

WSJ Print Edition

The changes were brewing for the past year but kicked into gear last month.

A Credit-Score Shift Shakes Up Mortgages

BY JASMINE LI AND ANNAMARIA ANDRIOTIS

FICO credit scores played a critical role in determining homeownership for many Americans for decades. Now the mortgage industry is embracing another metric.

Regulators and lenders recently opened the door to using VantageScore, a joint venture by credit-reporting firms Equifax, Experian and Trans-Union,

for their mortgage-underwriting decisions. It is the latest chapter in the Federal Housing Finance Agency's crusade against Fair Isaac's nearmonopoly over the \$13 trillion mortgage market—one that sent the company's stock down about 60% this year.

The FHFA is the overseer of Fannie Mae and Freddie Mac, which backstop much of the market and therefore set the standards for home lending. FHFA chief Bill Pulte and President Trump have been trying to lower mortgage costs and increase home affordability, combating mortgage rates that have climbed to their highest levels in years just before the midterm elections. The administration says the credit-score change will make it easier and cheaper to get a mortgage.

Pulte has more in store for the industries, including changing longstanding requirements around credit reports, according to a person familiar with the matter.

"We do not care who wins," Pulte said on X in late September. "We just want [FICO] and Vantage to compete—not be a cartel or abusive monopolies."

Making home-buying more affordable is a monumental task filled with potential pitfalls and unintended consequences. So far, the market is seeing the score changes as increasing risk, and there are early indications that it is leading to higher rates on some mortgages.

The FHFA, Fannie Mae and Freddie Mac all said in statements that the changes would modernize the credit-scoring system, making it more predictive, and create a safer and sounder market.

The changes have been brewing for the past year but kicked into gear last month when Pulte directed Fannie Mae and Freddie Mac to approve all lenders to use VantageScore 4.0. The mortgage-lending industry, which is dominated by nonbanks, got on board quickly. Rocket Mortgage, the nation's largest lender, said it would use VantageScore as its preferred scoring model over FICO. United Wholesale Mortgage said it would pull both scores and use the higher one. And PennyMac said it deployed VantageScore across its businesses.

"We want to give our brokers, and therefore our consumers, the ability to get the best of whatever is available to them," said Desmond P. Smith, chief growth officer at UWM.

Nearly \$4 billion of Fannie and Freddie mortgages were originated with VantageScore 4.0 in August, when some lenders were piloting the new score, up from \$8 million in April, according to an analysis by consulting firm Milliman.

Roughly 3% of the \$400 billion that Fannie and Freddie sold into securitizations in the six months through September was tied to VantageScore, up from essentially zero, according to trade publication Inside Mortgage Finance.

At the core of the change are pricing grids meant to assess risk that Fannie and Freddie rolled out during the 2008 housing crisis. The grids determine the fees Fannie and Freddie charge based on borrowers' credit score and loan size compared with the

value of the house they are financing.

The administration is now adding VantageScore to the equation. One iteration, released in early September, treated the scores as different. For instance, a 720 Vantage-Score should be thought of as a 700 FICO, the grid showed.

Then at the end of September, Pulte erased that differential. He said there would be one set of pricing grids that treat FICO and VantageScore equally. "We are Simplifying Mortgage Pricing following feedback from lenders and consumers," he wrote on X.

It was akin to waving a magic wand and allows the lenders to choose the highest score available. FICO and VantageScore credit scores are crunched off different algorithms and with different data. In general, the FICO score that has long been used for Fannie and Freddie is a tougher bar for consumers to clear. For example, it requires that consumers have a lengthier credit history—about six months—than the VantageScore version.

"I question whether or not Pulte knows what he's doing," said John Ulzheimer, who has worked for FICO and Vantage-Score. "It's like Fahrenheit and Celsius—to some extent you're never going to have the same output."

A 20-point drop in a FICO score increases the chances of default by 40% to 50%, according to FICO.

"If one believes the prior grids accurately measured risk, then this means Fannie and Freddie are taking on more risk with each VantageScore loan without being compensated," TD Cowen analyst Jaret Seiberg wrote in a report.

Bill Banfield, chief business officer at **Rocket**, said the company ran 1.4 million credit reports from May through September that pulled both scores. On the mortgages that Rocket originated, VantageScore 4.0 ran 11 to 12 points higher than FICO Classic on average, he said. "What that meant, in the most simplest terms, was that the vast majority of people got the same price or a slightly better price by using Vantage-Score," he said.

So far, the market isn't treating the scores as equal.

Mortgage-bond investors who buy bonds from Fannie and Freddie are worried about their own models and "if they are being compensated for risk," said Scott Buchta, head of fixed-income strategy at investment bank Brean Capital.

An analysis by Milliman found that during the pilot period, borrowers with similar credit-score ranges were charged a higher rate—up to 0.2 percentage point more—when their loans were originated using VantageScore instead of FICO.

The following is a digital replica of content from the print newspaper and is intended for the personal use of our members. For commercial reproduction or distribution of Dow Jones printed content, contact: Dow Jones Reprints & Licensing at (800) 843-0008 or visit djreprints.com.

FICO Hit By Rise Of Rival

FICO credit scores have long played a critical role in mortgage-underwriting decisions. Now regulators and lenders have opened the door to using a rival, VantageScore. The move to break Fair Isaac's hold over the mortgage market has sent its stock down about 60% this year. **B1**

Fair Isaac share price, year to date



Source: FactSet

The following is a digital replica of content from the print newspaper and is intended for the personal use of our members. For commercial reproduction or distribution of Dow Jones printed content, contact: Dow Jones Reprints & Licensing at (800) 843-0008 or visit djreprints.com.

