



The Past, Present, and Future of Credit Scores in Housing Finance

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Housekeeping

- Today's event is hybrid. We are thrilled to have attendees with us in-person and online.
- The event is being recorded. The recording will be posted on Urban Institute's event webpage.
- The biographies for today's speakers and slides are available on the event webpage as well.
- Live captions are enabled for virtual attendees.
- Virtual attendees can submit questions using the form shared in the chat. In-person attendees can scan the QR code at your table to submit questions via the form as well.



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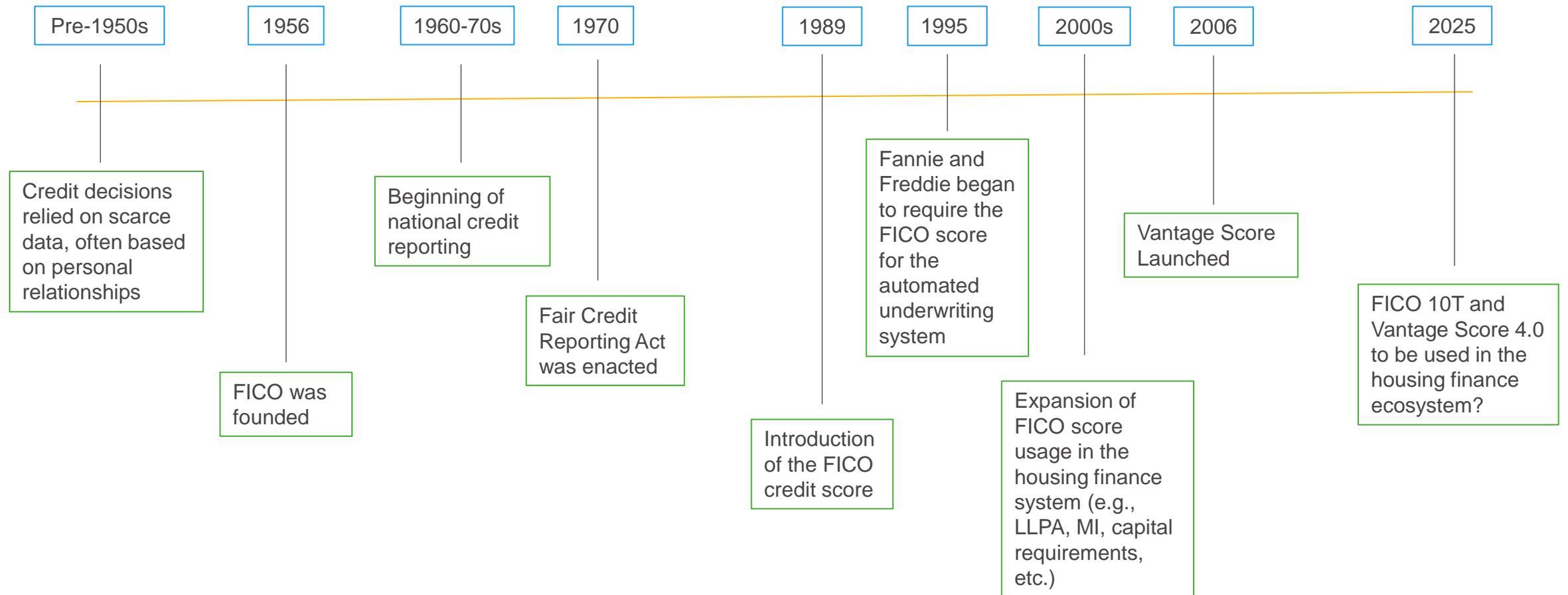
Housing Finance Policy Center



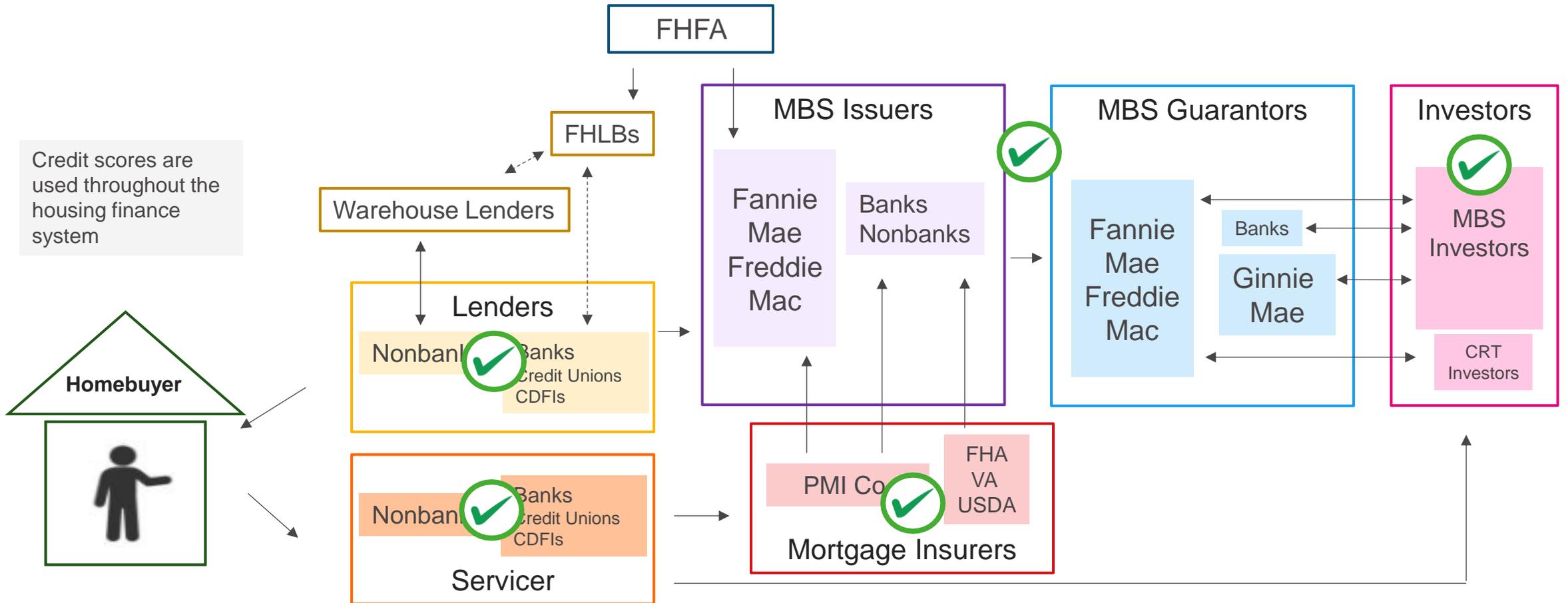
Contents

1. Past: History of Credit Scores
2. Present: Current Uses of Credit Scores in Housing Finance
3. Future: Innovations in Credit Scoring

History of Credit Scoring



Use of Credit Scores in Housing Finance



Use of Credit Scores in Housing Finance

Function	How Credit Scores Are Used	Key Actors Involved
Loan Underwriting	Currently not used directly in AUS, but requested by lenders. A minimum 620 score is required for GSE loans	GSEs, lenders
Loan Pricing (LLPAs)	Determine borrower risk-based fees and interest rates	GSEs, lenders
Mortgage Insurance (MI)	Set premiums and eligibility	Private mortgage insurers, FHA, VA
Loan Securitization	Assess loan pool quality and MBS risk	GSEs, investors, credit rating agencies
Capital Requirements	Risk weighting for capital rules	FHFA, GSEs
Servicing and Loss Mitigation	Identify risk and tailor workout options Valuation of mortgage service rights	Servicers, GSEs, FHA, VA, USDA

Alternative Data in Credit Evaluation?

- Emerging data types have been discussed and partially evaluated, including:
 - Rental Payment History
 - Utility/Telecom Payments
 - Bank Cash Flow Data
 - Buy Now Pay Later



Images from: <https://mycapitalview.com/view-access-to-bank-account>

Recent Innovations

Facilitating Rent Reporting & Using Rent Payment Incorporated Credit Scores

- GSEs incentivized multifamily property owners to report tenants' positive rent payment histories.
- Fin techs (e.g., Bilt Rewards, Esusu) and property owners (e.g., WHC, Amazon) are making it easier for landlords and tenants to report rent to credit bureaus.
- FICO 10T and VantageScore 4.0 – who both incorporate rental data in the credit files – have recently been approved but not yet implemented in housing finance.

Examining Rent Payment in Mortgage Underwriting by Accessing Bank Accounts

- GSEs started and expanded the evaluation of on-time rental payment histories in their Desktop Underwriting.
- FHA updated its underwriting protocols to include positive rental history in its TOTAL Scorecard.
- Several companies (e.g., FormFree, Plaid) have improved the utilization of bank account data through advanced technology.

What Is the Potential Impact?

Improve Credit Scores?



Expand Access to Homeownership?



What Are the Existing Barriers?

- **Data Collection:** Less than **5%** of rental history data is in the credit files. Receiving consumer permission to access bank account data is also challenging.
- **Consumer Awareness:** Our research finds that **45%** of consumers are unsure whether their rent is reported, and many who say they report rent are likely misinformed.
- **Data Standardization:** Without data standardization, even with more alternative data added to the system will struggle to have a scalable impact.
- **Regulation & Consumer Protection:** Clear regulatory guidelines are needed to ensure the responsible use of consumer information.

What Next?

Panel 1

How are credit scores used in the housing finance ecosystem, and what role do consumers have in understanding their score?

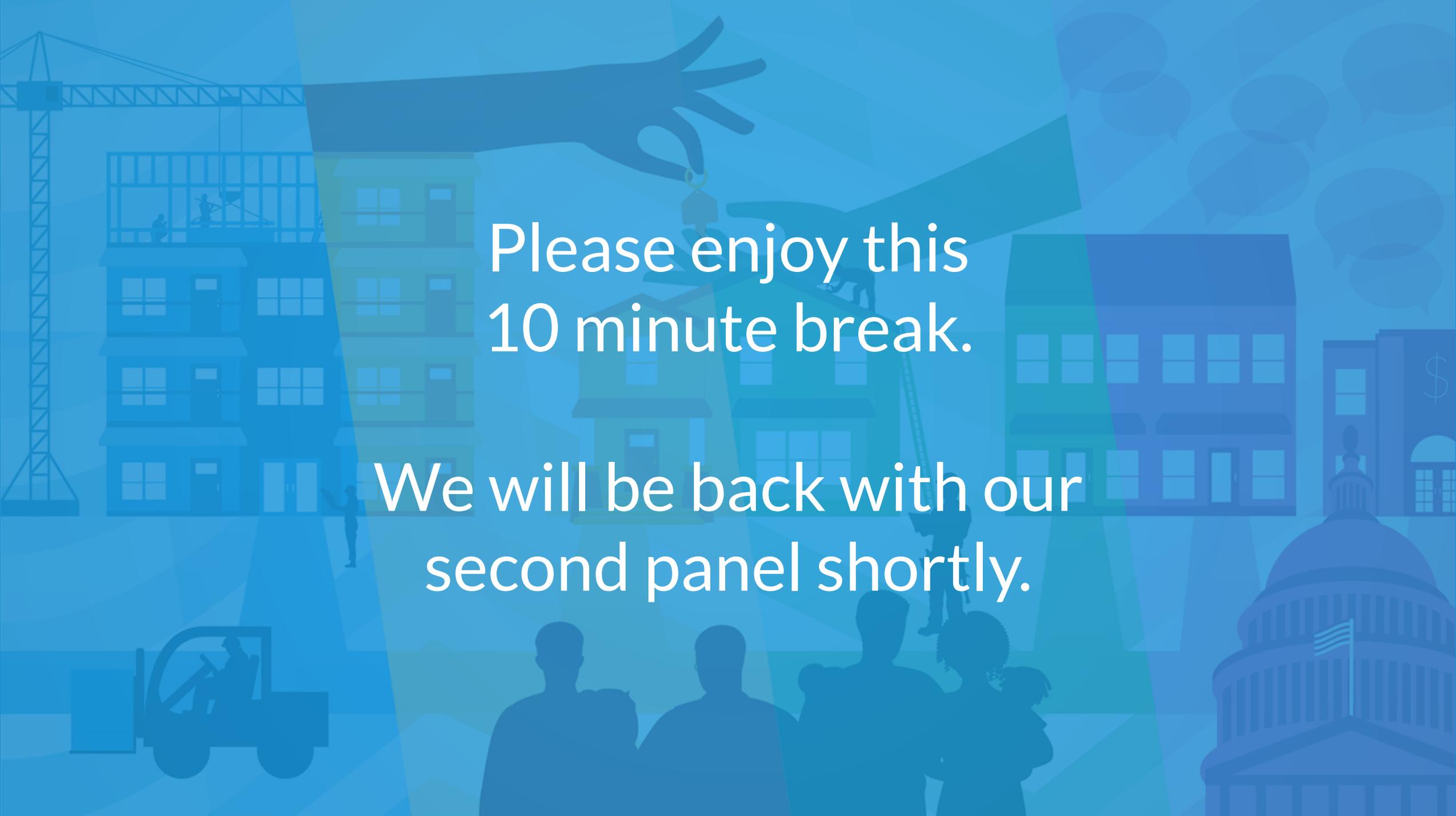
Panel 2

How will innovations, emerging technologies, and alternative data affect credit scores and access to credit in the future?



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The background is a blue-toned illustration of a city. On the left, a construction crane stands next to a multi-story building under construction. In the center, a large hand reaches down, holding a set of keys. To the right, there are several colorful buildings, including one with a dollar sign. In the foreground, silhouettes of a group of people are visible. The overall scene suggests a community or urban development theme.

Please enjoy this
10 minute break.

We will be back with our
second panel shortly.



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