Testimony
Of
Fannie Mae
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Chairman Bachus and Ranking Member Sanders, thank you for the opportunity to submit for the record testimony to the Subcommittee on Financial Institutions and Consumer Credit of the House Financial Services Committee on the Fair Credit Reporting Act. Fannie Mae appreciates and strongly supports the Committee's efforts to examine the Fair Credit Reporting Act. We believe that the Fair Credit Reporting Act has served an important role in helping to create an efficient uniform national credit reporting system and support the reauthorization of the preemption provisions set to expire at the end of this year, particularly as they relate to the content of the information contained in consumer credit reports.

Fannie Mae operates exclusively in the secondary mortgage market, where we help to ensure that money for mortgages is available to home buyers in every state across the country, every day. We do this by accessing the international capital markets to provide liquidity to banks, mortgage banks, credit unions, and a variety of other financial institutions that use such available funds to originate mortgage loans to consumers. There are two primary ways in which we accomplish this mission. First, we purchase mortgage loans that are originated by financial institutions and hold these loans in our portfolio. Second, we issue mortgage-backed securities (MBS) in exchange for pools of mortgage loans that we receive from financial institutions.

Unlike some financial services companies that purchase mortgage loans in the secondary market or issue mortgage-backed securities, our charter precludes us from originating mortgages or otherwise engaging in mortgage transactions with consumers. As an investor in mortgage loans that does not have a direct relationship with consumers, Fannie Mae does not make any credit decisions that determine whether a consumer will receive a loan. Financial institutions in the primary market are responsible for making the decision whether to extend credit to any particular borrower.

That is not to say, however, that the efficient operation of the credit reporting system does not impact our business. On the contrary, credit information assists Fannie Mae in conducting its business, most importantly, in assessing the risks it undertakes on loans that it purchases.

Indeed, credit information has always been important to the entire mortgage industry because of the strong correlation between borrowers' credit histories and whether a loan will be repaid. A national and standardized system of credit reporting has become particularly important in the mortgage industry over the last seven years with the introduction and growth of Automated Underwriting Systems (AUS), such as Fannie Mae's Desktop Underwriter, that are programmed to receive credit data in a uniform format. AUS are designed to provide underwriting guidance to lenders through use of empirical models that enable the underwriting process to occur more quickly, more objectively and highly accurately. These systems attempt to measure credit risk by assessing a constellation of characteristics about the loan transaction and the applicant, including, for instance, the loan-to-value ratio, debt-to-income ratio, amortization term, and reserves held by the applicant.

Automated underwriting systems, including Desktop Underwriter have created enormous efficiencies in the mortgage origination process. Currently, most lenders evaluate mortgage applications using automated underwriting systems. AUS have expanded the number of loans lenders can make by significantly reducing the cost of originating a loan and allowing lenders to tailor loan terms based on an individual borrower's risk profile.

For AUS to provide accurate determinations of a mortgage applicant's ability to repay a mortgage loan, primary market lenders must have access to comprehensive credit histories of potential borrowers. Fannie Mae is concerned that if the preemption provisions of the Fair Credit Reporting Act are not reauthorized and the mortgage industry was no longer able to rely on credit report information because of state-by-state variation in how credit data is collected, reported, and maintained, there would be profound impact on the way both primary and secondary mortgage market participants are able to manage mortgage risk.

Just as credit markets are nationwide and the delivery of financial services to consumers is not bound by the borders of each state, AUS are national in scope and rely on consistent credit reporting from state to state. If, instead of a uniform national standard, each state formulated its own credit reporting standards, homebuyers could face higher costs and higher interest rates and lenders could be forced to say no to more mortgage applicants. In addition, it might make it necessary for both Fannie Mae and other secondary mortgage market participants to have different underwriting criteria for different states – a development that could adversely impact our national secondary mortgage market efficiency.

The cost of allowing states to regulate independently the contents of credit reports and the furnishing of information to consumer reporting agencies may be significant.

Any benefit of stricter state legislation could ultimately be lost to consumers because of the negative effect that varying state standards may have on not only the mortgage market, but also consumer credit generally.

While Fannie Mae believes that a strong, uniform national standard for credit reporting is integral to a well-functioning national mortgage market, it also believes that companies that benefit from the credit reporting system should do their part to ensure that the system contains accurate and complete information. Therefore, Fannie Mae requires each financial institution that services Fannie Mae loans to certify that they have procedures and controls in place to provide (on a monthly basis) the major credit repositories with a "full-file" status report on all of the mortgages it services for us. "Full-file" reporting means that the servicer must provide both positive and negative payment information about each mortgage it is servicing as of the last business day of each month.

Thank you for the opportunity to submit testimony on this important issue. We look forward to working with the Committee as it continues to review the Fair Credit Reporting Act.