Metropolitan St. Louis Equal Housing Opportunity Council

# OPENING COMMENTS AND WRITTEN TESTIMONY SUBMITTED BY WILL JORDAN, EXECUTIVE DIRECTOR

Federal Reserve Board
Atlanta Hearing on HMDA Revisions
July 15, 2010

I direct the Metropolitan St. Louis Equal Housing Opportunity Council, a private nonprofit fair housing agency operating in the St. Louis metropolitan area in Missouri and Illinois. Our organization started using HMDA data on a consistent basis for our report, *Bailing Out on Community Reinvestment,* which was released in December 2008. We analyzed HMDA data for eight lenders operating in the St. Louis metropolitan area that had already applied or were considering applying for funds through the U.S. Treasury's Capital Purchase Program. HMDA data provided us with a picture of their lending to low-income and minority communities.

Based on the pattern of racial disparities that we were seeing, we convened the St. Louis Equal Housing and Community Reinvestment Alliance ("SLEHCRA"). We are a coalition of thirteen non-profit organizations working to increase investment in low-income and minority communities by ensuring that banks are meeting their obligations under the Community Reinvestment Act and fair lending laws.

Over the past year, we have been regularly submitting comments on CRA performance evaluations and applications for banks operating in the St. Louis metropolitan area. As a result of our research, federal agencies including the Department of Justice and the Department of Housing and Urban Development are investigating three different banks. Regulators have met with us and changed the way they conduct supervisory training. Banks have indicated to us that they are changing their practices based on the research we have shown them and the suggestions we have made.

The Home Mortgage Disclosure Act data is *essential* to our work in ensuring banks are providing services to all sectors of our community, especially low-income and minority communities.

We have six recommendations for the Federal Reserve Board regarding HMDA revisions:

First, we need aggregated HMDA data by county, not just by entire metropolitan areas. In a place like St. Louis, where there are stark contrasts in race and income characteristics between counties, it would be extremely helpful to understand the lending climate in each separate county. For example, the City of St Louis is a separate county from St. Louis County with wide income and race differences. We analyze bank performance in their assessment area against average lending by other banks. We are currently unable to analyze a bank with an assessment area of suburban St. Charles County, for example, against average lending patterns in that county; we can only compare it against lending in the entire MSA.

Second, more information about loan terms and conditions is needed to improve HMDA's ability to determine if discriminatory and abusive lending is occurring. Information about high priced loans has been useful, but additional information on fees and points would improve the ability to evaluate equal loan terms between borrowers. Other loan terms like prepayment penalties, whether the interest rate is fixed or adjustable, or whether there is a balloon payment, are also necessary to identify possibly discriminatory practices. The loan channel—whether it came through a broker, correspondent, or retail—helps identify which institutions are most likely to offer responsible loans and which offer problematic loans. If this kind of information had been provided several years ago, we would have been able to more easily identify trends that contributed to the current crisis.

Third, more information on underwriting factors can help reveal discriminatory practices. Such information can also protect banks that are working to reach a diverse population. Loan-to-value ratios, debt-to-income ratios, credit scores, and property values are all factors that can help determine racial disparities in pricing or access to credit. We have seen wide racial disparities in lending at a number of banks. For example, one bank we examined had a denial rate of 17.8% for white borrowers and 57% for African American borrowers. Of those African Americans who originated a loan with the bank, 40% received a high cost loan, compared to 7.8% of white borrowers. When we spoke with the lender, they assure us that the same criteria were used to qualify all borrowers. With added underwriting information, banks would be able to point to objective data demonstrating why such disparities exist.

Fourth, we need publicly-available loan performance data that is linked to HMDA data. It is important to have information on delinquencies, defaults, and foreclosures that are tracked on an institutional level, or at the least, the census tract level. County level data on foreclosures, while helpful, are simply not enough. Information on modifications, including loan terms and conditions, is important to include for all loan modifications and not just HAMP modifications, like the regulatory reform bill includes.

Fifth, home equity lines of credit and reverse mortgage lending should be mandatory in HMDA reporting. Both loan types need to be held more accountable for abusive patterns.

Finally, there cannot be gaps in HMDA data reporting. A parent company needs to be required to report data for all affiliates, so that we can get a clear picture of the institution in its entirety. There cannot be any exemptions or incomplete HMDA reporting. HMDA reporters need to be required to report all loans they issue in all geographies, including rural counties, small metropolitan areas, and geographies in which they don't have branches. Failed banks cannot be exempt from HMDA, and need to be required to submit HMDA reports for that year.

While we understand some of these enhancements are included in the proposed regulatory reform legislation, we still urge the Federal Reserve to push for the strong and immediate implementation of these additions. Also, the Federal Reserve Board should prioritize data elements that are not in the Dodd-Frank bill.

I thank the Federal Reserve Board for the opportunity to sit on this panel and share recommendations for revising Regulation C and the Home Mortgage Disclosure Act data.