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Board of Governors

of the Federal Reserve System

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Subcommittee on Financial Institutions

Supervision, Regulation and Insurance of the

Committee on Banking, Finance and Urban Affairs

House of Representatives

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The Board appreciates having this opportunity to present its views about the Home Mortgage Disclosure Act. In considering the act's future, we should ask ourselves at least three basic questions:

- Has the information provided under the act been useful?
- How much does providing the information cost?
- If the information has been useful for certain purposes, how can the reporting requirements be modified to further those purposes in the most cost effective way?

The original purpose of the act was to provide local citizens and public officials with information about the home purchase and home improvement lending patterns of depository institutions located in their communities. Armed with this information, citizens and public officials could determine, as Representative St. Germain stated in October 1975 during floor debate on the legislation, "whether or not [they] should continue putting [their] funds into [a particular] institution, or whether [they] should go to an institution that is in fact serving the area. It is moral persuasion."

Two years later, however, the Congress decided that "more coordinated efforts" were necessary "in order to increase the viability of our urban communities." Consequently, it adopted the Community Reinvestment Act. With the passage of CRA, the primary vehicle for monitoring "to determine whether depository institutions are filling their obligations to serve the housing needs of the communities and neighborhoods in which they are located" shifted from the public to the federal financial regulatory agencies. (Incidentally, the focus also shifted from narrower "housing needs" to broader "credit needs.")

While local citizens and officials used home loan disclosure information prior to CRA and perhaps use it even more now, that use is still small in comparison to the number of disclosure reports prepared each year. The predominant use of the information is by the financial regulatory agencies, which analyze it to help monitor lending performance under CRA and to help detect possible ethnic or racial discrimination in violation of the Equal Credit Opportunity and Fair Housing Acts. Thus, the answer to the first question about the utility of the information is that it provides the principal, quantifiable measure by which to gauge the performance of depository institutions located in urban areas in helping to meet housing-related community credit needs.

Even if home loan disclosure information is useful to the agencies, however, there still is the question of cost. In a study jointly sponsored by the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board, the 1977 cost of reporting the information was estimated to be about $1.50 per loan on average or approximately $6 million for all loans subject to disclosure. (That figure should be considered only a rough estimate because of the difficulty of determining the number, as opposed to the amount, of covered home purchase and home improvement loans made nationwide in any given year.)

While the per loan cost of reporting may appear small, the overall cost of compliance is not an insignificant burden on depository institutions, particularly smaller-sized ones. As one would expect, the cost per loan rises appreciably--three fold and more--as the number of loans to be reported declines. Consequently, if reporting is continued, efforts should be made

to reduce the cost, especially for institutions making fewer than 200 loans per year (the FDIC-FHLBB study shows a significant per loan cost escalation below 200 loans).

Since home mortgage disclosure information is useful for helping to monitor CRA performance and for enforcing various civil rights laws, the issue becomes how the reporting requirements could be modified to support those uses in the most cost effective way. The Board believes that the essential usefulness of the information could be preserved, while reducing the costs for reporting institutions, if three steps were taken.

First, instead of exempting from the act's disclosure requirements a depository institution with assets of $10 million or less, the Board recommends that an institution be exempted if it has a home purchase and improvement loan portfolio of $10 million or less, unless it makes more than 200 home purchase loans in a calendar year. The 200-loan criterion would be applied only if an institution had a home loan portfolio of $10 million or less. It is designed to increase coverage by requiring an institution to report even if it had a relatively small portfolio--$10 million or less--if it made a reasonably significant number of loans--more than 200 in a calendar year. Thus, there would be two classes of institutions that would have to report: (1) those with home loan portfolios of more than $10 million and (2) those that held a smaller portfolio, but made more than 200 home purchase loans each year.

Since the act requires disclosure of home loan information, the Board believes that the exemption level should be measured in the same terms. Describing what has to be reported in terms of home loans, while gauging who

must report in terms of assets, mixes apples and oranges. That is particularly true for commercial banks, which typically have a diversity of assets--commercial, consumer, and home mortgage loans.

The Board does not believe that the supplementary exemption test of 200 home purchase loans per year would significantly discourage an institution from making more than 200 of those loans in a year. In our view, factors other than the act's disclosure requirements would have a much more material influence on an institution's loan policies--factors such as the amount of lendable funds, home lending experience, loan demand, interest rates, and general economic conditions.

Based upon 1978 figures, about 5,160 commercial banks and 2,350 savings and loan associations were required to report under the act. Those institutions held more than 99 percent of the amount of outstanding home purchase and improvement loans held by all banks and savings and loans located in standard metropolitan statistical areas. If the exemption measure were changed along the lines that the Board suggests, about 1,400 commercial banks and 2,250 savings and loan associations would be required to report based upon 1978 portfolio size.

Although that change would reduce the number of reporting banks by about 73 percent, it would reduce commercial bank home loan portfolio coverage by only 13 percentage points--from 99 to 86 percent. If savings and loan associations were included, the percentage of portfolio holdings of banks and savings and loans would drop only three percentage points--from 99 to 96 percent. We firmly believe that modified reporting requirements that would apply to those banks and thrifts holding 96 percent of the amount

of home loans held by all banks and savings and loans located in SMSAs would represent substantially complete coverage, yet would permit a significant compliance cost reduction.

Second, the Board recommends that census tract disclosure be required only for loans relating to homes in urban SMSA counties--those with a population of more than 50,000 persons--rather than for all SMSA home loans. Loans not reported by census tract would be reported by county within the SMSA. This change would not affect whether an institution would have to prepare a report (that would be governed by portfolio size or the number of home purchase loans made); it would merely reduce the reporting burden for institutions already subject to the act's disclosure requirements.

Mention of the term "standard metropolitan statistical area" brings to mind cities like Boston, Chicago, Dallas, Denver, Los Angeles, and New York--metropolitan areas with populations greater than one million persons. Although an SMSA, by definition, must have a population of at least 50,000 persons, many SMSAs, particularly in areas of rapid population growth, encompass counties that are predominately rural and that have much smaller populations.

To illustrate the point, consider the Atlanta SMSA. It currently is composed of 15 counties, but the two central counties have two-thirds of the population. Based upon 1970 Census figures, none of the outer ten counties had a population of more than 31,000 people, and two counties had as few as 11,000 persons. Moreover, those ten outer counties are predominately rural in character. The Atlanta situation is not unique. At least 36 of

the 288 SMSAs have two or more counties with fewer than 50,000 people (based upon the 1970 Census), and many more have at least one county in that category.

Although CRA has no geographic limits to its coverage, the major thrust behind its passage, as stated in the Conference Committee report, was "to increase the viability of our urban communities." As noted, however, many of the counties in the 288 currently designated SMSAs are not urban in character. Generally, fewer loans are made in those non-urban counties, making interpretation of the data more tenuous. Moreover, the critical comparisons between lending patterns and information on race, national origin, family income, and housing stock--comparisons that are at the heart of CRA monitoring and civil rights enforcement--are more difficult to perform for non-urban areas and in some instances would be meaningless.

Consequently, requiring disclosure by census tract of loans relating to homes in non-urban counties does relatively little to advance CRA monitoring or civil rights enforcement. Therefore, the Board believes that, to maximize utility and efficiency, census tract reporting should be refocused on urban areas within SMSAs where the information has been used in the past and where it would be most helpful in the future. Continued reporting for the non-urban areas of an SMSA on a county basis would still permit comparisons of the volume of urban versus suburban lending patterns.

The Board's third major recommendation is that the reporting categories be simplified. The current distinction between conventional and government insured or guaranteed loans should be eliminated. While it might be interesting information, it has not been critical in any CRA review that the Board has conducted; and it contributes to reporting errors. The same is true of the requirement that home loans to borrowers who do not intend to

reside in the home be disclosed separately. It is a theoretically interesting piece of information, but it has not been used--either by the public or by the agencies. The consequences of these proposed changes are illustrated in the two exhibits appended to my testimony. Exhibit 1 is the current model disclosure statement; Exhibit 2 shows what the statement would look like if the changes were adopted.

Representative St. Germain's proposed bill and two Senate bills (S. 2290 and S. 2291) would standardize the reporting period by substituting calendar year disclosures for the current fiscal year disclosures. In our view, the change makes sense and would not increase compliance costs. The three bills also would require a nationwide, standardized reporting format. The Board has no objection to that requirement, but would only point out that such a requirement might preempt to some degree the home loan disclosure requirements of five states--California, Connecticut, Massachusetts, New Jersey, and New York--all of which have adapted those requirements to their own perceived needs.

Another proposed requirement in each of the bills is that the financial regulatory agencies, in consultation with HUD, establish central collection centers--for example, at public libraries or local government offices--for the disclosure reports. While centralized collection and maintenance of the reports might be helpful to the public, the Board is concerned about the potential costs and logistical problems of specifying convenient repositories for each SMSA. The Comptroller, FDIC, FHLBB, and Federal Reserve System have banks, branches, or regional offices in only 40 of the 288 SMSAs. Therefore, post offices and libraries would be the most likely candidates for collection centers, but presumably both the Postal Service and local library authorities would object to having the burden placed on

them; and, in the case of libraries, the federal government has no authority to require them to serve as collection centers. On the other hand, renting space and paying for minimum maintenance of the records could be more expensive than the cost of reporting. Therefore, the Board does not support this proposal.

A less expensive, less burdensome, and even more helpful arrangement, however, would be to require each depository institution that prepares a report to mail a copy to any person requesting it upon prepayment of copying and postage charges. Currently, institutions that receive requests supply copies of their reports free of charge or for the cost of copying, and many may already be mailing copies to those who ask. Therefore, we do not believe that our suggestion would be particularly burdensome; but it certainly would be less expensive than collecting and maintaining reports and providing copying services at a central facility.

The bill proposed by Representative St Germain also would mandate a study of the usefulness and feasibility of requiring disclosure of small business loans. While the Board has not taken a position on the merits of requiring small business loan disclosure, it would be willing to study the issue in conjunction with the other financial supervisory agencies and the Small Business Administration.

The final issue is whether the federal financial supervisory agencies should aggregate each year for each of the 288 SMSAs census tract loan information reported under HMDA as would be required by S. 2291. The bill also would mandate that the aggregate data be further categorized according to age of the housing and the income and racial or ethnic characteristics of the borrowers.

The Board opposes those proposals because it believes that the cost of assembling the information outweights the value of any benefit. Home loan information currently is prepared on an individual institution basis, and that is the form in which it is principally used. Whether measuring home lending performance under CRA or searching for possibly illegal discrimination under the Equal Credit Opportunity and Fair Housing Acts, both the financial supervisory agencies and community groups are interested in knowing about individual lenders, not all depository institutions within an SMSA. Even when comparing one institution's efforts with another's performance, the comparison must be between institutions of similar type and size to be meaningful. Thus, having an overall view of SMSA lending patterns would not be particularly helpful, in our view, for either CRA evaluation or civil rights enforcement.

On the expense side, the FDIC-FHLBB study estimates that the annual cost of compiling the information would be about $1 million and that it would take a year. The Board's data processing division also has considered the costs involved and generally concurs with the FDIC-FHLBB estimate. We believe that spending about $1 million a year to process year-old information is not the best use of public funds. If individual states or localities find aggregated lending information valuable for planning purposes, they can compile the information more quickly and perhaps in a more useful format than can be done in Washington.

That brings us to the ultimate question regarding the Home Mortgage Disclosure Act: should it be renewed? On balance, the Board believes that the reported information, if confined to truly urban areas, is useful for analysis of community reinvestment and civil rights issues. We also believe

that the cost of reporting, if reduced along the lines suggested, would be reasonable in relation to the value of the information gained. Consequently, the Board would support more limited and finely focused reporting requirements.

The Board also recommends that a sunset provision--similar to the one that has prompted this review--be attached to any new reporting requirements. We suggest that three years would be an appropriate extension period because by then we will have developed sufficient experience with CRA evaluations and with new civil rights enforcement systems to determine how useful the proposed home loan disclosures would be for those purposes and whether further changes would be appropriate.

FORM HMDA-1
(Pursuant to Public Law 94–200)

MORTGAGE LOAN DISCLOSURE STATEMENT
(Specimen Form)

Federal Enforcement Agency for this Institution

Name of Depository Institution _____

Name _____

Relevant SMSA _____

Address _____

Reporting Period _____

PART A ORIGINATIONS

Section I Mortgage loan data relating to residential real property located within the relevant SMSA

	Loans to both Occupants and Non-occupants of the Property										Addendum Item	
CENSUS TRACT or ZIP CODE (in numerical sequence)	FHA, FmHA or VA LOANS (except on multi-family dwellings)		OTHER RESIDENTIAL MORTGAGE LOANS ("Conventional") (except on multi-family dwellings)		TOTAL RESIDENTIAL MORTGAGE LOANS (except on multi-family dwellings)		TOTAL HOME IMPROVEMENT LOANS (except on multi-family dwellings)		TOTAL MORTGAGE LOANS ON MULTI-FAMILY DWELLINGS		NON-OCCUPANT LOANS (except on multi-family dwellings)	
	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount
Column Totals												

Section II Mortgage loan data relating to residential real property located outside the relevant SMSA (or SMSA's)

Exhibit 1

FORM HMDA-1
(Pursuant to Public Law 94–200)

MORTGAGE LOAN DISCLOSURE STATEMENT
(Specimen Form)

Federal Enforcement Agency for this Institution

Name of Depository Institution _____

Name _____

Relevant SMSA _____

Address _____

Reporting Period _____

PART A ORIGINATIONS

Section I Mortgage loan data relating to residential real property located within the relevant SMSA

CENSUS TRACT or ZIP CODE (in numerical sequence)	TOTAL RESIDENTIAL MORTGAGE LOANS (except on multi-family dwellings)		TOTAL HOME IMPROVEMENT LOANS (except on multi-family dwellings)		TOTAL MORTGAGE LOANS ON MULTI-FAMILY DWELLINGS	
	No. of Loans	Principal Amount	No. of Loans	Principal Amount	No. of Loans	Principal Amount
Column Totals						

Section II Mortgage loan data relating to residential real property located in non-urban counties within the relevant SMSA

County			

Section III Mortgage loan data relating to residential real property located outside the relevant SMSA (or SMSA's)

Exhibit 2