Supplemental Comments & Recommendations to the GSE Credit Score Industry Engagement Survey

U.S. Mortgage Insurers ("USMI")[1] appreciates the opportunity to participate in the Credit Score Industry Engagement Survey facilitated by Fannie Mae and Freddie Mac (collectively "the GSEs") and provide the following supplemental comments and recommendations. USMI is a trade association comprised of the leading private mortgage insurance ("MI") companies in the U.S. and represents an industry dedicated to a housing finance system backed by private capital that enables access to low down payment mortgages while protecting taxpayers. Our member companies are focused on ensuring that home-ready borrowers have access to affordable and sustainable mortgages within a well-functioning U.S. housing finance system.

The private MI industry supports thoughtful innovations in the mortgage finance system and welcomes the opportunity to work with the GSEs, market participants, and Federal Housing Finance Agency ("FHFA") to facilitate a smooth transition to the new credit score requirements while maintaining borrower access to mortgage financing backed by private capital in the conventional market and promoting robust risk management. Credit scores are used by virtually all housing finance market participants – lenders, servicers, MIs, the GSEs, and investors – and changes to credit score requirements materially impact operations, processes, and technologies. A borrower's credit score is a critical factor for determining eligibility, pricing, capital requirements, fair lending compliance, regulatory/financial disclosures, risk management strategies, and credit risk transfer ("CRT") programs. We appreciate stakeholder outreach as the full housing finance system works to implement changes to credit score requirements and USMI specifically writes to request: (1) adjustments to the implementation timeline; (2) robust stakeholder engagement; (3) earlier access to historical data; (4) further details on the impact to capital reporting and planning under the Private Mortgage Insurer Eligibility Requirements ("PMIERs"); and (5) clarity on consumer notifications under the Fair Credit Reporting Act ("FCRA").

Adjustments to the Implementation Timeline for Updated Credit Score Requirements

USMI recommends adjusting the proposed implementation timeline given the significant implications arising from utilizing different credit score models and the lack of shared historical data. It is important that the GSEs be flexible with the various implementation dates and milestones outlined in the Partner Playbook and USMI urges the GSEs to adjust the timeline to facilitate adequate stakeholder analysis and feedback before proceeding with implementing the bi-merge migration and new models. The current proposal to transition from tri-merge to bi-merge requirements in less than 12 months poses significant risk and operational concerns for

[1] USMI membership comprises: Enact Mortgage Insurance; Essent Guaranty, Inc.; Mortgage Guaranty Insurance Corporation; National Mortgage Insurance Corporation; and Radian Guaranty, Inc.

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many market participants. USMI encourages FHFA and the GSEs to take the following actions on the implementation timeline:

- Release Classic FICO data sooner than 4Q2023.
- Modify the implementation timeline to span 24-36 months after the GSEs' historical dataset has been published to permit adequate time for model development, back-testing, and monitoring protocols required to update MIs' analytic infrastructure.

Robust Stakeholder Engagement

To promote a smooth transition for all impacted parties, FHFA and the GSEs should afford stakeholders ongoing opportunities to provide detailed feedback on the implementation process, which will increase the likelihood of successful adoption of updated credit score requirements. FHFA and the GSEs should work closely with industry participants to fully assess operational and regulatory compliance considerations throughout the implementation process of the updated credit score requirements. Any changes in how scores are calculated would have a ripple effect through the housing ecosystem because system participants are closely connected to one another, and because credit scores are used as a basis for pricing and loan performance analysis. These changes will need to be understood and tested by housing finance system participants, including borrowers, lenders, servicers, MIs, and mortgage-backed security and CRT investors. We are particularly interested in the Implementation Roadmap for MIs that is referenced in the Partner Playbook, but has not yet been published or shared with the private MI industry.

We encourage FHFA and the GSEs to coordinate with the Mortgage Industry Standards Maintenance Organization ("MISMO") and related Communities of Practice ("CoPs") on the development and application of any industry standards associated with the updated credit score requirements. Further, FHFA and the GSEs should coordinate with the other federal housing agencies, including the Federal Housing Administration ("FHA"), Department of Veterans Affairs ("VA"), and U.S. Department of Agriculture ("USDA") Rural Housing Service, that currently have not indicated plans to adopt the same requirements to identify a uniform plan for mortgage credit risk assessment. Absent a uniform approach to credit score requirements, market participants, most notably mortgage lenders and servicers, that interact with these other agencies will effectively be required to maintain multiple systems, thereby exponentially increasing operational risk for mortgage market participants.

Access to Historical Data

Industry stakeholder access to historical data is imperative for comprehensive analysis of the changes to the Representative Score methodology and use of the two new scores (FICO 10T and VantageScore 4.0). USMI requests that loan-level data from the GSEs for Classic FICO, FICO 10T, and VantageScore 4.0 spanning back to 1999 be publicly released to ensure that private MIs and other market participants can comprehensively analyze the upcoming credit score changes to best manage risk exposures, pricing, and internal processes. Importantly, this would capture data and default experience from the Great Financial Crisis and allow MIs and other market participants to identify risk drivers and calibrate our models to reflect a variety of economic scenarios. USMI urges the GSEs to release Classic FICO historical data sooner than 4Q2023 to allow for the necessary analysis and impact assessment, in accordance with standards of professional practice for model estimation. Access to the underlying data will also help the MI industry understand the impact on loan eligibility, credit risk pricing, and the potential need for changes to lender and MI underwriting guidelines.

For the bi-merge migration, USMI cautions that the use of two credit reporting bureau scores rather than three may create "gaming" opportunities. For long-term risk managers like the GSEs and private MIs, "gaming" practices could result in the underpricing of mortgage credit risk and an inappropriate shift in credit scores that may distort pricing and risk-based capital requirements. USMI recommends that strong controls, including transparent guidance and standards in the GSEs' selling guides, be implemented to govern lenders' selection of credit reporting bureau scores to prevent manipulation by market participants and promote proper assessment, pricing, and management of mortgage credit risk.

Impact to Capital Reporting and Planning Under PMIERs

PMIERs capital requirements, as established and periodically updated by the GSEs, prescribe granular loan-level capital requirements based on defined risk characteristics, including credit score, loan-to-value ("LTV") ratio, origination year, performance, and loan purpose. Both the change to the Representative Score methodology and forthcoming use of the FICO 10T and VantageScore 4.0 credit score models will materially impact PMIERs' capital calculations, asset amount factor tables, and ultimately borrowers' pricing. It is important that the GSEs recalibrate PMIERs well in advance of MIs insuring new business under the new credit score requirements to ensure that MIs remain strong and eligible counterparties to prudently manage capital and operate their MI-CRT programs. The GSEs should work closely with the MI industry to clearly convey how the upcoming credit score changes will be incorporated into PMIERs capital requirements and allow sufficient time for MIs to assess the impact and provide feedback to FHFA and the GSEs.

FHFA's recent proposed enhancements to the Enterprise Regulatory Capital Framework ("ERCF")[2] included language to equate borrowers without credit scores ("non-traditional credit") with a 680 Classic FICO credit score. Our member companies would expect PMIERs capital requirements to align with this proposed change to the ERCF and specifically would expect that the loan-level PMIERs capital requirement for mortgages to non-traditional credit borrowers would correspond with the capital requirement for mortgages with a Representative Score of 680 Classic FICO.

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[2] FHFA, Notice of Proposed Rulemaking on Enterprise Regulatory Capital Framework – Commingled Securities, Multifamily Government Subsidy, Derivatives, and Other Enhancements. 88 Fed. Reg. 15306 (March 13, 2023).

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Clarity on Consumer Notifications Under FCRA

One area of regulatory compliance that USMI and our member companies believe warrants close attention is the bi-merge migration's impact on notices and disclosures required under FCRA. Lenders, servicers, and MIs issue notices to consumers during and after the mortgage origination process, and the forthcoming changes to the Representative Score methodology will impact the content of and processes for market participants' notices to borrowers. FCRA requires that consumers be provided with a notification of "any adverse action with respect to any consumer that is based in whole or in part on any information contained in a consumer report"[3] and further requires that these notifications identify the credit score used and "all of the key factors that adversely affected the credit score; the date on which the credit score was created; and the name of the person or entity that provided the credit score."[4] Moreover, "adverse action" is broadly defined and applies to credit or insurance denials, as well as increased insurance charges, based in whole or in part on a consumer report. FCRA compliance is critical for MIs and we foresee several challenges related to implementing FCRA letter updates, including design/content updates to ensure FCRA notices reflect the new Representative Score methodology and concerns about the 1Q2024 bi-merge implementation date. Careful consideration, dialogue, and openness to input regarding this element of the migration would be beneficial to create a smooth transition for market participants and consumers alike.[5]

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Again, USMI appreciates the opportunity to share the private MI industry's perspectives on the implementation of updates to the GSEs' credit score requirements and provide feedback on potential impacts to market participant and consumers. We look forward to further engagement with FHFA and the GSEs on this important initiative. Please do not hesitate to contact me at sappleton@usmi.org or 202-280-1820 for additional information related to this submission.

Very truly yours,

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President
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[3] 15 U.S.C. 1681(a).
[4] 15 U.S.C. 1681g(f)(1)(C)-(E).
[5] USMI, along with the American Bankers Association, Housing Policy Council, and Independent Community Bankers of America, recently submitted a comment letter to the FHFA for its rulemaking on proposed enhancements to the ERCF to caution that hardwiring the bi-merge requirements into the ERCF was premature due to the complex implementation process contemplated in the Partnership Playbook. Available at https://www.fhfa.gov//SupervisionRegulation/Rules/Pages/Comment-Detail.aspx?CommentId=16235.