March 29, 2018

The Honorable Mel Watt
Director, Federal Housing Finance Agency
4000 7th Street, SW Ninth Floor
Washington, DC 20024

Re: Credit Score - Request for Input (RFI)

Dear Director Watt:

America's Homeowner Alliance (AHA) is a membership-based organization built to represent the approximate 75 million homeowners and all future aspiring homeowners in America. Our members believe in free market competition.[1] AHA rejects monopolies - especially any monopoly that may unfairly discriminate among creditworthy consumers.

More modern and predictive credit-scoring models are available in the marketplace, but are prohibited from use by Fannie Mae and Freddie Mac. Instead, consumers must rely upon a single-source provider for credit scores, which, as we understand it, is using data assimilated from 1999 to 2004 to construct its scoring model. Many researchers believe this model excludes creditworthy borrowers and has a disproportionately adverse impact upon minority and youthful consumers. If there was a fully functioning free market for credit-scoring models, the large number of creditworthy borrowers who are currently locked out of the market would not exist.

VantageScore is one such model that takes into account newer and more specific data that reflects the way we live our lives now, rather than the way consumers did back in the 1990s. Their modeling experts indicate that just by using these more modern methodologies of credit-scoring analysis, more than 30 million people may become "scoreable" who are not so today. In addition, there would likely be several million people who would be "mortgage eligible" immediately. The "roadblock" created by Fannie Mae and Freddie Mac has been a significant factor that has resulted in a loss of homeownership opportunities for millions of creditworthy Americans and has resulted in homeownership rates being at 50-year lows. But we want to make this point – even if it's ONE eligible homeowner, it's simply an unacceptable policy. Whether it's ONE qualified homeowner or

[1] America's Homeowner Alliance is a non-profit organization that seeks to protect and promote sustainable homeownership for all segments of America by advocating on behalf of all American homeowners and aspiring homeowners as well as educating its members about the ways they can help impact federal housing policy.

millions that have been boxed out of the opportunity for homeownership, it is not acceptable for government enterprises to wield policy that has this result.

The Fannie Mae and Freddie Mac (the GSEs) Charters state explicitly that the GSEs have a statutory responsibility to: *"provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low-to-moderate income families involving a reasonable return that may be less than the return earned on other activities) . . ."*

Given this charter requirement, and with data from the Harvard Joint Center for Housing estimating that 85% of new household formation in America over the next 20 years will be "people of color," different and more modern credit-scoring models are not only warranted, they are a "strategic imperative" for America. A large share of that new household formation will be low-to-moderate income families, because most of them will not come from a previous generation of homeowners and therefore will have limited generational wealth. They need the best available tools to facilitate homeownership. They need more modern credit-scoring systems that do not rely as heavily on data and characteristics assimilated from 1999 to 2004. These new households are a vastly different demographic. To us, the choice is obvious. If you want to meet the needs of the aspiring homeowner over the next 20 years – and especially if 85% of them will be "people of color" – you MUST authorize use of alternative, more modern credit-scoring systems. If you do not, this tsunami of new demographic need will not be met.

We have heard some in the marketplace suggest that alternative credit-scoring models will promote a "race to the bottom." Our response to that is – <u>we've already found it</u>! Using the credit scoring system mandated by Fannie Mae and Freddie Mac, America has atrophied to the lowest rate of homeownership in over 50 years. On top of that, the spirit of the new Ability to Repay Rules dictated in the Dodd/Frank Act essentially state that no real estate loan in America can be made unless the consumer is proven to have the ability to repay the loan. It also infers that all real estate loans must be fully documented, well underwritten, fully amortized, safe, sound, and sustainable. Using new credit-scoring systems to bring more people to the doorstep of homeownership does not mean a lowering of the standards for underwriting a real estate loan but it just might give a few million people the OPPORTUNITY to be underwritten that are not provided that opportunity today. And before anyone suggests there is a way for those with non-traditional credit or no credit scores to be "underwritten" today, the last time we looked, anyone with non-traditional credit or no credit score can be charged up to an additional 375 basis points by Fannie Mae and Freddie Mac because of those circumstances. Unless alternative credit-scoring models are authorized, that "tax on homeownership" will disproportionately impact that 85% of new household formation we need to serve.

Given the limited options described in the FHFA Request for Input, AHA asserts that **Option 3 (the lender choice approach)** is likely to offer the greatest benefit to current and aspiring homeowners who may be unfairly scored in the current model used exclusively by Fannie Mae and Freddie Mac. Lenders should be given the option to select the credit-scoring model provider that they feel is the most predictive, provides the most consistency, and is the best model for their organization. Lenders should then be required to sustain that particular scoring model for an extended period of time to mitigate "score shopping."

We also want to make exceedingly clear that Fannie Mae and Freddie Mac should be expressly prohibited from creating their own credit-scoring models or from owning any share or interest in them as well. That is a primary market / private enterprise function that should be off limits to government-sponsored enterprises.

On a related topic, we've heard concerns about VantageScore's relationship with, and the ownership by, the Credit Reporting Agencies (CRAs). We have no concern over this issue knowing that FICO has been the EXCLUSIVE provider of the credit-scoring model in the mortgage industry for a couple of decades. In addition, FICO suggests it is the dominant provider in other areas of credit extension such as credit cards, auto, and others where they compete head-to-head with VantageScore. If there were some nefarious actions being undertaken between VantageScore and the CRAs, it would have manifested itself by now. In addition, among other things, it is our understanding the Sherman Antitrust Act prohibits any kind of "price fixing" that would disadvantage FICO.

One more concern we've heard is that there might be some kind of pricing "haircut" if VantageScore were to be used in Mortgage Backed Securities. We've done some investigating and our sources tell us that VantageScore is used extensively in Asset Backed Securities with ZERO pricing haircut. In addition, our sources indicate the VantageScore and FICO scoring models are co-mingled into these instruments without limitation. In that regard, the Rating Agencies apparently have studied VantageScore and authorized its use, which leads us to one more comment- It's our understanding that VantageScore is already used by FHFA in some capacity, so how is it that VantageScore is therefore not acceptable to Fannie Mae and Freddie Mac if their Regulator already uses VantageScore?

We believe VantageScore is a viable competitive option in the market today, but nothing would stop further innovation or more competitors who could put pressure on the existing providers to "up their game."

We believe Option 3 is the correct outcome from this RFI. We also believe strongly that FHFA could authorize use of VantageScore and subsequently other alternative credit-scoring models after FHFA has done a vetting of the systems. But most importantly, to AHA, the choice is binary. Either you believe and support competition in credit-scoring models, or you believe and support a monopoly. On behalf of our members, we're anxious to see which choice FHFA makes.

Respectfully,

Tino Diaz

Tino Diaz
Managing Director
America's Homeowner Alliance