MORTGAGE BANKERS ASSOCIATION

November 5, 2014

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

RE: Credit Scores

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 allow the use of alternative models. As the nation's housing markets continue their slow recovery, we are concerned that the GSEs' continued use of outdated credit scoring models may be adversely impacting the cost of credit for some American families—especially first-time, minority and moderate-income buyers. The credit box for home lending is exceedingly tight with the average credit score for loans acquired by Fannie Mae in the second quarter of 2014 at 744 and the average loan-to-value ratio at 77 percent. The GSEs' timely review and incorporation of newer and alternative credit models could help reduce costs and expand credit options for some borrowers.

Over the past 18 months, the major consumer credit score model developers have announced changes to their credit scoring models with an eye towards making those models more accurate for today's borrowers in light of lifestyle changes and the post-recessionary risk environment. Unfortunately, the GSEs continue to use credit scores in their risk-based pricing grids based on a single scoring model that is now two generations old. The FICO model currently used by the GSEs was developed using data from 1995-2000. Among many factors, outdated credit scoring models may not accurately reflect the creditworthiness of a borrower. For instance, certain medical debts and rent payment histories may not be given proper weight. In addition, the new models, developed with more recent post-recession data, help to score borrowers with limited credit experience, i.e. "thin files." These borrowers are an important source of new homebuyers.

By directing the GSEs to review, and if appropriate, adopt the latest validated credit scoring models and allow the use of additional alternative models, FHFA could directly increase the number of borrowers eligible for conventional mortgages. The GSEs' delay in including the new scoring models into their risk-based pricing models may cause lenders to hesitate to use them for their other lending products, as it could be viewed as an unfair practice to use different scoring models for different products.

Thank you in advance for your careful consideration of this important issue. We strongly support FHFA's efforts to provide prudent oversight and risk management for the GSEs. To this end, MBA believes that you should encourage the GSEs to work with the industry to validate and incorporate the updated credit scoring models as soon as practical. Stakeholder input on this issue is important, and we encourage you into incorporate such feedback into the review and implementation process. 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,

Pete Mills
Senior Vice President, Residential Policy and Member Engagement