December 5, 2023

The Honorable Patrick McHenry, Chairman
The Honorable Maxine Waters, Ranking Member
Committee on Financial Services
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman McHenry, Ranking Member Waters, and Members of the Committee:

As the executive branch works with Congress in designing policies to increase Americans' access to housing opportunities, the undersigned free market, consumer, and taxpayer organizations urge you to ensure that the Federal Housing Finance Agency (FHFA) maintains its focus on the resilience and stability of the housing finance system. Because FHFA is the purpose-built safety and soundness regulator overseeing Fannie Mae and Freddie Mac, taxpayers must rely on this agency and Congress to protect them while an ambitious new approach gets underway for utilizing credit scores and reports in evaluating creditworthiness of homeowners.

On May 11, 2022, several of the undersigned organizations wrote FHFA, urging "the highest measure of oversight and caution" as FHFA deliberated several alternatives for the single-model credit scoring system for Fannie Mae and Freddie Mac, which are now in their 15th year of taxpayer conservatorship. In October 2022, FHFA promulgated a decision to validate two models for the Government Sponsored Enterprises' use, FICO 10 T and VantageScore 4.0, and subsequently designed an implementation plan contained in March 2023's "Enterprise Credit Score and Credit Reports Initiative."

When FHFA Director Sandra Thompson testified before the House Financial Services Committee on May 23, 2023, she wisely reassured lawmakers regarding the new initiative that:

FHFA and the Enterprises anticipate a multiyear transition and are committed to working with stakeholders to ensure a smooth process towards the use of the new credit score models and the new credit report requirements in a manner that avoids unnecessary costs and complexity. The transition timeline must be flexible enough to incorporate testing and unexpected events, but also efficient enough to ensure that consumers, the Enterprises, and others benefit from the more accurate credit score models.

Those words are more vital today than even eight months ago, amid claims and counterclaims from some in the industry and Congress that the purpose of credit score model "competition" is to simply qualify millions more borrowers for government-backed mortgage and other loan products. We believe, instead, that the only legitimate purpose of this exercise should be, as Director Thompson mentioned to the committee, to provide "an improved view of risk." Neither credit score model should be elevated or accelerated in the implementation phase, despite calls for FHFA or Congress to do so. Government agencies often err when, in the name of"competition," or "fairness," they attempt to re-order or hasten a process that is unfolding organically.

As several of us noted in our May 2022 communication to FHFA, "Whatever goals public officials have for raising the availability of affordable housing, credit scores should not be subject to artificial manipulation." The same maxim should apply to other areas of the federal credit realm, from small business loans to farm credit.

Our experience across many fields tells us that any tool designed to predict financial outcomes must be immune from pressure to validate some preconceived policy agenda. Rather, it should be evaluated solely on its accuracy and efficiency. With this proper focus, all participants in a given market can conduct their business with the confidence that they are doing so in a commonly understood framework.

In the case of the federal housing enterprises, a baseline of credit risk must be established from which everyone – lenders, borrowers, and public officials – can in turn make decisions. Well-tested models likewise benefit taxpayers by more precisely illustrating the tradeoffs of government programs that underwrite or subsidize loans.

Fair competition among rigorously evaluated credit scoring models could contribute to a more fulsome measurement of liabilities in taxpayer-backed lending programs. Propping up the illusion of competition, or conferring competitive advantages, can tend to increase those liabilities at a time when taxpayers face massive fiscal challenges that include more than $33 trillion in gross federal debt, trillions in balance sheet risks from credit programs, and tens of trillions more in Social Security, Medicare, and Medicaid shortfalls.

Accordingly, we ask that members of the committee diligently monitor the Enterprise Score and Credit Reports Initiative and ensure the transition principles that Director Thompson articulated in her May 2023 testimony are put into practice. FHFA can best serve its statutory mission to oversee Fannie Mae and Freddie Mac by facilitating, rather than overmanaging, this process. Thank you for your consideration of our views.

Sincerely,

Pete Sepp, President National Taxpayers Union	Grover Norquist, President Americans for Tax Reform	Gerard Scimeca, Chairman Consumer Action for a Strong Economy	Tom Schatz, President Council for Citizens Against Government Waste	David Williams, President Taxpayers Protection Alliance