Mortgage Partnership Finance™

Partnership Is Our Middle Name.

March 30, 2018

Federal Housing Finance Agency
Office of Housing and Regulatory Policy
400 Seventh Street SW
Ninth Floor
Washington, D.C. 20219

Re: Credit Score Request for Input - December 20, 2017

To Whom It May Concern:

The Federal Housing Finance Agency (FHFA) has requested feedback on its *Credit Score Request for Input* published on December 20, 2017 (the RFI). The Federal Home Loan Bank of Chicago (FHLBC) in its role as MPF® Provider and the undersigned Federal Home Loan Banks support the FHFA's review of the potential impact of updating Fannie Mae's and Freddie Mac's (Enterprise's) credit score requirement from Classic FICO to FICO 9 and/or VantageScore 3 and appreciate the opportunity to provide the following views for your consideration.

The Mortgage Partnership Finance® (MPF) Program currently has nearly 1,100 participating financial institutions (PFIs) across the country that are approved to sell mortgage loans into the MPF Program. In 2017, we had over 900 PFIs sell into the MPF Program, many of which are small to medium size local and community banks. Through the MPF Xtra® mortgage product, nearly 500 PFIs are approved to sell loans directly to the FHLBC for its sale to Fannie Mae and those PFIs would be directly impacted by a change in the credit score required for delivery. Further, PFIs which do not sell MPF Xtra loans could also be impacted if they utilize an Enterprise underwriting engine – Desktop Underwriter or Loan Prospector – to underwrite their loans that they sell to the MPF Program. There are operational implications associated with adopting one or more new credit scores and those implications fall into two broad categories: impact to PFIs; and secondly, impact to the MPF Program. We ask that the FHFA allow for a sufficient amount of lead time to implement a credit score change and also recommend updating to a single credit score requirement. This would be considerably less complex and burdensome for PFIs and the overall MPF Program and its operations than requiring PFIs and the MPF Program to accept multiple scores when delivering MPF Xtra loans. We believe that relying on one score still enables the FHFA to achieve the goal of increased predictability of loan performance.

In order for a PFI to adopt the FICO 9 Score or the VantageScore 3 or both, PFIs will have several operational hurdles to manage and, potentially, additional internal and external costs. First, PFIs will need to review and possibly update their credit reporting agency agreements to ensure access to the credit scores required by their investors. Increased costs from the credit reporting agencies may be passed on to consumers. Second, PFIs will need to examine and update their operational policies and procedures to ensure that the credit score (or scores) required by the intended secondary market investor is obtained and properly transmitted. Such processes could include updated quality control, compliance and other monitoring and testing procedures. PFIs will be incurring new business risk in accessing and possibly providing the wrong score. The impact of such an error could be significant and result in an unexpected negative price adjustment at sale or a repurchase. PFIs may also need to update their systems to accommodate the new scores and old scores. Further, unless all secondary market investors to whom a PFI sells loans also migrate towards a new credit score adopted by the Enterprises, PFIs will be left to manage up to three scores during underwriting, processing and packaging loans for sale.

In order for the FHLBC in its role as MPF Provider to adopt a new score or both new scores under consideration, the FHLBC will have to manage similar and additional operational hurdles and increased costs for MPF Program participants. The FHLBC will need to review and potentially update its contracts to ensure access to the new required credit score(s). The FHLBC will also need to update systems and operational processes to ensure that the correct credit score(s) are being received from PFIs. Such operational processes could include updating quality control, compliance, regulatory or other monitoring and testing procedures. The FHLBC would also need to ensure that the appropriate credit score source is accounted for in assessments of default probability. Flexibility to accept credit scores from multiple sources may further complicate modeling processes and introduce additional risks related to data collection and its use in credit modeling. The FHLBC, like the PFIs, will also have to manage up to three scores during its purchase and loan sale processes.

In light of the complexity being introduced through integrating credit scores produced by two new models, the FHLBC suggests that the Enterprises adopt only one. We would support the FHFA's decision to adopt the credit score model that appears to provide the best indication of future loan performance based on the FHFA's review and assessment. Adopting one new credit score model as opposed to two would also have the added benefit of reducing potential borrower confusion that could result from the originator's explanation of the similarities and differences across Classic FICO, FICO 9 and VantageScore 3 scores.

The foregoing comments are aimed at securing the necessary implementation timelines for adoption of one or two new credit score models due to the operational complexities and increased costs referenced above. Additionally, we offer that landing on one score versus two reduces some complexity, may minimize potential confusion among market participants, and should help better control costs. We appreciate the FHFA's consideration of these views

Sincerely,

Federal Home Loan Bank of Chicago

John Stocchetti, Executive Vice President,
for the MPF Provider as MPF Program Executive

Federal Home Loan Bank of Boston

Federal Home Loan Bank of Chicago

Federal Home Loan Bank of Dallas

Federal Home Loan Bank of Des Moines

Federal Home Loan Bank of Pittsburgh

Federal Home Loan Bank of San Francisco

Stephen P Traynor
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Federal Home Loan Bank of Topeka