



The Daily Dish

A New Era in Mortgage Finance?

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This past Wednesday Federal Housing Finance Agency Director William Pulte and Housing and Urban Development (HUD) Secretary Scott Turner [announced](#) “a new era of competition in our nation’s mortgage market.” Specifically, they announced that HUD will permit the use of two new credit scoring models - VantageScore 4.0 and FICO 10T - in underwriting mortgages insured by the Federal Housing Administration. At the same time, Fannie Mae and Freddie Mac will accept the two scores from lenders.

Having updated credit scoring models seems like a good idea. Lenders will be able to choose between the two scores, so it seems like it will generate competition for lenders’ business. So, at least on the surface, this does appear to be a new era of competition. But is it desirable competition? That is less clear.

Giving the lenders a choice between FICO 10T and VantageScore 4.0 means that they will choose the score that makes the buyer look best. This will qualify weaker borrowers than otherwise would be the case. Research into a choice between Classic FICO (the predecessor to 10T) and VantageScore 4.0 by [Milliman](#) came to the following conclusion:

Using loan-level data from more than 45 million mortgages originated between 2013 and 2023, our study demonstrates that lender choice introduces a systematic bias to default rates, resulting in higher default rates within a credit score cohort. Default rates are estimated to be approximately 30% higher on average under lender choice compared to Classic FICO within the same credit score cohort. This bias on default rates, without corresponding adjustments to pricing, exposes mortgage credit providers to greater risk while simultaneously reducing guarantee fees.

This increased uncertainty in mortgage finance is the bad news in the announcement. It is compounded by the fact that VantageScore 4.0 is owned by the credit bureaus, whose

incentive to underprice the product can be subsidized by the necessity of getting the credit bureau data.

There are lots of other questions regarding the nuts and bolts of implementation of the announcement. But even at this juncture there are good reasons to be concerned about the outlook for the mortgage market.