MAXINE WATERS, CA
CHAIRWOMAN

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

PATRICK MCHENRY, NC
RANKING MEMBER

January 16, 2020

The Honorable Gene L. Dodaro
Comptroller General of the United States
Government Accountability Office
441 G Street NW
Washington, DC 20548

Dear Mr. Dodaro:

Access to affordable credit is essential for any consumer seeking to meaningfully engage in our economy, from buying a home to starting a business. Consumers who lack credit scores face significant barriers to securing loans and other forms of credit needed to achieve economic mobility. According to the Consumer Financial Protection Bureau, over 45 million American consumers cannot be scored by the nationwide credit reporting agencies (CRAs) using traditional measures of creditworthiness. These 45 million people generally fall into two groups – the 26 million consumers that have no credit history (who are often called "credit invisible") and the 19 million consumers that have limited or outdated credit history (who are often called "un-scorable").

To expand consumer access to credit, some CRAs and lenders, including both traditional and financial technology (fintech) lenders, have started to incorporate alternative data—such as rental, utility, and insurance payment history, as well as employment verification, educational history, and even social media data—in their credit scoring algorithms.[1] Alternative data can help lenders identify creditworthy potential borrowers that lenders would otherwise miss. For example, while nearly all millennials have a cell phone, only one-third of people between the ages of 18 and 29 have a credit card.[2] By incorporating telecommunications payment history data, CRAs may be able to score previously unscorable millennials and other consumers who lack a typical credit history.

Questions persist about whether using alternative data in lending decisions will affect entities' compliance with fair lending laws, including the Equal Credit Opportunity Act (ECOA) and the Fair Housing Act (FHA). While some alternative data, such as rental payment history, may provide an objective measure of creditworthiness, others might enable discrimination on the basis of a protected class, or infringe upon consumer privacy. For example, scoring algorithms that utilize alternative data drawn from a consumer's social media profile could allow CRAs and lenders to evaluate creditworthiness based on personal characteristics such as the consumer's race,

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[1] *See* CFPB, "Request for Information Regarding Use of Alternative Data and Modeling Techniques in the Credit Process," 82 Federal Register 11185, (Feb. 21, 2017), https://www.federalregister.gov/documents/2017/02/21/2017-03361/request-for-information-regarding-use-of-alternative-data-and-modeling-techniques-in-the-credit.

[2] *See* Bankrate.com, *Survey: Surprisingly few millennials carry credit cards* (June 13, 2016).

gender, and religion. Furthermore, while some proponents claim that "full file" reporting of utility payments, for example, would promote access to credit, some experts have expressed concerns that such an approach could unintentionally harm some consumers.[3]

GAO has already begun looking into the role of alternative data, including through examining its use in the fintech industry and testifying before Congress on its potential disparate impacts. In line with this work, we would like more information about the benefits and drawbacks of alternative data in mortgage lending and the role of the federal government in overseeing the use of alternative data. Specifically, we would like GAO to explore the use of alternative data in expanding access to credit, with a particular focus on mortgage credit. As such, we would like GAO to address the following questions:
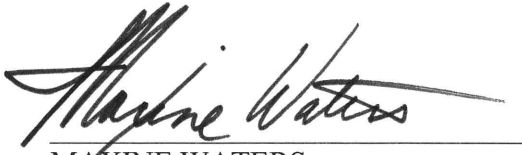
1. How have different entities within the credit industry used alternative data to expand access to mortgage credit?
   a. To what extent can alternative data determine a consumer's creditworthiness and ability to repay a mortgage?
   b. Are certain alternative data sources better at predicting creditworthiness than others?
   c. Are certain alternative data sources more likely to raise concerns about correlations with prohibited discriminatory factors?
   d. What federal activity has there been in this area?

2. What are the potential benefits and risks associated with using alternative data and financial technology for access to mortgage credit? How do these benefits and risks vary across different groups, such as minorities and younger borrowers?

3. What are the potential risks alternative data pose to compliance with fair lending standards such as the Equal Credit Opportunity Act (ECOA) and the Fair Housing Act (FHA)? Specifically, how equipped are regulatory and enforcement agencies governing the credit-granting system to manage and prepare for an increased use of alternative data in mortgage lending? Are there any potential gaps in this oversight?

4. What other options exist for expanding access to mortgage credit, and how do the benefits and trade-offs of these options compare to the use of alternative data in credit scoring?

We hope that this audit can provide a deeper understanding of how alternative data can play a role in responsibly expanding access to mortgage credit. Thank you for your consideration.

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[3] For example, *see* the testimony of Chi Chi Wu, Staff Attorney, National Consumer Law Center ("NCLC"), before the House Committee on Financial Services ("Committee") regarding, "Who's Keeping Score? Holding Credit Bureaus Accountable and Repairing a Broken System," (Feb. 26, 2019), available at: https://financialservices.house.gov/uploadedfiles/hhrg-116-ba00-wstate-wuc-20190226.pdf; and *see* testimony of Chi Chi Wu, Staff Attorney, NCLC, before the Committee regarding "Examining the Use of Alternative Data in Underwriting and Credit Scoring to Expand Access to Credit," (July 25, 2019), available at: https://financialservices.house.gov/uploadedfiles/hhrg-116-ba00-wstate-wuc-20190725.pdf.
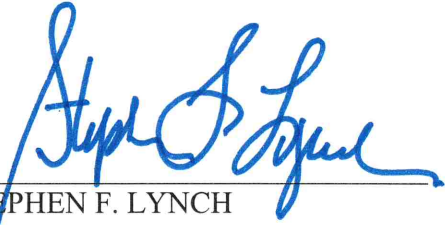
Sincerely,

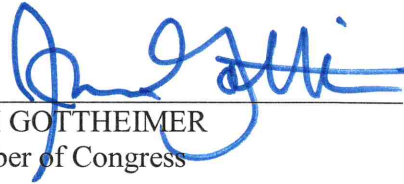MAXINE WATERS
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JOSH GOTTHEIMER
Member of Congress

cc: The Honorable Patrick McHenry, Ranking Member