nahrep

March 21, 2019

Alfred M. Pollard
General Counsel
400 Seventh Street SW, 8th Floor
Washington, DC 20219

Re: FHFA Proposed Rule on Credit Scoring Models, RIN 2590-AA98

Dear Mr. Pollard,

I write to you on behalf of The National Association of Hispanic Real Estate Professionals (NAHREP) to offer comments in response to the Federal Housing Finance Agency's (FHFA) proposed rule on the validation and approval of credit score models.[1] As strong supporters of the Economic Growth, Regulatory Relief, and Consumer Protection Act's, Pub. L. 115-174 ("EGRRCPA") credit score competition provisions, we were disappointed to see the proposed operational rule which, on its face, contradicts the purpose of the legislation. This rule not only creates unnecessary burdens meant to limit the early development of credit score model competition, but also dismisses the impact on consumers. Furthermore, we are deeply concerned about the Enterprises efforts to eliminate acceptance of third-party credit score models in their eligibility standards and automated underwriting systems. We strongly urge reliance on third party scores and transparency from those entities as they are considered for inclusion by the Enterprises.

Context for NAHREP's responses:

NAHREP is the largest Hispanic business organization in the country with a mission to advance sustainable Hispanic homeownership. Our members feel passionately that homeownership is the primary conduit toward economic mobility. Therefore, increasing safe and sustainable credit access is and will always remain a top priority for NAHREP's mission. As written, this rule is not compatible with our mission.

Hispanics have achieved marked gains in homeownership rates, despite increasing housing inventory shortages. In fact, Hispanics have been responsible for 62.7 percent

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[1] NAHREP is a member-driven which is The Voice for Hispanic Real Estate® and proud champions of homeownership for the Hispanic community. With over 35,000 members representing 70 chapters across the country, we are the largest Hispanic business organization in the country. www.nahrep.org

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of net U.S. homeownership gains since 2008. [2] In addition, Hispanics are projected to lead U.S. household growth, adding 6 million additional Hispanic households by 2024.[3] Furthermore, Latinos are younger than the general population**.** The median age for Hispanics is 29, which is almost a full decade younger than the median age of the general population at 38 and nearly 60 percent of Latinos are age 34 or younger.[i] As young Latinos age into their prime wealth building and income generating years, the potential for more Latino homeowners will only increase. However, many credit-worthy Hispanic home-ready borrowers are boxed out of the home buying process because of outdated credit scoring models that are not reflective of the changing face of the American prospective homebuyer.

For the past several years, NAHREP's policy priorities have included support for up-to-date, transparent, public, and widely accessible methods of credit scoring to qualify individuals for homeownership. The current credit scoring model used in the industry was created in the 1990s and does not take into account positive credit attributes, such as the timely payment of cell phone and utility bills. A particularly unique aspect of the home-ready Hispanic population is their limited debt profiles (upon which most traditional credit score models rely), but excellent payment of expenses history.

In 2015, the Consumer Financial Protection Bureau (CFPB) published a study finding that 26 million Americans are credit "invisible" and 19 million Americans have "unscoreable" credit files, including those who are deemed to have insufficient information and are deemed to have a "thin credit file."[4] Latinos are almost twice as likely to be credit invisible or have unscoreable files than their non-Hispanic White and Asian counterparts. In that same vein, the 2016 Survey of Consumer Finances finds that Latinos carry some of the lowest levels of debt than any other demographic[5]. The avoidance of debt might be leading many Latinos to have little to no credit history, despite having the means and income to safely make mortgage payments. This is why we feel so strongly about supporting competition and innovation in credit scoring models.

We have been told that the Enterprises look to a more holistic profile to make up for the deficiencies in the current model, but do not have an understanding of what characteristics are used and their relative weight. It is exactly this type of non-transparent process that we strenuously object to and serves as the basis for our recommendation that all credit score models used by the Enterprises be provided by

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[2] U.S. Census Bureau. (2019, January 30). Current Population Survey/Housing Vacancy Survey. Available from https://www.census.gov/housing/hvs/data/index.html
[3] . Fisher, L. (2015, August 25). Housing Demand: Demographics and the numbers behind the Coming Multi-Million Increase in Households. Retrieved from https://www.mba.org/Documents/Research/15292_Research_Growth_White_Paper.pdf
[4] https://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf
[5] Federal Reserve Board, Survey of Consumer Finances.

third-party entities who are subject to competition and innovation. It is in the competition and its related drive for innovation that we feel secure that the Hispanic population will not be overlooked and the impacts on our community will not be viewed as a statistical footnote.

The proposed rule will curtail the creation of a flourishing, competitive market for credit modeling in mortgage finance:

The process for validation and approval of new credit score models in the proposed rule seem to have been written with the express purpose of creating unsurmountable requirements on FICO classic competitors from entering the market. The examination process by the Enterprises is of unknown duration and unknown cost to the applicant credit score model developer. With such uncertainty, it is hard to imagine what responsible shareholders would permit such an undefined expedition into their product.

Timing of Credit Score Solicitations:

NAHREP believes that the provision in the rule restricting applications for credit scoring models to be submitted every 7 years (or longer) should be adjusted. Too many factors change during the span of seven years and the Enterprises must allow flexibility in order to respond to demographic and economic shifts. Furthermore, requiring credit score model applicants to provide three years of financial statements could pose as an insurmountable barrier for new players to enter the market, particularly if they are new players to the market. This provision could significantly deter any new credit scoring models from being able to submit for approval regardless of the quality of their product or their ability to safely expand the mortgage market for more credit-worthy borrowers.

There should be competition to encourage innovation to better serve people of color:

While NAHREP recognizes the need to develop a framework in order to review, validate and approve new credit models for use by the Enterprises, NAHREP believes the current proposed rule fails to satisfy the primary purpose of the authorizing legislation, which was to encourage competition to improve credit scoring models and to end the dysfunctional and inadequate monopoly by one methodology that has existed beyond its usefulness.

NAHREP views competition as critical to the development and adoption of innovations to meet the expanding needs of America's homeowners. The participation of new scoring models will foster innovation and will likely spur model developers to iterate and source more accurate data that better serve populations that have not been in the majority for the past decades.

Furthermore, if lenders have the ability to choose the credit model of choice, lenders will likely gravitate to the credit bureau that has the most accurate and predictive data that corresponds to the clientele they serve. This environment of competition will incentivize the credit bureau to continuously improve their models, expand and refine their data and to fix any errors that might arise. By encouraging active competition in the credit scoring space, we firmly believe that a more predictive and innovative model will emerge which will open the doors of opportunity for more credit-worthy homebuyers.

We disagree with the assertions of the preamble to the rule that consumer outcomes are not worth continued focus or concern in the validation process. Any cost-benefit analysis performed by the publicly chartered Enterprises must include significant focus on to credit access for Hispanics.

Concern regarding lack of reliance on third-party models:

A recurring theme in the preamble to the proposed rule is the Enterprises' ability to disregard third-party credit models entirely, as there is no requirement in the legacy charters that requires them to use a third-party model. We believe this argument is entirely incorrect and that the Economic Growth, Regulatory Relief and Consumer Protection (EGRRPA) provision on credit score model competition was designed to force the Enterprises to change their legacy policy on credit score modeling acceptance.

As the Enterprises assert in the preamble, they are currently using data to make purchase decisions that are related to borrowers' creditworthiness that are drawn from the three major credit bureaus. We are not clear as to what those attributes are and can only assume they are being used as an alternative to the publicly available credit score that FICO makes available to consumers. Furthermore, our real estate professionals in our network will not have the ability to help counsel and prepare aspiring homeowners for home buying as long as the qualifications are non-public, without incentive for innovation to respond to changing demographics.

In sum, the proposed rule's reliance on the Enterprises' own evaluation of borrower credit worthiness is the most troubling aspect of this rule. It goes against the intent of the law and will likely stifle innovation.

Conclusion:

NAHREP supports a strong framework and standards set by FHFA by which the Enterprise's validate and use third-party credit scoring models. NAHREP demands competition in this space, which is the only means available to achieve fair, responsible and sustainable homeownership for all segments of America – including the fast growing and youthful Hispanic homebuyer population that were children when the current credit score model was created.

Creating a catalytic environment in favor of sustainable Hispanic homeownership growth *is* the sound business strategy for the future of U.S. economy and failing to do so will have detrimental effects on U.S. economic growth.

Thank you for the opportunity to comment. Please contact Noerena Limón at Nlimon@NAHREP.org regarding these comments.

Sincerely,

Co-founder & CEO

NAHREP

[i] U.S. Census Bureau. (2019, March 13). *Median Age By Sex 2017 American Community Survey 1-Year Estimates.* Available from https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=bkmk