

Congress of the United States
Washington, DC 20515

April 29, 2015

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

Re: Alternative Credit Scoring Systems

Dear Director Watt,

As leaders of communities of color, we urge the Federal Housing Finance Agency (FHFA) to continue its focus on expanding credit access for American qualified homebuyers. Insufficient credit history causes many first-time homebuyers, especially borrowers of color, to encounter obstacles obtaining mortgage financing. Under the conservatorship, we believe that Fannie Mae and Freddie Mac can become a powerful tool to support sustainable homeownership for communities of color in America by updating their current credit scoring system and implementing additional credit scoring models.

While the conventional conforming market has been the main source of new home purchases in America, many families of color encounter difficulty obtaining the American Dream through this traditional path. According to Compliance Technologies, Inc., for example, 242,768 homes were financed for Asian American borrowers through the conventional market in 2005; however, this figure plummeted to just 128,629 home loans in 2013. For African American families, the number of financed home loans dropped from 314,462 homes in 2005 to only 37,347 home loans in 2013. Similarly, the number of financed loans for Hispanic families decreased from 575,952 to 87,594 loans between 2005 and 2013. While home sales dropped for all borrowers during this period, home sales declined even more among people of color.

As homeownership rates decline among families of color, the racial wealth gap continues to grow. According to the Pew Center's analysis of data from the Federal Reserve's Survey of Consumer Finances, communities of color have not equally recovered from the Great Recession. Between 2010 and 2013, for example, median wealth among African American households decreased by 33.7%, from \$16,600 in to \$11,000. Hispanic households, too, saw similar declines

in family wealth. Between 2010 and 2013, median wealth for Hispanic families fell by 14.3%, from \$16,000 to \$13,700. Much of this decline was due to a decline in the value of real estate.

Although there are many reasons for the significant decline in conventional home lending, the credit policies in the market, combined with past practices that unintentionally excluded creditworthy consumers, have led us to this position. As Congress and the Obama Administration continue to debate the future role of Fannie Mae and Freddie Mac, we should refocus the government-sponsored enterprises (GSEs) on ensuring affordability for qualified homebuyers and maintaining stability in the overall market.

We are pleased to hear that the GSEs are analyzing the impact of additional credit scoring models. The current FICO score versions designated for use by the GSEs are not the most current innovations in the marketplace. While we appreciate that potential modification will require additional resources to implement, it may be even more costly to not act on behalf of creditworthy borrowers whose credit profiles could be strengthened through the expanded use of alternative data in newer credit scoring models. As the demographics of our country continue to evolve, lending technologies, like credit scoring models, should reflect today's marketplace and consumer credit patterns.

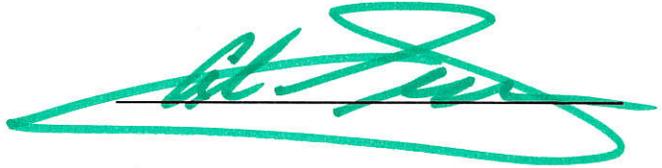
Newer credit scoring models have been introduced and are valuable. With evidence from the GSE's scientific testing supporting their use, the GSEs should update their current FICO model and implement other credit scoring models that provide enhanced benefits to homebuyers. More than 50 million Americans are often invisible to the financial market, making it more difficult for them to fully participate in the U.S. economy. According to industry research by VantageScore, some 9.5 million of these un-scoreable consumers are people of color and immigrants, and approximately 2.1 million of these un-scoreable consumers would have credit scores of 620 or above.

We are encouraged by your renewed focus on the GSEs' "duty to serve" requirement. This renewed focus will help to ameliorate the potential decline in conventional financing for many families of color. According to the Harvard Joint Center for Housing Studies, minorities will account for more than 70 percent of net household growth between 2010 and 2020. By permitting the latest, proven and tested credit scoring models, the GSEs can ensure that they are leveraging the latest market innovations, expanding sustainable homeownership for the communities of color, improving the risk assessment of borrowers and creating new business opportunities for those that want to equitably serve our communities.

We look forward to working with the FHFA to ensure that all communities have fair and equitable access to mortgage credit. Thank you for your leadership as we continue to expand sustainable homeownership for all qualified borrowers.

Sincerely,

Madame Waters



Judy Ann

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