Home Mortgage Disclosure Act Public Hearing, July 15, 2010
Atlanta, Georgia

Dennis Lockhart:
Welcome to the Federal Reserve Bank of Atlanta. I am Dennis Lockhart. I'm the president of the bank here. And we're honored to host the first of four Home Mortgage Disclosure Act hearings, sponsored by the Federal Reserve Board of Governors. Let me start by welcoming guests who will be participating on our two panels. Panel one, which I think is to my left, Faith Anderson, Vice President, General Counsel of American Airlines Federal Credit Union. Faith, welcome. Phil Greer, Senior Vice President of Loan Administration, State Employees Credit Union. Phil. Will Jordan, Executive Director, Metropolitan Saint Louis Equal Housing Opportunity Council. Will, welcome. Bill Loving, CEO, Pendleton Community Bank. Bill. And Arden Shank, President and Executive Director Neighborhood Housing Services Of South Florida. Arden, welcome. Panel two, to my right, we have one member missing, I think, but--we--in fact, for my list here, we have two members missing. So let me--maybe what I've done here is--

Elizabeth Duke:
Panel two –

These are my fed colleagues. Let me just mention the names of panel 2, and they will be coming up later. Stella Adams, CEO of SJ Adams Consulting; Steven Antonakes, Commissioner of Banks, Commonwealth of Massachusetts; Jeff Dillman, Executive Director, Housing Research and Advocacy Center; A. James Elliot -- Jim Elliot, Associate Dean, a professor of law, Emory Law School; Adam Rust, Research Director, Community Reinvestment Association of North Carolina; and Susan Wachter, Professor of Financial Management and Real Estate University of Pennsylvania. That is panel two, which you'll see later.

As you know, we're here today to consider changes in the Federal Reserve Boards Regulation C which implements HMDA, or the Home Mortgage Disclosure Act. The act has a long history, first enacted by congress in 1975. Each subsequent decade has brought new amendments to HMDA to respond to changes in the mortgage market. Today's mortgage market presents a new set of challenges and opportunities for us to respond to. So today, we resume the dialogue to consider HMDA's continued evolution in ensuring that consumer and local community housing needs are being met, and markets are functioning effectively and efficiently.

Now, I would like to introduce you to my colleagues from the Federal Reserve Board of Governors and to turn the program over to them. We're honored to have Fed Governor Elizabeth "Betsy" Duke on my far right. Also, Sandy Braunstein, Director of the Division of Consumer and Community Affairs, and Leonard Chanin, Deputy Director of the Division of Consumer and Community Affairs. Welcome to all of you. Also, they're joined by two members of the board's Consumer Advisory Council, Shanna Smith and Ira Goldstein. They will be presiding over today's hearing. So with that introduction, it's my pleasure to turn the proceedings over to Governor Betsy Duke. Betsy?

Elizabeth Duke:

Thank you. And on behalf of the Board of Governors in the Federal Reserve System, I'd like to also welcome the participants to today's hearing. President--and I'd also like to express my appreciation to President Lockhart and our colleagues at the Federal Reserve Bank of Atlanta for hosting us today. Pleased to be here at the--in the first of a series of public hearings regarding changes to the Home Mortgage Disclosure Act. The board has scheduled these hearings to assess the adequacy of the current mortgage data requirements and examine the need to collect additional data from lenders. I would point out that since we began planning these hearings, changes to the HMDA data requirements have been included in the regulatory reform bill currently being considered by the Congress. We look forward to hearing your comments regarding the implementation of the changes that are specified in the legislation, as well as changes that you might recommend based on your experience. The proposed legislation would also transfer authority for HMDA rulemaking from the board of governors to the new consumer financial protection bureau. So all information gleaned from these hearings will inform our regulatory work, and then when rulemaking authority transfers to the CFPB, please be assured that we will hand over the most current thinking about changes to regulation C. Over the course of the public hearings held throughout the country, we will hear from key players in the home mortgage market; lenders and other market participants, academics and researchers, consumer advocacy and consumer development organizations, data experts, regulators and other public officials. Although they play different roles, all share a common goal; to ensure that the mortgage market is responsible, transparent, efficient, and serves the needs of consumers and market participants alike. Clearly, the recent mortgage crisis has highlighted the potential ramifications of a mortgage market that is not functioning well. Data do not create the market, but they help us understand what is happening in the market. HMDA data cannot solve all market problems, but the time is right for reviewing and revising the data elements, standards, and reporting formats. With the benefit of hindsight, we can now answer the question, "Do policy makers have adequate and reliable data sufficient to assess market conditions and craft policy responses?" HMDA has three purposes. One purpose is to provide the public and government officials with data that will help show whether lendings are--lenders are serving the housing needs of the neighborhoods and communities in which they are located.

A second is to help government officials target public investment to promote private investment where it's needed. A third purpose is to provide data to assist in identifying possible discriminatory lending patterns and facilitate the enforcement of anti-discrimination laws such as the Equal Credit Opportunity Act. Today's hearing is intended as a venue to discuss whether or not the 2002 revisions to regulation C, provide useful and accurate information about the mortgage market, to gather information that will help assess the needs for additional data elements or improvements, and identify emerging issues in the mortgage market that may require additional research. As I said earlier, we are also interested in any comments on the implementation of the HMDA elements in the regulatory reform legislation. We've gathered this morning an impressive array of panelists representing a spectrum of vantage points. We look forward to the comments of our panelist today and at the upcoming hearings in San Francisco, Chicago, and Washington. This input, together with written comments submitted from the public, will be carefully considered as we consider the changes to regulation C.

Now, I'd like to turn to just a few housekeeping details. This hearing will be part of the public record in our assessment of possible changes to HMDA, and transcripts will be made available.

Panelists and members of the public are actively encouraged to also submit written comments. You can find instructions for submitting written comments on the Federal Reserve Board's website. Each panelist will be given a maximum of five minutes for opening remarks--and let me apologize in advance, but to be sure that everyone has a change to speak, we will have to cut you off if you go over. Following the panels, we will have one hour of open mic for audience members who wish to speak on the record. And if you wish to speak during the open mic period, and if not already done so, please sign up. We'll take speakers in the order in which they have signed in. Speakers will be limited to five minutes each, and we will take as many comments as we can accommodate in that hour that's allotted. And then one last thing, I'm gonna have to step out of the meetings to take a conference call. And while I'm gone, Sandy Braunstein will preside in my absence. The panel, you've already seen in--you've already had introduced. But I would like to just take a moment and say how fortunate we are. We have a consumer advisory council that we meet with on a regular basis in Washington, and they've always brought us incredibly valuable information about what's going on in the markets and on the ground and local communities. And for the first time, we're now utilizing members of the council in our hearings. And so, we have Shanna Smith and then Ira Goldstein, and we just really, really appreciate their participation in today's hearings. And finally, I would like to note with regret that one of the scheduled panelists at CVAC will not be able to join us today due to a personal emergency.

With that, we will start with the first panel. Okay, are you ready?

Faith Anderson:
Yes I'm ready.

Elizabeth Duke:
Then go.

Faith Anderson:
Okay. Good morning. Thank you for allowing American Airlines Federal Credit Union to participate in the first HMDA public hearings. My name is Faith Anderson, I'm Vice President and General Counsel for American Airlines Federal Credit Union. AA Credit Union was founded in 1936 by a group of American Airlines employees at Midway Airport in Chicago. AA Credit Union has 5.2 billion in assets, approximately 220,000 members and 42 branches. We have a 2.5 billion dollar lending portfolio; this includes 1.6 billion of mortgage loans. We lend throughout the United States and Puerto Rico. We support additional changes to the HMDA requirements provided that they further the goal of ensuring fair lending and anti-discriminatory practices. However, we are concerned that future proposed changes along with additional reporting requirements may not further the goal and may only serve to impose significant additional compliance and reporting burdens--data elements. The Board has requested comments on whether additional data elements should be added, modified or deleted to better identify possible discriminatory lending patterns. Generally, if a mortgage or consumer lending system captures data it is not difficult to transfer the information to the loan application register known as the LAR. The current format of the LAR however is not very helpful in analyzing trends and predatory lending; therefore requiring additional underwriting information to be reported such as credit score, debt to income ratios, and loan to value ratios may be beneficial in determining

whether there are violations to fair lending. However, the Board should fully research whether the above information is effective in finding discriminatory practices before requiring that it be collected. We would recommend that for home equity lines of credit that the whole amount of the line of credit be reported and not just the amount that is used for home improvement purchase or improvement. We recommend that unsecured home improvement loans be removed from HMDA reporting. When a member takes out an unsecured loan the member generally uses it for multiple purposes and not just for home improvement. Also current lending systems simply are not able to capture this information. The Board has asked if a lender should capture total income of a borrower versus just income required by the lender to approve the loan. We strongly oppose requiring lenders to capture total income. If lenders are forced to capture total income, we will get complaints from our members, the members will not understand why additional income is requested versus just the income required to approve a loan. Additionally, unless you have found a preapproval code to be valuable in determining evidence of discrimination, we recommend deleting that code as it is not helpful. Reporting the lien status for loans is burdensome. As long as there's security on a dwelling the loan should be reported. Regarding reporting of ethnicity and race it should be up to the borrower to report this information. If the borrower fails or refuses to complete this on an application, and I'm talking about when the borrower is in front of you, the credit union should not be made to guess someone's race or ethnicity. It places us in an awkward position of guessing a person's race or ethnicity for in-person applications when a borrower refuses to answer these questions. To the extent additional data is required to be collected, there are costs
and compliance burdens that will be borne by the lender whether it be in the terms of time to collect the data, cost for the software, compliance training and so forth, we constantly struggle to be a value-added lender for our members; and these extra reporting burdens only raise the cost to the member. Coverage--an exemption from HMDA reporting should be based on the volume of mortgage loans that are given. Exemptions should not be based on the asset size of a financial institution. Currently HMDA reporting requirements apply to non-depository lenders that originate at least 25 million dollars in home purchase loans, versus a financial institution if they have 39 million in assets and just one mortgage loan they are required to report that. For the scope we are not in favor of expanding HMDA in the absence of evidence of discriminatory practices or predatory lending. For compliance issues just some portions of the regulation need to be updated in light of online access to various reports. Let's see--we are very pleased to participate in the hearing. We believe credit union participation and other lenders, in future focus groups and other types of testing would be beneficial. Thank you.

Elizabeth Duke:
Okay.

Phil Greer:
Good morning. I also would like to thank the Federal Reserve for providing me the opportunity to participate in this hearing on the Home Mortgage Disclosure Act. My name is Phil Greer. I serve as Senior Vice President of Loan Administration for the State Employees' Credit Union in Raleigh, North Carolina. State Employees' Credit Union proudly serves 1.6 million members in North Carolina composed primarily of public school and state employees and their families. We have 232 branches throughout the state of North Carolina with assets of 21 billion, with--and with an excess of 13.6 billion outstanding in loans. We typically grant around 15,000 personal

mortgage loans each year, representing proceeds of to two to two and a half billion dollars. We are primarily a portfolio lender, and 90 percent of our originations are adjustable rate mortgage loans, using a product that we developed in 1993 is a very member-friendly adjustable rate loan. We presently serve as about 100,000 first mortgage loans representing 11.4 billion dollars. Credit unions are not for profit cooperatives with no greater purpose than serving their membership with appropriate deposit and loan programs. While the State Employees' Credit Union is the second largest credit union in the country, we've never had growth as a goal in our business plan. Our goal has always been focused on service with growth merely being a byproduct. From that perspective, discrimination in the access to our services is simply not acceptable, our staff of over 4,000 employees knows full well that all members are to be treated equally and with respect, and exceptions are not tolerated. And I believe that this attitude is found throughout the entire credit union industry. The home mortgage disclosure act has helped ensure that consumers receive fair access to credit in the real estate arena. Discriminatory practices that may have existed in the early 70's and the 60's, in my opinion, have been eliminated for the most part. The fact is--excuse me--this fact is tremendously important because home ownership is widely accepted as the single-most important tool in building wealth in the United States, and home owners become better citizens in the communities in which they reside. It is essential that we continue to protect fair and equal access to mortgage credit. Over the past few years, the subprime mortgage debacle has allowed us to see discrimination has actually morphed into a different beast, where lenders once redlined areas of minority residence as areas to avoid, think very clearly that subprime lenders redlined areas of minority concentration as targets for the origination of mortgage loans. This new redlining has provided results that are perhaps more heinous than the historical redlining practice. In the past two years, African-Americans and Hispanics have perceived proportionally larger shares of subprime mortgages with costly fees and prepayment penalties than have the white community. Foreclosures in minority segments of our population have occurred at a much higher rate than in the white community, and regretfully, the discriminatory practices of subprime lenders, I think, remained below the radar of the data. One may assign to blame for subprime issues on a number of guilty parties. I don't believe that there is any one guilty party, or rather a combined greedy reaction by many, has resulted in a travesty. For millions of consumers who are honest but lacked wisdom, we must revise HMDA in matter that will make discriminatory practices more transparent. Before closing, I feel compelled to speak briefly on ARM's. Quite often, the whipping board [press] traditional ARM's, as well as some proprietary ARM programs, like the State Employees' Credit Union, are not the problem. In fact, in the past decade, consumers have benefited as interest rates have declined when they have had an ARM loan. Properly structured and placed, ARMs can be a good product for both the lender and the consumer. However, ARM's like the prepayment option ARM--excuse me--the payment option arm improperly placed interest only ARMs and largely unrestricted ARMs like the 228 have wreaked own consumers throughout the country. Thank you.

Elizabeth Duke:
Mr. Jordan?

Will Jordan:
Hello. My name is Will Jordan, and I direct the Metropolitan St. Louis Equal Housing Opportunity Council in St. Louis, Missouri. I wanna thank you for having me here today. We are

a not-for-profit fair housing agency operating in St. Louis, and we operate in both Missouri and Illinois. Our organization started using HMDA data on a consistent basis for a report that we released in 2008 called bailing out on community reinvestment. We analyze HMDA data for eight lenders operating in the St. Louis Metropolitan area that it already applied or were considering to apply for TARP money to the treasury. HMDA data provided us with a picture of the lending to low income and minority communities, and I wanna tell you, the picture was very disturbing. Based upon the pattern of racial disparities that we were seeing in St. Louis, we convened the St. Louis Equal Housing Opportunity and Community Reinvestment Alliance. We call it SLEHCRA. We are a coalition of 13 non-for-profit organizations working to increase investment in low-end minority communities--low income and minority communities by ensuring that banks are meeting their applications under the Community Reinvestment Act and the Fair Lending Laws. I wanna say this to--in St. Louis, when we filed first public comment based upon the information we were finding at researching HMDA data, we found that in St. Louis, we were the first person--organization to ever file a public comment on the CRA performance of any bank. And suddenly, we were in the limelight for something I thought was kind of a research project. This is kind of blown up pretty large now. Over the past year, we have been regularly submitting comments on CRA performance evaluations and applications for banks operating on the St. Louis Metropolitan area. And as a result of our research, federal agencies including the Department of Justice and the Department of Housing and Urban Development are investigating three different banks. Regulators have met with us and changed the way they conduct supervisory training, and banks have indicated to us that they are changing the practices based upon research that we have shown them and suggestions that we have made to them. The Home Mortgage Disclosure Act data is essential to our work, has become essential to our work, and we are ensuring that banks provide services to all sectors of the community, especially low income and minority communities. We have six recommendations, I'm not gonna go into detail about all six 'cause I've got those in writing and you can read those whenever you need to, to make your changes. But I will talk about the first.

The first is that we believe that we need aggregated HMDA data by county, not just by entire metropolitan area, in a place like St. Louis where there are stark contrast and race and income characteristics between counties. Very stark. It would be extremely helpful to understanding the lending climate in each separate county. For example, the city of St. Louis is a separate county from St. Louis County, with wide income and race differences. We analyzed bank performance in their assessment area against average lending by other banks, and we are currently unable to analyze a bank with an assessment area of a suburban St. Charles County for example, against the average lending patterns in that county. We can only compare it against the lending in the entire MSA. The other recommendations; one of the recommendations that some of those had do the HMDA data research in our office have asked me to bring to you is that if it's possible to influence the way that that data is compiled, rather than in PDF format, somehow, another deal with it and put in the excel spreadsheet so that the data could be more transferrable. So I got that in there, Elisabeth. Another one we'd like to make a recommendation on is that we need publicly available loan performance data that is linked to HMDA data. Alright. It's important to have information on delinquencies, defaults and foreclosures that are tracked on an institutional level, or at least on a census track level. County level data on foreclosure, why helpful or not enough. Information on modifications including long-terms and conditions is important to include for our loan modifications and not just HAMP modifications like the bill includes. And I echo many of the comments that Faith Anderson said as well. Thank you very much.

Bill Loving:
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 Board of Directors of the Independent Community Bankers of America's, the Policy Development Committee, and Chairman of its Reg Review Committee. I appreciate the opportunity to participate in today's forum, and I'm pleased to be a part of the panel discussion on the board's review of the regulations implementing the Home Mortgage Disclosure Act, or 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, or reporting bank, in 2007 after the opening of a branch office in the Harrisonburg Virginia 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 which included 229 originated loans. We also reported 11 applications that were approved but not accepted, 66 applications that were denied, 16 withdrawn, and one file that was closed for incompleteness. As we are now in 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 community banks, we still have challenges ensuring that all data is collected when it should be and not when it should not be.

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 borrower's creditworthiness, loan-to-value ratios, and debt-to-income ratios. However, the Fed Reserve Board is considering whether these data elements should be added as some HMDA users may consider this 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 on 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 areas or 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 public--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 of 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.

Excuse me--in conclusion, I greatly appreciate the opportunity to participate on this panel and provide information on this important topic. Community Bankers understands significant contribution home membership provides to the communities that are committed to serving the unique needs of the market. We would require--ask that there would be additional requirements to lead out their HMDA reporters to the process.

Arden Shank:
Good morning. I'm Arden Shank from Neighborhood Housing and Services of South Florida in Miami. Thanks for this time to comment. We work in Miami-Dade in Broward County. We're a NeighborWorks organization. The number of services that we provide includes home buyer training and counseling. We are licensed lender, a licensed real estate brokerage company, we are a housing developer, and about a third of our 50 staff work on foreclosure prevention and loan modification.

We have been a very close partner of Fannie Mae in the last six to eight months, and opening the very first Fannie Mae Mortgage Help Center in Miami. Also, we were one of the recipients of Neighborhood Stabilization Round 2, money in the amount of over 89 million dollars to do acquisition and rehab of foreclosed properties in the north part of Miami-Dade County.

Community Groups and policy makers and Financial Institutions have relied on HMDA data to provide important and useful information about the mortgage market. However, the data is currently made available to the public. The data that is made available has not kept up with the multitude of products and services that have been available in the market since the regulation was enhanced in 2002. HMDA must be updated to provide universal reporting by all lenders. The data collected should provide for the comprehensive analysis, not only have access to credit, but also the terms of credit products provided and their impact on borrowers in our communities.

We are primarily a production organization, not a research or monitoring organization. And in that production capacity, especially in the last six to eight months, access to first mortgages for the folks that we moved to home ownership has been nearly shut down. We have needed to simply tell potential buyers who even have a contract on a house, "There's no credit." All of the--regarding the data elements to be collected, all of the creditworthiness factors that have been taken into consideration in making credit decisions should be collected to enable a compared analysis of loans for the evaluation of access to credit provided, and whether the terms of the credit offered are both responsible and sustainable. Credit scores should be collected and reported in a matter that protects the borrower privacy. There are a number of other comments that I've already submitted related to data elements to be collected or revised. So I won't go over those here.

We believe that home equity loans and reverse mortgages should also be included in HMDA. We also believe that additional data should be collected regarding mortgage and loan modifications. They are currently not reported but should be. The reporting over this data for all loan modifications would encourage proactive analysis of the lender's activity, ultimately motivating operational efficiencies in the process, and provide data for understanding neighborhood stabilization. Currently, banks are not required to collect and disclose data on loans that they purchase, yet this information may actually help banks obtain CRA credit if some of the loans were made to low or moderate income borrowers. Disclosure of this information would be helpful to determine the type of loans being exchanged and identifying gaps that nonprofit lenders like NHS may help to alleviate. There is confusion in the marketplace as to the definition of pre-approval. Although common in wholesale environment, retail bank offices typically will not accept an application without a purchase contract. Yet, realtors will not show properties without the existence of a pre-approval letter. This contradiction of process has the effect of denying access to credit for some potential borrowers. The definition of pre-approval needs to be clarified, and the required and regulated lender behavior needs to be clarified.

In terms of finally, reporting, because we are a NeighborWorks organization and do significant amount of reporting, we believe that the electronic and online reporting can be -- the problems of that can be overcome. Thank you.

Governor Duke:
Thank you, and thanks to all of you. I'm going to start with a few questions, and then I'll ask my colleagues to jump in with their questions. First of all, for those of you who are data reporters under HMDA, there's been a lot of discussion about two sets of data that could be added. One set has to do with indicators of credit worthiness such as loan-to-value, debt-to-income, and credit score information. We'll deal with just those three. And then others have to do with the quality of

the credit that's being provided, such as the terms the point's fees, rate spreads, variable versus fixed rate, prepayment penalties, that sort of things. When you're making a loan, at the time of origination, most of these data elements are known. So, I'm curious as to the additional burden to record those data elements as part of the LAR.

Faith Anderson:
I'd like to answer that. We rely on third party vendors for our system. So, to the extent that it's already there and that we can just plug in the information, because we have a mortgage lending system, and we have a home equity line of credit system. So, to the extent that we can capture it right, you know, at closing, that LAR. It's relying on the third party vendor since we, we don't develop our own software.

Elizabeth Duke:
Well, but presumably, the vendors, if it was a required element, the vendors would modify the systems.

Faith Anderson:
You would hope so.

Elizabeth Duke:
Mr. Greer.

Phil Greer:
If I may address that question, and yes, certainly, the information is available at the time of application or approval. However, in many small community banks, that data's collected manually. And, in our case, it is. We collect the data manually; the loan officer puts it into a spreadsheet manually. That information then has to be reviewed by another party, and then put it into the LAR, and it has to be verified for accuracy. And so, from our perspective, the manual input creating additional data elements just intensifies and increases the amount of time and, obviously, the cost of that transaction.

Bill Loving:
Governor Duke, in our particular situation, in our particular situation, number one, I advocate the collection of the additional data. I think it is important. I think it will add a great deal of transparency to the HMDA data. I do not believe that, in our case, it's going to be burdensome at all. Most of our stuff is collected on in-house systems. And the modification list systems will not be a major hurdle from our standpoint.

Elizabeth Duke:
Okay, thank you. And then, for those of you who are users of the data, I believe Ms. Anderson suggested that a change to the data that's collected so that all loans that are secured by residential real estate, if I understood you correctly, should be reported. Unsecure loans should not be reported, and brought up that home equity loans should be reported if the total dollar amount. Would that cause you any difficulty or any issues in using the data? Mr. Jordan?

Will Jordan:

I'm going to look at my expert in the audience and see if I can make contact with her.

Governor Duke:
Are we having phone a friend here?

[Laughter]

Will Jordan:
What do you think?

[Inaudible comments]

Governor Duke:
I'm sorry, could you speak into the microphone so we can get it on the tape?

Female audience member:
I think it would be helpful to have all loans reported just to, and unsecured home equity loans, reverse mortgages like Mr. Shank suggested as well. I think the gaps in the HMDA data coverage right now are just leaving out a lot of loans that are, you know, unsustainable and discrimination that's probably in those and having a wider coverage of the loans that can be reported would be helpful for us to get a clearer picture of the lending that's going on for all institutions.

Elizabeth Duke:
Thoughts on home equity lines being reported if the total amount on the line versus the amount that was drawn.

Female audience member:
Again, just a better fuller picture would just be more helpful.

Elizabeth Duke:
Okay, okay. And then a second questions, which is I understand the desire to have the data reported in more granular format and more easily manipulated. How do we address, or how would you suggest that we address questions of privacy and balance that privacy versus availability?

Arden Shank:
The privacy concerns are very important and cannot be set aside. But, I believe that the loan officer or whoever the person is working with the individual borrower already knows all that data. So, the disclosure of that data to the lending institution is already being done. All of the personal identifying factors such as social security number, name, all of that can be removed so that, when it goes into the data system, it's not disclosing private information that can be tracked to an individual.

Elizabeth Duke:

Some of the information actually can, if you work with it properly, in other words if you bring it down the census tract and there are small numbers of loans, particularly in some areas, you could actually begin to identify individuals and groups of individuals.

Bill Loving:
If I may add, I would agree. In our area and marketplace, one could take the data and append it to what's already available in the public records and pinpoint, specifically a borrower. And so, adding additional data to the information that's available does give, give me and other community bankers concern as to privacy issues. And, I'm not sure I have the exact answer on how you balance the two, but there are significant privacy concerns with adding additional data.

Elizabeth Duke:
Mr. Jordan, did you have something else that you wanted to?

Will Jordan:
Not right now.

Elizabeth Duke:
Okay.

Faith Anderson:
I just wanted to add that also, for credit unions, we are, you know, concerned about reverse engineering or if they're able to do that, because credit scores, loan evaluations are considered personal information.

Elizabeth Duke:
Okay thank you. Ms. Braunstein.

Sandra Braunstein:
Yeah, thank you. I just have a couple questions. Getting to some of the date elements that now will be required under the new legislation, I was wondering, in terms of trying to define the total points and fees that are payable at origination, I wonder if you have any ideas for us in terms of what we should include in that? Should it be, you know, finance charges? What about originator compensation? What kinds of things, how could we best define that to, on the one hand, get the best information we can, but also, at the same time minimize the burden on the reporters?

Bill Loving:
I'll be happy to address that issue. At the present time, there are other regulations that define finance charge, prepaid finance charge. So, I believe, any change or any ruling should be consistent with other regulations so that it does not create confusion. I have concern with including total closing cost in those fees because, in our marketplace, for example, we operate in Virginia and West Virginia, you could look at two mortgages of the same amount but yet get different remarks or different results because the state of Virginia requires recording costs based on the amount of the mortgage where in West Virginia there’s simply per page fee. And so, you're going to get skewed information if you include total closing cost in that information. And, I would suggest we look at finance charge, prepaid finance charge points in origination. And if

you're saying originator compensation, that would, that would be included in the closing cost or the origination fee in points as well as prepaid finance charges.

Unidentified male:
I think one of the things that my organizational experts wanted me to emphasize is that, maybe, we can look at the channel where the loan came from also, you know, to identify whether it came through a broker or correspondent or retail or loans because that information had been provided several years ago and we would be able to more easily identify the trends if that was included.

Phil Greer:
I'd somewhat like to echo Mr. Loving's comments. I would like to see consistency between truth and lending disclosure in regard to finance charges and what we would disclose in HMDA. I would like to see not total closing cost, but simply, those that are related to specific loan. Attorney fees, title insurance – that type of thing really doesn't need to come into play. The lender, or the loan officer compensation, I think, is something that, based on what has occurred the last three, four, five years and apparently has created issues for our economy as borrowers were steered here, there, and beyond, I think the loan officer compensation should be disclosed.

Faith Anderson:
For that part, I just want to state that not all mortgage loan officers are incentivized, that's the word. So but, maybe if they just are paid on the set regular normal salary you don't include them. But, if it's based on, you know, commission, on how many mortgage loans end up in closing maybe that is added.

Will Jordan:
I also support the reporting of originator compensation.

Sandra Braunstein:
Okay, and another question, kind of along those lines is one of the things that's in the legislation that would be mandated going forward, if the legislation's enacted is the reporting of credit scores. And I know, for us internally, we've talked about this. And, this could be one of the more difficult kinds of things to define because there's so many different kinds of scoring systems out there. Some lenders use their own proprietary scores, you know, other, a lot of people use third parties, Fair Isaac's others. So I wonder if you have any advice for us on how we should define the use of credit scores so that that data could be meaningful somehow, and we're not looking at a lot of apples and oranges on that.

Arden Shank:
When we do lending, we often do not use a credit score for underwriting and making credit decisions. We use other types of data about the borrower's behavior, financial behavior. But, having said that, I think the reporting of the credit score is still important. But it may be necessary to differentiate between those that were underwritten using the credit score and those that were not.

Sandra Braunstein:

So are you, I'm sorry, just to clarify, are you saying that even if the credit score was not used in underwriting, the person's credit score should still be reported?

Arden Shank:
Yes, because I think, not because it, we think it should be reported because the analysis that comes along afterward about who got loans and who didn't, the credit score can help provide that information.

Sandra Braunstein:
Okay, other thoughts.

Will Jordan:
I agree with what Arden said.

Phil Greer:
I think it would be difficult to dictate that those lenders that do not use a credit score in their underwriting have to go out and provide you with one, incurring the additional expense for something that provides them no use day to day in their underwriting of mortgage loans. But yet, they have to incur this expense just to provide HMDA data. And, that said, I also think that the collection that this data is important and can help track discriminatory pattern. But, I think I tend to favor the approach that if the credit score is used in underwriting, in the decisioning on the loan, that it be reported. If it's not used, then there would be no obligation for a lender to have to acquire that data in order to provide the data to the LAR.

Will Loving:
I would agree with Mr. Greer on the reporting of the information. If the credit score is not used in the decision process, I do not believe it should be reported.

Sandra Braunstein:
So, if we, if we did write the rule that way, do you think that would discourage the use of credit scores, because that would --?

Bill Loving:
I'm not sure it'd discourage the use of credit scores, because many institutions have automated approval processes using credit scores. In our particular case and many community banks, we use the traditional approach, as Arden had mentioned, to underwriting. We look at the credit factors, the credit history. Many community banks know their customers. And so, we use the traditional approach to approval. So, regardless of whether it was written into regulation or not, I do not believe it would, it would skew the use of credit scores.

Arden Shank:
One last comment, and that is I don't think there would be additional cost in gathering the data because credit reports are pulled and most credit reports have the scores on them and it's right there.

Phil Greer:

And, you pay for that score, you do.

Sandra Braunstein:
The one thing I did want to ask is do you have, I want to kind of go back to my original question. So, even if we have credit scores reported, since there are so many different scoring systems, you know, the numbers trying to use that data for those of you who use data. Do you have any suggestions for us on how that data can be meaningful? Because, if you're looking at it, you don't know which system somebody used, the numbers can mean very different things. I was just wondering how to, how do we get past that? How, does it become helpful to the users?

Unidentified male:
I think, for our organization, the issue would be not what kind of credit scoring a particular institution used, because we always look at the HMDA data based upon the institution or the bank, would be was there more than one way that they used it. So, if they had two systems of credit scoring, that would be information that would be very interesting. But if, they were consistent on the way that they collected their credit scores, that information would not be prohibitive to us finding out more information about whether or not the loan was discriminatory. You know, I, the biggest issue was, I don't think it would be a problem because, within an institution, more than likely, the way that they collect the credit score is going to be consistent with that bank.

Sandra Braunstein:
So, it'd become more of a problem comparing institutions. Faith, did you have anything to add to.

Faith Anderson:
We, we just, we pull credit using the, you know, normal third party vendors. And, we underwrite traditionally also. So, I don't have anything to add.

Sandra Braunstein:
Okay. Anybody else on credit scores or anything? Okay. Mr. Chanin.

Leonard Chanin:
Thank you. So, I want to go back to something that Miss Anderson raised and others as well and that is the scope of coverage of HMDA. So, currently, for depository institutions, banks, credit unions, they're generally covered if they make one mortgage loan and they have a, their home or branch office in a metropolitan statistical area. So, my question is whether that coverage test for depository institutions should be changed and change meaning, should it require institutions to make more loans in order to be covered? And, obviously if they have assets over changing amount 39 million. So, as depository, financial institutions, as well as others, whether that data is useful to you if a bank makes, for example ten loans or 12 loans. So, we can, and if so, what threshold might you suggest? So Faith, we can start with you.

Faith Anderson:
What we would recommend is that, you know the Fed or whichever board sets, you know, whether you do ten mortgage loans or a hundred mortgage loans that, let's say you make it a

hundred. Well then, everyone who does a hundred mortgage loans should report to HMDA. I can tell you that, from our data, we rely on a third party to help us analyze the data. And, I know the format right now, it's difficult to determine if there's predatory lending. We just would want to make it fairer across the board because we're so regulated, banks and credit unions, where nondepository lenders, they're, we don't believe they're regulated to the same extent as financial institutions. So, you know, we would like them to join the party.

[Laughter]

Leonard Chanin:
It's nice of you to.

[Laughter]

Mr. Greer, any thoughts?

Phil Greer:
Well I can't state that reporting one mortgage loan, if that's all you originate and you have an office in a metropolitan statistical area, I can't say that that's a tremendous burden to report one. I think it doesn't provide meaningful information however. I tend to think that the limit should be based on either the number of loans or the dollar volume of loans as opposed to the asset size. I very much believe that any lender originating loans, regardless of whether they are a depository institution or not, should be reporting the data. If I'm not badly mistaken, within the last couple of years, mortgage brokers were originating around 50 to 60% of all mortgage loans in the country. And, their data should very much be included in the Home Mortgage Disclosure Act.

Leonard Chanin:
Thank you. Mr. Jordan.

Will Jordan:
And, I completely go with what Phil said. It should be based upon the amount of some, you know, the amount of mortgage loans and that, that way we have the opportunity to see those mortgage lenders who are originating loans.

Leonard Chanin:
Let me follow up if I can Mr. Jordan. Suppose the institution passes its threshold and originates 15 loans in a year. Is that data that's useful to you in a variety of loans, home purchase, home improvement, refinancing etcetera?

Will Jordan:
Yes, yes.

Leonard Chanin:
And, for what purposes, discriminatory lending purposes or seeing if they're serving the community in which they reside or --?

Will Jordan:
I think it has more of an opportunity for us to see how persons in the metropolitan area are accessing credit. For example, if you have an institution that works with another institution and they're referring certain people to other places to get loans and other people are not being referred to those places. So, you've got a subsidiary of one particular bank that's originating so many loans. And, but they're not really doing a whole lot themselves. We'd like to know that kind of information because we can make those connections as to, you know, whether or not people are being referred by asking questions, you know, if they're a referral when are we doing our testing if they're being referred to other places to get loans?

Unidentified male:
I would agree. I think any threshold should be based upon number loans and not merely assets, size, and looking at the data.

Leonard Chanin:
Okay. Mr. Shank?

Arden Shank:
I agree.

Leonard Chanin:
We should stop now. We seem to have agreement on one thing.

[Laughter]

We can't do better than that. So, let me shift a little bit, a few more questions.
Currently, in terms on data that's being reported, institutions have to report the rate spread for higher cost loans. And this question's for the financial institutions. Should reporting of that rate spread be required for all loans and not just for so-called higher cost loans? And, what's the burden of adding that data development to the HMDA report?

Faith Anderson:
I don't know if it would be that helpful. We could capture it. But, I really don't know if it would be that helpful in finding discrimination, I --.

Leonard Chanin:
Okay.

Unidentified Male:
I think there would be some burden to reporting it on all loans. I question whether or not the additional data is going to be conclusive in regard to discrimination. With Fannie and Freddie risk-base pricing their loans, characteristics that they have and the multiple combinations of delivery fees that they now impose, I think it would be difficult to have meaningful analysis of that data because there clearly could be very similar loans with different rates based on Fannie and Freddie even delivering out of pocket.

Leonard Chanin:
Okay. Mr. Loving:

Bill Loving:
Obviously, additional collection is going to be from a manual perspective, more time involved. And so, I'm not sure that the additional information would benefit the desired results of HMDA, although it would provide additional data, obviously, on pricing. If I may speak to the benchmark itself and how that rate is determined, I have some concerns in that it is not clearly defined or refined all mortgage loans across the spectrum as one particular type of mortgage. And, community banks, traditional lenders, when you look at cost of funding, there is some disparity there between the two. And so, for the most part, community bank lending, it does appear we're doing higher priced mortgages when in fact it's based upon our cost of funding and not the bench, well I should say the benchmark itself.

Leonard Chanin:
And that is something we're aware of and looking at. Thank you. Let me talk about some, ask some questions about some current data that's reported, see if it's useful and particularly Mr. Jordan and Mr. Shank. So, preapprovals or certain types of preapprovals are required to be reported under HMDA. It's not clear to me, from talking with a variety of folks, whether that data is currently used by anyone or by many folks. So, should we retain the reporting of preapprovals or simply not continue reporting requiring that we report it?

Will Jordan:
I don't recall us utilizing any data with respect to preapproval. And, I don't, I don't see, currently, how it really will be useful for us. And, we don't currently look at that data.

Bill Loving:
We found that often preapproval letters are as available as junk mail. And so, how accurate they are to start with is a serious question. But, the issue that I raised in my initial comments, in the broader industry that includes both lending and real estate, there's a major difference that has somehow has to get resolved. And, since my organization is both a licensed lender and a licensed real estate brokerage company, we see both sides of the problem. But, it must get resolved. Borrowers are caught in between. And, while public subsidies from cities and counties for home buyers is gone down tremendously in the last year, there still is some available. And often those municipalities will ask for a preapproval letter before the public subsidy is committed. And, that creates a problem as well. And, the additional problem is that now, in the last few months, a number of lenders are charging the potential customer for getting the preapproval letter that may be meaningless to start with.

Leonard Chanin:
Okay.

Phil Greer:
I also want to just reemphasize that it seems to us that the preapproval letter really depends on who wants it. We've seen some pretty snaky preapprovals, more like pre-preapproval letters. And, you know, you start talking about the legal definition of a preapproval letter, what has to be

in there, we've seen some pretty nothing in there, preapproval letters, so.

Leonard Chanin:
Any other thoughts, comments on preapprovals? Okay. Another actually optional HMDA reporting element is home equity lines of credit. If lenders report, the report not the entire amount of the line but the amount of the line used for home improvement type purposes. So, again, similar question, one, should home equity lines, should reporting home equity lines be eliminated, that is, not even allow optional, should it be mandatory? If mandatory, should it be the entire amount of the line or leave the test as is or simply the home improvement type of aspects of it? For all the panelists.

Faith Anderson:
Well, I think I can speak for institutions that, if you, we would prefer that we don't have to report it. I know we report it because it's just easier to report. For home improvement we would still recommend that you still report secured home improvements. And, I only want to bring this up again because for unsecured home improvement there's multiple reasons why a borrower would want, you know, that type of a personal loan. And also, not a lot of systems track that it's used for home improvement. I'm just letting you know that. And you don't have sophisticated systems sometimes. And so, to the extent that we don't need to report home equity lines of credit, don't. But, if you need home improvements that's secured, go ahead.

Leonard Chanin:
Okay.

Phil Greer:
It would be my preference that we not report it. We do not currently report home equities. It would be my preference that we not be required to. I'm not positive that the home equity data is going to be conclusive in regard to discriminatory practices to start with. If we are required to report it, I would prefer that we report the ceiling, the maximum amount of credit as opposed to trying to pinpoint how much of the line of credit, how much of the borrowing is designated toward home improvement. That's a bear to keep track of.

Leonard Chanin:
Okay.

Will Jordan:
I'm looking at my expert I the audience again. I'm not certain how important the home improvement. Is it, is it, it's good? It's good. So, actually, that bit of information could be very helpful for the way that we collect our data.

[Laughter]

Thank you, I wanted to.

Leonard Chanin:
Okay, Mr. Loving.

Bill Loving:
Our institution, and I imagine many other community banks, do not report the home equity piece. And, our, and my preference would be that it not be reportable. I have a concern I trying to differentiate between home improvement and non-home improvement particularly in automated systems where consumers have the ability to draw against their, you know, home equity by check or other means. And very simply, a phone call by a consumer in our market that wants to transfer from their home equity, if I have to ask them the purpose of the draw, it would not be a welcomed question. And so, I have some real concerns in differentiating between the two. So, preference would be that it's not reportable. If it is reportable, then like the other panelists, I would agree that it'd have to be on the total amount rather than differentiating the amounts.

Leonard Chanin:
Okay, thank you. Mr. Shank.

Mr. Shank:
One of the major concerns in the South Florida market is that there is a lot of older homes that need repair. And, with the way the whole market and the whole economy is, I think there's going to be more homeowners that are going to try to stay put and not be moving. And, our concern is that getting credit for homeowners who want to make repairs to their home is becoming a major issue. And, I believe that that would be the case in many other urban communities around the country. And so, in terms of how that relates to what gets reported, we're interested in knowing that homeowners have access to credit for that purpose.

Leonard Chanin:
Okay, thank you. One final question related to home equity lines is, currently lenders have to report unsecured home improvement loans. And so this question on whether that data is useful in terms of the analyses, in essence that could simply be an installment loan or any other type of loan where the consumer indicates is for home improvement purpose. And, you run into difficulties of the surviving percentages of that loan. But, do folks, Mr. Jordan, Mr. Shank, use that data, use it as heavily as other data? And, any other panelists views as well.

Will Jordan:
Yes we use that data and it would be very helpful for us to know about unsecured home equity lines of credit.

Arden Shank:
I agree. I don't have more to add.

Leonard Chanin:
Other views.

Faith Anderson:
From our shop, you, we ask the borrower, well if you ask the borrower, you know, they could have multiple reasons when they take an unsecured loan. And so, sometimes it gets to the point that it's very subjective on what is the purpose. And so, really, your data is as good as what you

get. And so, I don't know if you're getting that great of a data because our systems don't, you know, say, oh that's a home improvement loan. I mean, not all systems do that.

Leonard Chanin:
Mr. Greer, any thoughts?

Phil Greer:
I derive no benefit from having that information to be reported.

Leonard Chanin:
Okay, Mr. Loving.

Bill Loving:
I would agree and also echo, often times, the information may not be accurate, the percentage of the loan that's used for home improvement and what's used for other purposes so.

Leonard Chanin:
Okay, thank you.

Elizabeth Duke:
Excuse me, Shanna, but before you get started, since I'm going to have to step out in just a few minutes before this panel is finished, I have one last question, and I definitely want to thank all of you who are here today. My question is: for those of you who are lenders, is the data that currently available publically about your institution's lending, does that give a full, accurate and complete picture of the quality of lending that you're doing?

Phil Greer:
While Faith is thinking, I'll go ahead and respond. I think to a large degree it does. I think in some areas where one might study the data and think that there's a segment of or lending that perhaps is discriminatory, that additional data might make it more transparent. I think that the data that we will end up with will be more transparent, not just in the identification of discrimination but of practices that truly are not, regardless of rates. There are many reasons for why a loan is denied, and not all of which will show up easily.

Elizabeth Duke:
That's why I would ask you to think about if you were faced with the data that was made publicly available about your institution and you didn't feel like it was giving an accurate picture, where would you go? What other data elements would you look at to judge yourself?

Phil Greer:
If I may add. We go back to look at those loans – quality control area goes back to review those loans to ensure that there aren't any discriminatory practices.

Faith Anderson:
I guess the reason that I hesitated was that I believe our data looks great. I know that there's a minority, but when a loan is denied, we take it to a second level where it is scrutinized, so I

believe our data looks great. I know that we look at it, and we try to look at other factors that are not probably in the HMDA reporting.

Bill Loving:
I would agree with Faith here that for the most part I do believe that the information does reflect our lending. There is information that can be gleaned from the report that may not be accurately shown or indicate a trend that is not there that may be for other reasons as was suggested that the loan was denied because of data that may not be HMDA reportable.

Elizabeth Duke:
Once again, thank you to everyone who is on the panel. Now, Shanna, you can take it away.

Shanna Smith:
Thank you. A lot of my questions are followups to what you have already answered and I think I'd just like to start, Ms. Anderson, you talked about, I guess, the second review process that you had for people who would be protected under the federal Fair Housing Act. In that second review process, do you compare that loan application to whites who are similarly situated, or are you just looking at that particular application to make sure it met all of your underwriting requirements?

Faith Anderson:
Unfortunately, I am not on that second review Panel. I could get back to you, but I don't know what they review or what compare it to. But I know they scrutinize it to make sure that we are being fair.

Shanna Smith:
Mr. Greer, in your testimony you talked about not getting rid of adjustable rate mortgages, and like you, I agree that there are a variety of loan products that are very good for particular groups of people. They shouldn't be just given to anybody who is asking for them. What controls would you have in place to evaluate suitability of an ARM or an IO or another type of what some of us call exotic loan products?

Phil Greer:
I don't know that we need to have a category that is simply a payment option ARM, exotic, so on and so forth. I think we need to look at the aspects of the subprime ARM loans that created the issues such as negative amortization; such as rapidly rising interest rates and payments; short, mixed periods initially; the presence or absence of prepayment penalties. Those types of things need to be reflected primarily in regard to an ARM as opposed to simply coming back and saying, okay, we need to have a place to check, is it a fixed rate loan or is it an adjustable rate loan.

Leaving it as simply an adjustable rate loan would lead one to think that all adjustables are in fact predatory and abusive, which is simply not the case.

Shanna Smith:

So I heard you earlier supporting the use of reporting a credit score and points and origination fees. What kind of reporting could be included to show that the ARM that the person has is suitable based on the underwriter?

Phil Greer:
I think that income ratios, loan-to-value ratios can help provide evidence that the loan is suitable in that regard.

Shanna Smith:
We talked about reporting -- this is for the other lenders -- reporting compensation, and some are on salary. But some people who are on salary get a bonus at the end of the year. How would we capture if those bonuses were based on volume or some other kind of incentive for that loan originator?

Faith Anderson:
In our shop we don't give bonuses based on loan volume. A team award is based upon the whole institution. We look at various factors, not just mortgage loans. So you need to take that into consideration also when you ask for compensation.

Bill Loving:
We provide an incentive bonus at the end of the year and portfolio growth is a small component of the overall total. It is not specific to mortgage loans or commercial, it's total portfolio. So for our situation, it will be very hard to differentiate how much is allotted to the mortgage portfolio or to the mortgage origination.

Shanna Smith:
A couple of people said they don't use credit scores in making the loans. Is there a different scoring model in the underwriting that's used? Is there any kind of score that's produced?

Phil Greer:
Ms. Smith, for the State Employees Credit Union we do not use credit scores. We do not have a preapproval process. We do not have an automated approval process.

We look at each individual loan on its own merits and make decisions on that basis. So there is no scoring model, score or equity score, LICO score for us to report in that regard. We are pretty much unusual.

Will Jordan:
I'd like to ask, how common is that?

Shanna Smith:
Actually, it used to be quite common in the ‘70s. We have to balance the subjectivity of that and what an automated system may miss about a person's real ability to repay a loan. So somewhere in between the automated and what I suspect some of you were calling the traditional underwriting, we have to make sure that subjectivity isn't put in that place which can result in discrimination. I didn't know if you at NHS were using a different kind of scoring model.

Arden Shank:
No, we do not. We do, whether it is a couple months or whether it is a couple years worth of counseling and training with each potential borrower, and out of that emerges a family budget. Granted, we know that income, jobs and income can change, but credit scores can't track that either.And so we determine with the family how much they can afford to pay in their budget and then we back into the amount of mortgage that they can afford based upon that. And we believe that that is a very sound and very solid way of doing things.

Shanna Smith:
We talked about which institutions should have to report. We were talking about volume of loans. I have a question. If you only make five or ten loans a year, how do you select the people that you make those loans to if you have a greater volume of customers for other activities or products in the institution?

I need an answer on that because it raises a question for me as a civil rights advocate, that I have been doing this for 35 years. So sometimes I would see lenders make receptions for people in the institution and make a loan and make a mortgage loan. Sometimes it was because it was a really, really rich customer and they wanted to please them and keep them. That's not a violation of the Fair Housing Act. But other times I would look at it and we could look at their service area and maybe the five to 15 loans they made within their whole service area seemed to be in the predominantly white areas. So when we talk about volume from a fair housing point of view, even making one loan, we want to know why that exception was made.

Faith Anderson:
I think from our standpoint, if they make one mortgage loan, then you should require them to report HMDA data. We just didn't want that the asset size was the primary factor because there are other reasons of why they do not report or why they should report.

Shanna Smith:
Just two other short ones. Mr. Loving, you were talking about the privacy issues, and I think we are all concerned about that. But you also then recommended that mortgage brokers non-lender purchasers and originators and anybody who is making a mortgage loan should report. If those reports are made and we have more loans being reported within a census track, are you more comfortable on this privacy issue, and maybe we can talk about if there's only five loans made in a census track, then some of the information is not reported to protect the privacy of an individual?

Bill Loving: Certainly first I would say there needs to be other reporters added to the process to give a clear picture of the mortgage trend within an area. Mr. Greer indicated a large percentage of mortgage loans was created by a large number of originators that did not report. I think it gives more accurate data. The inclusion of those into the data, I'm not sure that we create any difference in my opinion concerning the privacy particularly with the new data elements that are suggested to be added. I think inclusion of the additional reporters would have to be looked at with the information that's currently reported to make sure that we are balancing the need for that information with the privacy of that consumer.

Shanna Smith:
Finally, Ms. Anderson, you talked about the reporting on race and national origin on the loan application and indicated that sometimes people are uncomfortable asking that information. What for the lenders here, including NHS, what kind of training do you do so that the loan originator is comfortable getting that information and they know how to approach it with the borrower so that the borrower will answer the questions? Is there anything that you do in training?

Faith Anderson:
I know we do provide training, but I can tell you there are borrowers that I heard that are, let's say, Hispanic, that they will answer that they are, for example, white for whatever reason. So sometimes I think that when you ask us, when we ask them, sometimes they just don't want to answer. No matter how much training you give to your lender to ask it in a non-confrontational way, some folks just don't want to answer it. So if the borrower doesn't want to answer it, I think it does place a burden on us to then guess because they might have a last name, you are not supposed to use certain factors. It just puts you in an uncomfortable position. I don't know how good the data is then when you are guessing.

Will Jordan:
I wanted to back up two questions about collecting the mortgage loan data not based upon how much volume the lender is doing but just a set number. I want to make it clear that even if the number is one, that my response is that it not be based upon the volume that they are doing but based upon the number that we set, whether it be one mortgage loan or if they do two or whatever, but not based upon their assets so that we do collect more data. I am looking for more data because that's what our organization needs, who is doing these special loans.

Bill Loving:
As far as training, we use both in-house and external training courses and schools for our lenders to make sure they are adhering to the various regulations. I would have to agree with Ms. Anderson, that oftentimes no amount of training will provide an opportunity to get the information because the consumer has reluctance of divulging that information and just will not give it. So at that point it is upon us to, by observation or by other elements, determine the answer, and it may not give factual information.

Arden Shank:
We don't have any specific training program for this issue alone. Possibly, because we are community-based, we have very little trouble with people telling us. We are very careful to protect people's privacy and the information there. We do all of our work in three languages, English, Spanish and Haitian Creole, and our staff, most of them are multilingual. So we are talking with people in their own language. We rarely have a problem. If somebody refuses them, then that's it.

Shanna Smith:
Those are the initial questions I have. I will go back to our panelists.

Sandra Braunstein:

Thank you. I have just a couple others. I wanted to ask those of you who are HMDA reporters on the Panel, which is most of you, are there any things you can recommend to us about -- we talk a lot about the burden of reporting -- is there anything, ways that you can suggest that would make it easier to report the data, or is there something different we should do about collecting the data moving forward in the future?

Faith Anderson:
I'd like to add that maybe you can get more clarification when there is a multi-purpose loan. Just generally, I talked to other in-house counsel on what constitutes a refinance. Also, I wanted to point out that for incomplete loan applications or withdrawing loan applications, sometimes with our system, it is difficult for us to determine whether it was withdrawn or incomplete. So sometimes there is some guessing involved.

Then we did have a question on, if it was still a basis to determine discrimination, if it is a manufactured home, that it is a separate category.

Phil Greer: We really don't have any issues with current reporting. The gentleman that is in charge of our mortgage originations and the HMDA reporting, having done it for several years, really has no particular issues at all. There's not really anything from our standpoint that we would look to change in that regard.

Bill Loving: As far as the collection of data, I'm not aware of any way that would improve the input, back to the definition and clarity comment. I would agree that some of the definitions, if we could have more clarity on lock-in date, withdrawing an application, incomplete application and also the collection of data on the manufactured home; if I am correct, the definition could include a modular home today, and there is a significant movement in some markets to modular. I'm not sure that that is relevant, or is as relevant today as it has been in the past. So that may be one element that could be eliminated from the collection of data.

Arden Shank:
A couple comments. I hadn't thought about the modular home or the built-in-factory home. I would tend to agree that that becomes less relevant data. We have produced or developed several of those homes, a number of them. They go on a foundation, they are like any other home there. But because it is technically produced off-site, we have had trouble sometimes with the borrower getting a loan when the quality of the home that we have produced is probably better than any other house in the neighborhood. So that was the observation on that.

Because we are a Neighbor Works organization, because we have used the NFMC, the National Foreclosure Mitigating Council funds, and now with our NSP money that we are reporting to HUD on, we are a very small organization, assets of only 7 and a half million dollars. We report all the time. We have moved it to electronic, to digital and we have said to home ownership counselors and foreclosure prevention counselors and loan modification staff, if you did not put it in the system, you could have done a hundred of them and you don't get -- it didn't happen. So I know, particularly for small lenders like Mr. Loving represents, it is a real issue. But I think we have to move everybody to the kind of reporting that can gather this data. And I know that that will come back to me and be a problem, but I think we have to do it.

Faith Anderson:
I just wanted to add that the majority of credit unions are $100 million or less, and because of all the other regulations surrounding mortgage loans, RSPA, SAFAC, everything else, Truth in Lending, it just seems highly unlikely, unless you are trying to serve a very rich borrower, that they would get into that market because it is very complex.

Leonard Chanin:
Just a followup on the modular and manufactured. Is the underwriting for the modular homes the same as manufactured housing or different?

Bill Loving: In our case, it is the same, but as Mr. Shank has indicated, we have had difficulty on a manufactured home that does not have the base plate stamp in the unit getting financing through several sources of funding. So it does create a challenge in the different units or types of units, I should say. But the underwriting is the same.

Phil Greer: We use the same underwriting. On a HUD-built, HUD home, manufactured home in North Carolina, they continue to be built to a somewhat different standard, the HUD standard, as opposed to North Carolina Housing Code, and therefore we do restrict the term on a manufactured home versus a modular home that is built to North Carolina standards. Borrower qualification, no difference from that standpoint.

Sandra Braunstein:
The last question I will pose and then go back through my panelists again, I asked the question about, are there ways we can improve the efficiency of reporting the data. I also now want to turn to those of you who use the data. I know, Mr. Jordan, in your testimony, your opening statement, you brought up the fact that the PDF files make it difficult to use the data. We have heard that before and I wondered if for the record here you could elaborate a little bit more on that point. Mr. Shank, you may want to talk about that too.

Will Jordan:
I think what happens is when it is in the PDF format, it slows down our ability to be able to analyze the data and then transfer the data in a meaningful way so that people can see it. So you get the aggregate data in PDF form. You got so many hundreds of hours of man-time to actually turn that into something where a regular human being can understand. I think it would be so much easier if that data was collected immediately and put in an Excel spreadsheet form. That way you don't spend so much time having to just make it usable.

Arden Shank:
Like I said, we are primarily a production organization, but we are working across the community with organizations like Mr. Jordan's. Right now, getting HMDA data is a rather arcane process, and the more the Board could do to make the information understandable to the public, even if one would define public as somebody who is relatively informed, still there's more to be done with that.

Sandra Braunstein:

Does anybody else have a comment on that? Did you have something more you wanted to say, Mr. Jordan?

Will Jordan:
I think I'm covered.

Sandra Braunstein:
You checked with your expert?

Will Jordan:
That one I heard over and over before I came up here.

Sandra Braunstein:
It is good to do that because you have to go back to the office with her and she will yell at you if you didn't get it.

Will Jordan:
The Board of Governors was there and you didn't say anything.

[Laughter]

Leonard Chanin:
I have no questions.

Shanna Smith:
I do have one more. Do you, the lenders, use the HMDA data to do self-evaluation to see the loan performance over a period of time, and would looking at the debt-to-income ratios, credit scores, loan-to-value ratios help you in the future in your underwriting? I mean, obviously, people go into default because of loss of employment, health, or divorce. But on other issues, I am wondering, do you actually analyze the HMDA data for market research, for tweaking your underwriting in any way? I just worry that you guys just collect it and send it in.

Faith Anderson:
I know that we do review our HMDA data, but we hire a third party to help us analyze it. We don't just review it internally. I know we look at other internal factors when we tweak our underwriting, and we also compare ourselves to the market. But I'm not sure if we use it for marketing purposes like you just mentioned.

Phil Greer:
We review the data. We use it primarily to become more assured that we do not have pockets of discrimination within our lending process. More than that, we do not use it other than to become more self-assured that things are going the way they are supposed to go.

Bill Loving: We have little data, but as with Mr. Greer, we review the data from a discriminatory perspective. We look more internally at other factors like credit quality and problems within underwriting itself. So to say that we use the HMDA data for underwriting, I would have to say no.

Faith Anderson:
I just wanted to add, as Mr. Loving had mentioned, that there is a manual process to the HMDA reporting. I told you we had two systems, not to get down into the weeds, but it is downloaded monthly and we still have someone review it, because even though the FSA codes are out there, sometimes there are errors. So there is that manual process. There is still more subjectiveness to the data.

Sandra Braunstein:
Before I close out the Panel, I would like to give an opportunity for any of our panelists to please, if they have any final statements they want to make, are there things that we didn't ask you that you would like to state for the record? I want to give each of you a chance to do that. Faith, you want to start?

Faith Anderson:
Right now I know reverse mortgages are not included in HMDA data, and though I hate to expand the HMDA data, it seems that's an area based on the baby boomers, and I know it is heavily regulated, but that might be an area that you may want to review and see if there are any practices there that are discriminatory and maybe work with HUD or FHA or other agencies.

Phil Greer: I would simply like to echo Faith's comments in regard to reverse mortgages. Many, many intelligent people throughout this country are very much afraid of the fact that reverse mortgages will become the next subprime debacle. It is difficult to pick up the newspaper and read of a fraudulent action that did not involve, I will use the word elderly because in a year or so I will be able to qualify age-wise for a reverse mortgage. Unfortunately, the more elderly segment of our population is typically the victim of fraud. Fraud follows the money, and there is a lot of money involved in obtaining a reverse mortgage before you even talk about the proceeds. So I very much encourage the inclusion of reverse mortgages in the HMDA data. I think it will be a valuable service to our population for this data to be collected so that we all and others can review it and call the unscrupulous on the carpet.

Will Jordan:
Thank you, Phil. I actually agree with Faith and Phil on the reverse mortgage data. That's the one big point in my paper that my staff wanted to make sure I did emphasize, is that that data should be collected because that indeed could be the next wave of problems, if you follow the money.

Bill Loving:
I would like to just add a couple comments on some of the suggested additional information such as a parcel identification number and a universal loan identification number. First, from a parcel identification number, and being in a rural market, we have problems as it is today. Many addresses are still rural routes and not specific addresses. That would create a huge problem today if the parcel identification number was not unique. For a universal loan identification number, I have a concern with as well, as to how would that actually be administered.

Obviously, there would have to be a central repository or database so there would not be duplication. I'm not sure what the benefit of that information would provide in looking at the data. Specifically if you are looking at a particular originator, you would look at it at the institution level and it could drill down based upon that information and ultimately find the same information without having a unique or universal identification number.

Arden Shank:
The full reporting by all lenders as we have talked about is very important. The other thing that I would comment on is that the reporting through HMDA, and the work that the Community Reinvestment Act does, needs to be held together so that the data collected and what's required under CRA are not done in isolation. There may be some review of CRA, and if there is, I would hope that these two things are done together.

Sandra Braunstein:
We are currently reviewing CRA too.

With that, I would like to very much thank our panelists. We really appreciate your coming here today and sharing a lot of good information that will be very helpful to us moving forward. Also, I want to remind those of you out in the audience that if folks want to sign up for the open mike session, please do so. Is that outside in the hallway? There's somebody out there that you can sign up with. So do that, please, during the break.

With that, we are going to take a break. We'll reconvene at 10:30 for the second Panel. Thank you very much.

[Break]

Sandra Braunstein:
I saw Susan earlier. Does anyone know where Susan went – Susan Walker?

Okay, well we'll get started and I'm sure she'll join us. For the second panel, we are going to follow the same rules as the first panel. I will start with opening statements from each of our panelists, and I would ask you hold them to five minutes.
There will be a timekeeper--where's Kelly?

[Inaudible Remark]

Sandra Braunstein:
Oh, okay. She went to look for Susan.

[Laughter]

Sandra Braunstein:
Well, we're doing double duty. There will be a timekeeper sitting next to where that photograph is currently sitting, and he'd--they'll hold up signs. So if you would kind of watch for that, letting you know when your time is up, and we're gonna start with Stella Adams. And so, five minutes,

Stella, and welcome to the hearing and thank you for coming.

Stella Adams:
Thank you. Thank you, all, for inviting me.

I wanna begin by reminding us all of the purposes of HMDA that Governor Duke spoke of this morning, because it is this purpose that drives all of my comments and concerns. Congress recognized that some depository institutions, and I quote, "contributed to the decline of certain geographic areas by their failure pursuant to their chartering responsibilities to provide adequate home financing to qualified applicants on reasonable terms and condition.

The purpose of HMDA is to provide the citizens and public officials of the United States with sufficient information to enable them to determine whether depository institutions are filling their obligations to serve the housing needs of the communities and neighborhoods in which they are located, and to assist public officials in their determination of the distribution of public sector investments in a mannered design to improve the private investment environment." And finally, and importantly to me, the FIRREA Amendments of 1989 required the collection and disclosure of data about applicant and borrower characteristics to assist in identifying possible discriminatory lending patterns, and enforcing anti-discrimination statutes.

I believe that current HMDA regulations and collections fail to adequately address the three mandated purposes for the law, and therefore, we must consider any proposed changes to HMDA on how well they address these clearly articulated goals.

We have been asked to consider several questions, I will attempt to address just a few of them, but I believe strongly that we should collect additional information, including credit scores, LTV, combined LTV, VTI, rate spreads on all loans, private tax of loans, the more detailed documentation loan type, gross margins of ARM's, minimum and maximum mortgage rates for ARM's, initial periodic rate caps on ARM's, and the index used for ARM's.

The benefits of these additional collections are that they will allow regulators and communities to determine if financial constitutions are providing qualified applicants with mortgage loans on reasonable terms and conditions. One of the great tragedies that come out of this crisis is the fact that 35 to 60 percent of the borrowers who receive subprime products, qualified for prime products. These same borrowers are bearing the brunt of the current foreclosure crisis that is currently contributing to the decline of many of our neighborhoods. This data would allow governmental entities to allocate taxpayer dollars more efficiently and effectively, by allowing them to track trends, allocate public dollars in a way that ensures that all segment of their communities have access to capital, and that they are investing public money to stimulate private capital, not subsidize it. Get out [whisper].

Female speaker:
You missed [inaudible]--

[Laughter]

Stella Adams:
So Sandy, please ask me some questions, like--

[Laughter]

Sandra Braunstein:
No problem. I will.

Steven Antonakes:
Good morning, Director Braunstein, members of the Consumer Advisory Council and staff. My name is Steven Antonakes. I serve as the Commissioner of Banks for the Commonwealth of Massachusetts.

I commend the Federal Reserve board for periodically reviewing Regulation C to ensure it continues to remain relevant giving changes to the mortgage market. Unfortunately, it will take many years for urban communities to recover from the ongoing foreclosure crisis. More so than ever before, access to sustainable home ownership opportunities in low- and moderate-income communities will be essential.
In addition to conducting regular safety and soundness examinations, the Massachusetts Division of Banks also conducts CRA and fair-lending examinations of all state-chartered banks and state chartered credit unions. Our 2007 landmark foreclosure prevention law extended CRA-like requirements to license non-bank mortgage lenders originating 50 or more mortgage loans a year in the Commonwealth.

Utilization of HMDA data is integral to our CRA and fair-lending examinations of banks, credit unions, and mortgage companies. However, we have found that the HMDA data error rate for non-bank mortgage lenders is high. Since beginning its effort to examine non-bank mortgage lenders for CRA-type requirements, the division has had to suspend several examinations to the HMDA data riddled with so many errors that the determination of compliance with fair lending laws could not be made.

In these instances, the division has issued formal public enforcement actions mandating among other things the resubmission of corrected HMDA data. Most notably, in March 2010, the division and 34 additional state mortgage regulators entered into a settlement agreement with CitiFinancial. The agreement between CitiFinancial and the state mortgage regulators was executed after an examination by our office determined that Citi had failed to include over 91,000 HMDA-reportable residential mortgage loans for the period between 2004 and 2007. Given its existing limitations, HMDA serves as a starting point to determine whether disparate treatment of mortgage applicants exists. A thorough file review and comparison of similarly situated mortgage applicants is then necessary. The addition of other appropriate data fields will likely provide for a better and more accurate screening process. The inclusion of the credit score relied upon by the mortgage lender as part of the mortgage lender's loan review process would be valuable and better focus examination techniques. In addition, loan devalue and debt-to-income remain the two critical ratios relied upon during the underwriting process. Given the aging of our population, a data field to capture the age of the borrower should be considered. Furthermore, the Board should give considerations requiring the reporting of all reverse mortgage loans. Data and pricing analysis would be greatly enhanced by the inclusion of loan spread information for all loans. Finally, consideration should be given for requiring the reason for a credit denial in HMDA submissions as well.

The addition of several new fields will increase regulatory burden. Community banks and credit unions already generally bear disproportionately higher compliance cost than larger institutions. Accordingly, the Board should consider appropriately risk coping data collection requirements by only mandating the reporting of new data fields for the nation's largest mortgage lenders. After a 2-year period, the Board should then review the cost of reporting and the corresponding value of these additional data fields before determining whether all mortgage providers should collect and report this new data.

The Board also speaks specific comment on whether HMDA data requirements should be extended to mortgage brokers. I recognize the value of potentially pinpointing disparate treatment amongst left third-party mortgage brokers or even individual loan originators. A far more effective solution would be to move in the direction of the proposed financial reform bill and require all mortgage lenders to include the Nationwide Mortgage Licensing System, or NMLS, assign unique identifier of any mortgage broker, licensed non-bank loan originator, or registered loan originator associated with all HMDA reportable loans.

The tremendous opportunity here is for the board to build off the success in foresight of the states in designing the NMLS to protect consumers against harmful business practices. By registering every loan originator with a unique identifier and requiring that that identifier be incorporated with loan origination documents and HMDA reporting, the ability to associate the loan documents and business practices with a company and individual that negotiate the transaction will be greatly improved. Moreover, by requiring this information to be included by mortgage lenders rather than mortgage brokers, it reinforces the core principle that any mortgage lender remains ultimately responsibility for the third parties that they do business with.
I thank you for the opportunity to testify and look forward to your questions.

Sandra Braunstein:
Mr. Dillman.

Jeffery Dillman:
Good morning, my name is Jeffery Dillman. I'm the executive director of the Housing Research and Advocacy Center 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 implementing the Home Mortgage Disclosure Act.

There's been some discussion this morning about the importance, the purpose of HMDA. And, I would like to emphasize, in particular, the vital nature of HMDA in allowing citizens and allowing researchers, and allowing local community-based groups such as Fair Housing Organizations and Community Development Corporations to conduct research into the lending practices that are going on within their communities. As director of a Fair Housing Group located in Cleveland Ohio, our organization has been very involved in examining the HMDA data within the state of Ohio and within the Cleveland neighborhood. And, given the recent history of what I would call lack of supervision by federal and state regulators of many lending institutions, this use of HMDA data by community-based organizations, by independent researchers, and by citizens is at least as important, if not more so, than the use of the data by the regulatory agencies.

There are three main areas that I'd like to mention in my opening statement with regard to possible revisions to HMDA data. First, I'd like to address the issue of the inclusion of additional variables. Our organization conducts HMDA analysis examining race and national origin of borrowers as well as comparing that to the income of the borrowers. And, we have found significant disparities in the Cleveland Metropolitan area as well as throughout the state of Ohio in terms of the lending that's going on. When we present this data showing, for example, that upper-income African Americans are denied more loans than low-income whites or wind up with more high-cost loans than low-income whites, the response of the lending institutions is that there is other legitimate risk factors that account for these disparities. By including loan-to-value ratios, debt-to-income ratios, and credit scores, this would allow our organization, as well as the public at large, to have confidence in these assertions by, on the behalf of the lenders. The last five to ten years has shown that industry must be adequately supervised by government as well as by the public at large. The fact that prime borrowers are often winding up in subprime loans show that the origination and underwriting process has serious flaws and that we cannot rely solely on the trust of the lenders when they assert that there are legitimate risk factors for the decisions being made on lending. While I realize that there are some privacy issues with regard to some of these factors, there are, there should be ways that this can be addressed to still allow the data to be released and give the public confidence in the actions of lenders.

An additional important variable to add is the loan channel that the loan is originated through. The diffusion of responsibility in the lending industry has been a major contributing factor to the mortgage crisis. The fact that no one person is responsible, whether it's a broker, an originator, a servicer, or the many players in the secondary mortgage market and securitization process, has allowed the diffusion of responsibility, and by allowing the, by including loan channel in this data, it will allow local groups to be able to provide additional analysis and determine where problems are occurring in their local communities.

A second area, I believe, needs to be addressed, is the ability of HMDA data to easily show the relationship between lenders. Currently, lenders can obscure their lending, in the Cleveland area, First Franklin, which was at one time, a subsidiary of National City Bank, was a HMDA reporting lender for the years 2000 to 2003. However, in 2004, they stopped reporting loans as First Franklin, although they were still a major originating lender in the region and, in fact, throughout the country were a major subprime lender. It took quite a lot of effort by local activists to determine that these loans were now being reported by National City Bank of Indiana, and that, National City Bank, by changing the reporting of these loans, made it much more difficult for local community groups to determine what was going on in their communities and to develop effective strategies to deal with the foreclosure crises.

The third major area that, I think, that needs to be addressed is the accessibility and the release of the HMDA data. It is inexcusable that HMDA data is available right now on the FFIEC website in such a poor format. The fact that the data is only available in PDF format, that all variables cannot be searched, and that it is extremely difficult -- there's no excuse for that. The data needs to be available easily to, easy to use with all variables available on the website. Because, the situation that we're left with right now is that if you want to be able to use the data, you are left with either hiring someone on staff who has sophisticated statistical, you know, capabilities who can manipulate the raw data, the raw large data that can be obtained from the FFIAC or going to third-party purchasers which makes it very expensive for small organizations, such as ours, to be able to examine local trends.

Finally, I realize my time is up. But, one final point I would like to make is that HMDA data is now released by the FFIEC once a year. Some of that data is 18 months old from when the loan decision was made. This makes it extremely difficult to track current trends. And, the data should be released on a rolling basis quarterly or monthly so that community groups so that researchers and others can determine what's going on in a much quicker manner. Thank you.

Sandra Braunstein:
Mr. Elliott?

James Elliott:
Good morning. My name is Jim Elliott. And even though I'm a self-proclaimed pointy-headed academic for the last 15 years, for the 30 years prior to that, I was in private practice and spent 10 years of that as a board chair of a community bank and a board member of a mortgage wholesaler that did it as much as 5 billion dollars a year, so I've had some experience in the area. There are three quick points I want to make. Based on the time, I will get at least two in now and we'll sneak the third one in later.

The first one is just to reemphasize the fact that for your reporting requirements, loan-to-value is clearly going to be important. Primary importance is the debt-to-income level. You know, without that, you're not going to be capturing the information that is going to be, to my thinking, most used in determining whether or not there is in fact discrimination in the availability of lending -- totally opposite of what may have existed in 1975 when there was no credit available to something in the last three years where there has been excess credit available in some markets.

Second point deals with compensation incentives. And this is particularly true for non-portfolio originators. The difference between originating a loan that you're going to hold in your own portfolio, and your concerns of quality, and a loan that you are going to sell in the secondary market within 24 hours with no repo obligations is completely different. I think you would find that in the most part, compensation incentives that lead to an originator talking someone into a loan that they shouldn't get, either because they have inadequate income, are a loan that they are paying excessive rates of interest for is based on compensation. So you're going to need to come up with a mechanism by which you can capture that information.

Also, it's critical that you cover non-depository institutions. And I think the -- that Dodd Frank Bill contemplates that to begin with. As was mentioned in the earlier panel when 50 percent of loans are originated from non-depository institutions if you're not gaining that information, then you're simply not going to have sufficient data for you to make kinds of decisions, for community groups to make kinds of decisions they need. You're eliminating over half of the market. The last point is going to deal with disclosures, but that will probably take more than roughly 90 seconds left, so I'm going sneak that one in later.

Sandra Braunstein:
Okay Mr. Rust.

Adam Rust:
Hi, my name's Adam Rust, and I'm a Research Director at the Community Reinvestment Association in North Carolina. I really want to thank the CAC for having this panel because as someone who works with this data at least once or twice a week and some weeks all week, I can tell you that it's really important data, and it's not just important to me, it's important to all the kinds of groups that come to me for the data, from church groups to community groups to banks to foundations. It's a really important piece of data for answering, I think, two big categories of questions one of which is, is there fair and equitable access to capital and then what kind of quality -- how are the loans themselves, what's the quality of the loan once they're made.

I think HMDA was really well suited for a period of time when mortgage lending was really different, but now in the era of sub-prime lending everything has changed and we can't make some of the same assumptions. We can't assume that all loans are good and we can't assume that loans are fairly similar, so we need to have more data about quality. We need to have more data about the elements of the loans, particularly in an era of exotic lending.

The situation that I think we face right now is that we have data haves and data have-nots because you can acquire some of this data. It's available if you're willing to pay for it, which I think really speaks to privacy concerns. I think that what we're really dealing with is people want data to be private unless they can sell it and then it's different. The problem is is that most of the have-nots are exactly the kinds of people that the CRA is designed to protect.
I know that there's all kinds of problems with HMDA data now, and I'm not the only person that thinks that. I've brought letters I've received from all kinds of lenders telling me that HMDA data is not relevant and that there are all kinds of indicators they don't -- that they use in their underwriting that aren't there, that's income loan-to-value, credit score, it goes on and on and on. We need better data.

It's important to remember though that there are some good things about HMDA data. One of the things that I think is really valuable is that the data is described on the level of the loan. If you think how different our response is to small business data where it's aggregated compared to home mortgage lending data where it's on the loan level, and the amount of paper and research that comes out of HMDA and not out of CRA data you can see that the difference that it makes. I think we need loan level data, we need ease of use, we need to fit with the CRA and we need to have more underwriting information. I brought a laundry list of data points that I wanted to have but really I can tell we'll be able to get to that later.

An emerging trend that I want to mention is that I'm really concerned about what's called the loan level pricing adjustment factors, this is loans that are going to be delivered to the GSE's. They trigger all kinds of delivery fees that I'm pretty sure will be ultimately passed on to borrowers. And I think the impact on this is going to be significant, especially for low-income borrowers, minority borrowers, low-income communities. The groups that we're worried about with CRA, the trigger points, there are 13 of them and only 4 of them are in HMDA data right now. They aren't really the main ones usually that are going to come up they're just -- it's just not relevant, and we need to have this information because I think this is the next classic CRA issue.

So I just want to, you know, review what I think is really important. We need to have loan level data, we need to have ease for users to be able to make sense out of this information, we need to be able to assess the quality of lending, because we're in an era of sub-prime lending and complicated risk-based pricing and then, finally, we need to be able to think like lenders. We need to have the underwriting data, or the ability to make a judgment about underwriting, because ultimately we're trying to compare the access to capital and the quality of capital with people. It's all about comparisons. And so I would just hope that with the opportunity that we have with the CFPA to advance some of the data that the implementation includes those principles that we don't just put a loan to value indicator in there, but that we apply it in a way that it will be effective for users. Thanks.

Sandra Braunstein:
Susan.

Susan Wachter:
Good morning, I am Susan Wachter. I am a professor of real estate and finance at the Wharton School at the University of Pennsylvania. Thank you for the invitation to testify at today's hearings. It's my honor to be here to discuss the future of HMDA.
In my comments, I will address the principles behind the principles behind the need for publicly provided information under HMDA, particularly has provided as proposed in the Dodd-Frank Bill.

HMDA had its birth in the recognition of the need for better informed credit decisions in America Particularly in the face of the public policy challenge of urban disinvestment concentrated inner city poverty, mortgage discrimination redlining, HMDA helped achieve improved equity and efficiency outcomes. HMDA, by bringing to the table common information, enables bankers, together with other community decision makers, to consider community lending patterns as well as potential profitable lending opportunities. The strength of HMDA, initially, in going forward, is the accountability provided by the public provision of data on lending patterns by neighborhood and borrower characteristics.

A second public policy challenge has risen with the introduction of risk-based pricing in mortgage lending. Risk-based pricing can be used to price discriminate in the economic sense generating greater profits for individual lenders. It is possible and profitable for lenders to charge more in markets with population sectors who, for various reasons, might be willing to pay more for the same loan. Subprime lending initially expanded disproportionally in minority and immigrant neighborhoods. While these lending patterns are not evidence of discriminatory behavior in the legal sense, several studies, using HMDA data, point to questions such patterns raised.

The Dodd-Frank Bill, currently under consideration, allows for the collection of additional data elements under HMDA that would respond to the need for better information to determine whether lenders are providing the same price for the same loan after taking into consideration borrower risk. I am in favor of these provisions for all mortgage providers. Importantly, geographical concentrated subprime lending leads to volatility in the pricing homes and the availability of mortgage lending in disadvantaged neighborhoods. While excessive price volatility increases neighborhood foreclosure rates as is currently evident, I will focus the remainder of my time on the impact of such volatility on the broader economy and the relevance of the expansion of HMDA under the proposed, and the proposals in the Dodd-Frank Bill in response to the nation's recent financial crisis.

With the transformation of bankers from portfolio lenders to securitizers has come a distancing of loan origination from risk. Private label securitization has both restricted investor's ability to verify the quality of underlying mortgages and relieved the originators responsibility to underwrite loan quality. Importantly, in the legislation under discussion, there will be the option to construct a unique loan identifier for individual loans which will enable the monitoring of performance through mortgage repayment or if the loan fails to foreclosure.

The information that loans were failing at heightened rates, if made fully public in 2006 when this was first occurring, would not have prevented the crisis but would have prevented the deepening of the disaster due to the expansion of unsustainable lending in 2007 and even 2008.

This legislation has the potential to identify spikes in the failure of loans by cohort and by product type which, together with additional information, could help alert regulators, investors, and lenders to the heightened risk of system wide failure.

Inadequate response to the rising systemic risk is, in part, due to the difficulty of reapplying monitoring of the procyclical erosion of credit standards as well as to lack incentives to curtail unsustainable lending practices. Individual loan identifiers would allow for better accountability to overcome misaligned compensation incentives that arise when short term gains and fees drive the decision to make loans with little regard to tail risks and the potential for heightened long term losses. Risk management techniques to secure accountability more generally would be far more easily implemented with a cradle-to-grave loan-tracking system linking individual loans and their performance to their originators as potentially enabled by this legislation. Thank you.

Elizabeth Duke:
Thank you, and thanks to all of the panelists. I apologize that I missed the first several of the panelists, but I did actually have statements in advance so I've been able to read them. If I could start just with a few questions, the first one, since I've been at Federal Reserve I've worked with a lot of researchers and none of them have ever seen a data element that they didn't like.

[laughter]

So, my question to you would be is there any data either currently collected or proposed that you think might be of less importance and that could be eliminated?

Stella Adams:
Well, as I have discovered today, I am probably the only person on the planet who actually uses the pre-approval data set.

[laughter]

And I use it in a limited fashion. I use it as a scoping tool. It helps me decide where I'm going to look. It's part of the examination of the data that I used to then say, wow, here are all these preapprovals, but they don't have, but they were not accepted. So, then that triggers to me, why?

Does that mean that the terms and conditions of those loans were onerous, and therefore the person didn't want them and found a better product? And so that is not in information right now.

It will be when we add loan-to-value DTI and the other elements, but it's not there now. And, so now what I use it to do is scope out, I need to test that lender to see what the terms are. Or, I need to examine if I'm involved in an actual complaint against that lender, then that’s a set of questions that I want to ask in the investigation, I want to get at why are those things there. And, again, I use HMDA in my fair lending investigations as a scoping tool, because it doesn't tell me all the things that I need it to tell me. But, it does lead me in the right path. It is a guide star. And, so even the pre-approval is important, at least, to me.

Governor Duke:
OK, that's one vote for pre-approval.

[laughter]

Steven Antonakas:
Well, Governor Duke, there's a great deal of information required already, which I think is very relevant. There's some new data fields that have been suggest that would be very relevant as well, specifically credit score and the ratios that have been discussed. I do think there is a danger in making it so great a data set that it becomes noise at a certain point. I think that is a possibility if we get introductory rate duration, or prepayment penalty, negative amortization features, and so forth. What use are providing at the end of the day? It's very important to have the mortgage market be transparent, to provide this data to consumer groups and others to be able to ask thoughtful questions, but at the end of the day our final determination of disparate treatment is not possible, unless you were looking at the actual loan application files and taking into account everything else beyond issues that are even contemplated by the Dodd-Frank Bill.

Jeffery Dillman:
As Stella sort of eluded, we don't do any work with the pre-approval aspects of HMDA, although I would hate to say anything that would make it hard for her to continue doing that work, but most of the other data elements we look at, at some level in our research.

Adam Rust:
OK, so I would add that I have never used the pre-app data, I suppose in six years. And, I've never had anyone ask me, or say, we've got some amazing pre-app data.

[laughter]

It doesn't happen. At the end of the column, the last column, I think is number one to four family units, and again, I've never used that. It's a little bit curious to me whenever I see the race data.

There's an indicator for the borrower, and then if there's a partner, there's another indicator, but then there are four more categories, as if, so I think that's there, but it's never filled out. And, I don't quite see why it's there. It's a little just, it's just too much noise. Then I think there are some variables where we get it in a very continuous form, but we don't use it that way. We transform it to nominal data right away. The rates spread indicator, sure, there's some loans where it's at 14% rate spread, and we notice that. But most of them it's just we say, is it high cost or not? And, that information, in a way, isn't that useful because we don't really know the base. The base changes every month. We just don't know, so we can't really make too much out of it. We do a lot of work with that data, but we don't need it that exact.

Susan Wachter:
I don't think it's feasible to collect property identifiers. I don't think it's necessary either.

Governor Duke:
OK. Second question, we've been through a lot of turmoil in the mortgage market in recent years. And so my question, I guess, goes to how have your uses of the HMDA data changed based on what we've been through recently versus what you might have used it for in the past? And, how much of your thoughts about how you might use it in the future are sort of formed by the recent uses of HMDA data versus what you might have done in the past?

Jeffery Dillman:
I guess, I can start. Our organization has done a lot of HMDA research in the last five years or so, so this is sort of in the period when there's a lot of turmoil. Prior to that it was much more sporadic. The greatest difficulty I have in using it is that it's historic, is that it's been nine and eighteen months old. And, so when we're working with community groups who are doing, you know, organizing around a particular lender, or in a particular community and they want to know, what's going on right now? I can tell them what went on two years ago in that community, but I can't tell them what's going on right now. And, I think that, for me, is really key. In thinking about today's hearing, you know, that became a much larger point as I thought more and more about it, because the uses of it in that way, it's very wonderful historically to see what happened in a particular community, or by a particular lender, but being able to transform that and to be able to have, you know, some reactive and dynamic capabilities, it really needs to be available in a much, much more timely manner. And, really having it on a rolling basis, whether it's quarterly, or ideally monthly, would be much better. And, I don't know how much more work that is for the reporters, and they're all probably going to be shaking their heads saying that I don't know what I'm talking about. But, if the work is mostly saved into a certain time period of the year versus if it's spread out I don't know if there's going to be a huge difference in overall work. And, to have that availability, both for the regulatory agencies as well as for the public and advocacy groups, I think is crucial.

Governor Duke:
I guess that's the corollary to liking more and more data, you want it faster and faster as well. I think the issue there is really scrubbing and editing, and the validity of the data more so than the time it takes to collect. Other thoughts on this?

Stella Adams:
I would disagree, because one of the points I was not able to make earlier is that most of this data is publicly available to investors on monthly or quarterly basis packaged in the mortgage-backed security. They collect the data. They put the prospectus out on the internet. They tell you all of the data sets that we've asked for are provided. All of the information that is HMDA-reportable currently along with the loan level stuff that we're requesting is packaged and put in the perspective by loan number. And Fannie Mae and Freddie Mac, when they purchase it they do a monthly summary, and they do a quarterly summary. So, this information apparently is being given to the SEC in a timely manner that can then be done. And, so there should be no additional costs associated with reporting that data on a quarterly basis through HMDA. We have two regulatory agencies both collecting, they're collecting the data for both. Unless you're keeping it on your books, if you sell it to the secondary market you're collecting that data. And, so merging those two data sets into one that's publicly available in a searchable manner would save me a lot of time, because I do pull both sets. And, I've got to know what the mortgage-backed security was in order to do my comparisons. And so, by providing it, but it's not an undoable task.

Governor Duke:
Well, and I think there are some provisions in this legislation about data to be provided on an ongoing basis on loans that have been securitized. And, so certainly the ability to merge the data and utilize both would be certainly a positive outcome. Yes? I thought you, yeah --

Adam Rust:
I've seen the data that Stella is talking about, and I was shocked. I would have loved to have known about that. But it's true, every single lender, every single loan, it's all there. I think the problem right now is that the lightning struck in September 2008, and we still can't analyze that because we don't know for 2008 data when it's before and after the point in time when that occurred. So, even trying to do a study in 2010 we really can't answer that question. And, that's really frustrating. I think during the crisis, or during the turmoil, the problem was that you couldn't make much of an apples and oranges comparison to a good bank versus a really awful mortgage company. Because they both came out with, the awful mortgage company was making all these adjustable rate loans, they all came out as low-rate spread, which we use as a proxy for prime.

Steven Antonakas:
Governor, the biggest change for us has been since our state law changed and expanded our CRA stature to cover non-bank mortgage companies. And, since then we've been actively examining for compliance with HMDA for the non-bank mortgage lenders. And what I can tell you is that the data submitted is garbage. It's riddled with errors. So, any universal analysis that's being done is frankly questionable. And, I strongly caution against extending HMDA report requirements to mortgage brokers, because it's going to be worse, absent the federal infrastructure to be regularly reviewing the accuracy of that data.

The other way to get at the issue, and it's an important issue, and I don't want to get away from the importance of tracking loan performance on an individual originary basis, that is a completely valid point and something that should be pursued, the way of getting at that is requiring the lender, be it a bank or a non-bank mortgage lender, if they outsourced their origination channels the third party brokers and originators, is to track the identifying number of that broker and/or originator in their data submission. That's a far more, far more valid means of assuming that you're going to get that information than requiring a broker to fill it out and so forth. And, you know, something that has been lost in this crisis, again, as a regulator that oversees both banks, credit unions, as well as non-bank mortgage companies and non-bank brokers, there were bad practices that existed everywhere, for sure, and we have third of the brokers that we had three years ago because of the number of enforcement actions that we have taken and because of changes in the market, however our primary tenet of bank supervision is that the bank is responsible for the third-party that it does business with. And they weren't, the brokers were not underwriting the loans. They were pushing this crap, no doubt about it. But, someone else was making the underwriting decision at the end of the day, and a lot of the largest banks in this country have either failed or now dominate the market share, are as deep in this as any non-bank lender that went down as well.

Governor Duke:
Going back to the question I asked the first panel. Talk a little bit about the trade-off of privacy and data availability, and particularly the granularity, and the searchability of these databases. I can see the potential for, depending on how regularly the information gets house-searchable, that not only could you identify individuals through this data, but it could also become like census data and actually used as a marketing tool for lenders to target their marketing. Thoughts on that?

Stella Adams:
It's already available as a marketing tool. I buy it all the time, whenever I can find a funder who will slip me the money where I can get the name of the borrower, the address, the loan, all of the loan terms in a range. Not the exact credit score, but if I say I want loans above 680, I can get names, addresses, phone numbers, date of mortgage, amount of mortgage, when the first loan was originated and all the data sets. I can buy it, and it's not expensive. It is for a community group, but if you can find a sugar-daddy you can get that data.

[laughter]

And, it's available as a marketing tool, and banks use it all the time.

Governor Duke:
OK, so it does, so presumably at this point then you could append to that debt-to-income and credit score. Would that disturb any of you to have that information out there and available?

Stella Adams:
I mean it's out there, and available for a price. And, what I'm saying it's publicly available data already. You have to put it together to get it. And so the privacy issue, to me, is not a realistic bugaboo, because I can buy it, and I can do marketing. I mean some of the ways I've identified

borrowers, I've said, I bought the data set. I sent them a card. If you think you've got a predatory loan call me back. I marketed the same way the predators did, and that's how I gathered a lot of my data.

Governor Duke:
Anybody else?

Susan Wachter:
There are privacy issues. They are real concerns. That's part of the reason why I think it is not desirable at this point to go ahead with property identifiers. Secondly, I do think there needs to be masking of data that's done by other agencies. I think we can, those practices can be adopted here.

Jeffery Dillman:
I guess, also, I mean there's a number of ways, and I don't know most of them probably, to try to deal with the privacy concerns. I mean the couple of ideas that might be considered are, one, is when you get down to a certain level of geography is to limit the data fields that are available so that the fields would be available on a large geography where you could not identify an individual property, for example. But, then when you get down to a census track, or something like that, or if there's only, you know, one house in the census track that's reporting, at that point credit score may not be available. The other idea is that I know some census data is available, some of the micro-data is available, only under certain restrictions. So, you have to submit a, you know, researchers would have to submit a proposal, for example, and sign a non-disclosure, an agreement not to disclose individual level data. And, possibly data could be made available to researchers who would sign non-disclosure agreements, so that the overall conclusions could be revealed, but not individual data about credit scores of a particular property, or in a particular geography that's too identifying.

Adam Rust:
I just think, as someone who would like to use the credit score data, I will acknowledge that I don't need to know if it's 734 or 681. What I need to know is a band, because that's the way that banks work. If you have a 721 you might get the loan. If you've got a 719 you won't. That's the way they think, and that's the way this LLPA is formulated, and it will have that same function. I think that credit scores change all the time. So, it's kind of a false indicator to say you know the exact credit score. So, to me, it would be fine if it was in a band. I know Vantage score is a band that works that way. So, yeah, I think the privacy part there can be, we can find a middle ground. The same with loan-to-value. I mean, we could have trigger when it went a high loan-to-value indicator and we would be able to make excellent use out of that, as long as it's on a loan level.

Governor Duke:
That leads me to my last question, which I was interested, Susan, in your questions about the quality of the loans, the terms of the loans. If we had had this data as we went into the '70s and '80s, '70s and '80s, oh. If we had had it in the 2008, 2007, that area, we might have been horrified at the terms generally, regardless of whether they indicated discriminatory pricing, but just the terms that were out there. Would you advocate that we use that to really look at practices to ban altogether regardless of who they're being marketed to?

Susan Wachter:
That's a separate issue. Certainly I see three challenges. The first challenge, historically, of coming together, looking for possible opportunities for community banking, which I think we've moved considerably. The second challenge of risk-based pricing and economic discrimination, potentially, also legal discrimination, is an ongoing issue. The third challenge, obviously, has threatened the nation. And, that challenge I do think we need to address with timely provision of data through HMDA, the loan quality of the nation's mortgage fluid portfolio. I think it's possible and I think it's necessary. Thank you.

Governor Duke:
Sandy?

Sandra Braunstein:
OK. I'd like to, since you all are users of data, I'd like to talk a little bit about some of the new data elements that will likely be required in the new, in the legislation. And, you know, some of these are going to be, it's past, it's probably maybe later today, next week, or going to be past the point of whether or not they're included. They're going to be mandated by the legislation. So, what's kind of left to us to sort out at that point will be how they'll be reported and how they can be reported in a way that will make them most useful to people. So, one of the big ones we've already had some discussion of is credit scores. You know, there's a lot of different scoring systems. We had a little discussion of this on the first panel. But, I'd be interested to hear from your perspectives, as users of the data, considering that there are so many different kinds of scoring systems, do you have some advice for us on the best ways to collect that data that would ultimately be useful as information for you when there's so many different systems and different kinds of scores used?

Adam Rust:
Well, you know, I would hesitate to say we should do a percentile, some kind of cumulative figure. I think I've heard that that might be out there. The problem with that is that it's always changing. It's not, is it an 85th percentile credit score. It's is it 720? Or, is it whatever the particular lender is using. That's a complicated question. I've heard that the Boston Fed Study had its ability to sort of generate an independent regulatory means of developing some sense of credit, and maybe there's some inspiration in that.

Sandra Braunstein:
Others? Stella?

Stella Adams:
I would like to see the information gathered in bands that are relevant to the market, as opposed to is 85% of people have this credit score, or this credit score. But, rather that is banded to things that matter, like, and so that would be the secondary market LLPA trigger for me. You know, what makes it, where is it that you get the best price? What is that price by credit score? Now, even though lenders are using different models, they're all selling the Fannie and Freddie, and so it's being priced at those triggers. And, so what we want to look at is those, maybe, those kind of, but it's some kind of, of, index that you can tag, either the loan-level pricing, which is data. Or, if

there's a cutoff for, whatever is being used for a cutoff at the market, at the secondary market level on access to capital, or the cost of capital. That that's where you tag the credit score to.

Because what I want to know is if I have that A++ credit score, that one that is supposed to get me the best price, but I ended up paying twice that, I want to be able to see that transparently. And that's what is important to me in doing fair-lending investigations. It is on an equal basis, as a qualified applicant, did I get what I qualified for? Or, did I pay more for it? Even if it was just a point more. Did I pay more for it. And so that's where I'm looking to see the race.

Sandra Braunstein:
And are you looking within the institution itself, or across institutions?

Stella Adams:
That's why I'm saying pick a market out here, pick the Fannie trigger, or the Freddie trigger, or the FHA. Pick a trigger, and then you can look at everybody based on that. You can index it to that.

A. James Elliott:
I agree that the use of credit scores may be a bit helpful, but unless you've got the comparison of the pricing data that goes along with it, I don't know that you've learned a lot. As just as was pointed out, unless I know that someone who had a high credit score, or a low credit score was in a premium pricing loan, then I really don't know whether there was discrimination.

Sandra Braunstein:
And, so, anybody else on credit scores? No? OK. So, along those following up on that, for pricing data, is that something that should be collected across all loans, not just the high-cost loans?

Stella Adams:
Absolutely.

Jeffery Dillman:
Definitely. I mean to make an analogy under HOEPA, I am an attorney and used to litigate predatory lending cases. And, we started at certain point in time seeing a lot of loans that came two cents below the HOEPA trigger. They didn't want to trigger it. And, I think it terms of the pricing data you could see a similar type of thing, where it's just below a trigger. And, so you really need to have that, because the fact that a loan is, you know, a hundred points, whatever, below the trigger, I mean there still could be discrimination going on that's just not being caught because of where that's at.

Adam Rust:
I think we need to come up with a better way, if we're going to have a rate spread indicator for adjustable rate loans, that we need to get rid of the interest rate risk difference and have fixedrate loans, and, well, the adjustable is all different by the term. I think those TIPS bonds would be an excellent way to compare it. You know, TIPS are in one, three, five, seven-year terms. And, if there was a threshold indicator on an adjustable-rate loan that was in relation to that we'd

know more clearly what's going on with adjustable-rate loans. And, Mr. Greer was saying that his bank makes good ARMs. And, so I sort of think that would be valuable for banks that do make good ARMs, if we could have a means of saying when it resets in the 7th year, then it's going to be higher than the seven year TIPS, then it's a high-cost loan. We'd have a way to really understand it better.

Sandra Braunstein:
OK, anybody else on that? One other question, data point, I want to ask about, is this universal loan identification number that's been discussed and is in the legislation. Do people have thoughts on that? On how, what is the best way to come up with that, to assign it, you know, how to track that kind of thing when you're talking about lots of lenders making loans all over the country? Do you have any ideas for us on what would be the best way to do that?

Stella Adams:
I'll give it a try, because I think that, for me, it would be valuable to be able to track a loan when it is sold. It will have value when the loan is sold from servicer to servicer to servicer. It will make my life a lot easier to be able to track with a universal number. So, the way you can do it is similar to the way the census identifies counties with a certain code. So, each lender would have their own little lender code on the front, and then you would have maybe another identifier, like, channel code. And, then you could have a product code, and then you start 0001. So, that could have, like, a unique identifier for that lender, and then the 0001, and then that way you would have a universal system. You could do it in a way that you could actually track the loans. I know you don't like that, Steven. But, that's a way it can be done.

Sandra Braunstein:
Steve?

Steven Antonakes:
No, I don't dislike that at all. I think, what I was getting to before was the unique identifier for the third parties involved in the transaction. But, a unique identifier for a loan is equally important as well if you're going to actually track the performance of that loan, and link it back to the terms in which it was offered. And, that is something that we have lost throughout this process. And, you know, while I won't turn this into a CRA hearing, that's the subject for our hearing for another date.

Sandra Braunstein:
That's for Monday.

[laughter]

Steven Antonakes:
What was lost, you know, the banks that originated unsustainable loans still got high grade CRA ratings, and that's inexcusable. That's a misapplication. That's not CRA causing the crisis. That's a misapplication of the Community Reinvestment Act. And, the banks that knowingly, whether knowingly or not, made loans that were not sustainable, should have been substantial noncompliance, and the need to improve ratings. And if you can use the unique identifier, again,

as a means of taking one data set performance, loan performance ultimately, and migrating it to HMDA, would be a tremendous resource for all of us.

Sandra Braunstein:
Others? Any thoughts on that? OK. Leonard, do you want to --

Leonard Chanin:
Sure. I'm going to follow up Mr. Dillman, a question for you. You had raised three points in terms of the use of the data. One is adding new data. Second, is the accessibility or the access to the data. Well, that was actually the third. I just want to some clarification on your second point, to make sure I understood it. You said there's, I think, a need for data in order to compare lenders, and gave the example of one lender reporting, and then wasn't sure if the lender went out of business, and then another lender reported data for that. Could you just give me a little clarification?

Jeffery Dillman:
Sure, sure. Mr. Leonard, it actually wasn't, the lender didn't go out of business, they just started reporting it under a different name, so it was very hard to track what was going on. And, it took us, you know, quite a while to figure out where those loans were being reported locally, and I think throughout the country as well. We were only looking at it in Ohio. The point, though, that

I think I would like to make sort of a little bit more broadly is that it should be -- the HMDA data should make it easy to aggregate and disaggregate the loans by a given lender, with subsidiaries, or parents. So, that if, for example in that case, if National City Bank was the parent and they had a subsidiary National City Bank of Indiana, which had a subsidiary, First Franklin, it should be easy to be able to select all of the National City institutions together, or to take out their particular ones. Because lenders right now can, in a since say, we don't make sub-prime loans. You know, National City, you know, I don't want to pick on just them, although they rightly deserve to be picked on for a lot of their practices. But, a given lender, let's say, could say that they don't make any sub-prime loans and their subsidiary is making all of them. And, it should be easy for end users to be able to figure that out, to be able to, you know, in an ideal world, click a button on the FFIC website to list all subsidiaries and parents, and just click on the ones you want, you know, aggregate. And, so to be able to aggregate or disaggregate that data, I think would be a big help for a lot of users.

Leonard Chanin:
OK, that's helpful. Thank you. I want to go back a little bit to the data elements, current data elements and ask about the value of some of existing elements. So, we'll leave aside what's now going to be become the new Stella Adam's rule on pre-approvals.

[laughter]

And, talk about a couple of other items. One is home improvement loans, unsecured home improvement loans, and whether you all use that category. If so, kind of how much and what way in the like. So, we can just go through the panelists.

Stella Adams:
I do not use the unsecured home improvement loan category for, for work on, for fair-lending purposes related to mortgages, because it's unsecured.

Leonard Chanin:
OK.

Steven Antonakes:
From a regulatory point of view, we'll probably not focus on that field as much, unless that was preponderance of the business.

Jeffery Dillman:
Yeah, we actually didn't do any research on unsecured home improvement, but I think one point that I do want to make with regard to that is that one thing that we saw in Cleveland, which I assume has happened around the country as well, is the change in the types of loans that were being originated. And, so home improvement loans in general became a very small part of the market, where most lenders and particularly brokers were encouraging people to refinance, do a complete refinancing. So, secondary liens were becoming much less common. And, so I think now the situation is changing, and we're seeing more home improvement loans. And, so I think you want to take into account that as the market changes, you want to have the data to be able to track what's going on. And the market will obviously always change a lot quicker than the reporting. And, so I think that before, you know, something is gotten rid of, to sort of take a look at one of the local, recent trends in regard to that.

Leonard Chanin:
OK, thank you.

Adam Rust:
Right. I don't use it for much. But, his purpose makes a lot of sense to me.

Leonard Chanin:
OK. And, also to the extent a lender reports home equity lines today, do you use that data, would you be more likely to use it in the future if it included the entire amount of the line, was mandatory reporting in the line?

Stella Adams:
Yes, I think it will be much more valuable if it includes the entire amount of the line, because it will show us, it will give a clear indication of when the home equity line of credit is really not a line of credit, but has been maxed out on the front end, but called a HELOC. It will show that, or it will show jumps. And, so I think how much room is really left on that, and I think that's an important, that will be an important field. And, I think it should be reported for all loans.

Leonard Chanin:
OK, other folks?

Jeffery Dillman:

We haven't used that much. I'm not sure in the future whether we will be or not. It will probably depend on sort of what trends we're seeing in the lending.

Leonard Chanin:
OK. And, then finally in terms of data, one of the suggested new data points has been use of age, or reporting of age. Can you tell me if that's reported how you'd use it? Discrimination analysis, other analysis? Just if you have a sense of the usage of that.

Stella Adams:
Age, I think, is going to be a critical piece of new data that we have. There's, for me, I'm already preparing to use it, along with the loan to value piece that I hope will also be included. Because there's a new loan product out there that is going to skirt a lot of the safety nets. It's a securities-based loan that's going to start at $200,000 worth of assets, which can be mutual funds, stocks, bonds. It's going to allow folks to raid their retirements to purchase homes, and maybe get low equity, then they'll have low loan-to-value ratios. That they'll then strip out the reverse mortgage, and then they'll be homeless, old, and broke. And that, I think someone on an earlier panel said that the fraud follows the money. The last reservoir of money for people who are 62 and older is that retirement fund that you couldn't get at any other way. They have figured out a way to do it. So, for me, age is critically important. Loan-to-value is going to be critical important, because then we can watch the reverse mortgage. Remember, sub-prime was never more than 20% of the market. Most people think that reserve mortgages are still really safe, FHA. But 10% of that market is private now. And, when sub-prime died, the number of lenders who went, the number of lenders who did reverse mortgage tripled the day sub-prime died. They went from sub-prime to reserve mortgage. That's why we're terrified. And, with this new product being advertised as the new no-doc to realtors, we have to have those indicators.

Leonard Chanin:
OK.

Steven Antonakes:
I agree with Stella. Age is a metric that we don't have. We can't really determine disparate treatment there, or discriminatory practices. And, reserve mortgages are continuing to grow in popularity. They're being marketing in some quarters incredibly aggressively. It is a complex product, inherently. And, the pricing varies substantially, with some cases exorbitant upfront fees. It is an area that I think we should all be concerned about, and more data would be helpful.

Leonard Chanin:
OK. Other views?

Jeffery Dillman
I'd agree. I don't have anything further to add.

Leonard Chanin:
OK.

Elizabeth Duke:

Thank you. Thanks to the entire panel for your comments. They are very helpful to us, and we appreciate you spending the time and putting your thought into it. Let me at this point turn to the open mic sign-up section. So we will excuse this panel.

Do you want to come back up?

Elisabeth Risch: No, I'm fine back here. Thank you.
Elizabeth Duke:
We have actually one person signed up for the open mike, Elisabeth Risch. Did I pronounce that properly?

Elisabeth Risch.
Yes. My name is Elisabeth Risch and I work at the Metropolitan St. Louis Equal Housing Opportunity Council with Mr. Jordan. I also do a lot of work with our CRA coalition, the St. Louis Equal Housing and Community Reinvestment Alliance.

I thank the Federal Reserve Board and all panelists for their thoughts and ideas today. It was very helpful to get a better picture of how I can use the HMDA data even more as we kind of continue to learn all the data elements and recommendations for the future. My question is, if the Board is looking to expand loan data for small business lending and consumer loans, in our experience we examine the bank's mortgage lending. They say that this isn't a complete picture, you are not getting our full portfolio, it is just kind of a tiny glimpse of what we do. We say, this is the only loan level data that we have. So I would encourage the Board to expand small business and consumer loan data to a similarly type HMDA-like data format that would be just be a lot more helpful for finding discrimination variables and a better picture of lending to low and moderate-income communities. Thank you.

Elizabeth Duke:
Thank you.

Sandra Braunstein:
Elisabeth, you might be interested to know that the pending legislation right now includes a new database that would be for small business loans and, I would assume, end up being something similar to HMDA data.

Elisabeth Risch:
Right, and that's very encouraging. Thank you.

Elizabeth Duke:
Anybody else who for some reason didn't get a chance to sign up and wanted to speak? Hearing no one, thank you very much, everyone, for being here, for your interest in HMDA, for your input to us. We are adjourned.

[Applause.]