Structured Finance Industry Group

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

Re: SFIG Response to FHFA Credit Score Request For Input

Ladies and Gentlemen:

The Structured Finance Industry Group ("SFIG")[1] has reviewed the Federal Housing Finance Agency's December 20, 2017 Credit Score Request for Input (the "RFI") and is pleased to offer its thoughts.

SFIG previously sent a letter, dated April 11, 2017 (the "H.R. 898 Letter"), to several Members of the United States House of Representatives regarding the piece of legislation known as H.R. 898, the Credit Risk Score Competition Act of 2017. The H.R. 898 Letter contained a number of SFIG's considerations regarding many of the same issues on which the RFI is soliciting public comment. Director Watt was sent a copy of the H.R. 898 Letter at the time it was delivered to the addressee Members, and a copy is attached hereto for your convenience.

As we noted in the H.R. 898 Letter, SFIG supports market-based approaches and the competition that accompanies such approaches; therefore, SFIG would like to confirm its support for the FHFA's continuing re-assessment of the Enterprises' credit score requirements in order to ensure, in part, that they continue to be responsive to the ever-evolving considerations that go into the provision of credit, particularly to reduce the risks of unintentionally marginalizing borrowers that might not fit existing models. However, much of SFIG membership has expressed significant reservations that expanding credit model options may have the unintended consequences of: disrupting a highly efficient primary and secondary market without providing certainty that the universe of eligible borrowers will meaningfully increase; and increasing borrowing costs of the Enterprises, and ultimately the consumer, to offset investors' lack of familiarity with new and not well understood models.

Further Evaluate Benefits of Alternative Models

In particular regarding costs and benefits, we note that in the "Empirical Evaluation" section of the RFI, the FHFA presents a summary of the empirical evaluation process that the

[1] SFIG is a member-based, trade industry advocacy group focused on improving and strengthening the broader structured finance and securitization market. SFIG provides an inclusive network for securitization professionals to collaborate and, as industry leaders, to drive necessary changes, be advocates for the securitization community, share best practices and innovative ideas, and educate industry members through conferences and other programs. Members of SFIG represent all sectors of the securitization market, including issuers, investors, financial intermediaries, law firms, accounting firms, technology firms, rating agencies, servicers, and trustees. Further information can be found at www.sfindustry.org.

FHFA required the Enterprises to conduct regarding Classic FICO, FICO 9 and VantageScore 3.0. Although the FHFA heavily qualifies the results of that process by referencing the limited scope of that review and stating that the findings “should not be extrapolated beyond this scope”, the next sentence is rather direct: “FHFA concluded that the Enterprises’ empirical findings revealed only marginal benefits to requiring a different credit score than Classic FICO”.

SFIG is certain that there will be implementation and operational costs to making any change, and further believes that these costs will be substantial. In light of the findings, however heavily qualified, of the Enterprises’ empirical evaluations conducted to date, more research is clearly merited to assess both the benefits and the costs of any change being considered.

Eliminate Investor Uncertainty through Transparency

It is SFIG’s belief that any potential societal gains via increasing eligible borrower pools can be easily lost if the private capital markets, who are the ultimate holders of borrower risk, do not fully understand the predictive power of the score in terms of a borrower’s future payment performance. We believe that significant historical data, excepting out personally identifiable information, that compares any proposed new product against Classic FICO is absolutely necessary in order for market participants to understand how a specified credit profile would “score” using different modeling techniques and/or different scoring systems.

Put simply, since added costs to the housing finance system of making any change to the Enterprises’ credit scoring paradigm is certain, we recommend that the FHFA focus first on determining whether the change would result in any appreciable benefits. Furthermore, the use of “alternative data” and/or credit score modeling techniques by the Enterprises should be fully disclosed in advance to both the seller/servicer and the investor communities.

We hope you find our observations useful. We would be pleased to continue the discussion with you. Please do not hesitate to contact me at 202.524.6301 or at richard.johns@sfindustry.org if I may be of further service.

Respectfully submitted,

Richard Johns
Executive Director
Structured Finance Industry Group