Home Mortgage Disclosure Act Public Hearing, September 16, 2010
Panel One: Q&A Session

Elizabeth Duke:
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 an 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.