

By electronic submission to: www.fhfa.gov/open-for-comment-or-input

March 15, 2019

Mr. Alfred M. Pollard
General Counsel
Attention: Comments/RIN 2590-AA98
Federal Housing Finance Agency
Eighth Floor
400 Seventh Street, SW
Washington, DC 20219

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

Dear Mr. Pollard:

Freddie Mac and Fannie Mae are pleased to comment on the Federal Housing Finance Agency's ("FHFA") proposed rule establishing requirements for Freddie Mac and Fannie Mae's (the "Enterprises") validation and approval of credit score models, published on December 21, 2018 (the "Proposal").¹ Section 310 of the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 (the "Act") requires that, if an Enterprise conditions its purchase of a mortgage loan on the provision of a borrower's credit score, then the credit score must have been produced by a model validated and approved by the Enterprise.² The Proposal establishes a four-phased process for Enterprise validation and approval of credit score models consistent with the Act: (1) Solicitation; (2) Review; (3) Credit Score Assessment; and (4) Enterprise Business Assessment.

Consideration of Industry Impacts

FHFA's proposal reflects active engagement and careful consideration of the potential benefits and operational challenges to the Enterprises and market participants of adopting a newer credit score, including the potential impact on creditworthy borrowers. Freddie Mac and Fannie Mae support the adoption of expanded credit data and new scoring methodologies to more accurately assess credit risk. The Proposal's four-phased process provides us the opportunity to evaluate the accuracy, reliability and integrity of alternative credit scoring models without undue disruption to the mortgage industry.

¹83 Fed. Reg. 65575 (Dec. 21, 2018).

²Pub. L. 115-174.

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Solicitations and Credit Score Assessments Should Be Jointly Undertaken

We recommend that FHFA streamline the validation and approval process to require the Enterprises to engage an independent third party to conduct the Solicitation and Credit Score Assessment jointly for both Enterprises. In the preamble, FHFA contemplated the Enterprises working collaboratively to conduct a joint Credit Score Assessment for each application,³ and proposed section 1254.7(c) expressly permits the Credit Score Assessment to be conducted by an independent third party.⁴ However, the Proposal requires each Enterprise to conduct its own Solicitation. We strongly support the Enterprises engaging an independent third party to conduct a joint Solicitation and Credit Score Assessment to optimize efficiency, analytical consistency, and transparency.

The Proposed Timeframes Are Reasonable

The timelines associated with each of the four phases of the validation and approval process appear reasonable, however, Freddie Mac and Fannie Mae recommend that FHFA revisit and clarify the timing for the Enterprise Business Assessment related to an Enterprise providing a disapproval notification to FHFA and the applicant. As proposed, the sequence and timing in sections 1254.9(c) and (d) do not dovetail, because section 1254.9(c) requires an Enterprise to notify an applicant of a disapproval determination within 30 days, yet section 1254.9(d) requires an Enterprise to notify FHFA of a disapproval (or approval) determination 45 days *prior to notifying the applicant* as required by 1254.9(c).⁵ For example, if an Enterprise makes a disapproval determination on Day 240 of the Enterprise Business Assessment, the Enterprise must notify the applicant thereof by Day 270, but the Enterprise must have provided *prior notice* to FHFA by Day 195, which precedes the Enterprise's decision. Accordingly, we recommend that FHFA revise the sequence and timing in proposed sections 1254.9(c) and (d).

We appreciate the opportunity to provide our views in response to the Proposal. Please contact us if you have questions or require further information.

Sincerely,



Wendell J. Chambliss
Vice President and Deputy General Counsel
Freddie Mac



Danielle M. McCoy
Vice President and Fair Lending Officer
Fannie Mae

³83 Fed. Reg. at 65583.

⁴83 Fed. Reg. at 65591.

⁵83 Fed. Reg. at 65592.