

Home Mortgage Disclosure Act Public Hearings, September 24, 2010
Panel Two: Tom Deutsch

TOM DEUTSCH:

Thank you very much for inviting me to testify this morning on behalf of the American Securitization Forum regarding potential revisions to Reg C, which implements the Home Mortgage Disclosure Act.

By way of background, the ASF is a broad based professional forum, in which participants in the U.S. securitization market advocate their common interest on important legal, regulatory and market practice issues. ASF members include over 330 firms from all across the securitization spectrum, including mortgage, credit card, auto, student loan, originators as well as in particular the investors and rating agencies that review, evaluate and ultimately purchase those securities.

Many of those production of the data, as well as the recipients of that data, are quite important in the securitization markets, and obviously there's a significant amount of initiatives going on right now about increasing the availability of information of both rating agencies and investors to be able to review the credit quality of the underlying assets.

Because of the bulk of housing, finance takes place in the capital markets via securitization, either through the GSEs or through private label market. ASF offers our observations today with respect to potential HMDA reforms given their significant impact on our members.

My testimony today will address four major topics. One, the need for standardization across regulators on loan level disclosure requirements.

Two, the implementation costs associated with increasing loan level disclosure.

Three, the privacy considerations surrounding enhanced loan level disclosure.

And four, the role of the ASF link in protecting borrower privacy but enhancing the tracking of performance of loans over time.

ASF has been and continues to be very supportive of transparency in the mortgage lending. We agree with HMDA's original purposes of enabling officials to target public and private investment where needed, evaluate the role of institutions in meeting community housing needs and enforcing fair lending standards. However, we are concerned over the potential impact of multiple layers of mortgage loan level disclosure regulation without effective coordination in the regulatory community. Obviously HMDA data collection does not occur in isolation.

Given the recent market dislocation, mortgage lending disclosures in the securitization process more generally have been subject to numerous reform efforts, both market driven, as well as policy initiatives. A piecemeal approach to developing additional disclosure requirements implemented without sufficient coordination among regulators will likely result in multiple and possibly competing disclosure requirements. We believe that any such reforms need to be

considered and implemented on an interagency basis to ensure that there's a level playing field for all market participants.

The ASF is also active in identifying, designing and activating numerous industry standards, including Project Restart to rebuild the securitization market. Late this spring, the Securities and Exchange Commission also released new proposals to change regulations to require loan-level disclosure. These proposals draw extensively from ASF's Project Restart and are in line with the requirements of the Dodd-Frank Act. ASF has submitted in detail 208 pages of responses to the commission regarding its loan-level RMDS disclosures last month, and the commission is expected to make a review of the more than 150 comment letters they received before they issue proposed rules in the coming months. Also, the recent data collection programs vary across several key aspects, namely who is to report the information, which loans are covered, who can access the information, what data points are required, how the information is technically presented and how the data points are defined. We caution and urge strongly that any proposed additional revisions should only occur in coordination with the other agencies. We'll also note that given the ongoing debate about the GSE reform efforts, there is significant consideration about what should the future of the GSE market look like. GSEs currently don't report a significant amount of loan-level information in their information process as opposed to the other processes. As we move forward in that credit debate, the credit underwriting and the due diligence would vary quite significantly on whether or not there's the existence of any kind of government guarantee behind the securities issued with the mortgage loans backing it.

We endorsed the provisions of loan level data to investors and the regulatory agencies. We recognize the process of capturing the necessary data will create new information to system challenges from market participants and of course, the extensive corresponding costs with those system upgrades to capture more information. This burden will fall equally on small participants, who are less likely to have the internal resources to quickly build the needed systems, and on large participants who, despite having greater internal resources, have to cope with handling data on a much greater scale than the smaller counterparts. In absence to the RMBS markets since the publication of our RMBS packages last year, industry participants have understandably been reluctant to undertake the considerable expense to increase their data reporting.

Privacy considerations for RMBS disclosure, both within HMDA as well as in the broader financial markets, are quite extensive and quite concerning. We would certainly encourage participation and direct connection with the Federal Trade Commission.

Finally and very briefly, I would also encourage the adoption of the ASF link, which is a numbering system we developed last year to enable connection of the origination of mortgage loans with the servicing performance loans over time. So you can actually see, have a bar code to connect, the origination data with the servicing performance later. Thank you very much for your time.