Testimony
of
Mark E. Pearce
Chief Deputy Commissioner of Banks
North Carolina Office of the Commissioner of Banks
on
Regulation C & the Home Mortgage Disclosure Act
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Good morning Governor Duke, members of the Consumer Advisory Council, and staff of the Board of Governors. My name is Mark Pearce and I serve as Chief Deputy Commissioner of Banks for the State of North Carolina. Our office is the primary regulator of 85 state-chartered banks, over 600 mortgage companies and 6,800 loan originators. Thank you for the opportunity to testify before you today.

At its core, I believe HMDA operates on the principle that having good data can cast sunshine on potential market failures, so that these failures can be corrected. While HMDA data reporting has expanded and evolved over its 35 years, I believe HMDA should leverage existing technology to provide more timely, reliable, and comprehensive information, without undue additional burdens on reporting lenders. In my allotted time, I will focus on four recommendations:

First, HMDA data should be reported and published on a quarterly schedule. Until this past Monday, the latest public HMDA data online covered originations from 2008 – more than 20 months since the last reportable loan was originated. The long time period between origination and public availability reduces the relevance of the HMDA dataset, especially for regulatory and enforcement purposes.

I do not believe this should be difficult to achieve. HMDA loan activity registers are already required to be maintained quarterly, so all is needed is to require quarterly submission to regulators and to work with the FFIEC to develop a reasonable and predictable schedule of public reporting.

State regulators are now routinely requesting loan-level data from large non-bank mortgage companies in the course of multistate examinations. In North Carolina, we have taken this one step further by implementing a rule to require quarterly loan-level reporting. We have worked closely with lenders and software vendors to integrate the collection and reporting of required data within the lender's own origination system. While we are in the early stages of implementation, it is clear that the technology exists to report loan-level data on a more frequent basis than is occurring today.

Second, HMDA should include both the NMLS unique identifier and a universal loan identifier to enable regulators to leverage other datasets. State regulators, working through CSBS and AARMR, have implemented the Nationwide Mortgage Licensing System (NMLS), which tracks licensure of individual loan originators. Adding the NMLS unique identifier to HMDA, as permitted by the Dodd-Frank Act, will allow regulators to conduct better and more granular analysis of originator activity.

In addition to knowing who originated a loan, HMDA should include a universal loan number to make connecting datasets possible in the future. For instance, if the new loan performance database required by Dodd-Frank is developed with loan-level data, then it might be possible to track the life cycle of mortgage loans. Life cycle data would enhance our understanding of the factors, characteristics, and patterns related to mortgage default and promote more effective risk-based regulation.

Third, the Board should look for opportunities to reduce compliance complexity. Earlier this year, 35 States reached a settlement with CitiFinancial Mortgage related to its failure to report 91,000 loans on its HMDA-LAR due to an unintended and undetected programming error. While honest mistakes happen, current HMDA definitions of coverage and classification increase both the likelihood of errors and the likelihood that those errors will go undetected. Having a uniform minimum reporting threshold and broader loan coverage should reduce compliance burdens while increasing the proportion of loans reported.

Fourth, HMDA should piggyback on new uniform data reporting standards to collect information on pricing, underwriting, and loan features. As a result of recent market failures, investors and regulators alike are revamping data reporting requirements. For instance, FHFA will begin capturing standardized loan-level information early next year. HMDA can piggyback on this or other data reporting to gather underwriting and pricing information with little burden on mortgage lenders. Pricing and underwriting data is essential to improving the regulation of the mortgage market.

In conclusion, as the Board engages reviews its HMDA, I hope it does so with an eye to the current and future challenges of the mortgage market. The days of easy and excessive credit are over for the foreseeable future. Major lenders and investors have tightened credit. The average credit score for GSE loans is now 750 and nine out of ten of these mortgages have loan to value ratios of less than 80%. Today's tight credit conditions make HMDA data reporting as important as ever, as there is a real potential that minority neighborhoods will suffer a disproportionate contraction of credit, just as they suffered disproportionately from the expansion of unaffordable loans in recent years.

Thank you again for the opportunity to testify and look forward to any questions you may have.