March 21, 2018

Federal Housing Finance Agency
Office of Housing and Regulatory Policy
400 7th Street SW, 9th Floor
Washington, D.C., 20219

Re: FHFA Credit Score Request for Input

Dear Sir or Madame:

Thank you for the opportunity to be heard on the issue of credit scores as it relates to GSE requirements.

Advantage Credit is a CRA/reseller primarily serving the mortgage lending industry, including independent mortgage banks, retail banks & credit unions and mortgage brokers. We have been operating in this space since 1993 and currently serve hundreds of companies and thousands of loan originators nationwide. We have seen the industry move from fully developed and researched credit reports in the early 1990's to Tri-merge credit reports and FICO scores which were driven by the GSE's move to automated underwriting later that decade. Our core customer services include analysis, investigation and updating of thousands of credit reports each month based on lender/investor needs. We are in the unique position of reviewing credit data and credit scoring variations across the three major credit bureaus that comprise today's Tri-merge credit reporting standard in the mortgage industry.

Below are our responses to select questions within the RFI:

Question A1.6: Do you have a recommendation on which option FHFA should adopt?
Response: Advantage Credit supports credit score option #1 and the use of FICO 9. The use of Vantage Score 3.0 would further exacerbate the competitive problems inherent within the market for Tri-merge credit reports.

Question A2.1: What benefits and disadvantages would you envision for your business, your business partners, and/or borrowers under each of the options?
Response: We see much confusion amongst lenders and their borrowers (consumers). Education around credit scoring is already a steep climb – adding more and different score models will create new confusion for industry and consumers. We also foresee potential problems around mortgage lenders trying to accommodate multiple scores in their credit underwriting processes. And for what clear benefit?

Question A2.7: What impact would any of the credit score options have on a need for consumer education? What impact would the multiple credit score options (options 2-4) have on consumers? Are there steps that FHFA, the Enterprises, or stakeholders could take that would mitigate any confusion about multiple credit score options?
Response: Again, it has been rather slow process in educating borrowers on what drives current credit scoring models, specifically the FICO Classic models that have been play for over 10 years. Adding multiple models into the mix, quite frankly, could result in much confusion and misinformation. In addition to having to navigate the already complicated mortgage process, consumers would want / need to understand which scores are being used and how to reconcile differences between multiple models. We also believe that credit score education should be driven by industry partners and originators at the point-of-sale. Adding complexity would hinder that process and contribute to an already opaque mortgage process.

Question A3.1: 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?
Response: While there is a clear need for the competition elements of this market to be reviewed for by a Federal agency for compliance with the law, this is not an area of oversight deemed best for the FHFA. We believe the FHFA is best suited for the evaluation of the safety and soundness of the loan and that the FHFA should urge the Department of Justice or the Federal Trade Commission's bureau of competition to review their findings on the competition factors in the industry as these entities have historical jurisdiction in enforcing competition issues.

Question A3.3: What would be the benefits of lender choice if the number of qualified borrowers remained unchanged or changed only modestly from the credit score you are using today to underwrite borrowers for loans sold to the Enterprises?
Response: There would be no apparent benefit of lender choice if the overall number of qualified borrowers remained unchanged. Case in point: Based on feedback from our lender clients, it is still unclear what benefits were provided by Fannie Mae's move to trended credit data over the last two years. Furthermore, the significant cost associated with implementing a multi-score approach (FICO and VantageScore) must be weighed against actual benefit. For years, the GSEs have delayed the implementation of updated FICO scores due to cost and complexity, making this multi-score proposal seems very ambitious if not unrealistic from a practical standpoint.

Questions B2: 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?
Response: Advantage Credit ***supports the continued use of the Tri-merge credit report*** as it is crucial that all credit data are factored into the underwriting. This includes the data from all three bureaus and data currently not being added to the system, which was previously used in mortgage lending and should be brought back into the process for better risk assessment. As stated above, Advantage Credit and other credit resellers operating in the mortgage industry are in the unique position of reviewing credit data and credit scoring variations across the three major credit bureaus that comprise today's Tri-merge credit reporting standard in the mortgage industry.

There is value in analyzing all three bureau files for lenders, the GSEs and consumers. To illustrate:

- Private mortgage lenders predominantly use a Tri-merge credit report even when there is a choice to use fewer bureaus.
- The current Tri-merge requirement (versus a dual-merge or single file requirement) prevents lenders from pulling all three bureaus and then cherry-picking the highest score(s) from one or two bureaus to be used in underwriting, resulting in a less predictive risk assessment with no report cost savings.
- Underwriting with a Tri-merge prevents a consumer from attempting to game the system by loading up on debt with creditors who report inquiries to the bureau that was not pulled for the mortgage application.
- Anything less than a Tri-Merge may cause borrowers to unfairly miss out on having positive credit history considered in the underwriting of their loan. For example, if the score cut-off is 620 and the consumer's scores are 618, 620 and 622, the credit decision will be arbitrary depending on which bureaus are accessed.
- Any savings to consumers and industry from not purchasing the third bureau's report would most likely be minimal versus the additional costs to lenders and consumer in the form of higher loan pricing, G-fees, etc.

As mentioned in the introduction, we analyze and reconcile consumer credit data and credit scores every day in the course of serving our lender customers. The differences we see in these datasets, sometimes nuanced and sometimes very significant, contribute to the entire picture of a consumer's credit history and should therefore be wholly considered during the underwriting of a mortgage. We have only to look at recent history to see the devastating impact on our economy when incomplete or inaccurate information is allowed to drive the mortgage decision. Let's not start down that road again in an effort to save a few dollars per loan.

Sincerely,

Donald J. Unger
President

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