



Enterprise Credit Score and Credit Reports Initiative

Partner Playbook

September 2023

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

Updated September 11, 2023

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. Fannie Mae and Freddie Mac 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 only two credit reports per borrower ("bi-merge") and 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, and using a new credit score calculation.*

* See FAQ #10 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 models provide more precise assessments of credit risk than the current model.



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

Public Engagement

We extend our thanks to the many industry stakeholders who have provided feedback on the credit score and credit reports initiative. We heard from more than a thousand individuals representing several hundred organizations on the transition to updated credit score models and from the existing tri-merge credit report requirement to a bi-merge credit report option. The detail and thought in the feedback delivered through multiple channels were extremely beneficial and will inform implementation plans as we move forward.

The top themes that emerged regarding the proposed implementation timelines include:

- Questions about updating the borrower credit score calculation
- Borrower disclosure impacts
- Alignment with government agency lenders
- Requests for more analysis and historical data
- Potential implementation challenges


On Sept. 11, 2023, FHFA [announced](#) the next phase of public engagement, with a goal to build on the feedback collected earlier this year and provide a forum for continued identification of a wide variety of issues, opportunities and challenges.

Interested parties who wish to participate in the upcoming forums and listening sessions, should send their name, affiliation, and contact information to CreditScores@fhfa.gov.

Those who wish to participate in the initial sessions should respond by Sept. 25, 2023.

Proposed Implementation Timeline

FHFA expects the implementation date for the bi-merge option to occur later than 1Q 2024. FHFA looks forward to the next phase of public engagement to inform future timeline determinations.*

 2Q 2023	Industry feedback window
3Q 2023	Publish Uniform Loan Delivery Dataset (ULDD) specifications to support the updates
4Q 2023	Publish Classic FICO historical data to support change in credit score calculation (tri-merge to bi-merge)
1Q 2024	Implement two components of credit report requirements update: “tri-merge” to “bi-merge” reports (optional) and new credit score calculation (mandatory)
3Q 2024	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
1Q 2025	Publish FICO Score 10 T and VantageScore 4.0 historical data to support credit score model updates
4Q 2025	Incorporate two credit score model updates into mortgage processes, retiring Classic FICO and update credit score calculation (potential)

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.

FAQs – Public Engagement

Q3: Why is the FHFA beginning a new phase of public engagement related to Credit Score Implementation?

A: 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 will build on the feedback collected earlier this year during the industry feedback window and provide a forum for continued identification of a wide variety of issues, opportunities and challenges. Interested stakeholders can share their perspectives and the FHFA and the Enterprises can seek feedback and views or specific questions or challenges related to the implementation of the new Enterprise credit score requirements.

Q4: 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. Those who wish to participate in the initial sessions should respond by September 25, 2023.

FAQs – Tri-merge to Bi-merge

Q5: What are the benefits of moving from tri-merge to bi-merge credit report requirements?

A: This change to Fannie Mae and Freddie Mac’s credit report requirements is expected to encourage innovation and competition in the market.

Q6: How will the tri-merge to bi-merge credit report update impact pricing for loans? Do the GSEs plan to modify eligibility and pricing score breaks/thresholds, and, if so, at what stages of the initiative could that happen?

A: If the proposed credit score methodology for Classic FICO is determined to be average then lower, the GSEs do not expect the values in the pricing grid to change as a result of the bi-merge implementation. The pricing grids will be updated when the new credit scores are implemented.

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 go with 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 14).

FAQs – Credit Score Model

Q9: 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 than the current model. 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 Fannie Mae and Freddie Mac 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)

Q10: Will moving from tri-merge to bi-merge require updated guidance to lenders on how to calculate the borrower 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.

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

FAQs - Credit Score Model: Q10, 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.

As referenced in the **Enterprise Regulatory Capital Framework Notice of Proposed Rulemaking¹**, FHFA has proposed two methodologies for calculating the representative credit score for purposes of capital requirements. While the proposed rule does not directly impact pricing calculations, we anticipate that pricing will largely align with capital-related decisions. To avoid multiple recalibrations of the pricing grids, the GSEs are considering switching to the average across bureaus, then lower across borrowers methodology² when the bi-merge option is implemented. When the new credit scores are implemented, FICO Score 10 T and VantageScore 4.0 will likely use the average across bureaus, then average across borrowers methodology³ to calculate the Representative Credit Score and Indicator Score, pending FHFA's final rulemaking decision and public feedback. Moving to the new credit scores will require a recalibration of the pricing grids.

- **Credit Score Report Update (Tri-merge to Bi-merge Report) (Classic FICO):**
“Average/ThenLowest”²
- **Credit Score Model Update (FICO Score 10 T, VantageScore 4.0): “Average/ThenAverage”³**

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: Q10 (cont'd)



What will be the potential borrower 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 Lower" approach for Classic FICO: 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" approach for new scores: 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	685	687	698
		Borrower 2	680	685	695	685			
2	Scenario 2	Borrower 1	740	745	N/A	740	740	743	760
		Borrower 2	775	780	N/A	775			
3	Scenario 3	Borrower 1	640	660	670	660	660	657	657
4	Scenario 4	Borrower 1	N/A	660	670	660	660	665	665
5	Scenario 5	Borrower 1	740	755	N/A	740	740	748	748
		Borrower 2	N/A	N/A	N/A	N/A			
6	Scenario 6	Borrower 1	740	N/A	760	740	740	750	779
		Borrower 2	785	N/A	780	780			
		Borrower 3	800	N/A	810	800			

FAQs – Credit Score Model (cont'd)

Q11: When will Classic FICO scores stop being reported and ultimately retired?

A: The GSEs will require Classic FICO reporting for the near-term. Mortgage market participants will be given significant lead time before the retirement date of Classic FICO when the new FICO Score 10 T and VantageScore 4.0 score models are more fully implemented.

Q12: Will lenders be expected to average FICO Score 10 T and VantageScore 4.0 scores together for loan delivery?

A: No. The Uniform Loan Delivery Dataset (ULDD) is being updated. Lenders will be required to deliver average FICO Score 10 T and average VantageScore 4.0 separately in the ULDD. See Question 15 for additional information on the ULDD.

FAQs – Technology Implementation

Q13: 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 Fannie Mae's and Freddie Mac's published specifications updates, policy changes, and required dates set forth in Fannie Mae's *Selling Guide* and Freddie Mac's *Single-Family Seller/Service Guide*.

Q14: 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, using the new credit score models at a future date is still to be determined.

FAQs – Technology Implementation (cont'd)

Q15: When will the ULDD specifications be published and what updates will be made?

A: The GSEs are working toward a September 2023 target release date for the updated ULDD spec. The spec will be inclusive of changes required for the bi-merge credit report option, updated average borrower representative credit score calculation, as well as the new FICO Score 10 T and VantageScore 4.0 credit scores and related Representative Scores/Indicator Scores with to-be-determined implementation dates where appropriate. The GSEs are also planning to include 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/Service Guide*, as well as business critical needs in this release of the ULDD specification.