Home Mortgage Disclosure Act Public Hearings, September 16, 2010

Daniel Sullivan:
Thank you, everybody.

Good morning everyone. I'm Dan Sullivan, research director here at the Federal Reserve Bank of Chicago. I look forward to hearing the comments on the possible changes to the Home Mortgage Disclosure Act. I know some of you were here just over a month ago when we held the hearings on CRA. Today's meetings are especially important because it offers us an opportunity to reflect on recent turmoil in the mortgage market and to consider what it means for HMDA.

Public involvement is an important part of the rule-making process, and this public hearing gives us an opportunity to hear a broad range of views. Even if you do not have a chance to share your views on today's program, I encourage you to submit your comments in writing, and rest assured that your ideas will be taken into consideration, will assist us in craft HMDA data, and will help us achieve our goal of making the mortgage markets more fair, open and efficient. We have several panelists here today to participate and share their perspectives. First we have Elizabeth Duke, a member of the Board of Governors of the Federal Reserve System. To Gov. Duke's left is Sandy Braunstein, director of the Federal Reserve Board's division of consumer and community affairs, and to Sandy's left is Leonard Chanin, deputy director of the Federal Reserve Board's division of consumer and community affairs.

I'd also like to give a special welcome to Saurabh Narain, who is chief fund advisor for the National Community Investment Fund. In addition, later we will have Kathleen Engel joining us, who is a professor at Suffolk University law school. Both Kathleen and Saurabh serve on the board's consumer advisory council.

Now I would actually like to turn things over to Alicia Williams, who has a few logistical things to help guide today's program.

Alicia Williams:
Good morning everyone. As Dan mentioned, my name is Alicia. I'm just going to give you a few logistical things. First and foremost, the restrooms are down the hall, so if you go down the bridge, you'll make a left, and if you go down this first hall, you're going to make a right. So they should be just there. Also, if you have cell phones, if you could put them on mute or silent ring so that they don't interrupt the meeting. Also to talk about how we're set up for time keeping. And this is really specifically for the panelists who are to my right, and the panel that follows, I'll also give you that warning again. Maggie Anderson is here, she's our Vanna for the day. You have five minutes each, and she has a little device – you see the little colors there? When you start, the device will be green. When you have two minutes left, the light will turn yellow, and she'll also hold up a card just in case that yellow light doesn't show up for you. When time runs out, it will turn red – I think it also beeps – and she'll show you the time sign. And no, you cannot buy more time for a $100. But I don't know, maybe.

[Laughter]

Now I'm going to turn it over to Gov. Duke, who will carry forth with the meeting.

Elizabeth Duke:
Thank you. Good morning, on behalf of the Board of Governors of the Federal Reserve System, I'd like to welcome everyone to the third in a series of four public hearings, held to consider changes to the Home Mortgage Disclosure Act, otherwise known as HMDA. I also like to express my appreciation to Dan Sullivan, to Charlie Evanson to Alicia and all our colleagues here, Federal Reserve Bank of Chicago for hosting us today. The information from these hearings will help us to assess the adequacy of current mortgage data, examine the need for additional data and explore possible changes to Regulation C, which implements HMDA. Should also point out that shortly after the board's hearings got under way, the Dodd-Frank Regulatory Reform Act was signed into the law. The act provides for some changes to the HMDA data collection and submission. We look forward to comments about implementation of these changes as well as others that our panelists and member of the public might recommend based on their experience. In addition, the new legislation will transfer authority for HMDA rule-making from the board of governors to the new Consumer Financial Protection Bureau. All information gleamed from these hearings will inform our own work for the time that we continue to have rule writing authority and then when that authority transfers to the CFPB, be assured that we will hand over the most current thinking about changes to Regulation C.

Over the course of these hearings, first in Atlanta and San Francisco and today here in Chicago, we've been hearing from key players in the Home Mortgage Market. Lenders and other market participants, academics and researchers, consumer advocacy and community development organizations, data experts, regulators, and other public officials. Although they play different roles, we believe all share a common goal: ensuring that the mortgage market is one that 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 do help us understand what's happening in the market. And while HMDA data cannot solve all market problems, the time is certainly right for reviewing and revising the data elements, standards and reporting formats. HMDA has three purposes, one is to provide the public and government officials with data that will help show whether lenders are serving the housing needs of the neighborhoods and communities in which they're 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 antidiscrimination laws such as the Equal Credit Opportunity Act. Today's hearing is intended to serve as a venue to discuss whether or not the 2002 revisions to Regulation C, provided useful and accurate information about the mortgage market, to gather information that will help assess the need for additional data elements or improvements and to identify emerging issues in the mortgage market that may require additional research. As I said earlier, we're also interested in any comments on the implementation of the HMDA elements of the new Regulatory Reform Legislation. We've gathered this morning an impressive array of panelists representing a broad spectrum of vantage points. We look forward to their comments. This input, together with comments made in the other hearings and written comments submitted by the public, will be carefully weighed as we consider changes to regulation C. And so I think with that it's time to get started. The first panel is indeed, does indeed represent a broad spectrum of expertise. We have Janis Bowdler, who is Deputy Director of the Wealth Building Policy Project at the National Council of La Raza. Calvin Bradford, member of the Board of Director's of National People's Action. Janine Catalano, Special Advisor, Promontory Financial Group, LLC. Dan Imhoff, Vice President and Residential Lending Manager, State Bank of Cross Plains. Greg Ohlendorf, President and CEO, First Community Bank and Trust and Jeff Smith, Senior Vice President, Woodstock Institute. And with that, Janis, we'll let you get started.

Janis Bowdler:
Great, thank you for letting me kick us off. So as you mentioned, my name is Janice Bowdler. I'm the Deputy Director of the Wealth Building Policy Project at National Council of La Raza. NCLR is the nation's largest Hispanic civil rights organization, and my project helps families, low income Latino families, obtain assets, hopefully assets that they can share with their children. And that is a much more complicated question these days then it was maybe five or 10 years ago. And I want to start just by thanking you for holding these hearings and really not wasting any time. As you mentioned, much of this will get transferred to CFPD, but these questions we need to start grappling with now and I really commend you for that. It might be the understatement of the morning to say that the mortgage market has changed dramatically since HMDA has passed, and so revisiting how implementation of HMDA needs to be updated to meet those public goals is critical. I also think it's important to think of how far we've come. I mean, HMDA is this data collection tool that is often referred to as burdensome, and yet there's a clear public demand for this data. Advocates, scholars use it to compare lending across their peers, but more and more I see lenders using their own HMDA data to promote their own performance so it's gathered this wide acceptance across industry and different segments of our society.

Yet despite the solid foundation that HMDA has for us, it still hasn't allowed us to get to, in my view, one of the most important of the three goals and that's detecting discrimination. And what we often hear from lenders is that there's not enough information in HMDA to really solve for the complicated decision-making process that goes on in mortgage origination. Now hopefully some of the additional data that will be collected as part of Dodd-Frank, will really help us get to the bottom of that, and I look forward to talking about that. So what I want to do this morning to get us started is just briefly consider what about HMDA really works, make some recommendations for some other things that I think you can do with HMDA, and then just two points on, a couple of things that will make HMDA more accessible to the public.

So just briefly, you know what works about HMDA I think is almost second nature to us. Now it seems common sense but I think it's worth repeating as we consider changing it. One is that it's standardized and before HMDA we didn't have a way to compare lenders and their lending information against each other and against geography. So if we start considering any sort of changes based on size of entities, we need to keep that in mind. It's publicly accessible. Not all of the data is publicly accessible as I would like but it is accessible. And then, of course, the key data fields. So four things, just briefly, that we can do beyond what is in Dodd-Frank. One is that we need to collect records on performance. If the financial crisis has taught us anything, it's that proof is in performance and servicing really matters, on whether or not somebody is going to be successful in that loan. We need to collect information on a wide array of loan types: HELOCs, second liens, reverse mortgages, we need to understand the total package at origination. Collect on a broader set of data fields. I have more about this in my summary but just briefly, we need to know whether or not loans are coming online or if they're coming retail or coming from brokers. The wholesale market is really, has diminished quite a bit but it will come back and we need to know who is representing terms of a loan to a borrower. And finally, we need to expand data collection, in particular to home mortgage insurance. I'm sorry, not mortgage insurance but homeowners' insurance.

And then let me just close with two things that will make HMDA more accessible to the public. The first is maximizing the efficiency of the data collection. Right now if you go on FFIEC's website, they have data through 2008. It lags by about 18 months. Modern technology, we should be able to get that much quicker. HAMP data we can get month by month. I would love to see HMDA month by month, but I'm told that doesn't always pass the laugh test [laughter] so I'd like to at least make a push for quarterly. Certainly I think technology allows us to get that data much more quickly and efficiently than we have. And then the last one is really almost a personal request and that is to take a look at the format in which HMDA is available on the website, and it used to be available in an HTML format, now it's available on PDF. The Census Bureau has an excellent model for how data can be distributed.

Elizabeth Duke:
Thank you.

Jeanine Catalano:
Thank you. Good morning, Governor Duke, Director Braunstein, members of the Consumer Advisory Council and Staff. It's great to be here. My name is Jeanine Catalano, and I'm honored to participate in this very, very important event. I have worked in the banking industry for over three decades, which is about the amount of time that HMDA has been around. That's a frightening thought to me. I began my career in the bookkeeping department of a small community bank in Central Illinois. I then became a bank examiner and I worked for several of the banking agencies including the Federal Reserve Board. I worked as a regulator for about 16 years. Some of my regulatory duties included conducting examinations of banks, assisting in the development of examination procedures, processes and policies. I supervised troubled institutions and recommended enforcement actions. Subsequent to that public service portion of my career, I served the industry as a consultant for about 12 years and then became a compliance officer for two different large banks who did considerable amount of residential real estate lending. I'm currently a special advisor for the Promontory Financial Group. Even though I work for Promontory, I wanted to make clear that my comments today are mine and do not represent those of Promontory's. I commend the Federal Reserve for sponsoring this series of hearings and seeking information to help the board evaluate whether the 2002 Reg C revisions that require lenders to report mortgage pricing data, whether or not that provided useful and accurate information about the mortgage market and assess the need for additional data and improvements and identify merging issues in the mortgage market that may warrant additional research. I believe that having these ongoing and outgoing dialogues on these matters is extremely important. I will reserve most of my specific comments for the question and answer in the dialogue portion of the panel and I'm going to limit my opening remarks here just to several portions of the Dodd-Frank bill.

Can you still hear me? Okay, of the Dodd-Frank Wall Street Reform and Consumer Protection Act because I believe this bill, in a way, answers a lot of the questions that were first ask when this hearing was put together and the questions that the board is seeking input on. In addition, this bill really changes the regulatory structure and I think it provides a very new and different approach on regulatory matters that I think, I believe, actually will further the purposes of HMDA.

So let me focus just a little bit on some of the HMDA changes in this bill. I'm just gonna call it Dodd-Frank from now on. [Laughter] It's too long of a name. The enactment of the Dodd-Frank Act, I believe, has signaled the start of numerous and sweeping changes in the industry. So some of these changes are obviously specific to HMDA and many of them are not, but the changes to HMDA call for increasing the data that lenders will be required to submit. So we already know that's a done deal. These data include things such as the age of the applicant, information about the application and the loan, including total points and fees, the difference between the APR and the benchmark rate, the value of the property securing the loan, the term of the loan, the channel in which the loan was acquired, the introductory interest rate period, whether the loan is fully amortizing, credit score and prepayment details. That's quite a bit of information about the applicant or the loan. And in addition to that, each originator will be assigned a unique identifier. So because this Dodd-Frank bill already calls for additional data, I think the question about whether or not additional data should be collected has already been answered. I do believe in general that collecting additional data is useful and can be beneficial. I also believe that there are possible issues with respect to collecting additional data.

So let me talk just briefly, introduce some of these issues. They're not new issues. I think many people here are well aware of the issues. I only bring them up for those who may not be aware of them or may want to think about them a little bit more. So first the monitoring data that is collected, at times it has been lacking. It has been incomplete. So, for example, I noted, this goes back sometime, I'm sorry I don't have more recent numbers but I know at least back in ‘99 nearly 39 percent of the refi loans were missing data. The other issues have to do with privacy and the fact that many institutions have been penalized, not penalized, has had enforcement actions because they have not had good data integrity. So I'll reserve the remaining of my comments for later. Thank you.

Elizabeth Duke:
Thank you. Calvin?

Calvin Bradford:
Federal Reserve Board and members of the Consumer Advisory Council. I represent the organization that first proposed the creation of the Home Mortgage Disclosure Act and I worked on the bill myself. Over time as the mortgage markets have changed radically, I've identified two major issues relating to the act and the process of public disclosure. First with the amendments made to HMDA and Dodd-Frank, there's still a need for some additional data to be added. And second there's a need to completely overhaul the process for the release of the public data. The most glaring category of data that's missing from HMDA is of course servicing data. Collecting these data as part of the HMDA disclosure will facilitate the requirements that the new Consumer Financial Protection Bureau develop and publish along with HUD a database on

loan performance. Public records are often very difficult to use at best and only provide data on foreclosure actions and they are on in places where there's judicial foreclosure laws. Private sources and servicing data are extremely expensive and therefore not really available to the public. Moreover they often only represent a sample. High foreclosure rates for FHA loans in the 1980s led the National People's Action to propose what became section 335, which is the FHA servicing disclosure provisions. Even with this very limited data from FHA loans, the data was used by community groups to highlight lenders making unsafe loans and targeting inner city and minority communities. Had similar data existed for the conventional market we could have identified the lenders responsible for the most toxic subprime loans and perhaps avoided a lot of the mortgage meltdown. The section 335 data do in fact produce data quarterly for the first five years of loans. There is a need for some additional categories and one of those, which is often not mentioned, is the need to have a category to flag loans that are sold back to the lenders on recourse, as these typically represent loans that were unusual risk or represented fraud or malfeasants. And then if we're able to review lending patterns for older people, we also need to have a flag for reverse mortgages.

Another key element not presently included in HMDA is the cumulative loan to value ratio and also another ratio missing is the total debt to income ratio. These two ratios, along with credit scores, represent the key risk elements for loans. The individual appraisal identification numbers as well as unique broker identification numbers from existing and newly created national databases, should be attached to the HMDA data and that would allow us to track the loans all the way through all the players in the process. Overall it's important to release as much of the data as possible and as close to the actual raw data format as possible. Using the veil of privacy concerns to suppress these data will not protect consumers from predatory lenders. It will simply mean that the public will be at a great disadvantage in playing its legitimate role in helping to enforce consumer protection and fair lending laws. We should begin by noting that the great majority of fair lending, consumer protection enforcement and compliance, has resulted from the actions of community-based organizations, private fair housing organizations and attorneys and various attorneys general, as opposed to the Federal Regulatory and Enforcement Agencies. It's been the community based organizations that most often look at local markets and patterns. Historically, most of the creative lending programs, as well as the most destructive and predatory lending programs, have first occurred in these local markets. In the subprime meltdown, for example, local studies of HMDA data were warning of the community impacts of these types of predatory loans way back in the mid-1990s. Over the years as more data elements have been added to HMDA, the format for the release of the HMDA data and the support provided to the public, has really deteriorated. Today the FFIEC website is set up to provide data most usefully to large research organizations and those with sophisticated online data search and data management capabilities. In some ways the formats for providing these data seem almost intended to frustrate users like small organizations or people who don't have advanced data processing skills and powerful software and hardware, and my written statement contains some detailed examples.

It's time for a major reinvestment in the thinking of the formats for supplying and the support services to release these data publicly so that consumer community groups, local housing groups, local governments and fair housing organizations can use these data in a much more effective manner, as I had documented hundreds of uses way in the past. This process must include the participation of the full range of these potential users. Thank you.

Elizabeth Duke:
Thank you.

Dam Imhoff:
Thank you Governor Duke and members of the Federal Reserve for giving me the opportunity to participate in this panel. My name is Dan Imhoff. I'm the residential lending manager with the State Bank of Cross Plains, headquartered in Cross Plains, Wisconsin. We're a member of the Independent Community Bankers of America. State Bank Cross Plains is a $770 million state charter community bank with 10 locations situated within eight separate communities of Dane County. State Bank Cross Plains is over 100 years old and has been a HMDA-reportable bank since its enactment. The board is seeking ways to improve the quality and usefulness of HMDA data by considering whether any data elements should be added, modified or deleted, as I understand may be a moot point now. Specifically the board is considering whether information and factors used to make credit decisions and set loan prices should be collected. We have two serious concerns with such a proposal, the additional regulatory compliance burdens it would develop and the significant privacy invasions of our customers.

Currently we devote an extensive amount of resources, hours of staff, audit review and training for compliance review of regulations and requirements. Additionally State Bank Trust Plains requires annual HMDA training of the lending group and its support staff. For each of the reportable, for each reportable loan application, we currently collect 26 line items of data. The efforts we put in for training, review and compliance assures proper disclosure and documentation which ensures accuracy in collection of data and reporting of these loans and applications. As new or altered regulations require additional data, collection and reporting, the burden to provide this additional information adds more to the already seemingly endless amount of documentation that must be monitored, reviewed and reported. This is exacerbated by the new RESP and Reg Z requirements to provide good faith estimates and truthful lending disclosures. This is a result of the mortgage crisis and irresponsible and predatory lending practices of the mortgage brokers. Basically unsupervised regulatory accountability, mortgage brokers laced their HUD closing statements with fees that may or were not represented in good faith estimate disclosure statement. What had been a representation of anticipated cost for the convenience of the borrower is now a three day, three page breakdown of costs with no tolerance for bank quoted fees. In the event that there's a changed circumstance affecting the cost, the borrower may incur a new GFE until disclosure must be provided. This may occur multiple times in one transaction. This is recklessness not caused by the community bankers. The new requirements again require additional administrative burdens requiring more concentrated efforts from staff, which I have to say is stressed.

In addition to the regulatory compliance, burdens that would develop as a result of collecting underwriting data and would require us to utilize our limited resources to collect and document additional data, collecting such personal information creates significant privacy concerns. To reiterate, we collect 26 lines of data for each reportable loan application. Our information is deemed relatively objective and anonymous. The additional collection of personal customer data, more specifically the age, credit score and calculations of debt income ratios and may have breached sensitive privacy concerns. This information, together with other information, publicly available on county records could identify our borrowers and disclose their personal information. Before requiring any additional data to be collected and reported, the Board should balance any benefits of this additional data collection with any safeguards in place to monitor and prevent the sharing of this information. HMDA's regulations require certain financial institutions, banks, savings associations, credit unions and some mortgage lending institutions to submit HMDA data if they meet certain criteria such as its size, the extent of its business and an MSA and the extent to which it engages in residential mortgage lending. However this regulation does not require mortgage brokers or non-lender loan purchasers to collect and report HMDA data. We believe that other types of institutions such as mortgage brokers, non lender loan purchasers meeting the same criteria should be required to collect and report the HMDA data. One of the major flaws of our system was uncovered with the ensuing mortgage collapse and financial crisis. We did not provide consistent oversight across the entire spectrum of the lending industry. There should be consistency and accountability from all areas of finance.

It is an honor to come before you representing a community banker's point of view. Community bankers take deep pride in what we offer our communities, how we serve their specific needs and understand the significant contribution that home ownership provides. Within our bank we refer to our individual communities as families.

[noise]

Elizabeth Duke:
You may finish your sentence.

[Laughter]

Dan Imhoff:
That’s fine.

Elizabeth Duke:
Okay. Greg?

Greg Ohlendorf:
Good morning. I'm Greg Ohlendorf, President and CEO of First Community Bank and Trust in Beecher, Illinois. First Community is a local owned, $150 million asset state member bank located 40 miles south of Chicago. I'm a member of the Independent Community Bankers of America Board of Directors and chairmen of its policy development committee and also a member of the Community Bankers Association of Illinois.
41:23
These hearings are being held in part to assist the board in its review of regulation C and to help assess the need for additional data elements to be added to our reporting requirement. As we know, HMDA regulations do not currently require lenders to submit information on several factors lenders use to make credit decisions and set loan prices, such as borrower's credit worthiness, loan to value ratios and debt to income ratios. First Community, like most

community banks, is facing serious regulatory challenges as additional compliance requirements are being placed on us in an ever increasing pace. I'm concerned about the potentially limited utility this additional information, which in my opinion would not justify the increase of compliance burden for community banks. I also have very serious privacy concerns about collecting releasing additional data that will be addressed later in my testimony. Compliance officers spend a significant amount of time and resources to comprehend, train and administer to a myriad of regulatory requirements. Therefore it's important to ensure that any additional regulatory requirement maintain a balance approach that promotes the purposes of HMDA against further taxing a limited and already strained resources of community banks. 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's presently feasible in limited reportable loan areas to identify specific individuals for whom mortgages are 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 senses track of the property. This information, together with certain public information such as the price and year of the transaction, property addresses and property owners' name, could provide an opportunity to identify the majority of mortgagers being reported on the HMDA data. Because there is little privacy protection on the HMDA data, adding additional sensitive non public information such as debt to income ratios, credit scores, credit worthiness or age, would create and will create considerable privacy concerns.

Furthermore the potential legislative requirement to add a parcel identification number to the HMDA database could specifically identify the exact parcel being financed, making individuals' personal information even more transparent to the public. There have been many examples of significant privacy breaches which have revealed sensitive, personal information over the last several years. Adding additional level detail to HMDA will potentially give fraudsters more opportunity to take advantage of American consumers. HMDA data is designed to demonstrate whether the housing credit needs of the community are being served and to uncover possible discriminatory lending patterns. Currently whether a bank or the mortgage lender is required to report depends on its size, the extent of its business in an MSA and the extent it engages in residential mortgage lending. The information obtained from HMDA will provide a more accurate picture of mortgage lending patterns if other types of institutions, such as mortgage brokers and non-lender loan purchasers that meet threshold criteria, also collected and reported HMDA data. Not only does this provide a consistent overview of the mortgage market, but ensures that discriminatory lending patterns are uncovered from any mortgage source. As part of its review of HMDA regulations, the board is seeking ways to clarify and simplify HMDA regulations in order to facilitate compliance. One of the general frustrations reporting and reviewing HMDA data is the inconsistency with which information is collected and reported. It's important that regulatory requirements and guidance are clearly provided so as not to be confusing or misinterpreted. In my own bank we've received inconsistent answers from regulators with some difficult HMDA scenarios. Here's a recent example: a customer applies for a six month construction loan, which isn't reportable. This loan can be taken out by a new long-term mortgage. At the end of the construction period, the customer's previously approved long term mortgage application is pulled by the secondary mortgage market investor. As a community bank, we offer these customers the opportunity to extend their loan into, say a five year balloon based on a 30 year amortization. Now how do we report this for HMDA? We've received three distinct answers from regulators on this issue. One, report the date of the application as the date of the construction loan. Two, report the date of the application as the date of the loan extension. Or three, we've been told the loan's not HMDA reportable because if it wasn't reportable at its inception, it's not reportable now. As can be seen, the conclusions drawn by the end users of the HMDA data, could easily be skewed, depending on which way this loan was reported. I'll provide additional examples during the Q&A.

I greatly appreciate the opportunity to participate in this panel and to provide information on this important topic. Community bankers have long understood the significant contribution home ownership provides to the communities and we are committed to serving the unique housing needs of our community. However, in order to continue to provide affordable financing and before requiring any additional elements to be reported and collected, the board should balance the benefits of this additional collection of information with the limited resources available to banks and the significant privacy issues which would come about from releasing this sensitive information. Thank you.

Elizabeth Duke:
Thank you. Mr. Smith?

Geoff Smith:
Good morning. I want to start by thanking the Federal Reserve Board for having these hearings and for the opportunity to testify on ways to improve data collecting under the Home Mortgage Disclosure Act. My name's Geoff Smith, and I'm with Woodstock Institute. Woodstock Institute is a Chicago-based nonprofit research and policy organization that focuses on fair lending, wealth creation and financial systems reform. HMDA data has been a critical tool in much of Woodstock's work to analyze access to mortgage credit in unreserved markets, examine lending practices of individual financial institutions and understand patterns of community investment and neighborhood change. While the recently signed Dodd-Frank Financial Reform Bill will add key elements that will improve HMDA data, there are still further opportunities to improve the data collected.

For example, two of the gaps in HMDA data that were not addressed under Dodd-Frank is a collection of data on the level of borrowed income documentation and borrowed debt to income ratios. One of the driving factors behind the foreclosure crisis was lenders putting borrowers into loans they could not reasonably afford. In order to prevent this from happening again, lenders should be required to report the level of income documentation used in underwriting a mortgage. Limited and no income documentation mortgages were frequently abused in the run up to the foreclosure crisis, with borrow income frequently being overstated, to qualify borrowers for loans they could not be approved for giving their documentable income. Creating flags for loans where borrowing income was not fully documented or not documented at all, will allow for better understanding of how lenders are using no or limited income documentation loan products and if such products are concentrated in certain vulnerable segments of the market or in certain communities. Additionally it's important to collect data on a borrower's debt to income ratio used by lenders and underwrite in a mortgage. We recommend collecting the back-end ratio because it includes other types of monthly debt payment obligations in addition to the mortgage and is a better reflection of a borrowers overall debt burden. If a lender consistently makes loans above certain back-end ratio levels, particularly if these loans are concentrated within certain borrower segments or in certain types of communities or contain other indicators of high risk, could raise concerns about that institution's lending practices. Another gap in existing HMDA data is tied to purchased loans. Loans originated in low and moderate income communities or to low and moderate income borrowers, can be purchased by banks from other lending institutions in order to get credit on the community reinvestment act lending test. However, purchasing lenders do not have to report the same data on these purchased loans as they do for directly originated loans. For example, data on the difference between a loans APR and defense mark rate for all loans is not reported for purchased loans. This makes it impossible to tell if banks are purchasing higher costs, potentially abusive loans for which they would get CRA credit. Just to give a sense of scale, in 2006, the tail end of the subprime boom, depository institutions or affiliates purchased over 35,000 conventional home purchase or refinance loans in low and moderate income census tracks in the Chicago region. So there were a substantial number of loans for which banks are likely getting CRE credit that we know little about. Purchased loans should be subject to the same recording requirements as directly originated loans.

Another critical way HMDA data can be enhanced is by linking HMDA origination data to other types of mortgage data, particularly data on loan performance. This can be accomplished using the universal loan identification number required under the financial reform bill. Linking HMDA data to loan performance data would allow analysts to track the performance of loans to different segments of the market and with different underwriting and product characteristics. As the foreclosure crisis has shown, loans with high risk features concentrated in particular communities can have devastating consequences. Years before the foreclosure crisis began, Woodstock Institute released research showing the connection between concentrated subprime lending and subsequent high-end neighborhood foreclosure rates. Having the ability to conduct such analysis systematically would greatly aid in identifying abusive lenders and mortgage products in potentially adverse and widespread neighborhood impacts.

One final comment is on the level of detail which the data are made public. Currently HMDA data are made publicly available at the loan application level and include information on the Census track location of a property. Public data at this level of analysis have been critical to organizations working to identify discriminatory lending patterns in neighborhoods and determine whether financial institutions are serving the housing needs of their communities. Going forward, there are substantial concerns about the reemergence of a red lining as borrowers and communities of color devastated by the foreclosure crisis, experience difficulty accessing mortgage credit. Any enhancements to HMDA data should use the current way that the data are made public as a starting point of how much to build and add additional data elements that will improve the public's ability to ensure that all communities have equal access to fairly priced credit.

Elizabeth Duke:
Thank you, and thanks to all of you. Those are excellent comments and very informative. Before I turn to the questions, let me also say how nice it is to have our Consumer Advisory Council members join us at this hearing. This is a wonderful addition. They're always helpful to us when

they meet in Washington, and this has been especially helpful. Thank you, and also to you, Kathleen.

I'm going to start with the questions. All of the providers of data I notice discussed the issue of privacy and so I'd like to ask the users of data for your suggestions on how we address the issue of privacy particularly as you get more personal, more granular with the information that we're collecting and making available to the public.

Is that where you want to start?

Calvin Bradford:
Well, I think the first thing is, as I said, I think it's important to try and release as much data at the lowest level as you can. There are alternative ways of releasing sets of data so that they can help protect people's privacy. Things can be released in ranges or various types of calculations, which, by the way, the bank shouldn't have to make you should probably release the raw data and have the central depositories do the calculations so it releases the burden for the banks. But one of the things I noticed particularly working on a lot of lawsuits against lenders when you actually look through the files. The information that we're afraid to release to the public is information that the lenders and predatory lenders and other people already have and use regularly. And so people's actual credit scores, people's actual debt ratios, terms of their loans, the conditions of their loans are already well-known to other people. It's almost sort of like the NRA often says, if you have gun control, only the criminals will have guns. And the way it works today it sort of only the lenders and the people who preyed on these people have got access to these data. So I think you have to balance the need for these kinds of data because most enforcement has really been done by the local groups and independent attorneys and fair housing groups. Against the kinds of controls we could put on by releasing data in various ranges or remitting multiple sets of data with different types of data in each data set so that they wouldn't be cross-merged, but they would give you information at some geographic level that would provide you with useful information. That's going to take some detailed thought but sometimes you can aggregate data to -- you could release aggregate data for census tracks in some cases that would have information on it but not individual information but still have individual information. And by the way, it is true that pretty much you can still even the way it is today with the information there is identify individual loans in most cases, although I'm surprised how often in lawsuits the person who's filed the lawsuit that's on the record doesn't exist at all, which raises a different issue.

Janis Bowdler:
Just a quick thought. One is that I will admit the actual transfer of the data from the bank up through the regulators I would not claim that I know enough about that process to know where there may be violations of a person's privacy, but it seems that one thing is the universal identification number can be used to create some anonymity around the loan profile. And the other is that -- echoing some of Calvin's comments -- much of this data is available for purchase it's very expensive, but it is out there and you can buy it. So it seems a little counterintuitive to say can't be made available in some form to the public, but if you have enough money you can go and purchase it from a data aggregator.

Geoff Smith:
As I mentioned in my comments I think that data should continue to be made public at the current level of analysis and then add on as much data as possible to continue to be able to analyze what's happening in local neighborhood mortgage markets. I think it's important to collect as much data as possible and then sort of figure out how to make it publicly available, you know, up to a point where you can make it available at the application level and if there are data points that, you know, that are significant privacy concerns, you know, either release those with a separate data set, perhaps, in addition to the application level data that have some larger level of aggregation as Calvin mentioned or, you know, make data available to research organizations as, you know, who have, you know, submitted applications to analyze the data that's not available to the broad public but still has some level of accessibility so that organizations can understand and the public can understand what's happening in local mortgage markets.

Elizabeth Duke:
Thank you. Ms. Braunstein.

Sandra Braunstein:
Oh, thank you. I also want to add my thanks to the panelists for their testimony it's very helpful. I have a couple quick questions about I know, Janis, both you and Cal, I think it was, talked about the need for performance data and servicing data and others they have mentioned that but I know it stuck out to me in your testimonies. I was wondering if you could expand on that a little bit the kinds of data you are talking about because there is a requirement in Dodd Frank for, you know, a default database? Are you talking about that particular thing, tying that to HMDA or are you talking about something bigger than that, something different than that? And I was wondering if you could comment?

Janis Bowdler:
Sure, so, yes, the default database needs to be tied to HMDA so, again, if it's that universal number so that we can track it through what were its original terms and who made the loan through to the performance of the loan and over some period of time and I think we'll have to figure out what that -- what the right amount of time is. I think you're going to want at least five to eight years of performance data on a loan. Maybe track, well, some would argue that loans don't last that long anyway, so, before they get turned over so it may be a non-issue. But certainly you want to connect those, but I would also link in the servicing data and who the servicer is. We've seen that who your servicer is and the quality of the service that they provide while working with the borrower really can make a difference, so there's elements there that need to be connected. I think if they were two separate databases, then we would not be fully leveraging the information that the public has. They need to be connected.

Male Voice:
Yeah, I think sort of in a technical sense the original HMDA data would be reported once the loan is originated and goes to a servicer then there'd be supplemental data that would be linked probably by the unique individual identifiers, which, by the way, I'm not so sure we want to necessarily release those. So some of the information is going to be useful internally simply for technical reasons to link data from other databases into HMDA and also for investigative

purposes for agencies that have access to internal data. So I think you should be releasing the data. We know from HAMP and we know from even HOPE now that the servicers can produce these data and they regularly do. And I know from working with lenders I've seen the files of stuff that they keep on the loans. It's the most accurate way to get information on loan performance. The legal filing and other records are often full of errors. Services pretty much have to be pretty accurate in how they keep these records for the investors. And also the servicer then has to be identified in some way or another so that we can at some point in the process be able to identify all the actors in the process. I don't think you have to identify all hundred and something different types of categories that HAMP identifies; it doesn't release to the public but it keeps records on. As I said, simply identifying loans that were 39 days in foreclosure is the instructions to HUD, and the new agency is saying in the legislation is useful and maybe a flag for loans that are in modification. But that's extremely useful information and even if it's only released to the public in a more limited time period. We know from the FHA experience it can be produced, well, monthly for HAMP and it can be produced quarterly for these systems. And that would allow us to track the whole process. It's also important in some ways to differentiate the servicer from the originating lender because some of the issues in the past like with Fairbanks related to the servicer issues and not to the originating lender.

Sandra Braunstein:
Did anybody else want to comment on that, Geoff, or anybody else? Okay, I'm sorry just one other quick question then I'll turn it to Leonard. For Janis because it intrigued me. You said, and it was right at the end when the buzzer was buzzing, you made a comment about an additional element you'd like to see added was homeowners insurance I think you said, and I was just wondering if you could tell me a little bit about what you intended.

Janis Bowlder: Sure, so there has been pair testing done with homeowners insurance to find discrimination there. We know very little about those products that you have to have it. And so once a product becomes mandatory like that we think that there should be some element of transparency there as well. So it needs a little more thought about what all the elements are there but we think that that is we think beyond just the traditional scope of who is reported into HUMDA mandatory insurance should be reported as well.

Sandra Braunstein:
So were you thinking the insurers themselves would report that?

Janis Bowdler:
Yeah.

Sandra Braunstein:
Not the lenders wouldn't be responsible for collecting that information.

Janis Bowdler:
That's right that the data collection response --.

Sandra Braunstein:
But you can expand that.

Janis Bowdler:
Right, yeah, I snuck that in there. It's a big thing.

Sandra Braunstein:
Yeah, I was diverted when the buzzer rang to that's why I was trying to follow-up on that.

Janis Bowdler:
Yes, my recommendation was to consider and additional industry and have homeowner's insurance industries collect and report data as well.

Sandra Braunstein:
Leonard.

Leonard Chanin:
Thank you, I want to follow-up a question with Ms. Catalano, but also if there are other panelists who'd like to speak to the issue. You mentioned the issue of monitoring data which I assume means race, ethnicity and gender for applicants in sometimes that's incomplete, that is that the current rules provide that applicants if they wish to can include that information and then if they don't include it that the lender if it's a telephone or in person application has to make a good faith estimate if you will of that. And so there are missing elements there. My question is, do you have any suggestions on how to improve that data in terms of making it more comprehensive both to you and other panelists if they have views?

Jeanine Catalano:
So the information that I had about the data that was missing was pursuant to a study conducted by the OCC looking at it. I don't recall what the root cause of the missing data was so I don't know in, you know, back then what had not been collected and why. I do think, though, that going forward, you know, as we have more applications coming in from different sources including online, you know, that it will become increasingly difficult and, you know, in some cases, increasingly or could have an impact on how reliable the data is.

Leonard Chanin:
Yeah, other thoughts.

Male Voice:
Leonard, one of the concerns with the self-reporting of that data and the fact that once it's reported even if we sit down with the applicant we really can't do anything with it they said they were what they were. You know we're in a different world today and, you know, we were in a world where, you know, your heritage was white, black, Indian, Chinese, whatever it was, and it doesn't happen that way anymore and so the self-reporting of the data you may pick the thing that makes you the most proud or that your heritage reminds you of. It may be accurate; it may not be accurate, but it's self-reported. And I think taking and using that data is becoming more dangerous as time goes on because there's really no way to vet it out, you know, I mean you are who you want to be. If I was 12 percent Indian and I was proud of my Indian heritage I could choose to be Indian on my self-reporting. And if you looked at me you'd say I don't look Indian,

that doesn't make being Indian good, bad, being white good, bad; it doesn't make any difference, but I chose what I wanted to be. And we aren't -- the lines are blurring and so extracting that and saying that I said I was Indian and then comparing me with other Indian applicants in my marketplace, which there are few, my loan may stick out horribly one way or the other, but it's only because I chose to be what I chose to be on a self-reporting. And even if I see that person after they've reported face to face and you look at Greg and say doesn't look real Indian, not that that should be the determining factor. The fact of the matter is nothing can be done at that point so I think that's dangerous and it's getting more dangerous as our society just chooses to, you know, to interact with each other in different ways and our lines are blurring so. And I don't know what to do about that but I think there's a real risk there.

Leonard Chanin:
Okay, thank you.

Jeanine Catalano:
If I could just add one more thing to that. I think the question is really a good one to pose to statisticians, right, because I think that there is a possibility or I'm sure that there would be some way to go in and test integrity, data integrity. I mean we do it all the time in a lot of different ways. You know but with respect to what's reported I think that there would be a way and then I would think that the statisticians could determine just how reliable the data are. So I don't mean to suggest that right now, you know, that they're unreliable period. You know I just think over time that you run that risk and that has to be considered when anybody does any kind of analysis on the data.

Leonard Chanin:
Thank you.

Male Voice :
For the most part on loans that are closed, although I know if Virginia nobody goes to the closing except a couple lawyers but essentially someone sees a person in almost every process. And so on loans that are closed we shouldn't have these high levels that we sometimes have for non-reporting of the data because someone should have been there to write down their opinion of what the person was. And the other thing I found was kind of disappointing particularly in working with subprime lenders and listening to their phone bank application process, sometimes we listen to recordings, is that when they got to the government reporting data they would usually say something like, now, I'm going to ask you information that you really don't have to report. It's not required by law. And they would sort of discourage people from doing this. So I think there needs to be a uniform sort of required statement that when they ask for it everybody has to ask for it in the same way without either encouragement or discouragement about how the person responds. And the rest of the issues, I think, are -- there's a difference between random decisions about who I think I am and systematic ones to the extent that they're random, they don't make that much difference in the data overall. And to the sense that they're systematic I think Jeanine's right you can -- we can begin to identify what those are.

Leonard Chanin:
Thank you. Are there follow-ups, observations?

Greg Ohlendorf:
Just one comment I'd like to make and it's basically for clarity because in practical application it has been confusing. Ethnicity is Hispanic, Latino or not Hispanic, not Latino and then you go to race. If you have a Hispanic borrower you put down Hispanic or Latino. What do you put down for race? White. Hispanic borrowers have a concern about that.

Leonard Chanin: Thank you. Okay, thank you. I'll turn it over to Saurabh.

Saurabh Narain:
Thank you Leonard. I believe there is consensus today that over the last 30, 35 years HMDA has actually served a significant amount of value for both consumer advocates as well as for the industry. There's been a significant reduction redlining there's also been, you know, the industry has said, you know, significant promotion of their activities in underserved market. Given the fact that this hearing is about, you know, data points for HMDA, you know, to be added or reduced, I believe the fed would find it very useful for us to sort of sit down and think together as to what data points should be added. Now, that might be moot because, you know, it's part of the laws now. And what data points as consumer advocates we don't really use. Can we as an industry, you know, say 1 or 2 data points that we don't use that can be eliminated because there's a cost in privacy and the confidentiality questions are real? We have to solve them. So can we start by eliminating some data points that we're not using and then, you know, think about data points that we can add to be helpful? I just want to small footnote to that. You know, Greg, I think you mentioned that we should add other lenders to the reporting mechanism like mortgage lenders. I believe the thought there is that if we are reporting, they should be reporting as well. Well, what would be useful for us as an industry to have from them that will insure the purposes that we're looking for, so?

Greg Ohlendorf:
I think the concern and probably shared amongst everyone here is that we're only getting a piece of the data and there are a lot of loans made in a lot of other places that weren't in insured, you know, federal insured financial institutions like us a bank. And so I think the concern is getting the broader spectrum of data where a lot of the loans came from. There's been tremendous talk about the mortgage crisis and the meltdown and a lot of finger pointing about where it maybe started and where it ended. But there's been a lot of consensus that, you know, maybe other parts of the industry not just the insured financial institutions played a role. And I think the users of the data want to see, you know, where some of that comes from. I'm never one to, you know, we in our world, we're always concerned about the amount of time it takes us to report this data and to collect it and to vet it and to train and whatever. The time we're doing that means we're not making loans it's a fact. In a small community institution, I only have so many hours. And so I never just say, well, if we have to do it someone else should have to do it because that makes me feel better, you know? So I don't ask that other participants in the industry do it just to get even with, well, we've got to do it, so that's not my point. But I think if the uses the data are going to get an accurate picture, you've got to see a broader spectrum. So I think as part of the data collection, I'm not real excited about some of the new fields. I really believe the clarity of that information is going to point out it's your house, your back-end ratio is, you know, as Geoff suggested, my gosh I could paint your entire financial picture with what's there. I don't know

that we should know that about our neighbors. I think there's a huge concern. But I do think the data that is being reported should be reported across the industry.

Saurabh Narain:
That's great. Just giving it a thought, you know, you said new data fields may be sort of not useful so could we modify some of those new data fields to make it useful for the consumer advocates and, you know, the regulators as well as for the industry. I mean that's the thought process that I'm sort of thinking about it.

Greg Ohlendorf:
No question, and I think the privacy concerns are real. You know in the raw sense everybody gets excited about trying to find the patterns and looking for discrimination and, you know, in a small community where I'm at, you know, certainly that's not my number one concern. We don't try to do those things. I'm sure there are lenders that do try to do those things, and I understand why you go look for those issues. But if you look at yourself and you realize your neighbor can pick out your house, your mortgage amount, your ratios, your debt to incomes, your everything. Just think about it for you, not for the broad spectrum but do you want that information all out there? So however we have to deal with this -- and I understand we have to deal with this and that's why we're here -- we really need to be careful about who has access and what we do with it and what the level of this data collection and how easily it can be aggregated so that you could literally -- I mean it's like handing your loan application to your neighbor, and I just don't know that that's a real good public policy.

Geoff Smith:
I just -- if I could follow-up. I don't want to diminish concerns about privacy but my position would be that we should collect as much data as is used by financial institutions in underwriting, and then after the data's collected by the Federal Reserve or whoever's collecting the data then make a determination as to how to best make that data public. And I think that if there's a determination that putting an absolute number of your debt to income ratio is violating significant privacy concerns, then there may be ways to modify that. But I think in the front end just acknowledging that we need to collect these different data elements in order to insure that we have a full picture of how different financial institutions are making mortgages. I mean I think in underwriting loans I think that's the first step and then the next step is to work, you know, to make sure that we can make a set of that data public and if there are other data elements that are privacy concerns for, you know, make sure that we can release that data in some way to deal with those concerns or to keep that data, perhaps, internally but still useable for monitoring different institutions. And just to answer your first question about what data elements are useful and less useful. I think that for me, data elements that are voluntary are particularly useless. So, for example, if data on Y alone is denied institutions regulated by the OTS and the OCC are required to report that data; other institutions are not. I would recommend that everyone should be required to report that data because you're only getting a partial picture of what's happening around denials. And I think especially going forward when we have concerns about red lining reemerging in certain communities, understanding why loans are being denied are going to help us understand, perhaps, what some of the gaps in access to credit might be in certain markets. So collecting that data, I think, is going to be critical and making sure that everyone's reporting it

will help us understand are mortgage companies, you know, working with a different segment of the market and they are, you know, kind of giving different reasons for denial than national banks or other types of institutions. And the other particularly confusing element is home improvement loans. I work with HMDA data quite a bit and I couldn't tell you exactly when a home improvement loan is reported under HMDA so I would say either clarify that and, you know, include, require home equity lines of credit or home equity loans to be reported or kind of -- I don't ever use that data point and I think that cleaning that up would be a particularly useful exercise.

Jeanine Catalano:
I have a comment to make too about data fields and data points. One thing that strikes me over the years with respect to H MDA and NC is that it's morphed as the industry is morphed and is as mortgage lending is morphed and it has various practices change. So I believe very strongly what Dodd Frank that there are other requirements in Dodd Frank that will help put the data in a context. And it seems to me that there might be some data elements that should be collected under HMDA and maybe some that will be collected in some other way through Dodd Frank or through the creation of the bureau. So because the new bureau will have as a responsibility, for example, the collection and analysis of complaints and the clear mandate to do consumer research, you know, it could be that some of that data that you had, you know, that in the past we've been limited to HMDA's collection source could come through another way and serve the purpose. The other comment, then, I want to make is that, again, I think HMDA has been extremely successful in shining the light in particular with respect to discrimination in neighborhoods, but I do believe now not that discrimination is gone but I do think that there's a growing and rightfully growing concern about unfair, deceptive and abusive practices. You know, so sometimes I think we're trying to force HMDA now to focus on that element or those practices and I wonder if that's the best way to do it. I wonder if there's not another way to get to the heart of that problem, which, again, I think is very real and I think it's very concerning. I don't know if HUMDA's the right way to do it.

Elizabeth Duke:
Thank you.

Elizabeth Duke:
Thank you, Mr. Smith, thank you for pointing out the difference between the data you collect and the data you disclose because I think they're 2 different issues. But going back to the question of what data might be less useful and since I've come to the Federal Reserve and worked with a bunch of researchers, they find no data not useful. But one that was suggested in the Atlanta hearing and I'd be interested in your thoughts on it, goes to the home improvement loans and particularly the unsecured home improvement loans. That was suggested as data that did not necessarily need to be collected. Could I just get quick opinions on there, run down the line?

Greg Ohlendorf:
I go along with Geoff on that it's the most useless piece of information that I've seen in years. And the past efforts to clarify it made it even more useless.

Dan Imhoff:
And what's very difficult is the unsecured home improvement loan. Your borrower's got to tell you, you know, and they may tell you one thing and they may use the money for something else so, again, it's a self-reported type issue and it could be used for anything, so it's one of my notes too. We just see no value and I don't know if you guys that use the data see the value in it. It's confusing, it's hard to track, it's not a mortgage, it's not in the same database, it's difficult to extract.

Calvin Bradford:
Again, in instructions from lenders they're in the interaction loan process, you know, I know lenders that I work with who literally instruct people not to tell them what they're going to do with the money so they don't have to report it, and that makes it pretty useless.

Elizabeth Duke:
Well, that's one of the first unanimous agreements we've had on these panels. Let me talk to the providers of data now. You know we hear a lot and my days as a banker have said a lot that the data that's available now does not necessarily give you the information you need to determine whether or not discrimination has taken place. And so -- and most lenders say, well, you know, we work with our data, we look at it, we, you know, we evaluate it ourselves to make sure that it does indicate discrimination. So it would seem like providers would want to make that information available along with the rest of the HMDA data. What about concerns about providing information that really goes to the heart of the underwriting process?

Greg Ohlendorf :
One of the huge concerns is the credit score. You know in taking -- everyone wants to extrapolate that as the only thing that matters in underwriting. If your credit score is X, you must be okay, and if your credit score is Y, you must not be okay. And in a community bank if lending gets that standardized where the only thing that matters and we're seeing it show up in fair lending and other issues where, you know, the credit score is -- well, if this person's credit score was this, then the rates were despaired by some amount it must mean there's a fair lending violation. And there's so many other factors that goes into it so we're concerned about, you know, if you throw all this in there which piece is somebody going to grab. It's the one that everybody talks about credit scores, monitor your credit score, get your free credit report, you know? And so it's going to be real easy and our concern is it's going to be real easy to just yank that one piece out and make it the be all end all underwriting criteria. If we used credit score only in a community banking model we would lop off, you know, 25 percent to 30 percent of our underlying borrowers, they don't qualify, they simply do not. Small business owners undercapitalized credit scores are typically kind of poor, they're good for the community. We loan to them all the time, but if it got to the point where that was the criteria you're going to draw a bright line and then everybody falls off underneath. Very scary, and if we're supporting our communities, which is what I'm in the business to do, so I understand the whole idea of being good to your community. I really get that at a high level. But it really becomes dangerous when one data field could be yanked out and then that becomes, you know, the be all end all. And on that element alone there are a lot of folks that just don't have one, and so, you know, what does that then go into the database. You dump all the stuff into your Excel spreadsheet and does it come as a 0 and you add the column up and divide by the number of rows and it says, what, well,

those people didn't have one, you know? And we underwrite loans all the time with young folks coming out of school that didn't maybe have college debt or a car loan, they just don't have a credit score, but they've got a $60,000 a year job and a down payment. You know, do we underwrite the loan? Sure we underwrite it. So I'm worried that as you throw all these elements in if you -- people will begin to extrapolate just certain elements. And we do look at a broad range, Governor, as you indicate of other factors. So used correctly but, you know, we know what happens with data. Data doesn't always get used correctly it gets used to describe the scenario that you want to describe.

Elizabeth Duke:
But, again, that argument to me argues for more data fields rather than fewer data fields. In other words, I could agree if it's was credit score only, but credit score combined with loan to value combined with debt to income combined with back ratio information.

Greg Ohlendorf:
I appreciate that you still get back to a significant privacy concern. The breeches in our industry are unbelievable. We've seen so many things that have happened and so many people's world's get ruined because of a breech and their credit identity being stolen. They don't get loans then because now they've got such a messed up world that you can't fair it out whether it was them or wasn't them. There's real danger there. And I hear the comment about what's collected and what's disseminated. We all know what happens when data gets into a database eventually it gets disseminated. So I'm concerned about just how all of that gets added up. And I see both sides of that but I have strong concerns.

Elizabeth Duke:
Other comments on that.

Dan Imhoff:
I'd like to make a comment. I think the issue is to determine whatever data is determined to be the one that will be collected is objective, is effective and is it accurate. To go along with what Greg has said the credit score is ambiguous because there are three repository institutions that each provide a credit score, and they're all different. For secondary market lending we pull out a trimerge. We are instructed by Fannie and Freddie to pick the middle one. What happens if you have a lender that picks for their provider the one that provides the low one versus the one that provides the high one if they're not using a trimerge report? In my 30 years of being in lending, I have never known the credit score to be determining factor to approve or deny a loan. It's always been an indicator score. It just gives you an indication where in the realm of that borrower's credit pattern that might fall. The analysis goes into what may have caused it to be lower or why is it higher; that is all part of the underwriting review. Fannie and Freddie have tried to integrate some of that what if scenario into their automated underwriting system. But their underwriting systems don't just pick a credit score and say, yes, it's good or, no, it's bad, because there's so much else that goes into it.

Janis Bowdler:
Sorry, can I comment about this? I just have to say that the comment about credit scores are really music to my ears because as far as I can tell credit scores are actually playing a really big

role for some of the largest banks, and I agree with you in terms of especially around no credit score, which is a huge concern amongst the immigrant community as well, single women, young people that don't have credit scores, yet much of the underwriting that's going on right now is very standardized and I'm concerned that that is the route we're going. And the underwriting criteria that is out there is very much tagged to credit scores. Even FHA is now putting benchmarks out there in terms of credit scores. And so, one, it's an important field, but the other is that many of those largest lenders told us that that was one of the pieces of information we did not have and, therefore, HMDA could not really tell us whether or not somebody was wrongfully denied a loan. And so for me, while I agree with everything that they're saying about it not being or I would love to believe that it's not as much of a factor; we could have a whole separate hearing just on credit scores. I think in the world of highly standardized underwriting and a credit crunch, it is very much a part of it and it is one of the primary elements that HMDA critics have told us that we did not have and, therefore, the data was not as useful as we wanted it to be.

Jeanine Catalano:
I have a comment I'd like to add to the data and not so much on credit scores, although I do think they can be problematic. But the Dodd Frank Bill -- and I think it's in Title 14 on the mortgage loans -- introduces a concept that I believe they call a qualified loan so it's one that meets, you know, certain requirements. I just wonder, you know, because of that notion, you know, and sometimes, you know, some people think of that as a plain vanilla kind of loan I wonder whether or not that would be an interesting or useful data point, because I think that part of being a qualified loan you have to consider debt do income ratio. I mean there are certain underwriting elements so, again, I'm thinking that some of those things that are being required or will be looked at in Dodd Frank I wonder how that will impact or can be used in conjunction with the HMDA data.

Thank you.

Elizabeth Duke:
Okay, I want to turn a little bit to scope of the collection in terms of the kinds of loans that the data's collected for. And there have been some suggestions that it should be expanded to possibly collect data on reverse mortgages, all HELOCs, so other kinds of things, and I wondered if people had thoughts on that, anybody on the panel, had thoughts on that.

Dan Imhoff:
I'll step out. The -- I'd like to address the reverse mortgage. The reverse mortgage is a niche product. As a last resort in remote situations it can warn a merit. But the reverse mortgage is a first mortgage purchaser refinance. It has high fees. It should be classified probably as a high priced mortgage loan. Extensive fees are charged upfront, fees also accrue on the loan. As a product I think this really needs to be reviewed. It could be with the intensive marketing that was directed at our senior population with name, celebrity faces -- this has been aggressive in pockets around the country where the populations of our senior citizens are higher. I've always felt that it has crossed the barrier of subprime and I believe that it needs to be regulated. I think it needs to be reported. It could become a very serious issue as the subprime loans became an issue, and we really didn't do much about it until it exploded. And along the areas of home improvement loans, I do go the other direction. The reason for that is that as Greg indicated,

when a borrower comes in for a loan request for a home equity line of credit typically is a second mortgage. On a rare occasion, they might be first, but they're typically second mortgages. Practical application being in that lending position, the majority of the borrowers do not take these out for home improvement loans. The majority of the borrowers take them out for possible future use, for emergencies, they may want to roll consumer debt into it to be able to take advantage of the potential possibly being able to deck the interest. It is not for home improvement. So I guess I would have an issue with that becoming a reportable loan only because of the fact of its purpose.

Elizabeth Duke:
Other thoughts.

Geoff Smith:
Sure, I agree that reverse mortgages, data on reverse mortgages should be collected. I mean all the research and indicators point to them becoming increasingly popular and also the opportunities for abuse seem particularly obvious. And reverse mortgages, I think, adding that data element to HMDA data would be a great addition. On home equity loans, my general opinion is that any loan secured by real estate should be reported under HMDA. Now, then you kind of get into how do you code them. I think like the home improvement category's kind of been just like a bucket where anything that you don't know what it is you just throw it in there, so that might, you know, might require some kind of parsing out of the different types of loans. But I think that, you know, if you use your home to secure a loan I think that there's an opportunity for a foreclosure, there's an opportunity for predatory practices. I mean, I think equity, you know, as we saw with the subprime boom, equity was targeted by predatory lenders, so I think that, you know, understanding how lenders are working with homeowners who have equity and how those products work I think it's important to understand that to complete the data set -- now, again, it's going to be important to categorize those loans so that they're useful, but I think it's important to collect the data.

Dan Imhoff:
I'm concerned about the home equity side. It's just a compliance issue for us. I mean and a lot of them are -- it's simply the car loan of today. A lot of folks don't have a mortgage they simply have a home equity so that they can deduct the interest on the car loan that they can't deduct the interest on and it gets in self-reporting as to what they use the money for. You would have no idea it's revolving in nature. They may have used the money for one thing the next day they'd use it for something else. So I just think it's another compliance issue with really limited useful information. A lot of them are very small balances on tons of equity in the home. They're not tremendous areas of abuse that we've seen.

Elizabeth Duke:
Okay, thank you. Anybody else?

Jeanine Catalano:
I just wanted to add something on the reverse mortgages, you know, that there is a requirement that a study be conducted on reverse mortgages under Dodd Frank and I think that's a good idea. The only comment I would make on something like reverse mortgages is to me it's really easy to

obviously tie the creation and issuances of reverse mortgages to age discrimination, you know, and I do know that age is a new data field. But what I think is equally concerning is predatory or unfair and abusive practices with respect to reverse mortgages. So in that area I'm not, again, I'm not sure that data collection is the primary or the best way to go about understanding and curbing that practice. You know, I think that, you know, when abusive or unfair and deceptive practices are found aimed towards a population and aimed towards elderly people that it would be best to identify those practices early on, move quickly to categorize those practices as unfair and deceptive and take, you know, a quick action against those lenders.

Elizabeth:
Thank you very much.

Daniel Sullivan:
So I want to follow up on one of Sandy's questions so that it doesn't count as my own question. And that is just push back a little bit on the home equity lines of credit for the other panelists and particularly let's leave aside reverse mortgages which can be structured as home equity lines and let's assume that it's a separate issue. So for home equity lines of credit that aren't reverse mortgages does anybody else use the data or tell me how you might use the data for home equity lines in the future if its recast given the difficulty as it's been noted of determining the purpose, and the purpose can change over time, it can be multiple purposes. So is it a valuable category to either require or keep and make it not optional, so any other thoughts on that?

Geoff Smith:
Well, not knowing how the data would look it's hard to say how it would be used but I can say that like I mentioned in my previous comments I think that equity, you know, was targeted in the previous crisis for different types of abusive loans and I would say that it's likely going to be targeted again at some point. So it's improving the way that home improvement loans are categorized, I would probably just get rid of that category entirely and then rethink how the data is collected for home equity loans and, perhaps, create a few different categories on just general purpose equity lines of credit, you know, home equity loans used for home improvement purposes, other purposes. I mean I think that just knowing that -- having information on that segment of the market will fill a tremendous gap in the current data.

Jeanine Catalano:
I agree I don't use the home improvement bucket, I think we've termed it, but I have seen so many scams run against home owners using home equity lines of credit convincing them to take money out for all sorts of reasons and I understand that it's self-reported and I hear the comments of the panel that there are some data integrity issues there. However, it is an area of lending that because it's secured by your home, as Geoff said there is still this risk of foreclosure and it's just very easy to take advantage of a borrower using that product. So get rid of the other one, figure out how to do this one right. I think it could be more useful.

Daniel Sullivan: Okay, other thoughts.

So one other question in terms of products that it covered and that is preapprovals. We've heard in other hearings that some suggested preapprovals, the category preapprovals is not used.

Thoughts, do people use that category now likely to continue using it so forth in terms of preapproval loans?

Dan Imhoff:
We do have a formal preapproval program, however, we are aware that we're one of the few institutions in our marketplace that does that. We are aware that even larger national institutions still use a comfort letter of prequalification type thing for the borrower. What we have experienced though is that we recognize that the preapproval customer in many cases is a shopper, and we've also discovered that we're not the only institution that they're actually sitting down with to determine what they qualify for. They will -- there's no property identified and in all cases, it's a what-if situation. We have developed a formal program. We will not allow our lenders to sit down and calculate anything on paper. It does require the borrower to come in, and they do bring income information. Our lenders pull credit and it goes into the same system, it runs through the same automated system as our applications for purchase or refinance with property identified. Based on the information that's given that day and the rate that is used that day, our lenders do give a commitment letter and that letter is good for 90 days. It does have conditions requiring final underwriting approval once a property is identified. But in today's environment, the preapproval that is approved and not accepted is not -- we're not required to report. Of course, incomplete would never be reported. If they do obtain a property, it goes to originated. We do report denied, and I just question whether that is necessary.

Daniel Sullivan :
Okay, other thoughts, Janis, Mr. Smith, you use that data?

Geoff Smith:
I do not, no.

Janis Bowdler:
I don't use it.

Daniel Sullivan:
Anyone else?

Greg Ohlendorf:
No, I just think it's important though maybe in disagreement here that any type of loan that's denied as long as the lender has enough information to make a decision about a loan whether it's written or however their process is. If they decide not to make the loan then we just have to insure that that's part of the application that gets reported whether it was in a preapproval process or formal loan process. Otherwise, preapproval is just another part of the underwriting process that's internal. I don't see the particular value in it.

Daniel Sullivan:
Okay, one final question. Coverage of HMDA generally in small banks. So currently small banks depending on the location if they're in the metropolitan area and so forth. If you originate, I think the rule is, if you originate one home purchase loan you can be covered by HMDA. And so my question for the users, Mr. Bradford, Miss Bowdler and so forth is whether if you have a

small lender who makes a small number of loans whether you use that data in terms of analysis of the community, the lender and so forth.

Calvin Bradford :
Well, it's important to use the data in an aggregate sense. I mean you may have -- sometimes have markets particularly in small towns where you've got a lot of small lenders involved so you'd misrepresent the market in that area if you eliminated small lenders initially so you'd need it in an aggregate sense. I think, you know, personally it's pretty useless information if you're looking at that particular lender's record. It'd just be misuse of the information. I don't think we can stop people from misusing it or suppress the data because somebody might. But you need to have it as part of the aggregate record.

Janis Bowdler:
We often use HMDA data to compare loan performance in a geographic area. So if, for example, I think I include it in my summary, you know, at merger time, which are shrinking times, there's been a lot of consolidation. But in the past when there were more mergers what we would do is go into a geographic area and take a look at a particular lender against the market and against its peers. And I think that small banks often are doing really great work and meeting unique customer needs and I think it's useful to be able to compare that and challenge larger lenders that maybe have a footprint but haven't really invested in that community compared to a community bank that does. So we've used it for comparison purposes, again, not to single out the small lenders but actually more to hold the bigger lenders’ feet to the fire in terms of what community service looks like.

Daniel Sullivan:
Mr. Smith.

Geoff Smith:
I agree with Cal's comments that it's important as a piece of the market to understand what's happening in the market. I mean one example that I was thinking of when it was mentioned, you know, of lenders reporting data -- lenders above a certain size threshold reporting data and lenders maybe below that threshold maybe not reporting data is the example of CRA Small Business Data where I think after 2005 only lenders above $1 billion were considered large institutions are required to report small business data. I think that change made that data also kind of particularly useless in terms of understanding what's happening in the market. You can understand what those institutions are doing but you don't really know how the whole needs of the market are being filled and especially because those smaller banks are being small business lenders. So I think in this example as well even though these institutions -- these small banks may not be big mortgage lenders understanding what's happening in the market and what the needs of the market are having them report data in metro areas would be important.

Saurabh Narain:
Okay, thank you.

Thank you. Staying with the same thought in small banks and bring on to rural institutions. A rural institution is generally exempt from reporting under HMDA. Would the panel sort of comment on whether they should be reporting on HMDA if they're making home loans and some sort of philosophy of having sort of complete aggregate information available? This question is directed across the panel. I mean I think the industry, you know, [inaudible] might need to comment or even Calvin.

Calvin Bradford:
I think they're exempted. We've reported for a long time so it doesn't help me one way or the other but if it did maybe I'd feel differently. I think they were exempt for the very reason that someone said earlier that, you know, we can run a statistical model against it and prove whether it's valid or not. We can't run a statistical model against five, there's no statistical model that -- the standard deviation of five is, you know, the whole universe. And so when you get to these small numbers of items that are being reported in small rural areas that have very few transactions, misuse of data is the only possibility because the data isn't valid from any statistical perspective whatsoever, so you have to be very, very careful with using, you know, small, small rural areas where information is just really difficult to compile and then drawing and making assumptions and using that for any purpose. I greatly understand the reason that folks want to use the data that we have, and obviously, you know, if we had nothing but time and money and whatever we could provide reams and reams of data, which I'm sure would serve some wonderful public purpose and I don't mean that facetiously, I mean that seriously. But there has got to be a level of reasonableness between what's supplied, the amount of time it takes us to supply and comply and then us doing our mission, which is to actually go out and originate the loans that these communities really, really need to have originated. And so you have to find a balance there somewhere and I think that when you get down to these little tiny spots the usefulness is just not there.

Saurabh Narain:
Other comments.

Janis Bowdler:
Well, it seems to me that the need to collect data from small lenders would vary a lot depending on the area, the geographic area in that particular market. So, you know, my first inclination would be to do some research on the various markets, you know, how they are served now and maybe track them over time to see whether or not it makes sense to, you know, whether or not you really, really need data from the small lenders. The other notion I would want to introduce is it's almost the opposite of this is I know there's a lot of talk about systemically important institutions and I wonder if that's not a notion that could applied, you know, in a fair lending context in geographic markets. Are there some institutions who are systemically important to that geographic area, right?

Saurabh Narain:
Well, that was the context in this, you know, several of the small banks and I'm thinking small banks it's not in their favor. Are the free market, they are the only game in town.

Janis Bowdler:
Sometimes.

Saurabh Narain:
And, you know, in some senses, you know, we actually need to positively reward them for doing the right thing but we can't do that unless you have that information. So, you know, as a researcher I'm sort of caught in between in saying, you know, we don't have that information so how do we get to the point of supporting institutions to do the right thing so that's the context here.

Dan Imhoff:
I guess it also might get back to in those small areas how effective is it? I'd like to make a comment using this on behalf of the small banks. I think it needs to be understood, recognized that when regulations are enacted and implemented and placed upon the banks we sometimes have a tendency to look at the big bank. You know the big bank has unlimited resources to many extents. But those regulations become universal, and they not only apply to the big boys they apply to the little guys too on the block. And I look at what we do to audit our loans, review our loans. We employ one underwriter to focus solely on quality control audits and HMDA audits, HUMDA review. In addition to that we have a senior underwriter that reviews that person's work. We have three compliance people to review that work. When you -- and we're not a big bank. We're $770 million. What happens when you get down to the $100 million bank, $200 million bank, those people don't have the resources to devote that type of review and provide all that analysis. It's very taxing on them.

Saurabh Narain:
Thank you.

Elizabeth Duke:
Let me finish with just one question that sort of sparked by the home improvement loan discussion. I don't know how many of you are familiar with Pace Loans. It's a new program being run by a lot of municipalities primarily and the way it works is that home improvement loans for energy efficiency purposes are funded through the use of property tax mechanism. They're treated like a property tax assessment. And, you know, my question is, because they do act in the same way as liens on property and are used for home improvement, how do you think they should be treated in terms of HMDA reporting?

Janis Bowdler:
That sounds like a trick question.

Elizabeth Duke:
It's not a trick question I'm really, really -- not a trick question, no.

Male Voice:
Tough question.

Dan Imhoff:
Well, I think that's a difficult thing although we have lots of sources of loans that people use for their homes that, you know, from various ways from relatives in borrowing against life insurance and things that people already use that aren't reported on their HMDA so it strikes me as another

category. If it got to be a major source of home improvement lending it might be worth categorizing but I think we could probably look at all the various ways in which people find resources for their home and see a lot of stuff that's not reported in addition to HELOCs, so I can see the concern. From a lenders point of view, you know, internally it's and for the bank examiners it's something you can look at in terms of equity because it's going to show up in the mortgage payment if it's part of the tax assessment so it's going to show up the reserves. So there are ways in which people who have more detailed data can look at it but I think will be hard to categorize initially at HMDA. We're always a little bit behind the curve. We have to see what loans get created and put them back into HMDA. You can't always anticipate the size and value of them.

Greg Ohlendorf:
I would feel that, due to the nature of the product, that it should be reportable. There are a couple reasons why not only for typical HMDA purposes but it's the nature of the loan. And I guess maybe I'm a little sensitive to this because a community bank, we are also a servicer of all of our loans. So if that loan goes into default it takes precedence to our mortgage because it falls on the tax side, the property tax side. And that is a big concern of ours as a servicer of mortgages. We retain the servicing for our loans as a benefit to our borrowers who want to work with a community bank. We won't sell it off to a national servicer. We're put in a position of jeopardy.

Elizabeth Duke:
Anybody else? With that let me thank this panel. This has really been informative and you've been very brave with some of your answers so I thank you very much.

[Applause]

Alicia's going to give us instructions on our break, but let me remind you that if any of you wish to speak during our open mic period, please make sure that you've signed up to do so.

Alicia Williams:
We're going to take a break until 10:30, and as Gov. Duke mentioned, if you're interested in speaking during the open mic, we have the sign up right out there on the desk, so please do so. Also, when we start again at 10:30, if panel two could just come up here and take their seats, I will also remind the people who are interested in speaking during the open mic session that we're going to seat you over right here.

So, we'll start at 10:30. Thank you.

[Break]

Male Voice: Testing one, two

[Long pause]

[Background noise – concurrent conversations between panelists]

Alicia Williams:
Let's go ahead and get started.

Good morning. I'm Alicia Williams. If you could put your cell phones on mute or silent ring please. And also I'll just give the same instructions that I gave to the panelists this morning. You have five minutes to speak, and then Maggie Anderson here, she's our time keeper, she has a little device in front of her, which is green, yellow and red. When you have five minutes, it will be green. When you get to the two minute sign, it turns yellow, and when your time is up, it turns red. And she'll also hold up a time sign, so you know, please watch her occasionally.

I'll turn this back to Gov. Duke, but just one other thing, too. We're going to go straight into the open mic session right after panel two.

Elizabeth Duke:
Thank you, and I understand we have one speaker in the open mic session, so for those of you who want to plan, we should be finished about five minutes after it starts.

Panel two, we have Jim Campen, professor emeritus of economics, University of Massachusetts Boston; J. Michael Collins, assistant professor of consumer science, University of Wisconsin—Madison; Marsha Courchane, vice president, Charles River Associates; Thomas James, senior assistant attorney general, Office of the Attorney General, State of Illinois; Mike Long, EVP and Chief Credit Officer, University of Wisconsin Credit Union; and Angelo Vitale, vice president, corporate counsel, Quicken Loans Inc.

Once again, thank you very much to this second panel, and Mr. Campen, if you want to begin?

[Beep]

Jim Campen:
Good morning, Governor Duke and the other participants, thank you for the opportunity to participate in this panel. My name is Jim Campen. I'm Professor of Emeritus at U Mass, Boston. I'm a longstanding board member of the Massachusetts Affordable Housing Alliance. My comments this morning are offered in the perspective of researcher who has worked with HMDA data for many years. I'll use my five minutes to highlight four potential changes that are not mandated by the Dodd-Frank Act, that I regard as particularly important in helping HMDA meet its stated objectives. So quick preview, first, identify lending families, not just individual lenders. Second, report information on reverse mortgages. Third, mandate the use of universal loan identifier. And fourth, include debt to income data.

So first, identify lending families, not just individual lenders. For many purposes, it is useful to be able to analyze all the lending by what I call lending families. That is all lenders who are part of the same corporate entity. Lending families cannot be identified on the basis of current HMDA data. The parent fields in HMDA transmittal sheet data are seldom helpful. Not all lenders reported to identify a parent and those who are required do not have to name their top parent. And thus as a result, many relationships among HMDA reporters are not revealed. In my own work I draw on a variety of sources to place lenders into lending families. But this is a time consuming process, draws on knowledge of the industry that is not widely available and many users do not have and results in a list that I'm sure contains errors. With the top parent field added to HMDA data, transmittal sheet data, users of HMDA would easily be able to identify all members of each lending family. Second, report data on reverse mortgages. It is widely recognized that the volume of reversed mortgages is growing rapidly and that these loans to senior citizens are potentially subject to great abuse. Compelling accounts of the emerging dangers have been provided by sources as diverse as a former comptroller, John Dugan, and by the National Consumer Law Center. Currently there is only limited information about the number of reverse mortgage loans, about what lenders provide them and about the lenders, the borrowers who receive them. Thus it is important that lenders be required to include data on reverse mortgages in their HMDA LARs. The goal of identifying reverse mortgages could be accomplished by simply adding a new code to the purpose field. However, the nature and mechanics of reverse mortgages raises interesting issues about how best to specify the reporting requirements for these loans. I addressed some of those questions in my written comments. Third, mandate the use of a universal loan identifier. The Dodd-Frank Act suggests reporting a universal identifier for each loan as the bureau may determine to be appropriate. I would strongly urge the board to require the collection of this very important piece of data. Widespread use of the unique identifier for each loan would greatly facilitate the ability of researchers and others to link a variety of existing and future datasets in ways that could dramatically increase our understanding that many aspects of mortgage lending. [inaudible] identifier, the information contained in HMBA LAR data could potentially be linked to, among others, databases including information from [inaudible] and HUD-1 disclosure forms, databases maintained by registries of deeds in counties all over the country, databases on loan performance, delinquency and foreclosure, including that mandated by Dodd-Frank, databases on loan modifications, databases maintained by Fannie and Freddie and the loan level data the securitizers provide to their investors and their regulators. This identifier could also be used in an additional field in the HMDA LAR to link the loan being reported on to other loans being made either at the same time, the case of a piggy back loan, both loans of the first mortgage, first lien loan or loans made earlier, for example, the loans being refinanced by an existing mortgage where the primary mortgage has been supplemented by HELOC. Fourth, include debt to income data. Debt to income ratio is the only one of essential variables used in mortgage loan underwriting that is neither currently collected nor mandated by the Dodd-Frank Act. It's inclusion in HMDA data is needed to enable a more powerful and accurate initial assessment of whether observed disparities in loan denials or originations, are likely to reflect, at least in part, the presence of illegal discrimination.

The debt to income ratio is also highly relevant to assessing the sustainability of mortgage loans. Figuring out how best to provide debt to income information raises many issues and deserves careful considerations. One simple suggestion would be to add three fields to monthly debt service payments. First, the maximum possible monthly payment during the life of the loan, as disclosed to the buyer or pursuant to an interim rule released by the Fed one month ago today. Two, the maximum possible monthly payment, if any, on other dwelling secure debt. And three, the monthly payment on all other existing consumer debt. That way, you can get whichever debt to income ratio you want, frontend or backend or just all real estate. Of course the HMDA LAR data already includes borrower income. So thank you again for the opportunity to participate in this panel and I look forward to addressing these and other issues in the question and answer period.

Elizabeth Duke:
Thank you. Mr. Collins?

Michael Collins:
Thanks very much I appreciate the opportunity to be here and thanks to the panel for pulling this together. My name is Michael Collins. I'm a researcher at the University of Wisconsin. I direct our Center for Financial Security. We do work on consumer decision making in financial markets. One of our biggest projects is with the Financial Literacy Consortium with the Social Security Administration, although I have to preface on my remarks to say these are my own and not those of my fund or of my institution. I, again, also bring the research perspective and I think you're going to hear that for the first 3 panelists here as this research perspective.

HMDA is very important for research. There's over 550 scholarly works based on HMDA data that I was able to find just in cursor search of Google Scholar. There's a lot out there. It's very useful to researchers and it's not just discrimination and community development. On the consumer side I find it very useful to find who rejects lender offers, how do various variations in state laws affect whether people take on a mortgage or not. So there are many possibilities to use HMDA data for policy, for community development and for consumer decision-making that are important. That said we have gone through quite a few revisions to HMDA over the years and I was personally part of the effort in the early 2000s when we talked about adding FICA score and adding price spread and those kinds of things and the same debates we had today and a little bit with late Governor Gramlich on that as well. You know, rate spread, I think, is a good example of something that was very useful to us during this last housing boom. We got a sense of how credit was no longer just rationed it was priced. And we got a sense of not just the approval denial decision but what pricing was required by various consumers but it also raised more questions, and I am certain that this process is going to raise more questions too. As we get more data we start to need more data. I think what's important about HMDA is it gives us data on applications and originations. A lot of our conversation here so far has been about the origination data but the application is really important tool in thinking about what's in each of those pieces. As we've gotten data on price, we now need more data on risk, and that's where this idea of collecting FICO score, LTV, home value, these kinds of things become important. Those could certainly be collected in buckets based on data that's in the origination record and would be useful but they will not give us the entire story of what the risk of this particular loan is, but it'd certainly be better than what we have now. I would add one additional piece of information we might want to have in the refinance category, which is an important category that HMDA collects is the cash-out refinance versus a term or rate refinance. The cash-out refinance is an important feature that was very important this last housing boom that we might be able to pull out of the existing information, but it's very hard, you know, a simple indicator of that would be helpful.

The proposal to add a broker channel or retail channel I think is another important one. In economics we worry a lot about principle agent problems. I think we saw a lot of them, what happens with principle agent problems with the broker market in the last few years, having some indicator of that could be useful. I have other comments in my written remarks that we can talk about in the discussion. I would just urge for the Fed as an administrator and for the FFIEC as an administrator of these data to really think about these data as a research data set in addition to its other roles that it plays for administration. You know, in working with other units the federal government and Social Security, Census, they have procedures to allow researchers to access very, very confidential data like your entire work history, your entire earnings records. We have methods to do this, they involve getting deputized, go into a closed room not being able to walk out with any files, those procedures exist but they don't exist for HMDA. Even the existing fields like date would be useful in that context. So I would just encourage the fed to think about encouraging research with this by creating those kinds of processes and procedures. You know, make it legal for us to try to match these data and, you know, really try to help us do that. The other thing is too like the fed does with other data sets involved in issue code books, issue, you know, ways that we could learn about the quirks of the data. Right now we have informal networks where we learn about the data, that information's not always universally shared and it can undermine analysis. So just ways to make the data more standardized, to issue the data in machine readable formats and to create more discussions so that we understand what the issues are there. You know, I am sort of agnostic on some of these issues about the cost of collecting these data, but I can tell you the value from a research point of view is very important and to the extent we can get more value out of this existing data seems to me something that the Fed could certainly pursue. So thanks very much.

Elizabeth Duke:
Thank you.

Marsha Courchane:
I guess I'm up next.

Elizabeth Duke:
Yes.

Marsha Courchane:
I'm going to warn you that I'm going to deviate a little bit from my written comments just because some of what I have in them has already been mentioned by others, so I'm going to start out with my summary first and then go back to a little more detail on some of the things I want to say. I like Michael really value HMDA as a research tool. I also use it a lot in my work. So let me tell you a little bit about that history. I came back to the U.S. in 1994 to go to the OCC where I helped design their statistical modeling procedures for fair lending, and I stayed there for five years and then I went to Freddie Mac and worked in that fair lending group for five years after that. I had 15 years as an academic before either of those so the only thing I really cared about when I started was getting data I could use to publish research papers. That was really a great opportunity because I could use OCC data, I could use that data and I could learn a lot. And I really think the public availability of this data is one of its strengths, and I very much worry that as we provide more and more and more data we're going to either restrict it to people in locked

rooms or we're going to give it only to the regulators and researchers can't use it. So like Michael, I think one of the key strengths is public availability of this data in whatever form we can get it in, and I do think there are qualifiers that I'll get to in a minute. The second thing I did at Freddie Mac was look at affordable goals and looking at the neighborhood where these loans are applied for and originated and looking at, do the properties for those loans, do those loans meet affordable housing goals I thought was really important and not just discrimination. In my work in consulting I do a lot of work in lending discrimination. I bet if Michael Google-researched me half my papers must be on fair lending discrimination, and I care a lot about that topic as well. I think HMDA has some limitations but one of the strengths it has for all of us not only the researchers but the regulators, the banks and all of us who use that data is that it is loan-level data. And there's lots of data available from other places the Dodd-Frank data on defaults and delinquencies will be available, but at the track level there's an awful lot we can learn at loan level that we simply cannot learn from -- sorry -- from loan-level not track-level data. So I really care that it stay loan level. And the third thing is that I think the data is very rich. So when the questions come up about what can we cut out to add new fields I get a little nervous except that there are some fields I would cut out preapproval being one of them, home improvement being one of them. We can make changes and you have to be dynamic and make those changes. So I really think the strengths are the public availability, the loan level nature of the data and the richness of those data. And I really hate to see us address the weaknesses while not keeping the strengths as strong as they are.

What are the weaknesses? Well, like Janis I agree that the timeliness is an issue. So data that comes out a year, a year and a half later is difficult to use from the sense of predicting will there be a crisis. Is something bad happening to subprime? The data is not timely, so my recommendation for that is to have a two-tiered system where the large banks -- 20 percent of the banks reporting in HMDA probably originate 80 percent of the loans take in 80 percent of the applications and they're all electronic. Let the large banks report quarterly at least to the regulators and to the systemic risk regulators so that somebody is seeing the data in a timely fashion. If the large banks report more promptly, the small banks are the only ones that are going to need to be cleaned up between March and June and so the data publicly might get out faster. I agree that not everyone can get it out as quickly as that, but certainly all the institutions that I work with supply me the data quarterly so I think the regulators could get it too. So I think we can address timeliness.

The detail, I think, is a weakness right now. Everybody knows that some fields would be more helpful. I'm not quite as agnostic as Michael about what those might be. Credit worthiness matters if you're looking at pricing. I agree and I think we can bucket credit scores, quartile the credit scores and do something that addresses the privacy concerns, which I believe are real. Debt to income, I'm not agnostic about. It's hardly ever predictive, it's hardly every useful but more importantly it's only corrected at origination, and people can rack up an awful lot of debt as soon as they've got that loan so it's almost useless in terms of predicting performance. And the third thing I think we really need is a link to servicing. I'm now doing fair lending for institutions looking at the servicing data, and they can't even link it to HMDA. So if they didn't originate the loan, they don't know the race and ethnicity. HAMP is recollecting that but when the HAMP race and ethnicity doesn't accord with the HMDA race and ethnicity, there's no answer about what to do. So I think the unique identifier is really critical, and it should carry through to servicing. That's it, thank you.

[Buzzer sound, then laughter]

Elizabeth Duke:
What timing.

Male Voice:
Last second shot.

Elizabeth Duke:
Mr. James.

Thomas James:
Thank you, first I want to thank you, Governor Duke and the board staff as always, and certainly Cat for inviting me and for taking the initiative on the review of Reg C. At this point in time I think it's good to get going early and I really appreciate that. As an Assistant Attorney General in the state of Illinois, I want to focus on our shared mission that is enforcement agencies and policy makers in carrying out one of the three listed policy purposes of the act, of the HMDA Act, and that's the duty to identify discriminatory lending patterns and conduct in the mortgage marketplace. As you may be aware the office of the Illinois Attorney General's recently brought two major enforcement actions against national lenders. Those two lawsuits allege disparate impact and steering claims under our state's antidiscrimination and fair lending laws. Both lawsuits depended heavily on access to analysis of HMDA data.

For those who policed the mortgage market for unlawful discrimination HMDA reported data is probably the most critical and political tool we have at this point. We certainly take in consumer complaints, and we have close connections to the community but as an analytical tool there is no substitute. And this is especially true with respect to federal charters. The U.S. Supreme Court recently made clear that the states have authority to sue federal charters under our state fair lending laws. Nevertheless our authority to investigate those institutions is severely limited by the Water's decision. So we're caught in a strange situation where in a lot of ways, once we view what are apparent disparities, we've got to pull the trigger. Unfortunately our resources are limited and time's always at a premium, so our analysis of suspicious market phenomena is always informed by local community groups, academia, non-for-profit research organizations and press. And so they are in a better position in many cases to interpret the data. They have in many cases more expertise. And we have to be responsive to them. So, again, these institutions rely heavily on HMDA data and it's important that they have access to them.

I'd say when we do the investigations and up until, I guess, the Frank-Dodd bill goes into place, we were missing critical elements and, of course, the total loan to value or combined loan to value and total income are critical as well as credit scores and annual percentage rates and screen out a real problem for us, which would be false positives. And I can tell you that when we ask for data from nonfederal charters, we have at least 28 additional data points that we ask for in that process. So false positives, the waste of resources are critical to us, of enormous concern. I wanted to touch on ways of protecting privacy. Now, it's your job to take in the data and I think you should take as much data as you could possibly get given the utilities and economics of the folks you're getting it from, but we need to share that data. Certainly the top law enforcement entities should have access to that data. And certainly we want to see not-for-profit research organizations get as much of that data as is possible in light of privacy concerns, which we're always concerned with too. Finally, I wanted to touch on reverse mortgages. Just – .

[Beep]

Elizabeth Duke:
You'll get your chance.

[Laughter]

Marsha Courchane:
That was a touch

Thomas James:
So close

Mike Long:
Well good morning, thank you for inviting me to participate in this hearing. Glad to see a credit union in the mix, alright, liking that. But my name is Mike Long I'm the Executive Vice President and Chief Credit Officer of UW Credit Union. I'm also very active with the Credit Union National Association which is the trade association for credit unions and our members, and so I'm on the Executive Committee of the Cuno Lending Council and I also serve as the Chairman of the Regulatory and Legislative Subcommittee, so glad to be able to represent the voice of credit unions as it relates to HMDA reporting. UW Credit Union is a large credit union by credit union standards we're $1.2 billion in assets. We compete primarily in Dane County. Last year we did about $625 million in residential real estate mortgages, primarily home purchases and refinances due to the obviously low interest environment we're in. And I really believe that HMDA does an adequate job in ensuring that consumers have fair access to home financing options within their community. You know one of the core values of credit unions is to improve the financial well-being of people, and the HMDA data that is available helps us really evaluate whether or not we're staying true to that mission. You know we really do have a little bit different view of the world than some of our bank competitors.

That being said I think it may be prudent for HMDA to expand the type of data collected if the additional data elements would further the cause of ensuring fair lending and anti-discriminatory practices. It really is becoming increasingly easy for lenders to mine our data bases, so the collection of data should really not be that problematic for us. As long as we can insure that the privacy of our members and our customers is protected. I think some areas that we've talked about this morning that you should consider including would be loan to value ratios, debt to income ratios and the existence of prepayment penalties at the loan record. I think these three in particular might lend some insight into discriminatory practices that may be occurring by market area and or ethnicity. And with regard to the exemption from HMDA reporting's been many on the panel that have already talked about requiring nondepository lenders such as mortgage brokers being subject to HMDA thresholds. And also I would say that the current reporting requirement is based on asset size of the institution. I think that's really almost irrelevant; it should be based on the number of mortgage transactions that the financial institution might make in a given year. And I think generally the current definition of reportable loans under HMDA is appropriate. I would certainly support not having to report unsecured home improvement loans or HELOCs at all, quite frankly, because, again, as has been stated by many of the other panelists consumers use these for a number of different reasons so it's really hard for us as lenders to try to narrow in on what portion of if any they were using for home improvement. And, again, sounding like a broken record and getting to your point I think reverse mortgages should be considered as HMDA reportable. Increasingly seniors are being targeted by what I consider to be sort of a nonprime mortgage loan and many times as has been stated already these loans are accompanied by excessive fees, so we want to make sure that we're able to have oversight over that particular segment of the marketplace.

One thing that hasn't really been noted is how long will it take us to implement these changes and I think it would be fair if we had 24 months to implement these changes. Certainly data is readily available we can program our systems. But it has been stated, you know, the compliance resources have been strained over the last couple of years. Certainly with things like Reg Z, Credit Card Act, SAFE Act, Fact Act, you know, one after the other, so it would be nice for us to have some time to acclimate our systems in order to be able to maintain our compliance with HMDA. So, again, thank you for allowing UW Credit Union's and the credit union industry to participate. I look forward to seeing how this issue progresses, thank you.

Elizabeth Duke:
Thank you. Mr. Vitale?

Angelo Vitale:
My name is Angelo Vitale, and I am Vice President and Corporate Counsel of Quicken Loans. I appreciate your invitation to participate in today's hearings regarding potential revisions to HMDA. Quicken Loans is the nation's largest online retail mortgage lender and one of the largest overall retail home lenders in the United States. In 2009, we closed more than 123,000 conventional FHA/MBA loans totaling over $25 billion in retail home loan value. Accordingly, we devote significant time and attention and resources to our ongoing compliance efforts, especially as it relates to fair lending. We are committed to doing the right thing.

One of the reasons HMDA was enacted was to assist and identify possible discriminatory lending patterns. Regulators have publicly acknowledged that analysis of HMDA data in and of itself does not prove or disprove discrimination. However, review of the data is helpful in determining whether a deeper dive into the entire content of underlying loan files may be warranted. Law-abiding residential mortgage lenders have no quarrel with this objective. In fact, we closely review the HMDA data to measure our own individual performance, and we use it as a comparative to other lenders' performance utilizing the aggregated data compiled by the FFIEC. However, we are also acutely aware of the reasonable expectations of our customers that we will respect and safeguard their privacy in their dealings with us. Consumers entrust us with highly sensitive personal financial information, which we need in order to carefully evaluate their financial condition and assist them in deciding whether to enter into a substantial loan repayment obligation in exchange for which they offer the very roof over their heads as collateral. I cannot express strongly enough that the public's need for transparency through access to HMDA data must be very carefully balanced with legitimate privacy rights and expectations of mortgage applicants. The board must be cognizant to the extent HDMA data, either on a stand-alone basis or in conjunction with other publicly-available data, can be used to identify individuals, such data should not under any circumstances be made publicly available.

Even though lenders and regulators may find the expansion of HMDA recording requirements by including data such as loan value and debt-to-income ratios to be useful in evaluating lending patterns, the professed need for access for such data by the public is far less compelling, and may intrude on the legitimate privacy rights and expectations of loan applicants. Further, to the extent the board is considering expanding the scope and coverage of HMDA to require reporting by additional types of institutions, such as mortgage brokers and smaller lenders, we are of the opinion that such an expansion may, indeed, be warranted. The collection of pertinent data from a wider array of entities will likely provide a more accurate picture of national and local lending patterns, and may assist all lenders, regulatory agencies, and the public in comparing lender performance using the aggregated data compiled by the FFIEC. However, it is imperative that the board, in considering the possible expansion of the scope and coverage of HMDA, take into account the fact that newly-covered lenders will need to make extensive labor-intensive technology investments to ensure compliance and also to the extent that currently reporting lenders will be asked to provide more data. We, too, will have to enhance our loan origination systems and other integrated third-party software programs that help us to accurately and timely report. Finally, in light of the recent passage of the Dodd-Frank Reform Act, extensive rule-making is about to ensue which will necessitate disclosure of additional loan data by mortgage lenders which may be duplicative of some of the proposed HMDA revisions being contemplated by the board. It would be unreasonable and counter-productive to impose upon lenders the burden and expense of making significant reporting changes within a relatively short time period at the behest of both the board and the CFPB. A consistent, collaborative, and cohesive approach by the board and CFPB to revising HMDA requirements will better serve the needs of lenders, regulators, and consumers alike. Disjointed, overlapping, and inconsistent changes most certainly will not. Once again, thank you for inviting us to participate and for taking what appears to be a very widely inclusive and open-minded approach to this very important topic. Thank you.

Elizabeth Duke:
Thank you and once again, thanks to all of you for the information you have provided.

I'm going to start again with the privacy question 'cause I think this is an important issue and I guess I don't find it entirely persuasive that people are able to discern individual information now and so we should make it easier and cheaper for them to be--for others to do it. So, particularly to those of you who use the data for your research, again the question of what are the ways that we can protect privacy of individual data and still provide data that's useful and that's usable by you in your research?

Marsha Courchane:

I can take a first stab at that one. I probably have done some fairly complicated regression analysis using all sorts of variables and I will say that in almost none of them have I ever used a continuous measure of LTV. I have almost never used a continuous measure of FICO. DTI for the last 10 years has never been predictive because it comes now documented. So, what could you do? Simple things you could do. For LTV, what really tends to matter to approvals and denials and to pricing are thresholds. So are you above an 80 percent threshold? Are you above a 95 percent threshold where fees matter for, say, FHA mortgages? So you can -- it doesn't matter if you're at 40 or 44 percent LTV, not at all. Not probably to approval, not probably to pricing. So you could produce LTV to the public in buckets, big buckets there. Above 80 percent and below would be helpful. Above 90 percent and below, you know, those I think you could easily do LTV. For credit scores, one of the things I hear most often is that while different lenders use FICO and some do tri-merge and some do something else. But you know what, almost every lender I've ever looked at in my exam time, in my Freddie time, in my current consulting time, they have a decision score they use. So be it the median of the six, be it the lower of the average of the six, whatever, they have a rule they use and they could report that rule. And for privacy, I think what you need to get is some way that people don't know exactly where you are but if each lender produced -- this borrower was in the lowest quartile of last year's FICO just our credit distributions. Each lender, even if it's custom, even if it's not FICO, even if it's tri-merge know was this is in the top tail of our credit distribution, the bottom tail of our credit distribution or something like that. So you could aggregate those kinds of things and make them publicly available I think without hurting privacy.

Michael Collins:
I'll just reiterate the point I made before this. There are variables that you feel, for example, now date is not--date of origination is not in the publicly available dataset. It's available to Fed researchers. Create a system so that you have a process so those, those resources can be used. And the thing I will just encourage you to think about is how will people exploit this? So property value could be matched to personal records in the accounting recorders and then maybe linked to a name. FICO got me -- some of these other variables. It's not so clear to me that there's actually a privacy concern there because you--in order for them to be a private concern, you got--only get to an individual and it's really the home value I think that home value and track and date that you could do some combination of matching around.

Elizabeth Duke:
Any other comments on that?

Angel Vitale:
From a lender's perspective, I would echo Marsha's [phonetic] comments though that the idea of using those thresholds and we can debate how broad those ranges should be, but it's true that we have lenders rely on those for making our credit decisions. Our investors, our loan purchasers tell us above 80 percent will or will not be approved or may or may not be priced differently. So, I think that again to address privacy concerns, those buckets of categories may prove useful on that regard.

Mike Long:

I guess--I would add one thing which is, to me it underlies the importance of collecting as much data as you can and not having the bank report the buckets because we're talking now about HMDA data that's gonna be used, at best, a few years from now, it will start to be collected. And so what's used--what's the threshold for credit score now may be very different from what's a threshold from credit scores. And the way credit scores are--the whole--lots of things may change. And so if the data's report are what the number is, what the system is, what if the Fed has that--the FIEC has that, they can just--you can decide on your own each year what are the most useful buckets to use. And I would--

Elizabeth Duke:
How would you react to the suggestion that it be tied to the--whatever type of score that the lender is actually using rather than a specific number or a tri-merge score, or a definition of a score that it be related to that lender's decision process?

Thomas James:
In terms of the public release, I mean I would think that the--We're interested I think in looking both at neighborhood issues and individual lender issues. And if you wanna get at the question of, are people with this credit score being treated different, you know, fairly, you have to have a measure of credit score, which is gonna be useful across lenders, and I would think again if the lender's report what method they are using, what credit score they've got using that method. I don't know exactly how you most best collect that or you collect that data. The Fed can then reduce--release results on a kind of universalized basis. Not just among of that lender, this is in the top quarter, but of all the lenders in the country. You know, this is the top quartile. This is the next quartile and so on. So I think the extensive work to be done by the Fed beyond just classifying but it means some analysis has to be done but I think there's a lot of potential along those lines.

Elizabeth Duke:
Okay, thank you and I promise that if the ground is not fully put out on reverse mortgages by the next round of questions that I'll open with that.

Sandra Braunstein:
Okay, actually I was gonna start by giving Tom the chance to more than just touch on reverse mortgages, and if you had something you wanted to say back like [inaudible].

Thomas James:
Well, I certainly wanted to make you very aware that we see this as a major oncoming problem. The demographics are right there and we sued, I think since Jan. 2, reverse mortgage originators for their marketing practices. And you know, if I had a crystal ball, I could guarantee you that we're going to probably sue many, many, many more in the very near future for marketing practices and we're seeing, you know--niche products I think become like pay-option ARMs, become very problematic very fast. And this is certainly one that's well on the way to becoming one. And all the use of equity conversion products that are aimed at seniors are in the same problematic realm.

Kathleen Engel:

I can't help but do a little commercial because we also recognize the issues around reverse mortgages and as a matter of fact issued as you probably know for some proposed rules in August with new disclosures and some--they're having some unfair and deceptive practices proposing that even purposely to address some of the things that we see, so--just say that we're also aware that reverse mortgages are a big issue coming forward. I have kind of somewhat of a philosophical question for this panel and in particular I wanted to ask this because at least a couple of you either are currently such as Tom in like enforcement or previously were like Marsha in the enforcement arena. So, some of what we hear and we heard this morning from the panel had to do with, you know, the need for more data to help really determine issues of discrimination. And that's something, you know, of course we've been hearing for years if we only had more data, we could determine that through HMDA. Obviously what we have found as regulators -- and we're on the record with this; I've testified on many times in Congress -- is that currently as HMDA stands, we can't make a determination of discrimination just with HMDA data. It takes a lot more than that. And Tom, you, this morning just said a little while ago that you request when you go back in, you're requesting like 28 more pieces of information from lenders. So my question has to do with, you know, I know that there are, you know, requirements in Dodd-Frank obviously for like 13, 14 additional data elements. We're certainly looking at even additional data elements. I wanted to know what your thoughts were, any of the panelist, on--is HMDA ever going to be able to be used to really determine discrimination and if not, how do we--what do you suggest us in terms of expectation setting for people on, you know, when there is all of this additional data, the expectation may be that, okay, now we've got all these dataset, now we got you. And what is, you know, I think that's an issue going forward. I was just wondering what people think about that and like I see in particular people being in enforcement seen the other side of it. And I'm just curious about that 'cause I think it's a big issue going forward.

Mike Long:
My initial reaction is enforcement has a number of components. And certainly not only is there the critical element of having an empirical, that ability to make an empirical analysis which you need fine-grained data to be able to conduct. But there's also a very significant deterrence factor and I think that in the institution that's engaged in lending and we have, you know, concentration in the market now and then originations at least for the moment has to be very aware and have a very thorough process for consistently recalculating the effects that they have in the community and will these bare out in numbers that look like they're discriminating or how do you tell the difference, you know, when it looks like they're discriminating. So, there is a very important deterrence factor, which for law enforcement is, "Oh, it's critical," because heaven knows we don't have the potential to police everything. And so I wouldn't minimize the fact that making lenders and originators and secured [inaudible] very conscious of the fact that what they do has real consequences in the real world and that there are people who are looking.

Angelo Vitale:
From a lender's perspective and from a legal perspective, I don't disagree with Tom's comments at all. Really, it's more awareness I think than deterrence for legitimate lenders. It is looking at that and knowing that others are looking at that and saying there might be something here. These numbers tend to show us something but without using that data to conclude definitively that something can be determined. Rather it just--it opens up the discussion or takes it further

perhaps to the subpoena for 20 additional data points or what have you, but it ultimately takes you into the content of the loan files I mentioned in my preliminary remarks. It's just sort of requires the deeper dive and my concern about producing some of the data or more data to the extent that folks use that and say I can look at one applicant in the sideways and credit scored, VTI, LTV, maybe some other elements that they were denied a loan and I can show 27 others that are at or above those same characteristics that were approved that that is in sum and substance proof of discrimination when in fact it's not, especially in an age of automated underwriting and the fact that you have to do multiple DU runs as income or other data changes or appraisal, you know, changes. DU points you down other paths to ask for different information, and so are--those seemingly comparative credit characteristics may not be comparative at all when you get into the loan file. So again, it raises awareness as more data is out there but it shouldn't be conclusory and folks shouldn't jump to that decision.

Marsha Courchane:
I'm gonna agree with both of them except that I wanna start off with a flat no. I mean I don't think HMDA alone no matter what we do to it is ever gonna be sufficient for finding discrimination or doing something about discrimination. I think it is necessary. I don't think it's efficient now and I don't think it's ever gonna be sufficient because you not only need to know the characteristics of the borrower, you need to know the loan product in detail nor was it armed or fixed, or was it a broker or a retail. You need to know a lot to know how it was priced and whether the borrower met the conditions of the product. You need to know too much for HMDA to ever have enough in it by itself to be useful without absolutely violating all of our privacy concerns. It can't be done, but it can be suggestive, I agree, and the more you have, I think ,Sandy, at least the OCC, the Fed, everybody uses the HMDA data in part for the prescreening about even the exam deep dive. And the more information you have to better focus that deep dive, the better for everybody. But no, I think if we used HMDA as it is publicly for discrimination, it would be, you're responsible. So, I don't think it will ever work by itself but I think it can be better focused than it is now.

Jim Campen:
You know, as a social science researcher, I can--in one level I agree with that. You're not gonna be--don't have proof, but on the other hand I don't think any reasonable person can look at the findings of HMDA data in many cities around the country in the middle of the last decade and not believe that there was reverse redlining going on. I mean the racial disparities are so stark that it wasn't an accident. It wasn't like responsible cleared underwriting that made 5 times more, you know, at higher percentage of the borrowers and heavily minority neighborhoods get high cost loans. I mean something was going on and well, it's not social science proof. It's--given everything else we know about the world, it's very compelling evidence, and I think that it should--you know, it's evidence that the--to me, the regulators were doing--not taking seriously the responsibilities of pursuing lending discrimination. And given the fact that we can, it is--even in a perfect world, regulators have limited resources and what their enforcement of fair lending laws needs to be supplemented by state attorney generals and by private attorneys and that an expanded dataset of relevant information that make--increases the initial--the initially, look, you can take to see, is it likely that there's discrimination. You know, legal sense to provide--will make it easier for attorneys, both public and private attorneys, to get to a finding of

a discovery, you know, in a lawsuit. And I think that's an important news even though it's never conclusive in, you know, in a legal or a social science sense.

Mike Long:
Yeah, and I'd even submit that at least I'm pretty sure from my perspective that certainly in the past than probably even with the new dataset, you can't even really put together privatization case just from HMDA data. You got to supplement it with other things but you can--it's certainly persuasive indication if you've got the kind of stuff we saw, you know, published over the last few years. It's quite compelling that we should be out there making a case.

Sandra Braunstein:
Thank you very much.

Leonard Chanin:
Thanks.

So, what are the things we look at in terms of new data fields or existing data fields is really the cost of implementing those data fields versus the benefits. So kinda two parts, my question, one is it was suggested I think by Mr. Long about home equity lines of credit. There're some questions as to where those should be reported. They're currently voluntary in terms of reporting. Let's leave aside reverse mortgages for now, not to include those but is there value to, let's say, you mandate home equity lines of credit reporting of those. Is there value to that data in terms of usability of that data that would warrant the cost imposed in pulling those in? You just got through anyone who has views.

Thomas James:
Well, you guys are using the data. I'm just providing that, so you can use it.

[Laughter]

Thomas James:
Yes. My answer would be yes. We saw tremendous--I saw and I think you spoke to many assistant attorneys general who do this certain thing, tremendous abuse. And I think systematic abuse of HELOCs particularly simultaneous seconds and we, I think, in the last 10 years, we sued--what comes bubbling up immediately, we sued Household Beneficial. We sued Countrywide. And I think--well, at least those two, we--there were apparent abuses of simultaneous seconds and piggyback loans, and all sorts of ways which I'd get into details some other time. And it would have been very helpful to have recorded data on those. You know, pulling down a hundred percent LTV at a simultaneous closing is almost always to us an indication that something is really amiss. And so having that reported would be very significant. We could target that kind of behavior because those are not what I considered the HELOC that I use for my, you know, everyday family purposes. So, yes.

Leonard Chanin:
Okay, Marsha?

Marsha Courchane:
I think yes. So here's why, at least under my read of Dodd-Frank it doesn't require CLTV. And while you have property value and loan amounts that you can proxy LTV, you can't proxy CLTV. And in approvals, denials and pricing, CLTV matters. And so even if you restricted it only to collect the actual amount of the draw, and I might restrict it. So if it's open-ended, not used, never used, it has much less meaning. You don't know what its value is gonna be 6 months out. But if you knew and could link it to be in a simultaneous second that affected CLTV at close, I think it would be very useful.

Mike Long:
From a lender's perspective by the way, I totally agree with that. To the extent that that was in fact a simultaneous second and the draw did take it to this 100 percent LTV, I think that would be very meaningful and very important to look at, but I think it's important that the description of the definition of how that should be reported and what should reported has to be very clear on that point. Because the extent I agree to open up HELOC but draw nothing down at origination again for all the reasons previously stated, it doesn't really tell you much about what it was used for or if it's ever going to be used?

Thomas James:
So you're just reporting the amount of available line that's gonna be of use not much.

Mike Long:
Not much.

Leonard Chanin:
Jim?

Jim Campen:
Yeah, I would say that there's great value and simplicity in the regulation and if the regulation criteria was if a loan is home secured it's reportable, and if it's not home secured it's not reportable and I think that's simple and that might reduce some of the burden. I think the issue of liens versus lines is interesting, but I would suggest to having a field where--when most reverse mortgages and for home equity loans, there are lines as well as liens and sometimes--and often it's both and I think it would be easy to have a field, which says is this a line--is this a line of credit? Is this is only a--is this a loan only? Is it a line of credit? Or is it a line of credit with which during the current year there has been some actual loan amount? And not that all gets reported and I'm--there are various ways I think in which that data would be quite useful.

In general, the question you raised could--over and over we hear the question of loan burden and I don't really--I don't work inside a bank. I don't really understand the burden but my strong perception, the way the world is working is getting easier and easier, cheaper and cheaper to manipulate and process data, to collect and process data. And it seems to me all the data we're talking about is data that the banks have to have in their systems. I mean I don't know which of the--the banks got to have a consolidated loan evaluation. There's responsible lending, when do they do that? And it's just a matter of getting here from one place in their computer to another place in their computer and I think that's--it's ways the--it will be useful.

[Inaudible Remark]

Leonard Chanin:
Jim, you'll have to keep Mike separate over there. He's--

[Laughter]

Jim Campen:
But I think in so far as the Regulation C can designate what goes in the HMDA data in terms of a data that's already reported somewhere else in some other form, that's very useful thing.

Leonard Chanin:
Right. Mike [inaudible].

Mike Long:
Oh I'm quite certain that it would be very simple for Bank of America to reprogram their system to accommodate HMDA but it would probably be very difficult for the United Auto Worker 151 Credit Union in wherever Minnesota to have a system be able to capture the data differently than it's capturing to data conformed to HMDA.

[Inaudible Remark]

Mike Long:
These are not small issues for institutions that don't have depth and breadth and staff and resources and technology. So it is not an easy task for us to just, well, they want loan the value now. Okay, Jerry, flick the switch. I mean it really--it really doesn't work that easily, so.

Male Voice:
This--this--

Mike Long:
Although I can--I can say it's become easier, for smaller institutions it's difficult. For us, it's easy. We're a large institution, I have IT staff. But for the $30 million credit union or the $30 million bank, it can be problematic.

Angelo Vitale:
It can be done. It will take time and money.

Thomas James:
My impression is that each individual credit union, each individual small lender is not entirely on their own, that there are vendors who provide software services and advertise in commercial--in the industry press.

Mike Long:
That's the money part.

Angelo Vitale:
That's the money part.

Marsha Courchane:
Let me make a small plea for standardization. So here's what I think. The small lenders all find it hard and with it, the big lenders could flick a switch but I worked with some of those and it's really hard. They make mistakes, it's really hard. But I do find that once it's in HMDA and standardized and everybody knows the rules of the game as much as they can, then it's easier. So whatever it is, change at once, get a change to apply it and be really detailed and clear about the recording requirements, and it will take time and money but it can be done. But the standardization matters. It's way harder responding to five different regulators with different requests with non-HMDA data than it is to respond to HMDA data.

Leonard Chanin:
Thank you.

Michael Collins:
Mike, I was just--a general comment about the said, you know, voluntary data and also this issue that Marsha just raised about how well defined the data is. As a researcher, the first thing I do is I drop the variables where I'm not sure if they're, you know, valid. And so, anything that's voluntary I'm gonna just get rid of. I'm not gonna use it. It has no value for research. Similarly, if you have a field that's not well defined, if different lenders are interpreting it differently, I'm gonna drop it. I'm just not gonna use it. So, if it's not well defined, if it's not standardized and it's not mandatory, the only thing from a research perspective, don't even bother giving it to me 'cause the first thing I do is just toss it.

Leonard Chanin:
One final question, are there other fields that you find that are required that are not helpful today? Anything else? Or they don't warrant the cost?

Jim Campen:
I think that race fields 2 through 5 are probably expendable. That is right now people are not allowed to identify themselves as going to any or all of the five racial categories that the census uses. I don't use--you know, I might run to see how my people use more than one--identify one, it's a very small number. And I think we lose--you lose, you could eliminate eight data fields. It comes by, you know, second, third, fourth, and fifth race for applicants. Second, fourth, and fifth race for co-applicant. I don't know if anybody else finds that data.

Marsha Courchane:
I use--I use one, two--I use all five and I find two--one, two, and three fairly frequently populated. So, but--that's just nine. I dump pre-approval. Never used it. Never looked at it. I don't find any value to it.

Leonard Chanin:
Okay.

Marsha Courchane:
I keep for what it's worth reasons for denial. I know they came up this morning, I actually find it valuable.

Angelo Vitale:
But those are optional of course, so.

Marsha Courchane:
I know.

Leonard Chanin:
How valuable?

Marsha Courchane:
With it, it were mandatory benefit [inaudible].

[Laughter]

Marsha Courchane:
I like that one.

Michael Collins:
I will just--you know, one thing that--another chief category would be what happens to loans that are not originated or denied? You know, this idea for the withdrawn, there is valuable data there. The pre-approvals, I actually have tried to use a little bit for research. They're very challenging to use and it's probably not category of not useful enough to continue to track.

Leonard Chanin:
Thank you.

Kathleen Engel:
And my question may be a little bit impossible so I apologize in advance because I know it's always easier to regulate after problems have manifested themselves. I mean, that's why HMDA's response to redlining and the Dodd-Frank Act as a response to abuse of lending. But having said that, we all know that the market is undergoing significant changes both because of what's happened in the financial sector and also because of the new regulations and laws, and we're certainly going to see new products of origin like the reverse mortgages really coming to the floor and lots to talk about shared appreciation, mortgages, and there're gonna be new ways for funding mortgages. I don't think the secondary market is gonna reappear in the same guise or form that existed in the past. So I'm wondering if -- and if you have ideas about ways that HMDA reform can and should anticipate changes.

[Pause]

[Inaudible Remark]

Thomas James:
That's a tough--you said it must be an impossible question, it's impossible answer. The crystal ball is just not clear for anyone. It's hard to say. I mean aside from hearings like this and processes like these, I'm not sure you can get out in front of trying to--

Mike Long:
And when people throw commonsense out the window, it's just very difficult to predict it at that point too.

Marsha Courchane:
Investor information. So I actually think it's a really hard question, Kathleen. It would that all of us had a crystal ball in 2003, but the detail on loan product, we did have conferences about that. It wasn't in HMDA, not everyone looked at it but we knew the products were changing rapidly. Secondary market is changing rapidly and knowing more about the investor than were they Fannie and Freddie or FHA would probably keep us well informed about the whole process of the loan. So, you have to, I think, look at the mortgage from the beginning thought of the debt to the end of the servicing. We all know that it's a complicated process now, and to the extent that you can include more information on more players, you know, that I think somebody talked about the non-depositories already. They're a player, and the brokers are a player. The investors are a player. And I don't know that we can predict what will happen but I know right now we're collecting a small bit of information on a small segment of the market, well, bigger this year than in others maybe. But thinking ahead to be able to cover more the process if you could think to that, I think it could be helpful.

Kathleen Engel:
Well, I have another quick question, going back to some of the comments about standardization. Every banker who I talk always talks about, you know, the regulatory burden. It doesn't matter how big they are and I feel sympathetic [inaudible] feel that, you know, all the school and camp forms for their kids now is what these kinds of burdens are like. But I'm wondering whether there are possibilities for standardization that would permit an overlap and one, you know, one database that would satisfy all the different needs of regulators and the increasing demands that the secondary market has placed. I was just looking at the American Securitization Forum's new look on what they're requiring for the--or recommending for the due diligence by investors. And if you look at those fields, they overlap this, you know, HMDA fields with other information as they come in through FFIEC and if there's--if it's even conceivable to think that this could all be in one database that maybe was reported to FFIEC, then government agencies could reach it and grab what they needed that was relevant to their jurisdiction, and the lending institutions would have it to supply to the secondary market for the purpose of private deals.

[Pause]

Male Voice:
It's doable.

Marsha Courchane:

I think we are just talking about it off line. I've seen it too. It's very impressive. I mean what they are collecting is hugely--I mean very burdensome I would say, hugely detailed, really specific data and to the extent that that was gonna be shared with the regulators with [inaudible] could be really useful. I don't think HMDA can collect that kind of information, but it is a supplemental dataset. So I'm back to if there's a unique loan identifier and that's in their due diligence and it's also in this and the regulators and enforcers and those us working with it could link those two. It would really open up amazing depth that you would never get through changes on the HMDA reg.

Kathleen Engel:
Or maybe--or what I'm asking is it even conceivable that there is just one place where all that data gets dumped so that it's not simply linking that the lenders are providing that information to a federal depository that they can also use that same information for private purposes but--and then they'd have only one reporting requirement that regulators could then use that data as, you know, they see fit given their mandate. Is that conceivable, I mean from a bank? It's really from a bank perspective.

[Simultaneous Talking]

Angelo Vitale:
Yeah, I mean I'm hearing the voice of my high school football coach in my head, right, what the mind can conceive the body can achieve. It's conceivable, it's doable, time, money and all of those things. I guess from my perspective, it's important though that if we get to that point that there is consistency and uniformity across who is having to put that data in there, and I'm thinking of the National Mortgage Licensing System for example, and the difference between having to be licensed as a loan originator and just simply register as a loan originator. So, you're getting some data but you're not getting the big picture and I think you need to have consistency in those requirements. But conceivable, sure, I think it is.

Thomas James:
Yeah, if there were, you know, obviously proper controls placed on it, it would be you know somewhat beneficial just to be able to worry about one system to keep updated 'cause when, you know, the regulators come in, we got to provide them with different data. We provide different data to HMDA. We provide different data to this, that and the other, and so yeah, it would be nice if, you know, we provide at it one spot and you picked it out, how you wanted it to. But I would hate to hear it happened where someone got a hold of that data that wasn’t privy to it or had the right authority to get out 'cause it's very valuable data from a member's perspective or a customer from a privacy standpoint, you know. It's basically, you know if you look at a 1003 mortgage application, it's their whole financial picture laid out in one document. And to have that sitting in some database somewhere, some guy who's got a briefcase and leaves it at the airport -- that would be a disaster.

Jim Campen:
And I'm worried about your guy in IT who might be, you know, going off the reservation too. I mean, this data is available and guys could find a way to get to it for bad purposes, I mean that's

a reality even today. So, you'd have to have security and privacy safeguards first and foremost taken into account as you build this thing and all of the, you know, the firewalls and such.

Mike Long:
Practically speaking, I think that's where we're headed eventually. And my daughter is going to France next year, exchange program and I Googled the location and a picture of her to be address and I was--you know, I was sitting there as a 57-year-old dad thinking, my oh my. So I do think that practically speaking that's where we're gonna end up at a uniform database and we start it. We have to figure out now how we're gonna deal with that reality.

[Pause]

Elizabeth Duke:
Okay, I'm actually gonna continue down this line and in the interest of full disclosure, for most of my career, I was the one creating the data. And, you know, at the very elemental level you've got a human sitting there looking at--at the computer screen making a decision as to what to put into this field, and then you have programmers trying to create the appropriate fields. And so, you know, we're faced with a number of issues. I mean I--I mean discussions about what happens with HMDA data and discussions about what happens with data for securitization, I mean discussions about what happens with call report data. And then within Dodd-Frank, there's a new entity and if I get the name wrong, I hope whoever is doing the transcript will correct me, but I believe it's called the Office of Financial Research. But there is another entity created to collect data and it is in addition instructed to coordinate with other collectors of data and they are the issue with financial stability and then you have a requirement to do stress tests on a regular basis, all of which create--require data created in different form. So my question here is again philosophical in that, you know, we've talked today about HMDA data, but there are all these other pieces and so my questions is, you know, for your purposes, for HMDAs purposes, to what extent is it reasonable and acceptable to define fields in a way that--that may be, you know, less perfect for HMDA purposes, more perfect for--or fit all of the individual purposes for which our data will be used better. And to what extent--we know we've talked a little about timeliness of the data and, you know, that absolutely is a tradeoff with quality of data versus the timeliness with--for a time to scrub it, and timeliness of our proposal because I can envision situations where, you know, you can come out very quickly with some definitions but then those definitions could cause problems with respect to some of these other issues. And then lastly, I'm not sure if it has come up in this panel, I know it came up at the panel before but desires to link to service or data go with link to one in performance data which again create sort of data match problems. Open for any comments on that.

[Simultaneous Talking]

Marsha Courchane:
Go ahead, Tom.

Thomas James:

You know I just think yes, 'cause the more standardization the better. HMDA is a highly imperfect dataset and to give up a little quest for perfection and a variable to get a variable as more widely used I think makes lot of sense.

Marsha Courchane:
And I was just gonna say it's critical, so I thought APR was a standardized field [laughter] and, you know, I had an examiner tell me this summer that APR is clearly a flawed field which as a researcher I don't disagree. The amortized is over 30 years, its flawed for some purposes but he wanted as to manually recalculate every APR in 20,000 loans making up some assumption he didn't care what on prepayment and default speeds. I mean I can't do that and I thought APR was standard, you know, so I think it's critical that it be standard. The field that you're gonna collect in Dodd-Frank points in fees. What's a bona fide discount point? I've had people argue about is it bona fide, how can you prove it's bona fide? Well, you bought the rate down, you didn't pay up, you know. What's an overage, what is a point in fee? So take any fee, it's called origination, it's called processing, it's called admin. There is very little standardization and making comparisons across lenders or in tracks or whatever you need, you have to be more clear and more standard and it has to be accepted. And if you can do that, Kathleen, then I think we could move to a uni--you know, a uniform large dataset, but right now it's too ad hoc, the regulators themselves don't agree. My cynical reaction to your question was in Washington, are you kidding me? But [laughter] you know if--if you could get uniformity and maybe the CFPB will be a way to start this, then I think you could get better data, more useful data and--but I think standardization is critical.

Jim Campen:
So--and we have two examples. I think for example with somebody--I think Geoff Smith this morning said purchasers of loans should report on the information about the nature of the loans they purchase. Well, if the purchase of the loan--if there is a universal loan identifier and they give--only have to report is the universal loan identifier and then you've got all identifier from HMDA. So I think instead of having one, in some ways instead of having one giant database, to have a number of linked databases which are really uniquely linked by one or two fields, you know, I think that would accomplish a lot. I think that in the case of right now when people get--buy from mortgages, they get mortgages, they get a--there's a HUD-1 disclosure and there is a RESPA disclosure, right, there's a TILA disclosure around and that's three or two but--and there's a mandate to try and get that down to a single form. And including whenever that net form will specify something about total fees, I'm sure somewhere. And with the form, the fields on that form when it is created should be the same fields they're using in HMDA. And I think that will be a big step toward uniformities. So there's general push toward, you know, uniformity, standardization, burden reduction at the same time we're getting more data. We can I think in some ways reduce the total reporting--reporting burden.

Michael Collins:
I think just one reality check though is remember, we're talking about loans which are TIDA land [phonetic] which is governed by county clerks offices and that's a pretty dated system in a lot of places in this country. And so, how you develop a system that somehow both protects privacy and makes data accessible given that we're stuck with this sort of legacy system of deed registers I think is a big challenge.

[Pause]

Sandra Braunstein:
You talked about a lot of the--the questions that I have we've already covered. Leonard, now it's to you.

Leonard Chanin:
So one quick question. I think more so this was raised specifically on the prior panel but I wanna--but has been raised a little more generally on this panel in terms of the life cycle of loans from beginning to servicing in life. My question deals with brokers and aside from let's pause it, designating the origination channel, whether it's wholesale, broker or so forth, is there anything else about broker loans that would be useful to have to require for those transactions? Because there is some suggesting, I think, earlier of either requiring brokers to report or requiring more information about brokered loans than the unbrokered loans. So, any views on anything else other than if it's, if the loan comes through a broker versus a retail channel and so forth? Jim?

Jim Campen:
I think that there should be two fields. I mean, one is, I think that Dodd-Frank mandates the loan originator, which is an individual which isn't registered under the SAFE Act and so on. But secondly, often that an individual who works for a company. It will be very useful to have the name of the company. I mean, if it's a course--it's either gonna be a course in many case--but large brokerage firm or a course bottom lender. In some cases individual, that's fine. A field could be blank but I think you want--it would be useful to have an information about the lending company, the brokerage company as well as the individual.

Leonard Chanin:
Okay. Other thoughts in terms of brokers?

Michael Collins:
Or just--a complication you're gonna have if you're gonna collect fees is that the lender for non-brokered loans the lender charges a fee. For brokered loans the broker charges a fee. Whether the lenders, the reporting body and the -- whether that will capture the broker fee is I think an issue. It's just something to think through how you're gonna collect these fees which are big in both cases but equally so on the broker side.

Thomas James:
And those fees are critical.

Marsha Courchane:
They are.

Thomas James:
Because their--the incentive structure that drives the sale, and that's the first place I go in an investigation, straight to that incentive structure in those fees. We have been collect--in I think 10 counties now. We have been collecting broker information on the very controversial 40, 50

database. But I can tell you we--and we tracked brokers and we track originators and brokers and it's been very telling and I think very effective in tracking a lot of abuse.

Marsha Courchane:
I want two things. I want a broker ID, a unique ID of some sort and I'm happy to have it at the individual level because one of the issues we face, well, I work for lenders a lot and there are these litigation suits saying you're responsible for the actions of a broker. Now, like I only got one loan from that broker, how am I responsible for those actions? So it'd be great to see what the broker was doing, but nobody knows 'cause loans go somewhere else. So I'd love to see a broker ID. I'd also like to see a specific field on the HUD-1 where one entered a YSP called a YSP or a broker fee called a broker fee. So it is very difficult if the data is not electronic in a form to figure out what those fees were. So, now there is better disclosure of course on the RESPA but having it again standardized to here is the amount, here is where we find it, here is what it is and here is who charged it, I'd find that invaluable.

Leonard Chanin:
Okay. Any other thoughts? Thank you. Yeah.

Kathleen Engel:
I want to follow up on something that you said, Mike, earlier about withdrawal with applications. I think you know we're moving from--we've gone through these different stages of too little credit, too much credit, and too little credit, and so I think that you know there are gonna be questions that are gonna come up in the application stage and I'm wondering if the things you've thought about that might be worth collecting related to the two little credit question in terms of HMDA.

Mike Collins:
Yeah, and much at what we've seen in terms of what people focus on is denial or approval and, you know, the incomplete application, the approved, the rejection, withdrawn are other important categories. I've used them as indicators of, well, relative financial literacy or of where the people are shopping around, whether they're influenced, whether they're under certain state policy regimes or not, so they're useful in that regard. I think the issue of what's a denial is one to think of little bit about that there are certainly lenders who told me anecdotes of, well, this wasn't looking so good so we made it into a, you know, an incomplete application or, you know, so there are these sort of definitial things that I think are important to consider. You know, I would love to see in the data some way that I can see that people are shopping around 'cause in--to some extent somebody who goes through and has 3 denials and an approval may be, they sort of came to their senses about what they were looking for, you know, there might be an important process there. It may look, it may make some of the lenders look bad who are part of that process but for the consumer's pathway, it was probably a good process. The easiest way to do that would be knowing, you know, for refinancing you could look at the track and the date. We don't have that in the public data, accessible data. But, you know, it will be nice to use it as--use HMDA in some way to look at that shopping behavior which we currently can't do.

Elizabeth Duke:
Thanks. Let me ask, does anybody have any initial questions that you didn't get a chance to ask?

Kathleen Engel:
I have one more.

Elizabeth Duke:
Go ahead.

Kathleen Engel:
And this is--Marsha, you were saying that you really think that it's important to have some access to loan level data and I'm kind of going back to something we started with which is--so if what you're saying is that researchers should have access to loan level data, how do you deal with those privacy issues?

Marsha Courchane:
Well, like I said, categorize you know that I mean the simple answer is you can come up with publicly released data and most researchers don't need it in continuous form if you look at those 500 people--papers that Michael cited, most researchers don't use the detail down to the 670 and the FICO score. They use buckets, and they use large buckets. And so, if the--even if that's what's publicly available, then the researchers are getting a grip on basic credit worthiness. They're, you know, are you a 620 or an 820? Well, I don't need to know that. I need to know are you below 650 or above 800 and categorize it, you know, that's from a research point of view.

Kathleen Engel:
But will the researchers still have access to the home level data or am I mixing--I'm not--I'm just saying that.

Marsha Courchane:
Well, I'm saying in the publicly released loan level data doing the field with a categorical data, not the continuous dollar amount or the continuous ratios. So, don't put that to income at 0.39 in the public data, put it between 20 and 40, 40 and 60 and that's what you put out publicly. So you--I mean the regulators are gonna get it all anyway, I don't think that's the issue. It's the public release of it for privacy concerns, just categorize it for public release and it would be hugely helpful to researchers, press, community groups to learn more than if it's not made available at all.

Kathleen Engel:
Actually I just--I misunderstood you, sorry. I get it now.

Sandra Braunstein:
Actually, I do have one question. I'm particularly curious on this--for Angelo because your loans are done online work, okay.

[Inaudible Remark]

Sandra Braunstein:

So, you know, one of the things--and this came up I think in the previous panel, on the monitoring data, especially their race ethnicity, there are has been a fairly large amount of non-reporting 'cause it is voluntary. And I think it's even gotten worse over the last few years and I was just wondering, so people, if you're face to face [inaudible] make some kind of guess whether that's a good thing or bad thing can be debated. But I was wondering you're online, so you're totally dependent right on reporting or not reporting, you don't try to guess based on surnames or anything like that.

Angelo Vitale:
No, we did not.

Sandra Braunstein:
So, I was just wondering, do you know like what is the kind of level of non-reporting on that online? I was just curious.

Angelo Vitale:
Well, percentage, I don't off the top of my head. But it is fairly limited reporting. And I think that that's sort of indicative of the way folks feel generally about giving information that they don't have to provide. I mean you don't wanna have to give your social security number to someone unless you absolutely have to.

There was a comment on the earlier panel that if perhaps uniformity of the scripting by the loan originator who is going to say verbatim you do not have to provide this if you choose not to but the federal government, you know, request that we ask. I'm okay with the scripting thing, I mean people will deviate I guess and--but I wouldn't think for nefarious purposes, but I will tell you from a pure consumer point of view and a practical point of view, people do scratch their head and say, so why are you asking for this data? Well, because the federal government wants to know what's going on with respect to race. Well then, then you would know my race so then couldn't you discriminate on the basis of knowing my race? If you didn't know, you couldn't discriminate. You end up in that conversation fairly regularly, so I don't know if you know doing away with it entirely or it's uniformly scripting it will change the ultimate response rate we get so long as this is self reported.

Sandra Braunstein:
But on the flip side, the quandary of that is, is that that is the--a key field--the key field if we use HMDA as a fair lending tool which we do if the regulators do. This screening tool as we discussed pretty much at length a little while ago and so with that data stops getting reported, then it's of no use to us in that regard. So, I was just--

Angelo Vitale:
I'm sorry, if I could just--

Sandra Braunstein:
Wondering if there are already suggestions basically for how we could somehow increase the amount of that reporting.

Angelo Vitale:
I don't mean to be fastidious but I really wonder if that's what we're trying to accomplish. As a lender from an online loan application or a telephone one, I'm frankly not interested in the race or ethnicity of that client. I'm interested in their credit worthiness and whether or not I should make this loan and their ability to repay that loan. So I really don't wanna know that, I'd like--I prefer that my bankers not know it at all either. It shouldn't have any bearing in the outcome of the decision making process, and that's our goal.

Mike Long:
Well, and sort of in conflict too with some of the, you know, regulation under this consumer loans where if you happen to have a copy of a driver's license in a consumer loan file, the regulators go, "Why you have a copy of that driver's license? Are you discriminating or why did you need that?" So I mean it's sort of like it's contradictory in that case because it's like, well, on one type of loan you say, well, don't even consider race and on this one you're like, we wanted on everybody. It just doesn't seem to jive what's, you know--so it makes it difficult for us as lenders to try to sort through all that.

Elizabeth Duke:
Michael, you want--

Michael Collins:
I just--so putting I think those are valid issues and from a lending perspective that's something to think about. But from a social science perspective if you think about collecting data, there are rims of papers from psychology, from behavioral economics about how you ask questions, how you get people to answer questions. And I think the board even learned this with its process, the RESPA, of testing various forms and how people react to them. The current way you ask about race in HMDA is probably example of all the things you shouldn't do, right, the way it's--the way it's phrased and the way--and so it's no wonder that you get a low response rate. I mean any sort of basic survey course would tell you that's the wrong way to ask a question of consumer. So I will strongly encourage you to keep the data point but think hard about how you ask it and test it and, you know, really try to do some evidence based practice in terms of how you go about that.

Sandra Braunstein:
As you were answering that, it occurred to me in your behavioral research, I just realized if I order something online, I don't answer any of the optional keynotes. [Laughter] And there are some sites I don't go to if I don't like the required fields.

Male Voice:
Too bad.

[Laughter]

Michael Collins:
That probably is something.

Elizabeth Duke:

Tom, did you have something you were gonna say about that point?

Thomas James:
I just realized, did I give my disclaimer? I'm supposed to say that my opinions are those of mine alone [inaudible].

[Laughter]

[Inaudible Discussion]

Thomas James:
The race to put in bold in the transcript and--

[Laughter]

[Inaudible Remark]

Thomas James:
So this jury will disregard the comment.

[Laughter]

Marsha Courchane:
You could of course just not collect your [inaudible] online data and collect it on. So you're coming up with the thresholds for reporting, so to meet Angelo's point, have a field. If it's online, don't collect it. If it's not, collect it.

Sandra Braunstein:
But then when you look at the overall data, I mean that's one of those things you would end up throwing out when you--'cause don't have enough.

Marsha Courchane:
Alright, we'd throw all online applications for race, yes.

Mike Long:
Well, if you wanna get at the data, I wouldn't throw it out because more and more consumers are applying online. I mean we're getting--

Marsha Courchane:
No, I'd throw it out for discrimination.

Mike Long:
--95 percent of ours start online. So I mean, you know, quick and obviously the leader of online applications.

That was a compliment.

Angelo Vitale:
Thank you.

[Laughter]

Mike Long:
And even at the Credit Union it's like, you know, that's where consumers wanna go.

[Inaudible Remark]

Sandra Braunstein:
I guess the other thing that would still remain is looking at redlining issues in terms of geography. We could still do that even without the individual's monitoring information.

Jim Campen:
Just a guess--and the channel field which is gonna be mandated is mandated. You know, it couldn't be just be retail, correspondent and broker. There could be a code in there for online or telephone so that you can see, you can analyze this variable in relationship to the--whether it's online or not.

Male Voice:
To the reporting, yeah.

Kathleen Engel:
There's been some evidence that when, you know, the unconscious discrimination that can come up potentially with manual underwriting, so if somebody doesn't get an automatic approve or deny and then it gets shifted to manual underwriting, even in an online application there's a possibility that people could be influenced by race either, you know, intentionally or unconsciously.

Angelo Vitale:
I would prefer my underwriter not know that either. There's just no value in them knowing that.

Sandra Braunstein:
Thank you.

Elizabeth Duke:
Thank you very much. This has been quite a lively panel and we appreciate your information and your willingness and look forward to also many written comments that you wanna submit for the record. Yes.

Jim Campen:
Can I make one thing -- maybe this is just very naive on my part, but I heard this panel and I heard of what some of the other panel said, seems to me there's pretty much something approaching anonymity on the lack of value and information on secured home improvement

loans and the pre-application data. And even though doing a revised, you know, regulation C is you take a long time. It seems to me those -- that's something that might be done very quickly and it might be something that could go into effect, you know, before or before ways of it changing data fields or adding new data fields, but these data fields could actually be dropped. I think non -- I don't think it would make it more complicated for anybody. And it would be something that you could do. You could do it in a very short time period and have it take effect before any other changes.

Marsha Courchane:
There are many things I think we can do faster than we did. I wanna defer that question to Leonard.

[Laughter]

Jim Campen: I said I may be naive.

Leonard Chanin:
I'm sorry, our time is up.

[Laughter]

Elizabeth Duke:
Thank you.

Leonard Chanin:
No, I really think that’s a good point.

Elizabeth Duke:
Thank you. And this panel, if you’d like to leave at this point, you certainly can. I think we have one speaker for the open mic session – oh, we have two now.

Female Voice:
Yes, we have two.

Elizabeth Duke:
We have two. We have William Howard, and we’ll let you use – whoa.

Sandra Braunstein:
No, I was going to say that’s there.

Bill Howard:
I think it's just the right height, too. Can you hear me?

Elizabeth Duke:
Yes, we can.

Bill Howard:
My name is Bill Howard, and I'm the President of the First Community Land Trust here in Chicago. And I guess I have a whole hour to speak, right, or you said we had -

Elizabeth Duke:
I'm sorry. You still have your five minutes.

Bill Howard:
[laughs] Since the 2002 revisions of HMDA, hundreds of 501(c)3 community land trusts have been established around the country. CLTs, like ours, enable very low-income tenants to become first-time home buyers. In the case of the First Community Land Trust, applicants have also been typical fodder for the sub-prime mortgage loan industry. Unlike sub-prime lenders, however, CLTs, community land trusts, contain a variety of innovations designed to improve the credit worthiness of many first-time home buyer, low-income applicants. The experiences of these CLTs deserve the attention of home mortgage disclosure act regulators. Data summarized by the National Community Land Trust network have consistently over the years indicated that the default rate, for example, of CLT mortgage borrowers is significantly superior to the rate of those who obtain mortgages though more conventional means. It's something like 0.6 percent compared to over two percent. In order to further best practices, it is important, I think, for policy makers, mortgage loan regulators, and mortgage providers themselves to know why this is so.

Affordable home industry policy groups, like the Woodstock Institute here in Chicago, can assist the mortgage industry in understanding what accounts for this difference if sufficient, appropriate data can be collected under HMDA. Specifically, it is recommended that HMDA regulations [coughing] rise to require all mortgage lenders to collect data in addition to that which is already being collected, to collect and submit under, under HMDA the following data. Number one, assessment of the credit worthiness, such as loan-to-value and back-end ratios, which we collect at the Land Trust here in Chicago. Secondly, the data should contain criteria containing or determining the pre-approval versus final approval policies of lenders. We've found that there's, there have been discrepancies and confusion surrounding our borrowers who are pre-approved, and then when regulators come in, or not regulators but folks from, who lend us money, find that there's a difference in how the, the final approval ratios and back-end ratios are calculated. They're different. They should be consistent and clearly explained. Applicant's total income from all sources should also be collected, and I'm talking about income from wages, salaries, bonuses, alimony, investment income, Social Security, SSI, and others. Fourth, the geographical ranges that include the applicant's current domicile and intended home purchase should also be known. Fifth, the borrower's credit score, and in the interest of privacy, I'm not suggesting that that be an absolute determination, but the credit score could be stated within a range of scores, such as has been, has been discussed this morning. Sixth, information as to whether the lender cooperates in encouraging borrowers to participate in programs that increase the borrower's future credit worthiness. And seven, whoever the lender cooperates with a community land trust and its mortgage-lending program including notification to the land trust of missed mortgage payments. In such cases, the CLT will work with the borrower to try to prevent further missed payments. The intent of my comments is to help ensure that HMDA encourage mortgage lenders to serve the best interests of all mortgage borrowers and lenders, but especially the interests of low-income, first-time home buyers like those served by 501(c)3 community land trusts. I thank you for the opportunity to present these comments.

Elizabeth Duke:
Thank you very much.

Dr. Shanedian Pious? Did I say that correctly? [background talk]

[Pause]

Shanedian Pious: Good afternoon. My name, again, is Dr. Shanedian Pious. I am President of Entrepreneur's University. We are the first and only university of our kind in the country dedicated solely to educating entrepreneurs and small-business owners everywhere. So we do a lot across the country in terms of supporting entrepreneurs and small business owners. I would first like to thank the Federal Reserve Board for providing the public hearings to discuss the home mortgage act. As I comment, as I comment, this approach allows the public hearing for those of us who may have comments and don't often have an opportunity to present. Again, thank you for this opportunity to make brief comments, and on what I believe to be a very important issue in the country. How much information is enough? How will the information be used? Who will have access to this information, and why do we even need it? Of course, as a researcher, I think all information and all data is necessary for every single thing just to allow us more to utilize in the various areas we must in life. Of course, there are a number of answers to every single question that you've asked and to every single aspect of this act, but I want to stick to just a, a brief comment for small business owners. Small business owners have essentially not been talked about in terms of home mortgage acts, but, and in other areas as well, but I want to make the, the appeal for them that as we look at some of the regulations that we do, that we make changes to, I'd ask that we think about the small business owners who are some of the home mortgage people who are those who have put up their homes as collateral, who have also used all their resources in areas and, and going back to the home, especially the home, have utilized it because the banks and the other lender, financial institutions have required such, along with federal regulators, have said if you have a home, and you're a homeowner, put it up for collateral. Today, we're watching an unprecedented number of foreclosures happen, and many -- many of them are the small business owners who for whatever reasons are facing financial crisis. I caution us as we look at the different language to improve our different regulatory bodies and the acts that we have, not just in the home mortgage act but in others as well, that some of the language we use may be swayed to dissway assisting a person who may need a new mortgage or may need access to that mortgage. For example, if we say a particular community has an average credit score of 611 when that average credit score really is about 500, then when we look at the, the data, we take that data to be gospel. It is what it is, and that's what we go on. Excuse me, that's what we go off of. So I'm cautioning our language and usage of how we update information so that it makes more, a little more sense when we're going into changing a policy or updating a policy.

And finally, just a couple of recommendations. One is I do support that we do need to standardize how we use data, how we input the data, and we should also go across the board to try to implement that all data be placed to protect privacy. Privacy is critical to all of us. As we know, you can do anything on the Internet today and access anyone's information. So privacy has to be included in that, and, certainly, to talk about credit scores should be, should be considered benchmarks only, especially in today's economy, as we move forward. So as we look at updating our regulations in various areas, I submit that we caution the language, and then that we utilize standardization as a way of modifying what we need to accomplish today. Thank you.

Elizabeth Duke:
Thank you very much.

And let me take this opportunity to once again thank all of our panelists, our FFEIC members for joining us, and to thank the Federal Reserve Bank of Chicago for hosting us for this very helpful session, and with that, this hearing is adjourned.

[Background noise]