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August 16, 2010

Department of Housing and Urban Development  
Office of General Counsel  
Regulations Division  
451 7th Street, SW.  
Room 10276  
Washington, DC 20410-0500.

Re: Docket No. FR-5404-N-01, FHA Risk Management Initiatives: Reduction of Seller Concessions and New Loan-to-Value and Credit Score Requirements

To Whom It May Concern:

I write on behalf of the Consumer Data Industry Association (CDIA) to offer our comments concerning the above captioned matter. CDIA, founded in 1906, is the international trade association that represents some 200 consumer data companies. CDIA members represent the nation's leading institutions in credit reporting, mortgage reporting, check verification, fraud prevention, risk management, employment reporting, tenant screening and collection services.

This comment letter makes three points: (1) we are pleased that the Federal Housing Administration (FHA) intends to consider the use of non-FICO scores; (2) we remain concerned that the proposal is unnecessarily biased in favor of FICO; and (3) FHA's invitation for additional scoring information from other models needs more time than that allotted in the Federal Register notice.

FHA proposes to "tighten [its] underwriting guidelines in a manner that balances FHA's goals of protecting the MMIF's financial health..." by, among other things, "introduc[ing] a minimum credit score for eligibility, as well as reduce the maximum LTV for borrowers with lower credit scores."<sup>1</sup> To that end, "FHA is proposing to introduce a minimum decision credit score of no less than 500 to determine eligibility for FHA financing and reduce the maximum LTV for all borrowers with decision credit scores of less than or equal to 579."<sup>2</sup>

We are pleased that FHA intends to consider the use of non-FICO scores,<sup>3</sup> but we remain concerned that the proposal is biased in favor of FICO. FICO is not the only credit score available for credit decision-

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<sup>1</sup> 75 Fed. Reg. 41218, 41219-20 (July 15, 2010) ("Notice").

<sup>2</sup> Id., 41220.

<sup>3</sup> "While FHA's historical data and analysis is derived from the 'FICO-based' decision credit score, it is not FHA's intent to prohibit the use of other credit scoring models to assess an FHA borrower's credit profile. In this notice, FHA seeks comment on the best means for FHA to provide guidance to the industry on acceptable score ranges for

making. CDIA members produce scores, as do other companies. It is of great value for consumers and the housing marketplace to have a variety of credit scores available. A robust and competitive scoring marketplace helps all.

Even though FHA intends to allow non-FICO scores, the proposal remains FICO-centric. The Notice states that “[t]he decision credit score used by FHA in this analysis is based on methodologies developed by the FICO Corporation”.<sup>4</sup> FICO is referenced approximately ten times in the Notice while no other scoring developer is specifically mentioned at all.

The Federal Reserve made an important point: “the [mortgage] market uses different commercial scores, and choosing a particular score as the benchmark for a regulation could give unfair advantage to the company that provides that score.”<sup>5</sup> A similar point was made by the Federal Housing Finance Agency (FHFA) when it noted that it “did not intend to endorse a specific [scoring] product [in setting its Enterprise Transition Affordable Housing Goals]. Accordingly, the market analysis in the final rule refers generally to credit scores rather than to a specific product.”<sup>6</sup> We are pleased that FHA remains as open about other scoring models as the Federal Reserve and the FHFA.

Our final point concerns timing. “FHA seeks comment [by Aug. 16, 2010] on the best means for FHA to provide guidance to the industry on acceptable score ranges for other scoring models, to ensure that the scales used for all scoring systems are consistent and appropriate for an FHA borrower.”<sup>7</sup> However, the limited response time provided in the notice disadvantages non-FICO models. Credit scoring methodologies can be complex to explain and understand. We are sure that one or more companies that produce non-FICO models are more than willing to provide additional information to FHA and in great detail, but we are also sure that such information cannot be provided in the time set forth in the Notice.

In sum, we are pleased that FHA intends to consider the use of non-FICO scores, but we remain concerned that the proposal is unnecessarily biased in favor of FICO. Finally, FHA’s invitation for additional scoring information from other models needs more time than that allotted in the Notice. We hope you will consider this comment and we would be happy to provide any additional information you may need.

Sincerely,

Eric J. Ellman  
Vice President, Public Policy and Legal Affairs

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other scoring models, to ensure that the scales used for all scoring systems are consistent and appropriate for an FHA borrower. Id., 41220-21.

<sup>4</sup> Id., 41220.

<sup>5</sup> 73 Fed. Reg. 1681 (Jan. 9, 2008); 73 Fed. Reg. 44,522, 44,532-33 (July 30, 2008).

<sup>6</sup> 75 Fed. Reg. 39873, 39888 (July 15, 2010).

<sup>7</sup> 75 Fed. Reg. 41221.