



**National  
Urban League**

*Empowering Communities.  
Changing Lives.*

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March 21, 2019

Alfred M. Pollard  
General Counsel  
Federal Housing Finance Agency  
400 7<sup>th</sup> Street, S.W.  
Washington, D.C. 20219

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

Dear Mr. Pollard:

The National Urban League applauds the Federal Housing Finance Agency (FHFA) for its Notice of Proposed Rulemaking on the Validation and Approval of Credit Score Models by Fannie Mae and Freddie Mac (NPRM). Credit scores can serve as an arbitrary barrier to the housing market because they do not provide a full picture of an applicant's ability to repay a loan. Reforms to Fannie Mae's and Freddie Mac's (the Enterprises) credit scoring model are necessary to account for new advances in the industry and to address this concern. The Enterprises' model must be brought into the 21<sup>st</sup> century, including the use of additional sources of data, and allowing housing counseling to serve as a compensating factor for borrowers with low credit scores.

I proudly serve as the President & CEO of the National Urban League, the nation's largest civil rights and advocacy organization. The National Urban League has 90 affiliates across the U.S., who provide direct services to 2 million people annually. As a premier, HUD-approved, housing counseling agency, we operate housing programs at more than 40 of our affiliates nationwide. We know firsthand the impact that low credit scores have on prospective borrowers. Below, I offer solutions to help ensure creditworthy borrowers have access and reasonable pricing in the conventional loan market.

Several advances have taken place in the credit scoring industry that help predict the risk of default of consumers. Advances, such as the use of rental payments; cashflow data; and cell phone, cable, and utility payments, have helped increase access to capital for many who were traditionally frozen out of the market, or paid higher borrowing costs. However, these highly-predictive sources of data are excluded from the Enterprises' current credit score model to a large degree.

While alternative data is often used in the Enterprises' automated underwriting processes, low credit scores bar many consumers from reaching the automated underwriting stage. Large swaths of creditworthy borrowers are denied access to conventional loans, because the data does not reside at the nationwide consumer reporting agencies: Equifax, Experian, and Transunion (CRAs).

The National Urban League supports a new credit scoring model that better predicts risk, by including emerging scoring technologies. However, we are not convinced the best scoring model is on the market currently. We made this point in our 2018 public comments to FHFA's Credit Score Reform RFI.

We encourage FHFA to consider using a credit scoring model that leverages additional data that can be found outside of the primary CRAs to help expand access to fair and affordable credit. Both FICO Score 9 and VantageScore use the CRAs as inputs into their scores. While this data is predictive it is limited in scope. For example, rental history is not uniformly collected by the CRAs. In our view, rental history alone can accurately determine a borrower's financial readiness to own a home. As such, it should be included in the borrower's credit score. The CRAs must lower reporting barriers<sup>1</sup> and do more to incentivize landlords to provide this information, in addition to using other alternative sources of data that are not currently included.

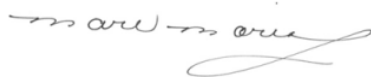
Alternative credit scoring models use emerging scoring technologies and new data sources to accurately predict risk and can help more borrowers qualify for a conventional mortgage loan or qualify at better terms. FHFA should incorporate these emerging scoring technologies into its new credit scoring model, where available, and to the extent these sources do not have a disparate impact on applicants. Anything less ensures that creditworthy borrowers will continue to be frozen out of the home mortgage market.

Additionally, the National Urban League supports the "test and learn" pilot approach described in the NPRM. Pilot programs provide a responsible way to determine the impact of alternative sources of data in the origination process and should be used to validate a new credit scoring model. The National Urban League has not taken a position on whether FHFA should create its own credit score model. If FHFA does not create its own internal scoring model, however, we believe there should be a single third-party credit score to reduce consumer confusion.

Lastly, housing counseling should serve as a compensating factor for prospective borrowers with lower than average credit scores. Doing so would increase the number of responsible homeowners currently barred from the market due to unreasonably high credit score requirements. Empirical research demonstrates that homebuyers who work with housing counselors have better outcomes than those who navigate the housing market on their own. According to Freddie Mac, face-to-face, pre-purchase education and counseling like the services offered by our Urban League affiliates, reduce loan delinquencies by as much as 29%. Similar to private mortgage insurance, housing counseling should be allowed as a credit enhancement factor, allowing borrowers who do not have the requisite credit score to access the traditional housing market.

Homeownership creates wealth and strengthens our economy. We support all efforts designed to increase access to the housing market, in a safe and financially-sound manner. Including in the Enterprises' credit scoring model alternative sources of data and allowing housing counseling to be used as a compensating factor accomplishes the goals of homeownership. We urge you to adopt our recommendations.

Sincerely,



Marc H. Morial  
President & CEO  
National Urban League

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<sup>1</sup> For instance, allowing a presumption of timely rental payments, unless late/ derogatory payments are received.