

Panel 1

Governor Duke: Excuse me Sharon, before you get started, since I'm going to have to step out before this panel is finished, I have one last question and then I definitely want to thank all of you for, for your comments here today. My question is for those of you who are lenders, is the data that's currently available publicly about your institution's lending, does that give a full, accurate and complete inform, picture of the, the quality of the lending that you're doing?

Unknown: While Faith is thinking I'll go ahead and respond.

[Laughter] I think to a large degree that it does. I think in some areas where one might study the data and think that there is a segment of our lending that perhaps is discriminatory, that additional data might, might get more transparent that in fact there is no discrimination going on. I think the data that hopefully we will end up with will be more transparent, not just in the identification of discriminatory practices, but in the identification of practices that truly are not, regardless of declamation rates or something of that sort. Because there's a number of very, very valid reasons why a loan is denied, not all of which is showing up in your current vow.

Governor Duke: Well, that's why I would ask you and not necessarily for right here, but I would ask you to think about if you were, if you were faced with the data that was made publicly available on your institution and you didn't feel like it was giving an accurate picture, where would you go? What other data elements would you look at to judge yourselves? And then because it would seem to me that those would be the prime candidates for additional data to include.

Unknown: And if I may add, we go back and look at those loans. Our quality control area goes back and reviews the loans to assure that there are truly no issues from a discriminatory standpoint.

Faith Anderson: I guess the reason I hesitated was I believe our data looks great. I know that if there's a minority and that loan is denied, we take it to a second level and it's you know scrutinized. So I believe our data looks great. I know we look at it also in turn and we look at other factors that are not, probably not in the HMDA reporting, so.

Unknown: And I would agree with Mister Greer that you know for the most part I believe the information does reflect our lending. But there is information that can be gleaned from the report that does not accurately reflect or may, it may indicate a trend that's not there. There are other reasons as was just recently suggested for a loan is declined that may not be a HMDA reportable information.

Governor Duke: Once again, thanks to everybody on the panel for you, for your advice today. It's important to us as we look forward to HMDA. And with that I'll, now Shanna you can take it away.

Shanna: Thank you. A lot of my questions are follow ups to what you've already answered. And I think I'd just like to start. Miss Anderson, you talked about I guess a second review process

that you have for people who would be protected under the Federal Fair Housing Act. In that second review process, do you compare that loan application to whites who are similarly situated or are you just looking at that particular application to make sure it met all of your underwriting requirements?

Miss Anderson: I'm not, unfortunately I'm not on that, that second review panel. I could get back to you, but I don't know what they review and what they compare it to. But I know that they do scrutinize it to make sure that we're being fair.

Shanna: Mister Greer, in your testimony you talked about not getting rid of adjustable rate mortgages. And like you, I agree that there are a variety of loan products that are very good for particular groups of people. They're not, they shouldn't be just given to anybody who's asking for them. So what controls would you have in place to evaluate suitability of an ARM or an IO or another type of what some of us have called exotic loan products?

Mister Greer: I don't know that we need to have a category that is simply a payment option ARM, IO, exotic, so on and so forth to check a blank. I think we need to look at the aspects of the subprime ARM loans that created the issues such as negative amortization, such as rapidly rising interest rates and payments, short fixed period initially. The presence or absence of prepayment penalties, those types of things need to be reflected primarily in regard to an ARM. As opposed to simply coming back and saying ok we need to have a place to check is it a fixed rate loan or is it an adjustable rate loan? Leaving as simply an adjustable rate loan would lead one to think that all adjustables are in fact predatory and abusive which is simply not the case.

Shanna: So I heard you earlier supporting the use of reporting of credit score and points and origination fees. What kind of reporting could be included to show that the ARM that the person has is suitable based on the underwriting?

Mister Greer: I think debt to income ratios, loan to value ratios can help provide evidence that the loan is suitable in that regard.

Shanna: Ok. And we talked about reporting this is for the other lenders, reporting compensation. And some are on salary. But some people who are on salary get a bonus at the end of the year. And how would we capture if those bonuses were based on volume or some other kind of incentive for that loan originator?

Unknown: At our shop we don't give bonuses based on loan volume. Its bonuses or team award is based upon the whole institution. We look at various factors, not just mortgage loans. So you need to take that into consideration also when you ask for compensation.

Shanna: Does anybody provide bonuses?

Unknown: We provide an incentive bonus at the end of the year and portfolio growth is a small component of the overall total. And it's not specific to mortgage loans or commercial, it's total portfolio. So for, for our situation it would be very hard to differentiate how much is, is allotted to a mortgage portfolio or to mortgage origination.

Shanna: And a couple of people said they don't use credit scores in making the loans. Is there a different scoring model in the underwriting that's used? Is there any kind of score that's produced?

Mister Greer: Miss Smith for the State Employees Credit Union we do not use credit scores. We do not have a preapproval process, excuse we do not have an automated approval process. We look at each individual loan on its own merits and make decisions on that basis. So there is no scoring model score or equity score, excuse me, FICO score for us to report in there regard. We are very much unusual however.

Unknown: Yeah, how common is that?

Mister Greer: Not, it's not.

Shanna: Well, it actually used to be quite common in the 70s and so we were always, you know we have to balance the subjectivity of that and what an automated system may miss about a person's real ability to repay a loan. So you know somewhere in between the automated and what I suspect some of you are calling the traditional underwriting, we have to make sure that subjectivity isn't put in that place which can result in discrimination. I didn't know if you at NHS were using a different kind of scoring model.

Unknown: No we do not. We, we do whether it's a couple months or whether it's a couple years worth of counseling and training with each potential borrower. And out of that emerges a family budget. Now granted we know that income based jobs and income can change but credit scores can't track that either. And so we determine with the family how much they can afford to pay in their budget. And then we back into the amount of mortgage that they can afford based upon that. And we believe that is a very sound and very solid way of doing it.

Shanna: Now we had, we talked about which institutions should have to report and we were talking about volume of loans. I have a question. If you only make 5 or 10 loans a year, how do you select the people that you make those loans to if you have a greater volume of customers for other activities or products in the institution? See I need an answer on that because it raises a question for me as a civil rights advocate that I've been doing this for 35 years, so sometimes I would see lenders make exceptions for people in the institution and make a loan or make a mortgage loan. Sometimes it was because it was a really, really rich customer and they wanted to please them and keep them. That's not a violation of the Fair Housing Act. But other times I would look at it and we could look at their service area and maybe the 5 to 15 loans they made within their whole service area seemed to be in the predominately white areas. So when we talk about volume from a Fair Housing point of view, even making one loan, we want to know why that exception was made.

Unknown: Well, I think from our standpoint if they make one mortgage loan, then you should them to report HMDA data. We just didn't want that, you know the asset size was the primary factor plus you know the other, other reasons of why they do not report or why they should report.

Shanna: Ok and just two other short ones. Mister Loving, you were talking about the privacy issues and I think we're all concerned about that. But you also then recommended that mortgage brokers, nonlender purchases and originators and anybody who's making mortgage loans should report. If those reports are made and we have more loans being reported within a census track, are you more comfortable on this privacy issue and maybe we can talk about if there's only 5 loans made in a census track, then some of the information is not reported to protect the privacy of an individual?

Mister Loving: Certainly I first would say I believe that there needs to be other reporters added to the, to the process to give a clear picture of the mortgage within the area. I think Mister Greer indicated earlier that you know a large percentage of mortgage loans that was created by originators that did not report. And so I think it does give more accurate data. Now the inclusion of those into the data I'm not sure that it would create any difference in my opinion in concern of the privacy, particularly with the new data elements that are suggested to be added. I think inclusion of the additional reporters would have to be looked at with the additional or with the information that's currently reported to make sure that we are balancing the need for that information with the privacy of that consumer. That's.

Shanna: And finally Miss Anderson, you talked about the reporting on race and national origin on the loan application and indicated that sometimes people are uncomfortable asking that information. What for the lenders here, including NHS, what kind of training do you do so that the loan originator is comfortable getting that information and they know how to approach it with a borrower so the borrower will answer the questions? Is there anything unique that you do in training?

Miss Anderson: I know we do provide training but I can tell you that there are borrowers that you know that I've heard that are let's say Hispanic but they will you know answer that they're for example white. You know for whatever reason. And so sometimes I think that when you, when you ask us, I mean when we ask them and you know just sometimes they just don't want to answer whether, no matter how much training you give to your lender to ask it in a nonconfrontational way. Some folks just don't want to answer it. So then if they don't want to, if the borrower doesn't want to answer it, then I think it does place a burden on us to then guess, because they might have a last name that you think well that, but you know you're not supposed to use certain factors. So it just puts you in an uncomfortable position. And I don't know how good the data is then when you're guessing.

Unknown: And Sharon I wanted to back up two questions just to reemphasize what Faith said about the collecting the mortgage loan data, not based upon how much volume the lender is doing but just a set number. I want to make it clear that even if the number is 1, that it not, that my response is that it not be based upon the volume that they're doing but based upon whatever the number that we set, whether it be 1 mortgage loan or if they do 2 or whatever. But not, not based upon their assets though, so that we do collect more data, I'm looking for more data because that's what our organization needs to know who's doing these special loans.

Unknown: As far as training, we use both in house and external training, online courses and schools for our lenders to make sure that they are adhering to the various regulations. And I

would have to agree with Miss Anderson that often times no amount of training will provide an opportunity to get the information because the consumer has reluctance of divulging that information. And just will not give it. And so at that point then it is dependent upon us to by observation or by other elements determine the answer. And it may not give factual information, so.

Unknown: We don't have any specific training program for this issue alone. We possibly because we are community based, we have very little trouble with people telling us. We are very careful to protect people's privacy and the information there. We do all of our work in three languages, English, Spanish and Haitian Creole. And our staff are most of them are multi lingual. And so we're talking with people in their own language. So we just, we rarely have had a problem. If somebody refuses then, that's it, we don't fill that in.

Shanna: Ok, those are the initial questions I have. I'll go back through our panelists [inaudible].

Unknown: Ok, thank you. I have just a couple others. I wanted to ask those of you who are HMDA reporters on the panel, which is most of you. Are there any things you can recommend to us about we talk a lot about the burden of reporting. Is there anything, ways that you can suggest that would make it easier to report the data or is there something different we should do about collecting the data? Moving forward in the future.

Faith Anderson: I'd like to add that maybe you can give more clarification when there's a multipurpose loan. Just generally I talked to other in house counsel and on what constitute a refinance. Also I wanted to point out that for incomplete loan applications or withdrawn loan applications, sometimes our systems, it's difficult for us to determine whether it was withdrawn or incomplete. And so sometimes there is guessing involved. And then we did have a question on if it was still a basis to determine discrimination if it's a manufactured home, you know that it's a separate category.

Unknown: Mister Greer, go ahead.

Mister Greer: We really don't have any issues with current reporting. The gentleman that is in charge of our mortgage originations and the HMDA reporting, having done it for several years, really no, no particular issues at all. There's not really anything from our standpoint that we would recommend changing in that regard.

Unknown: As far as the collection of data, you know I'm not aware of any way that would improve the input. Back to the definition and clarity comment, I would agree that some of the definitions if we could have more clarity on lock in date, withdrawn application, incomplete application, and also the collection of data on the manufactured home. If I'm correct, you know the definition includes, could include a modular home today and there's a significant movement in some markets to modular. And those, I'm not sure that data is as relevant today as it has been in the past. So that may be one element that could be eliminated from the collections.

Unknown: Yes, Mister Shank.

Mister Shank: A couple comments, I hadn't thought about the, the modular home or the built in a factory home. I would tend to agree that that becomes less relevant data. We have, we have produced or developed several of those homes, a number of them. And they go on a foundation, they're like any other home there, but because that it's technically produced off site, we have had trouble sometimes with the borrower getting a loan when the quality of the home that we have produced is probably better than any other house in the neighborhood. So that, just an observation on that. Because we are a neighbor works organization, because we have used the, the NFMC, the National Foreclosure Mitigation Counseling Funds, and now with our NSP money that we're reporting to HUD on, we're a very small organization. Assets have only 7 and a half million dollars. We report all the time. We have, we have moved it to, to electronic, to digital and we have said to homeownership counselors and foreclosure prevention counselors and loan modification staff if you did not put it in the system, you could have done 100 of them, and you don't get, it didn't happen. So I know particularly for small lenders like Mister Loving represents, it's a real issue. But I think we have to move everybody to the kind of reporting that can gather this data. And I know that that will come back to me and be a problem. But I think we have to do it.

Unknown: And I just wanted to add that the majority of credit unions are 100 million dollars or less. And because of all the other regulations surrounding mortgage loans, RUSBA, SA.F.E. Act, everything else, truth in lending, it just seems highly unlikely, you know unless you were trying to serve a very rich borrower that they would get into that market. Because it's very complex.

Unknown: Ok, did you have a follow up on that?

Unknown: Let me just follow up on the modular and manufactured, is the underwriting for the modular homes the same as manufactured housing or different for all the financial institutions.

Unknown: In our case it is the same. But as Mister Shank has indicated, we have had difficulty on a manufactured that does not have the base plate stamp in the unit getting financing through several sources of funding. So it does create a challenge in the different units or types of units I should say. But the underwriting is the same.

Unknown: We use the same underwriting. We on a HUD built, HUD home, manufactured home, in North Carolina, they continue to be built to a somewhat different standard, the HUD standard as opposed to North Carolina Housing code. And therefore we do restrict the term on a manufactured home versus a modular home that is built to North Carolina standards. Borrower qualification, no difference from that standpoint.

Unknown: And the last question I'll pose and then go back through my panelists again. Is, I asked question about are there ways we could improve the efficiency of reporting the data. I also now want to turn to those of you who use the data. And I know Mister Jordan, in your testimony, your opening statement, you brought up the fact that the PDF files make it difficult to use the data. We've heard that before and I wondered if for the record here you could elaborate a little bit on that point and then I know Mister Shank, you may want to talk about that too, but.

Mister Jordan: Well, I think what happens is when it's in a PDF format, it slows down our ability to be able to analyze the data, to and then transfer the data in a meaningful way so that people can see it. So you get the aggregate data in a PDF form and then you've got so many, you know, hundreds of hours of man time to actually turn that into something where a regular human being can understand. And so that's the, and I think that it would be so much easier if that data was collected immediately and put it in an Excel spreadsheet form. That way you don't spend so much time you know having to just make it a usable.

Unknown: Do others up there, yeah.

Unknown: Like I said, we're primarily a production organization but we're working across the community with organizations like Mister Jordan's. Right now, getting HMDA data is a rather arcane process. And the more the board could do to make the information understandable to the public, even if one would define public as somebody that's relatively informed, still there's more to be done with that.

Unknown: Ok, others? Does anybody else have a comment on that or? Did you have something more you wanted to say Mister Jordan? You look, Mister Jordan did you? Oh.

Mister Jordan: I keep looking, I think I've covered, you know.

Unknown: Ok.

Mister Jordan: That's a pretty cut and dry, yeah. That one I heard over and over before I came up here.

Unknown: I know from experience it's good to do that because you have to go back to the office with her and they'll yell at you if you didn't get it all.

Mister Jordan: Yeah, like it was your one shot. You were in Atlanta and the Board of Governor was there and you didn't say anything, so.

Unknown: Yeah, I've been there. Ok, Mister Cayman?

Miss Cayman: No further questions, thank you.

Unknown: Shana?

Shanna: I do have one more. Do you, the lenders, do you use the HMDA data to do self evaluation to see if loan performance over a period of time? And with looking at the debt to income ratios, credit scores, loan to value ratios help you in the future in your underwriting? I mean obviously people go into default because of loss of employment, health or divorce, but on other issues, I'm wondering do you actually analyze the HMDA data for market research or tweaking your underwriting in any way? I'm just worried that you guys just collect it and send it in.

Unknown: I think part of the reason, well I know that we do review our HMDA data but we, we hire a third party to you know help us analyze it. We don't, we don't just review it internally. I know we look at other internal factors when we tweak our underwriting. You know we also compare ourselves to the market. But I'm not sure if we use it for marketing purposes like you had mentioned.

Unknown: We review the data. We use it primarily to become more assured that we do not have pockets of discrimination within our lending process. More than that, we do not use it other than to become more self assured that things are going the way they're supposed to go.

Unknown: Thank you.

Unknown: Being a young reporter, we have little data. But we, as with Mister Greer, review the data to make, from a discriminatory perspective, that we look more internal at other factors on credit quality and problems within underwriting itself. So to say that we use the HUMDA data for underwriting, I would have to say no.

Unknown: Thank you.

Unknown: I just wanted to add as Mister Loving had mentioned that there is a manual process to the HMDA reporting. I told you had two systems, not to get down into the weeds, but you know then it's downloaded monthly. And then we still have someone review it because even though the MSA codes are out there, there's sometimes errors. So there is that manual process. Plus if it's the multipurpose, you know there's still more subjectiveness to the data.

Unknown: Ok. Before I close out the panel, I would like to give an opportunity for any of our panelists to please, if they have any final statements they want to make or there are things that we didn't ask you, that you'd like to state for the record, I want to give each of you a chance to do that. Starting with Faith, do you want to start?

Faith: Right now I know reverse mortgages are not included in HMDA data and I know, though I hate to expand the HMDA data, it just seems that that's an area based on you know the baby boomers, that that, and I know it's heavily regulated. But that may be an area that you may want to you know review and see if there's any practices there that are discriminatory and maybe work with you know HUD or FHA or other agencies.

Unknown: I would simply like to echo Faith's comments in regard to reverse mortgages. Many, many intelligent people throughout this country are very much afraid of the fact that reverse mortgages will become the next subprime debacle. Difficult to pick up the newspaper and read of a fraudulent action that did not involve I'll use the word elderly because in a year or so I'll be able to qualify age wise for a reverse mortgage. Unfortunately the more elderly segment of our population is typically the victim of fraud. Fraud follows the money and there is a lot of money involved in obtaining a reverse mortgage before you even talk about the proceeds. So I very much encourage the inclusion of reverse mortgages in the HMDA data. I think it will be a

valuable service to our population for this data to be collected. So that Will and others can review it and call the unscrupulous on the carpet. So, thank you.

Unknown: Thank you Phil. I actually agree with Faith and Phil on the reverse mortgage data. That's still one big point on my paper that my staff wanted to make sure I did emphasize is that that data should be collected because that indeed could be the next wave of problems if you follow the money.

Unknown: I would like to just add a couple comments on some of the suggested additional information such as the parcel identification number and an universal loan identification number and first from a parcel identification number, being in a rural market, we have problems as it is today. Many addresses are still rural routes and not specific addresses. So that would create a huge problem today of the parcel identification number was moved forward. Then the unique or universal loan identification number I have a concern with as well, is how would that be administered? Obviously there'd have to be a central repository or database so that there would not be duplication. And so I'm not sure what the benefit of that information would provide in looking at the data. Specifically if you're looking at a particular originator, you would look at the institution level and then could drill down based upon that information and ultimately find the same information without having a unique or a universal identification number.

Unknown: The full reporting by, by all lenders as we have talked about is very important. The other thing that I would comment on is that the reporting through HUMDA and the work that the community reinvestment act does need to be held together. So that the data collected and what's required under CRA are not done in isolation. And I, there may be some review of CRA and if there is I would hope that this two things are done together.

Unknown: We are currently reviewing CRA too. Ok, with that I would like to very much thank our panelists. We really appreciate your coming here today and sharing a lot of good information that will be very helpful to us moving forward. Also I want to remind those of you in the, out in the audience that if folks want to sign up for the open mike session, please do so. And I gather that's, is that out, outside in the hallway? There's somebody that you can sign up with. So do that please during the break. And with that we are going to take a break. We'll reconvene at 10:30 for the second panel. And thank you very much.