

A Request; Should Fannie and Freddie Update Their Credit Requirements?

By: Jann Swanson | Thu, Jan 18 2018, 12:27 PM

There is a **rather unusual request** up on the Federal Housing Finance Agency's (FHFA's) website. Two FHFA analysts, saying that the issue of **updating the credit score requirements** for Fannie Mae and Freddie Mac (the GSEs) is among the most difficult they have faced, are personalizing an earlier formal [Request for Input](#) (RFI) published in the Federal Record.

Robert M. Dunsky, Principal Financial Engineer, and Elizabeth R. Spring, Senior Policy Analyst, from the Offices of Housing & Regulatory Policy and Policy Analysis & Research respectively wrote the request. They explain that the GSEs currently use the Classic FICO model, supplementing it with their own automated underwriting systems (AUS) **where no credit score is available** for a borrower. FHFA believes an update to the GSE credit score requirement would be desirable, and is evaluating Classic FICO, FICO 9 and VantageScore 3.0. The analysts are requesting interested parties to provide feedback on the following options.

- **Option 1:** The GSEs would require delivery of a single score - either FICO 9 or VantageScore 3.0.
- **Option 2:** Two scores would be required, FICO 9 and VantageScore 3.0. This option would require policy decisions regarding treatment of borrowers with one of the scores **but not both**.
- **Option 3:** Lenders would be allowed to deliver loans with either FICO 9 or VantageScore 3.0. They would have to choose one score or the other **for a defined period** (e.g., no less than 12 months). This option would require policy decisions on the length of that commitment and on whether to allow mortgage aggregators and brokers to adopt a single score approach or allow them to aggregate loans underwritten with FICO 9 or VantageScore 3.0 scores.
- **Option 4:** The GSEs would allow delivery of multiple scores through a waterfall approach establishing a primary and a secondary credit score. Where a borrower did not have a primary credit score, a **lender could choose to provide the secondary one**. FHFA and the GSEs would need to determine how a secondary credit score would interact with each GSE's AUS, including the ability to evaluate a loan application where a borrower does not have a credit score and how to apply the policy for manually underwritten loans.

Dunsky and Spring say the credit score decision will **impact the industry** – including borrowers, lenders, servicers, mortgage insurers, and investors – for years to come. They encourage all interested parties to respond in as much detail as possible to the specific questions in the RFI and promise to review them all. The comment period is open until February 20, and there are further details on the options and the larger context to be considered in the formal document.

Your input, they say, will help inform FHFA's analysis on this important decision.

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