March 29, 2018

Federal Housing Finance Agency

Office of Housing and Regulatory Policy

400 7th Street, S.W., 9th floor

Washington, D.C., 20219

Re: The Federal Housing Finance Agency's Credit Score Request for Input

The National Fair Housing Alliance (NFHA) and UnidosUS (formerly the National Council of La Raza) submit the following comments in response to the Federal Housing Finance Agency's (FHFA) request for input on the potential impact of updating the Enterprise credit score requirement from Classic FICO to another score or two scores. We thank the FHFA's efforts to understand the potential impact of an update to credit score requirements by requiring the assessment of third party score models. We appreciate this opportunity to provide our feedback on the potential impact of FHFA's four proposed options on borrowers underserved in today's mortgage market, including communities of color, and on community-based housing counseling organizations. The National Fair Housing Alliance and UnidosUS also strongly support the comments and recommendations made by The Center for Responsible Lending in their submission to this Request for Information.

FHFA must ensure that Fannie Mae and Freddie Mac (the Enterprises or GSEs) assess borrower risk in a non-discriminatory and fair manner. The analysis our organizations have seen thus far leads us to believe that broadening and updating the credit scores the Enterprises use for underwriting and pricing loan products, by adoption of Option 3, will enable the GSEs to expand the number of consumers it can serve and reduce the discriminatory impact that many credit scores can have on groups protected by civil rights laws. While the RFI focuses on FICO® 9 and VantageScore 3.0, we believe FHFA should proceed with allowing the GSEs to use FICO 9 and VantageScore 3.0 while also determining the efficacy of allowing the use of VantageScore 4.0 and FICO XD2. Both FICO XD2 and VantageScore 4.0, according to the companies that produce the scores, can score millions of consumers[1] who are currently unscorable using the more conservative scoring mechanisms used today. While many of these consumers may not wish to purchase a home – or be eligible for a mortgage loan - many might wish to rent a housing unit. Many landlords require a credit score and/or credit check. If the GSEs were to

[1] According to VantageScore, its credit scoring system can score an additional 30-35 million consumers. See "Introducing VantageScore 4.0" Available at: file:///C:/Users/LisaRice/Downloads/VS%204.0%20Flyer%20Revised%205_15_17%20-%20FNL%20(1).pdf

"According to FICO, FICO XD2 can score 26.5 million additional consumers. See "FICO® Score XD 2 Helps Score Over 26.5 Million Previously Unscorable Consumer Files," March 29, 2018. Available at: http://www.fico.com/en/newsroom/fico-continues-to-expand-access-to-credit-with-new-fico-score-xd-2 accept updated credit scores that expand the universe of consumers who can become scorable, this might provide an incentive for landlords to also accept these scores. Allowing the GSEs to use updated and alternative credit scores can expand housing opportunities in both the home purchase and rental markets.

Completing the assessment of "leveraging alternate or updated credit scores for underwriting, pricing, and investor disclosures"[2] is a critical part of ensuring that the GSEs increase access to single-family mortgage credit for creditworthy borrowers. This assessment is also long overdue, particularly since the GSEs conducted an analysis on alternate and/or updated credit scores in 2015. The credit score models the Enterprises use to determine borrower eligibility and/or financing costs are a fundamental component of providing for fair credit access. FHFA's interests should lie not merely in assessing the potential effects of updating the Enterprises credit score requirements but in examining ways the secondary housing finance system can use its resources and amend its standards to adequately serve borrowers who have been unfairly locked out of the financial system. Credit scores have become the gateway to opportunity yet the U.S. dual credit market has resulted in disparate outcomes when it comes to credit access.

The goal of the FHFA's effort must be to accommodate moving qualified borrowers who are under-served into the financial mainstream. The Urban Institute estimates that since the foreclosure crisis, there are over 6 million mortgage loans missing from the U.S. market[3]. Core Logic estimates that the market is producing a deficit of 250,000 loans to borrowers of color each year. As disturbing as these figures are, they reflect only a small picture because they are based on would-be projections for consumers who have credit scores. When we include the pool of borrowers who are credit invisible or who have insufficient credit to generate a score, the picture gets much worse.

Overly restrictive credit requirements and outdated credit scoring mechanisms built on stale data are locking millions of consumers out of the opportunity to obtain sustainable homeownership. And a disproportionate percentage of these consumers are people of color. Director Mel Watt underscored the importance of fixing our archaic credit system when he discussed the significant role homeownership plays when it comes to sustaining wealth in communities of color. Watt stressed the importance of improving access to credit for borrowers of color because this would "represent an important opportunity both for these borrowers and for other participants in the housing sector."

Our reason for engaging in this work is to expand credit access in a responsible fashion and achieve greater equity in housing finance by revamping the current flawed and discriminatory system for assessing borrower credit-worthiness. Our interest is long-standing. We have been advocating for reforms in credit assessment for decades. In fact, years ago, Fannie Mae eliminated the inclusion of certain third party credit scores in its automated underwriting system, in part, due to NFHA's advocacy.

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[2]Federal Housing Finance Agency, "2016 Scorecard for Fannie Mae, Freddie Mac, and Common Securitization Solutions," December 17, 2015. Available at: https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/2016-Scorecard.pdf

[3] Goodman, Laurie, Jun Zhu and Bing Bai, "Overly Tight Credit Killed 1.1 Million Mortgages in 2015," Urban Institute. November 21, 2016. Available at: https://www.urban.org/urban-wire/overly-tight-credit-killed-11-million-mortgages-2015

Since 2014, our agencies have more pointedly compelled the GSEs to use alternate and updated credit scoring systems for underwriting and pricing mortgage loans.

The Enterprises' Efforts to Provide Credit Liquidity for Underserved Markets Have Fallen Short

Since FHFA's establishment in 2008, the agency has yet to adopt a progressive approach to ensure that its mission is fulfilled in communities of color and for other under-served groups. FHFA's mission is to "ensure that the regulated entities operate in a safe and sound manner and that they serve as a reliable source of liquidity and funding for housing finance and community investment."[4]

The Enterprises' performance in communities of color illustrate how poorly is FHFA's oversight of its mission when it comes to protected classes under the Fair Housing Act. Language in the GSEs' charters make abundantly clear the Enterprises' obligation to ensure credit access to underserved communities and borrowers. Section 301 of each charter states that it is their purpose to, in part, "provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing" and "to promote access to mortgage credit throughout the Nation (including central cities, rural areas, and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing."[5]

Yet the Enterprises have consistently under-performed when it comes to providing investment capital, mortgage liquidity, or secondary housing finance support in communities of color and urban centers. Studies have shown that the Enterprises' market share for loans to upper-income African-American borrowers are similar to their market share for loans to very low-income White borrowers.[6] Fannie's and Freddie's Loan Level Pricing Adjustments, that include an over-reliance on outdated credit scoring mechanisms, coupled with higher pricing for low down-payment loans have resulted in the Enterprises purchasing few loans made to borrowers of color and/or loans made in communities of color. In 2014, even though they comprise 13% of the U.S. population, only 3.4% of the loans purchased by the Enterprises were from African American borrowers. In 2015, the share decreased to 3.12%. Additionally, while Hispanics comprise 17% of the U.S. population, in 2014, only 7.62% of loans purchased by the Enterprises were made to Hispanics. In 2015, that share decreased to 7.46%[7].

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[4]Federal Housing Finance Agency, "Credit Score Request for Input," December 20, 2017. Available at: https://www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/CreditScore_RFI-2017.pdf

[5] See Federal Home Loan Mortgage Corporation Act available at: http://www.freddiemac.com/governance/pdf/charter.pdf See also, Federal National Mortgage Association Charter Act available at: http://www.fanniemae.com/resources/file/aboutus/pdf/fm-amended-charter.pdf.

[6] Bunce, Harold, and Randall Scheessele "An Analysis of GSE Purchases of Mortgages for African-American Borrowers and Their Neighborhoods," 2000, Housing Finance Working Paper Series. U.S. Department of Housing and Urban https://www.huduser.gov/publications/pdf/workpapr11.pdf

[7] Squires, Gregory D. 2018. The Fight for Fair Housing: Causes, Consequences, and Future Implications of the 1968 Federal Fair Housing Act. Routledge.

Credit Assessment Systems Must be Significantly Overhauled to Ensure Fair Credit Access

America has a dual credit market that harms under-served borrowers and has resulted in disparate outcomes, particularly for borrowers of color, people with disabilities and other groups protected by the Fair Housing Act and Equal Credit Opportunity Act. In order to ensure they are providing liquidity for housing finance to these borrowers, the Enterprises must change the way they determine borrower creditworthiness and risk. They must transform their current system that dis-favors borrowers of color to one that ensures fair credit access. The current dual financial market 1) pushes borrowers of color out of the mainstream financial markets; 2) locks underserved borrowers into non-traditional credit markets; 3) artificially deflates credit scores for underserved borrowers; and 4) maintains a climate in which borrowers of color are disproportionately credit invisible or credit insufficient.

The dual credit market has persisted, in part, because the mechanisms for determining borrower risk are built upon incomplete data records that, by design, create and perpetuate discriminatory disparities. Our lending markets began with a fundamental assumption that there was a direct correlation between race and risk. That principle has, unfortunately, been inculcated in the apparatuses that determine creditworthiness. While these credit-scoring and automated underwriting systems may not include variables that directly peg race, national origin or ethnicity, they do contain variables that, either in isolation or in combination, serve as a proxy for race, national origin or ethnicity.

The U.S. financial system was initially designed to be exclusive and was based on the premise of an association between race and risk. This association was starkly and blatantly promoted as illustrated by the ranking system developed by Homer Hoyt – the Federal Housing Administration's first Chief Economist and co-author of its first underwriting manual. Hoyt's ranking system listed groups based on their perceived benefit or detrimental effect on property valuation and borrower risk. English, Germans, Scotts, Irish and Scandinavians were the most beneficial groups. Negroes and Mexicans were the most detrimental groups and therefore most risky for lenders and communities[8]. This association has continued through the years manifesting itself in less conspicuous ways and has been infused into the mechanisms that drive our lending markets. The harmful association has not been completely removed from our financial marketplace or the systems that make it function.

Rather than dismantle the exclusive and bi-furcated system, we have built upon it infusing disparities into our credit assessment infrastructure. As a result of redlining and disinvestment practices - institutionalized by the federal government - mainstream banks and savings and loans refrained from lending in communities that were experiencing a growth in the number of African Americans, Hispanics and other "undesirable" groups moving into an area. Subprime and fringe lenders stepped in to provide credit access to these underserved groups. In the words of Bill Dedman, the Pulitzer Prize winning author of "Color of Money," lending to borrowers of color became the "province of unregulated mortgage companies and finance companies"[9] who commonly charge higher interest rates than traditional lenders. These lenders also peddled highly risky and unsustainable mortgage products in the lead up to the financial and foreclosure crises.

[8] Hoyt, Homer. 1933. *One Hundred Years of Land Values in Chicago.* Chicago: University of Chicago Press.

[9] Dedman, Bill. 1988. "The Color of Money," Atlanta Journal-Constitution. Housed at PowerReporting.com.

American communities are still impacted by systemic redlining practices conducted decades ago. Still today, there are a dearth of mainstream financial institutions in communities of color. A new analysis by Trulia reveals that communities of color in Oakland, Houston, Atlanta and Detroit have roughly 33% fewer traditional banking institutions than predominately White communities. Additionally, communities of color in these cities have twice as many non-traditional or alternative banking services (offering products like debt-relief services, payday loans, check-cashing services, and title loans) than do predominately White communities.

As a result, people of color are disproportionately represented among those who use non-traditional credit. Forty-six percent of African Americans, 40% of Latinos, 38% of American Indian and Alaska Natives use alternative or non-traditional financial services. Comparatively, 18% of Whites use these services. In the lead up to the crisis, borrowers of color disproportionately were targeted for and received subprime loans, even when they qualified for prime credit. Moreover, consumers of color are less likely to have a credit card than their White counterparts. One study revealed that 47% of African Americans and 30% of Hispanics did not have access to a credit card as compared to 20% of White consumers[10].

Consumers who use fringe lenders are not only paying a very high cost for accessing credit but they are not reaping the full benefit of paying off their obligations. Non-traditional financial services providers typically do not report good behavior to the credit repositories. However, in a very perverse arrangement, if borrowers go into collections or default on their obligations, this negative information will likely get reported to the credit repositories.

Additionally, not accessing traditional credit from a depository institution can cause a consumer's credit score to be lowered and this practice likely disproportionately negatively impacts borrowers of color. For example, obtaining credit from a finance company could lower a borrower's FICO® score by up to 20 points – even if the borrower pays the finance company debt obligation on time.

As a result of the historical and current systemic disparities in our financial system, people of color and persons with disabilities are disproportionately credit invisible, score insufficient, or have artificially low credit scores. According to the Consumer Financial Protection Bureau (CFPB), 26 million American consumers – 11% of the adult population - are credit invisible. This does not mean that these consumers do not have credit. It does mean that they do not have credit information that has been reported to the major credit repositories. An additional 8.3% (19 million consumers) don't have enough information on their credit profiles to generate a credit score. An analysis by the CFPB reveals that almost 30% of African American and Hispanic adults are credit invisible or have an unscorable credit profile – compared to about 17% of White adults.[11]

African Americans and Hispanics have, on average, lower credit scores than their White counterparts. The Urban Institute found that in 2013, only 41% of Hispanic and 33% of African American borrowers

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[10] "Report on the Economic Well-Being of U.S. Households in 2013," Board of Governors of the Federal Reserve System. Available at: https://www.federalreserve.gov/econresdata/2014-economic-well-being-of-us-households-in-2013-household-credit-behavior.htm#subsection-184-B14E9ACA Accessed on March 25, 2018.

[11] Brevoort, Kenneth P., Philipp Grimm, and Michelle Kambara. 2015. *Data Point: Credit Invisibles*, CFPB Office of Research, May, 2015.

had a FICO score of 750 or higher while more than 64% of White borrowers had such a score. Many factors have contributed to deflated credit scores for borrowers of color. These consumers have limited access to quality financial service providers. African Americans and Hispanics are subjected to targeting by non-traditional and subprime lenders for unsustainable and abusive lending products which leads to higher delinquency and foreclosure rates for these groups. Underserved consumers may also be more likely to receive a loan from a consumer finance company which would likely lower the consumer's credit score. Borrowers of color disproportionately access alternative financial service providers who do not report positive behavior to the credit repositories. These consumers are also disproportionately impacted by lending discrimination which can damage a borrower's credit score. Consumers of color, negatively impacted by America's racial wealth gap, also lack the benefits other consumers have gleaned as a result of wealth legacies.

It is imperative that FHFA not only gets this issue right but that it moves in an expeditious fashion to help broaden access to quality credit for the millions of consumers who need it. For decades, underserved groups – the very market segment that the Enterprises' charters compel them to serve – have not benefited from the resources and expertise that the Enterprises can offer to ensure they have quality capital and investments.

The Enterprises should build on recent updates to their automated underwriting systems (AUS)

In 2017, the Enterprises made updates to their AUS that allow lenders to originate home loans to borrowers who do not have a credit score, and then sell these loans to the Enterprises. [12] While we believe this is a step in the right direction, more must be done to ensure that borrowers are evaluated and priced fairly. When borrowers without a score are evaluated in this process, the Enterprises' delivery fees apply, and they are priced at the same level as a borrower with a 620 Classic FICO score. This can add up to 325 basis points on to the cost of the loan.[13] This significant bump in cost will make the loan unaffordable for many consumers who will be evaluated in this process.

The Enterprises currently use a framework to price the loans they purchase from lenders that is based upon the level of risk associated with the loan. Under this framework, the Enterprises charge lenders a delivery fee, or Loan Level Price Adjustment (LLPA), which is a fee assessed based on certain borrower and loan characteristics, including the borrower's credit score. The lenders build this fee into the cost of the mortgage to the borrower. As a result, the Enterprises' risk-based pricing framework unnecessarily increases financing costs for consumers who do not have a credit score.

Pricing loans issued to non-traditional borrowers at the highest levels creates a cost-barrier that prohibits borrowers from being able to access credit. It may well be that borrowers who have paid their rent on time for 24 months or longer, and who do not experience any payment shock when they obtain a mortgage loan, really act - in terms of loan performance - just like borrowers who have a 780 credit

[12]See Fannie Mae, Selling Guide: Eligibility Requirements for Loans with Nontraditional Credit, https://www.fanniemae.com/content/guide/selling/b3/5.4/01.html
[13] See Center for Responsible Lending, http://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/testimony-senate-banking-calhoun-housing-reform-06292017.pdf

score. If that is the case, these borrowers need to be priced as if they had a 780 credit score, not as if they have a 620 or lower credit score.

The Enterprises' reliance on credit scores as criteria for determining a borrower's eligibility for a mortgage product creates a barrier for credit-worthy borrowers to qualify for a mortgage.

A lack of transparency around the use of credit information has implications for borrowers, in particular borrowers with non-traditional credit profiles. Most borrowers are unfamiliar and do not understand how the mortgage industry, including the Enterprises, use their credit score. Borrowers are likely to understand that mortgage lenders use the score to evaluate their credit qualifications and to make the determination to extend credit. Borrowers may not be aware of additional delivery fees that may influence the lenders' determination, and the ultimate cost of the mortgage. As a result, borrowers with lower credit scores (below 700) who do not qualify or qualify at a higher interest rate, may be discouraged from applying due to the prohibitive price of their mortgage.

The Enterprises must continue to evolve in the way they think about and use credit scoring information since these data points capture such a limited portion of a borrower's story.

FHFA's Empirical Evaluation is insufficient and should be expanded.

The FHFA's empirical evaluation was limited in its scope. We recommend that FHFA expand its evaluation to include evidence from the broader universe of potential mortgage applicants, a study of more credit models beyond FICO 9 and Vantage Score 3.0, piloted program evaluations, and a fair lending analysis.

The Enterprises' analyses of credit score coverage was based on applications the Enterprises received from lenders. The analysis of credit score accuracy was based on loans acquired by the Enterprises – with limitations. In other words, the Enterprises' analyses were conducted based on borrowers already in the traditional financing system and, importantly, borrowers weened through the Enterprises' systems. Narrowing the borrower pool in this fashion tilts the outcome.

The analyses did not consider borrowers who operate outside of the financial mainstream. Yet, these are precisely the borrowers upon which more focus is needed. An analysis that excludes the very universe of borrowers that would be most impacted by the expanded use of credit scoring mechanisms is wholly insufficient. The analysis should be expanded to include the broader reaching pool of loans originated by lenders who sell to the Enterprises, including the loans that those lenders have kept in their own portfolios. The analysis should also include loans from sound, responsible credit providers who might not sell to the Enterprises, such as Community Development Financial Institutions.

FHFA should embark upon a pilot to test the efficacy of various credit scoring models, beyond the two models assessed in FHFA's present evaluation. When civil rights groups first met with FHFA 4 years ago about the limitations and disparate impact of credit scoring models, we recommended that FHFA carry out testing of various credit scoring models. We also recommend that FHFA perform a fair lending analysis as an important step in the evaluation of a pilot to test more credit scoring models. Doing so would further FHFA's work to eliminate unfair barriers in the financial system and expand access to safe, affordable, sustainable credit.

While FHFA proposes to only implement any new score it is considering after the Common Securitization Platform and Single Security Initiative have been brought online, this does not and should not preclude the Enterprises from engaging in live and retrospective testing. Testing to date has only been conducted on the Enterprises' booked population and not on a broader pool of borrowers – arguably borrowers who would be most served by the application of alternative credit scoring models, particularly those that utilize non-traditional financial information. More testing from the applicant population and borrowers who have been approved by lenders' proprietary programs must be conducted to fully learn and understand how scoring mechanisms can be designed and applied to support borrowers, lenders, securitizers, mortgage insurers and other players in the system.

The results of FHFA's empirical evaluation underscore an important lesson learned from the financial and foreclosure crises. That lesson is that a housing finance system that relies too heavily on credit scores can yield unfavorable results. The Enterprises' analyses found that their automated underwriting systems "more precisely predicted mortgage defaults than third-party credit scores alone." This outcome makes sense given the restricted nature of the tested pool and given the fact that credit scores are not meant to be used as the sole test for determining mortgage default.

The mortgage industry has grown to understand that a credit score is just one aspect of a borrower's creditworthiness. However, a more robust assessment of a borrower's creditworthiness is needed to determine not only that borrower's eligibility for a mortgage but the price that should be assessed for the loan. FHFA should build on its current study and encourage the Enterprises to test more credit score models and better utilize additional forms of consumer credit information- such as rental housing payment information, trended savings behavior, and data from loans not sold to the Enterprises.

FHFA's RFI Should Ask Broader Questions

FHFA's Request for Input (RFI) asks some but not all of the right questions. The RFI does not allow consideration of newer credit scoring models that are being used in the marketplace such as FICO XD and VantageScore 4.0. Other models may allow the use of alternative data sets, including data not housed within the credit repositories, that can yield positive, viable results for broadening credit access. Rental payment, housing payment shock and residual income are examples of variables that have a high probability of predicting mortgage payment performance. FHFA should examine credit models that incorporate this type of data.

The RFI should have also included a focus on fair lending. One of the key reasons UnidosUS, NFHA and other civil rights and consumer advocacy groups have requested that the Enterprises expand and adjust their use of credit scores is to help account for the lingering impact of de jure and de facto discrimination in the lending markets. The dual credit market is a direct result of biased policies and practices, sometimes state-sponsored, that have not been addressed or are difficult to retract. As a federal regulator required to uphold federal fair housing and fair lending laws, FHFA was remiss in not highlighting the fair lending implications of this work.

In the RFI, FHFA outlined operational and market-based considerations, challenges and implications. Most of these stemmed from concerns raised by the industry. However, FHFA did not name the market- and consumer-based implications, challenges and considerations that civil rights groups have raised, particularly as they relate to the continued failure of the housing finance system to meet the credit needs of underserved groups.

Selected Answers to Questions Posed in the RFI

A1.6: Do you have a recommendation on which option FHFA should adopt?

FHFA Should Select Option 3 – Lender Choice on Which Score to Deliver, with Constraints

Option 3 leaves the choice up to the lender to require either VantageScore 3.0 or FICO 9 – if available. This option, we believe, would not preclude a lender from collecting both scores so that the lender could perform internal testing on both models should the lender choose to do so. However, this option might prohibit the Enterprises from being able to more easily test loan performance and learn about the pros and cons of each scoring model – something that might be more easily guaranteed under Option 2.

The analysis our organizations have seen thus far leads us to believe that broadening and updating the credit scores the Enterprises use for underwriting and pricing loan products, by adoption Option 3, will enable the GSEs to expand the number of consumers it can serve and lessen the discriminatory impact that many credit scores can have on groups protected by civil rights laws.

Additional policies will be created to address how other mortgage industry participants react or act. For example, mortgage aggregators and brokers may practice their discretion to aggregate loans underwritten with either model, or the Enterprises may require them to adopt a single score approach.

A1.7: Do you have additional concerns with or insights to share on the Enterprises updating their credit score requirements?

Please see points made above.

A2.1: What benefits and disadvantages would you envision for your business, your business partners, and/or borrowers under each of the options? UnidosUS can take lead

Under Option 3, lenders would have the option to choose which score to they prefer to utilize and commit to using one score model for a specific period of time. While this option does not preclude lenders from testing both score models, additional policies will be needed to address how other mortgage industry participants react. In the event that other industry participants, such as mortgage insurers change their pricing policies, this may translate into uneven or increased costs to the borrower.

If a lender were to use VantageScore, this would benefit consumers who are new to using a credit account, including those with thin credit files, and do not have a FICO Score. FICO scores require six months of credit history. Consumers who have been using non-traditional credit for years but have not used the type of credit that would enable them to obtain a FICO Score could take steps to get a trade line that would enable them to be scored under the VantageScore system.

If lenders are allowed to utilize both scores, lenders could test for greater alignment and accuracy among scores, which may improve the accuracy of scoring and evaluating borrowers who are underserved in the current housing finance system. The disadvantages to borrowers include the additional costs to access both scores for educational purposes and to determine mortgage eligibility. Consumers currently pay between $30-$40 to access information about their credit standing from all three CRAs. Even the ability to track their credit score over time requires consumers to pay additional money. Each CRA also offers its own credit monitoring services but that requires a monthly subscription between $13-$40 a month (or $156-$480 a year).[14] If the pricing policies of CRAs change so that the cost to access two scores is greater than the cost to access one, then consumers will have to pay more to see both of their scores.

We see many benefits to allowing updated credit scoring systems that are designed on more recent data. For example, VantageScore 3.0 and FICO 9 (as well as VantageScore 4.0 and FICO XD 2) include important changes to the way medical debt collections are treated and thus enhance the ability of consumers to be fairly assessed. The changes, first made by VantageScore, reflect more recent analysis that show the diminished importance of medical debt collections on borrower behavior. This change is critically important since underserved borrowers, who are more likely to be uninsured or under-insured, are more gravely impacted by the actions and policies of medical debt collection agencies.

While this RFI asks us to only consider FICO 9 and VantageScore 3.0, neither model currently uses consumer data that is not already being used by the CRAs to calculate a score. NFHA and UnidosUS recommend that FHFA consider additional scoring systems, such as VantageScore 4.0 and FICO XD 2 that might be better suited to assess the credit risk of non-traditional borrowers. Due to the current restrictions in CRA data, it might be necessary to allow the use of credit scoring systems that contain trustworthy data housed outside of the CRAs. To facilitate the consideration of additional scores, we urge FHFA to allow lenders to include these score models in Option 3, so that consumers who have been disadvantaged in the current system have an opportunity to receive a score and be evaluated in a fairer, more transparent manner.

NFHA has seen one analysis that projects that VantageScore can likely score an additional 2.8 million to 2.6 million potentially mortgage-ready borrowers who are currently not scorable using traditional credit scoring mechanisms. This analysis, produced by VantageScore, is based on the following criteria:

1) Expanded consumers with a credit score of 620 +
2) Consumers aged 25 – 70
3) Consumers with no indication of homeownership
4) Consumers with no foreclosure on file
5) Consumers with no 90-day delinquency in previous two years
6) Consumers who could afford a median priced home in the zip code in which they live assuming a mortgage interest rate between 4.2% - 6.0%

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[14] UnidosUS and The Financial Clinic's joint comments to the Consumer Financial Protection Bureau on Consumers' Experience with Access to Free Credit Scores, submitted February 2017

NFHA has seen another, more conservative, analysis that projects newer scoring models could expand lending for to up to 113,000 borrowers. This analysis, provided by FICO, is based on the following criteria:

1) Expanded consumers with a credit score of 620 +
2) 2 + Open Trade Lines

If the credit score requirement is increased to 700 and above, the analysis provided by FICO suggests that an additional 21,200 consumers could be mortgage eligible using enhanced scoring models.

It is clear that as scoring models become more advanced and better account for non-traditional credit information, like rental housing payments and residual income, the number of consumers who will be eligible for home financing will expand. As such, the Enterprises and Common Securitization Solutions will need to be nimble enough to allow adoption of newer, better scoring models.

A2.2: How significant are the operational considerations for a single score update? Please discuss any comparison of operational considerations between a single score (option 1) and multiple score options (options 2-4).

The multiple score options (options 2 & 4) might result in added short-term costs to consumers, lenders, investors and other players. FHFA should poll lenders, securitizers, mortgage insurers, and other players to determine how these options might impose additional costs and whether there would be a more long-term benefit. For example, if lenders are able to originate more loans with enhanced scoring models, the costs of systems upgrades might well be covered by the increase in loan volume with no negative residual effect on consumers from a cost standpoint.

A significant number of lenders are currently using VantageScore and/or FICO scoring models for the underwriting and pricing of the financial services the lenders provide. These financial products are being securitized and sold. Thus FHFA should have ample data and information with which to assess the operational considerations and costs of using one or both models.

A2.4: Please provide an estimate of how much it would cost your organization to implement each option and how much time it would take to implement each option.

Housing counseling organizations pay for soft credit pulls

Housing counseling providers within the UnidosUS NHN help consumers access their credit score at the least cost possible to the consumer, and some counseling providers subsidize the cost of the soft credit pulls for consumers. Housing counseling providers obtain credit scores for consumers in a few ways. Some providers create independent agreements with the Credit Reporting Agencies (CRAs) to do to a soft pull of a borrower's credit report and score. Others contract with a company that delivers a consumer's tri-merge credit report with scores from each of the CRAs, such as CoreLogic Credco (Credco).[1] The cost to counseling providers for these pulls can range between $5 and $17 per person, and up to $40 per couple.

[1] See https://www.corelogic.com/solutions/credit-solutions-mortgage.aspx

The fees that providers incur to do soft credit pulls through a company such as Credco include a one-time set-up fee of $100 or more, monthly fees based on the number of soft credit pulls requested, and a surcharge from the CRAs for each soft pull requested. Counseling providers reported to UnidosUS that the cost of pulling a tri-merge report and with three scores is nearly three times higher than the cost of a report and score from a single CRA. Housing counselors use client management systems that capture the borrower's credit report and score. Companies like Credco charge counseling providers additional fees to transfer the credit information from their company's platform to the client management system.

The cost to housing counseling providers and time needed to adapt under each option

For housing counseling providers, the cost to request a borrower's credit scores is affected by changes in the pricing policies of CRAs and companies selling credit reports and scores.

Option 1

If FHFA allows the use of a new score - FICO 9 or Vantage 3.0, the cost to housing counseling providers should not change because they would request the same information they do currently: one score from each CRA, or a tri-merge report with all three scores. According to FICO, FICO 9 will use the same development window across the three different credit bureaus, which suggests that the cost to implement this score model would be minimal.[15] Vantage Score 3.0 is a model developed by the three CRAs, which suggests a smooth transition and minimal cost to implement. If the CRAs continue to use one score model, the price of a soft pull should remain the same. Housing counseling agencies would do a soft pull of a credit report that includes this score as soon as the model is adapted by the CRAs.

Option 2

If both scores - FICO 9 and Vantage 3.0 are approved and available, then housing counseling providers could request a soft pull that includes both scores. When a tri-merge report is pulled, housing counselors may end up with six scores. Under current agreements with CRAs and companies providing credit reports and scores, counseling providers are charged for the number of reports requested - not for the number of scores requested. Therefore, the cost to providers would change only if the CRAs charge an additional fee for a second score. Housing counseling providers would then do a soft pull of a credit report that includes both scores as soon as the CRAs incorporate both scoring models.

Option 3

Under this option, lenders make the decision to do a hard pull of a borrower's FICO 9 or VantageScore 3.0 score, if available. Many housing counseling providers within the UnidosUS NHN would prefer to pull credit scores for clients that lenders will pull. Currently, these providers prefer to access the credit scores from sources that deliver FICO scores because these are the scores that will be pulled by the lender. Therefore, the housing counseling providers will likely do a soft pull of the report and score that lenders in their communities will pull. Since different lenders in the community might require a different score, counseling providers might opt to default to a model similar to that described above under Option 2. That is, counselors might default to pulling both the FICO 9 and the VantageScore 3.0. Since counseling agencies are not charged by the number of scores requested but rather by the number of reports requested, there should not be an increase in costs to counseling agencies. However, if the

[15] http://www.fico.com/en/newsroom/fico-score-9-introduces-refined-analysis-of-medical-collections-08-07-2014

CRAs charge an additional fee for a second score, the counseling agencies would incur a cost increase commensurate with the upcharge assessed by the CRA.

Option 4

Under this option, there would be a waterfall so that each lender would have a primary score and a secondary score in case the consumer's file is unscored using the primary score. Because housing counseling providers follow the lead of lenders who are reviewing their clients' credit information, they prefer to do soft pulls of the credit scores that are used by lenders. We anticipate costs to counseling agencies under Option 4 would be similar to the costs generated by Options 2, 3, and 4.

A2.7: What impact would any of the credit score options have on a need for consumer education? What impact would the multiple credit score options (options 2-4) have on consumers? Are there steps that FHFA, the Enterprises, or stakeholders could take that would mitigate any confusion about multiple credit score options?

All of the options under consideration would require consumer education – including Option 1. We recommend that FHFA and the Enterprises consult with community-based providers such as housing and financial counselors and financial coaches working with underserved communities to identify outreach methods and education tools that will be most effective to ensure a broad set of consumers are aware of updates to credit scoring models, understand which credit scores lenders will be pulling to determine a borrower's eligibility, and to understand what information will be reviewed and evaluated in the calculation of their credit score.

UnidosUS housing counseling providers educate consumers with non-traditional credit profiles and from communities underserved in today's housing finance system, including Latinos, about credit reports and credit scores. Housing counselors also help consumers request their credit report on annualcreditreport.com or review their credit information from a free site such as Credit Karma. This information is used by counselors to educate families about their credit standing, to prepare families for the process of purchasing a home, as well as to assist consumers in pursuit of other financial goals.

According to housing counseling providers, consumers who are interested in applying for a mortgage, have questions about the following: 1) the types of information used to determine their credit score; 2) the difference between FICO and Vantage Scores; 2) the difference between the scores they buy from the CRAs, the scores pulled by the housing counselor and lender, and the scores they can buy or access for free online; 3)the scores lenders use to determine their eligibility to receive a mortgage; 4) how their score is calculated; and 5) how to increase their score. While any update to a credit score model or change in the number of scores that consumers will have, Option 4 may create the most confusion for consumers, and require the most adjustment for the counselors assisting the consumers.

Consumers access their scores from various sources

Consumers can get their credit score from a number of different sources. In 2011, the Consumer Financial Protection Bureau published an analysis of the challenges consumers face when there is inconsistency among the scores they obtain from a variety of sources.[16] In response to an UnidosUS

[16] See https://s3.amazonaws.com/files.consumerfinance.gov/f/2011/07/Report_20110719_CreditScores.pdf

survey of housing counseling organizations in 2017, one counselor from Columbus, Ohio reported that his clients have access to different scores, and the differences between the scores creates confusion about their client's creditworthiness:

"Most [clients] are familiar with free places like Credit Karma, but what we find is that the scores offered by these places do not correspond to the real scores we and lenders access. This causes clients to think their scores are different than reality."

The counselor added that clients ask many questions about the scores they access: "Why are there 3 scores? How can I increase my score? Why are these scores different than what Credit Karma is telling me?"

Other housing counselors reported similar challenges:

"Most free options for FICO require a credit card, something our clients don't always have. Credit Karma is fine, but isn't as reliable as FICO," according to a counselor in Springfield, Oregon. "[Many clients] use unreliable sources to check credit score."

"Clients often don't know the score that lenders will use in application, or the codes, and data contained on the summary pages are often misunderstood," according to a counselor in Brooklyn, New York. "Clients tend to have accessed credit reports with no score or scores with no reports. The barriers or challenges of having insufficient data is apparent."

"[Clients have] limited options to free scores based on websites like Credit Karma, the scores are usually off too," according to a counselor in Los Angeles, California.

Based on an UnidosUS survey of housing counseling providers, in addition to getting their credit score with the assistance of a housing counselor or a financial coach, Latino and low-income consumers access credit scores through a number of third-party companies that include:

- CoreLogic Credco
- Home Counselor Online (HCO)
- Experian
- Kroll Factual
- Transunion
- FICO Open Access
- CreditKarma.com
- Quizzle.com
- CreditWise from CapitalOne
- Nerdwallet.com
- Mint.com
- Creditsesame.com

Latino consumers who are clients of the UnidosUS and The Financial Clinic's coaching networks report accessing free credit scores through credit card companies[17] that include Chase, US Bank, American Express, and Bank of America, and CitiBank.

Consumers are sensitive to lenders' criteria for creditworthiness

UnidosUS' clients and the clients of fair housing organizations that operate housing counseling programs are motivated to act and improve their scores so that they fall within a credit score range that lenders would use to determine eligibility for a mortgage.

In response to a survey of housing counseling providers, counselors reported that clients who knew their credit score were motivated to apply for a mortgage, and considered their credit score a measure of their creditworthiness. Counselors reported that consumers with the goal to buy a home check their credit scores on a regular basis to see if any changes occur as a result of their efforts to improve their score. Below are some responses from housing counselors on the subject of why consumers find it so important to monitor their credit scores and reports:

"Some people become obsessed with seeing their score consistently. We try our best to explain to them that seeing their score raise is generally something that happens gradually." - Los Angeles, California

"How do I improve my score? Why are these items on there since I paid them off? How is the score compiled and what does it really mean?" – Brooklyn, New York

"Most people feel motivated to keep checking their score and to change habits in order to improve their score." - Los Angeles, California

For these reasons, it is important that consumer education be a part of FHFA's decision-making and plan to roll out one of the four proposed options.

FHFA, the Enterprises, and stakeholders can invest in consumer education to mitigate confusion

Community-based housing counseling providers incur high fees to provide the tri-merge report and credit scores for free to their clients. Counseling providers may pay up to $199 in a one-time set-up fee, in addition to a monthly payment based on the number of times counselors do a soft pull. The fees are paid for with their organizations' scarce resources. FHFA, the Enterprises and the CRAs should explore ways to discount the cost of credit scores or make the scores available for free for community-based housing counseling providers assisting borrowers. Lowering the cost for housing counseling providers would allow providers to continue using a credit score for education purposes, and assist clients understand new score models, updates to the information included in the score's calculation, and the decisions being made with the delivery of multiple scores.

A2.8: Under option 3 (lender choice with constraints), how would the Enterprises protect against adverse selection and ensure that a lender is not selecting a credit score at the loan level that results

[17] UnidosUS and The Financial Clinic's joint comments to the Consumer Financial Protection Bureau on Consumers' Experience with Access to Free Credit Scores, submitted February 2017

in preferential pricing or eligibility? Instead of attempting to reduce adverse selection through setting certain selling requirements for lenders, should the Enterprises instead adopt underwriting and pricing policies that account for any increased risk of adverse selection between the two credit score models? Are there ways to control this risk?

The Enterprises should engage in live and retrospective testing to better understand each scoring model, how they would predict performance, and protect against adverse selection. Live and retrospective testing must include lenders, like Community Development Financial Institutions, small, community-based lenders, and rural lenders as well as lenders who serve urban communities. Oftentimes, these lenders retain loans that they cannot sell to the Enterprises on their portfolios. This is ripe data for consideration in this process.

But the Enterprises and FHFA must understand that credit scores alone are not the ultimate arbiter of performance, default or risk. Too much reliance on credit scores, in particular the scores generated from models that do not tell a borrower's complete credit story, can be very dangerous – a lesson we learned from the financial and foreclosure crises.

Increased transparency and public access to data so the public has ample opportunities to analyze data and provide critical feedback, are also paramount to helping inform the Enterprises and FHFA and safeguard against unintended consequences. After all, consumer protection and civil rights agencies were able to accurately predict the financial and foreclosure crises based on their data. Restricting the public's ability to access data from the Enterprises and/or Common Securitization Solutions will be harmful. All industry players must have access to critical data to ensure safety and soundness in the credit market.

The Enterprises must also take care to assess the correct data. In the run up to the crisis, a lot of attention was paid to credit scores and Loan-to-Value (LTV) ratios. Conversely, little attention was paid to product type or borrower cash flow, particularly after reset rates kicked in. Additionally, there was little transparency about what was behind many of the LTV figures being reported at the loan level. Keeping abreast of all of the data elements that impact borrower performance is the key.

The Enterprises' need to exercise caution when considering additional policies that make underwriting restrictive and pricing prohibitive. Doing so can exacerbate existing fair lending and credit access issues. Live and retrospective testing will provide extremely helpful information.

A2.9: Because credit score models are not interchangeable, what issues or challenges would you face if the Enterprises were to have different eligibility or pricing based on the credit score version? What implementation hurdles might exist? How would the differences in pricing be perceived by borrowers?

We urge FHFA and the Enterprises in the strongest way possible to **not** impose different eligibility or pricing based on the credit score version. Such a policy would lead to disparate outcomes based on race, disability, national origin and potentially gender and will undoubtedly subject the Enterprises to fair lending risk.

A3.2: Given that the CRAs own VantageScore Solutions, LLC and set the price for both FICO and VantageScore credit scores, and own the data used to generate both scores, do you have concerns about competition? If so, please explain.

If FHFA has any concerns about unfair competition, anti-trust mechanisms can easily be put in place to ensure that all companies have equal access to the data housed in the CRAs and are priced equitably for that data. The CFPB, which has regulatory authority in this space, can work in tandem with FHFA to ensure competition is not impeded. FHFA can easily allow the consideration of other scores that rely on data not housed in the CRAs to help alleviate this concern.

A3.2: Would allowing multiple credit scores in the mortgage underwriting process encourage new entrants into the scoring marketplace? If the requirement remains to keep a single credit score in the mortgage underwriting process what impact would this have on whether new entrants join the credit scoring marketplace?

FHFA and the Enterprises play an important role in facilitating the creation of an environment that encourages new entrants. If FHFA were to broaden the scope of its evaluation, test a variety of scoring models beyond FICO 9 and Vantage 3.0, and make the evaluation available to the public, then this would influence the decision by new model developers to enter the system.

It is clear that Classic FICO has been in place and held a monopoly for so long because the Enterprises and FHFA have not taken steps to include new entrants. The primary market has tested new credit scoring models, but lenders ultimately face uncertainty when they decide whether or not to sell their loans to the Enterprises.

If the requirement remains to keep a single score in mortgage underwriting, it is unlikely that lenders would adopt or test new scoring models. A policy change carried out by the Enterprises could not only encourage new entrants to join the credit scoring marketplace, but also encourage existing models to innovate. We have seen examples in the past where policy changes by the Enterprises resulted in changes in industry practice. One such example occurred in 2000, when the Enterprises announced that they would no longer purchase mortgages with single premium credit insurance, an expensive product that was very lucrative for lenders but offered virtually no benefits for borrowers. Because of the Enterprises' policy action, single premium credit insurance essentially disappeared from the mortgage market. This is just one example of the Enterprises' unique ability to influence practices in the market.

FHFA has chosen to consider FICO 9 and Vantage Score 3.0, two models which utilize the same data from the CRAs. While FICO 9 is a different model than Classic FICO, FHFA's decision to consider FICO 9 reflects only a minor innovation of an existing model, on which the Enterprises have relied for decades. Vantage Score 3.0 is a new model built on the first development of a score that is owned by the three CRAS. In order to encourage new entrants, FHFA should test other scoring models that integrate consumer data that is different from what is provided by the CRAs today.

A3.4: If FHFA allowed the Enterprises to use multiple credit score models by adopting options 2, 3, or 4, would this competition translate into far-superior credit scoring models available to the housing finance markets? Would competition in the mortgage origination process create an incentive to

incorporate more credit data for consumers with "thin files" or no credit history? How should FHFA balance these considerations with accuracy and mortgage credit risk?

Competition, with safety guardrails and appropriate oversight, will lead to healthy increased competition that will be beneficial for borrowers. Increased competition will compel credit scoring modelers to refine their data, increase integrity, conduct testing and select better data – including data not housed in the CRAs – to improve performance and broaden credit access, particularly for under-served groups. Improved data quality and the identification of better variables will result in more, not less, accuracy.

A3.5: Could competing credit scores in the mortgage underwriting process lead to a race to the bottom with different vendors competing for more and more customers? What steps could FHFA take to mitigate any race to the bottom?

FHFA's goal should be to broaden access to quality credit for eligible under-served borrowers and improve the way the secondary housing finance system functions. Relying on the outdated system that the GSEs currently use stifles fair credit access, unnecessarily excludes borrowers, and does not allow the GSEs to keep up with consumer behavior.

The Enterprises cannot approach any improvements in the housing finance system without understanding and rectifying the experiences of borrowers who are currently excluded from its programs. The Enterprises also cannot make improvements by testing a subset of borrowers who have made it into the Enterprises' systems using a more restrictive credit-scoring model.

Robust, honest testing, appropriate oversight and increased transparency will mitigate against any attempts to race to the bottom. Creating a more fair, accessible system does not have to come at the expense of allowing more dangerous or risky lending. We can both expand access to credit and improve the quality and utility of our credit scoring models.

About the National Fair Housing Alliance

Founded in 1988, the National Fair Housing Alliance is a consortium of more than 220 private, non-profit fair housing organizations, state and local civil rights agencies, and individuals from throughout the United States. NFHA is the voice of fair housing and works to eliminate housing discrimination to ensure equal housing opportunity for people through leadership, education, outreach, membership services, public policy initiatives, community development, advocacy and enforcement.

The National Fair Housing Alliance is the nation's only civil rights agency solely dedicated to eliminating all forms of housing discrimination. NFHA is also the trade association for fair housing agencies who work at the local level to expand equal housing opportunities. Twenty-five percent of NFHA's members also operate housing counseling programs to provide assistance to consumers who are seeking to obtain assistance with purchasing a home.

Since its existence, NFHA has assisted over 750,000 victims of housing discrimination, assisted 700 first-time homebuyers in purchasing affordable homes, facilitated 10,000 financial literacy workshops for more than 200,000 consumers, rehabbed 700 abandoned and blighted homes, assisted 800 homeowners in avoiding foreclosure, facilitated the improved maintenance of 750,000 foreclosed properties, assisted in the creation of 20,000 accessible housing units; and worked with financial services partners to expand housing opportunities for millions of consumers.

About UnidosUS

UnidosUS—the largest national Latino civil rights and advocacy organization in the United States—works to build a stronger America by creating opportunities for Latinos. Through its network of nearly 300 affiliated community-based organizations, UnidosUS reaches millions of Hispanics each year in 37 states, Puerto Rico, and the District of Columbia. To achieve its mission, UnidosUS expands opportunities for Latinos through capacity-building assistance to a national network of multiservice Affiliate organizations rooted in Latino communities; robust and tested program models; applied research, policy analysis, and advocacy; and civic engagement efforts.

UnidosUS has an extensive record of spearheading innovative programs and advocacy campaigns that help low- and moderate-income Latinos become financially capable and build intergenerational wealth. UnidosUS also has a history of working with its network of housing counseling providers to further inform our understanding of the challenges and opportunities Latinos continue to encounter in the mortgage market. UnidosUS manages the National Homeownership Network (NHN), a family of 50 independent community-based organizations working to advance Latino wealth-building through homeownership. The NHN develops effective programs that blend research, advocacy, and direct housing and financial counseling. The NHN is a HUD-approved housing counseling intermediary and trains hundreds of housing counselors emphasizing individual, culturally competent counseling; and efficiently connecting other wealth-building programs, such as financial coaching. Established in 1997, the NHN supports more than 60,000 families a year.

Respectfully submitted,

Lot Diaz
Vice President of Housing and Financial Empowerment, UnidosUS

Lisa Rice
Executive Vice President, National Fair Housing Alliance