The MORTGAGE COLLABORATIVE

March 19, 2019

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

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

Dear Mr. Pollard:

The Mortgage Collaborative (TMC) is pleased to comment on 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). TMC is a national network of small and mid-sized mortgage originators and community lenders that operate in all corners of the US mortgage market. With more than 150 active lenders originating nearly $200 billion in annual mortgage originations, TMC works to ensure the mortgage market is vibrant and strong for all lenders in America.

While TMC appreciates the ongoing efforts by FHFA to ensure a stable secondary mortgage market, we believe the proposed rule fails to deliver on the purpose of the Congressional intent to create a competitive and innovative market for credit scoring models. TMC's members are functioning within a very competitive mortgage market, which motivates our members to consistently look for ways to innovate and improve service to consumers with home financing needs. Just as competition among originators is critical to a well-functioning mortgage market, we believe this applies to Credit Scoring Models as well. By encouraging active competition in the credit scoring space, a more predictive and innovative model will emerge which will fairly and responsibly expand access to mortgage credit for the changing make-up of consumers in America.

The demographics of this country are rapidly changing. This seismic shift in America's consumer base has been widely covered by many academics and housing organizations. For instance, the Harvard Joint Center for Housing predicts more than 75% of new household formation in the next 10 years will be "people of color" and these individuals' needs and credit consumption patterns may differ from the past. We have seen other studies that indicate that a new credit scoring model could potentially score millions of more consumers who currently cannot obtain a score using Classic FICO scoring model. While not every one of these newly scored consumers will be mortgage ready today, we believe it will create a transparent pathway for more consumers to prepare themselves for homeownership in the near future.

Counterparty risk is something lenders look at very carefully in today's market, so we fully understand the mandate on part of the GSEs to establish standards and criteria for model validation. However, we believe many of these requirements that are outlined in the proposed rule should reside with the GSEs and not proscribed by FHFA. For instance, the provision in the proposed rule restricting Applications for Credit Scoring Models to be submitted every 7 years (or longer) should be adjusted to allow the GSEs to respond to the changing economic environment and business needs. Additionally, there should be a reasonable test in terms of what a new model applicant should be required to provide related to the cost of conducting a cost-benefit analysis as well as amount of financial track record. For instance, the provision requiring credit score model applicants to provide three years of financial statements seems unreasonable. This provision nearly ensures that no new start-up credit scoring models will be allowed to submit for approval no matter its predictiveness or ability to safely expand the mortgage market for more borrowers.

TMC appreciates the opportunity to provide our views related to this rule making. Please do not hesitate to reach out if you have any questions regarding our comment letter.

Sincerely,

Jason Madiedo

Jason Madiedo
Chairman
The Mortgage Collaborative Cooperative

John Robbins

John Robbins, CMB
Chairman
The Mortgage Collaborative Management Company