



March 27, 2018

The Honorable Melvin L. Watt  
Federal Housing Finance Agency  
Office of Housing and Regulatory Policy  
400 7<sup>th</sup> Street Southwest, 9<sup>th</sup> Floor  
Washington, DC 20219

Re: Request for Input on Credit Score Requirements

Dear Director Watt:

The National Association of Real Estate Professionals (NAHREP) appreciates this opportunity to respond to the Federal Housing Finance Agency's (FHFA) Request for Input on Credit Score Requirements.<sup>1</sup>

NAHREP supports a change in current Enterprise practice around credit score requirements which will promote competition, innovation, and transparency. In sum, we support "Option 3" presented in the RFI because we believe that the current approach disadvantages the population we serve, lacks the impetus for innovation that competition breeds that allows consumers to be better informed about their mortgage readiness.

Because Option 3 allows our member professionals to select the lender, and therefore the model that best meets the needs of the communities we serve, we can be more confident that the credit scoring model that is used will respond to our core constituency. Our comment letter outlines its rationale for support of Option 3 in more detail below, but can be summarized as the following.

1. **Current Disadvantages:** Hispanic consumers are not well-served by the current credit scoring model that is relied upon by the Enterprises as a significant factor in making credit decisions because it does not reflect the way Hispanics use credit.
2. **Competition:** A single, monopolistic provider of credit scores is not properly incentivized to respond to demographic changes in the marketplace or address characteristics that fall

---

<sup>1</sup> The National Association of Real Estate Professionals (NAHREP) is an organization with a clear mission: advance sustainable Hispanic homeownership. NAHREP pursues this mission by educating and empowering the real estate professionals that serve our community; by advocating for public policies that support our mission; and by building and facilitating relationships with key industry stakeholders. We represent over 30,000 members and 58 chapters across the nation, guided by a Corporate Board of Governors drawing representation from nearly every category of stakeholder in the real estate industry.



outside of what is typically described as “average” or typical of the majority population. As the characteristics of household formation change over the next decade, NAHREP advocates for the use of all public policy levers that would allow the market to adjust rapidly to serve the creditworthy population that is emerging.

3. **Transparency:** The lack of transparency in the Enterprises evaluation of credit must end. Consumers need access to the same information the Enterprises will use to evaluate them in order for the consumer to feel ready for homeownership or to understand and develop a plan for improvement.

### **1. Current Disadvantages:**

While not the only factor in the Enterprises underwriting requirements, a consumer’s credit score says a lot about his or her ability to access a mortgage. Scores impact eligibility for certain types of products; pricing, on multiple levels; the availability of mortgage insurance; and the types and number of lenders willing to work with you.

Options can be limited for prospective borrowers without a credit score or those on the bubble of eligibility or exist on either side of “average”. As practitioners in the industry, we see every day how cultural differences, like an aversion to credit or a reliance on family members for financial help, can make it difficult for Hispanic consumers to access mainstream mortgage credit. As referenced in our 2018 State of Hispanic Homeownership, insufficient credit score or history is reported as the greatest obstacle to getting a mortgage.<sup>2</sup> While a static model that has been in place for a number of years may work overall and “on average”, we see many deserving people for whom the “average” designation is exclusionary and those people are disproportionately Hispanic.

### **2. Competition:**

We have not studied any credit scoring model closely enough to know which model is the best predictor of future mortgage performance. We know, however, that a consistent critique of the current model in use by the Enterprises is that it dates back to the 1990s and does not capture some of the most prevalent ways that Hispanics use credit. Despite this on-going critique, the model has not been updated when viable alternatives exist. We think this lack of interest in innovation is at least in part a result of the monopolistic hold that comes from the complacency of a sole source provider.

### **3. Transparency:**

NAHREP supports up-to-date, transparent, public, and widely accessible methods of credit scoring to qualify individuals for homeownership. While there are more factors than credit score alone that qualify a consumer for homeownership, knowing the score is a key signifier to the consumer as to their homeownership readiness. It is for this reason that NAHREP supports a publicly available credit score

---

<sup>2</sup> *The 2018 State of Hispanic Homeownership Report*. page 11. Available [here](#).



source for consumers to access at any time to understand what their credit score would be if a lender were to evaluate their creditworthiness for a mortgage.

To address some critiques of Option 3 that have surfaced during this open discussion period, NAHREP supports the following enhancements:

1. To prevent gaming, lenders should be limited from switching back and forth between models.
2. To provide a safe transition in the correspondent and capital markets, FHFA should require meaningful advanced notice and work with the model developers to publish plenty of historical and comparative data.

If we're going to take on the costs of change, let's make sure to permanently fix the problem by establishing a safe, transparent system through which model developers compete on accuracy and coverage. We propose that Fannie Mae and Freddie Mac, together with FHFA, should establish a transparent, diligent process to evaluate new models then let lenders choose which to implement.

Let's make sure that, as demographics and technology and consumer behaviors change, we are in a position to consider and adopt the latest tools. Done right, competition can help lenders to better serve the borrowers of tomorrow. The first step is to replace today's approach to credit score requirements with one that can respond to the needs of the Hispanic community because it embraces competition and transparency.

Thank you,

A handwritten signature in black ink, appearing to read "Ga", is positioned above the typed name.

Gary Acosta  
NAHREP Co-Founder & CEO