Statement

WILLIAM A. LOVING, Jr.
President and CEO of
PENDLETON COMMUNITY BANK

Board of Governors of the Federal Reserve System
Hearing on
Home Mortgage Disclosure Act

Good Morning. I am Bill Loving, President and CEO of Pendleton Community Bank in Franklin, West Virginia. Pendleton Community Bank is a state chartered bank with approximately $245 million in assets with five offices- in West Virginia and Virginia. I am also a member of the Independent Community Bankers of America's Board of Directors, Policy Development Committee, and Chairman of its Regulation Review Committee. I appreciate the opportunity to participate in today's forum and am pleased to be a part of the panel discussion on the Board's review of the regulations implementing the Home Mortgage Disclosure Act (HMDA) and to represent the Independent Community Bankers of America and its 5,000 community bank members at this important hearing.

Pendleton Community Bank became a HMDA reportable bank in 2007 after the opening of a branch office in the Harrisonburg, VA Metropolitan Statistical Area in July of 2006 and has since maintained that qualification.

In 2009, our third year of reporting, we reported a total of 323 loan applications on our HMDA- Loan Application Register (LAR), which included 229 originated loans. We also reported 11 loan applications that were approved but not accepted by the customer, 66 loan applications that were denied, 16 loan applications that were withdrawn by the applicant prior to the credit decision being made, and 1 application file that was closed for incompleteness.

As we are now into our 4th year of HMDA reporting, many of the challenges we experienced in the early years of reporting have been corrected. Our loan officers better understand which loans are HMDA reportable and which are not, and particularly have a better understanding of what constitutes a refinancing; however, like other community banks, we still have challenges in ensuring all data is collected when it should be and not collecting it when not applicable.

Regulatory Burdens

Pendleton Community Bank, like most community banks, is facing serious regulatory challenges as additional requirements and restrictions are placed on banks. Compliance officers, managers and bank professionals spend a significant number of hours complying with the many regulatory requirements necessary to provide information to regulators, document banking transactions and provide disclosures to customers. And while no one regulation by itself is significantly overwhelming, the cumulative requirements of all the banking regulations are onerous, especially for small banks. This became all too obvious again when we, as a result of opening a new office in the Harrisonburg, Virginia. Metropolitan Statistical Area, became a HMDA reporting institution. The sheer amount of time and resources required to comprehend, train, and administer this new regulatory requirement was overwhelming; and, if I may add, the escrow requirements recently enacted on higher priced mortgages significantly compounded the problem. Therefore, it is important to ensure that any additional regulatory requirements maintain a balanced approach that promotes the purposes of HMDA with the limited and already strained resources of community banks.

HMDA regulations do not currently require us to submit underwriting data for the mortgages we originate such as the borrower's creditworthiness, loan-to-value ratios and debt-to-income ratios. However, the Federal Reserve Board is considering whether these data elements should be added, as some HMDA users may consider this additional information useful. The potentially limited utility of the additional information does not justify the increased compliance burden for community banks and privacy concerns that are addressed later in my testimony. While the data provides limited information on the factors lenders may use to make credit decisions and set loan prices, it could provide skewed results, as credit and spending habits vary based upon different and distinct markets.

Furthermore, banks would need to utilize their limited resources to collect and document the additional data. The regulatory compliance burdens that would develop as a result of collecting the additional information would most impact small community banks that complete the LAR manually. Bankers already collect and complete 24 line items on the LAR for every routine loan. This is coupled with the additional resources that would be required to train staff, interpret and make determinations on unclear regulations and check the data for accuracy before it is submitted.

Privacy Concerns

For community banks that approve a limited number of HMDA reportable loans or provide financing in rural areas, adding the suggested personal customer information, such as credit score and age, to the collected data creates significant privacy concerns.

It is presently feasible, in areas of limited reportable loans, to identify a specific individual whose mortgage is being disclosed on a HMDA report when that information is appended with information that is publicly available.

HMDA reports include the name of the bank, mortgage amount, year of transaction, and census tract of the property. This information, together with certain public information such as the name of the bank, price and the year of the transaction, property address, and property owner's name could provide an opportunity to identify the majority of mortgagors being reported on HMDA data. Because there is little privacy protection in HMDA data, adding additional sensitive and non-public information, such as debt to income ratios, credit scores, creditworthiness, or age would create considerable privacy concerns.

HMDA Coverage and Compliance

HMDA data is designed to demonstrate whether the housing credit needs of a community are being served and to uncover possible discriminatory lending patterns. Obtaining HMDA data from only a subset of mortgage lenders that provide mortgage services to a specific segment of the market does not give regulators an accurate picture of mortgage lending patterns. I believe that the only way to determine an accurate portrayal of the mortgage practices in a particular area or market is to require HMDA reporting of mortgage brokers, non-lender loan purchasers and originators that meet the threshold criteria. Not only does this provide a consistent overview of the mortgage market, but ensures that discriminatory lending patterns are uncovered from any mortgage source.

As part of its review of the HMDA regulations, the Federal Reserve Board is seeking ways to clarify and simplify HMDA regulations in order to facilitate compliance. One of the general frustrations of reporting and reviewing HMDA data is the inconsistency with which information is collected and reported. It is important that regulatory requirements and guidance are clearly provided so as not to be confusing or misinterpreted, given the number of related, and in some instances, contrary regulatory requirements.

While clarification in areas such as defining the term "refinance," determining the "lock-in" date, and determining which properties to report when multiple properties are involved in a transaction would clarify HMDA reporting requirements, it would be especially beneficial in identifying census tract information in rural areas. When reporting HMDA data, it is critical that banks use the correct census tract information. Using incorrect tract numbers will result in invalid data submissions when filing annual HMDA reports. However, locating the exact site of a property with rural routes and no distinct address makes it difficult to determine the precise census tract information. Clarification on how to identify these properties would be helpful.

Conclusion

I greatly appreciate the opportunity to participate on this panel and provide information on this important topic. Community bankers understand the significant contribution home ownership provides to their communities and are committed to serving the unique housing needs of their communities. We take great pride and satisfaction in providing affordable financing for the different demographic sectors. However, in order to continue providing affordable financing and before requiring any additional data to be collected and reported, the Federal Reserve Board should balance the benefits of this additional data collection with the limited resources available to banks.

Additionally, requiring HMDA reporting of mortgage brokers, non-lender loan purchasers and originators that meet the threshold criteria will provide a consistent framework for mortgage financing and a more complete and accurate picture of the mortgage market. Community bankers and I look forward to working with the Federal Reserve on HMDA reform to provide meaningful and useful results without imposing unnecessary and additional burdens on the industry.