



WASHINGTON, D.C.
99 M St. SE
Suite 300
Washington, D.C. 20003-3799
Phone: 202-638-5777
Fax: 202-638-7734

ATTN: Comments/ RIN 2590-AA98
Mr. Alfred M. Pollard, General Counsel
Federal Housing Finance Agency
Constitution Center (OGC Eighth Floor)
400 7th St., SW
Washington, DC 20219

Re: RIN 2590-AA98
Proposed Rules on Validation and Approval of Credit Score Models

Dear Mr. Pollard:

As the largest credit union advocacy organization in this country, the Credit Union National Association's (CUNA) state and federal credit unions currently serve over 115 million members. Many of those members rely upon their credit union to meet their housing finance needs. In fact, in 2018 alone, credit unions extended nearly \$87 billion to members in the form of fixed-rate, first mortgages. As a result, the ability of the housing finance system to accurately assess credit risk while responsibly expanding access to affordable mortgage credit for consumers is a key concern for credit unions and the members they serve. Accordingly, the purpose of this letter is to offer our comments on the Federal Housing Finance Agency's (FHFA) proposal for the Validation and Approval of Credit Score Models.

S. 2155, the Economic Growth, Regulatory Relief, and Consumer Protection Act, became law in May of 2018.¹ Subsections (a) and (b) of Section 310 of the Act amend the Charters of Fannie Mae and Freddie Mac to require the following:

“(C) VALIDATION AND APPROVAL PROCESS.—The corporation shall establish a validation and approval process for the use of credit score models, under which the corporation may not validate and approve a credit score model unless the credit score model—

‘(i) satisfies minimum requirements of integrity, reliability, and accuracy;

¹ Public Law No: 115-174.

‘(ii) has a historical record of measuring and predicting default rates and other credit behaviors;

‘(iii) is consistent with the safe and sound operation of the corporation;

‘(iv) complies with any standards and criteria established by the Director of the Federal Housing Finance Agency under section 1328(1) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992; and

‘(v) satisfies any other requirements, as determined by the corporation.’”

Consistent with the authority granted to it under (iv) of each subsection, the FHFA released its current proposal to establish requirements for the validation and approval of third-party, credit-score models by Fannie Mae and Freddie Mac (collectively referred to as “the GSEs”). The effect of the Agency’s proposal, however, has been criticized by many who believe that it frustrates—rather than encourages—Congress’s objective to increase credit score competition in the housing market.

CUNA believes that increased market competition in the credit-score industry could be beneficial to both consumers and lenders because it can improve efficiency, decrease pricing, and potentially expand the market of consumers for mortgage products. But we also acknowledge that the frequent modification of the GSEs credit-scoring models or a requirement that they use multiple models at the same time could discourage competition in the lending market by increasing costs for smaller lenders less capable of quickly and cost-effectively absorbing those changes into their own underwriting systems or paying the resulting increased prices to access the systems of the third-party vendors they rely upon. As CUNA noted in its March 28, 2018, response to FHFA’s earlier Request for Input on Fannie Mae and Freddie Mac Credit Score Requirements:

“Any changes to the score models required for underwriting Enterprise-eligible loans could present significant operational challenges. For larger lenders who develop and maintain their own underwriting systems, there would likely be direct costs and delays associated with implementing any changes, while for smaller lenders who may be reliant on third-party vendor systems, there may be indirect costs or waiting periods for relevant updates, any of which could prove disruptive to mortgage lending credit unions and the borrowers they serve.”²

Without question, developing the framework for the validation and approval of new credit-scoring models by the GSEs requires a delicate balancing act of competing concerns. That is why CUNA applauds the FHFA for acknowledging the need for cost-benefit analysis as a core component of its proposed validation and approval process.

Our concern, however, is that the proposed cost-benefit analysis is far from adequate because it only vaguely, if at all, references lender implementation costs as a factor for consideration:

² Available at https://www.cuna.org/uploadedFiles/CL%20%20FHFA%20%20RFI%20re%20Credit%20Score%20Requirements_final.pdf (last accessed Mar. 20, 2019).

“The Enterprise Business Assessment must evaluate the impact of using the credit score model on industry operations and mortgage market liquidity, including costs associated with implementation of a newly approved credit score. This evaluation must consider whether the benefits of using credit scores produced by that model can reasonably be expected to exceed the adoption and ongoing costs of using such credit scores, considering projected benefits and costs to the Enterprises and borrowers, including market liquidity and cost and availability of credit.”³

We believe this language should be modified to explicitly require engagement with industry stakeholders to determine their prospective costs and accordingly, suggest the language be revised as follows:

“The Enterprise Business Assessment must evaluate the impact of using the credit score model on industry operations and mortgage market liquidity, including costs associated with implementation of a newly approved credit score. This evaluation must consider whether the benefits of using credit scores produced by that model can reasonably be expected to exceed the adoption and ongoing costs of using such credit scores, considering projected benefits and costs to the Enterprises, *industry*, and borrowers, including market liquidity and cost and availability of credit.”

Outside of the cost-benefit analysis, our general view is that the other major provisions of the Proposed Rule are well-balanced and crafted as necessary to comport with the underlying statute.

In conclusion, CUNA recognizes and applauds FHFA’s efforts to propose and establish new requirements to govern the GSE’s validation and approval of credit-scoring models. Ultimately, it is critical that the FHFA’s final rule strike the appropriate balance between increasing competition in the credit-score market, preserving competition in the lender market by not, unintentionally, decreasing smaller lenders’ access to liquidity from the secondary market due to increased costs, and ensuring both consumers and lenders have certainty and predictability about the use of credit scores in their conventional mortgage decisions. That balance can only be properly achieved by requiring a robust cost-benefit analysis that includes pricing impact on lenders.

On behalf of America’s credit unions and their more than 115 million members, thank you very much for your consideration of our views.

Sincerely,

Mitria Wilson

Mitria Wilson,
Senior Director of Advocacy and Counsel

³ §1254.8(b)(3).