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Written Testimony for Subcommittee on Financial Institutions and Consumer Credit

Subcommittee on Financial Institutions and Consumer Credit Hearing: "Home Mortgage Disclosure Act: Newly Collected Data and What It Means"

June 13, 2006

On behalf of the National Training and Information Center (NTIC), I thank the Subcommittee on Financial Institutions and Consumer Credit, the Honorable Rep. Spencer Bachus and the Honorable Rep. Bernie Sanders for the opportunity to submit comments on a matter of critical importance to our neighborhoods—new Home Mortgage Disclosure Act (HMDA) data.

In the 1970s, with the leadership of Gale Cincotta, NTIC spearheaded efforts to pass the Home Mortgage Disclosure Act (HMDA) and the Community Reinvestment Act (CRA). Knowing that any law is only as good as its implementation, NTIC has worked with banks throughout the country to ensure that people in low- and moderate-income communities were receiving access to credit as mandated by CRA. Gale Cincotta, "the mother of CRA" and the late director and co-founder of NTIC, thought that once the CRA passed the banks would be forced to do their job. Unfortunately, this is not the case. The CRA has encouraged many mainstream lenders to do business in low- and moderate-income areas, but subprime and predatory lenders are now thriving because they are able to maneuver around regulation and find creative ways to make money at the expense of consumers.

Just as it would be wrong to say that all lenders redline or engage in activities that are detrimental to borrowers, it is equally wrong to assume that without strong regulatory oversight all lenders will play by the rules and do what is right and beneficial to borrowers and neighborhoods. The Home Mortgage Disclosure Act had to be enacted before community groups could document and prove what neighborhood residents already knew, which was that financial institutions were redlining their neighborhoods and excluding them from access to loans. HMDA-based research led to the enactment of the Community Reinvestment Act in 1977, which outlawed redlining.

NTIC has been working with HMDA and the CRA to keep track of lenders in our neighborhoods to ensure they are serving the communities' credit needs. We work directly with community groups, banks, and banking regulators in this process. We bring community leaders from around the country to meet with the banking regulators to comment on HMDA and the CRA.

The HMDA has been critical in all of the work we have done to bring good sources of credit to low- and moderate-income neighborhoods in the country. NTIC commended the Federal Reserve Board for taking a critical step in understanding the subprime lending market by requiring lenders to report loan pricing information to the Home Mortgage Disclosure Act (HMDA). It is an important step that allows HMDA to keep pace with the rapidly modernizing financial industries.

The enhanced loan pricing information in HMDA will help bankers, government officials, and consumer groups check for the predatory lending practice of “steering.” Steering occurs when a borrower is steered into a high-interest, “subprime” loan, even if the borrower’s credit history is good. Fannie Mae estimates that 50 percent of borrowers who receive high-interest subprime loans actually qualified for a prime rate loan. Lenders are also not proactively finding borrowers the lowest cost of credit. The 2001 Fannie Mae National Housing Study found that 34 percent of borrowers were not informed by the lender of how they could qualify for a lower interest loan.

By collecting loan pricing information, community groups and regulators will be able identify irresponsible lenders who are overcharging borrowers for loans. A study published in December 2001 by NTIC, Slash and Burn Financing, focused on one subprime lender, CitiFinancial. It found that 39.1 percent of those surveyed, who reported having "good credit" (i.e. they never made a late payment or defaulted on a mortgage loan) and reported their interest rate, received loans with interest rates ranging between 14 and 22 percent.

Disclosure of interest rates and fees are critical to protecting borrowers. Interest rates in today’s subprime mortgage market are supposedly determined by the risk of the borrowers as determined by the borrower’s credit record. In order to guard against overcharging and steering, lenders must be required to disclose the interest rate for every loan they make. Fees are also often inflated for subprime borrowers. While banks charge an average of one to two percent (Paul Neal, Freddie Mac Director of Sales/Alternative Channels, Presentation at Home Equity Fraud and Predatory Mortgage Lending Conference, 1999), predatory lenders charge fees ranging from three to 20 percent. High fees strip equity from a homeowner’s investment, often leading to default and foreclosure. Lenders who overcharge fees can be exposed by the additional loan pricing information in HMDA.

NTIC provides HMDA analysis for grassroots community organizations at no cost. We are using the enhanced HMDA to help community groups bring good credit to low and moderate income communities. This is the true purpose of both the HMDA and the CRA—to help bring credit to underserved neighborhoods. We need to continue to use these vital pieces of regulation and legislation and not weaken them.

Attached is an example from Cincinnati, OH of the information that we are able to provide to community organizations about lending in their communities. The organization uses this data, analysis and maps in meetings with bankers, regulators and other community stakeholders. HMDA is a vital tool in all efforts to increase homeownership opportunities, particularly in low- and moderate-income and minority communities.

Respectfully submitted,

Joseph W. Mariano

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Executive Director

2004 HMDA Report: Cincinnati, OH

Porportion of High Priced Home Loans by Census Tracts

Prepared by NTIC Research Department for Communities United for Action, February 2006

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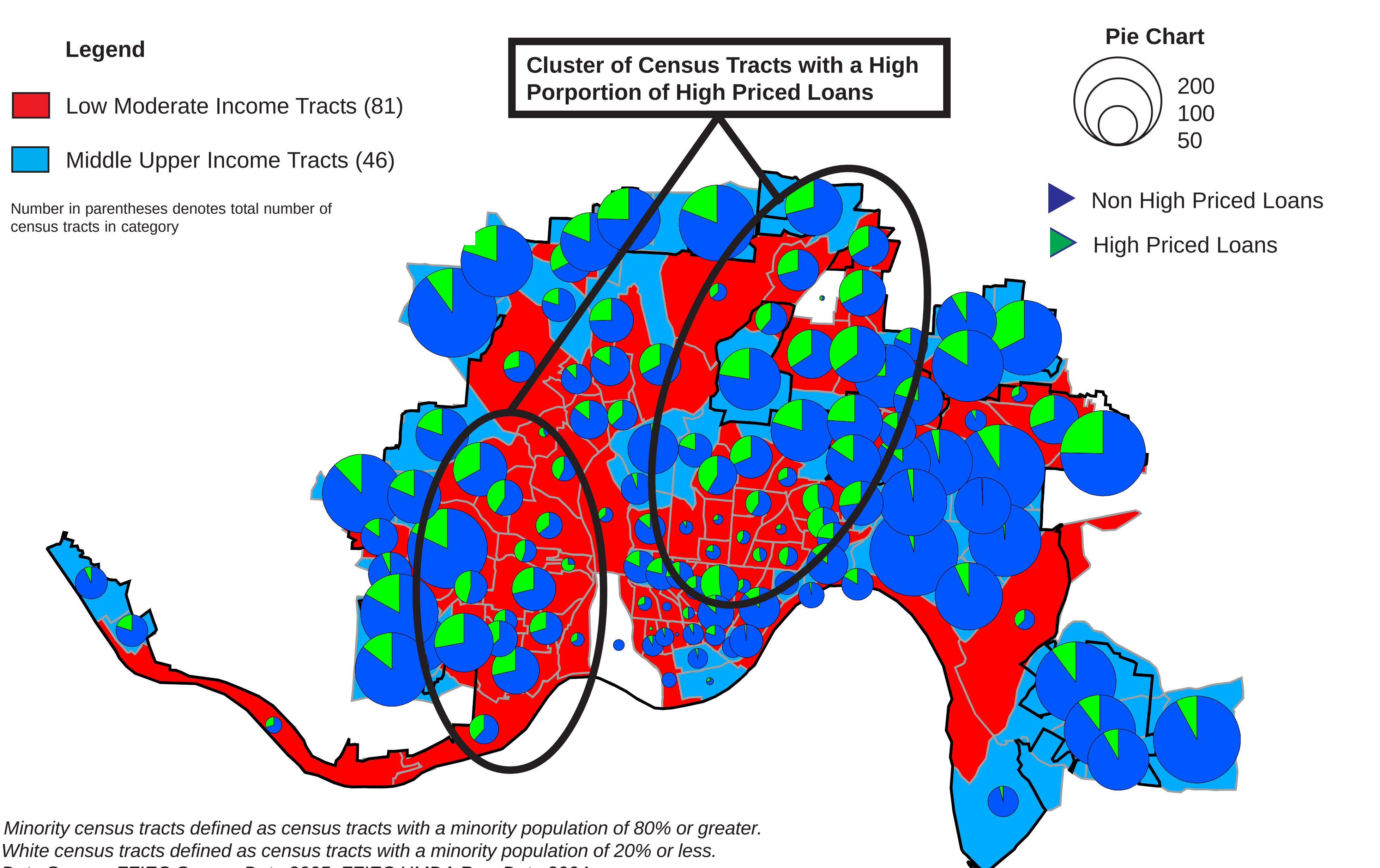

* Minority census tracts defined as census tracts with a minority population of 80% or greater.

** White census tracts defined as census tracts with a minority population of 20% or less.

Data Source: FFIEC Census Data 2005, FFIEC HMDA Raw Data 2004

HMDA 2004 Reportfor City of Cincinnati, OH

Conventional Loan Origination and Denial Rates by Applicant Race and Income

Prepared by National Training and Information Center for Communities United for Action

Based on HMDA 2004 data released by the Federal Financial Institutions Examination Council

2000 Cenus Data: # of Households:148,095, White Population: 53%, Black Population:43%

	White Applicants					
Applicant Income Level	**Applications**	**Originations**	**Origination Rates**	**Denials**	**Denial Rate**	**Percent of Originations High Cost**
Low	1671	895	53.56%	626	37.46%	20%
Moderate	3372	2199	65.21%	793	23.52%	17%
Middle	3189	2222	69.68%	682	21.39%	13%
Upper	3286	2500	76.08%	505	15.37%	6%
NA	498	352	70.68%	97	19.48%	4%
Totals	**12016**	**8168**	**67.98%**	**2703**	**22.50%**	

	African-American Applicants					
Applicant Income Level	**Applications**	**Originations**	**Origination Rates**	**Denials**	**Denial Rate**	**Percent of Originations High Cost**
Low	1442	585	40.57%	693	48.06%	40%
Moderate	1867	862	46.17%	744	39.85%	40%
Middle	1170	578	49.40%	418	35.73%	35%
Upper	602	303	50.33%	223	37.04%	27%
NA	115	42	36.52%	51	44.35%	19%
Totals	**5196**	**2370**	45.61%	**2129**	**40.97%**	

	Hispanic Applicants					
Applicant Income Level	**Applications**	**Originations**	**Origination Rates**	**Denials**	**Denial Rate**	**Percent of Originations High Cost**
Low	34	13	38.24%	17	50.00%	21%
Moderate	67	45	67.16%	15	22.39%	20%
Middle	65	48	73.85%	13	20.00%	17%
Upper	69	46	66.67%	16	23.19%	2%
NA	9	7	77.78%	2	22.22%	0%
Totals	**244**	**159**	**65.16%**	**63**	**25.82%**	

	Applicants of Another Race					
Applicant Income Level	**Applications**	**Originations**	**Origination Rates**	**Denials**	**Denial Rate**	**Percent of Originations High Cost**
Low	40	19	47.50%	15	37.50%	20%
Moderate	72	41	56.94%	21	29.17%	15%
Middle	72	48	66.67%	15	20.83%	15%
Upper	107	89	83.18%	15	14.02%	4%
NA	11	5	45.45%	4	36.36%	0%
Totals	**302**	**202**	**66.89%**	**70**	**23.18%**	

	Applicants with Unreported Race					
Applicant Income Level	**Applications**	**Originations**	**Origination Rates**	**Denials**	**Denial Rate**	**Percent of Originations High Cost**
Low	620	183	29.52%	358	57.74%	43%
Moderate	797	296	37.14%	385	48.31%	39%
Middle	656	264	40.24%	286	43.60%	32%
Upper	559	292	52.24%	185	33.09%	13%
NA	252	137	54.37%	108	42.86%	5%
Totals	**2884**	**1172**	**40.64%**	**1322**	**45.84%**	

*Data includes loans for the following purpose: Home purchase, Home improvement, and Refinancing