NAVY FEDERAL Credit Union

Office of the President

30 March 2018

Mr. Melvin L. Watt
Director
Federal Housing Finance Agency
Office of Housing and Regulatory Policy
400 Seventh Street, SW, Ninth Floor
Washington, DC 20219

Re: Fannie Mae and Freddie Mac Credit Score Requirements – Request for Industry Input

Dear Mr. Watt:

Navy Federal Credit Union ("Navy Federal") appreciates the opportunity to provide our comments to your request for industry input concerning the potential changes to the credit score requirement at the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") (together, the "Enterprises").

By way of background, Navy Federal is the nation's largest natural person credit union with more than $89.9 billion in assets, over 7.7 million members, 315 branches, and a workforce of approximately 17,000 employees worldwide. We are committed to serving the needs and improving the financial condition of our members.

Navy Federal understands that the Federal Housing Finance Agency ("FHFA") was established by the Housing and Economic Recovery Act of 2008 (HERA) and is responsible for the effective supervision, regulation, and housing mission oversight of the Enterprises and the Federal Home Loan Bank System. We also understand the FHFA's mission is to ensure that the regulated entities operate in a safe and sound manner and that they serve as a reliable source of liquidity and funding for housing finance and community investment. Since 2008, FHFA has also served as conservator of the Enterprises.

In the Request for Input (RFI), the FHFA stated that it "has reviewed the current Enterprise credit score requirements to consider if the Enterprises should update their requirements and, if so, what type of update should be required. The review included evaluating the impact of a new credit score model on access to credit, on operations in the mortgage finance industry, and on competition in the credit score market."[1] Further, "that while the FHFA believes it would be desirable to update the Enterprises' credit score requirement from the

[1] FHFA, "Credit Score Request for Input," December 20, 2017, page 1.
Available at: https://www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/CreditScore_RFI-2017.pdf.

current Classic FICO standard, the FHFA has not determined which credit score option should be adopted as a replacement"[2] (e.g., FICO 9 or VantageScore 3.0).

The FHFA correctly states in the RFI that,

> "[u]pdating the Enterprises' credit score requirement would generate industry-wide effects among stakeholders, including impacts on mortgage applicants, mortgage lenders, mortgage insurance companies, CRAs (consumer reporting agencies), consumer credit reporting resellers, mortgage-backed security investors, credit risk transfer (CRT) investors, and other market participants. The entire mortgage finance industry will incur operational and transition costs that could result in higher borrowing costs for consumers."[3]

The FHFA is, therefore, seeking information from stakeholders about the impact a change to the Enterprise credit score requirements would have on different parts of the mortgage industry.

While Navy Federal supports the FHFA's goal of making mortgage credit more widely available to consumers, our experience indicates that very few members are unable to be "scored" by the current credit model. For example, in 2017 less than 1% of applications did not receive a score through the current FICO model. Additionally, as you know, both Fannie Mae and Freddie Mac allow the use of alternative non-traditional credit to underwrite loans which do not receive a traditional score.[4] In the few instances when a credit score is unavailable, Navy Federal is frequently able to use non-traditional credit alternatives to meet our members' mortgage needs.

If FHFA decides to change existing practices, Navy Federal believes FHFA should allow lenders to choose either FICO 9 or VantageScore 3.0. Employing more than one credit scoring model increases complexity and ultimately cost, which will likely be passed on to consumers. Further, Navy Federal believes financial institutions should be given ample time to comply with the new requirements. Based on the challenges associated with updating systems, at least one year will be needed to comply with credit scoring changes.

Given our experience with the current FICO scoring model, Navy Federal believes it is beneficial to employ the same model for all loan types (conventional and government). The current methodology of using the same model for all mortgage loan types allows Navy Federal to appropriately measure and price risk. Requiring different models based on loan type will add complexity to the process, and expense, which will ultimately be borne by consumers. The key to a positive outcome, therefore, will be for the FHFA and the Enterprises to choose an option that maximizes the benefits and minimizes the costs across stakeholders and consumers, while taking active steps to address industry concerns prior to implementation.

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[2] Ibid.
[3] Ibid., page 4.
[4] Ibid.

In closing, Navy Federal appreciates the FHFA's efforts to address the concerns of credit unions and its members with loans that are eligible for purchase or securitization by the Enterprises. We look forward to continuing to work with the FHFA to craft reasoned approaches for a sustainable mortgage market in the years to come.

Should you or a member of your staff have additional questions about our responses, please contact Carmelo Bramante, Manager of Regulatory Compliance and Public Policy, at (703) 206-3263.

Sincerely,

John Peden
Chief Operating Officer

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