



NATIONAL TAXPAYERS UNION

122 C Street N.W., Suite 700, Washington, DC 20001

June 26, 2024

The Honorable Warren Davidson, Chairman
The Honorable Emanuel Cleaver, II, Ranking Member
Subcommittee on Housing and Insurance, Committee on Financial Services
U.S. House of Representatives
2128 Rayburn House Office Building
Washington, DC 20515

Dear Chair Davidson, Ranking Member Cleaver, and Members of the Committee:

On behalf of National Taxpayers Union (NTU), America’s oldest national taxpayer advocacy organization, I write to urge your careful exploration of safety and soundness issues at today’s hearing entitled, “Housing Oversight: Testimony of the HUD and FHFA Inspectors General.” Taxpayers remain apprehensive over the trajectory of housing finance programs under the jurisdiction of HUD and the oversight of FHFA, and the Inspectors General have a crucial role in providing an “early warning system” to detect managerial and fiscal maladies before they reach crisis proportions.

As you may know, NTU has a 35-year history of following and warning about the financial condition of Government-Sponsored Enterprises (GSEs), particularly Fannie Mae and Freddie Mac. We testified at some of the earliest oversight hearings held in Congress, often to the disbelief of lawmakers that the liabilities of the GSEs could someday become the potential burdens of taxpayers. We witnessed this potential become reality and supported creation of a new regulator (FHFA) to “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.”

More recently, we participated in public listening sessions sponsored by FHFA when it issued a Request for Input in 2017 on four credit score models, and then in 2018 when Section 310 of Public Law 115-174 charged it to promulgate regulations surrounding the validation and approval of credit score models. We have led coalition statements of taxpayer and free market organizations, [one of which observed](#), “[b]ecause 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.”

We sought to inform that regulatory process with the publication of a report entitled [“Risky Road: Assessing the Costs of Alternative Credit Scoring.”](#) In that 39-page paper, NTU wrote:

A thoughtful approach to credit scoring models can benefit consumers, taxpayers, and the economy. By considering the need for innovation, the imperative of managing taxpayer risk, ever-present requirements for more evaluative data, and the potential impacts on private-sector users, we hope to create a holistic framework that demonstrates all the elements that comprise a successful

future for credit scoring. In turn, we suggest best practices that can weave these separate threads into a strong fabric that can support private and public sector lending and credit programs. Creating that public-sector fabric will involve reconciling many viewpoints from numerous stakeholders, weighing the benefits and the costs of particular strategies to increase access to credit.

At any given point, public officials may decide that the increased risks of taxpayer bailout in a particular lending program are worth the gains or vice versa. But the tool to evaluate those benefits and costs should not be subject to artificial manipulation in order to depict a desired outcome. In such a chaotic environment, what would otherwise be informed, transparent policymaking becomes little more than a hyper-politicized guessing game. As history has shown, taxpayers ultimately lose at this game.

It was therefore of great concern to NTU when we learned of the FHFA Inspector General report, “FHFA’s Analysis of Credit Score Models Was Consistent with Applicable Requirements but the Agency Could Improve Its Process and Enhance the Level of Detail in Its Decision Record.” In reviewing the report, we note:

- There are redactions that may contain vital information for taxpayers. In NTU’s experience, redactions in Inspector General reports are rare outside the national security space, and rarer still when the omitted material could be so revelatory. Page 12 of the report notes that the two Enterprises internally evaluated five proposed credit score models and submitted determinations of those models’ capacity to FHFA. The report deletes key text after “Both Enterprises recommended,” leaving taxpayers to wonder what the GSEs’ leadership thought of this exercise. Subsequent deletions on pages 14, 15, 16, 17, and 18 add to the concern that the GSEs provided useful opinions – positive or negative – on FHFA’s implementation of the validation and approval of credit score models that taxpayers deserve to know.
- FHFA has decided to combine its regulatory activity surrounding credit score models with the “bi-merge” proposal regarding employment of credit reports into a major undertaking known as the “Enterprise Credit Score and Credit Reports Initiative.” Given this decision on FHFA’s part, it is important to evaluate FHFA’s responses holistically, across all the elements of this policy framework, including bi-merge. The Inspector General cannot be faulted for examining only one part of the Initiative, but the report referenced above cannot provide sufficient context of all FHFA’s sweeping changes.
- On one hand, the IG cites FHFA for lack of “guidance to staff with respect to performing and documenting the impact evaluation and independent analysis,” the “absence of a documented conclusion in the decision record regarding safe and sound operations at the Enterprises,” and “did not require the Enterprises to report whether the credit score models passed or did not pass the Enterprise Business Assessments.” Despite these major shortcomings in transparency, the report strangely finds that “FHFA performed the independent analysis required by section 1254.8(d) of the Regulation in general accord with applicable provisions of the Regulation and the Economic Growth Act.” A plain reading of the report’s contents, redactions and all, does not support such a conclusion.

Now approaching their 16th year of federal conservatorship with no transition in sight, the housing GSEs, owing to their massive balance sheets, tend to set the policy pace for other housing finance programs under the federal rubric, such as Federal Housing Administration and VA loans. Both the dual credit score system and bi-merge under Fannie and Freddie risk “contagion spread” to other programs that utilize credit evaluation tools for managing risk (e.g., HUD’s lending universe). This prospect should have elevated the IG’s evaluation to an even higher level of detail; unfortunately, that detail is lacking here.

Clearly the regulated community remains anxious to ascertain how FHFA arrived at the decision to require the Enterprises to utilize two credit score models in their operations, as well as the decision to shift to the bi-merge arrangement. In June of 2023, a virtual “who’s who” of 17 trade associations effectively representing the entire universe of private-sector firms interacting with Fannie and Freddie issued a [joint statement](#) on FHFA’s actions. Their counsel was to take a measured (and measurable) pace, consisting of:

- A comprehensive, transparent, and iterative stakeholder engagement process;
- Robust data transparency, specifically including the release of long-term historical datasets for Classic FICO, FICO 10T, and VantageScore 4.0, that allow for analysis of the impacts of the changes and the design of new models to support the wide array of business functions that will be affected; and
- A recalibrated timeline that accommodates both data analysis and modeling as well as a stakeholder engagement process that considers the costs, complexity, consumer impact, and policy implications of the transition.”

Just one month later, the Housing Policy Council (HPC), the premier association representing “the nation’s leading mortgage originators, servicers, insurers, and data/settlement service providers” filed a Freedom of Information Act request with FHFA for documents surrounding the Enterprises’ Business Assessments of the new credit score models, FHFA’s decision-making process to validate and approve the two final models, and the decision-making process for bi-merge. According to HPC, this documentation would, among other things:

[P]rovide market assessment of: (a) the accuracy and reliability of the models employed; (b) consumer and fair lending impacts; (c) effects on Enterprise operations and risk management as well as attendant impacts on the industry participants; and (d) competitive effects. Release of the Business Assessments also would provide participants in related market segments, specifically including portfolio, private label securities, and government insurers, the ability to assess the approved models using similar methodologies and information.

NTU thoroughly agrees that taxpayer interests would be well-served by granting HPC’s request, and we hope the Committee concurs. Certainly, the Inspector General report, redactions notwithstanding, makes several observations that provide little assurance over the prudence or provenance of FHFA’s policy pathway with the validation and approval of scores.

When FHFA Director Sandra Thompson [testified](#) before the full House Financial Services Committee on May 23, 2023, she 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.” One year later, these reassurances are in serious jeopardy of being rendered untenable.

We therefore believe the Committee should take the opportunity this hearing affords to examine the following matters, and undertake the following actions:

- 1) If it has not done so already, Committee leadership should make the unredacted version of the FHFA Inspector General’s report available to all Members of the Committee and encourage them to examine the findings in depth.
- 2) The FHFA Inspector General’s report should be released to the taxpaying public, with all redactions excised except those required to protect intellectual property of the Enterprises.

Taxpayers deserve to know the thought processes of the Enterprises as well as FHFA's leadership in developing their decisions surrounding the validation and approval of scores.

- 3) Both FHFA's and HUD's Inspectors General should be asked at the hearing to provide a more detailed assessment to the Committee of how the decision-making processes at the FHFA and the Enterprises for validation and approval of scores have compared to other similar, major undertakings they have examined in the past. Particularly, the Committee and the public should be able to learn more about private sector costs, "contagion risk," and impacts on the safety and soundness of the housing finance system due to the implementation of the validation and approval of scores regulations.
- 4) The Committee can and should inquire with the Government Accountability Office for a follow-up report regarding the concerns outlined in 3) and the rest of this letter, basing its investigation on the same or more comprehensive information as the Housing Policy Council's FOIA request.
- 5) The Committee should schedule a follow-up hearing with a variety of private- and public-sector stakeholders to provide a more comprehensive assessment of reactions to the Regulation on Validation and Approval of Credit Score Models, 84 Fed. Reg. 41886.

Given that six years have passed since Congress directed FHFA down the path of incorporating new credit scores into the Enterprises' operations, it is both appropriate and imperative that the Committee lead a discussion of lessons learned and pathways forward. The discussion needs to begin with a common base of knowledge of what went into formulating 84 Fed. Reg. 41886 at FHFA, and at any other government entities.

Thank you for your consideration of National Taxpayers Union's views, and should you or your staff have any questions, I am at your service.

Sincerely,

A handwritten signature in black ink, appearing to read "Pete Sepp". The signature is fluid and cursive, with a horizontal line extending from the end.

Pete Sepp, President
National Taxpayers Union