



MD|DC  
Credit Union Association

Delegate Dereck Davis  
Room 231  
House Office Building  
Annapolis, Maryland 21401

**HB1213:** Financial Institutions - Determination of Creditworthiness - Alternative Methods  
**Testimony on Behalf of:** MD|DC Credit Union Association  
**Position:** Favorable with amendments

Chairman Davis, Vice-Chair Dumais, and Members of the Committee:

The MD|DC Credit Union Association, on behalf of the 77 Credit Unions and their 2.2 million members that we represent in the State of Maryland, appreciates the opportunity to testify on this legislation. Credit Unions are member-owned, not-for-profit financial cooperatives whose mission is to educate and help members achieve financial well-being. **We support this bill with amendments**

### **1. Credit unions must protect their members.**

As stated in the NCUA examiner's manual "A credit union usually derives its primary source of income, as well as a major source of risk to its solvency, from its loan portfolio. Therefore, credit unions support this major asset account with sound business planning, policies, and internal controls."<sup>1</sup> All credit union policies are created with consumer protection at the forefront. All credit union members should be confident that their institution is safe and sound.

### **2. Credit Score Modeling:**

As initially drafted, this bill was problematic because it required financial institutions to account for factors in their credit history assessments that 1. Are not always made available to the financial institution or credit reporting agency and, 2. Have not been tested to the industry standard in credit score modeling for "accuracy, reliability, and integrity." Credit scoring models are complex and constantly changing to stay as accurate as possible. For example, the new FICO 9 model includes rental history when it's reported. Also, new opt-in products, such as "Experian Boost," allow consumers to identify utility and telecom payment history to be considered for credit history. These new products require that the consumer, or the property owner, allow the credit rating company to obtain the necessary information. Lenders have no control over this process.

In its goal of updating scoring models for mortgage loans, the Federal Housing Finance Agency has solicited applications, following a 2-year rulemaking period, for alternative models for credit scoring to help those who wouldn't be approved under typical FICO models. To meet the requirements for non-traditional data, these models will undergo a fairly rigorous testing process. The State should not create any requirements that may be at odds with the models that FHFA approves.

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<sup>1</sup> NCUA Examiner's Guide, Page 10/1-3



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### 3. Alternative Factors Currently Considered:

Credit unions currently have the discretion to consider “alternative” factors when determining creditworthiness for a loan. As the NCUA examiner’s manual states, “The credit union should not automatically deny a loan because of a member’s adverse credit history. A member having experienced a layoff or serious medical condition could have a poor prior record. If the credit union approves a loan to a member with an adverse credit history, the credit union should adequately document the reasons for the approval and show the member has resolved the reasons for the adverse ratings.”<sup>2</sup> We have and will continue to consider alternative factors without legislation mandating us to do so. The credit union will have written guidelines for any alternative factors and allow underwriters to exercise limited judgment. Removing discretion from the credit union may end up limiting their ability to meet the needs of a member. **The goal is always safety and soundness of the financial institution, protecting all members, and working hard to meet the member’s needs.**

### 4. Proposed Amendment

To meet our goals and to make sure that risks are appropriately considered to protect our members, we have asked the sponsor to accept the following amendment, to which she has agreed.

“(C) WHEN EVALUATING AN APPLICATION FOR A PRIMARY RESIDENTIAL MORTGAGE LOAN OR AN EXTENSION OF CREDIT, AN ENTITY SUBJECT TO THIS SECTION SHALL ADHERE TO ALL RULES CONCERNING EVALUATIONS OF APPLICATIONS AS SET FORTH IN 12 CFR § 1002.6 AND MAY CONSIDER ANY VERIFIABLE ALTERNATIVE INDICATIONS OF CREDITWORTHINESS PRESENTED OR MADE AVAILABLE TO SUCH ENTITY BY AN APPLICANT.

We think that this language strikes the appropriate balance of notifying financial institutions that the State encourages the use of verifiable alternative indications of creditworthiness but does not force a lender to use information that it has no access to, or that it may deem too risky to consider in their analysis.

As always, we appreciate the ability to have our voices heard and look forward to a continued partnership. Please reach out to me at [jbratsakis@mddccua.org](mailto:jbratsakis@mddccua.org) or our VP of Advocacy, Rory Murray, at [rmurray@mddccua.org](mailto:rmurray@mddccua.org) with comments or questions.

Thank you!

Sincerely,

John Bratsakis  
President/CEO

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<sup>2</sup> NCUA Examiner’s Guide, Page 10/1-10



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