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.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the “Clarity in Credit Score Formation Act of 2021”.

SEC. 2. FINDINGS.

Congress finds the following:
(1) The February 2015 report of the Bureau of Consumer Financial Protection titled “Consumer Voices on Credit Reports and Scores” found that some consumers are reluctant to comparison shop for loans and other types of consumer credit products out of fear that they will lower their credit scores by doing so.

(2) The Bureau of Consumer Financial Protection found that one of the most common barriers for people in reviewing their own credit reports and shopping for the best credit terms was a lack of understanding of the differences between “soft” and “hard” inquiries and whether requesting a copy of their own report would adversely impact their credit standing.

(3) The Bureau of Consumer Financial Protection revealed that consumers with accurate perceptions of their creditworthiness may be better equipped to shop for favorable credit terms.

SEC. 3. CONSUMER BUREAU OVERSIGHT OF CREDIT SCORING MODELS.

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

(1) by adding at the end the following new section:
§ 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,
certain credit scoring models or versions, as the Bureau
determines appropriate.”; and

(2) in the table of contents for such Act, by
adding at the end the following new item:
“630. Credit scoring models.”.

SEC. 4. CONSUMER BUREAU STUDY AND REPORT TO CON-
GRESS ON THE IMPACT OF NON-TRAD-
TIONAL DATA.

(a) Study.—The Bureau of Consumer Financial
Protection shall carry out a study to assess the impact
(including the availability and affordability of credit and
other noncredit decisions, the potential positive and nega-
tive impacts on consumer credit scores, and any unin-
tended consequences) of using traditional modeling tech-
niques or alternative modeling techniques to analyze non-
traditional data from a consumer report and of including
non-traditional data on consumer reports on the following:

(1) Consumers with no or minimal traditional
credit history.

(2) Traditionally underserved communities and
populations.

(3) Consumers residing in rural areas.

(4) Consumers residing in urban areas.

(5) Racial and ethnic minorities and women.

(6) Consumers across various income strata,
particularly consumers earning less than 120 per-
cent of the area median income (as defined by the Secretary of Housing and Urban Development).

(7) Immigrants, refugees, and non-permanent residents.

(8) Minority financial institutions (as defined under section 308(b) of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (12 U.S.C. 1463 note)) and community financial institutions.

(9) Consumers residing in federally assisted housing, including consumers receiving Federal rental subsidies.

(b) ADDITIONAL CONSIDERATIONS.—In assessing impacts under subsection (a), the Bureau of Consumer Financial Protection shall also consider impacts on—

(1) the privacy, security, and confidentiality of the financial, medical, and personally identifiable information of consumers;

(2) the control of consumers over how such information may or will be used or considered;

(3) the understanding of consumers of how such information may be used or considered and the ease with which a consumer may decide to restrict or prohibit such use or consideration of such information;
(4) potential discriminatory effects; and

(5) disparate outcomes the use or consideration of such information may cause.

(e) Consideration of Recent Government Studies.—In assessing impacts under subsection (a), the Bureau of Consumer Financial Protection shall also consider recent Government studies on alternative data, including—

(1) the report of the Bureau of Consumer Financial Protection titled “CFPB Data Point: Becoming Credit Visible” (published June 2017); and


(d) Report.—Not later than 1 year after the date of the enactment of this Act, the Bureau of Consumer Financial Protection shall issue a report to the Committee on Financial Services of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate containing all findings and determinations, including any recommendations for any legislative or regulatory changes, made in carrying out the study required under subsection (a).

(e) Definitions.—In this section:
(1) **ALTERNATIVE MODELING TECHNIQUES.**—
The term “alternative modeling techniques” means statistical and mathematical techniques that are not traditional modeling techniques, including decision trees, random forests, artificial neural networks, nearest neighbor, genetic programming, and boosting algorithms.

(2) **CONSUMER REPORT.**—The term “consumer report” has the meaning given such term in section 603 of the Fair Credit Reporting Act (15 U.S.C. 1681a).

(3) **NON-TRADITIONAL DATA.**—The term “non-traditional data” means data related to telecommunications, utility payments, rent payments, remittances, wire transfers, data not otherwise regularly included in consumer reports issued by consumer reporting agencies described under section 603(p), and such other items as the Bureau of Consumer Financial Protection deems appropriate.

(4) **TRADITIONAL MODELING TECHNIQUES.**—The term “traditional modeling techniques” means statistical and mathematical techniques (including models, algorithms, linear and logistic regression
methods, and their outputs) that are traditionally used in automated underwriting processes.