



Timothy K. Zimmerman, *Chairman*  
Preston L. Kennedy, *Chairman-Elect*  
Noah W. Wilcox, *Vice Chairman*  
Kathryn Underwood, *Treasurer*  
Christopher Jordan, *Secretary*  
R. Scott Heitkamp, *Immediate Past Chairman*  
Rebeca Romero Rainey, *President and CEO*

March 21, 2019

Alfred M. Pollard  
General Counsel  
Federal Housing Finance Agency  
400 7th Street, SW  
Washington, DC 20024

Re: Validation and Approval of Credit Score Models (RIN 2590-AA98)

Dear Mr. Pollard:

The Independent Community Bankers of America (ICBA)<sup>1</sup> appreciates the opportunity to provide comments and input regarding the Federal Housing Finance Agency's (FHFA) proposed rule that codifies a process for the validation and approval of credit score models by the government sponsored enterprises (GSEs or the Enterprises). ICBA recognizes the importance of using statistically sound and accurate third-party credit score models to determine borrower eligibility. We further agree that the process for the review and validation of any prospective model should be thorough and accurately reflect Section 310 of the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018. It should also take into consideration and account for any change that could potentially disrupt industry operations and market liquidity, including any conflicts with current and future Enterprise products and operations.

ICBA supports efforts to improve and sustain access to affordable mortgage credit. Those efforts are greatly influenced by the GSEs and the secondary market. Community banks and others use GSE credit guidelines as benchmarks for developing their internal credit policies or for assessing the risk of their own loan portfolios. As such, the credit score models that are used by the GSEs have an impact well beyond loans that are sold into the secondary market. The affordability of implementation for smaller lending institutions must be considered in parallel with the alternative models' potential for improving access to credit. This is a paramount

---

<sup>1</sup> The Independent Community Bankers of America®, the nation's voice for more than 5,800 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 52,000 locations, nationwide, community banks employ 760,000 Americans, hold \$4.7 trillion in assets, \$3.7 trillion in deposits, and \$3.2 trillion in loans to consumers, small businesses, and the agricultural community. For more information, visit ICBA's website at [www.icba.org](http://www.icba.org).

concern if either of the Enterprises decide to alter their credit risk assessment practices by adding or replacing a credit score model.

While we appreciate many aspects of the FHFA's proposed rule, the recommendations outlined below emphasize that our members are seriously concerned that the implementation cost of any new model will be onerous and not worth the benefits. Moreover, we suggest that a final rule needs to better address the consequences of the GSEs adopting differing models and how any significant deviation might affect investor interest, especially during the roll-out of the Uniform Mortgage Backed Security (UMBS) this June and the industry-wide adoption of the Current Expected Credit Loss (CECL) standard.

The proposed rule implements Section 310 of the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 which amended the GSEs' charter acts and the Safety and Soundness Act of 1992 to establish requirements for the validation and approval of third-party credit score models by the GSEs. The GSEs currently use credit scores with their automated underwriting systems (AUS), and numerous GSE loan purchase programs require a minimum score to be eligible. Additionally, Fannie Mae and Freddie Mac use credit scores to determine loan level price adjustments and delivery fees, respectively. Likewise, credit scores are included in various GSE prospectuses and MBS offering materials that are used by MBS investors worldwide. In an effort to consider the benefits of changing and upgrading models, FHFA issued an RFI in December 2017 requesting public input regarding possible updates and the potential operational challenges of a multi-credit score approach. ICBA, along with other stakeholders, provided extensive comments on that proposal.

The proposed rule, considering the comments from several RFIs and years of public outreach, would establish a four-phase process for an Enterprise to validate and approve credit score models: solicitation of applications from credit score model developers, review of submitted applications, credit score assessment, and enterprise business assessment. The rule provides a detailed and reasonable estimated timeline for this process while offering a thorough explanation for how each prospective model would be evaluated. The rule does not require the Enterprises to use a third-party credit score, nor do they have to use the score for any specific purpose. The rule does, however, require that if an Enterprise elects to condition its purchase of mortgages on provision of a credit score, that score must be derived from a model that has been validated and approved in accordance with statutory and regulatory requirements.

ICBA appreciates that FHFA continues to weigh the significant costs and complexity for the Enterprises and industry in making changes to credit score models against the potential improvements in accuracy and borrower access to credit. This is especially a concern for community banks that would disproportionately feel the impact of transitioning to a new model. Going forward, it is critical to provide as much detail as possible to stakeholders about

transition costs and the consequent benefits that would justify these costs. Furthermore, it is important to note that frequent and radical changes to credit score models may raise the cost and complicate implementation even more while potentially scaring off investors that value stability. We also agree with FHFA's rationale to prohibit an Enterprise from approving any credit score model developed by a company that is related to a consumer data provider through any common ownership or control, of any type or amount. This would clearly be a conflict of interest and undermine fair competition.

The ongoing safety and soundness of the GSEs is crucial to the community bank mortgage lending business model. While we recognize that the proposed rule gives FHFA significant latitude to eventually align the assessment processes or the decisions on approved credit score models, we need a clearer understanding of how a new credit score model might impact current and future GSE products and initiatives. For example, we are concerned that the validation process outlined in the proposed rule neglects to consider the impact of a new credit model on the UMBS that is launching in June. FHFA should clarify what would happen if the two GSEs validate and adopt different models and if that results in differing prepayment speeds that alter the value of each Enterprise's book of business. If so, it could undermine the UMBS and negatively impact liquidity. A safer option would be requiring each Enterprise to use the same model as they determine a borrower's credit. Additionally, the imminent adoption of the CECL standard will impact current accounting practices surrounding the assessment of credit risk and is heavily influenced by credit score models. The logistics of adopting this standard while evaluating and changing credit score models could prove to be even more complicated and unwieldy.

ICBA appreciates the opportunity to comment on the proposed rule and looks forward to working with the agencies on its finalization and implementation. If you have any questions regarding this letter, please contact me at [ron.haynie@icba.org](mailto:ron.haynie@icba.org).

Sincerely,

/s/

Ron Haynie  
Senior Vice President, Mortgage Finance Policy