Statement

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Board of Governors of the Federal Reserve System
Hearing on
Home Mortgage Disclosure Act

Good Morning. I am Greg Ohlendorf, President and CEO of First Community Bank and Trust in Beecher Illinois. First Community Bank and Trust is a locally owned $150 million in assets state member bank located 40 miles south of Chicago. I am also a member of the Independent Community Bankers of America's Board of Directors, their Payments and Technology Committee, and Chairman of its Policy Development Committee. I am also a member of the Community Bankers Association of Illinois. I appreciate the opportunity to participate in today's forum and am pleased to be a part of the panel discussion on the Board's review of the regulations implementing the Home Mortgage Disclosure Act (HMDA).

First Community Bank and Trust has been reporting HMDA data for many years and has reported on an average of 236 loan applications per year over the last three years.

<u>Regulatory Burdens</u>

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 a borrower's creditworthiness, loan-to-value ratios and debt-to-income ratios. First Community Bank and Trust, like most community banks, is facing serious regulatory challenges as additional compliance requirements are being placed on us at an ever increasing pace. I am concerned about the potentially limited utility of this additional information which, in my opinion, would not justify the increased compliance burden for community banks. I also have very serious privacy concerns about collecting and releasing additional data that will be addressed later in my testimony. Compliance officers, managers and bank professionals spend a significant amount of time and resources to comprehend, train, and administer the myriad of regulatory requirements. A recent example is the escrow requirements which have been enacted on higher priced mortgages. Therefore, it is important to ensure that any additional regulatory requirements maintain a balanced approach that promotes the purposes of HMDA against further taxing the limited and already strained resources of community banks.

Privacy Concerns

For community banks that approve a limited number of HMDA reportable loans or provide financing in rural areas, adding the suggested personal customer information, such as credit score and age, to the collected data creates significant privacy concerns. It is presently feasible, in areas of limited reportable loans, to identify a specific individual whose mortgage is being disclosed on a HMDA report when that information is appended with information that is publicly available.

HMDA reports include the name of the bank, mortgage amount, year of transaction, and census tract of the property. This information, together with certain public information such as the name of the bank, price and the year of the transaction, property address, and property owner's name could provide an opportunity to identify the majority of mortgagors being reported on HMDA data. Because there is little privacy protection in HMDA data, adding additional sensitive and non-public information, such as debt to income ratios, credit scores, creditworthiness, or age would create considerable privacy concerns. Furthermore, the potential legislative requirement to add a parcel identification number to the HMDA database could specifically identify the exact parcel being financed, making an individual's 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. We all know of someone who has had their identity stolen through these breaches. Adding this additional level of detail to the HMDA data could potentially give fraudsters more opportunity to take advantage of American consumers.

HMDA Coverage and Compliance

HMDA data is designed to demonstrate whether the housing credit needs of a community are being served and to uncover possible discriminatory lending patterns. Currently, whether a bank or other mortgage lender is required to report depends on its size, the extent of its business in an MSA, and the extent to which it engages in residential mortgage lending. The information obtained from HMDA data would 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 the 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 the HMDA regulations, the Federal Reserve Board is seeking ways to clarify and simplify HMDA regulations in order to facilitate compliance. One of the general frustrations of reporting and reviewing HMDA data is the inconsistency with which information is collected and reported. It is important that regulatory requirements and guidance are clearly provided so as not to be confusing or misinterpreted, given the number of related, and in some instances, contrary regulatory interpretations.

In my own bank, we have received inconsistent answers from the regulators to some difficult HMDA scenarios. Here is one recent example.

A customer applies for a 6 month construction loan (which would not be reportable), as this loan is going to 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 prospective secondary mortgage market investor. As a community bank, we have offered these customers the opportunity to extend their loan into a 5 year balloon based on a 30 year amortization. How do we now report this loan for HMDA purposes?

We have received three distinct answers from the regulators on this issue. 1) report the date of the application as the date of the construction loan, 2) report the date of the application as the date of the extension, or 3) we have been told that the loan is not HMDA reportable (because it was not reportable at the inception, it is 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. There are other examples that I would be happy to discuss during the question and answer segment of this hearing.

Our bank, as well as other bankers whom I have spoken with on this issue, has had issues when multiple properties are used to secure a loan, and we are looking for clarification on which property must be reported. Concerns also arise as examiners have recently expressed a preference for community banks to use the same source of income verification for each loan (which can be challenging). These real world issues make the compliance and application process more difficult and burdensome. Additional guidance in these areas would improve the consistency of the data being reported.

<u>Conclusion</u>

I greatly appreciate the opportunity to participate on this panel and provide information on this important topic. Community bankers have long understood the significant contribution home ownership provides to their communities and we are committed to serving the unique housing needs of our communities. We take great pride and satisfaction in providing affordable financing for the different demographic sectors.

However, in order to continue providing affordable financing and before requiring any additional data to be collected and reported, the Federal Reserve Board should balance the benefits of this additional data collection with the limited resources available to banks and the significant privacy issues which could come about from releasing sensitive and personal data.

Additionally, requiring HMDA reporting of mortgage brokers, non-lender loan purchasers and originators that meet the threshold criteria will provide a consistent framework for mortgage financing and a more complete and accurate picture of the mortgage market. Community bankers and I look forward to working with the Federal Reserve on HMDA reform to provide meaningful and useful results without imposing unnecessary and additional burdens on the industry.