Testimony of Bill Himpler for the American Financial Services Association

Before

The Sub-committee on Financial Institutions and Consumer Credit of
The House of Representatives Financial Services Committee

June 13, 2006

Good morning, Chairman Bachus, Ranking Member Sanders and Members of the Subcommittee. My name is Bill Himpler and I am the Executive Vice President for Federal Affairs for American Financial Services Association located here in Washington, DC.

AFSA's 300 member companies include consumer and commercial finance companies, "captive" auto finance companies, credit card issuers, mortgage lenders and other financial service firms that lend to consumers and small businesses. This year, AFSA is celebrating its 90th birthday as the nation's premiere consumer and commercial credit association.

I am pleased to be here today to provide an industry perspective on the Home Mortgage Disclosure Act, also known as HMDA. Specifically, my comments will focus on the value and limitations of the data collected under HMDA, and why we think the 2004 data demonstrates that risked-based pricing works. But first, let me provide some quick background on this law.

When it was first enacted in 1975, HMDA's intent was to identify and prevent "redlining." Therefore, lenders were required to provide data on the location of loans financed by property location by state, county and census tract.

In 1989, HMDA was amended to require lenders to collect and report the race, sex, and income of every applicant and borrower. In 2002, HMDA was again amended to include rate information on higher rate loans. In 2004, lenders began reporting on the "spread," or difference, between the borrower's APR and comparable Treasuries.

While the HMDA data can assist regulators in several ways, they do not present a complete picture of the mortgage lending process. That's because the data do not contain relevant risk- and pricing-related information, including: 1) the borrower's credit score, 2) the Property type, 3) the Down payment, 4) Any Cash-out information, 5) the Property value, 6) the borrower's Debt-to-income ratio, 7) Loan-to-value ratio and 8) Assets. Marketplace competition and the degree of borrower research and comparison shopping also are among the factors that typically determine the rate received by the borrower.

Without the information I just listed, HMDA cannot be used to draw accurate conclusions about why a loan was refused or made at a particular rate. Throughout 2005, the Federal Reserve explicitly cautioned that using raw HMDA data alone could lead to faulty conclusions about lending practices.

The obvious question is: Why not require lenders to collect and report borrowers' credit and risk related information that is used to price a loan and determine the rate charged? There are several reasons.

First, the release of credit scores and certain other data would undermine the privacy interests of borrowers. Second, the data elements utilized by lenders are numerous and weighted differently by different lenders and such weighting cannot be disclosed without undermining market competition. Third, regulators already have the ability to review individual loan files, which is really the only way to determine whether lending discrimination has occurred.

Even if all the data points that I mentioned earlier were collected and reported, HMDA data would still be incomplete. That's because some of credit and risk related factors that lenders rely upon are not captured electronically. For example, the data doesn't capture the borrower's payment history related to past rents and mortgages. It doesn't capture information related to the borrower's employment stability, such as whether or not the borrower has seasonal work or is an independent contractor. And it doesn't give an assessment of the surrounding neighborhood and the value of nearby homes.

In its analysis of the 2004 HMDA data, the Federal Reserve reported that the "risk-based" pricing now used by the mortgage lending industry is working effectively. It has expanded access to credit and significantly contributed to the highest levels of home ownership in history. A record of nearly 70 percent of Americans now own their homes. Consumers are benefiting tremendously because mortgage lending is far more competitive than ever before. Today's unprecedented competition between lenders is keeping prices low and allowing consumers to shop around for a better-priced loan.

Finally, there's one point I'd like to emphasize: pricing disparities between borrowers who have different racial or ethnic backgrounds but identical personal and property risk profiles are unacceptable. The mortgage lending industry is committed to non-discriminatory lending practices. We continue to work with others who share our commitment to affordable lending to determine why any disparities exist so we can take the necessary steps to eliminate them.

I appreciate the opportunity to be here today and would be happy to answer any question you may have.