November 1, 2023

Honorable Sandra L. Thompson
Director
Federal Housing Finance Agency
400 Seventh Street, S.W.
Washington, DC 20219

Dear Director Thompson:

As a national consumer reporting agency (CRA), committed to serving the domestic mortgage market, TransUnion welcomes the announcement by the Federal Housing Finance Agency (FHFA) to delay the implementation of the bi-merge requirement. We further support FHFA's decision to establish stakeholder forums on credit score models and credit report requirements for loans acquired by Fannie Mae and Freddie Mac (the Enterprises).[1]

We urge FHFA to use this delay and the stakeholder forums to reconsider the bi-merge requirement. We make this request because our analysis of the bi-merge requirement indicates that it will have negative consequences for both consumers and the broader housing market. Those negative consequences include:

- 2 million consumers with lower FICO scores who would qualify for a mortgage under the tri-merge system will become ineligible for a mortgage under bi-merge;
- Lenders likely will be subject to disparate impact claims under fair lending laws and to penalties for violations of the Fair Credit Reporting Act;
- The bi-merge requirement will amplify risk in the housing finance system as some lenders and consumers will "game" the system;

[1] TransUnion is a global information and insights company headquartered in Chicago, Illinois, with more than 4,000 employees in the United States and 8,200 worldwide.

- The lack of access to the data in the 3rd credit report will hide undisclosed debts and defaults; and

- The bi-merge requirement will inhibit innovation.

FHFA has based its support for the bi-merge requirement on the expectation that it would reduce costs and encourage innovation, without introducing additional risk to the Enterprises.[2] Yet, FHFA has not released any data or information demonstrating these supposed benefits. Given the delay in the implementation of the bi-merge requirement, we urge FHFA to release its own analysis of the impacts of a transition to a bi-merge standard. The public release of that data would allow all interested parties an opportunity to evaluate and comment upon the analysis during the stakeholder forums.

We also urge FHFA to use the stakeholder forums to evaluate alternatives to the bi-merge requirement, including, but not limited to: (1) the retention of the traditional tri-merge credit report system; (2) implementing the bi-merge requirement after the new credit score models have been adopted; and (3) expanding Fannie Mae's pilot program under which a lender pre-qualifies a borrower on the basis of one credit report and then pulls all three reports only for pre-qualified borrowers. Consideration of alternatives will help to ensure that FHFA supports an approach that best serves the interests of consumers and the broader housing market.

Finally, should FHFA decide to go forward with the bi-merge requirement, it should do so under FHFA's general rulemaking authority. As a practical matter, a bi-merge requirement would be a binding command for the Enterprises. As such, it should be subject to an opportunity for public notice and comment under the terms of the Administrative Procedures Act (APA).

In the balance of this letter, we provide details on our analysis of the impact of the bi-merge requirement on consumers and the broader housing market. We also address our recommendations related to the reconsideration of the requirement, including the application of APA procedures should FHFA move forward with the implementation of the requirement.

[2] FHFA Announcement on Credit Score Models, October, 24, 2022, https://www.fhfa.gov/Media/PublicAffairs/Pages/Fact-Sheet-FHFA-Announcement-on-Credit-Score-Models.aspx.

Any potential cost savings to consumers from the bi-merge requirement will be more than offset by its negative effects.

It has been estimated that the move from the traditional tri-merge credit report system to bi-merge would save a mortgage applicant around $10.00. Our analysis shows that the bi-merge requirement would have unintended harmful impacts on consumers that far outweigh any potential cost savings.

We simulated the potential impact of the bi-merge requirement on mortgage applicants using our own data and applying certain assumptions related to the elimination of one of the credit scores and the number of consumers who will seek a mortgage over a 12-month period. We found that there is a significant variation among the CRAs for consumers with lower FICO levels. The average difference between the high and low scores produced by the three CRAs is about 20 points for FICO scores between 800-825, whereas the difference is about 45 points for FICO scores between 550-570. This variation for consumers with lower FICO scores means that as many as 2 million consumers who would qualify for a mortgage under the tri-merge system would fall below the required minimum credit score of 620 when only two credit scores are submitted to lenders. Moreover, we found that more than 50% of the consumers in this group are Black or Hispanic. Thus, the bi-merge requirement would have an impact that is contrary to the affordable housing goals of the Enterprises.

Additionally, we found that another sizable group of consumers, about 200,000, would be put into mortgages for which they would be unqualified under the tri-merge system, which is contrary to the ability-to-pay reforms made following the financial crisis. And, we found that some consumers will pay more in mortgage interest costs under the bi-merge requirement than under the tri-merge system, and a comparable number of other consumers will pay less in interest costs. Those consumers who pay more in interest costs will be disadvantaged, and those consumers who pay less may add risk to the housing finance market.

A more detailed discussion of our analysis of the impact of the bi-merge requirement and the assumption used in the analysis appears in the attached Appendix.

The bi-merge requirement likely will expose lenders to disparate impact claims under fair lending laws.

As discussed above, our analysis of the impact of the bi-merge requirement on consumers indicates that a significant number of consumers who would qualify for a

mortgage under tri-merge will be denied a mortgage under the bi-merge requirement. This likely will expose lenders to disparate impact claims under fair lending laws.

Disparate impact claims under the Fair Housing Act and the Equal Credit Opportunity Act are subject to a three-part burden shifting framework. The first part requires that a plaintiff show that a practice has caused or will cause a discriminatory effect. Whether a particular practice has this effect is a fact-specific inquiry.[3] A member of a protected class who is denied a mortgage because one credit score is ignored may be able to meet the first part of the three-part disparate impact framework. This conclusion is also supported by FHFA's own analysis of the impact of the bi-merge requirement that found that ignoring one of the three credit reports could have a negative impact on most borrowers.[4]

Assuming a plaintiff meets the first part of the framework, the second part of the framework provides that a lender may assert that the practice is necessary to meet a substantial, legitimate, nondiscriminatory interest. Again, this is a case-based and fact-specific showing. If the lender satisfies this burden, the third part of the framework provides that a plaintiff may still establish liability by proving that the substantial, legitimate, nondiscriminatory interest could be served by a practice that has a less discriminatory effect. In a case based upon the impact of the bi-merge requirement, a plaintiff could easily make this showing by asserting that the lender could use all three credit reports.

The bi-merge requirement will expose lenders to penalties for violations of the Fair Credit Reporting Act.

To mitigate the significant downward shift in representative credit scores for most borrowers under the bi-merge requirement, FHFA has proposed that the Enterprises average the two scores. While the average across the two scores may be closer to the center of the borrower's credit score distribution than the minimum across scores, it is not a credit score produced by a CRA, and lenders that use the average score will be exposed to administrative enforcement actions under the Fair Credit Reporting Act (FCRA).

FCRA requires a lender to provide an adverse action notice to a consumer if a mortgage loan is denied based upon information contained in a credit report. Moreover, if the lender uses a credit score provided by a credit reporting agency, the lender must disclose the credit score.[5] The Consumer Financial Protection Bureau (CFPB) has published

[3] Department of Housing and Urban Development, Restatement of HUD's Discriminatory Effects Standard, 88 Fed. Reg. 19450 (May 31, 2023).

[4] Enterprise Regulatory Capital Framework-Commingled Securities, Multifamily Government Subsidy, Derivatives, and Other Enhancements, 88 Fed. Reg. 15306, 15312 (March 13, 2023).

[5] 15 U.S.C. § 1681m.

a model notice for this purpose. That notice states "We also obtained your credit score from the consumer reporting agency and used it in making our credit decision. Your credit score is a number that reflects the information in your consumer report. Your credit score can change, depending on how the information in your consumer report changes. Your credit score [is]…"[6] The average score created for purposes of the bi-merge requirement would not meet this disclosure requirement. FHFA's endorsement of the bi-merge requirement has failed to consider this regulatory and legal risk.

The bi-merge requirement will cause lenders to incur compliance costs that will further offset any potential cost savings for consumers.

The transition to the bi-merge requirement from the long-standing tri-merge system will require a significant investment of time and resources by all stakeholders in the mortgage industry. The Enterprises, the three national CRAs, lenders, rating agencies, mortgage insurers, and others will have to make material changes to information technology (IT) systems to adapt to the requirement. Policies, procedures, and quality controls will need to be adjusted. This investment of time and resources will increase mortgage loan production costs and likely will be transferred to consumers, thereby further offsetting any potential cost savings that may flow from the bi-merge requirement.

The bi-merge requirement will amplify risk in the housing finance system as some lenders and consumers will "game" the system, and the lack of access to the data in the 3rd credit report will hide undisclosed debts and defaults.

Under bi-merge, some lenders will be incentivized to choose the highest scores from the bureaus to maximize the chances of the loan being approved by the Enterprises. For example, a lender may do a "soft pull" of all three credit reports to decide which of the two reports to pull as part of the application. Savvy consumers also will leverage publicly available information to ensure that they apply to lenders that pull their highest scores. Such practices will cause credit scores for mortgages to be artificially inflated and underrepresent the risk of the mortgages.

Additionally, even if there is no gaming, lenders and the Enterprises will be blind to data on the third CRA's report. This makes them vulnerable to consumers taking on new debt that is in the third report and is invisible to the other two CRAs during the time of an application. This could lead to an increase in delinquencies and defaults.

[6] 12 C.F.R. Part 1002, Appendix C, Form C-1.

The bi-merge requirement is not needed to spur innovation. Compliance with the requirement will stall innovation.

When FHFA announced the bi-merge requirement, it stated that one of the expected benefits would be to encourage innovation among the CRAs.[7] The bi-merge requirement is not needed to spur innovation among the CRAs. Market forces are driving innovations.

For example, TransUnion pioneered the development of trended data through our CreditVision suite of solutions. Instead of a traditional credit score, which provides a score representing a moment in time, our trended data tools consider a 30-month trajectory of a consumer to help lenders understand where they are coming from, and more importantly, where they are going. These new data approaches blend traditional credit reporting information with alternative credit data – such as deposit account history, short-term lending, and address stability – to help lenders extend credit at more favorable rates to more consumers. TransUnion has used trended data to help over 35 million previously credit invisible or disadvantaged consumers gain greater access to credit (many for the first time) and on better terms. This approach has the ability to score over 60 million more people versus traditional credit score models.

Additionally, changes in financial markets have increased the differences in data reported by the three national CRAs. Since the financial crisis, there has been a significant increase in the number of nonbank lenders that offer mortgages and personal loans to consumers. Some of these nonbank lenders only report data to one or two CRAs, not all three and, as a result, data differences across the three CRAs have begun to increase.

A recent VantageScore study validated the differences in data held by the three national CRAs. That study found that there was a 20-point difference in credit scores for 15 percent of consumers (~35M impacted consumers) based on the data differences across the three bureaus. This 20-point difference could be the difference between consumer approval or denial and could lead to higher or lower consumer mortgage interest rates by the GSEs, inconsistent with the actual risk of the mortgage.

Other federal regulators have recognized these market forces. In a report to Congress, the Federal Trade Commission stated that:

> The CRAs make money by selling information, and the quality of their product is largely determined by the accuracy and completeness of the

[7] FHFA Announcement on Credit Score Models, October, 24, 2022, available at https://www.fhfa.gov/Media/PublicAffairs/Pages/Fact-Sheet-FHFA-Announcement-on-Credit-Score-Models.aspx.

information. This implicit quality requirement creates market incentives to maintain and improve the accuracy and completeness of the reports they sell.[8]

More recently, in a special report on CRAs, the CFPB detailed improvements implemented by CRAs including review of data governance programs, establishment of quality control programs, enhancement in oversight of third-party public records providers, review of new and existing furnishers, and monitoring of furnisher dispute data.[9]

In sum, the national CRAs are subject to market forces that encourage innovation and differentiate the data contained in credit reports. The bi-merge requirement is not needed to supplement these forces. In fact, the transition to bi-merge would slow innovations as the CRAs and lenders de-prioritize initiatives and redirect resources to address the complex details associated with implementing the bi-merge requirement.

FHFA should release its own analysis of the impact of the bi-merge requirement.

For over a decade, FHFA has given extensive consideration to changes in the credit score models used by the Enterprises, including through a public notice and comment rulemaking mandated by Congress.[10] Throughout this process, however, FHFA's analysis of the impact of the bi-merge requirement on stakeholders, including mortgage borrowers, has not been transparent.

In 2017, FHFA issued a request for input (RFI) on credit scores in which the agency stated that it was evaluating whether to change from the current requirement of obtaining a credit report and credit score from all three of the national credit reporting agencies to a requirement to obtain only two or one report and score.[11] While the submissions to FHFA made in response to the RFI are available on FHFA's website, FHFA did not provide any public summary or analysis of those submissions.

---

[8] Federal Trade Commission, Report to Congress Under Sections 318 and 319 of the Fair and Accurate Credit Transactions Act of 2003 (FACTA Report), December 2004, at p. 7, available at https://www.ftc.gov/sites/default/files/documents/reports/under-section-318-and-319-fair-and-accuratecredit-transaction-act-2003/041209factarpt.pdf.

[9] Consumer Financial Protection Bureau, Supervisory Highlights Consumer Reporting Special Edition, Issue 14, Winter 2017, available at https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/201703_cfpb_Supervisory-Highlights-Consumer-Reporting-S.

[10] Section 310 of the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 (Pub. L. 115–174, section 310) amended the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 to require the Director of to establish, by regulation, standards and criteria for the validation of credit scoring models used by the Enterprises.

[11] Federal Housing Finance Agency, Credit Score Request for Input, December 20, 2017. https://www.fhfa.gov/Media/PublicAffairs/PublicAffairsDocuments/CreditScore_RFI-2017.pdf.

In 2019, in response to a Congressional directive, FHFA issued a rule that addressed credit scoring methods. In the preamble to that rule, FHFA stated that the consideration of changes to the tri-merge requirement was outside the scope of the rule because the agency needed to "fully understand the costs and benefits before making any change to the tri-merge requirement."[12] If FHFA has conducted such an analysis, it has not been publicly disclosed.

On October 24, 2022, FHFA announced that the Enterprises will require two, rather than three, credit reports from the national consumer reporting agencies.[13] In making this announcement, FHFA stated that it "expected" this change would reduce costs and encourage innovation, without introducing additional risk to the Enterprises.[14] FHFA has not released data or information to support these expected benefits.

On March 14, 2023, FHFA released a notice of proposed rulemaking (NPR) in which it proposed amendments to the regulatory capital framework for the Enterprises, including a modification to that framework "to reflect FHFA's announcement in October 2022 that the Enterprises will require two, rather than three, credit reports from the repositories."[15] The modification would require an Enterprise to calculate the average credit score across repositories for each borrower rather than using the median or lowest score, which is the current procedure when a lender submits three credit reports to the Enterprises. In the preamble to the NPR, FHFA explained that the proposed modification would mitigate a potential downward shift in credit scores for borrowers under the bi-merge credit report requirement. In the NPR, FHFA did not invite any specific public comment on the bi-merge requirement.

Finally, on March 23, 2023, FHFA announced that the bi-merge credit report requirement would be effective in the first quarter of 2024.[16] While this implementation date has now been postponed, FHFA has not released any information to support either the original timeline or the extended timeline.[17]

---

[12] Validation and Approval of Credit Score Models, 84 Fed. Reg. 41886, 41898 (Aug. 16, 2019).
[13] FHFA Announcement on Credit Score Models, October, 24, 2022, https://www.fhfa.gov/Media/PublicAffairs/Pages/Fact-Sheet-FHFA-Announcement-on-Credit-Score-Models.aspx.
[14] Id.
[15] 88 Fed. Reg. 15306, at 15311 (March 13, 2023).
[16] FHFA Announces Proposed Implementation Timelines for Credit Score Models and Credit Report Requirements and a Corresponding Public Engagement Process, March 23, 2023, https://www.fhfa.gov/Media/PublicAffairs/Documents/2023-March-Credit-Score-Fact-Sheet.pdf.
[17] FHFA Announces Next Phase of Public Engagement Process for Updated Credit Score Requirements, September 11, 2023, https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Next-Phase-of-Public-Engagement-Process-for-Updated-Credit-Score-Requirements.aspx.

The lack of transparency throughout this process has denied stakeholders an opportunity to provide input to FHFA on key issues, especially the costs and benefits of the switch to bi-merge. It also has denied stakeholders access to the data and information upon which FHFA based its decision to support the bi-merge requirement.

FHFA should consider alternatives to the bi-merge requirement.

In addition to not disclosing any data or analysis to support the bi-merge requirement, it is not apparent that FHFA has seriously considered alternatives to bi-merge. In a rulemaking process, a Federal agency has a "duty to consider responsible alternatives to its chosen policy and to give a reasoned explanation for its rejection of such alternatives."[18] It is equally well settled that the failure of an Federal agency to consider obvious alternatives to a rule will led to reversal of the rule.[19] While FHFA may assert that the bi-merge requirement is not a rule, it is a major change in policy and practice that will, as described above, have a significant impact on consumers and the broader housing market.

As part of its stakeholder forums, we recommend that FHFA consider alternatives to bi-merge that would have a less disruptive impact on consumers and the broader housing market. Such alternatives include: (1) the retention of the traditional tri-merge credit report system; (2) implementing the bi-merge requirement after the new credit score models have been adopted; and (3) expanding Fannie Mae's pilot program under which a lender pre-qualifies a borrower on the basis of one credit report and then pulls all three reports only for pre-qualified borrowers. Consideration of these alternatives will help to ensure that FHFA supports the system that best serves the interests of consumers and the broader housing market.

Should FHFA decide to go forward with the bi-merge requirement, it should do so under FHFA's general rulemaking authority, subject to public notice and comment.

The APA defines a rule as an agency statement of general or particular applicability and future effect that is designed to implement, interpret, or prescribe law or policy.[20] FHFA's October 24, 2002 announcement on the bi-merge credit report requirement meets this definition. If implemented, the requirement would be a major change in policy.

---

[18] *City of Brookings Municipal Telephone Co. v. FCC*, 822 F.2d 1153, 1169 (D.C. Cir. 1987), quoting *Farmers Union Central Exchange v. FERC*, 734 F.2d 1486, 1151 (D.C. Cir. 1984)

[19] *Yakima Valley Cablevision, Inc. v. FCC*, 794 F.2d 737, 746 n. 36 (D.C. Cir. 1986).

[20] 5 U.S.C. § 551(4).

Federal courts also have stated that a pronouncement by an agency will be deemed to be a rule if, as a practical matter, it is a binding command.[21] The bi-merge credit report requirement is such a command, especially when considered in conjunction with the outstanding NPR on the Enterprise capital framework that requires lenders to adopt the average score calculation methodology.

Therefore, if, following the stakeholder forums, FHFA decides to implement the bi-merge requirement, it should do so under APA procedures. Those procedures require that FHFA: (1) issue a general notice of proposed rulemaking;[22] (2) provide an opportunity for interested persons to submit written data, views, or arguments;[23] and (3) when a final rule is promulgated, issue a concise general statement of its basis and purpose.[24] Collectively, these procedures will ensure that interested stakeholders will have an opportunity to provide input into the process, that the agency evaluates that input, and that, when an agency promulgates a final rule, it explains the basis and purpose of the rule.

While FHFA is not required to follow standard notice and comment procedures when acting in its capacity as a conservator, FHFA's actions related to credit scoring methodology and the bi-merge requirement have been taken under the agency's general rulemaking authority. The statutory requirement that FHFA issue a regulation on credit scoring methodology was an amendment to the agency's general rulemaking powers, not its conservatorship powers. The NPR that would require the averaging of two credit scores averaging, and which "reflects" the agency's October 2022 announcement regarding the bi-merge requirement, was taken under the agency's general rulemaking authority. And so, FHFA's implementation of the bi-merge requirement also should be taken under the agency's general rulemaking authority.

In summary, we urge FHFA to use the delay in the implementation of the bi-merge requirement and the stakeholder forums to reconsider the bi-merge requirement.

It has been six years since FHFA's RFI on whether to change from the tri-merge credit report system to bi-merge, and four years since FHFA stated that it needed to study the costs and benefits of such a change. Since those announcements, however, FHFA has not revealed its analysis of the potential costs and benefits of the change. Moreover, FHFA has not provided any detailed explanation of its subsequent determination to endorse bi-merge, other than it "expects" cost savings and innovations because of the bi-merge

[21] *General Electric Company v. EPA*, 290 F.3d 377 (D.C. Cir. 2002) ("Our cases likewise make clear that an agency pronouncement will be considered binding as a practical matter if it either appears on its face to be binding… or is applied by the agency in a way that indicates it is binding…").
[22] 5 U.S.C. § 553(b).
[23] 5 U.S.C. § 553(c).
[24] Ibid.

requirement. Yet, as we have described above, the bi-merge would have significant negative effects on consumers, lenders, and other stakeholders in the housing market. Accordingly, we urge FHFA to use the delay in the implementation of the bi-merge requirement and the stakeholder forums to reconsider the requirement. That reconsideration should include the release of FHFA's analysis of the costs and benefits of the requirement. Furthermore, if, following the stakeholder forums, FHFA decides to move forward with the bi-merge requirement, FHFA should do so subject to the APA rulemaking process.

Sincerely,

Eli K. Peterson

Eli Peterson
Deputy General Counsel

APPENDIX

CONSUMER IMPACT SIMULATIONS OF THE BI-MERGE REQUIREMENT

We undertook our data analysis following a June 8, 2023, report by S&P Global that found that at a pool-level the variation in credit scores when using a bi-merge average rather than the median of a tri-merge was small but could be greater at a loan-level. That report found that the average difference between high and low scores in a tri-merge is about 20 points for the 800-825 bucket compared to a difference of about 45 points for the 550-575. This result suggested that the bi-merge requirement could have a disproportionate negative impact on consumers with lower credit scores, including Black and Hispanic borrowers.

To test this potential impact, we built a data set in which TransUnion credit scores represented the median of three scores,[25] the high and low scores were equidistant from the median, and the distribution of the difference between the highest and lowest scores were right-skewed using a shape parameter of 0.7. That data set showed that the average difference between high and low scores was materially greater for consumers with lower credit scores and was consistent with the results of the S&P report.[26] Table 1, below, illustrates those results.

---

[25] We also randomly assigned our credit scores as high/medium/low and reached similar results.

[26] We also asked the authors of the S&P report to evaluate our results, and they informally agreed with the results.

Table 1

Score range(bin)	Average difference between high and low scores	
	S&P	TransUnion
(825-850]	16.8	15.0
(800-825]	20.7	19.3
(775-800]	24.0	24.4
(750-775]	28.8	28.4
(725-750]	32.2	32.0
(700-725]	33.7	33.7
(675-700]	33.8	33.7
(650-675]	38.0	38.1
(625-650]	39.0	39.1
(600-625]	41.3	41.4
(575-600]	47.6	47.4
(550-575]	45.0	45.2
(525-550]	43.1	43.3
(500-525]	38.6	38.6

We then applied the data set using three different scenarios and certain additional assumptions. The three scenarios were:

(1) a simulation in which a credit reporting agency's (CRA) score was randomly eliminated 1/3 of the time;

(2) a simulation in which we assumed that 10% of all U.S. consumers eligible for a GSE mortgage would apply for a new mortgage in the next 12 months (in-line with the actual percent that seek new mortgages each year dating back to 2018); and

(3) a simulation in which 5% percent of consumers eligible for a GSE mortgage would borrow a new GSE mortgage in the next 12 months (in-line with the actual percent that borrows new mortgages each year dating back to 2018).

We also assumed that: the population of all U.S. consumers eligible for a GSE mortgage was 217 million, which includes consumers who currently have a mortgage as well as those who may apply for a mortgage; on average, 1.5 borrowers were liable for an individual mortgage; mortgage payments would be based upon a $516,600 average priced home; and the amount of interest owed declined each month in accordance with typical mortgage amortization schedules.

The simulations show that out of all consumers eligible for a mortgage (217 million), approximately 2 million may fall below the minimum credit score of 620 required to obtain a GSE mortgage when only two credit scores are submitted to lenders. In other words, a consumer who would qualify for a mortgage when three credit scores are submitted would not qualify when a random CRA's score is ignored. Moreover, the number of consumers who would not qualify for a mortgage under the bi-merge requirement would increase to approximately 6 million if the consumer's highest credit score is ignored 100 percent of the time.

Additionally, if 10 percent of all consumers apply for a new mortgage over the next 12 months (roughly in-line with the percentage of U.S. residents with scores above 619 that seek a new mortgage in any one calendar year dating back to 2018), we expect the transition from the tri-merge to bi-merge to adversely affect the following number of U.S. residents:

- An estimated 200,000 consumers – eligible for a GSE mortgage under the tri-merge – will seek a mortgage in the next 12 months and be denied one under the bi-merge requirement if one bureau's score is ignored.
- An estimated 600,000 consumers – eligible for a GSE mortgage under the tri-merge – will seek a mortgage in the next 12 months and be denied one under the bi-merge requirement if the highest score is ignored 100 percent of the time.

Our simulations also show that many consumers who cannot afford a mortgage will be extended credit contrary to public policy. The simulations show that out of all consumers eligible for a GSE mortgage, approximately 1.8 million who would be ineligible for a mortgage when three credit scores are reported may become eligible for a mortgage when one credit score is ignored. This number would increase to approximately 5.3 million if the consumer's lowest credit score is ignored 100 percent of the time. In other words, under bi-merge many consumers could be put into homes they cannot afford. This is a result contrary to the reforms made in response to the financial crisis and the homeownership priorities of the current administration.

Additionally, if 10 percent of all consumers apply for a mortgage over the next 12 months (roughly in-line with the percentage of U.S. residents with scores above 619 that seek a new mortgage in any one calendar year dating back to 2018), we expect the transition from the tri-merge to bi-merge report to result in an unintended:

- 178,000 consumers – ineligible for a GSE mortgage under the tri-merge – seeking a mortgage in the next 12 months will become eligible for one under the bi-merge requirement if one bureau's score is ignored.

- An estimated 533,000 consumers – eligible for a GSE mortgage under the tri-merge – will seek a mortgage in the next 12 months and become eligible for one under the bi-merge requirement if the lowest score is ignored 100 percent of the time.

Furthermore, the simulations show that some consumers would experience a reduction in interest expense and a comparable number would experience an increase in interest expense.

If 5 percent of all consumers borrow a mortgage over the next 12 months (again, roughly in-line with the percentage of U.S. residents with scores above 619 that borrow a new mortgage in any one calendar year dating back to 2018), we expect the transition from the tri-merge to bi-merge report to result in:

- 580,692 new mortgages would improperly rise to a higher credit score tier under the bi-merge requirement. These new borrowers would pay $61 less per mortgage in monthly interest expenses (or $731 less per year).
    - This will equate to $425 million less in annual interest expenses.
    - Each borrower inappropriately favored by the transition will pay, on average, $6,918 less in interest over the course of 10 years.
    - Over the course of 10 years, this is projected to be an estimated $4 billion less in interest expenses for just these 580,692 new mortgages.

Conversely, if 5 percent of all consumers borrow a new mortgage over the next 12 months (again, roughly in-line with the percentage of U.S. residents with scores above 619 that borrow a new mortgage in any one calendar year dating back to 2018), we expect the transition from the tri-merge to bi-merge report to adversely affect:

- 586,240 new mortgages over the next 12 months would fall into a more expensive credit score bin with a bi-merge score. Borrowers would pay $59 more per mortgage in monthly interest expenses (or $704 more per year) under the bi-merge than they would have paid under the tri-merge.
    - 8 percent of new mortgages (or 586,240 out of 7.2 million expected to be originated over the next 12 months) are expected to pay more in interest because of the transition.
    - This will equate to an additional $413 million in annual interest expenses.

- Each borrower affected by the transition to the bi-merge will pay, on average, $6,660 more in interest over the course of 10 years (roughly the average life of a mortgage).
- This is projected to be an estimated $3.9 billion in additional interest expenses over the course of the next 10 years for just these 586,240 new mortgages.