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Jennifer J. Johnson, Secretary  
Board of Governors of the  
Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, DC 20551

**Re: Docket No. OP-1388**

Dear Ms. Johnson:

I appreciate this opportunity to comment on the potential revisions to the Federal Reserve Board's Regulation C, which implements the Home Mortgage Disclosure Act, or HMDA. I regret that I will be unable to attend one of the four HMDA hearings currently being held, but hope you will consider my thoughts as equally as any other. While HMDA serves an important purpose in consumer protection, it is my belief that the current HMDA process contains some significant flaws, which could easily be refined to increase overall effectiveness and consistency among reporting institutions. The Board has an excellent opportunity to address these flaws and enhance the overall HMDA reporting process. My specific comments to some of your questions are as follows:

**Data Elements.** *Should the Board add, modify, or delete any data elements?*

I believe it would be beneficial for the Board to consider adding the following data elements:

- **Business Purpose:** It would be beneficial to identify which loans on a HMDA LAR are for business purposes rather than for personal use. Additionally, this field could be incorporated in the current HMDA software to eliminate some validation errors caused by business purpose loans.
- **Debt-to-Income:** A debt to income ratio field would be beneficial in conducting a fair lending review.
- **Loan-to-Value:** By reporting the loan-to-value, one could determine how the size of a downpayment or equity in a property relates to the rate spread or interest rate of a loan.
- **Loan Term:** The reporting of a loan term would help one to compare loans with similar terms.

While I don't necessarily believe the following changes should be made, I believe the Board should consider the following comments IF considering adding the following (or similar) data fields:

- **Year of Birth:** If the board is considering requiring the age of a borrower, I believe it more appropriate to provide the date of birth as banks already collect this information. However, for privacy purposes, only the year of birth should be deemed appropriate.
- **Credit Score Range:** If the Board is considering requiring credit scores, I believe a range (or tier) would be more appropriate to help protect the privacy of borrowers.

**Coverage.** *Regulation C currently requires depository institutions and non-depository for profit mortgage lenders to report HMDA data if they exceed certain size and activity thresholds. Should the Board: Require reporting by additional types of institutions, such as mortgage brokers and non lender loan purchasers? Exempt any types of institutions from reporting? Make other changes to the rules regarding which types of institutions are required to report?*

I believe the Board should consider using only an “activity threshold” to determine if a depository institution or other entity should be subject to HMDA requirements, rather than the asset size of an institution or type of business (such as a mortgage broker and non-lender loan purchaser). This “activity threshold” could be set at a reasonable number, such as 500 qualified LAR entries in a calendar year.

While other commenters have stated that HMDA should only be reported based on the asset size of an organization, such as banks with 10 billion in assets, I feel this approach is not as effective as focusing on the activity of, or volume of loans produced by an organization. For example, a small institution with a large secondary market operation, where loans are sold to investors and do not remain on the institutions books, may process four times as many HMDA reportable transactions than an institution of a much larger size. Since there is a direct cost related to HMDA reporting, I feel this expense should be “part of doing business” for the organizations which choose to derive more of their income from HMDA applicable loans, regardless of an institutions asset size.

As an institution does a larger volume of HMDA loans, the institution will realize certain economies of scale in HMDA reporting expenses, thus having the cost of HMDA relate to a smaller percentage of total revenue and reducing the realized burden of HMDA on the organization. However, forcing the expense of HMDA upon lenders with lower HMDA volumes who do not have the same economies of scale as larger volume lenders will cause a larger burden upon these smaller volume lenders. This increased burden may result in these lenders providing even less credit to needy applicants. For this reason, an “activity threshold” appears appropriate.

**Scope.** *Should the Board require lenders to report on home-secured loans in addition to home purchase, home improvement, and refinancing loans, such as reverse mortgages or all home equity lines of credit (including those that are not used for home improvements)?*

I do not believe the Board should require lenders to report on home-secured loans in addition to home purchase, home improvement, and refinancing loans.

**Scope.** *Should any types of home secured loans be excluded from reporting?*

I believe the Board should consider excluding certain “shorter term real-estate-business purpose loans” from HMDA reporting. My reasoning is a business (or individual) in the market of *quickly* flipping a large quantity of homes can generate a large number of HMDA transactions for a HMDA reporter. However, these loans are in fact, *very short-term transitional* loans, which ultimately skew the HMDA data of an organization. While the intent of HMDA is to monitor how an institution meets the lending needs of its community, these business loans are made for the purpose of generating a business profit rather than assisting an individual to live in the dwelling. I believe the lending activity to these businesses is not relevant when compared to the lending activity to the final purchaser of these “flipped” homes. This is why I believe this “transitional owner” of the property should be excluded from HMDA reporting.

One possible way to exclude these types of transactions would be to revise the definition of temporary financing, found in the FAQ section on the FFIEC website, to exclude “transitional owners” who obtain “shorter term real-estate-business purpose loans” from HMDA reporting.

**Compliance and technical Issues.** *What are the most common compliance issues institutions face under HMDA and Regulation C?*

Personally, I have found the current “decentralized guidance” approach to HMDA to cause the greatest amount of HMDA issues for organizations. In its current format, the guidance is complex and confusing at least. I have found this to be true in organizations other than those I have worked with. Currently, one must methodically work through all available guidance to ensure compliance in reporting for a certain data field. For example, one must read all of the following before determining the correct way to report an entry: 1) The first Part of Getting it Right, 2) Appendix A, 3) Appendix C, 4) Appendix D, 5) FAQs, ect. The Board should consider revising its approach to HMDA to become a “centralized approach” where all applicable rules for a data field are found in one central location. This change would result in reduced burdens and increased effectiveness for HMDA reporting institutions.

**Other issues.** *What other changes to Regulation C should the Board consider?*

I believe the board should consider revising the tolerance thresholds examiners hold banks to during a HMDA examination. As far as I can tell, HMDA regulations offer very limited enforcement guidance for examiners, which appears to create a lack of consistency among regulatory agencies.

Additionally, the error tolerance threshold for some agencies is currently about 10%. However, this percentage is not reflective of all data fields but rather reflective of LAR entries (line errors). For example, a typical LAR entry contains at least 25 data fields. If a bank is required to resubmit its LAR when only 7 line errors are found out of a review of 69 entries, the line error rate tolerance is approximately 10%. However, if one includes all 25 data fields into this calculation (25 x 69), one would only be allowed 7 errors out of 1725 actual data entries, or an actual error tolerance of 0.04%. Since HMDA reporting is often a very manual process, this limited error tolerance causes a significant burden on organizations to ensure data integrity compliance. If HMDA requirements expand reporting data fields by 10 fields (35 fields), this threshold would be limited even further to 7 out of 2415 actual entries, or just a 0.03% error threshold. Again, this limited error tolerance causes a significant burden for compliance, as HMDA is often a very manual process, which by nature, is difficult to maintain perfect accuracy.

In conclusion, I am grateful for the opportunity to comment on the proposed changes to HMDA. I believe that a few minor changes to HMDA administration from the Board will greatly benefit the overall effectiveness and reduce the burden associated with HMDA reporting by applicable institutions. Thank you in advance for your time.

Respectfully Submitted,

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