The National Credit Reporting Association, Inc.
Position On
Fannie Mae's Proposed Single Pull Strategy
January 2001

NCRA has been made aware of a proposed strategy by Fannie Mae to consider a single repository "in-file" as adequate for the underwriting of mortgage loans. It is incumbent upon our association to prepare the following response.

What is Fannie Mae trying to accomplish?
We have learned that Fannie Mae is looking for additional cost savings for the lender. This cost savings would allow lenders to better compete for market share in the new "E-lending" environment. It has been emphasized that the lender's desire to pre-qualify potential borrowers at little or no cost is the driving force behind this proposed strategy.

As lenders have accelerated their efforts to capitalize on loan originations via the Internet, they have found those applications to have an extremely high drop out rate compared to the traditional means of originating loans in which personal service and trust are the premium.

In promotion of this new strategy, it has been suggested that this change will actually provide a savings for the consumer.

What are the concerns associated with this proposed strategy?
The primary concern is the continued trend in the mortgage industry to lower underwriting standards. We appear to be nearing the end of the longest running economic expansion in our nation's history. This extended economic boom has created an environment in which certain underwriting standards have been sacrificed for the sake of speed and technology. Consider a statement about our recent economic times and lending by David Hamilton of Moody's Investors Services, "When you get into the late phase of a boom, lending standards become more lax and the marginal borrower is more risky". Despite this long running expansion, consumer debt is at an all time high. It seems that in this economic environment the last thing a lender would want to do is reduce the quality of the credit review process.

The three credit repositories have varying strengths and weakness related to geographic territories, certain industries, public records, mixed consumer files, and the local creditors who report to them. As credit professionals, we see clear examples of these variations on a daily basis evidenced by the disparity in the credit scores. Score variances of 100 points or more on the same consumer from different credit repositories are not uncommon. Fannie Mae, Freddie Mac, FHA, and The Farmers Home Administration all concluded long ago that the single repository file was not complete enough to make a sound lending decision. After that conclusion, which introduced the merging of a second repository file and a verification process into the credit reporting standards, it was determined that further data was still needed. That set the stage for the current practice of merging data from all three credit repository files to get the most complete and accurate consumer profile.

Considering the current economic times, and the extensive research that has gone into the study and requirement for the use of the additional credit data to make sound lending decisions, how could it be fiscally prudent to dismiss these guidelines simply due to the desire of the lending community to cut costs in the origination process?

The credit report is the least expensive cost associated with the mortgage transaction, yet it is one of the single most important aspects of the quality of the lending decision. In a transaction in which the credit report has a cost factor of about 1% of the total service fees involved in processing the loan, shouldn't cost savings be found elsewhere?

Three organizations have conducted studies to determine the value of the additional data provided from the merging of multiple credit repositories (two studies by First American Credco, one each by Fannie Mae and Chase Credit Research). These studies, presented at the Associated Credit Bureaus (ACB) sponsored meeting in November of 2000, by First American Credco, all conclude and confirm that there is more valuable and complete data in reports that have been merged from multiple credit repositories.

Merging multiple repository files is the only method to gather the accurate and full credit profile. In an environment in which even auto dealers are finding the need for multiple repository files to make better lending decisions, it is difficult to understand the proposed single pull strategy. History has provided us with examples of the costs associated with the lowering of underwriting guidelines due to previous policy changes; we urge that those lessons be considered as this proposed strategy is fully contemplated. Taxpayers who are still burdened by paying for the errors of the past are the same ones guarantying the quality of today's loans. NCRA doubts that these taxpayers would approve of additional underwriting risk simply to create better profit margins for lenders who are exploring the unproven benefits of technologically driven commerce.

Another concern is if a single repository file is to be used, considering the variances between them, how will it be determined which one of the three will be used?

Even the most common practice of the use of postal zip code tables to pick a repository cannot reliably choose the most relevant repository file. Models may be developed indicating the repository file with the most trade-lines per file in a given zip code, or a similar other variable, but is the data relevant? Of these file variations which one is correct? If only one repository file is pulled will it contain the entire credit history of the applicant? Will the file be missing derogatory information or will it be missing positive information? Will a loan approval decision be based on mixed credit data that does not even belong to the actual applicant? Just as it is it unreasonable to increase lending risk it is also unreasonable to punish a borrower with a higher than market interest rate due to insufficient data. Where is the consumer savings when through the use of a two or three repository merged report the additional data would have earned the borrower a lower, more accurate, interest rate? How can the nominal savings this plan might provide consumers justify the potential overcharge of thousands of dollars in interest?

Still another concern is that the single repository in-file is an increased risk for fraud. As the industry has moved away from verification of credit files (the old RMCR's) fraud has increased according to Fannie Mae and Freddie Mac. To further reduce the amount and, in turn the quality of credit data used in the lending decision, could further accelerate the rise in fraud. The single pull strategy eliminates the checks and balances created by the confirmation of the core credit data within each repository file. The additional repository files, when merged, act as an audit against the possibility of fraud via the manipulation of the credit data.

Finally, there is concern that the nation's network of credit reporting agencies, as it exists today, will be irreparably harmed by this proposed strategy for the sole purpose of reducing the lender's marketing costs. No regard to the real impact on both the lending community and consumers alike is being thoroughly considered. The credit reporting industry provides a valuable resource to consumers and the entire lending industry by providing the one crucial document, one that can more quickly make or break a loan than any other document in the loan process, faster and at the lowest cost ever.

Who is going to handle the consumer disputes and disclosures without the aid of many of the credit reporting agencies that currently provide both the consumer and their lender clients a valuable service at a nominal expense? This service will be disappearing or be greatly diminished under the provisions of the proposed strategy which in the end would not provide any real savings for the consumer, as has been suggested.

What is the solution?

At the ACB sponsored meeting in November, a suggestion was made for an option to this proposed strategy. The suggestion was to pre-qualify with a single repository file and underwrite with all three. NCRA believes this would be a viable option meeting the needs of both cost cutting and consumer protection.

NCRA would also like to propose an alternative solution. Our suggestion accomplishes the same goals of cost cutting and consumer protection, as well as restoring competition to all levels of the credit industry in lieu of diminishing it. We suggest that the lender pre-qualify with a single repository and underwrite with a two repository merged report. This option would help control the cost of credit to consumers while not sacrificing quality, accuracy or service. The two repository merged file would not significantly increase underwriting risk and would still provide the checks and balances needed for fraud deterrence.

The NCRA strongly believes that any option short of a two repository merged file for underwriting, while may provide some short term cost savings, will prove to be an irresponsible decision which will cost the mortgage lending industry and the American homeowner far more than the savings it provides.

For additional information about the NCRA position on this subject please contact:

Terry W. Clemans
Executive Director
Phone 630-539-1296
tclemans@ncrainc.org