March 30, 2018

Honorable Melvin Watt
Director
Federal Housing Finance Agency
400 7th St SW
Washington, DC 20024

Re: Request for Public Input on Credit Score Models

Dear Director Watt:

The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to provide comments and input regarding the credit score proposals which have been developed by the Federal Housing Finance Agency (FHFA). The FHFA required Fannie Mae and Freddie Mac (the Enterprises) to assess the potential impact of updating the credit score model used by the Enterprises from Classic FICO to FICO 9 and/or VantageScore 3.0. Among other underwriting components, the Enterprises use credit scores to determine borrower eligibility. Credit scores are also used extensively in other areas of the Enterprises' business, such as loan servicing and quality control, pricing, disclosures, and prospectus for their mortgage-backed securities (MBS), as well as the structuring and pricing of the Enterprises' credit risk transfers.

ICBA supports efforts to improve access to affordable mortgage credit and recognizes that it is vital to appropriately balance the safety and soundness of the Enterprises while maintaining liquidity in the housing finance market, especially in smaller communities. It is also necessary to consider the operational costs and impacts any change in the credit score requirement might have on the mortgage industry. As mentioned earlier, credit scores are used in multiple areas of the Enterprises' business. As such, the implementation of a new credit score system is a major undertaking. The

[1] The Independent Community Bankers of America®, the nation's voice for nearly 5,700 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services. With nearly 52,000 locations nationwide, community banks employ 760,000 Americans and hold $4.9 trillion in assets, $3.9 trillion in deposits, and $3.3 trillion in loans to consumers, small businesses, and the agricultural community. For more information, visit ICBA's website at www.icba.org.

operational and transition costs could force the Enterprises and others to raise fees and prices, thereby increasing the cost of credit which will impact the affordability of loans sold to the Enterprises.

While this RFI seeks feedback regarding the use of credit scores on loans originated for and sold to the Enterprises, it should be recognized that any changes the Enterprises make regarding their use of credit score models will have a broad impact on the entire mortgage market. In contemplating any changes, FHFA must also consider how any changes in credit score models will impact other government guaranty programs, as well as private lenders that may originate and retain mortgage loans in portfolio or issuers of private-label MBS.

ICBA is responding to a subset of the provided questions, as listed below.

1. <u>When and how do you use credit scores during the mortgage life cycle to support your business?</u>

For mortgage loans originated for sale to the Enterprises, community banks generally pull a credit score from each of the consumer reporting agencies (CRAs) once the borrower has completed an application and has indicated their intent to proceed. Credit scores are used by the Enterprises' underwriting engines as well as for pricing the loan when being originated for sale to the Enterprises.

2. <u>Do you use the same credit score version for all of your lending business lines, whether it is mortgage lending or non-mortgage lending (e.g., credit card and/or auto loans)? If so, why? If you use multiple credit scores (e.g., FICO and VantageScore) in making credit decisions for any one line of business, please identify which credit score you use for the type of lending and why? Are you considering updating credit scores that you use in your non-mortgage lending business lines?</u>

Most community banks use the same credit score model for most of their lending business. While some community banks may use VantageScore for auto or consumer loans, most tend to pull only from two or fewer CRAs which reduces the cost. Many community banks do not use credit scores at all for mortgage loans retained in portfolio.

3. <u>Is it necessary for any new credit score policy, from the Enterprises, on credit score models to be applicable in all aspects of the loan life cycle, or could there be differences, such as in servicing?</u>

The consensus among ICBA members is that maintaining a consistent score policy with the same models throughout the entire process would be more desirable than to change credit scoring models in different parts of the life cycle.

4. <u>How would mortgage lenders and investors manage different credit score requirements from primary and secondary mortgage market participants? Is it important for your business processes that government guarantee programs in the primary mortgage market (e.g., FHA, VA, USDA-Rural Development) have the same credit score requirements as the Enterprises?</u>

A lack of consistency between mortgage lenders and investors could create significant friction in the origination process and throughout the loan cycle. As mentioned earlier, use of multiple models could lead to higher costs for lenders which would be passed on to borrowers. It is critical that all government guaranty mortgage programs use the same credit score model.

5. <u>Do you have a recommendation on which option FHFA should adopt?</u>

ICBA recommends that the FHFA choose Option 1 in which the Enterprises would require delivery of a single score using FICO 9 as the preferred model. The shift to an entirely different score brings to bear higher transitional costs that disproportionately affect community banks without providing any real benefits for making the change. Additionally, ICBA believes that updating to the FICO 9 scoring model requirement would be easier to implement with minimal disruption for the Enterprises and the industry.

6. <u>Do you have additional concerns with or insights to share on the Enterprises updating their credit score requirements?</u>

There is a general concern among ICBA members that any change in credit score requirements would result in confusion and a lack of transparency on how to adhere to the new standards. We request that FHFA continue to work with our industry as it considers these alternatives.

7. <u>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).</u>

As mentioned above, Option 1 would require fewer operational hurdles and would be easier to implement than Options 2-4. Option 1 encourages consistency, and consistency is critical for community banks.

8. <u>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?</u>

ICBA does have concerns about a lack of competition if CRAs own all the data while being able to dictate pricing at all levels. This includes the possibility of unfairly incentivizing lenders to use VantageScore 3.0 instead of FICO 9. Alternatively, competition can be encouraged at the CRA level with an emphasis on quality and accuracy of data.

9. <u>If the requirement to pull data from all three credit agencies were replaced with the flexibility to pull data from just two CRAs or one CRA, what could be the benefits or disadvantages to borrowers and your business? What could be the benefits or disadvantages to the credit reporting industry and the mortgage industry in general?</u>

One of the benefits could be increased competition between CRAs. Each would need to show that they are providing the best and most thorough information at a reasonable price. It is extremely important to our members that CRA data is accurate. Increased competition here, combined with a switch to pull from two CRAs rather than three, would result in better data and lower prices that can be transferred to borrowers.

As stated earlier, ICBA fully supports FHFA and the Enterprises as they continually work to provide safety, soundness, and sustained access to credit for home loan borrowers in our local communities. Accurate credit scoring models and the resulting scores are vital for preserving loan underwriting and risk management at the Enterprises and our member banks. Moreover, it is important that data is precise and thorough. We have provided suggestions on how FHFA can accomplish these goals in a prudent manner that does not result in onerous operational hurdles for locally-based lenders.

Thank you for the opportunity to provide comments and feedback on these proposals. We look forward to working with FHFA as you move forward with this initiative.

If you have any questions regarding this letter, please contact the undersigned at ron.haynie@icba.org.

Sincerely,

/s/

Ron Haynie
Senior Vice President, Mortgage Finance Policy