Home Mortgage Disclosure Act Public Hearings, September 24, 2010
Panel Two: Mark Pearce

MARK PEARCE:
Good job. Tom Noto said I could use the time he didn't use this morning.

[Laughter]

But I will stick to five minutes if I can.

Good morning, Governor Duke, members of the Consumer Advisory Council and staff of the Board of Governors. My name is Mark Pearce and I serve as chief deputy commissioner of banks for the state of North Carolina. Our office is the primary regulator for 85 state chartered banks, over 600 mortgage companies, and 6,800 loan originators. Thank you for the opportunity to testify today.

At its core, I believe HMDA operates on the principle that having good data can cast sunshine on potential market failures, and so that these failures can be corrected. While HMDA data reporting has expanded and evolved over its 35 years, I believe HMDA should leverage the existing technology we have today to provide more timely, reliable and comprehensive information without adding undue burdens on reporting lenders.

In my allotted time, I will focus on four recommendations. First, I believe HMDA should be reported and published on a quarterly basis. Until this past Monday, the latest public HMDA data online covered originations from 2008. That's more than 20 months since the last reportable loan was originated. The long time period between origination and public availability reduces the relevance of the HMDA data set, especially for regulatory and enforcement purposes.

Now, I don't believe this will be difficult to achieve. HMDA loan activity registers are already required to be maintained quarterly. All that we need to do is require the quarterly submission of that data to the regulators and to work with the FFIEC to develop a reasonable and predictable schedule of public reporting.

State regulators are now routinely, as Pat mentioned, requesting loan level data from large non-bank mortgage companies in the course of our multi state examinations. In North Carolina, we have taken that one step further by implementing a rule to require quarterly loan level reporting. We've worked closely with lenders and with software vendors to integrate the collection and the reporting of this data with the lender's own origination system. While we are in the early stages of implementation of this rule, it's clear that the technology exists today to report loan level data on a more frequent basis than is occurring today.

Second, HMDA should include both the NMLS unique identifier, and a universal loan identifier to enable regulators to leverage other data sets, similar to the points Tom was making earlier. State regulators working through CSBS and Armor have implemented the nationwide mortgage licensing system, which tracks the licensure of individual loan originators. Adding this NMLS unique identifier to HMDA, as permitted by the Dodd-Frank Act, would allow regulators to conduct better more granular analysis of originator activity.

In addition to knowing who originated the loan, HMDA should include the universal loan number to enable to connect databases in the future. For instance, if the new loan performance database required by Dodd Frank that was talked about a lot this morning is developed with loan level data, then it might be possible to create a life cycle of mortgage loans. Life cycle data would enhance our understanding of the factors, characteristics and patterns related to mortgage default and promote more effective risk-based regulation.

Third, the board should look for opportunities to reduce compliance complexity. Earlier this year, 35 states, including North Carolina, reached a settlement with CitiFinancial Mortgage related to its failure to report 91,000 loans on its HMDA log due to an unintended and undetected programming error. While honest mistakes happen, current HMDA definitions of coverage and classification increase both the likelihood of errors and the likelihood that those errors will go undetected. Having a uniform minimum reporting threshold and broader loan coverage should actually reduce compliance burdens while increasing the portion of loans reported.

Fourth, HMDA should piggyback on new uniform data reporting standards to collect information on pricing, underwriting and loan features. As a result of recent market failures, investors and regulator alike are revamping data reporting requirements. For instance, FHFA will begin capturing standardized load level information early next year. HMDA can piggyback on this data or other data, as Tom mentioned, to gather underwriting and pricing information with little burden on mortgage lenders. Pricing and underwriting data is essential to improving the regulation of the mortgage market.

In conclusion, as the board engages in its review of HMDA, I hope it does so with an eye to the current and future challenges of the mortgage market. The days of easy access of credit are over for the foreseeable future. Major lenders have tightened credit. The average credit score for GSE loans is now 750. And nine out of ten of these loans have a loan to value ratio in excess of 80 percent. Today's tight credit conditions makes HMDA data as important as ever, as there's a real potential that minority neighborhoods will suffer a disproportionate contraction of credit just as they suffered disproportionately from the expansion of unaffordable loans in recent years. That was a long sentence, but thank you.