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September 16, 2010

Ms. Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington DC 20551

RE: Docket No. OP-1388, Possible HMDA Revisions

Dear Ms. Johnson:

I am writing from Woodstock Institute to recommend key improvements to data collected under the Home Mortgage Disclosure Act (HMDA). Woodstock Institute is a leading nonprofit research and policy organization in the areas of fair lending, wealth creation, and financial systems reform. Woodstock Institute works locally and nationally to create a financial system in which lower-wealth persons and communities of color can safely borrow, save, and build wealth so that they can achieve economic security and community prosperity. Its key tools include: applied research, policy development, coalition building, and technical assistance.

The Home Mortgage Disclosure Act has been a critical tool in the fight against redlining and discrimination in mortgage lending. Congress passed HMDA in 1975 to help regulatory agencies and the public identify discriminatory lending patterns; determine if financial institutions are meeting local housing needs; and help local officials allocate resources and direct investments. Woodstock Institute has used HMDA data extensively for these purposes. Examples include:

- **Analyzing access to mortgage credit in underserved markets** - Woodstock regularly releases reports independently and in collaboration with national colleague organizations using HMDA data to examine inequalities in access to low-cost, prime mortgage credit. Recent reports have looked at dramatic declines in access to prime mortgage credit in communities of color and at the impact that Community Reinvestment Act (CRA)-coverage had on higher-cost mortgage lending patterns in underserved communities.
- **Examining the lending practices of individual financial institutions** - Woodstock has also regularly used HMDA data to analyze the lending of specific institutions. These analyses have been used in comment letters on bank CRA examinations, during bank mergers, and in letters to bank regulators concerning possible fair lending violations.
- **Understanding patterns of community investment and neighborhood change** - Each year, Woodstock releases its *Chicago Area Community Lending Fact Book*, a reference guide to neighborhood mortgage lending used by Chicago area community organizations, government agencies, and financial institutions to understand patterns of neighborhood investment. Woodstock has also used HMDA data to examine changes in the income levels of homebuyers in different communities as a way to measure the dynamics of neighborhood change.

While HMDA data have been a valuable tool in fighting discrimination and redlining and improving access to credit to underserved markets, there are substantial opportunities to improve the data collected to make it even more effective. One of the main limitations of the current HMDA data is the lack of sufficient information on underwriting and product characteristics. One of the major frustrations experienced when analyzing HMDA data is being able to document clear patterns that indicate discriminatory lending, but lacking the necessary data to prove that discrimination is occurring. This frustration has been compounded by the lack of action taken by regulatory agencies in the face of clear indications of discriminatory lending behavior. While the recently signed financial reform bill will add key data points that will solve many of these concerns, we feel that there is still opportunity to improve the data collected.

Areas where there are opportunities for key improvements include:

Improve the collection of data on borrower income and 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 when underwriting the mortgage.** Limited- and no-income documentation mortgages were frequently abused in the run-up to the foreclosure crisis. Mortgage lenders and brokers frequently used these products to overstate borrower income to qualify borrowers for loans they could not be approved for given their documentable income. Therefore, it is important to know 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.
- **A borrower's debt-to-income ratio.** It is important to know the debt-to-income ratios used by lenders when underwriting 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 borrower's 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 contain other indicators of high risk, it would raise concerns about that institution's lending practices. If data show that these loans are concentrated in certain communities, it would help analysts gauge potential foreclosure hot spots.
- **An applicant's full income.** In order to make applicant income information consistent and reliable, it is important to standardize the income information that lenders are required to report for all applicants. Therefore, we recommend that lenders report total applicant income and not just the income necessary to qualify an applicant for a loan.

Close gaps in types of loans that are required to be reported - There are a number of loan types where reporting is either voluntary or not required at all under HMDA. Currently, it is voluntary for lenders to report home equity lines of credit. Voluntary reporting of data makes analysis difficult because it is impossible to assess the size of the universe of lending. This greatly reduces the value of the data that are

reported. Given the key role that home equity lines of credit play in the mortgage market, lenders should be required to report such loans. Additionally, reverse mortgages are an increasingly popular home equity product, and there are growing concerns that older homeowners will be targeted for abusive reverse mortgage loans. Data should be collected on reverse mortgage originations and the characteristics of these loans to ensure that older homeowners are not taken advantage of.

Report additional data for 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 CRA lending test. 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 loan's APR and the benchmark rate for all loans is not reported for purchased loans. This makes it impossible to tell if banks are purchasing higher-cost, potentially abusive loans for which they would get CRA credit. Given that these purchased loans are given the same weight on the CRA lending test as directly originated loans, we feel that they should be subject to the same data reporting requirements.

Require disclosure of a lender's parent company - Currently it is difficult to determine if an individual HMDA-reporting lender is an affiliate of a larger bank holding company. During the peak of the subprime era, it was not uncommon for large lenders to have some affiliates specializing in subprime lending and others specializing in prime lending. Such a corporate structure can mask a holding company's potentially abusive lending and make it difficult to analyze a holding company's total lending activity. We believe a HMDA-reporting lender should be required to disclose if it is part of a larger bank holding company and the name of the top entity in the holding company.

Require all lenders to report the reason a loan is denied - Currently lenders regulated by the Office of the Comptroller of the Currency or the Office of Thrift Supervision are required to report the reason a loan application is denied. For other lenders, reporting this information is voluntary. We believe that all lenders should be required to report the reason a loan application is denied. Understanding why loan applications are denied will add additional transparency to the mortgage lending process and allow researchers to examine in more depth the challenges facing both lenders and applicants in improving access to credit.

Close gaps in institutions required to report data - HMDA data for rural areas and smaller metropolitan areas is incomplete since only depository institutions that report CRA small business or farm loan data are required to report HMDA data in rural counties and for geographical areas beyond their branch network. This gap should be closed by requiring all HMDA reporters to report all loans they issue in all geographical areas. Additionally, institutions that go out of business or are acquired by another institution in a given year should be required to report all HMDA data for that year. Recently, some failures of large subprime lenders resulted in a significant amount of missing HMDA data because they were not required to report data in their last year of operation.

Link data on loan performance and loan modifications to HMDA - In addition to data reported on mortgage applications, we believe that data collected on loan performance and on loan modifications should be linked to HMDA data. These data should be linked to the origination using the universal loan identification number required under the financial reform bill so that analysts would be able to track the performance of loans to different segments of the market and with different underwriting and product

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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 neighborhood foreclosure rates.¹ Having the ability to conduct such analysis systematically would greatly aid in identifying abusive lenders and mortgage products with potentially widespread neighborhood impacts. Additionally, linking HMDA data to information on loan modifications would allow for a better understanding of geographic patterns of loan modification activity as well as the characteristics of loans and the borrowers who had their loans modified.

One of the most valuable aspects of HMDA data is the level of detail at which the data are reported. Currently data are reported and made publicly available at the loan application level and include information on the census tract location of a property. This level of detail has been critical to HMDA data's value as a tool to monitor access to mortgage credit in underserved communities and prevent geographic discrimination in lending, and we hope that new data fields will enhance our ability to understand and analyze local credit needs and identify potentially abusive lenders and products. However, as new data elements are collected, particularly data on underwriting characteristics such as credit score, there are concerns about the risk of private information found in otherwise anonymous HMDA data being linked to public records. While we understand these concerns, we feel that now it is critical that expanded HMDA data continue to be made available at the same level of detail as it has been in the past. Any enhancements to HMDA data should use the current way that the data are made public as a starting point upon which to build and add additional data elements. Such detail will be critical to providing transparency that will ensure that prime, conventional mortgage lenders do not abandon communities of color that have been devastated by the foreclosure crisis.

Collecting additional HMDA data is critical to adding transparency and accountability for both lenders and regulators. For many years prior to the mortgage crisis, Woodstock Institute and many other research and advocacy organizations produced numerous reports identifying troubling trends in subprime lending, illustrating the impacts of these patterns, and recommending regulatory action to stop the proliferation of abusive products. Despite these warnings, regulatory agencies chose not to act, which led to disastrous consequences for communities across the country. We hope that new data reported under HMDA will not only allow for a more thorough analysis of the mortgage market and identification of abusive and discriminatory lenders, but that it will also force regulatory agencies to be more accountable for their regulatory decisions or lack thereof.

Woodstock Institute would like to thank the Federal Reserve Board for the opportunity to offer testimony on the value of the Home Mortgage Disclosure Act and on ways data collected under the Act can be improved to better meet the Act's stated goals.

Sincerely,

Geoff Smith
Senior Vice President

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¹See Immergluck, Dan and Geoff Smith. March 2004. Risky Business: An Econometric Analysis of the Relationship Between Subprime Lending and Neighborhood Foreclosures. Chicago: Woodstock Institute.