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Before the Federal Reserve Board
Atlanta, Georgia

July 15, 2010

My name is Jeffrey Dillman, and I am the Executive Director of the Housing Research & Advocacy Center, a fair housing and fair lending organization based in Cleveland, Ohio. I want to thank the Federal Reserve Board for holding these hearings and for inviting me to speak with you today regarding potential revisions to Regulation C, which implements the Home Mortgage Disclosure Act (HMDA), 12 U.S.C. §2810, *et seq.*

The Housing Research & Advocacy Center, or "Housing Center," was founded in 1983, and works to eliminate housing discrimination and assure choice in Northeast Ohio by providing those at risk with effective information, intervention and advocacy. Our work includes conducting education and outreach programs for potential victims of housing discrimination, as well as for housing providers and others in the industry; conducting controlled audits or tests for housing discrimination in the rental, sales, insurance, and mortgage lending markets; and conducting research into housing and lending patterns. In our research, we have produced a number of reports on mortgage lending and foreclosure trends in the Cleveland region and throughout the State of Ohio, utilizing HMDA data, as well as other data sources.[1]

HMDA data is obviously important from a regulatory point of view, allowing federal and state agencies to assess, among other things, whether mortgage lenders are complying with their obligations under the Community Reinvestment Act, 12 U.S.C. § 2901, *et seq.*, to provide access to credit to underserved communities, as well as their obligations to provide credit in a nondiscriminatory manner under the Fair Housing Act, 42 U.S.C. §3601, *et seq.*, the Equal Credit Opportunity Act, 15 U.S.C. §1691, *et seq.*, and other antidiscrimination statutes.

HMDA data is also vital in allowing citizens, researchers, and local community-based groups, such as fair housing groups and Community Development Corporations, to conduct research into lending practices within their communities. As the Executive Director of such a fair housing group in Cleveland, Ohio, I can personally attest to the importance of having access to HMDA data, as well as to the limitations we have encountered in trying to accurately research the causes of the mortgage and foreclosure crisis and its impacts on people of different races, ethnicities, and genders. Given the recent history of lax supervision by federal and state regulators, this use of HMDA data is at least as important, if not more so, than its use by regulatory agencies.

[1] Copies of our recent reports are available on our website: http://www.thehousingcenter.org.

By including data on the disposition of loan applications and the race, ethnicity, gender, and income of the borrower, HMDA provides us one of our most important sources of qualitative data for whether communities are being provided with *access* to credit. The 2002 changes to HMDA, which added the pricing data, allow us to further refine our analyses to have at least some idea of the *quality* of that credit and whether it is being offered on fair terms.

There are three main suggestions I have for improving collection and distribution of HMDA data that I would like to address.

First, while HMDA data currently contains many important variables, at present there is not sufficient data available for regulators or, more importantly, the public to have confidence in the actions of mortgage lenders. Increasing the number of variables that are currently being reported to allow more detailed and sophisticated analyses of lending would help address this shortcoming.

For example, in a study utilizing HMDA data that our organization recently released,[2] we found that in 2008 African Americans and Latinos in Ohio were denied mortgage loans more often than whites and, when they did obtain loans, were more likely to receive high-cost loans than whites. Utilizing the income data reported by lenders, we found that this disparity existed regardless of income. For example, in the Cleveland Metropolitan Statistical Area, *upper income* African Americans were denied refinance loans 64.94% of the time, compared to a 52.05% denial rate for *low income* whites. High-cost lending revealed similar racial and ethnic disparities, such that in the Cleveland MSA, *upper income* African Americans received high-cost refinance loans 27.40% of the time, compared to 19.16% of the time for *low income* whites.

While this type of data raises serious questions about fair access to credit for African Americans, the response of many in the lending community to this and other similar research is that other legitimate factors, such as debt-to-income (DTI) ratios, loan-to-value (LTV) ratios, and credit scores of borrowers, account for such disparities. While these factors may account for some of these racial disparities in lending, however, we should not be forced to rely on the unsupported assertions of the lending industry. If the last 5-10 years have taught us anything, it is that the financial services industry, including both depository and non-depository mortgage lenders, must be adequately supervised both from government and from community groups and the public at large. Given that the current origination and underwriting system has resulted in many individuals with prime credit being placed into subprime mortgage loans, we must require more from the industry. In particular, we must establish a system whereby sufficient data is made publically available to allow independent researchers and groups to determine if, in fact, mortgage lending is being done in a manner that provides fair access to credit for all and in compliance with applicable federal and state antidiscrimination laws.

[2] Housing Research & Advocacy Center, "Racial and Ethnic Disparities in 2008 Ohio Mortgage Lending" (December 2009), available at http://thehousingcenter.org. The report analyzed 2008 home mortgage lending data statewide and in Ohio's seven largest metropolitan areas – Akron, Cincinnati, Cleveland, Columbus, Dayton, Toledo, and Youngstown.

Including additional HMDA-reported variables, such as loan to value (LTV) ratios, debt to income (DTI) ratios, and credit scores, would go a long way toward allowing such independent verification of industry assertions that their decisions are being guided by legitimate risk factors rather than possibly illegal discrimination or the consideration of other improper factors.

While there are some legitimate privacy concerns for some of this data, particularly credit score data, I believe that there are ways to address these concerns. Moreover, the benefits of increased disclosure, resulting in increased scrutiny of the industry and its practices, far outweigh the minimal time and resource expenditures that would be required for lenders to report this information.[3]

Another important variable to add to the HMDA reporting requirements is the channel of origination of the loan, and especially whether it was made through a lender's retail business or through a mortgage broker. One of the contributing elements to the mortgage crisis was that responsibility for loan origination was divided among a large number of different parties, including mortgage brokers, originators, servicers, and a range of entities involved in the secondary market and securitization process. Including information on the origination channel of a mortgage loan will allow researchers and others to determine whether there are differences in the types of loans that are being originated by these different streams and, if so, to suggest legislative and regulatory ways to address any problems.

Second, HMDA reporting should more easily allow end users to aggregate and disaggregate lending by lenders with their parent and/or subsidiary institutions. Under current HMDA rules, lenders have engaged in actions which have had the result of obscuring their activities, such as hiding subprime lending. The case of First Franklin Financial Corporation, a subprime lender purchased by National City Bank in 1999, illustrates this point.

From 2000-2003, First Franklin Financial was a HMDA-reporting lender that specialized in subprime lending. During this time period, its originations increased from 434 to 940 in the Cleveland MSA. However, although First Franklin continued to originate subprime loans in Cleveland and elsewhere – in the fourth quarter of 2006, it was the fifth largest subprime mortgage lender in the country with $7.8 billion in originations – starting in 2004, First Franklin no longer reported HMDA data under its name. Rather, First Franklin's lending was instead reported by National City Bank of Indiana.

By switching the reporting institution for these loans, even though they were still being originated by First Franklin, the lender made it more difficult for local community groups to document which lenders were most active in their communities and to develop strategies to address their actions.

[3] One possible mechanism would be to have certain financial data available only to users who sign confidentiality agreements regarding the non-disclosure of individual-level HMDA data while continuing to allow most HMDA data available for the public without such a requirement.

HMDA data should allow public to easily determine not only all related institutions of a reporting lender, but also to easily aggregate and/or disaggregate the loans of these related institutions. Moreover, by increasing transparency in this way, lenders will have less of an incentive to attempt to hide such lending by segregating certain lending activities among different affiliates.

Third, it is important that the HMDA data be made available in a more user-friendly and accessible format. Currently, portions of the HMDA data are available through a web-based search interface on the FFIEC's website. However, not all data is available through this interface, and what is available is provided only in PDF format, requiring it to be re-entered into a database program or spreadsheet for further manipulation.

The poor web-based search interface means that individuals wishing to work with the data must either download the raw LARS data and then use sophisticated statistical software such as SPSS or SAS to manipulate it or they must purchase products from third-party providers to use the data. At this point in time, when search engines can return results in a fraction of a second and on-line maps can be made using free software and virtually no technical expertise, it is inexcusable that all of the HMDA data is not available on-line in a simple-to-use manner.

Providing access to the data through a web-based interface and allowing the data to be downloaded in a variety of formats, so it can be easily be imported using common database and spreadsheet formats, would greatly enhance the usability of the information and help ensure that the public at large, as well as smaller community-based groups, are able to maintain access to it.

A related issue is the timing of the release of HMDA data. At present, lenders report and the FFIEC releases HMDA data to the public once a year. The result is that the data from loan decisions made in a given year are not released until 9-18 months after they were made.[4] While the current HMDA data release schedule allows researchers to identify historical patterns of lending, the long delay in the release of the data greatly limits the ability of regulators, as well as researchers, community groups, and the public, to detect ongoing trends and to attempt to formulate responses to situations such as the entrance of a subprime lender into a community. Having the data released on a rolling basis, quarterly or even monthly, would greatly expand access to this information and could help address this deficiency.

In conclusion, I would like to emphasize that access to HMDA data is important for citizens not only to hold accountable not only lending institutions but also our regulatory agencies. Transparency in the mortgage lending industry is necessary now more than ever. The ongoing mortgage and foreclosure crisis has not only devastated many communities throughout the country, but has also led many to loose confidence in the entire mortgage lending industry. As Justice Brandeis noted, "sunshine is the best disinfectant." In the case of mortgage lending, the effects of sunshine, in the form of

[4] January 2009, for example, will not be released until August or September of 2010, some 18 months later.

increased and more frequent release of data on mortgage loan applications, originations, and terms, are vital for helping restore confidence in an industry – and their regulators – that, based on recent practices, have lost our trust.

Thank you for the opportunity to speak with you. I would be happy to answer any questions you might have.