Statement of

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Good Morning Chairman Bachus, Ranking Member Maloney and Members of the Subcommittee.

Introduction

My name is Doug Duncan and I am Senior Vice President for Research and Business Development and Chief Economist for the Mortgage Bankers Association (MBA).[1] I appreciate the opportunity to participate on this panel this morning to discuss what the new data gathered under the Home Mortgage Disclosure Act (HMDA) means, a topic that is of particular importance to MBA, its members and the mortgage industry.

The HMDA data comprise a unique and comprehensive set of loan-level data concerning most of the mortgage applications, dispositions of applications and originations of mortgages in the Nation. Congress intended that these data be collected and reported so that financial regulators and the public could monitor the performance of lenders in serving the credit needs of their communities, so that public and private entities can better consider their investment activities in these areas and, as necessary, to assist agencies in enforcing the fair lending laws.

Because of its centrality, breadth and relevance to the real estate finance industry, we at MBA continuously study the HMDA data. Indeed, I have been analyzing HMDA data from the day I joined MBA 14 years ago. I have watched the data set change, and, as a result of increased requirements, grow dramatically. Just in the last two years, the data set has measurably grown to encompass the rate related data on certain higher rate mortgages as well as other new data that we will discuss today.

MBA uses HMDA data to assist its members in analyzing the industry's performance in serving the nation and identifying new markets and investment opportunities. MBA's work helps members enter these markets and develop products and underwriting tools that appropriately take into account risk factors, including credit quality, to assure that the flow of finance reaches the widest number of borrowers possible while also assuring safe and sound lending.

The most recent HMDA data on loans made in 2004 and 2005 demonstrate the greatest and widest availability of mortgage finance in our Nation's history which, in turn, has made possible record homeownership rates. The data show that borrowers in virtually every area of the Nation, of every race and ethnicity, and at every income level receive an array of credit opportunities as HMDA was intended to display.

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 500,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the Nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 3,000 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field.

Because of the success of the industry in addressing the Nation's credit needs, particularly those of previously underserved borrowers, the debate today has largely shifted away from concerns about the availability of credit. Now the discussion concerns whether the comparative prices of credit are fair across the spectrum of borrowers.

Sadly though, from some quarters because of the industry's success in serving borrowers at all credit levels, we face criticism. Lending to consumers today is a difficult proposition. If lenders deny a loan, particularly if it is a request from a lower-income or minority borrower, they risk being charged with redlining, or falling short on CRA requirements. If they approve a request, they risk charges of unsuitability or an unsafe and unsound credit decision. If they charge too much, they may stand accused of predatory lending. If they charge too little, they could be out of business. At this point, attorneys are telling businessmen what their business practices should be.

With regard to the new pricing data, beginning in 2004, lenders were required to report the "rate spread" or difference between the APR of a mortgage and the rate of a Treasury security of comparable term in those cases where the spread met or exceeded 3 % for a first mortgage or 5 % for a subordinate-lien mortgage.

The Federal Financial Institutions Examination Council (FFIEC)[2] regarded the new data to be collected for 2004 as so significant that the Federal Reserve published questions and answers to advise the public about the new rules (Questions and Answers) [3] and then at the time of its release published an extensive article accompanying the data release authored by Federal Reserve staff (hereinafter the 2005 Fed Report).[4] The FFIEC made clear that the HMDA data was not a basis for making definitive conclusions about discrimination but could provide signals for further regulator review where further scrutiny was warranted.

The 2004 HMDA data did show higher denial rates and a greater incidence of spread loans among some African American and Hispanic borrowers as compared to other borrowers. But these differences are explicable given an understanding of how mortgage loans are priced. Indeed, the 2005 Fed Report made clear that the Federal

[2] The Federal Financial Institutions Examination Council, established under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS). By law, FFIEC is also charged with facilitating public access to data that depository institutions must disclose under HMDA and the aggregation of annual HMDA data, by census tract, for each metropolitan statistical area (MSA).

[3] Federal Financial Institutions Examination Council**,** <u>Frequently Asked Questions About the New HMDA Data</u> (April 3, 2005).

[4] Robert Avery and Glenn Canner, *New Information Reported under HMDA and Its Application in Fair Lending Enforcement*, Federal Reserve Bulletin, Summer 2005, at 344-394.

Reserve's own analysis found that nearly 2/3 of the differences could be explained using HMDA data such as the income of the borrower along with data on the lender chosen. The 2005 Fed Report also indicated that the remaining differences may be explained by non-public pricing factors.

As the 2005 Fed Report pointed out, several factors impact the mortgage rate that a particular borrower receives. Most important is the overall level of interest rates in the economy. The traditional benchmark for the 30-year fixed mortgage rate has been the 10-year Treasury rate.[5] (The 10-year Treasury rate reflects the risk-free credit of the United State government. The 10-year also cannot be called; investors can expect to receive the stated interest rate on their investment for the full 10 years.) Mortgages typically trade at a spread above Treasuries due to the fact that they bear both credit risk, the risk that a borrower may default, and prepayment risk, the risk to the investor that the borrower may refinance or move, thereby paying the loan off well ahead of its stated maturity.

Thus, the second factor in the price is a premium to account for a borrower's expected credit and prepayment risk. Subprime borrowers tend to have both a greater level of credit risk, i.e. higher expected levels of delinquency and default, as a result of their prior credit problems, and greater prepayment risk. The reason for the greater prepayment risk is that subprime borrowers frequently prepay their loan if their credit improves and they qualify for a lower rate. Objective risk factors including credit scores and other items from a borrower's credit report such as payment history on prior mortgages, loan-to-value ratios, debt-to-income ratios, and other underwriting variables are powerful predictors both of a borrower's likelihood to pay on their loan and their likelihood to refinance. It is illegal to include any racial, ethnic, or other such demographic variables in the pricing decision.

A third factor in the price is the amount of administrative expenses associated with the loan. Loan applications that take additional time for an originator to complete are more costly. Additionally, small loans are more expensive to originate from the point of view of the originator, as the fixed costs are spread over a smaller balance. Subprime loans tend to be significantly smaller on average relative to prime loans.

Typically, the price is arrived at using a statistical model which may be embedded in an automated underwriting system. There is no place for race in this modeling. Moreover, the use of automated underwriting for most borrowers allows lenders to concentrate their attention on helping borrowers with unique credit histories or other characteristics qualify for financing.

The final factor in the determination of a borrower's mortgage rate does depend to some degree on the borrower's actions. Borrowers who aggressively shop among more than one lender are likely to get a better rate than borrowers who visit only one lender or mortgage broker. Borrowers need to make the competitive marketplace work for them and help wring out any excesses in pricing through their efforts. The 2004 HMDA data showed more than 8,800 lenders who offered more than 100 loans over the course of the year. These lenders are competing for the business.

[5] In fact lenders use a variety of indices to determine their cost of funds and help price their loans including the LIBOR/swap index.

Beyond limited data to assess risk such as income, HMDA data do not contain any of these relevant loan pricing data such as: credit scores; down payments; degree of documentation; cash-out information; loan-to-(property) value (LTV) ratios and debt-to-income ratios (both front-end ratios comparing mortgage payments to income and back-end ratios – comparing total debt payments to total income). [6]The data also do not measure the degree that borrowers shop among the myriad originators available, a factor that is also highly relevant to the price of a loan. For these reasons, the current HMDA data set cannot be used to draw definitive conclusions about why a loan was refused or made at a particular rate.

Having said all of this, one thing that is very clear is that the mortgage markets are dynamic and so are the underwriting models. The variables used to measure risk change over time. There is no perfect model to underwrite all borrowers. Two lenders will evaluate the same borrower and come to different assessments regarding the risks of that borrower. Not all institutions are equally profitable – in fact, some fail as a result of taking not enough or too much risk. One thing is certain: a one-size-fits-all model imposed on the industry would stifle innovation with respect to the measurement and pricing of risk, and that would be to the detriment of consumers. The innovation in this industry has benefited borrowers and increased the supply of credit, ultimately resulting in a higher level of homeownership than otherwise would have been the case.

As I will explain today, notwithstanding, the data as they are currently constituted do an outstanding job of fulfilling HMDA's intended purposes. The data fairly present a picture of the industry's work, offering information to further effective investment and, where appropriate, they provide flags for further regulatory review. The data should not be augmented at this point but need to be carefully analyzed and digested. In this process, I cannot caution too much against the misuse and misinterpretation of the data which, if unabated, risks harming the vitality of the mortgage market and the consumers it serves.

My simple message is that the mortgage market works and the data demonstrate that fact. The market is serving more borrowers, who are benefiting today from unparalleled choices and competition resulting in lower prices and greater opportunities than ever before, to build the wealth and well being that homeownership brings to our families and communities. It must be permitted to continue to do so.

I. Background

A. History

HMDA originally was enacted in 1975 to provide data on the locations of properties financed to help stem perceived redlining and disinvestment in urban areas. The Federal Reserve implements the law under the HMDA rules known as Regulation C.

Since the law's enactment, Congress has amended and the Federal Reserve has extended HMDA's requirements to greatly expand the types of information that must be

[6] Historically, lenders employed 28% front-end and 36% back-end ratios in their underwriting. Today, as risk modeling has become much more sophisticated, there is greater flexibility in underwriting to qualified borrowers.

reported and disclosed, and to require that most lenders--depository and non-depository--report. By 2002, the data set included a very wide range of variables including: loan type and purpose; owner occupancy status; loan amount; loan action taken; date the action was taken; location of the property to which the loan applies by metropolitan statistical area (MSA), state, county and census tract; as well as the race, national origin, sex and gross income used by the applicant or borrower in requesting credit.

At the time HMDA was enacted, it covered depository institutions only. Now, all but the smallest lenders--including commercial banks, savings institutions, mortgage companies and credit unions--with offices in metropolitan statistical areas are required to report and disclose to the public data on applications for home loans and the home loans that they originate or purchase during each calendar year. 8,853 lenders reported last year. [7]

Each year, lenders are required to release the prior year's HMDA data to the public in unaggregated form as early as March 31 of the year following the data collection, in response to public requests. Later in the year, HMDA data are released in aggregated form for the preceding year by the FFIEC.

In 2002, for the stated purposes of improving the quality, consistency and utility of the HMDA data, as I have indicated, the Federal Reserve amended Regulation C to require the reporting of pricing data on non-prime loans including the difference or "spread" between a loan's annual percentage rate (APR) and the yield on a Treasury security having a comparable maturity - where the spread is at least 3% for a first-lien loan or 5% for a subordinate-lien loan. Under the 2002 changes, lenders are also required to report data on the lien status of the loan or application, e.g., first lien, subordinate-lien or not secured by a lien on a dwelling; whether the loan is subject to the Home Ownership and Equity Protection Act (HOEPA); whether the loan or application involves a manufactured home; and whether an application has been denied under a covered pre-approval program.

The Federal Reserve chose to collect the pricing data to study the borrowers and properties served by the non-prime market which generally serves borrowers whose credit may be blemished, who may bear a higher debt load, or present other increased risk factors. [8]

The new data were required to be reported for the first time in 2005 for 2004 loans; this year's data, which will be released by the FFIEC in aggregated form in September, reports on 2005 loans. Pricing data are reported along with all of the other data including race, gender and property location.

II. The 2004 Data Reported in 2005

[7] Banks that are exempt from HMDA reporting and Regulation C include institutions with less than $35 million in assets, are not in the home lending business or have offices exclusively in rural (nonmetropolitan) areas. Mortgage companies are required to report unless they extend less than 100 purchase or refinance loans a year or do not operate in at least one metropolitan area.

[8] Although useful, this reporting regimen is an imperfect measure of higher rate and non-prime lending. Spread loans do not include all higher rate loans or non-prime loans. As is noted in this testimony, the relationship of long and short term rates in any given year may affect how many loans are reported. So may other factors.

The 2004 data underscore the fact that HMDA provides useful information about the home loan process but will always require reference to non-HMDA data and other information to explain some pricing differences.

As indicated, the 2004 HMDA data showed higher denial rates and differences in the incidence of spread loans for minorities. The 2005 Fed Report points out, however, that after analyzing HMDA data, including borrower income and type of loan, 2/3 of these disparities were reduced. Moreover, after examining data provided by the Credit Research Center on a handful of lenders that included data extrinsic to HMDA data including credit scores, LTV and other risk factor data, the 2005 Fed Report pointed out that the remaining differences in denials and rates could be explained by data on credit scores and other risk related data.

Importantly, the Federal Reserve did not have access to risk factor data on most lenders at the time the 2005 Fed Report was issued. As a result of its analysis of the public HMDA data alone, the Federal Reserve forwarded a list of 200 lenders with statistically significant differences to banking regulatory agencies for further examination.

The regulators are reviewing these institutions' data and the process will go forward focusing on the risk related and other relevant information that lenders provide. Such review will consider the complex factors involved in loan decisions, exactly the type of analysis that will explain the pricing of loans.

Considering the factors used in pricing a loan, it can be anticipated that there will be sufficient justification for loan pricing based on credit differences and risk related factors.

In any case, pending the outcome of these reviews, no good is achieved by prejudging them. MBA shares the concern that was well articulated in the 2005 Fed Report that the misuse of HMDA data, focusing merely on differences in denial rates or the incidence of higher rate loans for certain borrowers, without considering relevant risk related and other factors, misstates the data and presents reputational risk to lenders and the very disinvestment that HMDA was intended to prevent.

III. The 2005 Data Being Reported in 2006

It is notable that for 2005, more loans are being reported as "spread loans" than for 2004. This is a function of the economic and interest rate conditions pertaining in 2005 as a result of a flattened "yield curve." For this reason, the Federal Reserve recently has cautioned that year-to-year changes in spread loan data must be interpreted with great care. [9]

Notwithstanding that "spreads" are required to be reported based on how they compare to Treasury securities of comparable terms, mortgages are priced based on their

[9] Question and Answer 29, Federal Financial Institutions Examination Council, Frequently Asked Questions About the New HMDA Data (April 3, 2005).

anticipated durations using shorter term obligations. The “yield curve” depicts the relationship between short and long term interest rates.

During 2005, the yield curve flattened as short-term rates increased to a greater extent than long term rates, resulting in an increased number and proportion of loans that were required to be reported.

In its recently published question and answer document, the Federal Reserve pointed out that this can occur even though the business practices of lenders and the risk profiles and borrowing practices of borrowers remain constant. Conversely, if short-term rates fall more than long-term rates, then the number and proportion of loans reported as higher-priced loans will fall if all other potentially influential factors remain constant.

While it is also possible that the number or proportion of loans reported as higher-priced could change in response to other factors such as business strategy or a general decline in borrower credit, the sheer number of possibilities also militate in favor of careful consideration of all relevant conditions to avoid drawing incorrect conclusions about the level of higher rate lending based on spread reporting alone.

Indeed, both the relatively recent inclusion of information on higher rate loans and this year’s flat yield curve, and its effect on the numbers of higher rate loans reported argue strongly for judicious analysis of HMDA data and against hasty action while the industry, government and the public consider the new data.

IV. Reports by Advocates

Notwithstanding warnings against misuse of the data, since the pricing data first became available in early 2005, press releases and reports by advocacy organizations state that the differences in denials and higher rate lending among minorities are unfair and possibly discriminatory.

Most recently, the Center for Responsible Lending (CRL), a North Carolina based advocacy group, issued a press release and a report entitled *Unfair Lending: The Effect of Race and Ethnicity on the Price of Subprime Mortgages*. The report, utilizing Home Mortgage Disclosure Act (HMDA) data spliced together with some risk factor data such as credit scores from a Loan Performance Data set, asserts that African-American and Hispanic borrowers are more likely to receive higher-rate non-prime home loans than white borrowers even after controlling for risk factors.

MBA is in the process of analyzing the CRL report and its assertions. Nevertheless, several concerns about the study’s methodology are evident including that (1) the study was only able to match HMDA data and Loan Performance data for 177 thousand records out of a possible 5 million raising significant concerns whether the data set ultimately used was meaningful; (2) key risk factors such as debt-to-income ratios were not included in the analysis; and (3) where relevant factors such as the extent of borrower documentation were analyzed the analytical approach does not square with industry practice. At this stage in our review, we question whether the report’s hypothesis is supported. To the contrary, we believe there are legitimate business reasons for price differences that militate against any claim of unfairness. The report’s findings are contradicted by other research, notably the Federal Reserve’s own analysis. Regrettably, past CRL reports including a study that the patchwork of state predatory lending laws only resulted in costs of $1 per loan were deficient methodologically and otherwise have not been well-founded.[10]

It is notable that over the last several years the difference between the rates of prime borrowers and non-prime borrowers are decreasing or compressing. This compression has benefited borrowers in the non-prime market by providing rates that are closer to prime rates. The cause of this compression as well as the abundance of credit is the unparalleled number of loan originators that are competing for borrowers' business. These include mortgage companies, banks, credit unions and mortgage brokers.

Conversely, the misuse of data, for the purpose of pushing a particular agenda such as the enactment of the patchwork of state laws or overzealous national proposals, or otherwise, can be expected to hinder competition and stem the lowering of rates to borrowers.

V. The HMDA Data Set is Sufficient for its Purposes and Should Not Be Expanded

Considering HMDA's purposes, there are several compelling reasons why the HMDA data set should not be expanded to include an extensive set of risk factors. Such an approach is unnecessary. It would be unduly costly, jeopardize borrower privacy, potentially undermine proprietary interests; risk calcifying innovation to extend credit to an increased number of borrowers, and still lead to an incomplete data set for purposes of examining loan pricing.

As the 2005 Fed Report emphasized, the collection and reporting of data entails considerable costs which are ultimately borne by borrowers. Indeed, the Board chose to require the reporting of rate spreads on non-prime loans in lieu of other approaches to studying the non-prime market in the interests of minimizing these costs. Moreover, since the HMDA data comprise a public data set, as the 2005 Fed Report pointed out, were credit and other risk information made public in this era of data mining, borrowers' private information regarding their financial wherewithal would quickly be compromised using other data bases for a host of commercial ventures. Also, revealing risk factors may permit reverse engineering of underwriting models not only undermining proprietary systems but potentially inviting fraud. At the same time, identifying a finite set of risk factors would effectively wire these factors in, freezing innovation in an area that continues to develop newer and better credit models to extend credit to an increasing number of borrowers.

While HMDA data were intended to shed "sunshine" on lending activities and where necessary flag areas requiring further review, Congress never intended the data set to prove or disprove discrimination conclusively. In fact, regulators have access to all relevant data and information including all relevant risk information rendering it unnecessary to expand the public data base to contain such factors. Finally, since loan prices are also arrived at based on a borrowers willingness to shop and compare the myriad offerings in the marketplace, any expansion of the data set merely to include risk factors would be incomplete with respect to loan pricing.

VI. The Market Today

[10] Center for Responsible Lending, Strong Compliance Systems Support Profitable Lending While Reducing Predatory Practices, July, 2005.

The market for home mortgages has changed radically in recent years. Home prices have increased dramatically, presenting significant affordability challenges in many parts of the country, which the industry has responded to by providing flexible and affordable loan products. Largely as a result of increasingly sophisticated underwriting tools, risk based pricing permeates the industry. At the same time technology has improved underwriting and risk management capabilities enabling industry to better serve the needs of borrowers with less than perfect credit.

Homeownership is at near record levels, and it is increasing the most among minorities. The homeownership rate in 2005 was 68.9 %, the rate for African-Americans was 48.2% and for Hispanics 49.5%.

In the second half of 2005, according to MBA's Mortgage Originations Survey, prime loans accounted for 64%, non-prime loans 21%, Alt-A loans 12%, and government loans 2% of the dollar volume of first mortgage originations. In terms of outstanding loans, the non-prime and prime share has grown markedly in recent years as the government programs (FHA and VA) have lost significant share. According to MBA's data, at the end of 2005, prime loans accounted for 76%, non-prime 13%, and FHA and VA the remaining 11% of outstanding loans.

While the HMDA data demonstrate the abundance of credit, the data does not fully gauge the industry's extraordinary increase in products for both prime and non-prime borrowers. The data do to some extent demonstrate the growth of the non-prime market which in some measure is captured by the loan pricing data. Non-prime originations accounted for 21% of the market in 2005, up from closer to 5% a decade ago.

Foreclosures are greater in the non-prime market than in the prime market, but the numbers are far less than some have suggested. Let me start by noting the importance of market growth when interpreting delinquency and foreclosure numbers. According to HMDA data, in 2000, there were 8.3 million applications for mortgages to buy a home. In 2004, there were 9.8 million applications for purchase mortgages. When the market is growing, even if the foreclosure rate remains constant, there will be an increase in the number of foreclosures. However, too frequently some market analysts point to an increase in the number of foreclosures as a problem in and of itself, when it in fact it very well may reflect a constant or even declining foreclosure rate in the context of growing market making more families homeowners than ever.

In the fourth quarter of 2005, the non-prime market had a foreclosure rate of 3.3%. While this rate is greater than the prime market rate of 0.4%, non-prime borrowers by definition present greater risks of default than prime borrowers. Indeed, were there no difference in default rates, controlling for other factors, any mortgage rate difference between prime and non-prime borrowers would be questionable.

Compare these differences to the foreclosure inventory rate for subprime loans in 2001 peaking at 9%. The latest numbers tell a good story about lenders' ability to manage risk and the wherewithal of subprime borrowers. In any case, those who would fix on a relatively low foreclosure rate as a reason for over regulating the non-prime market risk denying the overwhelming majority of non-prime borrowers the prospect of homeownership.

VII. Conclusion

HMDA is working. It provides a rich data set concerning the availability of credit to meet its legislative and regulatory purposes. It well reflects activity in the marketplace, provides usable information to facilitate public and private investment, and effectively provides signals to regulators where further review is warranted

Rational analysis of the data and the marketplace suggests that denial rates and any differences in the incidence of minority and non-minority higher cost loans will prove explicable based on non-discriminatory factors. Absent overregulation and the imposition of unworkable solutions, the range of mortgage products and the "risk-based" pricing prevalent in the mortgage lending industry will continue to expand access to credit and continue to contribute to the highest levels of home ownership in American history. At the same time, competition will continue to compress rates in the non-prime market.

While rates are largely determined by risk factors, the effectiveness of borrower understanding and shopping to lower rates cannot be discounted. While mortgage markets are functioning well and serving consumers, borrowers find it challenging to understand the mortgage process. While an overhaul of our education system to make financial literacy a priority is a long term goal, MBA believes steps have to be taken in the short term.

MBA believes actions should be directed toward three areas to improve borrower understanding and help them get the best prices possible. First, borrowers have to be provided effective tools to educate themselves about the mortgage process. Second, consumers need simpler, more user friendly disclosures about mortgage loans in order to shop and compare. Third, consumers need to be urged to shop more intensely, comparing mortgage offerings from lender to lender.

MBA's research has shown that homebuyers, particularly first-time homebuyers, rely on a trusted advisor, who may have an adverse incentive, to help them through the complex process of buying a home and getting a mortgage. Too often, MBA believes, these new buyers, and particularly minority first-time homebuyers either contact only one lender or mortgage broker, or are referred by a real estate agent to only one lender or broker while shopping for a mortgage. Borrowers more experienced in the process are generally more likely to seek additional rate quotes.

MBA believes that borrowers need to educate themselves about the mortgage process – so much so that MBA created an educational website about the mortgage process for consumer use at www.HomeLoanLearningCenter.com. In addition, MBA is committed to working to put together a meaningful mortgage disclosure or disclosures that contains relevant, easily understood information that a consumer can use to shop and compare mortgage loans. MBA believes that armed with a basic understanding of the mortgage process, an ability to compare loans, and a willingness to shop, a consumer will be in a far better negotiating position when trying to get a competitive home loan.

Conversely, MBA opposes efforts to chill the innovation in our Nation's mortgage markets or in any way weaken the competition that has served the economy and American families so well. The market is working but it is not invincible. I would submit that solutions that risk its vitality include unnecessarily burdening lenders with additional data requirements and continuing to expand the patchwork of laws at the state and local level aimed at predatory lending. There is a very real conflict between any potential benefits of state and local regulation of this sector of the economy, and the many benefits that have already been achieved through vigorous competition among lenders active in this sector. Additional restrictions impose a cost – they reduce the flow of credit to borrowers who would otherwise have access to it, by reducing the ability or willingness of at least some group of lenders to lend, reducing competition and its benefits.

Again, I appreciate the opportunity to testify and I look forward addressing your questions.