U.S. FEDERAL HOUSING

Answers

U.S. Federal Housing (Federal Housing Finance Agency, FHFA) is updating the implementation of newer, more advanced credit score models by Fannie Mae and Freddie Mac (the Enterprises). The Enterprises are moving forward with an interim phase in this initiative, in which they will permit lenders to deliver mortgage loans using a credit score generated by either the Classic FICO model or the VantageScore 4.0 model. This "lender choice" approach will introduce more robust competition in credit scoring while the Enterprises continue to work towards full implementation of modernized credit scoring and credit reporting.

Please see below for Frequently Asked Questions (FAQs) about the interim phase of the initiative. These FAQs will be updated regularly.

What policies are being updated by FHFA?
For decades, mortgage loans delivered to Fannie Mae and Freddie Mac (the Enterprises) have required credit scores, when available, from a single model – the "Classic FICO" model. Now FHFA is directing the Enterprises to permit lenders to choose between two approved credit score models – Classic FICO and VantageScore 4.0 – for loans sold to the Enterprises.

Why is FHFA pursuing these changes?
In 2018, President Trump signed into law the Credit Score Competition Act[1], requiring FHFA to establish a process for the Enterprises to validate more advanced credit score models. In 2022, after extensive testing and review by the Enterprises, FHFA announced the validation of two new credit score models – VantageScore 4.0 and FICO 10T. These new models take into account additional sources of data, including rent payment history, and have the potential to accurately score many more Americans.

VantageScore 4.0's implementation process has arrived at a point where the Enterprises soon can move forward with adoption of scores from the model. Similar implementation efforts are underway with respect to FICO 10T, and the Enterprises expect to be able to publish historical FICO 10T data and adopt scores from the model at a later date.

Providing lender choice among multiple approved credit score models should help consumers, lenders, and other market participants realize the benefits of robust competition, such as lowering closing costs. The introduction of newer credit score models will improve risk management throughout the market as well, because these new models are more predictive of default risk.

How does the introduction of VantageScore 4.0 impact other approved credit score models?
Classic FICO remains an approved credit score model that can be used for loans sold to the Enterprises. FICO 10T, which was validated and approved for use by the Enterprises alongside VantageScore 4.0 in 2022, remains an approved credit score model and is planned for future use by the Enterprises. Until then, lenders may choose between Classic FICO or VantageScore 4.0 for loans sold to the Enterprises.

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[1] Sec. 310 of the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018. This process is also governed by the Validation and Approval of Credit Score Models Rule (12 CFR Part 1254).

Will lenders report credit scores from multiple models on a given loan?
Not initially. Lenders will have the choice to report credit scores from either Classic FICO or VantageScore 4.0. For the time being, the Enterprises will not accept scores from multiple models on a given loan.

Will lenders be able to report credit scores from multiple models across different loans?
Yes. To promote robust competition and provide further flexibility for consumers and lenders, the Enterprises will allow lenders to determine which credit score model to use on each loan they deliver. FHFA and the Enterprises will implement appropriate risk mitigants to ensure ongoing safety and soundness.

Will this result in changes to credit reporting requirements?
Not initially. The inclusion of VantageScore 4.0 credit scores will not change the Enterprises' current credit reporting requirements (e.g., tri-merge/bi-merge credit reporting). By keeping these requirements as they exist today to the greatest extent possible, FHFA is seeking to minimize the cost and complexity of this transition.

What resources are available to assist in this transition?
In July 2024, the Enterprises released historical VantageScore 4.0 credit scores associated with a decade's worth of loan acquisitions – spanning tens of millions of loans. This information has allowed stakeholders to better understand the score distribution and performance of the VantageScore 4.0 model. The historical VantageScore 4.0 credit scores can be accessed here and here.

Fannie Mae and Freddie Mac will also continue to update their coordinated implementation websites, which can be found here and here.

When will these changes take effect?
The Enterprises are completing the final steps for delivery of loans scored using VantageScore 4.0. The Enterprises will keep sellers/servicers and other market participants apprised of next steps. Each Enterprise will then update its Selling Guide policies; until then, existing Selling Guide and other requirements remain in place.

Will FHFA pursue further changes to the Enterprises' credit score or credit reporting requirements?
FHFA continues to assess opportunities to lower costs for consumers, promote robust competition, and spur innovation – all while ensuring ongoing safety and soundness at the Enterprises.