



# NCBANKERS

NORTH CAROLINA BANKERS ASSOCIATION

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March 29, 2018

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

Re: Credit Score Request for Input

Dear Director Watt:

Thank you for this opportunity to respond to FHFA's Credit Score Request for Input (RFI) on behalf of the North Carolina Bankers Association (NCBA). The NCBA is the trade association for banks, savings banks, and trust companies operating in North Carolina. Our members are heavily involved in mortgage lending both in North Carolina and nationally. In our view, FICO scores remain an excellent source for objective information for mortgage market participants. The NCBA recommends that FHFA make either no change to the credit scoring process, and thereby retain the use of FICO Classic, or, if FHFA determines that a change is warranted, replace it with FICO 9 to address matters involving medical collections, paid collections, and rent payments.

As noted in the RFI, FHFA is evaluating the use of Vantage Score 3.0 as a replacement or as an alternative. Our viewpoints can generally be summarized as follows:

- We are now a decade removed from the worst days of the mortgage crisis. While a host of factors contributed to the crisis, FICO scores were not the problem. In fact, FICO scores were shown to be a reliable measure of risk that should never have been discounted. Borrowers with lower FICO scores were more likely to miss payments or default on their loans.
- With FICO scores, we have the Fair Isaac Corporation, an independent entity, involved in the analytics. By comparison, with Vantage Score 3.0, the major credit reporting agencies (CRAs) own VantageScore Solutions, LLC. Thus, the CRAs would set the price for credit scores, own the data, and distribute the scores. Replacing FICO scoring with Vantage Score 3.0 would result in an increased level of control by the CRAs and raise concerns

when compared against the important layer of insulation provided by the Fair Isaac Corporation's FICO scores.

- On the issue of allowing for multiple scoring methods, with both FICO scores and Vantage Score 3.0 allowed, we see significant issues. There is the potential for much confusion. Even using the same numeric system, the risks associated with borrowers classified under one scoring method do not correspond equally to the risks associated with borrowers assigned the same number under another scoring method. This increases the risk of mistakes by employees involved in the underwriting process. Additionally, any gains would be incremental and would involve implementation costs for updated computer systems, training, and recordkeeping. There is also a risk that offering alternative or competing scores could result in gamesmanship to make riskier loans look more favorable and get more people on the margin into loans that they maybe cannot afford. We foresee as well another dimension of potential liability for lenders. If borrowers are denied loans, then there can be litigation risk based on disparate impact, pushing even conservative lenders into using whichever score puts more people into houses. I know you share our concerns with lowering credit standards as doing so would undercut federal policy that seeks to prevent another mortgage crisis.
- Finally, if the focus is, in part, on enhancing credit availability for those with limited credit histories, this can be done by looking at adding data sources that are not currently documented by the CRAs. This information could be then integrated into the current credit scoring system rather than replacing it with an alternative that does not have an established track record. The RFI notes that the GSEs have developed automated scoring systems for borrowers who lack credit scores. This is encouraging and strikes us as a better approach than the alternatives.

Thank you for reviewing these comments. We appreciate the leadership that you have provided as Director of FHFA. Please contact us if you have any questions.

Sincerely,



Peter K. Gwaltney  
President & CEO



Nathan R. Batts  
Senior Vice President & Counsel