November14, 2014

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

Re: Fannie Mae and Freddie Mac reliance on outdated credit scoring models

Dear Director Watt:

The undersigned consumer, civil rights and advocacy groups write to you today because over 38 million consumers are potentially being treated unfairly due to the failure of Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) to adopt updated credit score models that better predict credit worthiness for consumers with medical debts and thin files. We urge you to insist that Fannie Mae and Freddie Mac revise these policies immediately. The evidence is in: thirty-eight million consumers cannot wait for Fannie Mae and Freddie Mac to conduct further studies or engage in lengthy delays before changing these policies.

Fannie Mae and Freddie Mac require the use of a “classic” FICO credit score – i.e., FICO 04 – in their automated underwriting systems.[1] The problem is that FICO’s “classic” credit score is not the most updated scoring model offered by that company. FICO offers a model called FICO 09, as well as NextGen. There is also a second major scoring model provider on the market, VantageScore.

Fannie Mae and Freddie Mac’s insistence on using FICO 04 unfairly limits credit opportunities for many applicants. Both FICO (in FICO 09) and VantageScore have made important changes. Both will no longer consider paid collection items, including most importantly, medical debt collections. In addition, FICO has said that FICO 09 will give less weight to unpaid medical debts, potentially increasing the credit scores of consumers with medical debt up to 25 points. However, these changes to reduce the negative impact of medical debt will not benefit most mortgage applicants because of Fannie Mae’s and Freddie Mac’s insistence on using FICO 04, instead of FICO 09 or VantageScore.

Thus, mortgage applicants will continue to be unfairly penalized by medical debt. The Consumer Financial Protection Bureau has found that the presence of medical debt on a credit report unfairly penalizes a consumer’s credit score, resulting in a credit score that is typically lower by ten points than it should be, and for paid medical debt, up to 22 points lower than it should be.[2]

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[1] *See* Fannie Mae Selling Guide, B3-5.1-01, General Requirements for Credit Scores, April 15, 2014, p. 461, available at www.fanniemae.com/content/guide/sel102213.pdf (visited Aug. 28, 2014).
[2] Consumer Financial Protection Bureau, Data point: Medical debt and credit scores, May 2014, available at http://files.consumerfinance.gov/f/201405_cfpb_report_data-point_medical-debt-credit-scores.pdf.

This issue has tremendously widespread impact. A recent study found that 35% of Americans – or 77 million - have debt collection items on their credit reports.[3] About half of these collection items are for medical debt.[4] Thus, medical debt could affect over 38 million Americans, each of whom will be unfairly penalized when shopping for mortgages because of Fannie Mae's and Freddie Mac's insistence on the older FICO 04 scoring model.

In addition, both VantageScore and FICO 09 are better able to deal with consumers with limited credit history, or "thin file" consumers. For example, FICO 09 has enhancements to better assess thin file consumers, and VantageScore claims to be able to score an additional 30 to 35 million thin file consumers.

We recognize that Fannie Mae and Freddie Mac have taken the first step toward addressing this issue by agreeing to study the costs and benefits of using VantageScore or FICO Score 9.[5] However, such research could take months, if not years. The evidence is already in, both in terms of the CFPB's own studies and the research conducted by both major scoring developers that supports their changes. There is no need to delay implementation of more updated models that would substantially benefit consumers. We urge FHFA to direct Fannie Mae and Freddie Mac to implement changes immediately. At a minimum, any research must be conducted quickly, in a timeframe of months, not years, and changes must be instituted expeditiously as well. The tens of millions of homeowners and homebuyers unfairly burdened by medical debt cannot afford to wait.

If you have any questions about this letter, please contact Chi Chi Wu at cwu@nclc.org or 617-226-0326. Thank you for your attention to this matter.

Sincerely,

National Consumer Law Center (on behalf of its low-income clients)
Americans for Financial Reform
Anderson, Ogilvie & Brewer LLP
Center for Economic Justice
Center for Responsible Lending
Community Service Society of New York
Consumer Action
Consumer Federation of America
Consumers Union
Empire Justice Center
HealthLawAdvocates

[3] Caroline Ratcliff, Urban Institute, Delinquent Debt in America, Urban Institute, July 30, 2014, at 7.
[4] Robert Avery, Paul Calem, Glenn Canner, & Raphael Bostic, An Overview of Consumer Data and Credit Reporting, Fed. Reserve Bulletin 89(2), at 69 (Feb. 2003); Ernst & Young, The Impact of Third-Party Debt Collection on the National and State Economies, Feb. 2012, at 8, available at www.acainternational.org/files.aspx?p=/images/21594/2011acaeconomicimpactreport.pdf.
[5] Kevin Wack, Fannie, Freddie to Evaluate Alternative Credit-Scoring Models, American Banker, Sept. 22, 2014.

NAACP
National Association of Consumer Advocates
National Council of La Raza
National Housing Resource Center
Philadelphia Unemployment Project
Reinvestment Partners
U.S. PIRG