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May 12, 2023

The Honorable Sandra L. Thompson
Director
Federal Housing Finance Agency
400 Seventh Street SW
Washington, DC 20024

RE: Enterprise Regulatory Capital Framework-Commingled Securities, Multifamily Government Subsidy, Derivatives, and Other Enhancements (RIN 2590-AB27 / Doc. No. 2023-04041)

Dear Director Thompson:

The Credit Union National Association (CUNA) represents America's credit unions and their more than 135 million members. On behalf of our members, we are writing in response to the Federal Housing Finance Agency's (FHFA's) notice of proposed rulemaking and request for comments on proposed amendments to the Enterprise Regulatory Capital Framework (ERCF).[1] Of particular interest to credit unions is the FHFA's proposals regarding credit scores and the FHFA's assessment of risk as it transitions away from a tri-merge to a bi-merge credit report requirement.[2]

**Background**

In 2018, Congress passed the *Economic Growth, Regulatory Relief, and Consumer Protection Act* which required, among other things, that both the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) (collectively, the Enterprises or GSEs) conduct a validation process for the credit scoring models. [3] In August of 2019, the FHFA issued a final rule describing the process for the validation and approval of credit scores for the GSEs.[4] In February of 2020, the Enterprises issued a Joint Enterprise Credit Score Solicitation inviting prospective credit score model developers to apply for validation and approval.[5] Later that year, FHFA and the Enterprises announced that the classic FICO score, the primary score already

[1] Enterprise Regulatory Capital Framework-Commingled Securities, Multifamily Government Subsidy, Derivatives, and Other Enhancements (ERCF Proposal), 88 Federal Register 15306 (Mar. 13, 2023).
[2] ERCF Proposal at 15312.
[3] Public Law 115-174; *see* 12 U.S.C. §1717(b)(7)(A)(i), 12 U.S.C. §1454(d)(1).
[4] Validation and Approval of Credit Score Models, 84 Fed. Reg. 41886 (Aug. 16, 2019). *See also*, 12 C.F.R. Part 1254.
[5] FHFA, Joint Enterprise Credit Score Solicitation (Feb. 18, 2020), available https://singlefamily.fanniemae.com/media/22061/display.

in use by the Enterprises, had been validated and approved for continued use under this regulatory process.[6] In October 2022, the FHFA announced the validation and approval of both the FICO 10T and the VantageScore 4.0 credit scoring models.[7] Concurrent with that announcement, the FHFA also announced the GSEs would work towards changing the requirement that lenders provide credit reports from all three nationwide credit reporting agencies (tri-merge credit report requirement) to requiring only two (bi-merge credit report requirement).[8] The FHFA has issued a proposed implementation timeline for these changes that anticipates that full transition to a bi-merge credit report requirement is anticipated sometime in the first quarter of 2024.[9] In anticipation of this transition, the FHFA is proposing changes to its method of determining the representative credit score for mortgage loans, as part of its assessment of risk related to single-family mortgage exposures.[10]

**General Comments**

Under the current process, in order to identify a single representative credit score to evaluate the risk associated with a mortgage exposure, the Enterprises select the median of the three credit scores for each borrower.[11] Where less than three credit scores are available, the Enterprise selects the lowest score.[12] Where there are multiple borrowers on a loan, the Enterprises select the lowest score across all borrowers.[13] This score becomes the representative credit score for that single-family mortgage exposure.

Under the proposed process, the Enterprises would average the two available credit scores for a borrower.[14] Where only one credit score is available, the Enterprise would presumably use only that score. Where there are multiple borrowers on a loan, the Enterprises would select the lowest averaged score across all borrowers.[15] The FHFA described a study it did to validate that approach and its effect on the representative credit scores of a random sampling of single-family mortgage exposures.[16] In its proposal, the FHFA asks what changes it should consider in its proposed methodology for determining a representative credit score.[17]

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[6] FHFA, FHFA Announces Validation of Classic FICO for Use by Fannie Mae and Freddie Mac (Nov. 10, 2020), available at https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Validation-of-Classic-FICO-for-Use-by-Fannie-Mae-and-Freddie-Mac.aspx.

[7] FHFA, FHFA Announces Validation of FICO 10T and VantageScore 4.0 for Use by Fannie Mae and Freddie Mac (Oct. 24, 2022), available at https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Validation-of-FICO10T-and-Vantage-Score4-for-FNM-FRE.aspx.

[8] *Id.*

[9] FHFA, Fact Sheet: Credit Score Models and Credit Report Requirements (Mar. 23, 2023), available at https://www.fhfa.gov/Media/PublicAffairs/Documents/2023-March-Credit-Score-Fact-Sheet.pdf.

[10] ECRF Proposal at 15311-14312.

[11] *Id.*

[12] *Id.*

[13] *Id.* at 14312.

[14] *Id.*

[15] *Id.*

[16] *Id.*

[17] *Id.*

In general, credit unions expressed no concern about this approach regarding the Classic FICO score. However, credit unions did express concern that by averaging a borrower's Classic FICO score with a FICO 10T or VantageScore 4.0 score the resulting average score may be misleading. Loans to borrowers whose creditworthiness is best captured through the FICO 10T or VantageScore 4.0 scoring models may appear to pose more risk than they actually do.

Further, the validation study performed by FHFA appears to have been performed solely using Classic FICO scores. It is difficult to say whether the impact of average credit scores across models could be far more significant than the results of the FHFA's validation as described in the proposal. The FHFA should validate this approach across all approved scoring models before implementing this approach.

Further, as the representative credit score may be used to assess loan-level pricing adjustments for individual loans, this may also contribute to the cost of credit being set higher than necessary for borrowers who are most likely to benefit from the improved accuracy and inclusivity of the FICO 10T and VantageScore 4.0 scoring models. The FHFA should study the gaps in credit scores between models and identify at what point averaging scores across models presents an inaccurate picture of borrowers' credit worthiness, particularly for low- and moderate-income and underserved households.

Credit unions agreed with the FHFA's proposed change that borrowers without credit scores be assigned a score of 680 instead of 600. The FHFA's analysis of the two-year default performance on unscored borrowers and determination that performance was analogous to borrowers with credit scores between 680 and 699 range true with credit unions experience. CUNA applauds this change.

**Credit Unions Report Significant Concerns Regarding Credit Reporting Costs**

Credit unions also noted their unease with the potential for consumer harm during the transition toward the FICO 10T and VantageScore 4.0 models. In 2023, Fair Isaac Corporation, the company behind the FICO scoring models, increased wholesale prices to end-users of the tri-merge mortgage credit report by 10, 200, or 400% based on pricing tier.[18] Beginning in the third quarter of 2024, the Enterprises have indicated that credit unions selling loans to them will need to deliver Classic FICO, FICO 10T, and VantageScore 4.0 scores.[19] With full implementation of the credit score model updates anticipated for the fourth quarter of 2025,[20] the increase in credit report prices combined with the requirement to deliver multiple scores could result in credit union members and other consumers paying greater credit reporting fees in the mortgage origination process for at least a year.

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[18] Terry W. Clemans, Letter to Mortgage Lending Community Regarding 2023 FICO Price Increases, Nat'l Consumer Reporting Ass'n (Nov. 22, 2022), available at https://www.ncrainc.org/cmss_files/attachmentlibrary/2022-11-Price-statement-4871-3419-6543-v-1-Final2.pdf.
[19] FNMA and FHLMC, Enterprise Credit Score and Credit Reports Initiative Partner Playbook, FHLMC Single-Family (Mar. 2023), available at https://sf.freddiemac.com/docs/pdf/fact-sheet/credit-report-and-credit-score-model_playbook.pdf.
[20] *Id.*

Additionally, the Enterprises' proposed implementation timeline for the transition away from the Classic FICO to the FICO 10T and VantageScore 4.0 models suggested that credit union members may face higher origination costs to support and validate the adoption of the FICO 10T and VantageScore 4.0 models.[21] Credit unions understand the proposed value and benefits offered by the FICO 10T and VantageScore 4.0 models, but credit unions are deeply concerned that the Enterprises' credit score requirements along with the increases in credit score pricing and the higher-rate environment could make homebuying more expensive for credit union members and all consumers.

**Conclusion**

Thank you for this opportunity to comment on these proposed amendments to the ERCF. If you have questions or if we can be of any assistance, please do not hesitate to contact me at (202) 503-7184 or esullivan@cuna.coop.

Sincerely,

Elizabeth M. Sullivan
Senior Director of Advocacy & Counsel

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[21] *See id.* ("1Q 2025 . . . Publish FICO Score 10T and VantageScore 4.0 historical data to support credit score model updates.").