

Home Mortgage Disclosure Act Public Hearings, September 24, 2010
Panel One: Faith Schwartz

FAITH SCHWARTZ:

Thank you. Good morning. I'm pleased to be invited to participate this morning and I applaud the Federal Reserve for undertaking these important hearings.

I have worked in the mortgage industry for a number of years, in the capital markets, risk management and policy arena. I have been on the Consumer Advisory Council at the Board of Governors and most recently I was the executive director of Hope Now, the nationwide foreclosure prevention alliance, and I'm a founding member of the Hope Loan Port, a nonprofit web-based tool that allows borrowers, consumers, nonprofit counselors to submit files to servicers that are secure for loan modifications. I am an advisor to both companies so these comments are all of my own.

In the positions I have held, I wrestled with the difficulties of collecting good data and deciding what would be most relevant and indicative of the trends in the market. For example, Hope Now's data covers 75 percent of the servicing market, and we have a good feel of both the opportunities and the problems in the current data collection arena.

My main message to the Board of Governors would be to make sure you are collecting relevant data that's needed to adequately monitor fair lending compliance. Good data provides guidance to policy makers and often presents information that might not be intuitive. The board should not be reluctant to collect the data it feels it needs. At the same time, it's expensive to collect data, time consuming and if collected in a piecemeal fashion, it may lead to inaccurate analysis from considering without the entire book of knowledge that the underwriters have when they make those decisions.

A path to good execution for industry is important, and there needs to be enough good verifiable information to assist in fair lending analysis for industry, as well as regulators. My broad experience has led me to believe that good risk management incorporates relevant, transparent and fair underwriting, it usually results in data that demonstrates fair decision making by lenders.

For regulators to determine whether the laws in place, and under the particular law recently announced by the Dodd-Frank Act, if they have been violated, the data should be robust enough to ensure adequate protections.

The Dodd-Frank bill will add many new new data points in the HMDA law. In addition to those new data points, some consideration should be given to directing the disclosure of additional data that would be useful for lenders and consumers alike in the joint effort to make transparent basis for lending decisions.

For example, front-end debt to income ratios are very important to lenders in their underwriting decisions, as are loan to value ratios. This would be useful to collect. Back-end debt ratios and income ratios are also useful, but different lenders apply different weights to the importance of those ratios because of the secure position the mortgage will hold. I believe there's some merit in

collecting the information on the back-end debt to income ratios, but only to the extent that it's used by the lender in arriving at its credit decisions.

Credit scores are useful to many lenders. They serve as benchmarks for guidance and my recommendation is in favor of providing those scores. Collection and publication of these data from the prospective and the understanding of the basis on which the loan was made is relevant. Fear that publishing such information, however, will reveal who the borrower is on a particular loan is a real fear and must be addressed, balancing the need for collection and publication against the risk of breach of confidentiality remains an important concern.

There's another category of data the board might wish to consider. During the past few years and into the near term future, there will be a wide variety of loss mitigation practices in which lenders and borrowers will engage. Some of these will be under the government programs, and some will not.

I believe there's wisdom to carefully collecting data about loss mitigation. For example, it would be useful to both lenders and borrowers to have transparency about product type provided from origination through default and loan modification. This may include some of the variables to reach affordability, such as rate, term and principal deferral. Longer term analysis may be helpful in ascertaining the most effective use of restructuring. In contrast, collecting and reporting preapproval programs would not be productive. Most of these programs are very tentative in nature, and they are usually not sufficiently detailed to provide the kind of guidance that should be expected.

I would publicly support -- I would support additional geographic data collection, perhaps at the zip code level. Such collection might reveal anomalies that might even be obscure to the lender itself, such as one officer or sales person consistently charging peculiar amounts in a particular area. The collection of this data should be subjected to notice and comments since its a complicated subject and seeking comments will provide the best way to make the best decisions on how to collect. In addition, to the fair lending issues that are part of HMDA, I believe it's time to capture information that links the front end decision making to the back end servicing practices to monitor systemic risk. Linking the two should be studied and subject to notice and comment prior to any new requirements. Any additional collections should be completely relevant to the analysis desired. For example, the following terms may be helpful and they are not necessarily requiring capturing significant data elements: Product type, fixed or adjustable; fully amortizing or interest only; 15 or 30 year; duration of the modification; lower P & I payment.

In closing, I wanted to reiterate that it's a good idea to provide enough information that is objective -- that objective analysis can come closer to fair and reliable conclusions for any bias that might still be found in the home mortgage lending. I support the efforts of the board to do so.