NATIONAL ASSOCIATION OF REALTORS®

October 14, 2022

The Honorable Sandra Thompson
Director, Federal Housing Finance Agency
Office of the Director
400 7th Street, S.W., 10th Floor
Washington, DC 20410

Dear Director Thompson:

On behalf of the National Association of REALTORS®' (NAR) 1.5 million members working in all aspects of the residential and commercial real estate industries, I thank you for the opportunity to respond to the Federal Housing Finance Agency's (FHFA) request for information (RFI) titled *Fintech in Housing Finance*. REALTORS® applaud the FHFA, along with Fannie Mae and Freddie Mac (collectively, the "GSEs"), for their leadership on this important subject studying and promoting the use of fintech in housing finance.

The rise in fintech products over the past decade has helped millions of Americans obtain credit in new ways, manage household budgets, send payments online instantaneously and opened them to stock trading that was once reserved for only the wealthy. Unsurprisingly, many fintech companies and providers that have entered the housing and real estate space. As all industry participants look to the future of housing and to fix many of the current issues in the market, we're encouraged by the rise of fintech and its potential to cure many past ills. Therefore, we are pleased that the FHFA is standing up the Office of Financial Technology, similar to other regulatory agencies, to understand technology developments and their benefits and risks in the housing finance system.

Fintech Provides Opportunities and Risks

We know all too well that a lax supervisory and enforcement environment can lead to problems in the housing market, as in the lead-up to the sub-prime financial crisis. However, an aversion to new technologies, including advancements in underwriting, artificial intelligence, machine learning, credit scoring, remote online notarizations, and other innovations, could hamper real change. Some of these advancements may be years away but a willingness from regulators and the GSEs to foster them could lead to true breakthroughs.

Following the housing crisis of 2008, the market predictably drew back from advancements in technology and new financial products. Nearly 15 years later, housing still lags behind many other industries in adopting new technologies. We believe the FHFA is positioned to create the right infrastructure to establish safe and reliable advancement while balancing the safety and soundness concerns of the GSEs and the American taxpayer, to ensure the housing market successfully adopts new technology solutions.

While we do not see similar parallels between the rise of fintech companies and products and the nefarious and predatory products of the lead-in to 2008, we do believe that a proper evaluation of the risks and opportunities of these technology advancements is important. And we are pleased to see that the FHFA is assessing strengths and weaknesses of fintech products.

With all this said, approaching and adopting technology needs to be done cautiously and responsibly. While many service providers exist in the market, and many of those are looking to open the credit box and qualify new borrowers, the proper checks must be in place that balance the protection of consumers and the safety and soundness of the GSEs and the promotion of new technologies. We believe this should be a priority for the Office of Financial Technology.

How Financial Technology Should be Applied

We think there is tremendous potential for technology to solve some of the most pressing issues in the current market, including affordability, availability of financing, more consumer-friendly experiences, a better-informed

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borrower, and bringing about broader racial equity. The credit and lending communities and federal regulators should reassess the entire credit structure and look for ways to increase the availability of credit to qualified borrowers who are good credit risks. We believe technology has a major role to play here.

Though fintech companies may not operate identically to traditional financial institutions, they need to be held to the same level of rigorous privacy and security standards. Financial data is some of the most sensitive information that can be collected, and it has great potential for harm if it falls into the wrong hands. Though innovations like distributed ledger technology and blockchain can provide a high degree of theoretical cybersecurity, it is important to note that real-life applications of these technologies are not immune to data hacks and breaches. It is critical that FHFA encourage new financial technologies to employ the strong cyber safeguards through both innovative and traditional means, such as multi-factor authentication, employee awareness trainings, data encryption, and other best practices.

We also understand the complicated nature of third-party oversight. The GSEs and many lenders that work with GSEs will often partner with fintech firms to streamline the mortgage origination process. This means many fintech firms have access to sensitive consumer financial data and other information. In the event of a data breach, either at a fintech, a lending institution, or the GSEs themselves, a consumer will need to be made whole. Who is responsible for this becomes a tricky question. While we do not have all the answers here, we know the consumer will usually rely on their lender or financial institution to fix the ills that have occurred, and if solutions are delayed, all parties suffer. We encourage the FHFA to adopt a robust third-party oversight regime that will create an appropriate waterfall of relief that holds parties accountable when they are at fault and also ensures the consumer is empowered and compensated in the event of a problem. The consumer should not be caught in limbo if there is a debate between a lender, a fintech, or the GSEs about which party is responsible for an issue.

We believe that transparency and competition will be vital for promoting and adopting the right technology solutions that solve many of current problems in the housing market. NAR has been encouraged by the recent resumption of the pilot programs at the GSEs, and view them as a vital tool for trialing new technologies on a smaller scale to test for strengths and weaknesses before broad market adoption. Making sure that competition and transparency is paramount so that all qualified companies have an opportunity to prove their technologies and work with the GSEs and the FHFA will result in solutions for the whole market. The renewed effort for transparent tech development from FHFA and the GSEs is a great step, one NAR believers this is the way to actively promote reliable technology advancements that will also do the most good.

One such spot of technology advancement surrounds credit scoring. REALTORS® believe that homeownership is an integral part of the American Dream that should not be out of reach for low-income, rural and minority borrowers who lack access to traditional forms of credit. Unfortunately, many responsible Americans with "thin" credit files have been kept out of the housing market. Individuals with “thin” credit files are more likely to be deemed not creditworthy due to negative credit instances. Models evaluating those with little credit history have fewer data points to rely on, and thus may give disproportion weight to small delinquent payments. Thus, NAR supports alternative credit scoring models aimed to responsibly expand mortgage credit for millions of hardworking families.

We are encouraged by the recent work from the FHFA on credit scoring models and looking to alternative methods of credit scoring. While advancements and updates have been made in the recent decade, more work can be done to modify and reimagine credit scoring to account for a new generation of borrowers who may not have traditional credit profiles or characteristics. We thank the FHFA for considering new models and for holding listening sessions to address one of the biggest impediments to obtaining mortgage credit. We look forward to seeing the outcomes of this important work.

Where to Apply Financial Technology

The FHFA RFI also highlights a number of important advancements that we believe the agency should concentrate on. In addition to updating credit scoring models, we believe there is potential for advancements in underwriting, such as cash-flow underwriting, to potentially supplement or even replace traditional credit scores, especially for those with no credit score or those who are thin file borrowers with no data. We appreciate the work of the FHFA and the GSEs to address some of these problems and include alternative forms of credit in a credit score. But there is potential for some borrowers with seasonal incomes or non-W2 employment to benefit from advancements in cash-flow underwriting. We encourage the FHFA to evaluate this potential through the Office of Financial Technology.

While still a new and burgeoning technology, artificial intelligence offers the promise of reducing or eliminating some or all of the explicit or implicit biases in lending and underwriting. Adoption has been slow and measured with many seeing AI as a cure-all for bias while others believe that AI will only reinforce previous discriminatory practices. Both could be true depending on the approach from the FHFA. We believe a measured and well-researched effort to encourage the use of AI, responsibly, will lead to better outcomes for borrowers. A system where AI programs are not transparent to regulators and the public means the outcomes will always be behind a wall of smoke. FHFA should emphasize studying these technology advancements but with an eye toward accountability and transparency that benefits consumers and creates better credit modeling and underwriting outcomes. Proper checks and evaluations on AI systems will go a long way to increasing trust and transparency while working to help eliminate bias and discrimination in lending.

The housing market has done a remarkable job in recovering since the economic recession in the late 2000s. The GSEs are stable, profitable, and make up nearly 60% of the lending ecosystem. At the same time, the homeownership gap between Black and white borrowers is now at a point we have not seen since the Jim Crow era. This cannot continue.

NAR has taken many steps to change this trend, including joining other industry and consumer advocacy leaders to increase Black homeownership by three million households by 2030. While technology alone won't solve all these issues, we applaud the FHFA's recently-released equity plans to account for historical discrimination in housing. We believe strong coordination between this new office and other sections of FHFA looking to advance equity in housing will achieve many of the outcomes from the agencies and create a more level playing field for all consumers seeking housing.

Lastly, it is important to highlight the fact that the new Office of Financial Technology should be structured in a way that foresees a potential future state for the GSEs and their possible exit from conservatorship, along with the possibility of other regulated entities also being regulated by the FHFA. The work being done to promote and oversee fintech policies and priorities is vital at the FHFA right now, but some consideration should be given to what the office should look like and how it can be structured to not just succeed over the coming years but into the coming decades. A flexible framework that undergoes current internal review will help the agency not only oversee the GSEs and their fintech partners but also prepare for a future state where other potential participants will need access to the markets and the same regulatory regime with minimal friction.

We believe the FHFA is well-positioned to promote and oversee the influx of development and advancement in the fintech world as it relates to the future of housing finance. We thank you again for standing up the Office of Financial Technology, and we look forward to working with you as you explore the proper role of fintech for solving some of the housing market's toughest challenges. Please forward any questions to Matt Emery, Senior Policy Representative for NAR, to MEmery@nar.realtor.

Sincerely,

Leslie Rouda Smith

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2022 President, National Association of REALTORS®