

United States Senate

March 30, 2018

The Honorable Melvin Watt
Federal Housing Finance Agency
Office of Housing and Regulatory Policy
400 7th Street, SW, 9th floor
Washington, DC 20219

Re: Credit Score Request for Input

Dear Director Watt,

On December 20, 2017, the FHFA issued a request for input on the credit score requirements for Fannie Mae and Freddie Mac (the Enterprises) and reactions to potential updates to those requirements. While too many creditworthy borrowers are excluded from the current system, I am concerned that the options considered in the RFI that introduce VantageScore, a model owned jointly by the three national credit reporting agencies (CRAs), will not significantly expand homeownership opportunities and ultimately stifle innovation.

According to the CFPB, nearly 45 million people in the United States lack enough credit history to receive a credit score, making it difficult for them to find housing.¹ The understandable reaction when faced with those statistics is to find a way to provide credit scores to as many people as possible. But a credit score generated from less reliable data that forces borrowers into a subprime loan can be catastrophic for an individual and their family—and can last generations.² The credit score should be merely a means to an end and not the end goal itself.

As noted in the RFI, the CRAs are the only source of data used by FICO and VantageScore to produce the scores under consideration. In order to provide scores to more consumers, VantageScore relaxes credit standards to include collection accounts, public records, and credit accounts that are either too old or too new to be considered predictive by FICO.³ The challenges consumers face with faulty credit reports and abusive practices by debt collectors is well documented and is reason enough to doubt the wisdom of relying so heavily on those factors to assign a credit score.

¹ Consumer Financial Protection Bureau. (2015). "The Consumer Credit Market"

² Goodman, Sarena, Alice Henriques, and Alvaro Mezza (2017). "Where Credit is Due: The Relationship between Family Background and Credit Health," Finance and Economics Discussion Series 2017-032. Washington: Board of Governors of the Federal Reserve System.

³ VantageScore. (2014). "Universe Expansion: Is the Way You Score Customers State of the Art or State of Denial?"

VantageScore's own data raises additional concerns. The company estimates that of the 30 million consumers who receive scores from their model, approximately 75% receive scores are below 620.⁴ An analysis by housing finance industry economists estimated that only 48,000 would likely receive a loan.⁵ With the GSEs able to automatically underwrite borrowers without credit scores, will a move to include VantageScore actually result in more homeowners? Is it worth the cost to the system and potential impact on consumers who are newly scored but still do not qualify for a loan?

Some housing stakeholders argue that competition among credit scores will drive innovation. The CRAs, however, currently have a near monopoly on the consumer information used to generate credit scores. As the RFI notes, the CRAs own the data used to generate both the FICO and VantageScore credit scores. The CRAs set the price for FICO to acquire the data to build its models. They also set the price lenders and other end-users pay to acquire the scores. If VantageScore is allowed to compete with FICO, the CRAs could potentially charge VantageScore and FICO different rates for consumer data and charge lenders and end-users different rates for FICO scores and VantageScores.

In discussing the impact of this ownership structure the RFI states, "The CRAs' ability to control the data and pricing of both VantageScore and FICO scores, while maintaining a financial interest in VantageScore, could create concerns about competition." While that is following with a statement that FHFA is not suggesting anticompetitive behavior, how could the complete vertical integration of one provider not naturally result in anticompetitive practices?

As the FHFA makes its final decision, I urge you to stay true to the core mission of promoting market stability and creating a path to homeownership for underserved borrowers and seriously consider whether the inclusion of VantageScore accomplishes those goals.

Sincerely,


BRIAN SCHATZ
U.S. Senator

⁴ Mike Trapanese. "Can New and Alternative Credit-Scoring Tools Mean Greater Access to Credit?" (Presented at Urban Institute, Washington, D.C., March 21, 2017.)

⁵ Parrent, Haman. (2017) "Risks and Opportunities in Expanding Mortgage Credit Availability through New Credit Scores."