Testimony Submitted

To

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By

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INTRODUCTION

Chairman Bachus, Congressman Sanders, members of the Committee, good morning; my name is Gwen Thomas. I am Bank of America's Consumer Real Estate Neighborhood Lending Executive responsible for developing strategies and leading a team that creates processes, products and programs that result in increased homeownership for all citizens with emphasis on multicultural and low-to-moderate income consumers.

It is an honor to appear before you today to discuss the impact and options on use of non-traditional sources of credit information by lenders in making credit decisions. I should say at the outset that my testimony will draw heavily on voice of customer research we have conducted at Bank of America among customers we refer to as "limited credit consumers", defined in our research as consumers with less than three traditional credit reporting agency trade lines over any timeframe.

I have accepted the Subcommittee's invitation to participate in this panel to discuss non-traditional sources of credit information because I strongly believe that there are many opportunities and benefits for both consumers and lenders.

TESTIMONY

Bank of America is the largest consumer bank in the United States with more than 33 million customers, serving one-third of U.S. households. With that broad reach comes an obligation we take to heart to ensure we are meeting the needs of a broad range of consumers in all the communities we serve. We feel that use of non-traditional sources of credit information can be a viable way to further that goal.

We have all seen the statistics about the projected growth of multicultural or minority populations in the U.S. According to the U.S. Census Bureau, the Hispanic population is expected to grow 188 percent by 2050. They also predict growth in the Asian population by 213 percent and 71 percent in the African-American population by 2050. These segments are also projected to be the fastest growing segment of first-time homebuyers and some within these segments will not have traditionally established credit histories. We find this challenge to be a potential deterrent for lower-income consumers.

Multicultural consumers indicate they want quick decisions, no surprises, privacy and the understanding that culturally they may operate with cash – much the same demands that we see from individuals with traditional established credit histories.

At Bank of America, we have developed processes to address the needs of individuals without traditional credit reporting agency history. However, these processes are highly manual and have the potential to sacrifice the integrity of the data. It is because of this data validity issue that at this time these processes cannot be automated.

Failing to use non-traditional sources of credit information can result in the declination of consumers who are otherwise well positioned to purchase a home. In addition to helping these consumers realize their dream of homeownership, obtaining a mortgage loan establishes the traditional credit history they need, which combined with a home as an asset, can greatly improve their financial position.

One example of where this has proven to be successful is our Neighborhood Champions mortgage program. This program was launched five years ago to help teachers buy homes in the communities they serve. Last year, we expanded the program to include police, firefighters and health care workers. Non-traditional sources of credit information, as well as supplemental income from activities such as tutoring or off-duty security work, can be used to qualify. This creative effort benefits not only homebuyers and Bank of America, but also the communities where these professionals live and work.

For consumers with traditional credit histories, mortgage lenders have developed automated processes and scoring models that provide objective, consistent and quick decisions to applicants. Credit information is generated through direct interfaces to the major credit reporting agencies such as Equifax, Experian and TransUnion. Each provides information regarding the depth and length of the consumer's experience with credit, the search for credit, as well as how credit is utilized and paid.

These scoring models have an obvious drawback in that they are dependent upon information contained at the credit reporting agencies. These agencies often do not have information for new immigrants, those who use credit infrequently or younger individuals who have yet to establish a traditional credit history. Nevertheless, it is very likely that these same individuals may have been paying rent to a landlord or utility bills for a period of 12 months or longer.

We need to find an easier way to allow for the reporting of alternative payment histories. While the current manual process that we and others use are in limited circumstance accepted by the secondary markets, it does not work efficiently and its utilization is very limited. One of the advantages of an automated process is the ability to treat all applicants equally. Bank of America is not currently pursuing that approach because the validity and predictability of an automated system is still being tested.

Our goal is for this process to become more automated in a way that meets our criteria for consistency and integrity, which will broaden the opportunities for its use. However, we understand that landlords, utility companies and cellular telephone companies, to name a few industries, may be reluctant to report consumer payment data to the consumer reporting agencies because they must then construct and maintain these reporting systems, as well as provide a process whereby a consumer can dispute the information provided. Creative solutions that provide these companies with an incentive to report their experience with customers will directly benefit the consumers that we are trying to reach.

While the GSEs have continued to analyze the opportunities in this space, including work with Bank of America, another area of improvement lies in the current underwriting guidelines they set for mortgage lenders. Broader guidelines coupled with more readily available non-traditional credit data would significantly enhance lender approvals. GSE underwriting requirements drive mortgage lender behavior because most lenders depend on their relationship with the GSE to provide the ongoing liquidity to make loans to individuals with non-traditional credit. Thoughtful revision to these guidelines could open the door to homeownership to more individuals without traditional credit.

CONCLUSION

Providing alternative sources of data such as rental and utility information to the current mortgage lending process could greatly benefit a broad range of multicultural and low- to moderate-income consumers. It would increase the number of deserving individuals that have good credit and reduce the frustration of declination due to not having sufficient traditional credit documentation. This clearly helps us meet our goals in serving our communities, knowing that increased homeownership helps to strengthen families and communities, which benefits all of us. But in the highly regulated environment we operate in, we have to find the right balance between compliance and expanded access.

I am very pleased that we have started this dialogue. I strongly believe that working together we can find ways to make alternative credit data available and make this a win-win situation for all.

Thank you again Mr. Chairman and members of the Committee for hearing my testimony today. At this time I would be happy to answer any questions you may have.