Home Mortgage Disclosure Act Public Hearings, September 24, 2010
Panel One: Cy Richardson

CY RICHARDSON:
Thank you. The National Urban League thanks the Federal Reserve for the opportunity to comment on potential revisions to Regulation C and the data provided under HMDA. In our view, these hearings are timely, particularly within the context of the racial wealth divide in America, which has been exacerbated by the growing loss of home equity in communities of color. The current crisis has taught us that reckless, expensive and unstable mortgage products and practices foster instability and imperil consumers and underscores the differences between lending approaches that work and those that do not.

From the National Urban League's vantage point, the lending practices that work are those that seek to prudently lower the risk to both borrowers and lenders, such as careful underwriting, assessing the borrower's ability to repay the obligation, full documentation of income and assets and prepurchase counseling that adheres to national standards. We have ample empirical evidence that these factors increase responsible and sustainable home ownership and the low default rates associated with these features demonstrates the value of good mortgage products. Our affiliates have historically employed HMDA data to analyze and map home mortgage lending by banks and other financial servicing institutions. For us, data under reported HMDA have been critical in monitoring compliance with fair lending laws and enforcing CRA.

Like most good laws, however, HMDA could be improved upon. Specifically, we feel that the data collection could be enhanced by the addition of information that affects the borrower's credit risk, based on underwriting variables, such as the borrower's credit score as mentioned, the borrower's debt to income ratio and the loan to value ratio of the mortgage. This information would better help explain mortgage lending disparities among what otherwise appear to be similarly situated loan applicants and borrowers of different ethnicity, race and gender.

Additional underwriting data from lenders, such as detailed product information, mortgage rate lock dates, overages, additional fees paid and counteroffer information would also be useful data enhancements. This information would help assess the basis for mortgage rate disparities identified through initial analysis of HMDA.

We also believe without adequate data from the preapplication phase, such as through the use of testers, surveys and alternate means, fair lending oversight and enforcement is incomplete because it includes owning information on the borrowers that apply for credit and not the large universe of potential borrowers who sought it. Considering that some observers are pushing for the collection of back-end ratio data that take overall household debt into account and are a better reflection of a borrower's overall debt burden, we concur and would argue that requiring lenders to report how they documented a household's income, when underwriting a mortgage, and how they measured a borrower's debt load is an important data point to capture and could help to identify and isolate those lenders who routinely put borrowers into loans they cannot afford.

Moreover, we believe lenders who purchase loans for CRA credit should be required to report the same level of data as if they originated the loan.

We are also aware the board is interested in understanding the potential costs and burdens associated with enhanced data reporting. To be sure, tangible costs are associated with geocoding loans, hiring compliance officers and doing paperwork, however we believe the burden of reporting is easily relieved by data products already available in the market place. We also believe all HMDA filers should routinely report the expanded information as part of their regulatory, nonpublic reporting obligations.

Even if HMDA data shows nothing more than concentrations of higher cost loans in minority neighborhoods, the responsibility rests with lenders to explain why disparities exist and what they mean.

Finally, some financial institutions have argued that the distribution of HMDA and CRA data forces them to compromise the privacy of their clients. There is some truth to this. The data do contain explicit information that reveals quite a lot when appended with other data sets. To us, though, these cries ring false in the greater context of business as usual. If banks were sincere in their desire to safeguard the financial information of their customers, they would not sell data to third parties, which has become commonplace in the financial services sector.

While inherent limitations would remain under any expanded HMDA framework, it will unquestionably contribute to a greater overall understanding of the mortgage industry.

The information requested will provide regulators, lenders and the civil rights and advocacy communities with more complete context for evaluating the prime and the subprime markets. Additionally, the data will form the backdrop for additional compliance risk management activities on the part of banks, particularly with respect to fair lending and predatory lending.

In closing, as we would all agree, HMDA is an invaluable tool for many civil rights and consumer rights organizations, as well as federal, state and local regulators. The League supports all recommendations that improve transparency and efficiency of data collection, reporting and analysis, and we're appreciative for the opportunity to share our views and listen to those of other on proposed improvements of Reg C and the data provided under HMDA. Thank you.