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June 4, 2018

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

Re: Request for Comments on FHFA's 2018 Regulatory Review; No. 2018-N-03

To Whom It May Concern:

On behalf of America's credit unions, I am writing the Federal Housing Finance Agency (FHFA) regarding its request for comment (RFC) on its Regulatory Review. The Credit Union National Association (CUNA) represents America's credit unions and their 110 million members.

FHFA's Regulatory Review Plan

The FHFA has issued a notice of a regulatory review that is being conducted in accordance with the process set forth in its Regulatory Review Plan published in February 2012. As part of this review, the FHFA is requesting comments on how its regulations may be made more effective and less burdensome.

FHFA's Regulatory Review Plan provides for the periodic review of its existing significant regulations to determine whether any regulation should be modified, streamlined, expanded, or repealed to make the agency's regulatory program more effective or less burdensome in achieving its objectives. Under its Review Plan, FHFA generally reviews its regulations at least every five years.

FHFA's 2018 Regulatory Review

We appreciate the FHFA's initiative in voluntarily conducting regulatory reviews on a regular basis. While the FHFA is not compelled to conduct such reviews by statute, and thus specific requirements such as those under the Administrative Procedures Act requiring agency consideration of comments received do not apply, we urge it to thoroughly analyze all public input received during this important process.

In general, the FHFA should review all of its existing regulations with an eye toward how it can improve their effectiveness and reduce their burden.

FHFA's Consideration of Changes to Credit Score Requirements

The FHFA recently issued a request for input (RFI) on the operational and competition considerations of changing the current credit score requirements for Fannie Mae and Freddie Mac (the Enterprises). We would like to take the opportunity to reiterate some of the important concerns regarding the credit score requirements we raised in response to the RFI.

We appreciate the FHFA's inquiry into the issue of credit score requirements. We encourage the FHFA to continue to work to find the right balance between safety and soundness on the one hand, and credit availability for American consumers on the other. Since the financial crisis, mortgage credit has become less available for many Americans as underwriting standards have tightened.

While we recognize that the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act (S. 2155) speaks directly to the use of multiple credit scores by the Enterprises, we still believe our comments are relevant as the FHFA proceeds in this area. Here are pertinent responses to the FHFA's specific questions raised in the RFI:

- In response to the question: When and how credit unions use credit scores during the mortgage life cycle to support their business?

The majority of credit unions offer mortgage loans to their member-borrowers. Credit unions regularly use credit scores to assess a borrower's propensity to repay at loan origination.

- In response to the question: Do you use the same credit score version for all of your lending business lines, whether it is mortgage lending or non-mortgage lending (e.g., credit card and/or auto loans)? If so, why? If you use multiple credit scores (e.g., FICO and VantageScore) in making credit decisions for any one line of business, please identify which credit score you use for the type of lending and why. Are you considering updating credit scores that you use in your non-mortgage lending business lines?

Credit unions may use different credit scoring models to determine borrower creditworthiness across product lines. This decision may be made for a variety of reasons, including pricing, strength of default predictive ability, or availability.

- In response to the question: Do you have a recommendation on which option FHFA should adopt?

While we do not have a recommendation that FHFA adopt a particular option, we discourage the agency from choosing Option 2, which would require credit unions to deliver both FICO 9 and VantageScore 3.0 scores, if available, on every loan. Whichever option FHFA ultimately chooses it should minimize prescriptive requirements and maximize flexibility.

- In response to the question: How significant are the operational considerations for a single score update?

Any changes to the score models required for underwriting Enterprise-eligible loans could present significant operational challenges. For larger lenders who develop and maintain their own underwriting systems, there would likely be direct costs and delays associated with implementing any changes, while for smaller lenders who may be reliant on third-party vendor systems, there may be indirect costs or waiting periods for relevant updates, any of which could prove disruptive to mortgage lending credit unions and the borrowers they serve.

- In response to the question: Could using any of the multiple credit score options affect the way investors view, and therefore price, Enterprise securities? Could any of the multiple credit score options reduce liquidity in the market and/or increase the volume to the specified market?

We cannot speak directly for the investor community, but acknowledge this concern may be legitimate because having Enterprise securities on the market which consist of loans underwritten using different models could have an impact on the fungibility and price transparency of Enterprise securities, or create a multi-tiered market where securities may trade at a premium or discount simply depending on the credit scoring model used in underwriting.

- In response to the question: If presented with the flexibility to pull data from just two credit reporting agencies (CRA) or one CRA, would your business likely take advantage of this flexibility? If not, why not? If so, what steps would you need to take to be comfortable with that change?

Provided the option, it is likely some credit unions would take advantage of this, particularly depending on pricing or operational factors. Again, we encourage policy and regulatory decisions by FHFA that maximize flexibility, including by deferring to the decision of credit union management.

- In response to the question: If presented with the flexibility to pull data from just two CRAs or one CRA, would you want the lender to choose the credit agency or would you want the Enterprises or some other market participant to mandate the agency?

Again, we would support an approach that provides greatest flexibility for the lender (credit union). Thus, we support allowing the lender to choose which credit agencies to pull data from for a particular loan.

- In response to the question: If the option of using one repository were available, how would the Enterprises ensure that the lender is not electing to use the CRA with the highest credit score (best credit profile) at the loan level that results in preferential pricing and eligibility?

While we are unsure how exactly the Enterprises could avoid such a result, we recognize the legitimacy of this concern. We ask FHFA to examine the comments received in response to this question and further analyze this issue if necessary.

Conclusion

On behalf of America's credit unions and their 110 million members, thank you for the opportunity to share our views regarding the FHFA's 2018 Regulatory Review, as well as our previously shared comments on the proposed changes to the Enterprises' credit score requirements. If you have questions about our comments, please do not hesitate to contact me at (202) 508-6743.

Sincerely,

A handwritten signature in cursive script that reads "Luke Martone".

Luke Martone
Senior Director of Advocacy & Counsel