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August 25, 2021

Sandra Thompson
Acting Director
Federal Housing Finance Agency
400 7th St. SW
10th Floor
Washington, DC 20219

RE: Validation and Approval of Credit Score Models

Dear Acting Director Thompson,

The Independent Community Bankers of America (ICBA)[1] is sending this letter to the Federal Housing Finance Agency (FHFA) to highlight our expectations and concerns regarding an upcoming final rulemaking that may update the adoption and validation procedures for credit scoring models used by Fannie Mae and Freddie Mac (the Enterprises). As you know, the Enterprises use credit scores to help determine loan purchase eligibility as well as other areas of their business, including loan servicing, loan level pricing, and the structuring of credit risk transfers. Effective use of credit scores and credit scoring models at the Enterprises fosters safety and soundness while promoting and improving access to affordable mortgage credit for low and middle income (LMI) and minority borrowers, many of whom may have thin or nonexistent credit files. ICBA continues to advocate for fair access to homeownership while also balancing safety and soundness of the Enterprises.

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[1] *The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. ICBA 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 nearly 50,000 locations nationwide, community banks constitute 99 percent of all banks, employ more than 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding more than $5 trillion in assets, over $4.4 trillion in deposits, and more than $3.4 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at www.icba.org.

WASHINGTON, DC
1615 L Street NW
Suite 900
Washington, DC 20036

SAUK CENTRE, MN
518 Lincoln Road
P.O. Box 267
Sauk Centre, MN 56378

866-843-4222
www.icba.org

ICBA appreciates that FHFA and the Enterprises take the issue of equitable access to homeownership seriously, as evidenced by recent changes to the risk assessment process, including but not limited to the decision to allow Fannie Mae to consider borrowers' rental payment history in its underwriting algorithm. Creative and thoughtful use of alternative data can certainly supplement traditional credit scores like Classic FICO. While considering the possibility of validating and approving new credit score models, ICBA encourages the adoption of innovative and sensible approaches to expand access to credit.

As FHFA finalizes any rulemaking relating to Enterprise credit scoring models, ICBA would like to underscore several important policy considerations.

1. **FHFA must provide the industry with a detailed and clear explanation for how new models are validated and how they are implemented at the Enterprises. FHFA must also provide anticipated transition costs and expected timelines in conjunction with how a new model may impact the flow of liquidity in the housing market.** When FHFA asked for input on a proposed rule that would codify a process for the validation and approval of credit score models by the enterprises, ICBA emphasized that FHFA must 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.[2]

2. **The affordability of implementation for smaller lending institutions must be considered in parallel with any alternative models' potential for improving access to credit**. Community banks often 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. It is vital that the implementation of a new model does not result in onerous and disproportionate implementation costs for smaller institutions. FHFA must therefore weigh the significant costs and complexity for the Enterprises and industry in

[2] https://www.icba.org/docs/default-source/icba/advocacy-documents/letters-to-regulators/19-03-21_fhfaltr.pdf?sfvrsn=6354317_0

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Sauk Centre, MN 56378

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making changes to credit score models against the potential improvements in accuracy and borrower access to credit.

3. **The ongoing safety and soundness of the GSEs is crucial to the community bank mortgage lending business model.** It is imperative that any new validation standard or credit scoring model not interfere with the Enterprises' ability to operate in a safe and sound fashion or their ability to implement current and future products/initiatives that help them fulfill their housing mission.

We look forward to working with FHFA on this issue in the coming months. If you have any questions regarding this letter, please contact the undersigned at tim.roy@icba.org.

Sincerely,

Tim Roy
Director, Housing Finance Policy