116TH CONGRESS, 2d Session } HOUSE OF REPRESENTATIVES { REPORT 116–663

ALTERNATIVE DATA FOR ADDITIONAL CREDIT FHA PILOT PROGRAM REAUTHORIZATION ACT

DECEMBER 17, 2020.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Ms. WATERS, from the Committee on Financial Services, submitted the following

R E P O R T

together with

MINORITY VIEWS

[To accompany H.R. 123]

[Including cost estimate of the Congressional Budget Office]

The Committee on Financial Services, to whom was referred the bill (H.R. 123) to authorize a pilot program under section 258 of the National Housing Act to establish an automated process for providing additional credit rating information for mortgagors and prospective mortgagors under certain mortgages, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

CONTENTS

19–006

The amendment is as follows:
Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the "Alternative Data for Additional Credit FHA Pilot Program Reauthorization Act".

SEC. 2. PILOT PROGRAM FOR BORROWERS WITHOUT SUFFICIENT CREDIT HISTORY.

Section 258 of the National Housing Act (12 U.S.C. 1715z–24) is amended—

(1) in subsection (a)—

(A) by striking "carry out" and inserting "establish and carry out";

(B) by striking "establish, and";

(C) by inserting "who elect to participate in the pilot program" before the second comma;

(D) by striking "mortgagors and";

(E) by inserting after "their creditworthiness" the following: "and have opted into the use of additional credit information"; and

(F) by striking "alternative" each place such term appears and inserting "additional";

(2) in subsection (b), by adding after the period at the end the following: "The pilot program may not be carried out with respect to any mortgagor or prospective mortgagor under a mortgage the proceeds of which are used to prepay or pay off an existing loan secured by the same property.";

(3) by striking subsection (c);

(4) by redesignating subsections (b) (as amended by paragraph (2) of this subsection) and (d) as subsections (c) and (k), respectively;

(5) by inserting after subsection (a) the following new subsection:

"(b) GOAL.—The goal of the pilot program under this section shall be to examine and evaluate the benefits of using such a credit scoring model that uses additional data.";

(6) by inserting after subsection (c) (as so redesignated by paragraph (4) of this subsection) the following:

"(d) ADDITIONAL CREDIT INFORMATION.—The Secretary shall, after consultation with the Government National Mortgage Association and not later than one year after the date of the enactment of this subsection, select one or more commercially available credit scoring models that will be available under the pilot and that utilize additional data, as the Secretary considers appropriate based on the goals of the pilot program. In selecting the model or models to use, the Secretary shall consider the criteria under part 1254 of the regulations of the Director of the Federal Housing Finance Agency (12 C.F.R. Part 1254) to the extent appropriate.

"(e) NOTIFICATION.—

"(1) NOTICE OF OPTIONS.—The Secretary shall develop a notice for prospective mortgagors, and require mortgagees to provide such notice to prospective mortgagors, that informs prospective mortgagors of—

"(A) the ability to opt into the use of the credit scoring model selected for use under the pilot program;

"(B) information on how the pilot program credit scoring model differs from the FHA's current credit scoring models, including the types of additional data that are included in the pilot program model; and

"(C) housing counseling agencies in the area that are approved by the Department of Housing and Urban Development.

"(2) COMPARISON OF LENDING OPTIONS.—The Secretary shall require mortgagees participating in the pilot program to provide information to prospective mortgagors sufficient to allow comparison of the mortgagor's lending options using the credit scoring model under the pilot program and using the credit scoring model then in effect for mortgagors not opting into the use of the credit scoring model under the pilot program.

"(f) UNDERWRITING OPTIONS.—This section may not be construed to preclude a prospective mortgagor who opts to use an approved credit scoring model under the pilot program under this subsection in connection with underwriting for a mortgage insured under this title from thereafter obtaining a determination of creditworthiness involved in underwriting for such mortgage using information other than that provided under such approved credit scoring model.

"(g) PROTECTION OF PROPRIETARY INFORMATION.—This section may not be construed to require the disclosure or sharing of any proprietary information.

"(h) REPORTING.—

"(1) IN GENERAL.—The Secretary shall submit reports to the Congress in accordance with paragraph (2) that provide a detailed evaluation of the effectiveness of the pilot, including data that shows—

"(A) the number of mortgagors who had the option to opt into using additional credit information and the number of mortgagors who opted into using additional credit information;

"(B) the total number and percent of mortgagors who opted into the pilot and were subsequently approved for a mortgage;

"(C) demographic information about mortgagors who opt into using additional credit information, compared to demographic information about mortgagors generally, which shall include race, ethnicity, marital status, sex or gender, geographic location regarding mortgaged properties, and any other information the Secretary deems appropriate;

"(D) whether or not mortgagors with no or thin credit files benefitted from having this option and how;

"(E) whether or not other borrowers who did not have thin or no credit files benefitted from this option and how;

"(F) the effectiveness of the additional credit information in predicting mortgage loan default;

"(G) the rate of participation of mortgagees in the pilot program;

"(H) whether or not the pilot program had an impact on the Mutual Mortgage Insurance Fund, in general, and specifically whether it had an impact on the economic net worth ratio of the Fund;

"(I) whether or not there was sufficient income from the pilot program to offset the risk posed to such Fund by the pilot program;

"(J) whether the pilot program had an impact on the ability of other borrowers not participating in the program to obtain the products and services of the FHA; and

"(K) any other information the Secretary determines relevant.

"(2) SUBMISSION.—The Secretary shall submit a report described in paragraph (1)—

"(A) not later than 6 months after the conclusion of the 2-year period beginning on the date on which the Secretary begins accepting the additional credit scores through the pilot program established by the Secretary pursuant to this section; and

"(B) not later than 1 year after the conclusion of the 5-year period beginning on the date of the enactment of the Alternative Data for Additional Credit FHA Pilot Program Reauthorization Act.

"(3) REPORT ON SELECTION OF ADDITIONAL CREDIT MODEL.—Not later than the conclusion of the 6-month period that begins upon the conclusion of the one-year period under subsection (d), the Secretary shall submit to the Congress a report explaining why the additional credit scoring model or models selected pursuant to subsection (d) were selected in lieu of other commercially available credit scoring models.

"(4) PUBLIC AVAILABILITY OF INFORMATION.—The Secretary shall make publicly available in an easily accessible location on the website of the Department—

"(A) each report submitted to the Congress pursuant to this subsection; and

"(B) information about the pilot program, which shall include an up-to-date listing of mortgagees participating in the pilot program.

"(i) AUTHORITY TO LIMIT PARTICIPATION.—The Secretary may establish a limitation to cap participation in the pilot program under this section.

"(j) AUTHORIZATION OF APPROPRIATIONS.—There is authorized to be appropriated—

"(1) $3,000,000 for fiscal year 2020 for establishing and carrying out the pilot program under this section; and

"(2) $1,500,000 for each of fiscal years 2021 through 2024 for carrying out the pilot program under this section."; and

(7) in subsection (k), as so redesignated by paragraph (4), by striking "5-year period beginning on the date of the enactment of the Building American Homeownership Act of 2008" and inserting "5-year period beginning on the date of the enactment of the Alternative Data for Additional Credit FHA Pilot Program Reauthorization Act".

PURPOSE AND SUMMARY

On January 3, 2019, Rep. Al Green introduced H.R. 123, the "Alternative Data for Additional Credit FHA Pilot Program Reauthorization Act," which would reauthorize the Department of Housing and Urban Development's (HUD) statutory authority to implement a pilot program under the Federal Housing Administration (FHA) to increase credit access for borrowers with thin or no credit files through the use of additional credit data. The ANS would also require HUD to report pilot program findings.

BACKGROUND AND NEED FOR LEGISLATION

The information and data traditionally used to make lending decisions and establish credit scores does not estimate the score for the 26 million consumers without a credit history or the 19 million consumers with credit histories that are too short or outdated to form a credit score, groups that are often labeled as "credit invisible" or "unscorable."

Section 2124 of the Housing and Economic Recovery Act of 2008 (HERA) directed the Secretary of HUD to create a pilot program at FHA aimed at testing the use of additional credit data—such as history of rental or utility payments—to underwrite FHA borrowers in the hopes of including more credit invisible and unscorable borrowers. However, the statutory authority for the pilot program expired in July 2013 and the pilot program was never initiated.

H.R. 123 renews the authority for this pilot with greater specificity around how the program should be structured and would authorize the appropriation of $3 million to establish the pilot program and $1.5 million for each year thereafter to administer and maintain the five-year pilot. Specifically, the bill directs HUD to choose one or more commercially available credit reporting models and provide FHA borrowers with the option to opt into this alternative model. H.R. 123 also requires HUD to provide borrowers with local housing counseling information, and ultimately report on the findings of the pilot program to Congress.

Currently, borrowers who are credit invisible or unscorable can still obtain an FHA loan, if their lender goes through the manual underwriting process. However, the automated underwriting pilot program could provide a faster and more efficient avenue that encourages more lenders to work with traditionally underserved borrowers, while testing its success in increasing access to credit.

H.R. 123 is supported by the National Consumer Law Center (on behalf of its low-income clients), Americans for Financial Reform, and the Center for Responsible Lending.

SECTION-BY-SECTION ANALYSIS

Section 1. Short title

This section provides that H.R. 123 may be cited as the "Alternative Data for Additional Credit FHA Pilot Program Reauthorization Act."

Section 2. Pilot program for borrowers without sufficient credit history

This section amends Section 258 of the National Housing Act to reauthorize a HUD pilot program at FHA to test the use of additional credit data through the selection of one or more commercially available credit scoring models. Over a period of 5-years from the enactment of H.R. 123, FHA borrowers looking to secure a home purchase mortgage would receive notification of their ability to opt into the pilot program, how the pilot credit scoring model(s) differ from existing FHA credit scoring models, including the types of additional data used, and the availability of local, HUD-approved housing counseling agencies.

Borrowers who opt into the pilot program would have the ability to compare all lending options made available to them through the pilot credit scoring model(s) as well as through the previously existing models used by FHA. Nothing in this section precludes a borrower who opts into the pilot program from otherwise obtaining an FHA mortgage.

HUD is not required to disclose proprietary information and has the ability to establish a limitation to cap the participation in the pilot program.

Under this amendments made by this section, HUD is required to provide two reports to Congress evaluating the effectiveness of the pilot, including the extent to which borrowers opted in, the demographics of such borrowers, and the benefits to no or thin credit file borrowers.

This section authorizes $3 million in fiscal year 2020 to establish the program and $1.5 million in each of fiscal years 2021 through 2024 to carry out the pilot program.

Hearings

For the purposes of section 103(i) of H. Res. 6 for the 116th Congress, the Committee on Financial Services held a hearing on July 25, 2019, entitled “Examining the Use of Alternative Data in Underwriting and Credit Scoring to Expand Access to Credit” to consider a discussion draft of H.R. 123. Testifying before the Committee were: Chi Chi Wu, Attorney, National Consumer Law Center; Aaron Rieke, Managing Director, Upturn; Kristin Johnson, McGlinchey Stafford Professor of Law, Tulane University Law School; Lawrance Evans, Managing Director of Financial Markets & Community Investment, Government Accountability Office; and Dave Girouard, Founder & CEO, Upstart.

Committee Consideration

The Committee on Financial Services met in open session on September 18, 2019 and ordered H.R 123 to be reported favorably to the House with an amendment in the nature of a substitute by a vote of 33 ayes and 22 nays, a quorum being present.

Committee Votes and Roll Call Votes

In compliance with clause 3(b) of rule XIII of the Rules of the House of Representatives, the Committee advises that the following roll call votes occurred during the Committee’s consideration of H.R. 123:

Present	Representatives	Ayes	Nays
	Ms. Waters, *Chairwoman*		X
	Mrs. Maloney		X
	Ms. Velázquez		X
	Mr. Sherman		X
	Mr. Meeks		
	Mr. Clay		X
	Mr. Scott		X
	Mr. Green		X
	Mr. Cleaver		X
	Mr. Perlmutter		X
	Mr. Himes		X
	Mr. Foster		X
	Mrs. Beatty		
	Mr. Heck		X
	Mr. Vargas		X
	Mr. Gottheimer		X
	Mr. Gonzalez (TX)		
	Mr. Lawson		X
	Mr. San Nicolas		X
	Ms. Tlaib		X
	Ms. Porter		X
	Ms. Axne		X
	Mr. Casten		X
	Ms. Pressley		X
	Mr. McAdams		X
	Ms. Ocasio-Cortez		X
	Ms. Wexton		X
	Mr. Lynch		
	Ms. Gabbard		X
	Ms. Adams		X
	Ms. Dean		X
	Mr. Garcia (IL)		X
	Ms. Garcia (TX)		X
	Mr. Phillips		X
34			
	Mr. McHenry, *Ranking Member*	X	
	Ms. Wagner	X	
	Mr. King		
	Mr. Lucas	X	
	Mr. Posey		
	Mr. Luetkemeyer	X	
	Mr. Huizenga	X	
	Mr. Duffy		
	Mr. Stivers	X	
	Mr. Barr	X	
	Mr. Tipton	X	
	Mr. Williams	X	
	Mr. Hill	X	
	Mr. Emmer	X	
	Mr. Zeldin	X	
	Mr. Loudermilk	X	
	Mr. Mooney	X	
	Mr. Davidson	X	
	Mr. Budd	X	
	Mr. Kustoff		
	Mr. Hollingsworth	X	
	Mr. Gonzalez (OH)	X	
	Mr. Rose	X	
	Mr. Steil	X	
	Mr. Gooden	X	
	Mr. Riggleman		
26			

Committee on Financial Services
Full Committee
116th Congress (1st Session)

Date:__________ 9/18/2019

Measure ________ H.R. 123

Amendment No.__________ 3a

Offered by:______ Williams to Green ANS

Agreed To	Yes	No	Prsnt	Wdrn
Voice Vote	Ayes		Nays	

Record Vote	FC
	21 ayes- 30 noes

Present	Representatives	Ayes	Nays
	Ms. Waters, *Chairwoman*	X	
	Mrs. Maloney	X	
	Ms. Velázquez	X	
	Mr. Sherman	X	
	Mr. Meeks		
	Mr. Clay	X	
	Mr. Scott	X	
	Mr. Green	X	
	Mr. Cleaver	X	
	Mr. Perlmutter	X	
	Mr. Himes	X	
	Mr. Foster	X	
	Mrs. Beatty		
	Mr. Heck	X	
	Mr. Vargas	X	
	Mr. Gottheimer	X	
	Mr. Gonzalez (TX)	X	
	Mr. Lawson	X	
	Mr. San Nicolas	X	
	Ms. Tlaib	X	
	Ms. Porter	X	
	Ms. Axne	X	
	Mr. Casten	X	
	Ms. Pressley	X	
	Mr. McAdams	X	
	Ms. Ocasio-Cortez	X	
	Ms. Wexton	X	
	Mr. Lynch	X	
	Ms. Gabbard	X	
	Ms. Adams	X	
	Ms. Dean	X	
	Mr. Garcia (IL)	X	
	Ms. Garcia (TX)	X	
	Mr. Phillips	X	
34			
	Mr. McHenry, *Ranking Member*		X
	Ms. Wagner		X
	Mr. King		
	Mr. Lucas		X
	Mr. Posey		X
	Mr. Luetkemeyer		X
	Mr. Huizenga		X
	Mr. Duffy		
	Mr. Stivers		X
	Mr. Barr		X
	Mr. Tipton		X
	Mr. Williams		X
	Mr. Hill		X
	Mr. Emmer		X
	Mr. Zeldin		X
	Mr. Loudermilk		X
	Mr. Mooney		X
	Mr. Davidson		X
	Mr. Budd		X
	Mr. Kustoff		
	Mr. Hollingsworth		X
	Mr. Gonzalez (OH)		X
	Mr. Rose		X
	Mr. Steil		X
	Mr. Gooden		X
	Mr. Riggleman		
26			

Committee on Financial Services
Full Committee
116th Congress (1st Session)

Date:_____ 9/18/2019

Measure _ H.R. 123 as amended

Final passage

Agreed To	Yes	No	Prsnt	Wdrn
Voice Vote	Ayes		Nays	

Record Vote	FC
	33 ayes- 22 noes

STATEMENT OF OVERSIGHT FINDINGS AND RECOMMENDATIONS OF THE COMMITTEE

In compliance with clause 3(c)(1) of rule XIII and clause 2(b)(1) of rule X of the Rules of the House of Representatives, the Committee's oversight findings and recommendations are reflected in the descriptive portions of this report.

STATEMENT OF PERFORMANCE GOALS AND OBJECTIVES

Pursuant to clause (3)(c) of rule XIII of the Rules of the House of Representatives, the goals of H.R. 123 are to examine and evaluate the benefits of using a credit scoring model or models that use additional data to expand access to affordable FHA credit for borrowers who are credit invisible or unscorable.

NEW BUDGET AUTHORITY AND CBO COST ESTIMATE

Pursuant to clause 3(c)(2) of rule XIII of the Rules of the House of Representatives and section 308(a) of the *Congressional Budget Act of 1974*, and pursuant to clause 3(c)(3) of rule XIII of the Rules of the House of Representatives and section 402 of the *Congressional Budget Act of 1974*, the Committee has received the following estimate for H.R. 123 from the Director of the Congressional Budget Office:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, November 18, 2019.

Hon. MAXINE WATERS,
Chairwoman, Committee on Financial Services,
House of Representatives, Washington, DC.

DEAR MADAM CHAIRWOMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 123, the Alternative Data for Additional Credit FHA Pilot Program Reauthorization Act.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Robert Reese.

Sincerely,

PHILLIP L. SWAGEL,
Director.

Enclosure.

At a Glance			
H.R. 123, Alternative Data for Additional Credit FHA Pilot Program Reauthorization Act As ordered reported by the House Committee on Financial Services on September 20, 2019			
By Fiscal Year, Millions of Dollars	2020	2020-2024	2020-2029
Direct Spending (Outlays)	0	0	0
Revenues	0	0	0
Increase or Decrease (-) in the Deficit	0	0	0
Spending Subject to Appropriation (Outlays)	2	-10	not estimated

		Mandate Effects	
Statutory pay-as-you-go procedures apply?	No		
Increases on-budget deficits in any of the four consecutive 10-year periods beginning in 2030?	No	Contains intergovernmental mandate?	No
		Contains private-sector mandate?	No

The bill would

- Authorize appropriations for the Federal Housing Administration (FHA) to create a pilot program for a credit-scoring system using alternative data
- Permit FHA to insure mortgages for homebuyers who meet credit score requirements that are based on that alternative data

Estimated budgetary effects would primarily stem from

- Spending funds authorized to be appropriated
- Increases in the premiums collected from mortgagors with FHA insurance.

Bill summary: H.R. 123 would reauthorize a pilot program in the Federal Housing Administration (FHA) for five years, through 2024. That program would develop an automated system to calculate consumer credit scores using alternative information—such as performance on rental payments, utility bills, and insurance payments—that could be used by lenders to determine if a prospective borrower is eligible for an FHA-backed mortgage. The bill would authorize appropriations totaling $9 million over the 2020–2024 period for FHA to develop and implement the system for lenders. H.R. 123 also would require FHA to report to the Congress on the effectiveness of the pilot program.

Estimated Federal cost: The estimated budgetary effect of H.R. 123 is shown in Table 1. The costs of the legislation fall within budget function 370 (commerce and housing credit).

TABLE 1.—ESTIMATED CHANGES IN SPENDING SUBJECT TO APPROPRIATION UNDER H.R. 123

	By fiscal year, millions of dollars—					
	2020	2021	2022	2023	2024	2020–2024
Pilot Program Administration:						
Authorization	3	2	2	2	2	9
Estimated Outlays	2	2	2	2	2	9
FHA Insurance:						
Estimated Authorization	0	−3	−5	−5	−5	−18
Estimated Outlays	0	−3	−5	−5	−5	−18

TABLE 1.—ESTIMATED CHANGES IN SPENDING SUBJECT TO APPROPRIATION UNDER H.R. 123—Continued

	By fiscal year, millions of dollars—					
	2020	2021	2022	2023	2024	2020–2024
Total Changes:						
Estimated Authorization	3	−1	−4	−4	−4	−9
Estimated Outlays	2	−1	−4	−4	−4	−10

Components may not sum to totals because of rounding; FHA = Federal Housing Administration.

Basis of estimate: For this estimate, CBO assumes that H.R. 123 will be enacted near the end of 2019. CBO also assumes that future appropriation acts will authorize FHA to increase the amount of mortgage guarantees it provides by an amount sufficient to meet the increased volume of mortgage guarantees under the bill and that the authorized amounts will be appropriated for each fiscal year beginning in 2020.

Background: FHA, within the Department of Housing and Urban Development (HUD), provides mortgage insurance for the purchase, refinancing, and rehabilitation of single-family homes and charges up-front and annual premiums to mortgagors for that insurance. Those premiums are classified in the budget as offsetting collections, which reduce spending subject to appropriation.

To estimate the budgetary effects of such loan guarantees, CBO uses the methodology specified in the Federal Credit Reform Act of 1990 (FCRA) and estimates that the FHA mortgage insurance program will have a subsidy rate of −2.69 percent in 2020. A negative subsidy occurs when the net present value of all premiums charged for a loan guarantee is greater than the estimated default costs associated with that guarantee.[1]

Under current law, prospective borrowers must have a credit score of at least 500 (on a scale of 300 to 850) to be eligible for an FHA-insured mortgage. Such credit scores are typically calculated using the credit records maintained by the three nationwide credit-reporting agencies: Equifax, Experian, and TransUnion. According to the Consumer Financial Protection Bureau (CFPB), in 2010, about 11 percent of adults in the United States had no such credit records and about 8 percent had credit records lacking sufficient information to calculate a credit score.[2]

For prospective borrowers who lack sufficient credit histories to calculate a credit score, lenders may assess creditworthiness through alternative means, including their performance on rental payments; utility, phone, and cable television bills; and insurance or tuition payments. HUD permits lenders that originate FHA-insured mortgages to establish a borrower's credit history through such alternative means and has provided guidance to lenders on how to evaluate nontraditional credit histories. Although some lenders have developed statistical scoring methods to determine borrowers' creditworthiness based on such data, other lenders rely

[1] A present value expresses a flow of past and future income or payments as a single amount received or paid at a specific time. The value depends on the rate of interest, known as the discount rate, used to translate past and future cash flows into current dollars at that time. Under FCRA, projected future cash flows are discounted to the present using interest rates on Treasury securities.

[2] See Consumer Financial Protection Bureau, Office of Research, *Data Point: Credit Invisibles* (May 2015), https://go.usa.gov/xp3F8.

on the judgment of their staff to make those determinations on a case-by-case basis.

Spending subject to appropriation: CBO estimates that implementing H.R. 123 would reduce net spending subject to appropriation by $10 million over the 2020–2024 period.

Pilot program administration: H.R. 123 would authorize the appropriation of $9 million over the 2020–2024 period for FHA to administer a pilot program to create and implement an automated system for FHA lenders to calculate credit scores using information from alternative data sources. Assuming appropriation of the authorized amounts, CBO estimates that implementing that section of the bill would cost $9 million over the 2020–2024 period.

FHA insurance: Under the bill, FHA would be required to develop a credit-scoring system and to make it available to FHA lenders within one year of enactment.

Using information from the Federal Reserve on the number of applicants who were denied a federally insured mortgage in 2016, the most recent year for which data are available, and information from the 2015 CFPB report, CBO estimates that over the 2021–2024 period about 6,000 additional applicants could be deemed eligible for an FHA loan if lenders used an automated system that analyzes alternative information to calculate credit scores.

However, because H.R. 123 would allow FHA to determine the scope of the pilot program and how to implement it, CBO expects that the pilot program would be restricted to lenders and prospective borrowers that meet other qualifications and agree to participate. Accordingly, CBO estimates that about 3,000 borrowers (or half of the potential additional borrowers) would receive such a loan under H.R. 123 over the 2020–2024 period. CBO estimates that those borrowers would increase total FHA loan volume over that period by $700 million (or less than 0.1 percent of the estimated $1.2 trillion in total FHA volume over that period).

HUD currently allows lenders to provide FHA-backed loans to borrowers whose credit scores are determined using alternative methods and has provided guidance to lenders on how to evaluate prospective borrowers with nontraditional credit histories. Furthermore, if HUD determined that providing loans to prospective borrowers whose credit scores were calculated using such alternative methods would increase credit risk in the program, it could modify the fees it charges to those borrowers to offset any such risk. Accordingly, CBO estimates that the average subsidy rate for the overall FHA program would remain unchanged under H.R. 123 because we expect that new borrowers would be held to the same creditworthiness requirements as under current law. Therefore, taking into account the estimated increase in volume of FHA-insured mortgages and the negative subsidy rate on those mortgages, CBO estimates that implementing H.R.123 would increase discretionary offsetting collections (and thus decrease discretionary costs) from the FHA mortgage insurance program by about $18 million over the 2020–2024 period.

Alternative budgetary treatment: The estimated cost of H.R. 123 depends on the method used to calculate the subsidy rate for mortgages insured by FHA. Under current law, the budgetary effects of FHA's mortgage insurance program are measured in the budget according to the procedures established in FCRA. However, as required by S. Con. Res. 71, the Concurrent Resolution on the Budget for Fiscal Year 2018, CBO also has prepared a cost estimate for H.R. 123 using a fair-value approach to estimating the budgetary effect on FHA.

The fair-value approach is an alternative to the approach specified in FCRA. Both approaches rely on the same projections of future cash flows for guarantee programs, and both account for the lifetime cost of the new guarantees made in a given year (including the expected cost of losses net of fees collected). Fair-value estimates differ from FCRA estimates by recognizing that the government's assumption of financial risk has a cost that exceeds the average amount of losses that would be expected from defaults. The higher financial risk is reflected in the higher fees private entities charge for similar guarantees on the basis of market prices. In practice, the main difference between FCRA and fair-value estimates is the discount rate used to calculate the present value of estimated future guarantee costs and receipts. Fair-value estimates use higher discount rates that incorporate a premium for market risk.

Using the fair-value approach, CBO estimates that the FHA mortgage insurance program will have a positive subsidy rate of 2.80 percent in 2020. If that rate were used to implement the mortgage guarantees the FHA program would have a cost rather than a savings.[3] Using the fair-value approach the estimated increase in FHA loan volume over the 2020–2024 period under H.R. 123 would increase the cost of FHA's mortgage guarantees by about $24 million. That estimate of $24 million does not include the administrative costs necessary to implement the pilot program, which CBO estimates would total $9 million over the 2020–2024 period (see Table 1). Therefore, CBO estimates that, on a fair-value basis, implementing H.R. 123 would cost a total of $33 million over the 2020–2024 period.

Pay-As-You-Go considerations: None.

Increase in long-term deficits: None.

Mandates: None.

Estimate prepared by: Federal Costs: Robert Reese; Mandates: Rachel Austin.

Estimate reviewed by: Kim P. Cawley, Chief, Natural and Physical Resources Cost Estimates Unit; H. Samuel Papenfuss, Deputy Assistant Director for Budget Analysis; Theresa Gullo, Assistant Director for Budget Analysis.

COMMITTEE COST ESTIMATE

Clause 3(d)(1) of rule XIII of the Rules of the House of Representatives requires an estimate and a comparison of the costs that would be incurred in carrying out H.R. 123. However, clause 3(d)(2)(B) of that rule provides that this requirement does not apply when the committee has included in its report a timely submitted cost estimate of the bill prepared by the Director of the Congressional Budget Office under section 402 of the *Congressional Budget Act*.

[3] See Congressional Budget Office, *Fair-Value Estimates of the Cost of Federal Credit Programs in 2020* (May 2019), https://www.cbo.gov/publication/55278.

UNFUNDED MANDATE STATEMENT

Pursuant to Section 423 of the *Congressional Budget and Impoundment Control Act* (as amended by Section 101(a)(2) of the *Unfunded Mandates Reform Act*, Pub. L. 104–4), the Committee adopts as its own the estimate of federal mandates regarding H.R. 123, as reported, prepared by the Director of the Congressional Budget Office.

ADVISORY COMMITTEE

No advisory committees within the meaning of section 5(b) of the Federal Advisory Committee Act were created by this legislation.

APPLICATION OF LAW TO THE LEGISLATIVE BRANCH

Pursuant to section 102(b)(3) of the *Congressional Accountability Act*, Pub. L. No. 104–1, H.R. 123, as reported, does not apply to terms and conditions of employment or to access to public services or accommodations within the legislative branch.

EARMARK STATEMENT

In accordance with clause 9 of rule XXI of the Rules of the House of Representatives, H.R. 123 does not contain any congressional earmarks, limited tax benefits, or limited tariff benefits as described in clauses 9(e), 9(f), and 9(g) of rule XXI.

DUPLICATION OF FEDERAL PROGRAMS

Pursuant to clause 3(c)(5) of rule XIII of the Rules of the House of Representatives, the Committee states that no provision of H.R. 123 establishes or reauthorizes a program of the Federal Government known to be duplicative of another federal program, a program that was included in any report from the Government Accountability Office to Congress pursuant to section 21 of Public Law 111–139, or a program related to a program identified in the most recent Catalog of Federal Domestic Assistance.

CHANGES TO EXISTING LAW

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, H.R. 123, as reported, are shown as follows:

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, and existing law in which no change is proposed is shown in roman):

NATIONAL HOUSING ACT

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TITLE II—MORTGAGE INSURANCE

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SEC. 258. PILOT PROGRAM FOR AUTOMATED PROCESS FOR BORROWERS WITHOUT SUFFICIENT CREDIT HISTORY.

(a) ESTABLISHMENT.—The Secretary shall [carry out] *establish and carry out* a pilot program to [establish, and] make available to mortgagees *who elect to participate in the pilot program*, an automated process for providing [alternative] *additional* credit rating information for [mortgagors and] prospective mortgagors under mortgages on 1- to 4-family residences to be insured under this title who have insufficient credit histories for determining their creditworthiness *and have opted into the use of additional credit information*. Such [alternative] *additional* credit rating information may include rent, utilities, and insurance payment histories, and such other information as the Secretary considers appropriate.

(b) GOAL.—The goal of the pilot program under this section shall be to examine and evaluate the benefits of using such a credit scoring model that uses additional data.

[(b)] *(c)* SCOPE.—The Secretary may carry out the pilot program under this section on a limited basis or scope, and may consider limiting the program to first-time homebuyers. *The pilot program may not be carried out with respect to any mortgagor or prospective mortgagor under a mortgage the proceeds of which are used to prepay or pay off an existing loan secured by the same property.*

(d) ADDITIONAL CREDIT INFORMATION.—The Secretary shall, after consultation with the Government National Mortgage Association and not later than one year after the date of the enactment of this subsection, select one or more commercially available credit scoring models that will be available under the pilot and that utilize additional data, as the Secretary considers appropriate based on the goals of the pilot program. In selecting the model or models to use, the Secretary shall consider the criteria under part 1254 of the regulations of the Director of the Federal Housing Finance Agency (12 C.F.R. Part 1254) to the extent appropriate.

(e) NOTIFICATION.—

(1) NOTICE OF OPTIONS.—The Secretary shall develop a notice for prospective mortgagors, and require mortgagees to provide such notice to prospective mortgagors, that informs prospective mortgagors of—

(A) the ability to opt into the use of the credit scoring model selected for use under the pilot program;

(B) information on how the pilot program credit scoring model differs from the FHA's current credit scoring models, including the types of additional data that are included in the pilot program model; and

(C) housing counseling agencies in the area that are approved by the Department of Housing and Urban Development.

(2) COMPARISON OF LENDING OPTIONS.—The Secretary shall require mortgagees participating in the pilot program to provide information to prospective mortgagors sufficient to allow comparison of the mortgagor's lending options using the credit scoring model under the pilot program and using the credit scoring

model then in effect for mortgagors not opting into the use of the credit scoring model under the pilot program.

(f) UNDERWRITING OPTIONS.—This section may not be construed to preclude a prospective mortgagor who opts to use an approved credit scoring model under the pilot program under this subsection in connection with underwriting for a mortgage insured under this title from thereafter obtaining a determination of creditworthiness involved in underwriting for such mortgage using information other than that provided under such approved credit scoring model.

(g) PROTECTION OF PROPRIETARY INFORMATION.—This section may not be construed to require the disclosure or sharing of any proprietary information.

(h) REPORTING.—

(1) IN GENERAL.—The Secretary shall submit reports to the Congress in accordance with paragraph (2) that provide a detailed evaluation of the effectiveness of the pilot, including data that shows—

(A) the number of mortgagors who had the option to opt into using additional credit information and the number of mortgagors who opted into using additional credit information;

(B) the total number and percent of mortgagors who opted into the pilot and were subsequently approved for a mortgage;

(C) demographic information about mortgagors who opt into using additional credit information, compared to demographic information about mortgagors generally, which shall include race, ethnicity, marital status, sex or gender, geographic location regarding mortgaged properties, and any other information the Secretary deems appropriate;

(D) whether or not mortgagors with no or thin credit files benefitted from having this option and how;

(E) whether or not other borrowers who did not have thin or no credit files benefitted from this option and how;

(F) the effectiveness of the additional credit information in predicting mortgage loan default;

(G) the rate of participation of mortgagees in the pilot program;

(H) whether or not the pilot program had an impact on the Mutual Mortgage Insurance Fund, in general, and specifically whether it had an impact on the economic net worth ratio of the Fund;

(I) whether or not there was sufficient income from the pilot program to offset the risk posed to such Fund by the pilot program;

(J) whether the pilot program had an impact on the ability of other borrowers not participating in the program to obtain the products and services of the FHA; and

(K) any other information the Secretary determines relevant.

(2) SUBMISSION.—The Secretary shall submit a report described in paragraph (1)—

(A) not later than 6 months after the conclusion of the 2-year period beginning on the date on which the Secretary begins accepting the additional credit scores through the

pilot program established by the Secretary pursuant to this section; and

(B) not later than 1 year after the conclusion of the 5-year period beginning on the date of the enactment of the Alternative Data for Additional Credit FHA Pilot Program Reauthorization Act.

(3) REPORT ON SELECTION OF ADDITIONAL CREDIT MODEL.—Not later than the conclusion of the 6-month period that begins upon the conclusion of the one-year period under subsection (d), the Secretary shall submit to the Congress a report explaining why the additional credit scoring model or models selected pursuant to subsection (d) were selected in lieu of other commercially available credit scoring models.

(4) PUBLIC AVAILABILITY OF INFORMATION.—The Secretary shall make publicly available in an easily accessible location on the website of the Department—

(A) each report submitted to the Congress pursuant to this subsection; and

(B) information about the pilot program, which shall include an up-to-date listing of mortgagees participating in the pilot program.

(i) AUTHORITY TO LIMIT PARTICIPATION.—The Secretary may establish a limitation to cap participation in the pilot program under this section.

(j) AUTHORIZATION OF APPROPRIATIONS.—There is authorized to be appropriated—

(1) $3,000,000 for fiscal year 2020 for establishing and carrying out the pilot program under this section; and

(2) $1,500,000 for each of fiscal years 2021 through 2024 for carrying out the pilot program under this section.

⟦(c) LIMITATION.—In any fiscal year, the aggregate number of mortgages insured pursuant to the automated process established under this section may not exceed 5 percent of the aggregate number of mortgages for 1- to 4-family residences insured by the Secretary under this title during the preceding fiscal year.⟧

⟦(d)⟧ *(k)* SUNSET.—After the expiration of the ⟦5-year period beginning on the date of the enactment of the Building American Homeownership Act of 2008⟧ *5-year period beginning on the date of the enactment of the Alternative Data for Additional Credit FHA Pilot Program Reauthorization Act*, the Secretary may not enter into any new commitment to insure any mortgage, or newly insure any mortgage, pursuant to the automated process established under this section.

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MINORITY VIEWS

Committee Republicans support efforts to better understand the use of alternative credit data and how it can benefit future borrowers who have little or no credit or for borrowers who are working to improve their credit history.

However, Committee Republicans are concerned that without proper guardrails in place, H.R. 123, the *FHA Additional Credit Pilot Program Reauthorization Act*, would add significant risk to the Federal Housing Administration's (FHA's) Mutual Mortgage Insurance Fund (MMIF). Moreover, Committee Republicans are concerned the additional risk would be passed off in the form of higher premiums to other, qualified borrowers who are trying to take the first step toward homeownership.

H.R. 123, as amended, would reauthorize a pilot program authorized in 2008 but never implemented by FHA. The pilot program would require FHA to make alternate credit rating information available to evaluate potential borrowers with thin or no credit history and who would otherwise not qualify for a loan.

It is unclear why the Obama Administration FHA never acted on the authorization in 2008. One possibility is the increased risk the pilot program would bring at a time that FHA's portfolio was already unhealthy. Some have argued the Obama Administration FHA never deployed the pilot because of its cost. The bill's stated 5-year operational cost of $9 million negate those arguments. If the Obama Administration deemed the pilot to be of low-risk and high-value, an FHA with more than $1 trillion in insurance assets and 1 million newly insured loans each year could have easily acquired the capital to deploy it.

Notwithstanding the concerns articulated in 2008, Committee Republicans are concerned that the risks are even greater for the program authorized in H.R. 123. Democrats removed any limit on the size and scope of the program. A hard cap in terms of size is an essential feature of any "pilot" program.

During consideration of the bill, Rep. Roger Williams (R–TX) offered a commonsense amendment to create a 5 percent annual cap on the number of loans that could participate in the pilot program. However, the Williams Amendment was rejected by the Democrat majority on a party line vote.

In addition, given the amount of risk that this program could add to the MMIF's balance sheet, there should be tools to mitigate that added risk besides taxing other qualified borrowers with increased premiums. Those tools include higher premiums or down payments for borrowers who use this alternative credit scoring model.

While Committee Republicans believe in the purpose of FHA to help first-time and low-income homebuyers access mortgage credit, this pilot program is a risky experiment in lending to borrowers who have poor, or no credit history. Moreover, this program lacks limits to the size and scope and could cause serious problems to the health of FHA's portfolio. Furthermore, this risk would be unfairly transferred in the form of increased costs to other, traditionally qualified borrowers.

A bipartisan product, which would include tools to mitigate any harm that this program may cause and a cap on its size, would stand a much better chance at being signed into law. For these reasons, Committee Republicans oppose the bill.

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