Why we must reform the Home Mortgage Disclosure Act

The Home Mortgage Disclosure Act (HMDA) is critical law passed in 1975 that mandates that banks and other mortgage lenders collect data on their mortgage lending activity and make that data available to the public. Data reported under HMDA have been critical for regulators in monitoring compliance with fair lending laws and enforcing the Community Reinvestment Act (CRA). HMDA data have also been used by community-based organizations and researchers to

- Analyze access to mortgage credit in underserved markets
- Examine the lending practices of individual financial institutions
- Understand patterns of community investment and neighborhood change

Currently, some of the information that mortgage lenders are required to collect and report under HMDA include data on the race, ethnicity, gender, and income-level of the mortgage applicant and information on loan terms such as the disposition of the mortgage application, the purpose of the loan, whether the loan is conventional or insured by the Federal Housing Administration, the loan's lien status, and the pricing of higher-cost loans. Lenders also must report the census tract location of the property for which a mortgage is being applied and the type of property.

The recently passed financial reform bill mandates that additional key data be collected under HMDA. These data elements include information on borrower age as well as expanded information on the mortgage product such as loan term, points and fees paid at origination, whether or not the loan has features allowing for negative amortization, the length of time prior to any adjustment in the mortgage rate, and which channel the loan was originated through (i.e. retail, broker, etc). Lenders will also have to report additional data on the applicant characteristics used in underwriting the loan. These include borrower credit score and the value of the property being used as collateral for the loan.

The Federal Reserve is currently holding hearings to gather information on HMDA. Key issues the Federal Reserve is examining include the importance and value of HMDA data, the limitations of current HMDA data, additional data elements might be collected, how to deal with privacy concerns arising from newly collected data.

Woodstock Institute is recommending a number of key improvements to HMDA. These include:

- Improve the collection of data on borrower income and debt-to-income ratios – Data should be collected on the level of income documentation and the debt- to-income ratios used when underwriting a loan to monitor whether lenders are routinely putting borrowers into loans they can't afford.
- Close gaps in types of loans that are required to be reported – Lenders should be required to report data on home equity lines of credit and reverse mortgages.
- Report additional data for purchased loans –If lenders purchase loans for CRA credit, they should be required to report the same level of data as if they had directly originated the loan.
- Require disclosure of a lender's parent company – Lenders should disclose the name of the top entity of any bank holding company they are a part of in order to detect if banks are conducting predatory lending through affiliate institutions.
- Link data on loan performance and loan modifications to HMDA – To better identify high risk products and abusive lenders, HMDA data must be linked to data on loan performance. HMDA data should also be linked to data on loan modifications to better track patterns of loan modification activity.
- Maintain level of detail in public reporting of HMDA data – Detailed HMDA data must still be made available to the public in a form that allows for analysis community investment patterns and monitoring of potential redlining.