SchoolsFirst™
FEDERAL CREDIT UNION

August 20, 2010

Ms. Jennifer Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Docket No. OP-1388

Dear Ms. Johnson,

SchoolsFirst Federal Credit Union serves school employees in Southern California. We have more than 440,000 Members and over $8.0 billion in assets. SchoolsFirst FCU is pleased to have the opportunity to comment on the joint Agencies' proposed guidelines for appraisals and evaluations.

We would like to address several of the specific issues which the Federal Reserve Board has requested comment on with relation to the proposed changes to Regulation C, the Home Mortgage Disclosure Act (HMDA):

- What additional data, if any, should be collected under HMDA?

In order to achieve one of the original purposes of HMDA, which was to increase transparency in mortgage lending, we believe it would be appropriate to include credit scores and loan-to-value (LTV) ratios in HMDA reporting.

Although we recognize that the reporting of credit scores may present certain privacy issues, the identity of borrowers can be protected by requiring credit scores to be reported as falling within a range of scores, rather than being directly tied to specific borrowers. In this manner, the important objective of comparing applicants can be achieved, while protecting the identity of the borrowers.

By obtaining credit information, the agencies would improve their ability to assess how credit decisions are made and how loan pricing is determined at a national as well as a local level. This would also assist private investors and government officials in identifying areas in need of investment, which is another of HMDA's objectives.

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We also believe that debt-to-income (DTI) and loan-to-value (LTV) ratios should be collected as part of HMDA reporting, including back-end DTI ratios (i.e. the ratio between all monthly fixed expenses and monthly gross income). The collection of such data would provide additional insight and transparency into the information relied upon during the underwriting process and would reveal whether the borrower has made a down payment on a purchase transaction. It is often because these ratios are not reported that a lender may appear on paper to be discriminating against an applicant when it is not.

- Should any existing data elements be modified? What are the costs and benefits and privacy issues associated with requiring lenders to report total income, rather than income relied on by the lender?

We are firmly opposed to requiring lenders to report total income when applicants qualify for a loan based on, for example, one applicant's income. This frequently occurs in situations involving joint borrowers in which the primary borrower's income is sufficient to qualify, but the spouse is listed as a co-borrower since they intend to be jointly responsible for the loan. In such situations, the co-borrower spouse is not presently required to list any income on the loan application because their income is not required to qualify for the loan.

It would create a difficult situation for lenders to be required to obtain income information from a co-borrower simply for HMDA reporting purposes. Co-borrowers may understandably be hesitant to provide such information on privacy grounds.

The Board suggests that lenders could rely on income data provided in such cases without verification in order to address the applicant's privacy concerns. However, this would likely result in the submission of unreliable HMDA data and would render any conclusions derived as having a tenuous foundation, at best.

Furthermore, imposing such a far-reaching reporting requirement would create an unreasonable burden on small financial institutions, such as many credit unions, inasmuch as they would be forced to expand the mortgage loan application process, thus resulting in the expenditure of additional resources.

- Should mortgage brokers and non-lender loan purchasers be required to report HMDA data?

While we understand the Board's objective of identifying disparate treatment among mortgage brokers and other non-lender loan originators, we do not believe that mandating HMDA reporting by such entities would be the appropriate solution.

The problem with requiring reporting by non-lender entities is two-fold. First of all, since most brokers are not subject to direct examination by government regulators, the standard of care that may be exercised by such entities in obtaining borrower information may be somewhat lower than that of regulated institutions, given that many such entities operate as single person shops and may not have the resources necessary to dedicate to reporting. This would result in compromising the integrity of HMDA results.

Furthermore, imposing such a burden on brokers could potentially result in a double-reporting of information; once by the broker and once by the lender. This would potentially skew the figures reported and defeat the purpose of the regulation. At a minimum, should the Board elect to require mortgage broker reporting, a requirement should be implemented to require a new action code field in the reporting format to designate which loans have been facilitated by a non-lending entity. This information could then be sorted to reduce the numbers of loans being counted twice.

We also believe that the necessity of having mortgage brokers conduct HMDA reporting will be mitigated by the fact that the newly established National Mortgage Licensing System (NMLS), will be required by the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act to obtain a call report from each mortgage broker licensee reflecting the details of each licensee's loan origination activity for each calendar year. The reports will be tied to the licensee's unique identifier issued pursuant to the Secure and Fair Enforcement for Mortgage Licensing (S.A.F.E.) Act.

In light of the above requirement, reporting mortgage broker activity under HMDA would appear to duplicative and overly burdensome for non-lending entities.

- Currently, lenders must report information on home purchase loans, home improvement loans, and refinancings. Should any other types of mortgage loans be reported?

We believe that HMDA data would become even more meaningful if the reporting of construction loans and reverse mortgage loans were required.

The fact that a mortgage loan may not be used for one of the purposes currently delineated by HMDA does not mean that its reporting does not have the potential to increase the understanding of trends in a particular geographic region. For example a sharp decrease in the number of construction loans in a particular region might serve as a catalyst for government or private investment in that area's infrastructure in order to avoid further damage to the region's economy.

Reverse mortgages are unique in that they are targeted toward a specific protected class, the elderly. The reporting of such loans in their own category would increase the feasibility of identifying any potential patterns of lending discrimination associated with one of the most vulnerable segments of our population. With the inclusion of this additional reporting, discriminatory practices against the elderly by unscrupulous lenders would become more apparent.

- Do you use preapproval programs within the definition of Regulation C? Is there a benefit to requiring lenders to report on these programs? How could this definition be modified so that it is easier to apply and make reporting more useful?

Yes, our institution currently uses preapproval programs for mortgage loans. We believe that lenders should report all preapprovals in order to generate consistent and meaningful HMDA information.

Our recommendation for making the preapproval reporting definition easier to apply would be to modify the definition by making it conform to that of the Fair Credit Reporting Act (FCRA). Therefore, any preapproval that would trigger the requirements of the FCRA, would likewise trigger reporting under HMDA. By providing a uniform definition, the complexities of identifying reportable transactions would be ameliorated, if not removed altogether.

- Are there any emerging issues (technological or otherwise) likely to affect the usefulness and accuracy of HMDA data. Are there any other changes to Regulation C that the Federal Reserve Board should consider?

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It would be useful for lenders to receive peer comparisons and demographic comparisons which incorporate HMDA data from previous reporting years. This information could be utilized by lenders to determine areas that are perhaps being underserved and areas that warrant the further focus of mortgage lending operations. We recommend that the production of such reports be incorporated into Regulation C.

As a final point, we would request that the Board take into consideration the operational compliance challenges which may be created by the revisions that it elects to make to HMDA. As with most regulations the challenges of implementation are generally greater on the smallest of institutions, namely small credit unions, which may exceed the HMDA reporting threshold but may have one branch and few resources available.

For these reasons, mandatory compliance with any changes to the regulation should be made gradually and with a large enough window so as not to unduly burden the smaller reporting institutions.

SchoolsFirst Federal Credit Union appreciates being given the opportunity to comment on the potential modifications to Regulation C. Please feel free to contact me if I may be of further assistance.

Sincerely,

John Barton
Senior Vice President, Lending
SchoolsFirst Federal Credit Union

cc: Credit Union National Association (CUNA)
California/Nevada Credit Union League (CCUL)