FHFA Forced to Put Credit Score Decision on Hold

By: Jann Swanson | Tue, Jul 24 2018, 10:08 AM

The old credit score models are safe for the time being, despite a belief that they disregard millions of creditworthy Americans, **leaving them unable to be scored**, and thus virtually unable to buy a home. The Federal Housing Finance Agency (FHFA) announced on Monday that it is suspending the initiative to update the credit score model used by Fannie Mae and Freddie Mac (the GSEs). As recently as this spring FHFA had said that a decision about scoring models would be made this year.

In a press release the agency said it is shifting its focus from the update to implementation of Section 310 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (Public Law 115-174) enacted in May. The Act, which sought to undo many of the changes made by the Dodd Frank Wall Street Reform and Consumer Protection Act, contains a provision which critics at the time said would **benefit FICO's biggest rival VantageScore**. It required FHFA to use alternative credit score models.

FHFA and the GSEs have been actively evaluating the potential impact of a new credit score model or models on access to credit, safety and soundness, operations in the mortgage finance industry, and competition in the credit score market for some time as part of an ongoing Conservatorship Scorecard Initiative. FHFA said it had done significant outreach to lenders, mortgage insurers, consumer advocates, and investors.

"After careful evaluation, we have determined that proceeding with efforts to reach a decision based on our Conservatorship Scorecard Initiative process and timetable would be duplicative of, and in some respects inconsistent with, the work we are mandated to do under Section 310 of the Act," said FHFA Director Melvin L. Watt. "In light of that, we are communicating to Congress that we are transferring our full efforts to working with the [GSEs] to implement the steps required under Section 310. These steps include developing a proposed rule, receiving and evaluating public comment on the proposed rule and issuing a Final Rule to govern the verification of credit score models. Thereafter, we will follow through on the steps required to implement the new Rule."

Discussion about needed changes to the existing scoring model have been ongoing since at least 2011. FICO, which provides the most widely used current model, has **attempted to integrate less traditional sources of data** such as rent and utility payments in its models, but that information is not widely reported to the credit bureaus from which FICO obtains its data.

At a panel discussion sponsored by the Urban Institute last year, Mike Trapanese, senior vice president at VantageScore Solutions, estimated that there were about **7.6 million consumers without a credit score** who might achieve a score of 620 or more with new models that included less traditional information. About 3 million of those might have an income and credit profile sufficient to purchase a median-priced home in their location.

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