PERC
RESULTS AND SOLUTIONS

FHFA Proposed Rule: Validation and Approval of Credit Score Models

This response is a follow-up to PERC's earlier comment, "FHFA Credit Score Request for Input."[1] Given PERC's focus on credit access and inclusion for the credit underserved, we would like to reemphasize the importance of using newer data types, sources, and solutions that improve sustainable credit access for traditionally underserved segments of the population (thin-file, no-file, members of lower-income households, etc.). While some of these newer data and solutions may have a more limited impact (relative to the use of traditional credit scores) on the *overall* mortgage application market (especially among those with higher-than-average credit scores and thicker credit files), they may have larger, more meaningful impacts for segments on the credit access margins. It is important to take this into account. As such, we encourage a robust and maximally flexible pilot program to assess these new solutions and data.

From the proposed rules, it is unclear how new approaches assessed in the pilot program could be scaled up and implemented more widely if found useful (and found to have met specified performance criteria). It is not clear whether the rules would permit, for instance, different credit scores to be used on subsets of consumers, such as no-score or thin-file consumers. It is, after all, not necessary to encourage uniformity across all segments of applicants in terms of credit score use (and uniformity is not really carried out by credit scoring models as they have different "cards" / particular models for different segments).

We also reemphasize that newer, "alternative" data and newer solutions are not just valuable for the strictly no-hit, no-file population but are also useful for those thin-file consumers that are *just* scorable and on the margins of scorability. Again, while these consumers may be a relatively small slice of the overall mortgage market, they have been found to be a relatively larger slice of the lower-income household segment.

In addition, PERC work and past Consumer Reporting Agency (CRA) analysis have found that some consumers first show financial strain with their alternative payment histories (utilities/telecoms) before they do with their "traditional" payment histories. So, new data and solutions also have potential benefits beyond just the thin- and no-file populations.

Finally, the FHFA rules should support solutions that utilize data from multiple sources; such as CRA data combined with data from other repositories or consumer permissioned data (for instance from bank accounts, asset accounts, or utility accounts). The credit scoring industry has developed and is developing new solutions at a seemingly accelerated pace using combinations of these data.

The FHFA rules should be sufficiently flexible to allow all useful, well-tested, and well performing solutions developed in this space to be embraced in the in mortgage market.

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[1] This earlier comment (http://www.perc.net/wp-content/uploads/2018/03/PERC-FHFA-Comments.pdf) was a response to: FHFA. *Credit Score Request for Input*. December 20, 2017. Available at: https://www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/CreditScore_RFI-2017.pdf