Remarks of Cy Richardson

National Urban League

Federal Reserve Board Hearing on Potential Modifications to Regulation C

September 24, 2010

The National Urban League thanks the Federal Reserve for the opportunity to comment on potential revisions to Regulation C and the data provided under the Home Mortgage Disclosure Act (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 difference 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 pre-purchase counseling that adheres to national standards. We have ample, empirical evidence that these factors increase responsible and sustainable homeownership, and the low default rates associated with these features demonstrate the value of good mortgage products.

Given this understanding, while HMDA is certainly an important tool to analyze the past, we're keen to focus on improvements to its structure that allow for more proactive use and analysis of data to ensure access to fair and affordable mortgage credit in all communities on terms that are fair and sustainable for borrowers, with particular emphasis on borrowers of color in underserved communities.

Our affiliates have historically employed HMDA data to analyze and map home mortgage lending by banks and other financial services lending institutions. For us, data reported under HMDA have been critical in monitoring compliance with fair lending laws and enforcing the Community Reinvestment Act (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 a borrower's credit risk based on underwriting variables, such as: the borrower's credit score; the borrower's debt-to-income ratio; and, the loan-to-value ratio of the mortgages. 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, or 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 data.

We also believe without adequate data from the pre-application phase, such as through the use of testers, surveys, or alternative means, fair lending oversight and enforcement is incomplete because it includes only information on the borrowers that apply for credit and not the larger universe of potential borrowers who sought it. Moreover, even though HMDA is restricted to mortgage data and, as such, cannot expose fair lending violations in nonmortgage lending, the central question before the Board must certainly be whether policymakers and the broader public have adequate and reliable data sufficient to assess market conditions and truly understand the myriad patterns and layers of community investment that facilitate or stymie positive neighborhood change. In this regard, another data limitation of note is that regulators generally do not have access to personal characteristic data (for example, race, ethnicity, and gender) for nonmortgage loans, such as automobile, credit card, and business lending, which are also subject to fair lending laws. In the absence of this type of composite analysis, the agencies tend to focus more of their oversight activities on mortgage lending rather than on other consumer lending areas. 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. In addition, we believe lenders who purchase loans for CRA credit should be required to report the same level of data as if they had originated the loan.

We are also aware that the Board is interested in understanding the potential costs and burden associated with enhanced data reporting. To be sure, tangible costs are associated with geo-coding loans, hiring compliance officers, and doing paperwork; however, we believe the burden of reporting is easily relieved by data products already available in the marketplace. We also believe all HMDA filers should routinely report the expanded information as part of their regulatory (nonpublic) reporting obligations. Even if HMDA data show 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 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" practices. 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 reporting 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 community with more complete context for evaluating the prime and 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'd all agree HMDA is an invaluable tool for many civil and consumer rights organizations, as well as federal, state and local regulators in identifying and fighting discriminatory lending practices. The National Urban 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 on proposed improvements to Regulation C and the data provided under the Home Mortgage Disclosure Act (HMDA).

Thank you.