



March 21, 2019

Alfred M. Pollard
General Counsel
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:

The National Association of Mortgage Brokers (NAMMB) is the oldest national trade association representing the mortgage broker industry. With members in all 50 states, NAMMB promotes the industry through programs and services such as education, professional certification and government affairs representation.

NAMMB submits these comments 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) and will focus on three areas: 1. Congressional mandate for increased competition, new players; 2. New Entrants Needed. There is need for a pathway for new scoring models, competitors; 3. Ownership structure of any new mortgage scoring model; and 4. Portability of mortgage credit scores to various lenders in order to foster consumer shopping.

Congressional Mandate for Competition. The Bill reference above was passed to foster 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. Today, many consumers rely upon paying utilities, cable and smartphone bills each month rather than relying upon borrowing. In many cases, new immigrants and those with college debt cannot extend themselves to become encumbered with more debt.

The statutory language makes clear that FHFA has the responsibility for establishing "standards and criteria" that credit score developers must meet in order for their credit scoring models to be validated and approved by Fannie Mae and Freddie Mac;

The provision in the proposed rule restricting Applications for Credit Scoring Models to be submitted every 7 years must be reduced to a reasonable time frame to meet changing economic cycles, model

enhancements, new data sources (Silicon Valley competitors) and changes in consumer demographics and attributes (the unbanked and cash-only potential borrowers). There is no logical reason that Applications couldn't be submitted on an annual or semi-annual basis.

New Entrants Needed. NAMB believes the FHFA should create and foster a system of new mortgage credit model competitors in order to protect consumers from old scoring methods and permit adaptation to the new borrower types prevalent today. The "cash-only" unbanked, and those that seek not to or limit borrowing are falling out of the current mortgage credit models. Those that have paid off all loans and credit cards because of financial self-interest are often found with no or low-credit because they choose to live without debt. For more than 20-years, one mortgage credit scoring model enjoyed a monopoly (FICO) mandated by the GSEs in the conventional mortgage markets. This monopoly 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.

FHFA regulatory 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. We believe new ideas on credit score development should be given a pathway to succeed. This is the only way consumers and the mortgage market can thrive. The GSEs and FHFA have the ability to validate and back-test new credit score models when they are submitted for approval. This seven-year provision will continue to perpetuate the monopoly mortgage credit scoring model we have today.

Ownership Structure Solution. The FHFA has focused on the ownership structure outlined in section D, *Credit Score Model Developer Independence*. This highlights the common ownership of one of the credit score model developers by the nationwide consumer reporting agencies (CRAs) as both a credit data contributor and a credit score developer. This puts the nationwide CRA's in control of the entire access, distribution and pricing of the credit data and all credit score models that have been developed. There are pricing issues here. One need only look at the price increases of non-mortgage loan scores (where there is ample competition) and mortgage credit score pricing over a five to ten-year span to determine there is not price competition in the mortgage credit scoring ecosystem.

The provision in the Proposed Rule that eliminates any credit scoring model from consideration of possible approval if there is any fractional ownership by a "Consumer Data Provider" should be reconsidered. NAMB notes how a "fractional ownership" lock-out provision could become problematic for the entire housing finance industry. What would the FHFA do if one or all of the three Credit Bureaus bought substantial shares of stock in FICO? That would eliminate them from being utilized? We realize the fractional ownership concerns may be ameliorated by the anti-trust laws that prevent price fixing or data restrictions and because of the long track record of stable competition in the other credit markets. We again reiterate our support for competition. We encourage new credit scoring models be approved as the new law intended. Then lenders, mortgage brokers and the secondary market can select which model provides the best risk management and expanded outreach for their constituency.

The FHFA should also consider solutions to foster competition such as encouraging the creation of a fourth or fifth credit repository or by alternating out two of the three VantageScore owners with new entrants or those operations that are near to being nationwide credit data repositories. The FHFA should consider requiring the GSE's to sell their mortgage payments data in order to foster such new entities.

Pricing and Portability. One pricing related issue NAMB would like to point out is the FHFA should require mortgage credit scores, and the credit data pulls they are based upon, should be portable in order for the consumer to be able to readily shop several mortgage providers without incurring additional fees for their scores. This is a prime example of monopoly price advantage to the detriment of consumers. We do have a real concern about the pricing of mortgage credit scores today and into the future. As long as there is a FICO monopoly (dictated by the GSEs in their seller-servicer guides), FICO can essentially charge whatever they wish for a mortgage credit score because of their monopoly status. That must change. Mortgage brokers and their customers (consumers) are routinely put in a situation where they have to order additional mortgage credit scores and credit reports on the same consumer when the choice is made to shift the mortgage transaction from one lender to another for the benefit of the consumer. NAMB believes FHFA should allow for a consumer mortgage credit score and credit bureau reports to be "**portable**" from one lender to another - thereby saving the consumer multiple expense for the same transaction on mortgages that will end up being sold to the GSEs.

In closing, we applaud the FHFA for the painstaking work they have undertaken to understand and propose safe changes to this critical process in the mortgage credit system. NAMB appreciates the FHFA working to assure efficient and economical access to capital for borrowers using free market and competition as the touchstone.

Respectfully,

A handwritten signature in black ink, appearing to read "Richard M. Bettencourt Jr.", with a stylized flourish at the end.

Richard M. Bettencourt Jr., CVLS, CRMS
2018-2019 NAMB President