Image of the NEDAP (Neighborhood Economic Development Advocacy Project) Logo

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Before the Federal Reserve Board

On potential modifications to Regulation C, which implements the Home Mortgage Disclosure Act (HMDA)

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Thank you for holding today's hearing and for the opportunity to propose improvements to Regulation C and the data provided under the Home Mortgage Disclosure Act (HMDA).

NEDAP is a resource and advocacy center that promotes economic justice in New York's low-income neighborhoods and communities of color. Since NEDAP's founding in 1995, we have worked with hundreds of community organizations to press for fair access to credit, because we believe it is fundamental to equitable neighborhood development and to ensuring economic opportunity.

For the past 15 years, NEDAP has used HMDA data effectively to promote fair lending and to press for the elimination of discriminatory practices that harm communities and perpetuate inequality and poverty. Among our many programs, NEDAP engages in extensive community education, policy reform, and corporate accountability advocacy, and HMDA data have served as an invaluable tool in all of these contexts. We have used HMDA data to analyze and map home mortgage lending by banks and non-bank mortgage companies; to demonstrate community credit needs and patterns in mortgage loan access, pricing, and targeting; and to urge regulators to enforce fair lending laws against lenders whose HMDA data indicate possible discrimination.

NEDAP's HMDA analyses have provided a key tool in our fair lending and foreclosure prevention education and outreach, Community Reinvestment Act challenges, and campaigns for responsible lending laws. Community groups, legal services attorneys, and regulators have used NEDAP's HMDA research to identify possible fair lending violations, and over the past four years, NEDAP has issued a series of HMDA-based reports, "Paying More for the American Dream," in partnership with six other policy and advocacy groups from around the country. In short, NEDAP is well aware of the tremendous strengths, as well as its limitations, of HMDA, particularly in light of dramatic changes that have occurred in the mortgage lending and broader financial services arenas.

These days, the main challenge we face with respect to HMDA is the lack of information reported on underwriting criteria. Without basic underwriting information – such as credit score, and loan-to-value ratio – it is impossible to determine if the origination of high-cost loans is based on risk-based pricing or discriminatory practices such as steering.

NEDAP has used HMDA data to show, for example, the overwhelming concentration of high-cost refinance loans in New York City's communities of color—including in middle and upper income areas like Southeast Queens. Our HMDA analysis suggested that the racial composition of neighborhoods mattered more than creditworthiness in determining which borrowers received high-cost mortgage loans. Lenders countered that their lending was not discriminatory because borrowers of color typically had worse credit scores and required higher loan-to-value ratios than borrowers in whiter neighborhoods. Although NEDAP and many advocates and researchers knew otherwise, we lacked access to publicly-available data to refute these points, and regulators told us repeatedly that they were uninterested in "anecdotal evidence".

Recommendations

NEDAP has several key recommendations based on our extensive experience using HMDA data.

1. The Board should adopt the Dodd-Frank Act Revisions and make several key improvements to Regulation C immediately. The Board should ensure that information is collected at the loan level, and that it is transparent and publicly available.

We applaud the revisions to HMDA mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act, and urge the Board to adopt them now, among other improvements. We further call on the Board to create a data reporting framework in which all new data fields are made public at the loan-level. Public disclosure of all new data collected under the Dodd-Frank Act will allow advocates and researchers to identify emerging issues in mortgage lending and will enable community groups to hold banks accountable, not just for the volume and cost of their lending, but also for the quality of their loans.

We call on the Board to improve on the Dodd-Frank Act revisions to HMDA by:

- Ensuring that all new data fields collected are made public at the loan-level. Access to loan-level data has proven a core strength of HMDA data. Lenders can report the two fields causing the greatest privacy concerns – parcel identifier and credit score – at the loan-level without violating borrowers' privacy. The Board can assign a unique, geographically meaningless number to mask parcel identifiers. Credit scores can be reported as rankings corresponding to lenders' underwriting ranges. These fields are among the most important of the Dodd-Frank Act's revisions to HMDA, and will allow researchers to identify overheating housing markets, property flipping, and discriminatory practices such as redlining or steering.

- Creating additional data fields necessary to fully analyze mortgage lending practices. The board should add fields for debt-to-income ratios, an important underwriting tool left out of the Dodd-Frank Act, as well as fields for yield spread premiums, escrow status, and loan-to-value ratios that include all mortgage debt on the property.

2. The Board should strengthen multi-family lending reporting requirements, and expand HMDA's scope to include data on loan modifications as well as all loans secured by a home.

Access to meaningful data on banks' multi-family lending is absolutely crucial in a city like New York, where most of the housing stock, for all income levels, consists of multi-family rental housing. Multi-family lending in New York and other cities is a non-negotiable component of meeting community credit needs. Yet HMDA data on multi-family housing have been problematic as banks' commercial lending areas sometimes fail to report multi-family loans. Constructions loans, vital credit for new housing stock, are not included in the data because they are short term loans. For multi-family housing, both permanent and construction loans should be included in the HMDA data, and the Board should require banks to report multi-family loans, whether or not the loans fall within the banks' Community Reinvestment Act assessment areas.

The Board should expand HMDA to include data on loan modifications, particularly applications for the Home Affordable Modification Program. Making data public on loan modification applications, approvals, terms, and applicant characteristics would shed light on possible disparities in mortgage servicers' loan modification decisions and give policymakers important information for developing and evaluating responses to the foreclosure crisis. By linking this data to existing HMDA data using a universal loan identifier, it will be possible to identify lenders that systematically engage in irresponsible or predatory underwriting practices, and develop policy responses to assist aggrieved borrowers and communities.

The Board should expand the scope of HMDA by requiring lenders to report on all loans secured by a home, including reverse mortgages and home equity lines of credit. Although reverse mortgages can be a critical product for some seniors, as we have seen, others for whom reverse mortgages are inappropriate are frequently targeted for high-fee, high-interest rate reverse mortgages – in much the same way that lenders targeted many long-time homeowners for equity-stripping refinancing loans. HMDA data should include reverse mortgages and make public the interest rates and fees associated with these loans. These data should also include an indicator to show whether the reverse mortgage was sold with an annuity and, if so, the cost of the annuity. Home equity lines of credit used for purposes other than home improvement should also be reported in HMDA, along with an indicator of the loan's purpose.

<u>3. The Board should prioritize HMDA enforcement.</u>

Effective enforcement is vital if HMDA is to serve its stated purpose, and we urge the Board to investigate possible omissions and inaccuracies and enlist the other regulatory agencies responsible for HMDA compliance to take quick corrective action wherever violations are found.

The Board should lead a joint effort among the FDIC, OCC, NCUA, HUD and the CFPB to ensure that collection and reporting of both new and existing HMDA data are as complete as possible. The recent 35-state settlement agreement with CitiFinancial clearly demonstrates that lenders failed to report HMDA-reportable loans, and our own research at NEDAP has shown that some lenders routinely omit critical information, particularly borrower characteristics, in as many as 80% of loans reported.

Conclusion

HMDA data have been and will continue to be a critical tool for community groups, researchers, policy-makers, and the general public. The Dodd-Frank Act's revisions to HMDA are important improvements, and all of the data collected under the Act should be made public at the loan-level, with suitable adjustments to protect borrower privacy. NEDAP calls on the Board to revise Regulation C to provide additional data not included in the Dodd-Frank Act, such as debt-to-income ratios and yield spread premiums, and to expand the scope of HMDA to cover all home-secured loans as well as loan modification applications. Improving HMDA's multi-family loan coverage would allow the public and regulators to develop a much clearer picture of whether banks are fulfilling their obligation to serve community credit needs.

Thank you for the opportunity to testify today. I am happy to answer any questions you might have.