Any updates to the credit scoring paradigm used by the GSEs would require significant multi-enterprise coordination. Because system participants are so connected to one another, and because credit scores are used as a basis for pricing and loan performance, any changes in how scores are calculated would have a ripple effect through the housing ecosystem. These changes will need to be understood by system participants from borrowers to lenders, servicers, MIs, and mortgage-backed securities and CRT investors. The amount of education required to ensure these participants are informed of any changes is significant and likely will require a period of several years to be fully absorbed in the marketplace.
A2.1	**What benefits and disadvantages would you envision for your business, your business partners, and/or borrowers under each of the options?** **Single Score (Option 1):** USMI and its member companies believe that the benefits associated with updating to a newer and presumably more predictive model appropriately compensate for the impact and operational costs associated with the recalibration of risk and pricing models, potential guideline/eligibility adjustments, updates to financial disclosures, and related information technology infrastructure. As stated by FHFA in the RFI, the GSEs' AUSs already assess borrowers who lack a credit score and the RFI further acknowledged the GSEs' empirical findings reveal only marginal benefits to migrating to a new or updated set of credit score requirements.

	Given the capabilities of the GSEs' current AUS technology and the minimal benefits for using multiple scores, the Single Score option provides an optimal balance of modernization while being the least disruptive for all industry stakeholders. **Multiple Scores (Options 2-4):** The rationale for the Multiple Score options is principally the desire to have a meaningful positive impact on access to mortgage credit and that competition will reduce borrower costs and drive innovation for credit scoring methodology and technology. USMI strongly supports moves that will expand access to prudent mortgage credit, but member companies are concerned that the significant operational complexities and expenses of implementing any of the Multiple Score options are serious barriers to their feasibility and utility. Transitioning to a housing finance system that employs Multiple Scores introduces several risks and policy concerns: • USMI members generally view competition as being positive in terms of reducing costs and driving innovation. However, as identified in the RFI, competition has the potential to encourage a race to the bottom that could jeopardize credit score accuracy, predictability, and reliability. • Requiring the use of both scores (Option 2) increases expenses for housing finance system stakeholders and these additional costs are ultimately passed through to borrowers. Increasing borrower origination costs runs strongly counter to the FHFA's goal of improving access to credit. • The Lender Choice (Option 3) and "Waterfall" (Option 4) options introduce the potential for adverse selection and for system participants to game the system to the detriment of the GSEs, MIs, servicers, and investors. • The use of Multiple Scores could prove problematic as it relates to Fair Lending compliance (Fair Housing Act[4] and Equal Credit Opportunity Act[5]) and disparate treatment oversight by federal agencies. The use of multiple credit scoring models for similarly situated borrowers could raise legal, compliance, and ethics issues. The Multiple Score approaches would likely require multiple pricing plans due to the incongruent distribution of scores across the scale and would require MIs, as well as the GSEs, to recalibrate pricing and risk management processes.
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).** Regardless of which option the FHFA pursues, MIs will need to review pricing grids and refile rate cards with the state insurance regulators for the jurisdictions in which

[4] 42 U.S.C. § 3601 *et seq.*

[5] 15 U.S.C. § 1691 *et seq.*

	they conduct business. The Multiple Score options further complicate the transition due to inherent problems with comparability for risk profiles and operations between the two scoring models. The MI industry would experience significant operational issues with migrating to a Multiple Score regime and a more complicated rate filing process would necessitate regulatory changes at the state departments of insurance.
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?** The multiple credit score options (Options 2-4) create operational complexities that can be mitigated by proceeding with the acceptance and implementation of a single credit score model. It is important to note that while we are currently considering two scores today, it is possible that other credit score providers will want to be considered during future exercises. Requiring multiples credit scores (Option 2) would require MIs to receive, analyze, store, and report two times as many scores, creating additional expenses and requiring updates to MIs' – and other market participants' – internal quantitative modeling. Allowing the lender to choose which score to deliver (Option 3) prevents the delivery of more scores while simultaneously creating complexity in determining which score was provided. Also, MIs will have to determine if guidelines, eligibility, pricing, process decisions, etc. vary depending on whether FICO 9 or VantageScore 3.0 was delivered. This would necessitate monitoring lenders and their choice of credit score to ensure that they are not gaming the system. For purposes of transparency and comparability, lenders would need to be required to disclose to all industry participants which model was used on individual loans. Additionally, loans originated by mortgage brokers and correspondent lenders are sold to an aggregator, who will need to be able to handle two (or more) versions of the credit score. While utilizing a single score is the operationally preferred option, a "Waterfall" approach (Option 4) is the Multiple Score option that most closely matches the single score option. Given that both GSEs will accept borrowers without a Classic FICO, including allowing for automated underwriting, the benefits of scoring borrowers without credit scores through a "Waterfall" approach are unclear. An additional operational consideration for the Multiple Score options is a scenario where an application has one borrower with a FICO credit score and the second borrower with a VantageScore credit score. This would require MIs to create and

	implement guidelines, eligibility, and pricing for mortgage insurance coverage for such borrower scenarios.
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**. Credit scores are used throughout the mortgage ecosystem by the GSEs, lenders, MIs, and investors, all of whom will need to dedicate significant resources to updating their processes and technology in response to updates in the GSEs' credit score requirements. It is difficult if not impossible to accurately predict the required costs and timeline for MIs to implement a new credit scoring system without the precise details concerning the new score model and the processes that surround it. However, specific elements of a transition to a new credit scoring system include, but are not limited to: validating the update/improvement; identifying and procuring modeling data; re-developing credit policies and rates; filing and soliciting state-level rate and form approvals in all jurisdictions; technology and operation redesign; transitional reporting for management, GAAP, and statutory financial disclosures; and third party and GSE seller/servicer integrations. At this point in time, there are many unknowns about a potential transition, however our industry estimates that implementing a new credit scoring system could cost as much as $15 million *per MI company per model* and could require thousands of hours of resources and years of lead time. There are numerous factors that will drive costs for the MI industry and the selection of a specific option will create variances in costs incurred by MIs in order to implement credit scoring updates. For instance, implementing Option 4, the "Waterfall" approach, would be significantly more expensive than implementing a single score and adopting FICO 9 or VantageScore 3.0 under Option 1.
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?** Generally, the implementation of one of the Multiple Score options would most certainly affect how investors evaluate and price GSE securities, and may affect demand and liquidity for said securities. The impact on the securities' pricing and liquidity would depend specifically upon how each credit score model was implemented. While the RFI seeks to explore several options to change the GSEs' credit scoring requirements, it does not provide details concerning the processes and timelines for implementing any of the proposed options. Without these important transition and implementation details, it is very difficult, if not impossible, to fully assess the impact to the pricing and liquidity of GSE securities.

	The existing approach in the market defines the representative score as the lowest middle score and is well established and recognized by all market participants as an appropriate means to assess risk. Investors would need to reconsider how they price for mortgage credit risk and recalibrate their models if the GSE credit score requirements are changed in a manner than deviates from the existing market approach. USMI would like to note the following observations for the individual Multiple Score options: • Option 2 is perhaps the most investor friendly of the Multiple Score alternatives and would define the representative score as the lowest middle score of any borrower (i.e., from the lowest for the borrower from calibrated FICO and VantageScore alternatives). • Option 3 (lender choice for scores) presents several obstacles and its implementation could prove very difficult for reasons similar to those described in response to B5 (choice of repositories for a single rather than merged score). • Option 4 is problematic in that neither credit scoring company has made public a validation of the accuracy of its model for when its competitor in unable to score a specific borrower. While many market participants would benefit from access to such analysis, it is unclear to what degree such validations would provide investors with great comfort in the accuracy of the models.
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?** Please refer to our response to question A2.3.
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?** Credit scoring is a commonly misunderstood component of mortgage finance and can be confusing for even financially-savvy consumers. Most consumers are unaware that different scoring models and versions of those models even exist, let alone the data factors used to generate their credit scores. As a result, robust consumer, realtor, and mortgage banker education should accompany any update to the GSEs' credit score requirements. The introduction of multiple scoring models would undoubtedly require significantly more outreach and education to help consumers understand model differences and their respective impacts on their score, potential eligibility, and cost of obtaining financing.

	USMI would propose, at a minimum, that consumers have free and easy access to resources that would enable them to: • Understand the key differences between the models and versions (i.e., Classic FICO vs. FICO 9 and FICO 9 vs. VantageScore 3.0). • When and why a lender may be permitted to use one credit score model versus another and how that may influence their loan eligibility, pricing, etc. • How to effectively manage their credit to improve their credit profile and avoid declines in their score under each model, allowing them to obtain the best terms and pricing when obtaining mortgage financing.
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?** The most effective way to control for this specific risk would be for stakeholders, especially MIs, to have access to both scores as a "check" on the system to ensure that a lender's underwriting decisions are supported by the borrower's credit profile. For high-LTV mortgages, it would be beneficial for the MI to see both scores in order to guard against adverse selection and to ensure proper MI pricing and risk management. MIs have long served as a "second set of eyes" in the mortgage origination process by conducting underwrites and quality control reviews on individual loan files.
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?** Consumer lending institutions typically select and use a single version of a credit score model and it is rare to find lenders using alternative versions of the same score with different cutoffs for each version within the same lending product (credit card, auto, second lien, or portfolio first lien loans). Since the score providers attempt to calibrate the scores from the models from an odds perspective, the marginal benefit of requiring two credit score models would likely be insignificant compared to the complexities and costs involved with introducing this approach. The complexities and disadvantages would likely be similar to the introduction of multiple scores (please refer to the response to question A1.6 for further details). Should the FHFA pursue a system with multiple credit score models, it would be very beneficial for all market participants for the FHFA and/or GSEs to create an equivalency tool in order to compare the two models.

	Should FHFA decide to maintain the single score regime and direct the GSEs to move to FICO 9, they should be required to accept either version of FICO during the transition period and utilize the same cutoffs and applicable pricing. In addition, lenders should be required to identify the scoring model used to underwrite individual mortgage loans and disclose that information to all relevant industry participants.
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?** USMI would recommend a risk versus reward evaluation framework that addresses the following: • Meaningful improvements in rank ordering of risk that leads to a greatly improved understanding of accuracy and predictability. This should be observed through published comparative studies of the models. • The use of updated or multiple credit scoring models should prudently expand the mortgage market to creditworthy borrowers and merely scoring more consumers should not be the singular measure of success. Implementing a new credit scoring regime that simply scores more thin credit files or expanding eligibility to borrowers with very poor credit profiles does not affirmatively expand access to affordable and prudent mortgage credit. • Changes to the GSEs' credit scoring requirements should improve decisions concerning appropriate products for individual borrowers that are insured at an appropriate price for the risk assumed, and that result in business performance offsetting the cost of implementation. • The evaluation should also consider the degree to which the new system is able to consistently strike a balance to preserve the ability to observe and model how risks perform over time. Frequent scoring model changes would be disruptive to the market and integrity of the system, especially if the definition or provider of scores differs with any regularity.
A3.5	**Could competing credit scores in the mortgage underwriting process lead to a race to the bottom with different vendors competing for more and more customers? What steps could FHFA take to mitigate any race to the bottom?** USMI is cognizant that mortgage lenders and vendors actively search for avenues to qualify borrowers. A vendor may be able to assess a borrower and steer him or her to the best lender option and this aggressive application of the most advantageous score for a borrower can be very difficult to mitigate. We are concerned that this degree of competition may result in too much reliance on the credit score and potentially reduce capacity to focus on the credit data and individual credit factors that comprise the score. In order to best actively manage credit risk and comprehensively analyze a borrower's credit profile, it is critical that

	the mortgage finance system not encourage “shopping around” for the best score and utilizing a system that can distort a borrower’s credit profile. It would be a disservice to borrowers and the financial integrity of the housing finance system to modify the GSEs’ credit score requirements to score more consumers and put them in inappropriate mortgage products.
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?** **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?** USMI does not recommend establishing the ability to pull data from just one or two credit rating agencies (“CRAs”) for the purposes of underwriting mortgage credit, assessing a borrower’s credit risk profile, or pricing. While MIs recognize that the practice is used in other forms of credit underwriting, the severity and magnitude of loss for those credit and lending products is not comparable, and USMI supports requiring that data be pulled from all three CRAs. It is critical for MIs and other industry participants to have access to the maximum amount of information available at origination because it is impossible to reprice mortgages and credit enhancement should new material information become available post-origination. Creditor reporting to CRAs is inherently designed to be somewhat unique and independent between the different bureaus, as evidenced by differences in tradeline status, delinquency reporting, resulting scores, etc., and these differences appropriately justify requiring data from all three bureaus to most comprehensively obtain the most complete picture of the borrower’s credit profile and ability to repay their financial obligations. Permitting the use of less data than what is collectively available at all three bureaus introduces unwarranted risk to the underwriting process that could also be detrimental to consumers with very limited cost savings. One such example is if a borrower’s credit score is negatively affected by the selected CRA data not reflecting an updated payment on an existing balance that could materially improve that borrower’s credit score.
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?** Please see our response to Question B2.

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?** Please see our response to Question B2.
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?** The RFI appropriately identifies the possibility of adverse selection should lenders be allowed to select a single repository when evaluating a borrower's credit profile. USMI member companies are concerned with this option for several reasons, including: • The GSEs approve and transact with individual lenders, but this particular risk cannot be mitigated at the lender level due to market trends and tools available to prospective borrowers. Consumers are able to use third party search engines (such as Lending Tree) to virtually shop around for the best offer from lenders across the country and of all shapes and sizes. These tools would presumably use the repository with the highest score and match prospective borrowers with the best offers available. This could encourage a race to the bottom with individual repositories lessening their scoring criteria/standards and artificially inflating consumers' credit scores, a move that could negatively affect risk management and pricing by MIs and other market participants. • The lender community may have serious concerns with this option because of the competitive disadvantage to which it subjects them (see #1 above) due to online mortgage offer aggregator tools and because it may expose them to substantial legal and regulatory risks. USMI member companies are well aware of many examples in consumer lending of lawsuits and regulatory actions where the consumer was not offered the best available price. This risk is elevated in the mortgage industry due to the large dollar amounts associated with mortgage products and the insignificance of the incremental cost for a three-bureau merge to the total origination cost. The incremental cost of a three-bureau merge is more significant and the risk is lower in small balance consumer lending businesses where single repository scores are prevalent.
B6	**What issues would this flexibility create if other mortgage participants (investors, insurers, guarantors) continued to require credit data from all three CRAs?** Please see our response to Question B2.

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?** If the GSEs are able to accurately measure the risk of approving a borrower with less credit data, ensure that these borrowers have an ability to pay their mortgage, and demonstrate that the risk can be addressed through increased pricing, then the increase in pricing could be warranted. In order to align with the FHFA's goal of improving access to credit, any pricing changes as a result of compensating for less credit data should be minimal to avoid pricing many borrowers out of conventional mortgage financing. It is important to note, however, that the GSEs' AUSs are currently capable of assessing and pricing borrowers with non-traditional credit. Fannie Mae, for instance, does not use FICO for its AUS analysis but rather relies on individual data points and documents to garner a more holistic view of an individual borrower. In the situation of two borrowers, the GSEs' AUSs could apply more weight in their underwriting decision to the borrower with robust credit when the co-borrower has limited credit history or tradelines.