117TH CONGRESS
1ST SESSION

H. R. 4112

To amend the Fair Credit Reporting Act to establish clear Federal oversight
of the development of credit scoring models by the Bureau of Consumer
Financial Protection, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JUNE 24, 2021

Mr. LYNCH introduced the following bill; which was referred to the Committee
on Financial Services

A BILL

To amend the Fair Credit Reporting Act to establish clear
Federal oversight of the development of credit scoring
models by the Bureau of Consumer Financial Protection,
and for other purposes.

1   *Be it enacted by the Senate and House of Representa-*

2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4   This Act may be cited as the "Clarity in Credit Score

5 Formation Act of 2021".

6 **SEC. 2. FINDINGS.**

7   Congress finds the following:

1 (1) The February 2015 report of the Bureau of
2 Consumer Financial Protection titled "Consumer
3 Voices on Credit Reports and Scores" found that
4 some consumers are reluctant to comparison shop
5 for loans and other types of consumer credit prod-
6 ucts out of fear that they will lower their credit
7 scores by doing so.

8 (2) The Bureau of Consumer Financial Protec-
9 tion found that one of the most common barriers for
10 people in reviewing their own credit reports and
11 shopping for the best credit terms was a lack of un-
12 derstanding of the differences between "soft" and
13 "hard" inquiries and whether requesting a copy of
14 their own report would adversely impact their credit
15 standing.

16 (3) The Bureau of Consumer Financial Protec-
17 tion revealed that consumers with accurate percep-
18 tions of their creditworthiness may be better
19 equipped to shop for favorable credit terms.

20 **SEC. 3. CONSUMER BUREAU OVERSIGHT OF CREDIT SCOR-**
21 **ING MODELS.**

22 The Fair Credit Reporting Act (15 U.S.C. 1681 et
23 seq.) is amended—

24 (1) by adding at the end the following new sec-
25 tion:

"§ 630. Credit scoring models

"(a) VALIDATED CREDIT SCORING MODELS.—Not later than 1 year after the date of the enactment of this section, the Bureau shall (in consultation with the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Board of Directors of the Federal Deposit Insurance Corporation, and the National Credit Union Administration Board) issue final regulations applicable to any person that creates, maintains, utilizes, or purchases credit scoring models used in making credit decisions to establish standards for validating the accuracy and predictive value of all such credit scoring models, both before release for initial use and at regular intervals thereafter, for as long as such credit scoring models are made available for purchase or use by such person.

"(b) PROHIBITION.—At least once every 2 years, the Bureau shall conduct a review of credit scoring models to determine whether the use of any particular factors, or the weight or consideration given to certain factors by credit scoring models, is inappropriate, including if such factors do not enhance or contribute to the accuracy and predictive value of the models. Upon the conclusion of its review, the Bureau may prohibit a person described in subsection (a) from weighing, considering, or including certain factors in, or making available for purchase or use,

1 certain credit scoring models or versions, as the Bureau

2 determines appropriate.''; and

3   (2) in the table of contents for such Act, by

4   adding at the end the following new item:

"630. Credit scoring models.''.

5 **SEC. 4. CONSUMER BUREAU STUDY AND REPORT TO CON-**

6   **GRESS ON THE IMPACT OF NON-TRADI-**

7   **TIONAL DATA.**

8 (a) STUDY.—The Bureau of Consumer Financial

9 Protection shall carry out a study to assess the impact

10 (including the availability and affordability of credit and

11 other noncredit decisions, the potential positive and nega-

12 tive impacts on consumer credit scores, and any unin-

13 tended consequences) of using traditional modeling tech-

14 niques or alternative modeling techniques to analyze non-

15 traditional data from a consumer report and of including

16 non-traditional data on consumer reports on the following:

17   (1) Consumers with no or minimal traditional

18   credit history.

19   (2) Traditionally underserved communities and

20   populations.

21   (3) Consumers residing in rural areas.

22   (4) Consumers residing in urban areas.

23   (5) Racial and ethnic minorities and women.

24   (6) Consumers across various income strata,

25   particularly consumers earning less than 120 per-

1 cent of the area median income (as defined by the

2 Secretary of Housing and Urban Development).

3 (7) Immigrants, refugees, and non-permanent

4 residents.

5 (8) Minority financial institutions (as defined

6 under section 308(b) of the Financial Institutions

7 Reform, Recovery, and Enforcement Act of 1989

8 (12 U.S.C. 1463 note)) and community financial in-

9 stitutions.

10 (9) Consumers residing in federally assisted

11 housing, including consumers receiving Federal rent-

12 al subsidies.

13 (b) ADDITIONAL CONSIDERATIONS.—In assessing

14 impacts under subsection (a), the Bureau of Consumer Fi-

15 nancial Protection shall also consider impacts on—

16 (1) the privacy, security, and confidentiality of

17 the financial, medical, and personally identifiable in-

18 formation of consumers;

19 (2) the control of consumers over how such in-

20 formation may or will be used or considered;

21 (3) the understanding of consumers of how

22 such information may be used or considered and the

23 ease with which a consumer may decide to restrict

24 or prohibit such use or consideration of such infor-

25 mation;

1   (4) potential discriminatory effects; and

2   (5) disparate outcomes the use or consideration

3   of such information may cause.

4   (c) CONSIDERATION OF RECENT GOVERNMENT

5 STUDIES.—In assessing impacts under subsection (a), the

6 Bureau of Consumer Financial Protection shall also con-

7 sider recent Government studies on alternative data, in-

8 cluding—

9   (1) the report of the Bureau of Consumer Fi-

10   nancial Protection titled "CFPB Data Point: Be-

11   coming Credit Visible" (published June 2017); and

12   (2) the report of the Comptroller General of the

13   United States titled "Financial Technology: Agen-

14   cies Should Provide Clarification on Lenders' Use of

15   Alternative Data" (published December 2018).

16   (d) REPORT.—Not later than 1 year after the date

17 of the enactment of this Act, the Bureau of Consumer Fi-

18 nancial Protection shall issue a report to the Committee

19 on Financial Services of the House of Representatives and

20 the Committee on Banking, Housing, and Urban Affairs

21 of the Senate containing all findings and determinations,

22 including any recommendations for any legislative or regu-

23 latory changes, made in carrying out the study required

24 under subsection (a).

25   (e) DEFINITIONS.—In this section:

1   (1) ALTERNATIVE MODELING TECHNIQUES.—

2   The term ''alternative modeling techniques'' means

3   statistical and mathematical techniques that are not

4   traditional modeling techniques, including decision

5   trees, random forests, artificial neutral networks,

6   nearest neighbor, genetic programming, and boost-

7   ing algorithms.

8   (2) CONSUMER REPORT.—The term ''consumer

9   report'' has the meaning given such term in section

10   603 of the Fair Credit Reporting Act (15 U.S.C.

11   1681a).

12   (3) NON-TRADITIONAL DATA.—The term ''non-

13   traditional data'' means data related to tele-

14   communications, utility payments, rent payments,

15   remittances, wire transfers, data not otherwise regu-

16   larly included in consumer reports issued by con-

17   sumer reporting agencies described under section

18   603(p), and such other items as the Bureau of Con-

19   sumer Financial Protection deems appropriate.

20   (4) TRADITIONAL MODELING TECHNIQUES.—

21   The term ''traditional modeling techniques'' means

22   statistical and mathematical techniques (including

23   models, algorithms, linear and logistic regression

1   methods, and their outputs) that are traditionally

2   used in automated underwriting processes.

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