Consumer Federation of America

1620 Eye St., NW Suite 200 Washington, DC 20006

30 March 2018

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

RE: CREDIT SCORE REQUEST FOR INPUT, DECEMBER 20, 2017

Dear Sir/Madame:

Thank you for the opportunity to comment on FHFA's Credit Score Request for Input, published December 20, 2017. The Consumer Federation of America is a nonprofit association of some 300 national, state and local pro-consumer organizations created in 1968 to represent the consumer interest through research, advocacy, and education. We appreciate FHFA's soliciting comments from interested groups like CFA in considering the important issues around credit scoring technologies.

In general, CFA supports competition in the market and the constant updating of models to collect and consider the widest range of data because we believe that it helps insure consumers have access to the best products at the lowest cost. We believe this applies in the credit scoring space, as well. We thus encourage FHFA to direct Fannie Mae and Freddie Mac to incorporate other credit scores, updated models, and other alternative means of assessing borrowers' propensity to repay debts in addition to FICO.

We also note that the GSEs' modeling and assessment of credit risk relies much more heavily on proprietary underwriting algorithms than on credit scores. These are at least as opaque as credit scores, and consumer interest should drive FHFA to look more expansively at whether these are fully optimizing information about consumer practices and habits. The focus on credit scores is welcome, but incomplete. We agree with the comments submitted by the Center for Financial Services Innovation (CFSI) and the Urban Institute urging broader consideration of alternative means of assessing consumers' ability and propensity to repay mortgage debt[1]. In particular, advances in financial

[1] "We support FHFA's efforts to upgrade the GSEs' credit score requirements, as the current model is outdated. But updating to a newer model, while a step forward, does not go far enough because it does not encourage greater use of additional data, such as rent and utility payment data…. The crux of our RFI response is that the FHFA should take a broader view of competition with the credit scoring space—one that includes

technologies that make examination of income and spending patterns both before and after loan origination scalable and efficient offer new potentially constructive insights into likely and continuing mortgage performance.

As the RFI points out, Fannie Mae does not use credit scores at all in its automated underwriting process, and Freddie Mac uses them only as a part of a larger, multifactor underwriting process in its automated application. However, FICO scores are used by both Enterprises as a basic minimum qualification for submission to their underwriting applications, and they are used in applying risk-based pricing premiums in combination with loan to value ratios. Insofar as the scores operate as a gatekeeper to GSE mortgage products, there is a strong public interest in promoting technologies that assess and score the largest possible number of consumers and to encourage a well-regulated competitive market in order to do so. This may or may not increase the number of eligible borrowers receiving approvals through the GSEs' underwriting engines. Indeed, the RFI concludes that meaningful improvements in approvals are likely to be small, because the scores play such a minor role in GSE underwriting algorithms[2]. But it may increase the opportunity to be considered in the first place. This is especially important as increasing numbers of new households are entering the mortgage application marketplace with significantly different demographic, family and credit use profiles than in the past. There also is a significant public interest in making sure that the models used to assess consumers that will drive pricing decisions are as accurate and inclusive of relevant factors as possible. We believe competition will help drive continuing improvement in these models and benefit consumers as a result.

As the RFI points out, the FICO model that is currently used by Fannie and Freddie is dated. The effective monopoly that FICO has as the only authorized source of GSE credit scores reduces its incentive to update and improve its models. Indeed, even though FICO has updated its models and offers models that include more data points and improved analysis, neither GSE has adopted them, making this monopoly potentially even more disadvantageous to consumers. The GSEs also have failed to adopt new models such as those offered by VantageScore, even when those models may represent positive new ways to include more consumers for consideration for mortgage credit and potentially more effective and affordable risk pricing. This failure to update the models that can play such a significant role in controlling access to GSE mortgage credit is unacceptable. It also differs from creditor practices in other markets, including markets where loans are bundled into securities. We support FHFA direction to the GSEs not only to incorporate the latest tested and verified credit scoring models available, but also to open up their process to other scores than FICO and over time other models that may emerge. This would bring the mortgage marketplace in line with other credit markets and, we believe, help assure the broadest possible access to GSE mortgage credit.

FHFA seeks input on whether allowing multiple models would foster a "race to the bottom" among score providers as they compete for market share among lenders and other credit actors. We do not

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credit score modeling firms and providers of additional data." Urban Institute, *FHFA's Evaluation of Credit Scores Misses the Mark,* Karan Kaul and Laurie Goodman, https://www.urban.org/research/publication/fhfas-evaluation-credit-scores-misses-mark

[2] "FHFA concluded that the Enterprises' empirical findings revealed only marginal benefits to requiring a different credit score than Classic FICO. These 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." *FHFA Request for Input, December 20, 2017, page 3*

believe this is likely if the adoption of any model is predicated on a well understood and regularly revised validation process to assess each model's predictive power at application or origination. If a model is "tweaked" to score more borrowers and the result is poorer performance versus other models, this will show up quickly and drive customers to models with higher predictive power. Providers of credit scoring algorithms should be subject to regular and routine assessment of their models' predictive powers by the GSEs and by FHFA, as should any newer emergent technologies. The GSEs are well positioned to make such assessments using their large databases of historical and current loan performance.

FHFA sought input on different approaches to credit score use by creditors and the GSEs. We support option 3, in which lenders have the option to choose among approved credit score providers. In order to prevent "score shopping" or adverse selection of one GSE over another resulting from differing scores for any one consumer, lenders should be required to pick a provider for a minimum period as FHFA suggests, and that choice should control submissions to both GSEs. In other words, lenders should not be allowed to use one score with Fannie Mae and another with Freddie Mac. We recommend that the GSEs collect data from both FICO and VantageScore independently, and any future scoring technologies that emerge, on borrowers and to publish regular analysis on loan performance to permit more transparent understanding of the models and their consequences.

FHFA also sought comments on the use of tri-merge reports. The Urban Institute's comments suggest that the facts that drove GSE adoption of this approach have changed over time, and that the use of tri-merge is no longer compelling. To the degree that the tri-merge adds to consumer costs without providing a significant increase in the quality of consumer credit assessments, this requirement should be changed to reflect the optimal level of confidence at the lowest possible cost to consumers.

Thank you again for the opportunity to comment on this important matter.

Sincerely,

Director of Housing Policy