

115TH CONGRESS
1ST SESSION

S. 1685

To require Fannie Mae and Freddie Mac to establish procedures for considering certain credit scores in making a determination whether to purchase a residential mortgage, and for other purposes.

IN THE SENATE OF THE UNITED STATES

AUGUST 1, 2017

Mr. SCOTT (for himself and Mr. WARNER) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

A BILL

To require Fannie Mae and Freddie Mac to establish procedures for considering certain credit scores in making a determination whether to purchase a residential mortgage, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Credit Score Competi-
5 tion Act of 2017”.

6 **SEC. 2. CREDIT SCORE VALIDATION; VALIDATION PROCESS.**

7 (a) USE OF CREDIT SCORES BY FANNIE MAE IN
8 PURCHASING RESIDENTIAL MORTGAGES.—Section

1 302(b) of the Federal National Mortgage Association
2 Charter Act (12 U.S.C. 1717(b)) is amended by adding
3 at the end the following:

4 “(7)(A) DEFINITION.—In this paragraph, the term
5 ‘credit score’ means a numerical value or a categorization
6 derived from a statistical tool or modeling system used by
7 a person who makes or arranges a loan to predict the like-
8 lihood of certain credit behaviors, including default.

9 “(B) USE OF CREDIT SCORES.—The corporation
10 may condition purchase of a residential mortgage by the
11 corporation under this subsection on the provision of a
12 credit score for the borrower only if—

13 “(i) the credit score is derived from any credit
14 scoring model that has been validated and approved
15 by the corporation under this paragraph;

16 “(ii) the corporation has established and made
17 publicly available a description of the process the
18 corporation will use to validate and approve credit
19 scoring models, which process shall comply with any
20 standards and criteria established by the Director of
21 the Federal Housing Finance Agency pursuant to
22 section 1328 of the Federal Housing Enterprises Fi-
23 nancial Safety and Soundness Act of 1992; and

24 “(iii) the corporation provides for the use of the
25 credit score by all of the automated underwriting

1 systems of the corporation and any other procedures
2 and systems used by the corporation to purchase
3 residential mortgages.

4 “(C) VALIDATION AND APPROVAL PROCESS.—The
5 process described in subparagraph (B)(ii) shall include an
6 evaluation of—

7 “(i) the criteria used to validate and approve a
8 credit scoring model, including measures of the in-
9 tegrity, reliability, and accuracy of that model, and
10 an assurance that the model is consistent with the
11 safe and sound operation of the corporation; and

12 “(ii) the data necessary for the validation of the
13 credit scoring model.

14 “(D) APPLICATION.—If the corporation elects to use
15 a credit score under this paragraph, the corporation shall
16 solicit applications from developers of credit scoring mod-
17 els for the validation and approval of those models under
18 the process described in subparagraph (B)(ii).

19 “(E) TIMEFRAME FOR DETERMINATION; NOTICE.—

20 “(i) IN GENERAL.—The corporation shall make
21 a determination with respect to any application sub-
22 mitted under subparagraph (D), and provide notice
23 of that determination to the applicant, before a date
24 established by the corporation that is not later than

1 180 days after the date on which an application is
2 submitted to the corporation.

3 “(ii) EXTENSIONS.—The Director of the Fed-
4 eral Housing Finance Agency may authorize up to
5 2 extensions of the date established under clause (i),
6 each of which shall not exceed 30 days, upon a writ-
7 ten request and a showing of good cause by the cor-
8 poration.

9 “(iii) STATUS NOTICE.—The corporation shall
10 provide notice to an applicant regarding the status
11 of an application submitted under subparagraph (D)
12 not later than 60 days after the date on which the
13 application was submitted to the corporation.

14 “(iv) REASONS FOR DISAPPROVAL.—If an appli-
15 cation submitted under subparagraph (D) is dis-
16 approved, the corporation shall provide to the appli-
17 cant the reasons for the disapproval not later than
18 30 days after a determination is made under this
19 subparagraph.

20 “(F) AUTHORITY OF DIRECTOR.—If the corporation
21 elects to use a credit score under this paragraph, the Di-
22 rector of the Federal Housing Finance Agency shall re-
23 quire the corporation to routinely update the validation
24 and approval process described in subparagraph (B)(ii) as
25 the Director determines necessary to ensure that the proc-

1 ess remains appropriate, adequate, and complies with any
 2 standards and criteria established pursuant to section
 3 1328 of the Federal Housing Enterprises Financial Safety
 4 and Soundness Act of 1992.”.

5 (b) USE OF CREDIT SCORES BY FREDDIE MAC IN
 6 PURCHASING RESIDENTIAL MORTGAGES.—Section 305 of
 7 the Federal Home Loan Mortgage Corporation Act (12
 8 U.S.C. 1454) is amended by adding at the end the fol-
 9 lowing:

10 “(d)(1) DEFINITION.—In this subsection, the term
 11 ‘credit score’ means a numerical value or a categorization
 12 derived from a statistical tool or modeling system used by
 13 a person who makes or arranges a loan to predict the like-
 14 lihood of certain credit behaviors, including default.

15 “(2) USE OF CREDIT SCORES.—The Corporation
 16 may condition purchase of a residential mortgage by the
 17 Corporation under this section on the provision of a credit
 18 score for the borrower only if—

19 “(A) the credit score is derived from any credit
 20 scoring model that has been validated and approved
 21 by the Corporation under this subsection;

22 “(B) the Corporation has established and made
 23 publicly available a description of the process the
 24 Corporation will use to validate and approve credit
 25 scoring models, which shall comply with any stand-

1 ards and criteria established by the Director of the
2 Federal Housing Finance Agency pursuant to sec-
3 tion 1328 of the Federal Housing Enterprises Fi-
4 nancial Safety and Soundness Act of 1992; and

5 “(C) the Corporation provides for use of the
6 credit score by all of the automated underwriting
7 systems of the Corporation and any other procedures
8 and systems used by the Corporation to purchase
9 residential mortgages.

10 “(3) VALIDATION AND APPROVAL PROCESS.—The
11 process described in paragraph (2)(B) shall include an
12 evaluation of—

13 “(A) the criteria used to validate and approve
14 a credit scoring model, including measures of the in-
15 tegrity, reliability, and accuracy of that model and
16 an assurance that the model is consistent with the
17 safe and sound operation of the Corporation; and

18 “(B) the data necessary for the validation of
19 the credit scoring model.

20 “(4) APPLICATION.—If the Corporation elects to use
21 a credit score under this subsection, the Corporation shall
22 solicit applications from developers of credit scoring mod-
23 els for the validation and approval of those models under
24 the process described in paragraph (2)(B).

25 “(5) TIMEFRAME FOR DETERMINATION; NOTICE.—

1 “(A) IN GENERAL.—The Corporation shall
2 make a determination with respect to any applica-
3 tion submitted under paragraph (4), and provide no-
4 tice of that determination to the applicant, before a
5 date established by the Corporation that is not later
6 than 180 days after the date on which an applica-
7 tion is submitted to the Corporation.

8 “(B) EXTENSIONS.—The Director of the Fed-
9 eral Housing Finance Agency may authorize up to
10 2 extensions of the date established under subpara-
11 graph (A), each of which shall not exceed 30 days,
12 upon the written request and a showing of good
13 cause by the Corporation.

14 “(C) STATUS NOTICE.—The Corporation shall
15 provide notice to an applicant regarding the status
16 of an application submitted under paragraph (4) not
17 later than 60 days after the date on which the appli-
18 cation was submitted to the Corporation.

19 “(D) REASONS FOR DISAPPROVAL.—If an ap-
20 plication submitted under paragraph (4) is dis-
21 approved, the Corporation shall provide to the appli-
22 cant the reasons for the disapproval not later than
23 30 days after a determination is made under this
24 paragraph.

1 “(6) **AUTHORITY OF DIRECTOR.**—If the Corporation
 2 elects to use a credit score under this subsection, the Di-
 3 rector of the Federal Housing Finance Agency shall re-
 4 quire the Corporation to routinely update the validation
 5 and approval process described in paragraph (2)(B) as the
 6 Director determines necessary to ensure that the process
 7 remains appropriate, adequate, and complies with any
 8 standards and criteria established pursuant to section
 9 1328 of the Federal Housing Enterprises Financial Safety
 10 and Soundness Act of 1992.”.

11 **SEC. 3. AUTHORITY OF DIRECTOR OF THE FEDERAL HOUS-**
 12 **ING FINANCE AGENCY.**

13 Subpart A of part 2 of subtitle A of the Federal
 14 Housing Enterprises Financial Safety and Soundness Act
 15 of 1992 (12 U.S.C. 4541 et seq.) is amended by adding
 16 at the end the following:

17 **“SEC. 1328. REGULATIONS FOR USE OF CREDIT SCORES.**

18 “The Director may, by regulation, establish stand-
 19 ards and criteria for any process used by an enterprise
 20 to validate and approve credit scoring models pursuant to
 21 section 302(b)(7) of the Federal National Mortgage Asso-
 22 ciation Charter Act and section 305(d) of the Federal
 23 Home Loan Mortgage Corporation Act.”.

1 **SEC. 4. EFFECTIVE DATE.**

2 The amendments made by this Act shall take effect
3 on the date that is 180 days after the date of enactment
4 of this Act.

