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Federal Housing Finance Agency

Office of Housing and Regulatory Policy

400 7th Street Southwest, 9th Floor

Washington, DC 20219

***Re: Request for Input on Credit Score Requirements***

The Community Home Lenders Association (CHLA) is writing to submit comments in response to FHFA’s Request for Input on Fannie Mae and Freddie Mac Credit Score Requirements, due March 30, 2018.

The CHLA is composed of small and mid-sized community-based mortgage lenders and is the only national association that exclusively represents independent mortgage bankers.

**CHLA’s response to this RFI re-states our longstanding position that the GSEs and FHFA should, to the maximum extent possible consistent with sound underwriting policies, explore and implement alternative credit score approaches that seek to identify qualified borrowers that for different reasons are not scoreable using the credit score models currently mandated by Fannie Mae and Freddie Mac.**

While this RFI notes that credit scores play a somewhat limited role in the underwriting process at Fannie Mae and Freddie Mac, they are nevertheless important in access to mortgage credit.

First, they explicitly determine product eligibility and pricing. Second, they are the yardstick against which consumers and their advisors gauge their own creditworthiness and options. Finally, they are often used as a rough measure of credit by brokers, originators, aggregators, insurers, investors, and others.

The three versions of “Classic FICO” currently in use throughout the mortgage industry were built almost two decades ago. Much has changed during that time, as evidenced by the availability of newer models from FICO, VantageScore, and others. Because Fannie Mae and Freddie Mac have continued to require “Classic FICO,” however, that model has become more deeply engrained in the mortgage process.

We believe it would be beneficial for the GSEs to pursue competition between the developers of empirically-derived, demonstrably and statistically sound credit scoring models. This will be a major undertaking for the industry as a whole – and therefore should be preceded by at least a year of notice. FHFA should facilitate a smooth transition by sharing both historical loan-level data and validation results for any approved models.

FHFA should pursue a transparent process, in which future models will be tested, evaluated, and implemented. Any models that are used should have stringent tests of accuracy and coverage. This is important because underwriting standards should not be compromised.

**CHLA Response to Questions**

Question A2.2, A2.3, and A2.4 ask about the operational costs associated with each of the four proposed Options. Any change in credit scoring model will impose a baseline set of hurdles for every market participant to overcome. Originators will need to validate and test the new model. Credit re-sellers and vendors will need to write code to make new credit scores available through their platforms. Aggregators and insurers will need to modify their pricing grids. Ratings agencies and investors will need to re-calibrate their models. Each of these activities requires time and robust historical data.

From a small lender perspective, the objective should be to validate sound new options for credit scoring – without mandating measurable new costs that small lender would find difficult to competitively absorb. **Therefore, we would favor Option 3, which would introduce lender choice.**

Option 1 would replace the current monopoly with a new one. Because it perpetuates a system reliant upon a single standard, it represents the least-cost approach to each of the transition activities above. The downside is that it unlocks none of the benefits of competition.

Option 2 would replace the current monopoly with a duopoly. It would potentially double the cost and complexity for lenders, which would now need to validate and implement two new models, while limiting costs for secondary users like aggregators, insurers, analysts, and investors; each of which could choose whether or not to use the additional score. And, it would have limited benefits in terms of additional competition.

Option 3 would introduce lender choice. It would impose no additional costs for lenders relative to Option 1, because lenders would still only need to test and implement a single model. These lenders would, as noted in Question A2.8, be limited from switching back and forth between models in order to prevent adverse selection. Secondary users would face the increased cost of supporting models, which could require dual pricing grids and model recalibrations. However, these costs can be at least partially offset by providing sufficient free historical data to derive model comparison and behaviors over time.

Option 4 has a similar cost profile to Option 3 but with diluted competitive benefits. We would expect uptake of any secondary score to be limited, thus effectively continuing a single market standard.

We appreciate your consideration of these comments.

Sincerely,

 COMMUNITY HOME LENDERS ASSOCIATION