Home Mortgage Disclosure Act Public Hearing, September 16, 2010
Panel One: Geoff Smith

Geoff Smith:
Good morning. I want to start by thanking the Federal Reserve Board for having these hearings and for the opportunity to testify on ways to improve data collecting under the Home Mortgage Disclosure Act. My name's Geoff Smith, and I'm with Woodstock Institute. Woodstock Institute is a Chicago-based nonprofit research and policy organization that focuses on fair lending, wealth creation and financial systems reform. HMDA data has been a critical tool in much of Woodstock's work to analyze access to mortgage credit in unreserved markets, examine lending practices of individual financial institutions and understand patterns of community investment and neighborhood change. While the recently signed Dodd-Frank Financial Reform Bill will add key elements that will improve HMDA data, there are still further opportunities to improve the data collected.

For example, two of the gaps in HMDA data that were not addressed under Dodd-Frank is a collection of data on the level of borrowed income documentation and borrowed debt to income ratios. One of the driving factors behind the foreclosure crisis was lenders putting borrowers into loans they could not reasonably afford. In order to prevent this from happening again, lenders should be required to report the level of income documentation used in underwriting a mortgage. Limited and no income documentation mortgages were frequently abused in the run up to the foreclosure crisis, with borrow income frequently being overstated, to qualify borrowers for loans they could not be approved for giving their documentable income. Creating flags for loans where borrowing income was not fully documented or not documented at all, will allow for better understanding of how lenders are using no or limited income documentation loan products and if such products are concentrated in certain vulnerable segments of the market or in certain communities. Additionally it's important to collect data on a borrower's debt to income ratio used by lenders and underwrite in a mortgage. We recommend collecting the back-end ratio because it includes other types of monthly debt payment obligations in addition to the mortgage and is a better reflection of a borrowers overall debt burden. If a lender consistently makes loans above certain back-end ratio levels, particularly if these loans are concentrated within certain borrower segments or in certain types of communities or contain other indicators of high risk, could raise concerns about that institution’s lending practices. Another gap in existing HMDA data is tied to purchased loans. Loans originated in low and moderate income communities or to low and moderate income borrowers, can be purchased by banks from other lending institutions in order to get credit on the community reinvestment act lending test. However, purchasing lenders do not have to report the same data on these purchased loans as they do for directly originated loans. For example, data on the difference between a loans APR and defense mark rate for all loans is not reported for purchased loans. This makes it impossible to tell if banks are purchasing higher costs, potentially abusive loans for which they would get CRA credit. Just to give a sense of scale, in 2006, the tail end of the subprime boom, depository institutions or affiliates purchased over 35,000 conventional home purchase or refinance loans in low and moderate income census tracks in the Chicago region. So there were a substantial number of loans for which banks are likely getting CRE credit, that we know little about. Purchased loans should be subject to the same recording requirements as directly originated loans.

Another critical way HMDA data can be enhanced is by linking HMDA origination data to other types of mortgage data, particularly data on loan performance. This can be accomplished using the universal loan identification number required under the financial reform bill. Linking HMDA data to loan performance data would allow analysts to track the performance of loans to different segments of the market and with different underwriting and product characteristics. As the foreclosure crisis has shown, loans with high risk features concentrated in particular communities can have devastating consequences. Years before the foreclosure crisis began, Woodstock Institute released research showing the connection between concentrated subprime lending and subsequent high-end neighborhood foreclosure rates. Having the ability to conduct such analysis systematically would greatly aid in identifying abusive lenders and mortgage products in potentially adverse and widespread neighborhood impacts.

One final comment is on the level of detail which the data are made public. Currently HMDA data are made publicly available at the loan application level and include information on the census track location of a property. Public data at this level of analysis have been critical to organizations working to identify discriminatory lending patterns in neighborhoods and determine whether financial institutions are serving the housing needs of their communities. Going forward, there are substantial concerns about the reemergence of a red lining as borrowers and communities of color devastated by the foreclosure crisis, experience difficulty accessing mortgage credit. Any enhancements to HMDA data should use the current way that the data are made public as a starting point of how much to build and add additional data elements that will improve the public's ability to ensure that all communities have equal access to fairly priced credit.