Enterprise Credit Score and Credit Reports Initiative

Partner Playbook

February 2024

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This playbook will be updated regularly with new and refreshed content.

Updated February 28, 2024

Introduction

This playbook is designed to help industry partners prepare for and adopt the multiyear Fannie Mae and Freddie Mac (the GSEs) initiative to update the current credit report requirements for mortgage eligibility and the current credit score model. It will provide information about how industry partners can benefit from this initiative, timelines and roadmaps to keep them on track for building to or implementing updates, and additional resources to learn more along the way.

We'll update this playbook regularly to provide new or refreshed FAQs, links to additional resources and training opportunities, and more – so check back often.

What is the Credit Score and Credit Report Initiative?

It's a multiyear effort to update the current credit reporting requirements and replace the existing credit score model used for loans sold to the GSEs. The GSEs are doing this work with input and feedback from industry stakeholders.

Credit Report Update

The GSEs' longtime requirement to obtain three credit reports for each borrower on a loan ("tri-merge") will change to require a minimum of two credit reports per borrower ("bi-merge"), with a new credit score calculation*

Credit Score Models Update

The GSEs will require lenders to deliver credit scores based on the FICO® Score 10 T and VantageScore® 4.0 credit score models rather than the Classic FICO credit score model, using a new loan-level credit score calculation.*

* See FAQ #11 for more information on the proposed changes to the credit score calculation.

How Does This Initiative Support Sustainable Homeownership?

OVERALL BENEFITS

Fosters competition among credit bureaus.

Responsibly increases access to credit.

Both new credit score models provide more precise assessments of credit risk than the current model.

Both new credit score models consider trended data and new payment history (e.g., rent, utilities and telecom payments) when available.

Public Engagement

As we move toward implementation, FHFA and the GSEs will continue to conduct stakeholder forums to collect feedback on key topics impacting the initiative. More than a thousand individuals representing several hundred organizations have provided feedback on the transition to updated credit score models and from the existing tri-merge credit report requirement to a bi-merge credit report option. This feedback, delivered through multiple channels, has been detailed and thoughtful. We will continue to use the feedback collected as we move forward with implementation plans.

Interested parties who wish to participate in the upcoming forums should send their name, affiliation, and contact information to CreditScores@fhfa.gov. Details for each stakeholder forum will be sent by FHFA from CreditScores@fhfa.gov.

Additional ways you can participate in the Stakeholder Forums:

1. Request a 2-minute timeslot to voice your thoughts, opinions, concerns, or suggestions by emailing CreditScores@fhfa.gov.
2. Review the agenda prior to each call and email any questions or thoughts to CreditScores@fhfa.gov.
3. Encourage others to join.

Proposed Implementation Timeline*

Based on feedback from the public engagement process, the publication of historical VantageScore® 4.0 scores has been accelerated and the implementation of the bi-merge option has been aligned with the retirement of Classic FICO.

✓ 2Q 2023	Industry feedback window.
✓ 3Q 2023	Publish Uniform Loan Delivery Dataset (ULDD) specifications to support the updates.
3Q 2024	Publish VantageScore® 4.0 historical credit scores.
TBD	Publish FICO® Score 10 T historical credit scores.
TBD	Lenders deliver FICO® Score 10 T and VantageScore® 4.0 credit scores in addition to Classic FICO credit scores, **and** GSEs update MBS/CRT disclosures to include FICO® Score 10 T and VantageScore® 4.0.
4Q 2025	Implement "tri-merge" to "bi-merge" reports (optional) **and** new credit score calculation (mandatory) **and** incorporate new credit score model requirements into mortgage processes, while simultaneously retiring Classic FICO. **Note:** Milestones related to the implementation of FICO® Score 10 T are dependent on achieving the necessary conditions for the acquisition and publication of FICO® Score 10 T historical data.

**Aspects of the timeline are subject to potential revisions in the future.*

FAQs – General

Q1: Why are FHFA and the GSEs undertaking this initiative now?

A: For nearly 30 years, the GSEs have required lenders to deliver credit scores based on the Classic FICO model. In 2014, the Federal Housing Finance Agency (FHFA) and the GSEs began an effort to modernize the credit score model requirements. In 2018, Congress required FHFA to create a process for validating and approving credit score models. The validation and approval of FICO® Score 10 T and VantageScore® 4.0 is the result of a lengthy effort by FHFA and the GSEs to further support innovation and inclusion in credit score models used by the GSEs.

Q2: Will FHA/VA/USDA align with the GSEs on these initiatives and timelines?

A: We understand this is a primary concern for the industry. Please note that FHA, VA, and USDA retain the authority to determine whether to take any specific actions regarding their program requirements.

Q3: Will the new requirements impact pricing for loans delivered to the GSEs? If so, at what stage of the initiative could that happen?

A: Fannie Mae's loan level price adjustments and Freddie Mac's credit fees are expected to be updated concurrent with the implementation of the bi-merge option and the new credit score model requirements.

FAQs – Public Engagement

Q4: Why did FHFA begin a new phase of public engagement related to Credit Score Implementation?

A: Since the approval of FICO® Score 10 T and VantageScore® 4.0 and the planned transition from a tri-merge credit report requirement to allow a bi-merge credit report option, FHFA and the GSEs have focused on ensuring the move to these updated requirements is as smooth as possible and minimizes unnecessary costs or complexity for market participants.

FHFA and the GSEs are committed to engaging with a wide range of stakeholders in the housing finance system. This new phase of public engagement builds on the feedback collected in the first half of 2023 and provides a forum for continued identification of a wide variety of issues, opportunities, and challenges. Interested stakeholders can share their perspectives, and FHFA and the GSEs can seek feedback and views related to the implementation of the new GSE credit score requirements.

Q5: How do interested stakeholders submit a request to participate in upcoming meetings?

A: Interested parties who wish to participate in this process should send their name, affiliation, and contact information to CreditScores@fhfa.gov.

FAQs – Tri-merge to Bi-merge

Q6: What are the benefits of moving from requiring tri-merge credit reports to allowing bi-merge credit report options?

A: This change to the GSEs credit report requirements is expected to encourage innovation and competition in the market.

Q7: Will lenders be allowed to pull three credit reports on borrowers and then select the highest of the three scores?

A: FHFA and the GSEs expect that if three credit reports are obtained, lenders will be directed that all three must be delivered.

FAQs – Tri-merge to Bi-merge (cont’d)

Q8: Is the bi-merge credit report required? Will lenders be permitted to choose which two credit reporting agencies will be used?

A: Delivering a bi-merge credit report is optional, and lenders can choose to continue with the tri-merge report. If lenders choose to use the bi-merge credit report option, they may select the credit reporting agencies with which they do business (as is current practice).

Reminder: The required changes to Freddie Mac’s Indicator Score and Fannie Mae’s Representative Credit Score calculation will apply to both bi-merge and tri-merge credit reports (see Question 19).

Q9: Why is the implementation of the bi-merge option being combined with the implementation of the new credit score model requirements?

A: Feedback received during the stakeholder forums and through other channels highlighted concerns related to the cost and complexity of separate implementation dates for these milestones. As a result, the implementation of the bi-merge option and the transition away from Classic FICO are now planned to occur simultaneously.

FAQs – Credit Score Model

Q10: What are the benefits of FICO® Score 10 T and VantageScore® 4.0?

A: Lenders, investors, and other industry stakeholders, as well as borrowers, can expect more inclusive credit scores and enhanced safety and soundness for the housing market.

FICO® Score 10 T and VantageScore® 4.0 are more predictive than Classic FICO and provide a more precise assessment of credit risk. Also, both models consider trended credit data and additional data such as rent, utility, and telecom payments, which are not currently considered as part of the Classic FICO score.

Both GSEs already consider trended credit data and rental payments when available in their automated underwriting systems' comprehensive risk assessments for mortgage eligibility recommendations.

The FICO® Score 10 T and VantageScore® 4.0 reason codes are not the same as the Classic FICO reason codes. Adverse action notices will need to be updated.

To learn more, please visit FICO® Score 10 T and VantageScore® 4.0.

FAQs – Credit Score Model (cont'd)

Q11: Will moving from tri-merge to bi-merge require updated guidance to lenders on how to calculate the borrower's Representative Credit Score (Fannie Mae) or Indicator Score (Freddie Mac)? Why are changes to the score calculation methodology being considered?

A: Yes, there will likely be a new method of calculating the Representative Credit Score (Fannie Mae) and Indicator Score (Freddie Mac). If no change were made, the current score methodology (median of three credit bureaus or lower if there are two credit bureaus) could shift credit scores lower (even though the risk of the loan is the same), potentially resulting in an increase to the cost of a mortgage for borrowers.

The GSEs plan to migrate to an "average score" calculation. Research has shown that the proposed average methodology is a better representation of the risk of the loan and could reduce impact to borrowers from the change in methodology.

Note: On November 21, 2023, FHFA published a final rule modifying certain provisions of the Enterprise Regulatory Capital Framework. FHFA did not, at that time, modify the procedure for selecting a representative credit score for a single-family mortgage when multiple credit scores have been submitted for at least one borrower as part of the final rule. The **Enterprise Regulatory Capital Framework Notice of Proposed Rulemaking** contained a proposed methodology which would have required an Enterprise to use an average credit score for each borrower whenever multiple scores are present (as opposed to the current methodology which requires an Enterprise to select the median borrower credit score when three scores are present or the lower borrower credit score when two scores are present). In consideration of the delayed implementation date for the bi-merge requirement and the ongoing public engagement related to credit scores, FHFA has determined to not adopt the proposed change to the calculation of representative credit scores at this time. FHFA may, in the future, finalize this aspect of the proposed rule.

See the next two pages for additional details and sample scenarios.

FAQs - Credit Score Model: Q11, More about the credit score calculation

The loan-level credit score calculation will change for both tri-merge and bi-merge when the bi-merge credit report option is implemented.

A: As referenced in the **Enterprise Regulatory Capital Framework Notice of Proposed Rulemaking[1],** FHFA has proposed two methodologies for calculating the representative credit score for purposes of capital requirements. While the final rule did not adopt changes to the methodology for calculating a representative credit score, FHFA may consider updating the methodology considered in the proposed rule in the future. Although this would not directly impact pricing calculations, we anticipate that pricing will largely align with capital-related decisions. The "Average/Then Lowest" option would entail using the average across bureaus, then lowest across borrowers methodology[2], while the "Average/Then Average" option would entail using the average across bureaus, then average across borrowers methodology[3] to calculate the Representative Credit Score and Indicator Score, pending FHFA's final rulemaking decision and public feedback.

NOTE: Even if lenders continue to obtain a tri-merge credit report, they will be impacted by the credit score calculation change.

[1] Score calculation methodology is subject to the Notification of Proposed Rulemaking process.
[2] "Average/Then Lowest" = average of scores for each borrower, then (for multi-borrower loans) use the lowest of the resulting averaged scores
[3] "Average/Then Average" = average of the new scores for each borrower, then (for multi-borrower loans) use the average of the resulting averaged scores

FAQs - Credit Score Model: Q11 (cont'd)

Freddie Mac SINGLE-FAMILY | Fannie Mae

What will be the potential borrower-level score under each score calculation method proposal?

The table shows examples of potential score calculations options (Average/Then Lowest and Average/Then Average) across various borrower scenarios.[1]

Step 1: Calculate the borrower-level score by taking the average of the bureau-level scores separately for each borrower on the application. The result can be found in the green column.

Step 2: Calculate the loan-level score for proposed methodologies:

- "Average/Then Lowest": Take the lower of the borrower scores in the green column to get the loan level-score. The result can be found in column 7.
- "Average/Then Average": Take the average of the borrower-level scores (green column). The result can be found in column 8, the blue column.

			Score 1 (bureau 1)	Score 2 (bureau 2)	Score 3 (bureau 3)	Median/ Lower of 2 (bureaus)	Average (bureaus)	Classic FICO: Lower of Median/Lower of 2 (borrower)	Potential for Classic FICO: Average/then Lowest (borrower)	Potential for VantageScore 4.0 and FICO Score 10 T: Average/ then Average (borrower)
1	Scenario 1	Borrower 1	700	710	720	710	710	685	687	698
		Borrower 2	680	685	695	685	687			
2	Scenario 2	Borrower 1	740	745	N/A	740	743	740	743	760
		Borrower 2	775	780	N/A	775	778			
3	Scenario 3	Borrower 1	640	660	670	660	657	660	657	657
4	Scenario 4	Borrower 1	N/A	660	670	660	665	660	665	665
5	Scenario 5	Borrower 1	740	755	N/A	740	748	740	748	748
		Borrower 2	N/A	N/A	N/A	N/A	N/A			
6	Scenario 6	Borrower 1	740	N/A	760	740	750	740	750	779
		Borrower 2	785	N/A	780	780	783			
		Borrower 3	800	N/A	810	800	805			

[1] These two potential scenarios are subject to further revision and do not constitute any final decisions by the GSEs or FHFA.

FAQs – Credit Score Model (cont’d)

Q12: When will Classic FICO scores stop being reported and ultimately retired?

A: Mortgage market participants will be given significant lead time on reporting requirements before the retirement date of Classic FICO, which is planned for Q42025.

Q13: Will lenders be expected to average FICO® Score 10 T and VantageScore® 4.0 scores together for loan delivery?

A: No. Lenders will be required to deliver average FICO® Score 10 T and average VantageScore® 4.0 separately in the ULDD. See Question 20 for additional information on the ULDD.

Q14: Will there be multiple changes to the Representative Credit Score (Fannie Mae) or Indicator Score (Freddie Mac) calculation?

A: We expect that there will only be one change to these calculations for pricing and disclosure purposes. The proposed implementation timeline had previously considered one change to the credit score calculation to support the transition to a bi-merge approach (i.e., to account for the potential presence of two, rather than three, credit scores per borrower), and then another change to the credit score calculation at a later date to support the transition to the new credit score model requirements. FHFA has confirmed that the bi-merge implementation date will be aligned with the new credit score model requirements, and therefore we only expect to change the credit score calculation once.

FAQs – Publication of Historical Credit Scores

Q15: Will the GSEs publish historical data on Classic FICO?

A: The publication of historical data on Classic FICO is no longer necessary due to the expected alignment of the bi-merge implementation date with the implementation of the new credit score model requirements. The proposed implementation timeline had previously considered the bi-merge implementation date occurring earlier than the implementation of the new credit score models. In such a scenario, there would be a period in which market participants could use a bi-merge approach with the Classic FICO model. The historical data on Classic FICO would have supported this process. FHFA has confirmed that the bi-merge implementation date will be aligned with the new credit score model requirements, and therefore the bi-merge approach will be available for the newly implemented models rather than for Classic FICO.

Q16: Why are the GSEs releasing the VantageScore® 4.0 historical data prior to the FICO® Score 10 T historical data?

A: The GSEs are working to acquire and publish historical data to support market participants' analyses of both the VantageScore® 4.0 and FICO® Score 10 T credit score models. In concert with FHFA, the GSEs are taking steps to make this historical data available to market participants as soon as possible. The necessary conditions for acquiring and publishing VantageScore® 4.0 historical data are expected to be met early in the third quarter of 2024. The GSEs continue to work towards achieving the necessary conditions to acquire and publish the FICO® Score 10 T historical data.

FAQs – Publication of Historical Credit Scores (cont'd)

Q17: How does the process for acquiring and publishing historical data on the new credit score models impact the timing of their implementation?

A: Milestones related to the implementation of both the VantageScore® 4.0 and FICO® Score 10 T models are dependent on achieving the necessary conditions for the acquisition and publication of historical data on the models. This historical data is being provided to support market participants in their transition to the new models, as well as to bi-merge credit reporting. The necessary conditions for acquiring and publishing VantageScore® 4.0 historical data are expected to be met early in the third quarter of 2024. The GSEs continue to work towards achieving the necessary conditions to acquire and publish the FICO® Score 10 T historical data. Until such conditions are achieved, it is difficult to provide precise estimates related to other FICO® Score 10 T implementation milestones.

FAQs – Technology Implementation

Q18: Will loan origination system (LOS) vendors and other technology service providers update their systems to incorporate the changes?

A: Yes. Technology service providers will be expected to update their systems to meet the GSEs published specifications updates, policy changes, and required dates set forth in Fannie Mae's *Selling Guide* and Freddie Mac's *Single-Family Seller/Servicer Guide*.

Q19: Through which systems will the new scores need to be delivered to the GSEs?

A: For Fannie Mae: As is the current process, lenders will be expected to provide the new scores to Fannie Mae's Loan Delivery system the same way they deliver Classic FICO today (via the ULDD file); Desktop Underwriter® (DU®) will receive the new credit scores via credit reports submitted/reissued to DU as part of the automated underwriting process.

For Freddie Mac: Customers will deliver the new scores the same way they deliver Classic FICO today (in the ULDD file) to Loan Selling Advisor®. Lenders submitting loans to Freddie Mac's Loan Product Advisor® will continue to have the option to order credit reports as part of the automated underwriting process.

FAQs – Technology Implementation (cont'd)

Q20: When will the ULDD specifications be published and what updates will be made?

A: The GSEs published an updated ULDD specification (Phase 5) on September 12, 2023, and supporting materials on December 19, 2023. The specification is inclusive of changes required for the bi-merge credit report option, the updated average borrower representative credit score calculation, as well as the new FICO® Score 10 T and VantageScore® 4.0 credit scores and updated Representative Scores/Indicator Scores with to-be-determined implementation dates where appropriate. The GSEs also included updates needed to support the deployment of the redesigned Uniform Appraisal Dataset (UAD) v3.6 and alignment with Fannie Mae's *Selling Guide* and Freddie Mac's *Single-Family Seller/Servicer Guide*, and business critical needs.