November 15, 2016

The Honorable Melvin L. Watt
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, D.C. 20024

RE: Updating Credit Score Criteria and the Use of Alternative Credit Scoring Models

Dear Director Watt,

MBA commends the Federal Housing Finance Agency (FHFA) for working with Fannie Mae and Freddie Mac (the GSEs) to study the benefits of updating their credit scoring criteria to reflect the latest generation of validated credit score models as well as the potential benefits of alternative models. MBA believes that the GSEs’ timely review and incorporation of newer and alternative credit models is important to industry efforts to expand credit options for today’s borrowers. Because of this potential impact, MBA requests that FHFA publish a Request for Input (RFI) to solicit comments on its current proposals to update the GSEs’ credit scoring criteria. This broader process will allow for a transparent evaluation of options and a wider range of perspectives.

Given the sizeable implications and considerable stakeholder positions on this issue, MBA believes that broadening the input for FHFA’s decision-making process on this issue would be extremely beneficial. This approach would allow for the public presentation of all proposed options and help facilitate a thoughtful industry discussion on the most suitable options to expand credit while promoting sustainable homeownership. Without a broad and balanced analysis of the costs and benefits of incorporating newer and alternative credit models, MBA remains concerned that the GSEs will not adopt a model that can both effectively manage risk and improve the cost of credit for American families.

Over recent years updates to credit scoring criteria and the use of alternative scoring methods have gained significant support from numerous consumer groups, civil rights organizations and industry trade associations. This support has also garnered congressional attention demonstrated by recent proposed legislation and letters from numerous members of Congress to FHFA on the need for competition and innovation in the credit score industry. This stakeholder interest further demonstrates the need for a broader discussion on the use of alternative credit criteria.

Most recently, the Bipartisan Policy Center (BPC) released an article by Michael A. Stegman, entitled “Enhancing Access to Credit with New Scoring Tools” that recommends that FHFA direct the GSEs to modify their systems and policies to accept alternative credit
Alternative credit scoring models. This modification could help lenders reach approximately 45 million consumers who are either “credit invisible” or “unscorable” because they do not have credit records recognized by the credit reporting agencies or have insufficient credit histories. Alternative credit scoring models could help provide access to credit to some of those consumers who are creditworthy, but do not have access to conventional mortgages. To mitigate industry operational challenges, the BPC recommends that the transition to the scoring system be coordinated with the transition to the new single GSE security. MBA supports this timing, as it would allow time for a broad policy discussion, as well as a seamless implementation by the industry.

MBA strongly supports FHFA’s efforts to provide prudent oversight and risk management for the GSEs and we appreciate your careful consideration of this important issue. We believe that a broad and transparent information gathering process is important. Should you have questions or wish to discuss any aspect of these comments further, please contact me at PMills@mba.org or (202) 557-2878 or Tamara King at TKing@mba.org or (202) 557-2758.

Sincerely,

David H. Stevens, CMB
President and Chief Executive Officer