Reply to the Federal Housing Finance Agency Request for Input on Credit Scores

NCRA's ANSWERS TO FHFA's CREDIT SCORE REQUEST FOR INPUT		
Question A1.1:	When and how do you use credit scores during the mortgage life cycle to support your business?	NCRA members, being reseller Consumer Reporting Agencies (CRA/CRAs), are the providers of the Tri-merge credit report to mortgage lenders. Due to this critical, though limited participation in the market, NCRA will only answer the FHFA questions that are germane to their business activities and that they have expertise in providing accurate insight.
Question 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?	Pending the score option selected by FHFA, the impact will be very minimal or it could require a major technology change. FHFA's Option 1 - Single Score, would create the least impact, with a change of FICO model virtually no impact at all. Option 2 - Require Both, 3 – Lender Choice and 4 – Waterfall, all increase the impact and would require technology changes in the reseller systems. The specific changes would need to be addressed by each of approximately one dozen technology companies as to how great the impact and how quickly these changes could be completed.
Question A1.6:	Do you have a recommendation on which option FHFA should adopt?	NCRA believes competition is critical to efficient industry and market performance. We also believe that real competition in the mortgage

		credit and credit score markets are challenging due to many factors; regulatory policies set by the GSE's, FHFA, HUD and others has created powerful monopolistic players. This makes the answer to some competitive questions counter-intuitive to popular belief and opposite the perspective of casual observers unaware of industry dynamics. Due to those factors we believe the best competitive solution in the scoring market is for FHFA to select Option 1 - Single Score. We believe FHFA should use the data they have researched carefully during the credit score project to select which scoring model will produce the best mortgage qualification and loan pricing results. Further we believe the FHFA should regularly review new scoring models as they are developed, and update models more frequently, promoting competition between the scoring models to be the single provider in the mortgage market. FHFA should consider not only the data provided by the score developer, along with the projected loan performance, past performance of the pervious score model, but all the relevant industry and score related data available should be part of this regular evaluation process. This is the way to promoting FICO, VantageScore and any entities that believe they have created a better score model to constantly strive for better performance and eliminates the potential for a race to the bottom. A very important aspect of FHFA picking Option 1 - a single score over the other FHFA suggested options is the impact of those options on lender competition across the different types of mortgage originators. Each option suggested will be discussed below, however option 3, lender choice deserves special note. That option seems to offer the most competition between the scoring models, it interferes with competition at the lender level and increases costs like requiring both scores. Mortgage originators who operate in a "broker" model (not just mortgage brokers, but also many credit unions, community banks,

		correspondent lenders and other originators) would be forced to buy both scores, increasing costs to the originator and the consumers they serve. This added cost would put those originators at a competitive disadvantage to lenders who do not operate in that fashion based on the increase costs.
Question A2.1:	What benefits and disadvantages would you envision for your business, your business partners, and/or borrowers under each of the options?	FHFA's Option 1 - Single Score would create the quickest benefits and least disadvantages due to the least impact on the entire industry. As mention previously, if FHFA selected FICO 9 as the single score the change of FICO models would be virtually no impact on the majority of the industry. Option 2 - Require Both, would create more technology changes, which would increase costs to all participants in the mortgage industry. This option would also greatly increase the cost of the report to the consumer. Each report would be subject to the cost of multiple scores, which could increase the difficulty of underwriting if the score models produce variances, which is certain to occur. This option further monopolizes a captive market for mortgage credit reports and scores which FHFA correctly has concerns about as detailed in the later questions in this RFI. Option 3 – Lender Choice, would be a similar increase in technology and technology expenses to the industry as Option 2. Option 3 opens a new concern with regards to consumer credit score confusion, which is significant today with all the different "educational scores" available in direct to consumer websites. The variation in score choices by different lenders could create some underwriting issues due to some lending segments such as mortgage brokers, correspondent lenders, credit unions, and community banks. These entities often originate the loan and close in the wholesale lender's/investor's name. Not knowing which wholesale lender/investor which would be best for the consumer until the credit report and score are obtained, might create a de facto

		Option 2 model for those entities, increasing costs to consumers who use those mortgage originators. Option 4 – Waterfall, would like Options 2 and 3 create increase in technology and technology expenses to the industry. When a consumer has no score the path to home ownership is more difficult; however, both GSEs have access plans for consumers with no score as long as they have a documentable 12 month payment history with certain types of alternative financial obligations like rent, telecommunication, and utility payments which are very seldom in the current national credit reporting agencies' (the bureaus') databases. When a consumer has no score on one model, and does have a score on another model, as FHFA correctly points out in the background data for this RFI, that score may not be one that qualifies the consumer for a loan, and could actually inhibit the consumer from getting a loan through the alternative credit processes as they have now been denied based on a credit score created from lower minimum score criteria.
Question 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?	As addressed in question A2.1, there is already significant consumer confusion due to all of the different credit score models. NCRA members hear stories from consumers regarding their credit score being utilized for their mortgage being "wrong" as they know they had a (just as an example…) 700 as they just got that score from (pick any of the multiple consumer targeted credit score sources available today) and the lender is underwriting them with a 650 and charging them higher rates due to that score. FHFA is very aware of the multiple score models via the research they have conducted leading to this RFI, and we believe all options other than Option 1, create more problems for consumer confusion and would require an added burden to increase America's financial literacy to avoid misunderstanding by a significant percentage of the population.

Question 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 reseller CRAs would have to technologically lock down the score model to the one selected in the contract for whatever minimum period the FHFA sets as part of the "with constraints" terms deemed appropriate. That way the CRAs would only be able to offer the loan originator that specific score model. That does not prohibit a lender from having a relationship with a different reseller CRA who accesses the other credit score model and then the highest score is used for the loan underwriting. FHFA would have to include language in the "with constraints" terms to prohibit the lenders from having different score requirements with alternative CRAs to avoid that potential problem.
Question A3.1:	Given that the CRAs own VantageScore Solutions, LLC and set the price for both FICO and VantageScore credit scores, and own the data used to generate both scores, do you have concerns about competition? If so, please explain your concerns?	This is the most difficult aspect of the credit score selection process. The mortgage credit reporting market has been captive since the creation of the tri-merge credit requirement in the mid 1990's and has experienced massive price increases at the wholesale level. Pending the score option FHFA selects, the ability for the bureaus to structure credit score pricing to push FICO completely out of the mortgage market, or expand on the massive price differences between the captive mortgage vs. the competitive non-mortgage credit markets without some type of government oversight is a reality.
Question A3.4:	If FHFA allowed the Enterprises to use multiple credit score models by adopting options 2, 3, or 4, would this competition translate into far-superior credit scoring models available to the housing finance markets? Would competition in the mortgage origination process create an incentive to incorporate more credit data for consumers	The concept of a credit score model to convert what the CFPB has termed as "credit invisibles", consumers with no score due to "thin files" or "no credit history", to visible and scored is a complex issue which NCRA does not believe will be corrected in any significant way via the implementation of either of the new score models proposed. That is due to the fact that both models being considered can factor the "alternative" data required to move the "invisible" to "visible" when

	with "thin files" or no credit history? How should FHFA balance these considerations with accuracy and mortgage credit risk?	available; however, the real problem is that the data is not available in the bureaus' files. No score model can calculate data that does not reside in the bureau databases. Rental payments, telecommunications, and utility company payment records, often cited as the key to becoming credit "visible" is very rarely reported today, at a rate of only about 1% of the population based on many estimates. A great example of this missing data is the attempts in the current Congress, and in each of the last three Congresses to pass legislation, The Credit Access and Inclusion Act, to remove some of the barriers restricting this data from entry into the system and to encourage greater full file (all payments not just past due payments which is typical today) reporting by these entities. While it appears this may be the Congress for success for this bill as it has passed the US House, there is still no companion bill in the US Senate at the time of this response. It is very important to note that this bill would still only remove a barrier in the rental market and encourage reporting, not require reporting. NCRA has historically been very active in this space, an active supporter of this proposed legislation and previous outspoken critic of the restrictions implemented by the GSEs with the creation of the tri-merge, which is the creator of the credit "invisible" in the mortgage market. More on NCRA's positions on this issue via Federal comments can be found at: http://www.ncrainc.org/cmss_files/attachmentlibrary/Foundation-Flawed-on-letterhead.pdf and http://www.ncrainc.org/cmss_files/attachmentlibrary/documents/Credit-Risk-Comment-Final-10-30-13.pdf and http://www.ncrainc.org/cmss_files/attachmentlibrary/Introducing-QMCR.pdf and file:///C:/Users/Terry/Downloads/1549_Terry%20Clemans-National%20Consumer%20Reporting%20Association%20(NCRA)-u.pdf .

Question 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.	NCRA members supply single, dual and tri-merge reports to lenders for various reasons. While the data found in the bureaus is concentrated more today than ever, as documented very well by the CFPB in their report from December 2012, https://files.consumerfinance.gov/f/201212_cfpb_credit-reporting-white-paper.pdf. However, despite the consolidation of the massive data sources, there is still significant data to be found by accessing all three bureaus due to the very significant small creditors often providing the critical single account or accounts that differentiate even more consumers from being credit "visible". Often smaller creditors such as credit unions, community banks, collection agencies, and other local financial services providers only report to one bureau. This data may be the most significant data on some consumers, especially those with "thin" files on one bureau and no file on one or both of the others. Since NCRA members are prohibited from doing research in this area, we surmise this from observations associated with our key position in the industry.
Question 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?	NCRA does not believe the benefits of pulling data from only two of the three bureaus outweighs the disadvantages of pulling all three, so we support the continued use of the tri-merge credit report for mortgage loan. We greatly appreciate the FHFA's insight and concern about the potential competitive market misconduct the captive mortgage credit reporting industry faces due to the tri-merge mortgage requirements. That said, we also believe firmly that the FHFA's primary concern should be the sound underwriting of mortgage loans, which is clearly done with knowing the consumer's entire credit history, including the data from all three bureaus and when required by thin, no file or credit

		challenged and borderline approval, alternative data verified by third parties with fiduciary liability to accuracy to both the lender and the consumer. Today, the GSE standards of allowing lenders who have an interest in the outcome of the loan review and verify alternative data on a subjective "sometimes we do it sometimes we don't" basis is very unsound and unfair to both the consumer and the American taxpayer ultimately backing these loans. To be fair to both of those consumers, the borrower and the taxpayer, the FHFA needs to maintain the tri-merge despite and urge the U.S. Department of Justice to review the information that it has obtained in the credit score research project which has created sufficient concerns to raise the question about eliminating the tri-merge requirement. The only benefit to the elimination of the tri-merge rule is that of restoring competition at the wholesale level of mortgage credit data, which has had price increases and other policy implementations which differ greatly from the non-captive credit markets of all other lending channels. While breaking this monopolistic practice by eliminating the tri-merge requirement is very tempting, there is significant data elements found from a single file that could easily be missed in a bi-merge or single file requirement that would be harmful to both the borrow and the America taxpayer.
Question B6:	What issues would this flexibility create if other mortgage participants (investors, insurers, guarantors) continued to require credit data from all three CRAs?	The elimination of the tri-merge would certainly create pre-closing problems as investors would very likely access the missing bureau to assure they understand the risk they are purchasing and uncover data that would change the loan, both in positive and negative ways late in the lending process. This occurred with regularity prior to the tri-merge requirement and was a reason used by the GSEs to move from the two bureaus' RMCR to the tri-merge in the mid-1990s. Going backward to less data would not be an improvement to the lending process.

Question 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?	No, because the lender's risk is only part of the equation: how would the lender compensate the consumer when the loan was underwritten without some of their primary loans? Too much data is missing from the process currently as created by the tri-merge requirement and the elimination of what is today referred to as "alternative data" which was ***required*** to be on each loan prior to the tri-merge rule. Increasing pricing to the lender, which would be passed on to the consumer, would be a double penalty as the consumer would be charged more for worse underwriting standards based on only part of their credit history.