CRA Charles River Associates

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Thoughts on the Expansion of HMDA

I would like to thank the Board of Governors, members of the Division of Community Affairs and members of the Consumer Advisory Council for inviting me to speak at these hearings. My comments reflect the importance of HMDA data in the formulation of public policy focused on housing needs. My answers to questions raised in this session will respond to specific proposed amendments to the data.

The intent of providing the HMDA data to the public was to meet certain purposes. These included providing information on whether lenders met the housing needs of the neighborhoods and communities in which they are located; helping target public investment funds to areas where private investment might be inadequate; and assisting with the identification of any discriminatory lending patterns. My use of HMDA began in 1994. The data have served as an invaluable tool to me in my early years as a fair lending focused economist at the OCC; in my time at Freddie Mac as an economist working on meeting affordable goals; in my academic research looking at mortgage trends and outcomes and as a consultant advising banks and regulators. While nearly all of my focus has been on the identification of any discriminatory lending patterns evidenced or suggested by the distribution of loan applications and originations in HMDA, I recognize and value its other purposes.

I believe that the value of HMDA derives from three simple facts. *First, it is publicly available* – to anyone, for any purpose, for free (after 2007). An internet connection (or a small sum to purchase the CD-ROM in earlier years) is all that is needed to be able to access a wealth of information on mortgage lending patterns. *Second, the data are loan level.* In September 2009, the press release announcing the availability of HMDA noted that "… (FFIEC) today announced the availability of data on mortgage lending transactions at 8,388 U.S. financial institutions covered by the Home Mortgage Disclosure Act (HMDA). Covered institutions include banks, savings associations, credit unions, and mortgage companies. The HMDA data made available today cover 2008 lending activity--applications for loans, loan originations, loan denials, and purchases of loans. The data include 14.2 million applications and originations and 2.9 million purchases, for a total of 17.1 million actions." The data from 1990 to the present remain available to all. This represents a wealth of information. *Third, the data are rich* in information that helps us understand mortgage markets.

The weaknesses of HMDA depend on the purpose for which it is intended. There are three key weaknesses I believe can be addressed, partially, either because of the changes required by the Dodd-Frank Act or in conjunction with those changes. *The first weakness is timeliness*. While financial institutions collect the HMDA-required information as loans are originated, they are not obligated to turn it over to the Federal Reserve Board until March 1 of the year following loan activity. The Federal Reserve Board staff, tasked with the immense assignment of performing the quality checks on that data, does not generally make it available to the public until September of the year following loan activity. This means that information on loans applied for or received in January 2010 will be unavailable until September 2011. This delay is unacceptable. It is impossible to identify troubling trends in the data early enough to do anything preventive if it takes 20 months to see the data. Institutions could report quarterly to regulators and the Federal Reserve Board could release the information more promptly, even if the public release remains annual, without the delay caused by its simultaneous release of a research paper. *The second weakness is in the detail provided.* As most of those using HMDA have acknowledged, while it is necessary in the identification of discriminatory lending patterns, it provides insufficient detail to do so. Unfortunately, the detail needed to identify any patterns of discrimination will not likely ever be available to the public. However, more detail can be added that can be used to better understand how and when the mortgage markets are changing. *The third weakness is the inability to well match HMDA data to performance information*. The loan numbers, matched with respondent ID, may provide a unique identifier in HMDA, but that identifier does not carry over to servicing or to secondary markets, in general. This means that it is impossible to track easily the performance of the HMDA loans originated by particular lenders, in particular geographies, or by race and ethnicity during the life of the loan.

The hearings this year, being conducted throughout the country with the participation of a wide diversity of researchers, policy makers, community groups, academics and others presents a tremendous opportunity to effect change. Each participant hopes for change. The regulators hope for change and the regulations require change. My hope is that the change strengthens HMDA by shoring up its weaknesses, without sacrificing its strengths.

The collection and dissemination of HMDA data cannot prevent individual borrower harm nor neighborhood decay. It should, however, allow enough transparency that all lender actions can be clearly identified from loan origination through servicing. The entities involved in the transactions should be clear – which means better information on subsidiaries, affiliates and lenders should be provided. Brokers should be identified so that responsibility for their actions can be addressed appropriately. Purchasers of loans should be identified with more detail. Finally, more detail on the loan products and borrowers needs to be provided – much of which should not raise privacy concerns. The channel of origination, the term of the loan, whether it is fixed rate or adjustable rate, and whether there is or is not a prepayment penalty all impact, greatly, loan pricing and loan performance. I believe these can and should be added to HMDA. For the borrower information, privacy concerns do matter. As even the addition of credit score, as mandated, will not permit full and accurate inferences about any discriminatory activity, the privacy concerns must be balanced with the need for some information on creditworthiness of the borrowers. This can be done but must be done carefully.

I value HMDA. I will continue to use it extensively. I support changes to the data provided, as long as the increased detail does not lead to a restriction of the distribution of the data.