May 11, 2022

Sandra Thompson
Acting Director, Federal Housing Finance Agency
Constitution Center
400 7th Street, SW
Washington, D.C. 20219

Dear Acting Director Sandra Thompson,

We, the undersigned organizations and individuals, strongly urge you to exercise the highest measure of oversight and caution as the Federal Housing Finance Agency (FHFA) evaluates options for the housing enterprises Fannie Mae and Freddie Mac under the Validation and Approval of Credit Score Models Rule.

Credit score models have long served as vital predictive tools in evaluating the risk level of loans. Whatever goals public officials have for raising the availability of affordable housing, credit scores should not be subject to artificial manipulation in order to serve a desired policy outcome. We were therefore pleased with FHFA's December 2018 rulemaking that followed Congress's directive in the Economic Growth, Regulatory Relief, and Consumer Protection Act for FHFA to provide for fair competition in credit score models under rigorous testing standards.

Yet, we are now concerned that forces outside FHFA may pressure the agency into adopting a new approach to credit scoring that is neither fair nor rigorous. According to a recent listening session for stakeholders, FHFA is considering four alternatives regarding credit score models:

1) Maintain current policy that Fannie Mae and Freddie Mac may require and utilize only one score for each borrower in evaluating loans, which can be any of the models tested and approved by FHFA;

2) Mandate that lenders provide borrowers' scores for all approved score models on every loan;

3) Allow lenders to choose any one of the approved score models in submitting each loan to Fannie and Freddie for evaluation;

4) Create a "waterfall" in which a primary and secondary core model is allowed for each borrower, and whichever qualifies for approval for Fannie or Freddie's portfolio "wins."

Some interest groups see an opening for their agenda under options 2, 3, and 4 to add more borrowers to the taxpayer-backed portfolios of Fannie Mae and Freddie Mac. We believe that prudence requires FHFA to consider a more thoughtful course, for the following reasons:

- Economists are increasingly warning of both a "housing bubble" in prices as well as the prospects of a recession. The recent report of a 1.4 percent drop in Gross Domestic Product (GDP) in the previous calendar quarter underscores the volatility that remains in

the economy. Now is the worst possible time to introduce any instability or uncertainty into the accuracy of the predictive models that underpin borrowers' creditworthiness.
- FHFA should be especially vigilant against another taxpayer backstop if Fannie Mae and Freddie Mac become overextended. Since these Government-Sponsored Enterprises (GSEs) entered conservatorship in 2008, the gross debt carried on the federal balance sheet has risen from 67.5 percent to 127.0 percent of GDP. The fiscal capacity of the federal government to absorb another shock from the GSEs today is thus in greater doubt.
- FHFA has taken admirable care to estimate the costs to the private sector of implementing options 2, 3, or 4, establishing a range of $374 million-$614 million over a 24-36 month period. This alone should raise a cautionary flag, not only for the businesses that will expend resources on retooling systems and retraining employees, but for investors in the GSEs themselves – Fannie and Freddie will need to spend considerable funds as well for new compliance burdens.
- Yet, our collective experience tells us that even this compliance cost "ceiling" is more likely to be a floor. Just recently, for example, an analysis from one signatory on this letter reported that the Internal Revenue Service's estimate for paperwork associated with the Qualified Business Income Deduction (Section 199A), originally projected at 10,000 filers spending 30,000 hours of cumulative compliance time, has jumped to *41 million filers* devoting 336 million hours. Revisions such as these are commonplace, if not as dramatic, throughout the government.
- Since finalization of the Enterprise Regulatory Capital Framework rule in 2020 and subsequent amendments earlier this year, the net effect these decisions will have on the financial resilience of Fannie and Freddie has yet to be demonstrated. In this environment, a rush to "score" more loans for the GSEs' portfolios is especially risky.
- A 2019 study from one of the signatories estimated that some $7 trillion of loans throughout the federal government – including the GSEs but also significantly the Federal Housing Administration, Small Business Administration, and others – utilize credit scores in some fashion. FHFA's decision on how Fannie Mae and Freddie Mac employ scoring models will impact many agencies' policies, for better or worse.

Ultimately, we believe these factors recommend that FHFA do the following:

- Choose the most cautious approach to credit scoring models – option #1.
- Make available all documentation for the models that have been tested since the 2018 rulemaking was issued.
- Finally, subject any departure from option #1 to a new and separate Notice of Proposed Rulemaking, so that all stakeholders can provide detailed comments on systemic risks.

Many federal agencies, from the Department of Agriculture to the Department of Veterans Affairs, have established programs to boost the affordability and accessibility of housing. Members of Congress have proposed dozens of bills in 2021-2022 to achieve these ends as well. Only FHFA, however, has the following statutorily mandated purpose: "Ensure the regulated entities fulfill their mission by operating in a safe and sound manner to serve as a reliable source of liquidity and funding for the housing finance market throughout the economic cycle." By

properly doing the job for which it was created, FHFA maintains the financially robust structure that is a prerequisite for any other policy decisions concerning GSEs.

Indeed, FHFA was designed purposefully to replace the weak and ineffective Office of Federal Housing Enterprise Oversight, *and for no other reason*. Three years after FHFA was established, then-Senate Banking Committee Chair Tim Johnson (D-SD) noted in an oversight hearing that "during the consideration of the Housing and Economic Recovery Act in 2008, one of the most important aspects of the bill was the establishment of the Federal Housing Finance Agency as an independent regulator. This ensures that it can operate without undue political interference and that the appropriations process cannot be used to hold the regulator hostage."

We hope you will bear all these words in mind as you work to make your final decision. The nation's taxpayers must now count on you to safeguard their well-being. Thank you for your consideration.

Sincerely,

Pete Sepp, President, National Taxpayers Union

Douglas Holtz-Eakin, President, American Action Forum*

Phil Kerpen, President, American Commitment

Grover Norquist, President, Americans for Tax Reform

Jeffrey Mazzella, President, Center for Individual Freedom

Tom Schatz, President, Citizens Against Government Waste

Gerard Scimeca, Chairman, Consumer Action for a Strong Economy

Garrett Bess, Vice President, Heritage Action for America

Andrew Langer, President, Institute for Liberty

Eli Lehrer, President, R Street Institute

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* *Affiliation listed for identification purposes only*