California CREDIT UNION LEAGUE NEVADA CREDIT UNION LEAGUE

March 30, 2018

Federal Housing Finance Agency
Office of Housing and Regulatory Policy
400 Seventh Street SW, Ninth Floor
Washington, DC 20024

Re: Comments on Credit Score Models Request for Input

Dear Sir or Madam,

I am writing on behalf of the California and Nevada Credit Union Leagues (Leagues), one of the largest state trade associations for credit unions in the United States, representing the interests of more than 260 credit unions and their approximately 10.4 million members.

The Leagues welcome the opportunity to provide feedback to the Federal Housing Finance Agency (FHFA) on their Request for Input (RFI) regarding whether Fannie Mae and Freddie Mac (the Enterprises) should update their credit score models.

The credit scoring models under consideration by the FHFA are the Classic FICO, FICO 9, and VantageScore 3.0. The FHFA is also considering whether to change from the current requirement of obtaining a credit report and credit score from all three of the consumer reporting agencies (CRAs), often referred to as the tri-merge credit report, to a requirement to obtain only two or one report and score from the CRAs for each mortgage applicant.

In general, the Leagues support allowing the Enterprises to incorporate FICO 9 as a single score and to eliminate the tri-merged file requirement. We respectfully offer the following comments and recommendations.

Credit Score Models

As noted in the RFI, each Enterprise undertook an assessment of the potential impact of updating the Enterprise credit score requirement from Classic FICO to another score or scores. The Enterprises independently analyzed credit scores produced by three models – Classic FICO, FICO 9, and VantageScore 3.0. The analysis included assessing credit score accuracy, borrower coverage, and a simulated test of the Enterprises' automated underwriting system recommendations.

The FHFA concluded that the Enterprises' empirical findings revealed only marginal benefits to requiring a credit score other than Classic FICO. The findings suggest that, regardless of the credit score used in the underwriting process, each Enterprise's automated underwriting systems more precisely predicted mortgage defaults than third-party credit scores alone.

However, the FHFA recognizes that there are compelling reasons for the Enterprises to update their credit score requirement from Classic FICO. These reasons include: (1) The new models provide a slight increase in accuracy, (2) FICO 9 and VantageScore 3.0 incorporate economic changes since the financial crisis, (3) Third-party collections that have been paid no longer negatively impact applicants' credit scores in the new models, (4) Medical collections are now treated differently than other types of debt resulting in medical debt having less of a negative impact than with Classic FICO, and (5) Rental history, when reported to the CRAs, has been incorporated into the new models.

The FHFA is considering the following options:

Option 1 – Single Score: The Enterprises would require delivery of a single score, either FICO 9 or VantageScore 3.0, if available, on every loan.

Option 2 – Require Both: The Enterprises would require delivery of both scores, FICO 9 and VantageScore 3.0, if available, on every loan. This option would require policy decisions about how to treat borrowers with a credit score from one provider but not the other.

Option 3 – Lender Choice on which Score to Deliver, with Constraints: The Enterprises would allow lenders to deliver loans with either FICO 9 or VantageScore 3.0, when available. Lenders would have to choose one score or the other for a defined period (e.g., no less than 12 months).

Option 4 – Waterfall: The Enterprises would allow delivery of multiple score(s) through a waterfall approach that would establish a primary credit score and secondary credit score. Where a borrower did not have a credit score under the primary credit score, a lender would have the *option* to provide the secondary credit score.

All three credit score models under consideration, Classic FICO, FICO 9 and VantageScore 3.0, pull data from the three CRAs to generate their respective credit scores. None of the models consider data obtained from outside of the CRAs. As mentioned above, the new models, FICO 9 and VantageScore 3.0, have been improved by excluding or reducing the weight of certain medical debts. The newer credit score models also capture some consumer data such as timely rental payments to the very limited extent that rental data is reported to the CRAs. Alternative credit data is not included in any of the models under consideration.

An important difference between the credit score models is the minimum scoring criteria which each score provider uses to determine if a borrower's credit file contains enough information to generate a score. FICO and FICO 9 require at least one tradeline reported to a CRA within the last six months and a minimum of one tradeline at least six months old. VantageScore 3.0 does not require any tradeline reported to a CRA if it can generate a score using other data such as unpaid collections or public records and does not require a minimum aging of an account or tradeline.

All three credit score models use a score range of 300-850. However, the numerical credit scores themselves are not equivalent across the models. In other words, a FICO 9 score of 620 and a VantageScore 3.0 score of 620 do not necessarily represent the same relative likelihood of default for the same consumer. Further, the credit scores are not interchangeable because of the minimum scoring criteria which leads to a different universe of "scoreable consumers" and a different credit score distribution for each model. The score difference between FICO 9 and VantageScore 3.0 cannot be addressed or corrected by simply adding or subtracting a fixed number of points from either score.

<u>Our Concerns</u>

The Leagues have several concerns with introducing an alternative credit score model. We question the ability of VantageScore 3.0, with its limited scoring criteria, to sufficiently asses a borrower's likelihood to repay their mortgage. We are concerned that utilizing VantageScore 3.0 would approve otherwise ineligible borrowers and this could lead to a broader pool of borrowers entering the subprime market where they would be subject to higher rates, fees and predatory practices.

We are very concerned that adding an alternative credit score will create significant confusion in the industry and with consumers. Consumers already struggle to understand the factors that affect their credit score and to add one that does not compare or translate with existing models will create even greater confusion.

It has been suggested, and we concur, that adding an alternative credit scoring system could give rise to claims of disparate treatment under the Equal Credit Opportunity Act. Business practices, such as Option 3 or Option 4, which seem neutral on their face can be discriminatory if they are disproportionately adverse to a protected class.

Finally, we are concerned that needlessly updating the Enterprises' credit score requirement would cause the entire mortgage finance industry to incur operational and transition costs that could result in higher borrowing costs for consumers. Credit unions would need to expend significant resources to incorporate new or updated credit score(s) in their policies and processes while obtaining only "marginal benefits."

To mitigate the concerns stated above, the Leagues would support the FHFA's Option 1 – Single Score proposal, with delivery of a FICO 9 credit score for each loan. Having a single score reduces consumer confusion and provides lenders, guarantors, and investors a single, reliable indicator for assessing credit risk.

Tri-Merged File Requirement

Currently credit unions are required to submit a credit report and credit score from all three of the CRAs, Equifax, Experian, and Transunion. This is often referred to as a tri-merge credit report. This requirement essentially creates a shared monopoly as the CRAs do not have to compete in the mortgage market. In today's world of information technology, data analysis, and information privacy concerns, there is no reason to require a tri-merge report. Requiring only one report and score from one of the CRAs will create healthy competition, promote better data security, and reduce unnecessary costs for consumers.

Conclusion

The Leagues support allowing the Enterprises to incorporate FICO 9 as a single score and to eliminate the tri-merged file requirement. We thank you for the opportunity to comment on this RFI and for considering our views. If you have any questions regarding our comments, please contact me.

Sincerely,

Diana R. Dykstra
President and CEO
California and Nevada Credit Union Leagues