Housing Assistance Council
1025 Vermont Ave., N.W., Suite 606, Washington, DC 20005, Tel.: 202-842-8600, Fax: 202-347-3441, E-mail: hac@ruralhome.org

Web site: www.ruralhome.org

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Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Board of Governors of the Federal Reserve System:

The Housing Assistance Council (HAC) is pleased to have the opportunity to testify before the Federal Reserve Board's hearings on the Home Mortgage Disclosure Act (HMDA). HAC views these public hearings are an excellent opportunity to improve HMDA data collection efforts and increase our understanding of rural mortgage lending activity.

The Housing Assistance Council is a national nonprofit organization supports affordable housing efforts in rural areas of the United States. With nearly 40 years of service to public, nonprofit, and private organizations throughout rural America, HAC is uniquely positioned to provide comments and insights on HMDA's effectiveness in assessing and understanding rural mortgage markets.

These hearings seek comments on several issues, including HMDA's effectiveness at providing useful information about the mortgage market, the need for additional information, and emerging issues. HAC's comments focus on two primary areas: HMDA's rural coverage deficiencies and the need for additional information. Both of these issues directly impact HMDA's ability to provide useful information on rural America's home lending markets.

Undetermined HMDA Coverage for Rural America

HMDA data are a critical resource to understanding lending trends; however, there are significant limitations to these data in rural America. HMDA falls short of achieving its ultimate goal in rural areas due to incomplete coverage and information. There are two major HMDA filing exemptions that limit rural coverage:

Building Rural Communities

Southeast Office
600 W Peachtree St., N.W.
Suite 1500
Atlanta, GA 30308
Tel.: 404-892-4824
Fax: 404-892-1204
southeast@ruralhome.org

Western Office
717 K Street
Suite 404
Sacramento, CA 95814
Tel.: 916-706-1836
Fax: 916-706-1849
western@ruralhome.org

Southwest Office
3939 San Pedro, N.E.
Suite C-7
Albuquerque, NM 87110
Tel.: 505-883-1003
Fax: 505-883-1005
southwest@ruralhome.org

Midwest Office
10920 Ambassador Drive
Suite 220
Kansas City, MO 64153
Tel.: 816-880-0400
Fax: 816-880-0500
midwest@ruralhome.org

1) Lenders with assets less than $39 million in 2010[1]

2) Lenders that operate only in nonmetropolitan areas.[2]

These exemptions disproportionally impact small lenders that operate in rural communities. For example, of the 989 lending institutions with assets totaling less than the HMDA filing threshold in 2009, 70 percent were headquartered in rural counties.[3] These institutions likely represent one of the only sources of credit in some communities. [Please see attached table for breakdown of institution by asset totals.]

The filing exemption for lenders with offices exclusively in nonmetropolitan areas has an even larger impact. Approximately 60 percent (over 3,000) of institutions with less than $250 million in assets were headquartered in nonmetropolitan counties in 2008.[4] Initially this might not seem like a major issue since most of these lenders exceed the HMDA asset filing threshold; however, banks of this size primarily operate in the county in which they are headquartered.[5] Consequently, many of these rural lenders likely qualify for the HMDA filing exemption.

Ultimately, the picture of rural home lending is unclear due to limitations in reporting. The extent to which HMDA accurately captures rural lenders is currently undetermined, but many experts believe it to be lacking. According to Federal Reserve Board Senior Economists Robert Avery, Kenneth Brevoort, and Glenn Canner, "While HMDA coverage for MSAs is quite complete, these reporting exceptions lead to significant distortions in the coverage of rural areas in HMDA. For these reasons, rural areas are often dropped from analysis of HMDA."[6]

Such size and asset exemptions are typically justified under the auspices of overburdening small institutions with limited resources. However, the degree to which there is a burden associated with complying to HMDA reporting, given the available technology, is highly debatable. The cost burden associated with similar CRA federal filing requirements have

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[1] The HMDA asset threshold is set by the Federal Reserve Board each year. The changes essentially reflect inflation and occur in small increments. For example, the asset threshold was $37 million in 2008 and $36 million in 2007.
[2] Institutions without a branch in an MSA do not have to file HMDA information.
[3] Housing Assistance Council. 2010. *What Are We Missing? HMDA Asset Excluded Filers*. Report Prepared for the US Department of Housing and Urban Development.
[4] The Community Reinvestment Act defines as a small bank any institution with assets totaling less than $250 million.
[5] Walser, Jeffrey and John Anderlik. 2004. The future of banking in America; Rural depopulation: What does it really mean for future economic health of rural areas and the community banks that support them? *FDIC Banking Review* 16(3): 57-95. The authors note that their analysis shows most banking activity for institutions with assets totaling less than $250 million dollars occur in the same county with the headquarters (pg. 79).
[6] Avery, Robert B., Kenneth P. Brevoort and Glenn B. Canner. 2007. Opportunities and issues in using HMDA data. *The Journal of Real Estate Research* 29(4): 352-379. The quote cited above came from page 357. Both Robert B. Avery and Kenneth P. Brevoort are Senior Economists in the Federal Reserve Board's Financial Structure Section Division of Research and Statistics. Glenn B. Canner is a Senior Advisor to the same Federal Reserve Board Division. All three men have written extensively on HMDA and are considered experts.

been estimated at an average of 10 burden hours per year.[7] Similarly, the costs for small bank CRA compliance are estimated to be 0.039 percent of an institution's assets.[8]

In light of these glaring omissions and the impact on rural coverage, HAC recommends that all institutions that provide mortgage financing report lending data under HMDA, regardless of location or asset size.

Manufactured Home Reporting in HMDA

Manufactured homes are an important source of housing, particularly in rural areas. Nationwide, approximately 7 percent of occupied housing units are mobile or manufactured homes. In rural areas the prevalence of manufactured housing is more than twice the national rate, as manufactured homes make up 18 percent of rural homes. While many physical and structural attributes of manufactured housing have improved, issues related to financing and the investment value of this type of housing have not progressed as well.

For manufactured home residents who do not own their homes outright, financing generally falls within one of two major types, personal property or mortgage financing. Personal property, or "chattel," loans are generally used when the manufactured home is purchased separately from the site. These personal property loans generally involve lower down payment costs. However, this loan type typically carries a higher interest rate and shorter term than a conventional real estate mortgage.

The Housing Assistance Council applauds the Federal Reserve for enhancing HMDA to include reporting that identifies manufactured home loans in 2002. However, the level of information on personal property lending for manufactured homes in HMDA is largely unknown. With the prevalence of personal property lending and the importance of this financing to manufactured housing, reporting of these specific loans should be required and publicly available through HMDA. Additionally, manufactured home loans and applications should indicate whether the loan/application was a personal property or real property (mortgage) loan. The inclusion of these updated and enhanced manufactured home data would provide a much more complete assessment of lending activity nationwide, and particularly in rural areas.

Data on Borrower Credit

One primary shortcoming of HMDA is that it fails to collect important underwriting information such as the borrower's credit score, loan-to-value ratio, and debt-to-income ratio. Without this information, it is impossible to clearly identify disinvestment or discriminatory practices. HMDA research has indicated that rural residents in general

[7] Federal Register, May 28, 1999 (Volume 64, Number 103), pages 29083 through 29086
[8] Michael S. Barr, Community Reinvestment Emerging from the Housing Crisis, in Revisiting the CRA: Perspectives on the Future of the Community Reinvestment Act, A Joint Publication of the Federal Reserve Banks of Boston and San Francisco, February 2009, http://www.frbsf.org/publications/community/cra/index.html

receive more high-cost loans than urban residents, and that rural minorities receive more high cost loans than rural whites.[9] This is an issue of great interest particularly since some high-cost loans may likely be predatory in nature. Currently there is simply not enough information to further assess this issue with any specificity. Increased underwriting data would help research and would greatly enhance HMDA's effectiveness.

The Housing Assistance Council understands the importance and impact of HMDA to understanding and improving affordable and appropriate lending activity. However, we also believe it can be improved to better capture home lending activities, especially in rural communities. These improvements would greatly enhance our understanding rural home credit markets and help ensure all residents have access to fair and affordable credit.

HAC is pleased to have this opportunity to testify on improving the Home Mortgage Disclosure Act. Please do not hesitate to contact me if you need additional information or clarification of our comments.

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[9] Singleton, Theresa, Lance George, Carla Dickstein and Hannah Thomas. 2006. ***Subprime and Predatory Lending in Rural America.*** Carsey Institute, Policy Brief No. 4.