March 19, 2025

The Honorable William Pulte
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20219

RE: Recommendations for FHFA's Credit Score Models and Reports Initiative

Dear Director Pulte,

On behalf of the American Bankers Association, Housing Policy Council, Independent Community Bankers of America, Mortgage Bankers Association, Structured Finance Association, and U.S. Mortgage Insurers, we are writing to provide recommendations on the Federal Housing Finance Agency's (FHFA) Credit Score Models and Reports Initiative. Our organizations represent a wide range of counterparties to Fannie Mae and Freddie Mac (the Enterprises), including lenders, servicers, investors, and mortgage insurers. As such, our organizations have a direct interest in the impact of the business decisions of the Enterprises, including the manner in which their credit score policies contribute to a competitive and sound housing finance system.

We appreciate FHFA's announcement on January 16 that the implementation date for this initiative would be extended from 4Q 2025 to a to-be-determined date. However, we continue to have serious concerns that the Credit Score Models and Reports Initiative, as currently defined, is overly complex, costly to consumers, and missing key requirements that are necessary for a successful transition.

In October 2022, FHFA announced the validation and approval of two new credit score models, FICO 10T and VantageScore 4.0, for use by the Enterprises. Simultaneously, the agency introduced a bi-merge option allowing lenders to use credit scores based on reports from two of the consumer credit reporting agencies in lieu of the traditional tri-merge.

The mortgage industry recognizes the intended benefits of more reliable models and supports this initiative. However, since its initiation, the project has generated significant uncertainty, complexity, and multitude of unanswered questions. Although industry stakeholders have been fully engaged in the process, these issues have impeded progress for two years, resulting in FHFA's announcement of a pause in implementation. To move forward, it is critical for FHFA to:

1. **Commit to data transparency and sharing.** FHFA should share its analysis as well as the data and findings from the Enterprises' comprehensive testing and assessments of the two newly approved credit score models with: (1) FICO and VantageScore; and (2) soon thereafter with the entirety of the mortgage industry. The results from the Enterprises' tests/assessments would provide critical insight on how the new scores reflect a borrower's ability to repay, demonstrate reliable performance through different economic cycles, and confirm the integrity and

comprehensiveness of the data used to capture a borrower's credit history and calculate a representative credit score, all of which would be very valuable to stakeholders. The analysis of the proposed new scoring models will also be critical to the global fixed-income and credit risk transfer markets, where credit scores are disclosed and considered in prepayment and loan performance analysis. Sharing these results would also provide a sample framework for how FHFA and the Enterprises conducted their analyses and could be used in conjunction with adequate historical data for supplemental support in gaining acceptance of these new models with regulators, rating agencies, and other oversight entities.

2. **Conduct a cost/benefit analysis and operational impact assessment.** While this initiative was intended to provide more accurate, inclusive, and predictive credit scores and lower costs for lenders and borrowers through the introduction of competition, there is currently no public evidence that these benefits will materialize. Moreover, the benefits may not offset what is certain to be a very costly undertaking for industry stakeholders. In fact, many in the industry feel that the initiative, as currently proposed, in conjunction with other factors including but not limited to recent changes in credit reporting pricing, could increase costs for consumers.

   We recommend FHFA and the Enterprises perform a full cost/benefit analysis of proposed changes across the entire housing finance ecosystem. To confidently move forward with this initiative, industry needs confirmation that the asserted benefits will not be outweighed by costs that eventually will be borne by the consumer. We also recommend that FHFA and the Enterprises perform a full operational assessment of the changes that will need to be made across the mortgage ecosystem. This will enable FHFA and the Enterprises to understand the full ramifications of the proposed changes to stakeholders' operations and to develop an implementation plan that is achievable.

   Once FHFA and the Enterprises conclude these assessments, results should be made public to allow stakeholders to evaluate the findings and provide comments.

3. **Re-evaluate the bi-merge option.** FHFA should indefinitely delay the option to utilize a bi-merge option for credit reporting rather than the current tri-merge. While this option was well-intended, we are increasingly concerned that it could come with several unintended consequences. After lengthy discussions with industry practitioners, we believe the introduction of bi-merge creates significant regulatory uncertainty and operational complexity. This will increase costs for lenders and consumers. The additional complexity introduced by bi-merge cannot be easily resolved without significant additional resources and, as such, it should be put on hold and re-evaluated immediately.

4. **Coordinate with prudential regulators** Credit scores and their related policies affect regulations from multiple agencies including the Office of the Comptroller of the Currency (OCC), the Consumer Financial Protection Bureau (CFPB), the Federal Deposit Insurance Corporation (FDIC), National Credit Union Administration (NCUA), the Federal Reserve, and state regulatory agencies. FHFA is the regulator leading the model update initiative, but this work cannot be done in a vacuum, without input from these other agencies. Therefore, it is critical that FHFA work closely with all of the prudential regulators and share the risk analysis performed by FHFA and the Enterprises in modernizing the credit score models to prevent conflicting standards for applicable prudential risk, model governance, or capital requirements. Furthermore, because prudential regulators will require their own regulated entities to perform additional risk analysis and calibration to meet prudential and fair lending obligations, they must have a comprehensive understanding of the impacts to their respective regulated entities. Finally, prudential regulators may want to consider allowing smaller banks the opportunity to rely on the Enterprise's analysis. Bottom line, the modernization of credit score models has widespread regulatory implications that go well beyond the FHFA and the Enterprises and well beyond mortgage lending for that matter. A lack of clarity and consensus across financial regulators will lead to uncertainty and risk for lenders and disruption in the mortgage market.

5. **Align with government lending programs.** FHFA and the Enterprises' implementation timeline must align with adoption of the new credit score models by FHA/VA/USDA and Ginnie Mae. Aligning the transition with both the Enterprises and federally backed lending programs will permit a unified transition and uniform processes. Bifurcated origination processes would increase costs to the consumer and could result in adverse selection in favor of government-backed lending programs (should they continue to rely on outdated models).

We believe successful progress towards credit score modernization for the Enterprises and the industry cannot move forward without these critical steps. As noted above, we appreciate that FHFA recently announced that the implementation date for this initiative would be extended from 4Q 2025 to a to-be-determined date. Adoption of the above recommendations should inform development of a viable plan, with appropriate milestones and a flexible timeline.

Thank you for your consideration of these recommendations. As you plan next steps, our organizations welcome the opportunity to engage with FHFA on both implementation and alternative options with the goal of enhancing credit availability, reducing customer costs, and promoting sustainable homeownership. We look forward to continuing to partner with you on this initiative.

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