

Consumer Mortgage Coalition

March 21, 2019

Via electronic submission

Mr. Alfred Pollard
General Counsel
Federal Housing Finance Agency
400 Seventh Street, S.W.
8th Floor
Washington, D.C. 20219

Re: FIN 2590-AA98: Validation and Approval of Credit Score Models by Fannie Mae and Freddie Mac

Dear Mr. Pollard:

The Consumer Mortgage Coalition (“CMC”) is very pleased to be able to submit comments in response to the Federal Housing Finance Agency’s (“FHFA’s”) request for comment on the proposed rule titled “Validation and Approval of Credit Score Models.”

The CMC has always supported efforts to responsibly improve and sustain access to affordable mortgage credit. We also believe it is important to use statistically sound and accurate third-party credit score models to determine borrower eligibility. The current FICO model has been a good indicator of loan performance for three decades. Any move to newer or multiple scoring systems should not lower credit standards, but instead should enhance and improve credit risk assessment.

In our view, the FHFA’s proposed rule takes a very reasonable approach in implementing Section 310 of the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018. That said, the observations and recommendations expressed in this comment letter reflect our serious concerns that these changes could disrupt mortgage industry operations to the detriment of the consumers the industry serves.

The proposed rule would establish a four-step process for an Enterprise to validate and approve credit score models:

- solicitation of applications from credit score developers
- review of submitted applications
- credit scores assessment
- enterprise business assessment.

The proposed rule also provides a reasonable timeline for this process while providing a thorough explanation of how each prospective model would be evaluated. The proposed rule does not require the Enterprises to use a third-party credit score, nor do they have to use the score for any specific purpose. If, however, an Enterprise elects to use a credit score as a condition of its purchase of mortgages, that score must be derived from a model that has been validated and approved in accordance with the statutory and regulatory requirements.

Need for a Cost-Benefit Analysis

The CMC would like to note that moving from a FICO score to a multi-score approach will be both costly and complicated for the entire mortgage industry. Therefore, it is essential that any change that is to be made only be implemented after a detailed cost-benefit analysis is done. The cost-benefit analysis should examine, among other things, --

- the costs to the industry (e.g., new software, record-keeping, training, etc.);
- the ability of the industry's vendors to meet new deadlines;
- the costs to counselors and other organizations who continually educate consumers about credit scoring;
- the costs associated with potential changes to the Enterprises' capital requirements;
- the costs associated with potential changes to the MIs capital requirements;
- the impact on investor confidence and market liquidity and its impact on pricing; and
- the impact of all of these changes on consumers' costs and access to credit, particularly in view of the fact that the industry is already moving to incorporate FICO Score 9 that includes information on rent payments and adjusts the weight on medical debt, among other changes.

Need for Pilot Testing

The CMC recommends that any approach should first look at pilot testing to reduce the costs and risks associated with a new credit scoring model(s). A robust pilot testing approach could be executed without upending the many facets of the existing mortgage industry. Additionally, any new model should be sufficiently distinct in its numbering system, while also consistent across the layers of the GSEs, brokers, lenders, and others, so that it is not confusing for consumers and industry participants.

If an overarching goal is expanding credit availability in a prudent manner, then incorporating bank data into existing credit scoring algorithms would be one way to drive innovation. This also can be considered as part of pilot testing.

Addition Clarity and a Transition Process is Needed

Section 310 requires that FHFA's rule prescribe procedures for the validation and approval of credit score models, but it will also initiate a solicitation and approval process. This will be underway at the same time that the Enterprises will be adopting the CECL standard and transitioning to the UMBS on June 1, 2019.

In order to avoid any disruption in the secondary market, it will be important for FHFA to clarify what would happen if the two Enterprises validate and adopt different models and if that results in differing prepayment speeds that alter the value of each Enterprise's book of business. If it does, it could undermine the UMBS and negatively impact liquidity. A safer option would be to require each Enterprise to use the same model as they determine a borrower's credit.

Additionally, the imminent adoption of the CECL standard will impact current accounting practices surrounding the assessment of credit risk and is heavily influenced by credit score models.

Clear guidance and a transition approach is needed to help smooth the process. Subordinating the Credit Score Assessment to the more important Enterprise Business Assessment would greatly assist in smoothing that transition,

FHFA Needs to Clarify the Status of Capital Modeling and Capital Requirements

It is likely that a new credit scoring model(s) also will impact the Enterprises' capital requirements; require the Enterprises to prepare new PMIER schedules and require the mortgage insurers to make adjustments to their capital structure and levels; and require the mortgage insurers to prepare and file new rate sheets. The Enterprises will need a comprehensive review of what needs to be changed as a matter of law and regulation. Therefore, it will be important for FHFA to clarify the status of capital modeling and capital requirements.

Conflicts of Interest Need to Be Prevented

The CMC agrees with the FHFA's rationale to prohibit an Enterprise from approving any credit score model developed by a company that is related to a consumer data provider through any common ownership or control, of any type or amount. This would be a conflict of interest and undermine fair competition.

The Fair Lending Provision Needs Clarification

Section 1254.6 sets forth a fair lending certification that any credit scoring model complies with the federal fair lending requirements. This is an appropriate requirement, but does not recognize that the current federal fair lending requirements are in flux.

As a result of a recent set of cases, HUD has initiated an Advance Notice of Proposed Rulemaking requesting public comments on revisions to its Disparate Effects Standard Impact to bring them up-to-date with current law under the Fair Housing Act.

The CMC recommends that Section 1245.6 be modified to include the word “current” before the phrase “federal Fair lending requirements” to ensure the fair lending certification requirement addresses the differences between the 2013 HUD rule and the subsequent and controlling Supreme Court precedents.

Conclusion

The CMC believes that the FHFA’s proposed rule takes a very reasonable approach in implementing Section 310 of the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018. However, we note that the issues surrounding the implementation of Section 310 are complex and entwined with other issues and initiatives that are also underway. So, it will be very important for FHFA to thoroughly examine all of the issues that are involved, weigh the costs and benefits, and “thread the needle” very carefully in both finalizing and implementing a rule in order to avoid unnecessary disruptions in the mortgage market that could result in harming both the industry and the consumers alike.

We thank you for your consideration of our views.

With best regards, I am

Sincerely,

A handwritten signature in blue ink, appearing to read "Anne C. Canfield", is written over a light blue rectangular background.

Anne C. Canfield
Executive Director