March 6, 2019

The Honorable Joseph M. Otting
Acting Director
Federal Housing Finance Agency
400 7th Street, S.W.
Washington, D.C. 20219

Re: Validation and Approval of Credit Score Models (RIN 2590–AA98)

Dear Acting Director Otting:

We write today regarding the Federal Housing Finance Agency's ("FHFA's") proposed rule to implement the "Credit Score Competition" provisions contained in Sec. 310 of the "Economic Growth, Regulatory Relief, and Consumer Protection Act" (S. 2155 / Public Law 115-174) because the currently proposed rule fails to fulfill either the letter or the spirit of the law. This Bill was passed to allow competition among Credit Scoring Models to encourage more predictive and precise models to flourish and to expand opportunity in a fair and responsible manner to millions of consumers boxed out of a credit score today through use of an outdated – but yet mandated - traditional model.

We would like to emphasize these important points:

- The Harvard Joint Center for Housing predicts more than 75% of new household formation in the next 10 years will be "people of color". In crafting and approving Sec. 310 (of S. 2155), which is entitled ***Credit Score Competition***, it was Congress' intent that FHFA would promulgate rules allowing for competition in the credit scoring models used by lenders for loans to be sold to Fannie Mae and Freddie Mac. This competition is necessary, not only to meet the need of this new demographic household formation over the next 10 years, but to also extend credit opportunity to millions of consumers in a fair and responsible way who are boxed out of a credit score when using the traditional scoring model mandated by the GSEs.

- We have had much interface with VantageScore Solutions, the most viable competitor to the FICO Classic credit scoring model which is required by Fannie Mae and Freddie Mac (the GSEs) to be used for mortgages they purchase from approved Lenders. VantageScore has demonstrated that (using their Model 4.0) they can score approximately 40 million people who are unable to obtain a score using the Classic FICO scoring model. We recognize that many of these consumers will not be eligible for credit today, but we also know they need to gauge their status for us to be able to assist them improve their situation to become eligible for mainstream credit. Of those 40 million, we believe approximately 10 million would have a score of 620 or above possibly making them mortgage eligible immediately. In addition, of those 10 million, nearly 2.4 million are African American or Hispanic.
- In order to ensure that competition would not compromise safety and soundness, any model approved for use by the GSEs must not only meet "standards and criteria" established by FHFA but also must be validated by the GSEs as required by Sec. 310.

- The provision in the proposed rule restricting Applications for Credit Scoring Models to be submitted every 7 years (or longer) must be reduced to a reasonable time frame to meet changing economic cycles, model enhancements, new data sources and changes in consumer demographics and attributes. We see no reason that Applications couldn't be submitted on an annual basis.

- The provision in the rule allowing unlimited time, scope and cost of any form of "cost-benefit" analysis required by the GSEs must be limited to no longer than 90 days duration and no more than $50,000 of aggregate cost to the Applicant Credit Score Model Developer. Without these "guardrails" no company is going to submit for approval with an unlimited scope of analysis – unlimited duration – and unlimited cost.

- The provision in the rule eliminating any Credit Score Model from consideration of approval if there is any ownership (even fractional) by a Consumer Data Provider must be removed. The anti-trust concerns cited in the proposed rule have already been decided in the courts in favor of the model owned by the three Credit Bureaus (VantageScore), and in the public domain as the two credit score models have been competing for 12 years in other credit sectors such as: credit cards, auto loans, student loans, unsecured loans, etc. with no examples of data access restriction or negative pricing impact to FICO. This anti-competition provision results in a perpetuation of the more than 20-year monopoly for FICO mandated by the GSEs in the conventional mortgage markets of America and must be eliminated from consideration to allow competition and innovation in credit scoring models to meet the needs of our constituents now and in the years to come.

- The provision requiring credit score model applicants to provide three years of financial statements must also be removed. This provision guarantees that no new start-up credit scoring models will be allowed to submit for approval no matter how predictive, precise or widely used in the marketplace in their early years. This provision must be eliminated as it certainly does not foster innovation or competition in credit score model development. The GSEs have ability to validate new credit score models when they are submitted for approval. If they have reasonable concerns over financial strength of the controlling entity, they should raise those issues at that time instead of arbitrarily eliminating them from consideration.

- By specifying a statutory timeline for implementation of Sec. 310 it is Congress' intent that FHFA should adhere to that timeline in order that the benefits of credit score competition can be realized without undue delay.

As enacted into law Sec. 310 is simple and straightforward; its implementing regulations should be likewise.

Sincerely,

Rick Arvielo
CEO, New American Funding