

NAR Issue Summaries

Conventional Residential Lending / Credit Scoring

NAR Committee:

Conventional Financing and Policy Committee

What is the fundamental issue?

Your credit score is the critical access point when trying to enter the housing market; with a poor score, or none at all, you stand little to no chance of obtaining a loan. Yet millions of Americans, particularly minorities, immigrants, and people with modest incomes, come from backgrounds that avoid debt, leading many to have little to no credit history. Unfortunately, many responsible Americans with "thin" credit files have been kept out of the housing market.

I am a real estate professional. What does this mean for my business?

With new credit scoring models that incorporate additional predictive metrics and payment history, many of these "thin file" individuals would be able to obtain credit and enter the housing market. These new models and data would help many households, especially minorities and potential first-time homebuyers, achieve the American Dream by responsibly boosting consumer access to mortgage credit.

NAR Policy:

NAR believes that homeownership is an integral part of the American Dream that shouldn't be out of reach for individuals and families that lack access to traditional forms of credit. Thus, NAR supports competition in credit scoring and alternative credit scoring models aimed to responsibly expand mortgage credit for millions of hardworking families.

Opposition Arguments:

Some opponents of NAR policy believe that alternative credit scoring models is a "loosening" or "weakening" of current lending standards.

Legislative/Regulatory Status/Outlook

Congress and the Biden administration will likely reevaluate credit scoring policies in the near term. FHFA and the GSEs are already looking at efforts to explore alternative credit scoring models, as well as including new types of information in credit scoring for thin and no-file borrowers, such as a consumer's rental payment history.

On October 24, 2022, [FHFA announced](#) the validation and approval of two new credit score models, FICO 10T and VantageScore 4.0, for use by the Enterprises. Once implemented, lenders will be required to deliver both FICO 10T and VantageScore 4.0 credit scores, when available, with each loan sold to the Enterprises. FHFA also announced that the Enterprises will change the requirement that lenders provide credit reports from all three nationwide consumer reporting agencies (CRAs). Instead, the Enterprises will require lenders to provide credit reports from two of the three nationwide CRAs.

On March 23, 2023, [FHFA provided an update](#) on the Enterprises' implementation plans and opportunities for stakeholder engagement. FHFA and the Enterprises are working to ensure a smooth transition to the new credit scores and the new credit report requirements, in a manner that avoids unnecessary costs and complexity.

The proposed timeline includes a staged implementation to ease the transition complexity for stakeholders. The first stage includes the credit report update (change from tri-merge to bi-merge), and the second stage encompasses the credit score model implementation. FHFA and the Enterprises will conduct outreach to stakeholders to ensure a smooth transition to the newer credit score models and the bi-merge credit report requirement. The public engagement process will solicit input from stakeholders to inform and further refine the proposed implementation plans.

Current Legislation/Regulation (bill number or regulation)

H.R. 123, the "Alternative Data for Additional Credit FHA Pilot Program Reauthorization Act (Green, D-TX):

- This bill establishes a pilot program for an additional credit rating system for use by mortgage lenders. Specifically, the program must utilize one or more commercially available credit scoring models that apply additional credit information about borrowers who have insufficient credit histories for purposes of determining their creditworthiness for mortgages insured by the Federal Housing Administration.

H.R. 1266, the "Building Credit Access for Veterans Act of 2023" (Timmons, R-SC)

- This bill requires the Department of Veterans Affairs (VA) to implement a pilot program to assess the feasibility and advisability of using alternative credit scoring information or models to improve the determination of creditworthiness of certain individuals and to increase the number of such individuals who are able to obtain VA housing and small business loans. Specifically, the program is for veterans or members of the Armed Forces who are eligible for VA housing or small business loans and have insufficient credit history.

Under the program, the VA must assess the feasibility and advisability of establishing criteria for acceptable commercially available credit scoring models to be used by lenders for the purpose of guaranteeing or insuring a VA housing or small business loan.

Participation is voluntary on an opt-in basis for lenders, borrowers, and individuals.

The VA must conduct outreach to lenders and individuals to inform them of the pilot program.

Previously, NAR has supported the following credit scoring and credit reporting bills:

[H.R. 3621](#), the "Comprehensive CREDIT Act of 2020" (Pressley, D-MA), which includes:

- [H.R. 3618](#), the "Free Credit Scores for Consumers Act of 2019" (Beatty, D-OH). H.R. 3618 would direct credit reporting agencies to provide to consumers free credit scores along with their free annual consumer reports, provide automatic free credit scores and consumer reports in other specified circumstances, as well as additional information regarding the calculation of credit scores. Lenders would be directed to give consumers free copies of any consumer reports and credit scores they used for underwriting before consumers sign the respective loan agreements.
- [H.R. 3621](#), the "Student Borrower Credit Improvement Act" (Pressley, D-MA). H.R. 3621 would prohibit a consumer reporting agency from furnishing a consumer report containing any adverse information relating to a delinquent or defaulted private education loan of a borrower who has a specified demonstrated history of loan repayment.

- [H.R. 3622](#), the "Restoring Unfairly Impaired Credit and Protecting Consumers Act" (Tlaib, D-MI). H.R. 3622 would require credit reporting agencies to: 1) remove adverse information resulting from specified fraudulent lending activity; 2) shorten the time period adverse information stays on reports; 3) limit the inclusion of certain medical debt on reports; and 4) provide free credit monitoring and identity theft protection services to certain consumers, including victims of fraud, active duty military, and those 65 years of age and older.
- [H.R. 3629](#), the "Clarity in Credit Score Formation Act of 2019" (Lynch, D-MA). H.R. 3629 would direct the CFPB to regulate credit score models by establishing standards for validating the accuracy and predictive value of these models and report on the impact of nontraditional data in these models. The bill would also empower the CFPB the authority to prohibit the use of certain factors in credit score models.
- [H.R. 3642](#), the "Improving Credit Reporting for All Consumers Act" (Adams, D-NC). H.R. 3642 would revise the dispute process for consumers challenging information contained on their credit report, establish an appeals process for disputed information, and establish the right to injunctive relief. It would also require additional disclosures from credit reporting agencies and furnishers of credit information, and prohibit automatic renewals for promotional consumer credit products and services. the CFPB would also be directed to issue rules to provide for: 1) accuracy and completeness of credit reports; 2) access to consumer reporting information for nonnative English speakers, the visually impaired, and the hearing impaired; and, 3) the registration of consumer reporting agencies.

[S. 1828](#), the "Credit Access and Inclusion Act" (Scott, R-SC). S. 1828 will help individuals achieve the American Dream by amending the Federal Fair Credit Reporting Act to allow providers like gas, electric, and telecommunication companies to report consumers' payment histories to credit reporting agencies.

[H.R. 123](#), the "FHA Alternative Credit Pilot Program Reauthorization Act (Green, D-TX). H.R. 123 would help many households achieve the American Dream. Specifically, it amends the National Housing Act to extend from 5 years to 14 years the pilot program to establish an automated process for providing alternative credit rating information for prospective borrowers who have insufficient credit histories.

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