March 27, 2018

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

Re: Request for Input on Credit Score Requirements

Honorable Director Watt,

The Asian Real Estate Association of America (AREAA) is made up of real estate and banking professionals dedicated to the goal of increasing Asian American and Pacific Islander (AAPI) homeownership rates. In this regard, we consider increasing access to affordable mortgage credit and new ways of determining credit worthiness to be a top priority as AAPI. Our members work with many homebuyers who are new immigrants to the US and some of them find it difficult to fit the traditional "credit scoring box" due to a cultural disposition of not taking on debt or being relatively new users of credit and establishing payment history. Through updated scoring models and systems that take into account common sense criteria such as rent and utility payments, more AAPI will be able to be accurately scored which could lead to an increase in sustainable homeownership levels.

AAPI are the fastest growing demographic in America, and Asians are the fastest growing immigrant group. Since 2010, AAPI have been the most active minority participants in the purchase money mortgage market both in terms of number of loans applied for and total dollar value originated. AAPI have the highest rate of college education in the nation, with 52% of those over the age of 25 having received at least a bachelor's degree (compared to just 30% for the general population). AAPI also have high median household income at $87,000, and high levels of employment at 60.9%.

However, despite being typically well positioned for homeownership as a group, AAPI still lag behind the national homeownership rate by 7%, and non-Hispanic whites by nearly 15%. A large reason for this gap is credit access, as AAPI tend to come from a cultural background that does not value taking on debt.

The way a person's credit is scored has not kept up with the fundamental changes in the way we live that have been spurred by our use of mortgage technology, or the housing and financial crises of 2007-8. We must seek ways to make sure that the main gatekeeper of a home loan, a person's credit score, accurately reflects the way in which people live today. Renting is at an all-time high, student debt is crippling our future generations, and the economy, while slowly recovering, has led to dramatic changes in the way people work and how they earn a living.

AREAA believes Option 3 of the RFI, “Lender Choice on which Score to Deliver, with Constraints”, is the best course of action for the FHFA. Allowing lenders to decide which scoring model works best for their market and their customers would alleviate a lot of the potential hurdles that a full scale change in scoring policy might have. Lenders who are trying to do more business with the AAPI and other minority communities, might find great benefit in using a scoring model that allows them to score potential borrowers who might otherwise have too thin a credit file or none at all.

Implementation of any of the proposed options would lead to an increased need for consumer education initially. The AAPI community is already at a disadvantage in this regard due to language access issues. According to our soon to be released 2017-2018 State of Asia America Report, nearly 80% of AAPI speak a language other than English at home, 35% are considered to be Limited English Proficient, and 20% of AAPI homes are “linguistically isolated”. While there is a portion of the AAPI community that already feels the process of applying for a loan is too confusing and complicated, and thus refrain from partaking, we feel the benefit of updating scoring models outweighs the concerns of greater education. As an association, educating consumers (and real estate professionals about how to talk to consumers) is an integral part of everything we do; if changes are to be made, creating and disseminating information about the changes would become a priority of ours.

Similarly, the FHFA, the Enterprises, and stakeholders could create a public awareness campaign through traditional and social media outlets to explain the different credit scoring options and the impact any changes would have on the consumer when applying for a loan. Working with real estate associations such as AREAA, the National Association of REALTORS®, and others to help promote educational content and information would be an effective way to help consumers, real estate professionals, and others understand any changes that are made.

Allowing multiple credit scores would almost certainly lead to new entrants in the scoring marketplace. If the requirement remains that only a single score be used, this would as certainly have an adverse effect on new entrants. However, under Option 3, new entrants would have an opportunity to demonstrate how their model is more accurate or effective, and at the end of a lender’s chosen score model’s period, would be open to selection. This type of competition will lead to improvements in the mortgage finance system and will open more door responsibly for traditionally underserved consumers.

With regulations and/or penalties for models that are found to be consistently inaccurate (such as barring a model once it crosses a predetermined threshold on level of accuracy), we believe that the GSEs can determine which tools meet the basic requirements of accuracy and fairness.

Through proper regulation we believe opening the scoring marketplace would lead to better, more accurate scoring. Scoring models that prove inaccurate over time could be prohibited from usage which would disincentive models from simply trying to score as many people as possible. Conversely, scoring models that prove more accurate could be given preferred status, letting lenders know these models will provide the best, most consistent results, thus leading the less accurate models to phase out naturally.

AREAA is prepared to assist however possible should the FHFA choose to move forward with updating its credit scoring policy.

Graciously,

Randy Char,
2018 National President
Asian Real Estate Association of America