PUBLIC COMMENT

Home Mortgage Disclosure Act (Regulation C)

Comment to the Bureau of Consumer Financial Protection on proposed rules governing HMDA reporting and disclosure requirements

October 28, 2014

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The UNC Center for Community Capital at the University of North Carolina at Chapel Hill is the leading center for research and policy analysis on the transformative power of capital on households and communities in the United States.

The center's in-depth analyses help policymakers, advocates and the private sector find sustainable ways to expand economic opportunity to more people, more effectively.

Roberto G. Quercia, Director
Lucy Gorham, Acting Executive Director

UNC Center for Community Capital
The University of North Carolina at Chapel Hill
1700 Martin Luther King Blvd. | Campus Box 3452, Suite 129
Chapel Hill NC 27599-3452
(877) 783-2359 | (919) 843-2140
communitycapital@unc.edu | www.ccc.unc.edu

UNC COLLEGE OF ARTS & SCIENCES
UNC CENTER for COMMUNITY CAPITAL

1700 Martin Luther King Jr. Blvd.
Suite 129
Chapel Hill, NC 27599-3452
(919) 843-2140

October 28, 2014

Richard Cordray
Director, Consumer Financial Protection Bureau
1700 G Street NW
Washington DC 20553

Re: Home Mortgage Disclosure Act (Regulation C) [Docket CFPB-2014-0019, RIN 3170-AA10]

Director Cordray,

The following is the response from the Center for Community Capital at the University of North Carolina at Chapel Hill to the revisions proposed by the Consumer Financial Protection Bureau to Regulation C implementing the Home Mortgage Disclosure Act (HMDA).

The UNC Center for Community Capital is devoted to research and policy analysis on the transformative power of capital on households and communities[1]. As such, we extensively used the information provided under HMDA. This includes but is not limited to analysis of federal public policies such as the Community Reinvestment Act[2], state policies like anti-predatory lending laws[3], commentary on the affordable housing goals of Fannie Mae and Freddie Mac[4], empirical research on access to credit[5], program evaluation[6], and even an interactive website of housing and mortgage lending information for North Carolina[7].

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[1]For a summary of our research, see Quercia, Freeman and Ratcliffe, *Regaining the Dream: How to Renew the Promise of Homeownership for America's Working Families*. Brookings Institution Press, Washington DC. Kevin A. Park is a doctoral candidate in the Department of City and Regional Planning at the University of North Carolina at Chapel Hill and has been a graduate research assistant at the Center since 2009.

[2] Park, Kevin A. "CRA Did Not Cause the Foreclosure Crisis." Center for Community Capital, University of North Carolina at Chapel Hill, 2010. http://ccc.unc.edu/contentitems/cra-did-not-cause-the-foreclosure-crisis/

[3] Ding, Lei, Roberto Quercia, Carolina Reid and Alan White. "The Preemption Effect: The Impact of Federal Preemption of State Anti-Predatory Lending Laws on the Foreclosure Crisis." Center for Community Capital, University of North Carolina at Chapel Hill, 2010. http://ccc.unc.edu/contentitems/the-impact-of-federal-preemption-of-state-anti-predatory-lending-laws-on-the-foreclosure-crisis/

[4] Ratcliffe, Janneke and Kevin A. Park. "Re: The Federal Housing Finance Agency's proposed housing goals for Fannie Mae and Freddie Mac for 2012-2014." Center for Community Capital, University of North Carolina at Chapel Hill, 2012. http://ccc.sites.unc.edu/files/2013/02/Comment_FHFA_Proposed_GSE_Goals_7-26-12.pdf

[5] Park, Kevin A. "Credit and Collateral: Rising Denial Rates on Home Purchase Mortgage Applications, 2001-2011" Center for Community Capital, University of North Carolina at Chapel Hill, 2010. http://ccc.unc.edu/contentitems/credit-and-collateral-rising-denial-rates-on-home-purchase-mortgage-applications-2001-2011/

[6] Ratcliffe, Janneke, Kevin Park and Jennifer Tausig. "The Neighborhood Stabilization Program and Habitat for Humanity International." Center for Community Capital, University of North Carolina at Chapel Hill, 2014.

Although HMDA data has proved immeasurably valuable to these activities, the information provided has always been limited. Unfortunately, shortcomings have often led to important findings, particularly on unequal access to credit and predatory lending, being disregarded. Consequently, we applaud the Bureau's implementation of reforms required under the Dodd-Frank Wall Street Reform and Consumer Protection Act[8].

We also hope the Bureau will continue to exercise its authority to include "such other information as the Bureau may require"[9] to expand reporting requirements. The last major revision to HMDA reporting was not implemented until 2004, well into the housing bubble. As a consequence, important information on pricing disparities between borrowers and neighborhoods related to subprime mortgage lending was not adequately understood. Although Dodd-Frank attempts to curb such abusive practices in the future, unscrupulous lenders will inevitably adapt. The Bureau must be prepared to adjust reporting requirements to developments in the market.

Although only the information collected by the Bureau is currently under discussion, we would like to emphasize that public disclosure is the fundamental purpose of the Home Mortgage Disclosure Act. Through "regulation from below," the public data leverages more resources than banking regulators alone could ever muster. Consequently, the Bureau should act quickly to incorporate these revised reporting requirements into the information that is made available to the public.

Our commentary is broken into four major categories: coverage, underwriting criteria, applicant characteristics and industry structure.

Coverage

The Bureau is proposing to simplify the threshold that determines whether a financial institution must report under HMDA and to expand the definition of mortgage applications required to be reported.

Transactional Coverage

Currently, a financial institution is required to report mortgage applications for the purchase of a home, home improvement or refinancing. The Bureau proposes revising this requirement to cover all loans secured by a dwelling[10]. Consequently, the definition of a covered loan[11] would include not only closed-end mortgage loans[12], but also open-end lines of credit[13], and reverse mortgages[14]. On the other hand,

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http://ccc.unc.edu/contentitems/the-neighborhood-stabilization-program-and-habitat-for-humanity-international/

[7] Park, Kevin. "Housing and Mortgage Lending Data." Center for Community Capital, University of North Carolina at Chapel Hill. http://www.unc.edu/~kapark/NC/home.php

[8] Dodd-Frank Act, Public Law 111–203

[9] *Ibid*, Section 1094(3)(A)(iv).

[10] A dwelling is defined as a residential structure whether or not it is attached to real property (§ 1003.2(f)).

[11] § 1003.2(e)

[12] § 1003.2(d)

[13] § 1003.2(o)

[14] § 1003.2(q)

some home improvement loans[15] currently reported would no longer be required if not secured by a dwelling.

We support the proposed revision to transactional coverage**. Any loan that could result in the borrower losing their dwelling through foreclosure should be reported under HMDA**. As the Bureau states, "In addition to improving the usefulness of the HMDA data, the Bureau believes that expanding the scope of Regulation C to include all dwelling-secured lines of credit would be necessary to prevent evasion of HMDA." Home equity lines of credit (HELOCs) are common substitutes for closed-end subordinate liens (CESs), which are currently reported in HMDA, and both compete with mortgage insurance for wealth-constrained borrowers.[16] Lending will flow to the path of least regulation, meaning gaps in disclosure requirements will lead to less transparency, which is the purpose of HMDA. **Reverse loans[17] and open-end lines of credit[18] should be identified in HMDA given the differences in underwriting relative to close-end forward loans.**

Loan Purpose

The purpose of the loan would still be reported, with some clarification of categories. Given that home equity is often a capital source for small businesses, identifying loans for commercial purposes would be enlightening. Regardless of whether they are identified as such, commercial loans secured by a residential dwelling should be covered by HMDA.

Another helpful measure of loan purpose would be an indication of whether the loaned funds are intended for the property securing the loan or for some other property. For example, loans secured by one dwelling but used to purchase another are currently reported as home purchase loans. While technically accurate, this obscures important differences in credit flows. Several policies, including the Community Reinvestment Act and the affordable housing goals of the government-sponsored enterprises, have regulations based on neighborhood characteristics designed to encourage investment in underserved communities. Regulators and community advocates should be aware if debt secured by property in one location is being used to invest in property in another location, potentially in a much different type of neighborhood. **Applicants should indicate whether the dwelling securing the loan is also the intended subject of the loaned funds.**

Occupancy

With respect to occupancy, the Bureau proposes disaggregating non-owner-occupied properties by separately identifying second residences, investment properties with rental income and investment properties without rental income[19]. Rather than distinguish between types of investment properties**,**

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[15] § 1003.2(i)

[16] Lee, Mayer and Tracy (2012) note important differences between types of subordinate mortgages. About 75 to 85 percent of HELOCs went to borrowers with credit scores over 700 and were often originated well after the first lien or to borrowers without other mortgages. In contrast, CES loans were more often simultaneous originations with non-prime first liens. Park (2014) finds there is one less FHA endorsement for approximately every additional 1.4 CES origination.

[17] § 1003.4(a)(36)

[18] § 1003.4(a)(37)

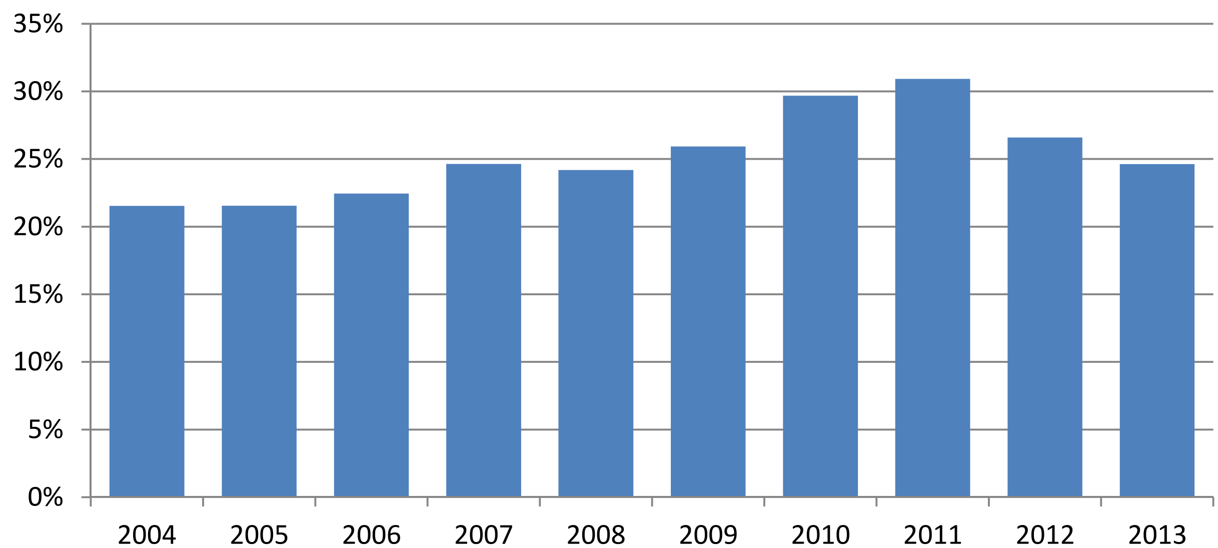
[19] § 1003.4(a)(6)

applicants should be required to indicate the number of units they intend to rent. This simplification would make the distinction between investment properties with and without rental income redundant. At the same time, the number of rental units in combination with the total number of units[20] would allow users to identify multifamily rental properties with resident landlords—a common phenomenon among double- and triple-decker houses in older cities.

Institutional Coverage

Whether a financial institution is required to report under HMDA is currently a complicated amalgam of loan counts, amounts and asset thresholds that depends on whether the institution is a depository institution or for-profit mortgage-lending institution other than a bank, savings association or credit union. This creates drastically uneven regulation among financial institutions effectively involved in the same business of mortgage lending. Depository institutions with a single loan origination may be required to report while an independent mortgage company could originate many more loans and still be exempt. The Bureau proposes to greatly simplify the definition of a covered institution[21] such that any institution, depository or not, would be required to report if they originated at least 25 covered loans, excluding open-end lines of credit, in the preceding calendar year. The Bureau estimates that the revision may increase the number of nondepository institutions covered by HMDA by as much as 40 percent and the number of covered applications by nondepository institutions by as much as six percent. Our tabulations suggest that the proposal will reduce the number of current reporting institutions by roughly 20 to 30 percent, but that the number of covered loans will only be reduced by less than half a percent.

Share of Institutions with Fewer than 25 Mortgage Originations



[20] § 1003.4(a)(31)
[21] § 1003.2(g)

There is still the possibility that the change in institutional coverage will disproportionately affect what kinds of institutions are required to report and what kinds of applicants they serve. Below is a logistic regression in which the dependent variable indicating whether the financial institution receiving an application originated fewer than 25 loans. The universe of applications includes all non-business applications between 2011 and 2013 secured by a property.[22]

We see conventional loan applications, applications for manufactured housing and non-owner-occupied properties are all associated with an increase in the odds that the financial institution originated fewer than 25 loans. Certain types of financial institutions, as indicated by their regulator, are also associated with differences in the number of originations. Banks regulated by the Federal Deposit Insurance Corporations are less likely to originate more than 25 loans. On the other hand, institutions regulated by the Department of Housing and Urban Development and the Consumer Financial Protection Bureau more likely to originate sufficient loans to be covered by HMDA.

One troubling finding is that the odds a financial institution originated fewer than 25 loans is 80 percent higher if the applicant is African American. That is, the 25 loan threshold will disproportionately drop applications from black and African American households. Nevertheless, we believe the total number of applications affected is sufficiently small that the simple 25 loan threshold is reasonable. However, we caution against raising the threshold. In addition, we are concerned about some of the supporting regulations around the 25 loan test.

Multifamily properties are exceptionally more likely to be associated with financial institutions originating fewer loans, raising the possibility that the 25 loan test will result in HMDA being less representative of the multifamily mortgage market. Moreover, one coverage requirement for depository institutions is that they must have originated at least one first lien loan for purchase or refinance of a one-to-four unit dwelling; therefore, institutions that may specialize in multifamily properties may already be exempt. The Bureau is proposing the 25 loan origination test in additional to *existing* coverage rules for depository institutions. T**he coverage requirements for depository and nondepository institutions should be aligned solely around the 25 loan test.**

We also oppose exempting open-end lines of credit from the calculation. **All covered loans should be used to determine covered institutions.** Otherwise, there is an opportunity to evade HMDA reporting, which was the Bureau's argument for including open-end lines of credit among covered loans in the first place. Specifically, a financial institution could create a subsidiary specializing in open-end lines of credit intended to avoid HMDA reporting. More generally, creating one exemption opens the door to future exemptions which would degrade the institutional coverage and representativeness of HMDA.

[22] Applications are defined as HMDA records in which the loan is originated, denied by the financial institution, or approved but withdrawn by the applicant. Non-business loans identified as loans were the race, ethnicity and sex are not reported as "Not applicable." Loans include first and subordinate liens but exclude unsecured loans.

Likelihood Application to Financial Institution with Fewer than 25 Mortgage Originations

	Odds Ratio	Coefficient	Std. Err.
Race			
American Indian or Alaska Native	1.435	0.398***	0.036
Asian	0.887	-0.389***	0.022
Black or African American	1.796	0.317***	0.019
Native Hawaiian or Other Pacific Islander	1.191	-0.094*	0.057
White (REF)	.	.	.
Information Not Provided	1.358	-0.269***	0.026
Ethnicity			
Hispanic or Latino	1.053	0.060***	0.012
Not Hispanic or Latino (REF)	.	.	.
Information Not Provided	0.925	0.009	0.016
Sex			
Male (REF)	.	.	.
Female	0.896	-0.050***	0.010
Information Not Provided	0.934	-0.009	0.017
Loan Amount (Log)	0.775	-0.255***	0.004
Loan Type			
Conventional (REF)	.	.	.
FHA	0.144	-0.519***	0.028
VA	0.101	-0.870***	0.046
FSA/RHS	0.236	-0.028	0.044
Property Type			
One-to-Four Family (REF)	.	.	.
Manufactured	1.607	-0.208***	0.017
Multifamily	4.812	0.889***	0.025
Loan Purpose			
Purchase (REF)	.	.	.
Home Improvement	1.188	0.228***	0.008
Refinancing	0.711	-0.285***	0.005
Occupancy			
Owner-Occupied (REF)	.	.	.
Not Owner-Occupied	2.148	0.125***	0.014
Not Applicable	3.175	0.515***	0.027
Lien			
First Lien	.	.	.
Subordinate Lien	1.373	0.158***	0.007
Agency			
OCC (REF)	.	.	.
FRS	1.299	0.995***	0.011
FDIC	2.321	1.575***	0.007
NCUA	1.620	1.216***	0.008
HUD	0.065	-2.001***	0.016
CFPB	0.039	-2.519***	0.015
Minority Share of Tract Population	1.005	0.005***	0.000
Tract Income as Share of AMI	0.999	-0.001***	0.000
Year			
2011 (REF)	.	.	.
2012	0.590	-0.143***	0.005
2013	0.535	-0.241***	0.005
Intercept		-4.346***	0.035

*significant at 10% level; **5% level, ***1% level; REF=reference category

N=29,668,737; AIC=1232282; Wald $\chi^2_{(29)}$=153369***

Further, the secondary requirement that financial institutions must also have had a home or branch office in a metropolitan area is no longer necessary. Regulatory comments state that a nondepository institution has a branch office in any metropolitan area or division where the institution received applications for, originated or purchased five or more loans related to property located in that area regardless of whether the institution had a physical office there. A nondepository institution would have to originate 25 or more loans but receive no more than five applications from any one metropolitan area in order to be exempt under this secondary requirement. Such a pattern would seem to indicate a deliberate effort to avoid HMDA reporting. More generally, the rise of internet lending and a system of mortgage brokers makes location and lack of physical offices small barriers to mortgage lending; therefore, it should also not provide an exemption for HMDA reporting.

Underwriting Criteria

As long as HMDA has been in existence, the industry defense against any finding of discrimination, redlining or other behavior has been that the disclosure lacked key variables to make definitive statements. First it was that the aggregated data could not shed light on individual loan originations. Then the complaint was that it failed to capture demand for mortgage credit. More recently, it has been that HMDA did not include underwriting information commonly used to make credit decisions, including both whether to approve the application and at what interest rate. Consequently, any disparity found in access to credit or the price of credit has repeatedly been brushed off. Revisions in HMDA required by Dodd-Frank should enable greater alignment of reporting requirements and underwriting standards in order to provide transparency to the lending process and so that such disparities cannot be so easily dismissed.

In many cases, the provision of these underwriting criteria is only available for loan originations and may not be available for loan purchases. With the development of a universal loan identifier, purchased loans should be able to be traced back to their origination record to obtain these fields from when the loan was made. Similarly, some components may not be relevant to certain covered loan types. If other regulations, such as Regulation Z, does not require an element of underwriting and it is not used in the credit decision, then it may not need to be reported.

Collateral

The simplest but perhaps most important underwriting field that Dodd-Frank requires be added to HMDA reporting is the value of the property pledged or proposed to be pledged as collateral[23]. There is mixed empirical evidence over whether credit risk is directly related to loan amount and in which direction; however, homeowner equity (i.e, the difference between the loan amount and the property value) or lack thereof is indisputably a major determinant of default (Quercia and Stegman 1992). **The addition of property value, from which borrower equity or the loan-to-value (LTV) ratio can be calculated, to HMDA reporting is long overdue**.

[23] § 1003.4(a)(28)

The Bureau is also proposing requiring the combined loan-to-value ratio (CLTV), defined as the ratio of the total amount of debt secured by the property to the value of the property, be reported.[24]. The CLTV ratio provides the most accurate calculation of borrower equity and is therefore most relevant to assess the credit risk of the loan. Mortgage lenders should find all liens securing a property as part of their due process in underwriting. Unfortunately, the ability to do so prior to closing is often limited. We believe that lenders who use CLTV in their credit decisions should report that information, but anticipate a high degree of non-response.

Credit Score

Another common underwriting criterion required by Dodd-Frank is the applicant credit score[25]. **The Bureau should require both the precise credit score used in making the credit decision (i.e, not a range) and the model used to generate the score.** We understand that ranges may be required if and when credit scores are provided in public disclosures[26], but there is no reason to reduce the precision of the data being collected by the Bureau. Further, the precise score is important because lenders may use different cutoff points in their underwriting process which do not align with the provided ranges. Similarly, the model used to generate the credit score is important because each model may generate different scores which confound simple comparisons. Just this past August, there was an article in the *New York Times* entitled, "Credit Scores Could Rise With FICO's New Model" (Bernard 2014). The report states that individuals with a median score of 711 may see their credit scores rise by 25 points. Such an increase in credit scores observed in the HMDA data could be interpreted as a tightening of credit standards if information on the model used to generate the scores is not provided.

Capacity to Repay

Although HMDA and its revisions do not specifically mention requirements regarding an applicant's debt-to-income ratio, the Bureau is authorized to require other information as needed. The Bureau proposes requiring financial institutions to report the back-end debt-to-income ratio defined as the applicant's total monthly debt payments as a share of the total monthly income relied on in making credit decisions"[27].

Although capacity to repay is a logical predictor of default, empirical studies have found mixed results.[28] In part, this may be because both the numerator and denominator may be imprecise. The documented income used in the credit decision is typically only the minimum required for approval. Meanwhile, finding the total amount of consumer debt is even more difficult than finding the total number of liens on a property. A variety of open-ended debt, such as credit cards and home equity lines of credit, can be reduced in order to quality before being drawn on again.

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[24] § 1003.4(a)(24)
[25] § 1003.4(a)(15)
[26] We wonder how the Bureau will handle the public disclosure of credit scores given the privacy protections in the Fair Credit Reporting Act.
[27] § 1004(a)(23)
[28] For example, Quercia, Pennington-Cross and Tian (2012) find a continuous measure of front-end debt-to-income ratio was not statistically significant predictor of default within income category. Ding et al. (2011) finds it significant for loans originated between 2003 and 2004 but not for loans originated between 2005 and 2006.

Nevertheless, we support the Bureau's decision to include the debt-to-income ratio primarily because the ability to repay standard of the Qualified Mortgage includes a 43 percent debt-to-income requirement. To the greatest extent possible, the debt-to-income ratio reported in HMDA should conform to the definition provided in Regulation Z[29]. Because the debt-to-income ratio already calculated for these purposes, it should not be a substantial additional regulatory burden to report in HMDA and will allow researchers, regulators and industry to monitor the degree to which the ability to repay requirement is binding and constraining mortgage lending.

In addition, we would request the front-end debt-to-income ratio, based on the principal, interest, taxes and insurance for the dwelling-secured loan at hand, also be included. This is typically a much more straightforward calculation also integral to the underwriting process. HMDA already includes the loan amount and borrower income and the Bureau is proposing many of the other ingredients used to calculate the debt burden, including the loan term[30] and initial interest rate[31]. These elements are very useful in themselves, particularly loan term given a maturity risk premium required for longer term loans. Shorter amortizations build equity faster, leading Citigroup and Bank of American to partner with the Neighborhood Assistance Corporation of America in offering 15-year "Wealth Building Home Loans" for lower-income households (Isaac and Pinto 2014). Researchers would be able to examine whether a concentration of shorter term loans leads to a more stable housing market.

Reason for Denial

Although the underwriting information provided may be useful in predicting whether a loan application will be denied by the financial institution, providing a reason for denial provides greater transparency. Lenders are able to list up to three reasons for denial and some financial institutions are required to report reasons for denial. However, reporting is currently optional for most financial institutions and a many denials provide no reason or list "Other." Over a third of denials between 2006 and 2008, for example, did not provide any reason.

Reason for Denial as a Share of All Applications Denied by Financial Institutions (Percent)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Debt-to-Income Ratio	13.1	10.9	11.5	14.0	17.3	21.0	20.8	19.9	18.2	18.6
Employment History	1.3	1.2	1.2	1.2	1.2	1.5	1.8	1.7	1.6	1.6
Credit History	26.3	20.9	19.6	20.0	17.7	17.1	17.3	18.5	19.5	20.8
Collateral	11.0	10.6	11.6	15.3	19.8	28.3	23.5	23.1	21.2	18.4
Insufficient Cash	2.0	1.7	2.0	2.3	2.6	3.0	3.5	3.5	3.5	3.9
Unverifiable Information	3.8	5.1	4.7	5.4	4.1	4.3	4.5	4.7	5.2	5.1
Incomplete Application	9.6	8.7	7.6	9.2	6.8	7.1	11.3	12.3	13.6	11.9
Mtg. Insurance Denied	0.1	0.1	0.1	0.1	0.4	0.8	0.5	0.3	0.3	0.3
Other	29.5	28.4	20.0	15.3	11.3	12.4	15.4	14.2	14.6	12.2
Missing	18.6	26.7	35.7	34.4	35.6	21.0	16.6	17.5	17.4	21.9

[29] 12 CFR §1026.43(e)(2)(vi))
[30] §1003.4(a)(25)
[31] §1003.4(a)(21)

All financial institutions should be required to report at least one reason for denial of an application. The ability to report multiple (up to three) causes is important because a financial institution can legitimately deny a mortgage application for many reasons. Forcing lenders to select a single reason may give a false impression. For example, researchers would be tempted to model the reason for denial with a multinomial model, but the possibility of multiple reasons violates the assumption Independence of Irrelevant Alternatives.

Park (2013) is an example of how researchers might use the reason for denial. He estimates the likelihood a loan application is denied by a lender and then estimates the likelihood conditional on denial that a lender cites a specific reason, modelling each reason in a separate model. Park finds conditional likelihood a financial institution cited creditworthiness as a reason for denial generally fell between 2001 and 2011, although this was countered by a rise in the overall likelihood of denial, leaving the unconditional likelihood an application would be denied due to the creditworthiness of the borrower unchanged or slightly higher by the end of the period. Meanwhile, concerns over the collateral used to secure the mortgage rose significantly, particularly between 2007 and 2009. However, the accuracy of this research is limited by the degree of missing data.

A clarification might be required, however, for a denial based on an incomplete application. HMDA guidelines currently state that the reason for denial fields should be left blank if the “action taken” on the application is not a denial. “For example, do not complete this column if the application was withdrawn or the file was closed for incompleteness.” In what instances, then, would an incomplete application be a reason for denial?

Regulatory Compliance

The Bureau is proposing several new fields that would monitor compliance with new and existing regulations.

Financial institutions are already required to report whether a loan qualifies for scrutiny under the Home Ownership and Equity Protection Act. The Bureau is proposing to require the reason a loan is considered high cost because of an excessive APR, or excessive points and fees, or both.[32]. However, the HOEPA thresholds are quite high and exclude the vast majority of loans considered subprime even at the height of the housing bubble. More recently, fewer than six thousand secured non-business loan originations between 2010 and 2013 are identified as falling under HOEPA. Rather than require reporting the reason behind a HOEPA designation, financial institutions should simply report the rate[33] and points and fees[34] directly.

[32] § 1003.4(a)(13)
[33] § 1003.4(a)(21)
[34] § 1003.4(a)(17)

The Bureau should adopt a similar approach to the Qualified Mortgage standard[35]. That is, HMDA should include a field indicating whether or not a covered loan is a Qualified Mortgage along with the components that might explain why the loan is not a Qualified Mortgage, including the debt-to-income ratio[36], loans with prepayment penalties[37], no or negative amortization[38], lengthy loan terms[39], and excessive points and fees[40].

One field we were disappointed was not included in the Bureau's proposal was an indication of whether a loan made by a depository institution was within its assessment area under the Community Reinvestment Act. The Federal Reserve has provided such information in its enhanced HMDA data that was available by request. Specifically, the variable SODASSM (in combination of the variable CRAASSM that was not disclosed) could identify whether the loan was outside the assessment area, inside the assessment area, or inside the larger organization's assessment even if the institution was not covered by CRA.

SODASSM	0	Outside of CRA assessment area	use with CRAASSM
	1	In CRA assessment area	
	2	In organization's CRA assessment area (ie: institution was not CRA filer but merged with a bank that filed CRA, or institution is owned by a CRA filer). To find all loans that are in the assessment area, use "if flag ge 1".	
	missing	No CRA information for lender.	

This information was particularly helpful for evaluating the role of CRA in encouraging subprime mortgage lending and the foreclosure crisis. For example, Park (2010) uses this information to determine that only 11 percent of all first lien loan originations between 2004 and 2006 were covered by CRA (i.e., originated by banks or thrifts in their assessment areas to lower-income borrowers or neighborhoods) and less than 12 percent of these (or 1.3 percent of all originations) were higher-priced loans—the common proxy in HMDA for subprime. Recently, the quality and availability of the SODASSM variable appears to have diminished. The Bureau should ensure that such information continues to be provided.

Applicant Characteristics

Several proprietary databases provide information on underwriting characteristics of loan originations; in addition to providing such information to the public, one of the most significant contributions of HMDA is to link such information to applicant characteristics. This information is integral to determine whether financial institutions are "filling their obligations to serve the housing needs of the communities and neighborhoods in which they are located and to assist public officials in their determination of the

[35] § 1003.4(a)(38)
[36] § 1003.4(a)(23)
[37] § 1003.4(a)(22)
[38] § 1003.4(a)(27)
[39] § 1003.4(a)(25)
[40] § 1003.4(a)(17)

distribution of public sector investments in a manner designed to improve the private investment environment."

Age

The life-cycle hypothesis of consumption has particular relevance to home mortgages (Artle and Varaiya 1978). That makes the age of the applicant an important element for understanding patterns of mortgage lending. The homeownership among householders under 35 years old was just 35.9 percent in 2014Q2, the lowest on record[41] and 7.7 percentage points below its peak in 2004. By contrast, the homeownership rate among households 65 years old or older was 80.1 percent and only 1.7 percentage points below its peak. Several articles have discussed whether mortgage underwriting standards have contributed to these disparate outcomes.

Although often correlated with younger households, **applicants should indicate whether they would be a first-time homeowner.** Several public policies, such as mortgage revenue bond programs administered by state housing finance agencies, are targeted at or limited to first-time homebuyers. But lack of information on this market hinders program development and execution.

Race/Ethnicity

We are concerned about the potential for misinformation in the recording of race and ethnicity of the applicant. Currently, the financial institution is instructed record race and ethnicity based on visual observation and surname when an applicant does not provide the information[42]. If names and appearance was ever a reliable method of determining race and ethnicity, it is clearly less effective in today's multicultural society. However, information on race and ethnicity is crucial for discovering potential patterns of discrimination. If lenders were excused from recording race and ethnicity when the borrowers did not provide the information, then unscrupulous lenders might encourage applicants to not complete the form.

In order to determine the size of the problem, **the Bureau tabulate the share of mortgage applications in which race and ethnicity was recorded by the lender rather than the applicant**. Further, response rates across and within lenders should be examined for suspicious patterns. In fact, the public loan-applicant register should include a flag indicating whether race and ethnicity information was recorded by the applicant, allowing independent researchers and community advocates to undertake such analyses.

Location

Currently, HMDA requires financial institutions to report the geographic location of the property securing the loan down to the census tract. The Bureau is considering increasing the required geographic precision. The Bureau considered requiring longitude and latitude of the property to be too burdensome on financial institutions. Similarly, requiring the parcel number was deemed not practical considering the lack of a universal system. Consequently, the Bureau is settling for the postal address of

[41] Census Bureau records start in 1994.

[42] § 1003.4(a)(10)(i)

the property.[43] We support this revision and hope that the Bureau will work with the United States Postal Service and the Census Bureau[44] to accurately geocode these addresses. Because postal addresses may change over time, geocoding should be undertaken as soon as possible so that the accurate geographic coordinates can be obtained. We also suggest the property location should be identified down to the census block based on the Federal Information Processing Standards, which facilitates merging HMDA data with other information.

The location of the applicant prior to origination would also provide useful information that is likely already collected by financial institutions. Knowing whether an applicant is a local or someone moving into a new neighborhood helps understand aspects of household mobility and neighborhood change.

Institutional Structure

HMDA has great potential to shed light on complicated structure of our housing finance system.

Universal Loan Identifier

One of the most useful proposed revisions under consideration is the creation of a universal loan identifier[45]. The unique loan identifier will greatly aid in monitoring a variety of public policies, including the affordable housing goals of the government-sponsored enterprises. Each Enterprise would need merely to provide a list of loan identifiers to the public and housing goal performance could be calculated. Currently, HMDA does include a field indicating the type of purchaser that includes Fannie Mae and Freddie Mac, but the number reported as purchases by the Enterprises is in HMDA well short of their actual purchases. More generally, the universal loan identifier would provide greater transparency to the secondary mortgage market. Each loan identifier could be provided mortgage-backed security abstracts, allowing independent risk analyses by investors. If the Bureau decided to require loan modifications to be reported, then financial institutions could simply identify the type of modification and the universal loan identifier, rather than re-enter borrower information.

Although beyond the scope of HMDA, one ultimate use of a universal loan identifier would be to evaluate loan performance. For example, identifiers could one day be required in foreclosure petitions which would allow researchers and regulators to identify the characteristics of the loan at origination.[46]

In large part, the loan identifier could be based on publicly available information, such as the financial institution identifier (see below), year of origination, and location of the property (based on the Federal Information Processing Standard code). Not only would this limit privacy concerns, it would also provide certain basic information on loan purchases without the need to look-up the original loan record from origination. Regardless, the Bureau should be responsible for a system for assigning universal loan

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[43] § 1004.4(a)(9)

[44] The Census Bureau already provides a public geocoding service with interactive and programmatic access for users interested in matching address to geographic locations. See http://geocoding.geo.census.gov/geocoder/

[45] § 1004.4(a)(1)(i)

[46] Ferguson and Peters (1995) argue that discrimination can only be shown by examining both denial and default rates.

identifiers in order to ensure uniqueness, rather than rely on financial institutions that may merge with another institution or cease to exist during a calendar year.

Origination Channel

Origination channel[47] has been found in proprietary databases to have a substantial impact on loan performance. Laderman and Reid (2008) find that loans originated by a wholesale lender were twice as likely to be in foreclosure as those originated by a retail branch and that this fact may be a crucial factor in explaining the lower default rate observed on loans originated in the assessment area of financial institutions regulated by the Community Reinvestment Act. Ding et al. (2011) finds that subprime loans originated by brokers performed even worse than other subprime loans while controlling for borrower characteristics and loan products. The increased risk associated with mortgage lending outside the retail channel and potential for a disparate impact based on borrower and neighborhood characteristics is very concerning. **Financial institutions should be required to report the channel used in loan origination.**

Financial Institution Identifier

Although HMDA currently includes a respondent identification number, its construction varies across regulatory agency. The Bureau notes, "The lack of a sufficiently comprehensive identification system for financial institutions that are parties to mortgage transactions can result in the same financial institution being identified by different names or codes across and within datasets. As a result, financial institutions, regulators, and data users can find data aggregation, validation, and analysis difficult." **Financial institutions should be required to report under a universal Legal Entity Identifier [48].**

We also request that the actual name of the financial institution be provided on the public loan applicant register. The current online tool created by the Consumer Financial Protection Bureau allows users to create summary tables based on the respondent identification number, but this is inaccurate without being in combination with the agency code and is meaningless to most users without a link to the name of the financial institution.

Parent Company

Similarly, the name and Legal Entity Identifier of the parent financial institution[49] should also be provided. Financial institutions that submit loan applicant registers under HMDA are often affiliates and subsidiaries of larger financial organizations. For example, in 2005 there were 51 institutions that reported under the name "Wells Fargo." There is even greater confusion when the various institutions do not share a name. For example, Long Beach Mortgage Company and Ameriquest both filed HMDA registers. Although some of this information is available under a separate Transmittal Sheet file, the lack of transparency is a substantial obstacle for researchers and community advocates to accurately analyze patterns of lending behavior.

[47] § 1004.4(a)(33)
[48] § 1004.5(a)(3)
[49] § 1004.5(a)(4)

Mortgage Insurance

In addition to the information required by lenders under HMDA, FFIEC has also collected, compiled and released a similar register of private mortgage insurance applications. However, FFIEC has not released the 2013 PMIC data. Although there does not seem to be a public explanation, our understanding is that FFIEC no longer believes it has the authority to undertake the work necessary to release the data because reporting by private mortgage insurance companies has been a voluntary arrangement.

Private mortgage insurance is the most common form of credit enhancement required by the government-sponsored enterprises for mortgages with loan-to-value ratios over 80 percent. The institutionalized role private mortgage insurance has within the American housing finance system makes information on its availability important to understanding the mortgage market accurately. For example, the interaction between new eligibility requirements for private mortgages insurers and proposed guarantee fees has important implications for the future of Fannie Mae and Freddie Mac (Park and Ratcliffe 2014). Consequently, **the Bureau should ensure that funds are available to process the private mortgage insurance data.** Ideally, private mortgage insurance companies should be required to submit application registers just as mortgage lenders are required to report.

The creation of a unique, universal loan identifier would allow records in HMDA to be linked to applications for mortgage insurance. In fact, we would propose that applications for mortgage insurance provided under federal agencies (i.e., Federal Housing Administration, Veterans' Administration, or the Department of Agriculture) be reported in this separate database of mortgage insurance. The separation of the mortgage from the mortgage insurance would help researchers discern when and where credit decisions are being made. The Bureau attempts to clarify that "the financial institution that makes the credit decision prior to closing, or prior to when the loan would have closed if the application does not result in an origination, reports the transaction as an origination or application, respectively."[50] However, when a mortgage application listed as FHA-insured is recorded as being denied by the financial institution, is that due to the lender or FHA? The loan could have failed to meet FHA's underwriting requirements or the lender may have rejected the loan despite qualifying for FHA insurance. This is particularly a concern given lenders' use of credit overlays.

Conclusion

We would like to again commend the Bureau for undertaking such as well-needed overhaul of HMDA reporting. The mortgage market is continually evolving and disclosure requirements must keep pace in order to rectify the informational asymmetry between the mortgage industry and the public. We have seen the havoc that a lack of regulation and lack of transparency can wreak on everything from household finances to the global economy. In the words of Justice Louis D. Brandeis, "Publicity is justly commended as a remedy for social and industrial diseases. Sunlight is said to be the best of disinfectants; electric light the most efficient policeman."

[50] § 1003.4(a)

Sincerely

Kevin A. Park

UNC Center for Community Capital
University of North Carolina at Chapel Hill

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