March 30, 2018

The Honorable Mel Watt
Director, Federal Housing Finance Agency
4000 7th Street, SW Ninth Floor
Washington, DC 20024

Re: Credit Score-Request for Input

Dear Director Watt:

Thank you for the opportunity to submit comments regarding the Federal Housing Finance Agency's (FHFA) proposal to consider updating the Enterprises' credit scoring requirements. We are encouraged by FHFA and the Enterprises' evaluation of newer credit scoring models outside of the current Classic FICO standard, as we believe that this will present an opportunity to expand homeownership opportunities for low- and moderate-income families and others with no credit files of thin credit history by capturing additional data points, including on-time rental payments.

Background on LISC

Established in 1979, the Local Initiatives Support Corporation (LISC) is a national non-profit Community Development Financial Institution (CDFI) that is dedicated to helping community residents transform distressed neighborhoods into healthy and sustainable communities of choice and opportunity – good places to work, do business and raise children. LISC mobilizes corporate, government and philanthropic support to provide local community development organizations with loans, grants and equity investments; technical assistance; and policy support. LISC operates in 31 cities through our network of local offices, and we also partner with 86 different organizations that service over 2,000 rural counties in 44 states throughout the country.

In an effort to improve low-income families' financial well-being, LISC provides community organizations financial support and technical assistance to operate Financial Opportunity Centers (FOCs). Through LISC's FOCs, clients receive bundled services such as financial counseling, employment services and low-cost financial products that help build credit, savings and assets. FOCs' mutually reinforcing program components have proven to help people stay motivated, as evidenced by improved job retention; and to improve their economic prospects, as evidenced by improvements in credit and credit building behavior.

Benefits of Capturing On-time Rental Payments in Credit Scoring Models

Homeownership is less feasible when a renter is judged by the thin file or unscoreable nature of his or her credit history. Beginning with Experian in 2010, credit bureaus began incorporating on-time payments into credit scoring as a means of establishing and improving credit scores. A 2014 study of the impact of this policy change on residents of subsidized housing found that 95% of residents experienced a positive or neutral impact on their credit score and all residents that previously could not be scored subsequently received a credit score.

Furthermore, according to a multiyear pilot conducted by Credit Builders Alliance (CBA) with eight affordable housing providers:

- Rent reporting is perceived by renters as a good opportunity for credit building -- 97% of residents who responded to a pilot survey stated that paying rent on time is a good way for them to build their credit.

- Rent reporting offers a significantly impactful credit building opportunity to residents living in affordable housing. After isolating the impact of the inclusion of the rental payment history on participants' credit scores, it was found that all (100%) of the residents in the Pilot who initially had no credit score had either a high nonprime or prime score with the inclusion of their rental payment history; and that a large majority (79%) of the pilot participants experienced an increase in credit score, with an average increase of 23 points.

- Rent reporting in combination with financial coaching can incentivize residents to increase their rates of on-time rent payment to housing providers and HUD.

Many residents of public and assisted housing properties overseen by the Department of Housing and Urban Development (HUD) have little or no credit history and no credit score.[1] With a lack of a credit file depth, lenders are cautious about the individual's ability to manage multiple credit obligations. In a simulation done by Experian, 11 percent of subsidized housing residents in the study did not have a credit file and were thus unscoreable. With the addition of positive rental tradelines, the previously unscoreable were then considered to have thin files and able to be scored using VantageScore 3.0.[2] According to their research, many subsidized residents do consistently pay rent on time, every month.

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[1] "Credit for renting: The impact of positive rent reporting on subsidized housing residents." *Experian*, https://www.experian.com/assets/rentbureau/white-papers/experian-rentbureau-credit-for-rent-analysis.pdf.
[2] Ibid.

LISC, along with the Credit Builders Alliance and Prosperity Now, recently released a proposal to help increase credit scores of residents of HUD public and assisted housing through voluntary reporting of on time rental payments to credit bureaus. As stated in the proposals, LISC believes that residents should be allowed the option of having their on-time rental payments reported to credit bureaus. This should not be a requirement imposed by landlords or housing authorities without the consent of the resident. We believe that it is critical that the residents be provided with full disclosure of the benefits and potential negatives of allowing their payments to be reported, so that they may make an informed decision. And finally, we would encourage pairing any program with positive incentives and resident safeguards from potential abuses, such as (1) using a lack of credit reporting as a negative consideration in tenant screening or (2) using negative credit reporting as a retaliation practice for "problem tenants."

Recommendations

The Enterprises have used Classic FICO as the standard for more than 12 years, which is not as predictive as newer models. The use of outdated models goes against the Enterprises' mission to reach underserved markets. Federal housing policy should encourage the voluntary reporting of on-time rental payments as a means for renters to build a positive credit history, and similarly, GSEs should be required to adopt the more recent scoring models that capture this payment history.

LISC therefore recommends the use of new credit scoring models, either VantageScore 3.0 or FICO 9, which capture rental payments, as well as other data such as utility and telecom payments. In addition to these additional data points, newer versions of FICO have proven to be consumer friendly by being more lenient on medical bill collection accounts, which contains errors that can disproportionately damage one's credit score. Medical records are now treated differently than other types of debt resulting in medical debt having less of a negative impact than with Classic FICO.

We also recommend that FHFA establish a set of criteria to evaluate emerging credit scoring models for their accuracy, safety, and greater inclusivity and equity. The set of criteria would allow for competition among existing and new scoring models, while also providing flexibility to score underserved populations over the long-term. Through careful analysis and guidance on how to responsibly weigh tradeline data, FHFA can influence the market in expanding access to homeownership and access to affordable credit.

Thank you for your consideration of our comments.

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