



Comptroller of the Currency
Administrator of National Banks

Community Developments

Summer 2005

The OCC's Community Affairs Newsletter

Using The New HMDA Data To **EXPAND** Home Mortgage Lending Opportunities

by John C. Dugan
Comptroller of the Currency
PAGE 3

INSIDE

The ABCs of
HMDA

PAGE 6

OCC's Residential
Mortgage Lending
Guidelines

PAGE 12

Partnerships with
Community-based
Organizations

PAGE 14

News From the
Districts

PAGE 22

A Look Inside...

This issue of *Community Developments* focuses on the new data reporting requirements of the Home Mortgage Disclosure Act (HMDA) and the opportunities that the data will create for bankers and other financial institutions to target mortgage products and services to millions of households who are eager to own their own homes — but who may represent an elevated credit risk to lenders.

As the so-called subprime market has grown in recent years, so have efforts to serve it efficiently and fairly. For banks, partnering with community-based housing counseling organizations can be an especially effective way to improve outreach to underserved households, leveraging banks' internal resources and reducing the risks associated with lending to borrowers with credit blemishes or a nontraditional credit profile.

Key to the success of these partnerships is proactive financial education — helping prospective

Partnering with housing counseling groups to promote financial literacy can help bankers create — and serve — a pool of creditworthy borrowers that might otherwise be ignored or beyond reach.

borrowers understand what's involved in managing money and creating creditworthiness, and then helping them develop strategies to meet their regular, ongoing financial obligations. Partnering with housing counseling groups to promote financial literacy can help bankers create — and serve — a pool of creditworthy borrowers that might otherwise be ignored or beyond

reach. And, in so doing, bankers can broadly improve their outreach to communities in need.

Clearly, it's important for all concerned to know more about the subprime mortgage market and to know how the new HMDA reporting requirements can help participants in that market meet the needs of more prospective homeowners. We offer the articles and insights in this issue as part of the OCC's contribution to this initiative.

Barry Wides
Deputy Comptroller
Community Affairs

2005 Community Developments Resource Library Compact Disk

The 2005 edition of the Community Developments Resource Library compact disk is now available. The compact disk provides access to a selection of materials from OCC's Community Affairs Web site. The compact disk provides users an index of over 100 *Community Developments* magazine articles, *Community Developments Insights* papers, and other Community Affairs Publications. To obtain a copy of the compact disk, please e-mail Thomas.Goffe@occ.treas.gov



The Community Affairs newsletter
from the Office of the Comptroller
of the Currency

Editorial Staff:

Barry Wides
Bill Reeves
Maury Zeitler
Stephanie Caputo

Editorial Advisory Committee:

Kathryn Ray
Calvin Hagins
Irene Fang
Rick Freer
John Farrell

Designer:

Victor Battista

Creative Director:

Cheryle Robison

Questions or comments, please phone
(202) 874-4930. This and previous
editions available on our Web site:
www.occ.treas.gov/cdd/resource.htm

Disclaimer:

Articles by non-OCC
authors represent their own views and
are not necessarily the views of the OCC.

Using the New HMDA Data to Expand Home Mortgage Lending Opportunities

by John C. Dugan, Comptroller of the Currency

Are bankers being subjected to new HMDA reporting requirements that simply expose them to controversy — or do the data create opportunities for lenders to serve unmet needs of more prospective homeowners?

We probe these timely questions from a variety of perspectives in this issue of *Community Developments*. And the answers demonstrate, I believe, that the new HMDA data-reporting requirements are beneficial tools for any bank that is committed to shaping financial products and services to fit the needs of all of its customers. This is particularly true when banks partner with experienced housing counseling organizations to improve the creditworthiness and the financial savvy of potential homeowners who might not otherwise meet a lender's criteria for prime or even subprime financing.

Putting HMDA to work

The primary goals of the Home Mortgage Disclosure Act (HMDA) of 1975 are to determine whether financial institutions are meeting the housing credit needs of their communities as well as to assist in attracting private capital to areas where it is needed. In addition, the data, when properly analyzed, have proved helpful in identifying possible disparities in lending patterns. The law, which has been broadened in scope several times during its 30-year history, requires lenders to collect and report data on the race, gender, income, and ethnicity of



L to R: Daniel Kent, construction foreman, Robert Kent, housing director, and Community Development Manager Sylvester Pomerlee inspect plans for homes in Indianola, MS being built under USDA's self-help program.

loan applicants by geography in order to determine whether the nation's fair-lending and anti-discrimination goals are being met.

The new HMDA data-reporting requirements are beneficial tools for any bank that is committed to shaping financial products and services to fit the needs of all of its customers.

Beginning in 1989, most banks and other mortgage lenders were required to report all mortgage and home-improvement loan applications; identify the race, ethnicity, gender and income of applicants; and report on the disposition of applications. Revisions that took effect in January

2004 required, among other things, the collection and reporting of more detailed data, including pricing information for higher-priced loans by borrower characteristics — race, ethnicity, gender, and income level — and the racial and ethnic composition and income level of the census tract in which the property is located.

Subprime success stories

These revisions to the HMDA regulations stem in large measure from the changes in the mortgage markets, which through improvements in information and technology have facilitated more efficient and accurate borrower risk assessment. These developments have made it feasible for institutions to lend to higher-risk (subprime) borrowers, albeit at prices commensurate with the higher risk.

Many borrowers receiving higher-priced loans today would have been

continued on page 4

denied credit in the past. On the whole, the growth of lending to these subprime borrowers has to be seen as a decidedly positive development. It has expanded access to credit, helped boost homeownership in the United States to record levels, and created new opportunities for consumers to tap the equity in their homes.

A few numbers tell the story. Subprime mortgage originations rose by 25 percent annually between 1994 and 2003, a nearly tenfold increase in nine years. Prime mortgage lending did almost as well, growing at 17 percent annually. These trends helped drive the overall rate of homeownership nationwide from 64 percent in 1994 to 70 percent in 2004.



This family was able to buy a home through a special mortgage program offered by the Mississippi Valley Neighborhood Housing Services in Davenport, Iowa.

In this short span of time, more than 9 million households became homeowners — and more than half of these new homeowners are minorities. While white homeownership increased by 4 million, African Americans gained 1.2 million, Hispanics 1.9 million, and Asians and other minorities 1.6 million.

However, the growth of the subprime market has also raised public policy concerns. Among those concerns are whether consumers who obtain higher-priced loans are sufficiently informed about their options to make the market work as efficiently as it could and to protect themselves against unfair or deceptive lending practices. Such concerns are heightened because some

borrowers, particularly those tapping their home equity, are facing financial emergencies — such as urgent home repairs — that may cause them to focus more on securing credit and less on scrutinizing loan terms and prices. Indeed, the wide range of prices available in the marketplace today has raised concerns about whether such price variations reflect unlawful discrimination as well as legitimate risk- and cost-related factors.

Lenders, in turn, are naturally concerned about how the new HMDA data are interpreted by the media and the public — especially if it is not well understood that the data, because of inherent limitations, do not support definitive conclusions about the fairness or lawfulness of a lender's policies and practices. While this is clearly a legitimate concern (for regulators as well as the banking community), it shouldn't be allowed to obscure the opportunities that the availability of the new data will create. In many cases, banks may find that the data provide opportunities to strategically target competitively attractive and affordable products and services to qualified borrowers. Conversely, the data may also be helpful in strengthening community relationships by indicating that a bank has worked hard to reach out to potential customers regardless of income, ethnicity, or other historically discriminatory barriers to credit.

Knowledge is power

The articles in this issue will help lenders tap new markets and improve overall market efficiency while promoting compliance with consumer protection and anti-discrimination laws and regulations. In these pages, you'll find useful information such as:

- “The ABCs of HMDA” — a guide to the key revisions and what they’re expected to accomplish;

- Information about the OCC’s new mortgage lending guidelines, including monitoring activities within higher-risk loan sourcing channels;

- How you can use HMDA data to identify new opportunities to better serve customers with a broad range of credit profiles;

- How to partner with housing counseling agencies and marshal technology to educate borrowers, improve their creditworthiness, and combat predatory lending; and

- How to serve millions of potential borrowers lacking traditionally established credit by using nontraditional mortgage credit reports.



“Self-help” workers put a support beam into place at one of the self-help homes under construction in Indianola, MS.

Among economists and others who follow homeownership trends, there’s widespread agreement that, over the years, HMDA reporting requirements have played an important role in encouraging more lending to low- and moderate-income households — and, thus, in improving credit services in low- and moderate-income communities. If the new requirements create new challenges, they also create new opportunities.

The bottom line, of course, is reputation. Like any other institution, a bank ultimately succeeds or fails on how well the institution is treating its customers — all of them. HMDA data can provide valuable new insights that will help bankers improve loan lending and pricing practices — and identify new and unexplored housing markets. It’s my hope that you’ll use this issue of *Community Developments* to advance those goals — and, in so doing, to enhance your institution’s reputation for customer and community service.



Corporation of the Governor
Administration of Territories

Community Developments

February 2005

Insights

Community Affairs
Department

Individual Development Accounts:

An Asset Building Product for Lower-Income
Consumers

Abstract: This article of length examines Individual Development Accounts (IDAs) and their use for health and other financial matters to encourage lower-income persons and families to save money and their efforts toward their personal financial goals. It describes why banks offer IDAs, shows how banks are involved with IDAs, and addresses barriers to the growth of IDA products. The information presented here was obtained from a survey of experts including financial institutions, IDA professionals, nonprofit service providers and program funders. Appendix A contains sources of additional information on IDAs. Appendix B contains a glossary of terms related to IDAs.

1. What Are IDAs?

IDAs are matched savings accounts designed to help low-income and low-wealth persons accumulate a targeted amount of funds to use for a specified purpose, most commonly purchasing a home, starting a small business, or financing an education. Accountholders generally make monthly contributions to an account, usually over a two- to five-year period, and their savings are matched by funders, typically at a rate ranging from one dollar for each dollar saved to three dollars for each dollar saved.¹ The funds are generally accumulated in a savings account, which for many people is their first experience as an account holder at a financial institution.

IDAs have grown from three programs in 1999 to more than 700 programs in 2002, and encompass more than 25,000 account holders.² These matched savings accounts are similar to matching arrangements that occur with 401(k) plans, but can serve a broader range of purposes.³ Federal, state, and local governments, private sector, and nonprofit organizations can match IDA deposits made by low-income persons.

¹ Adapted from “Building Funds for Mortgage Payments, Home Renovation and Financing the Education Dream,” *Financial and Consumer Development*, 1998.

² Data from a 2002 nationwide survey cited in *Construction of Evidence-Based Insights: A Look at the Growing Individual Development Account Field*, Bureau of Economic Analysis of IDA Programs, p. 3.

³ Unlike most 401(k) programs, however, contributions to IDAs can be withdrawn from an individual’s bank account for the matching institution.

Many banks partner with housing counseling organizations offering Individual Development Accounts (IDA) that provide matched funds for borrower downpayments. OCC’s *Community Developments Insights* “Individual Development Accounts: An Asset Building Product for Lower-Income Consumers” <http://www.occ.treas.gov/ftp/release/2005-25a.pdf> describes how IDA programs operate and how to find community-based organizations administering IDA programs.



The ABC's of HMDA

*by Stephanie Caputo, community development expert,
Community Affairs Department, OCC*

The purpose of HMDA data historically has been multifold: to determine whether financial institutions are meeting the housing credit needs of their communities; to identify possible discriminatory lending patterns and assist in the enforcement of anti-discrimination laws; and to assist public policy-makers in targeting investments to attract and leverage much-needed private capital, especially in urban areas. Through the decades, various refinements to HMDA reporting requirements have contributed to the data's usefulness in assessing how effectively institutions have addressed community housing needs in their service areas.

In 1989, Congress significantly expanded HMDA to include certain nondepository lenders, and to require reporting on applicant race, national origin, gender, and income. The regulatory community used these additional data to sharpen the focus of their fair lending examinations and compliance enforcement efforts. Additionally, regulators have used

HMDA data to assist them in conducting Community Reinvestment Act evaluations.

The latest revisions to HMDA are intended to provide regulators and other stakeholders with more specific information with respect to mortgage markets, especially the booming subprime market, to ensure that lenders are continuing to respond to the need and demand for housing credit in their communities, as well as to assist in the enforcement of fair lending laws.

As of the fall of this year, tables available to the public will display, for each HMDA reporter, pricing information for higher-priced loans by (1) borrower characteristics, i.e. race, ethnicity, gender, and income level, and (2) racial/ethnic composition and income level of the census tract in which the property is located.

Key revisions to HMDA reporting include the following data elements:

- Rate-spread loan reporting, which

is required only for originations of home purchase loans, secured home improvement loans, and refinancings. Lenders must report the spread between the annual percentage rate (APR) on a loan and the yield on comparable Treasury securities, if the spread is equal to or greater than 3 percentage points for first-lien loans, or equal to or greater than 5 percentage points for subordinate-lien loans. [See "How to Determine Rate Spreads on HMDA Loans," page 9.]

- Home Ownership and Equity Protection Act (HOEPA) loans, which are loans that have points or fees in excess of specific thresholds defined in the Truth in Lending Act and Regulation Z. Lenders must now report whether a loan is subject to HOEPA. [See "What Is a HOEPA Loan?" page 11.]
- Lien Status. Lenders must report, for originations and applications,

whether a loan is (1) secured by a first lien, (2) secured by a subordinate lien, or (3) not secured by a lien. Purchased loans are not covered by this requirement.

- **Ethnicity and Race.** Lenders must ask for “government monitoring information,” but cannot require

it, whether an application is taken in person, by mail or telephone, or on the Internet. Ethnicity is a new field as of January 1, 2004. Applicants have complete discretion to self-identify their ethnicity and race classifications. If applicants decline to self-identify, lenders must identify

race classifications in face-to-face situations with applicants, based on applicant surname and visual observation. [See “Ethnicity and Race Fields: There IS a Difference,” below].

- Home improvement loans and refinancings. There have been

continued on page 8

Ethnicity and Race Fields: There IS a Difference

The reporting of borrower ethnicity and race data has changed under the revised HMDA requirements. Here are the highlights of the changes:

- In 2002, the Federal Reserve Board amended Regulation C’s rules for collection of information about an applicant’s ethnicity and race, to conform them to the revised standards of the Office of Management and Budget (OMB) for collection of such data. Ethnicity is a new field that was added to the HMDA Loan/Application Register (LAR) beginning January 1, 2004.
- Institutions must report a code in the ethnicity field for the applicant and co-applicant, if applicable, and at least one race field for the applicant and co-applicant fields on every LAR record.
- Beginning with applications taken on or after January 1, 2004, if an applicant self-identifies as “Hispanic or Latino” under the category of “Ethnicity,” the applicant should be asked to identify a race, or races, from among the five choices available. Although OMB’s definitions may be offered to the applicant as an aid, the choice of how to self-identify is entirely the applicant’s. An applicant and/or co-applicant can designate up to the five racial designations and all codes corresponding to the applicant and/or co-applicant’s selections must be reported.
- OMB has adopted definitions for the five races and Hispanic ethnicity (http://www.whitehouse.gov/omb/inforeg/re_app-a-update.pdf).
- The choices for ethnicity are:
 - Hispanic or Latino. A person of Cuban, Mexican, Puerto Rican, South or Central

American, or other Spanish culture or origin, regardless of race. The term “Spanish origin” can be used in addition to “Hispanic or Latino.”

– Not Hispanic or Latino

- The choices for race are:
 - American Indian or Alaskan Native. A person having origins in any of the original peoples of North and South America (including Central America), and who maintains tribal affiliation or community attachment.
 - Asian. A person having origins in any of the original peoples of the Far East, Southeast Asia, or the Indian subcontinent including, for example, Cambodia, China, India, Japan, Korea, Malaysia, Pakistan, the Phillipine Islands, Thailand, and Vietnam.
 - Black or African American. A person having origins in any of the black racial groups or Africa. Terms such as “Haitian” or “Negro” can be used in addition to “Black or African American.”
 - Native Hawaiian or Other Pacific Islander. A person having origins in any of the original peoples of Hawaii, Guam, Samoa, or other Pacific Islands.
 - White. A person having origins in any of the original peoples of Europe, the Middle East, or North Africa.
- If a lender is face-to-face with an applicant who (1) has self-identified as “Hispanic or Latino” (or whom the lender has identified as of that ethnicity because the applicant has declined to self-identify) and (2) has not identified a race, the lender must identify whatever race or races the lender believes would apply, based on surname and visual observation. In those circumstances, the lender may not indicate code 7 (for “Not

Applicable”) in the race field. Code 7, or “Not Applicable,” is used in the race field only if (1) the applicant is not a natural born person, (2) the HMDA reporter has purchased, not originated, the loan, or (3) an application was taken before January 1, 2004, and reached final action on or after January 1, 2004.

There has been some confusion and concern raised about this change: some lenders are either mistaken about the applicability of the new codes or hesitant to identify the race or races of an applicant and/or co-applicant based on surname and visual observation, and are indicating code 7, or “Not Applicable.” It is too early to know what impact these issues will have on the data.

- Telephone applicant declines to provide race, ethnicity, or gender. If an application is taken entirely by mail, Internet, or telephone, and the applicant declines to provide information on ethnicity, race, or gender, the lender must use the code for “information not provided by applicant in mail, Internet, or telephone application.” A lender must ask the applicant and/or the co-applicant for the government monitoring information, such as ethnicity and race data, but cannot require him or her to provide it, regardless of whether the application is taken in person, by mail, by telephone, or on the Internet.
- A lender must report whatever information the applicant supplies, whether partial or complete. For example, if, on an application submitted by mail, an applicant marks a box indicating the applicant “does not wish to furnish” government monitoring information but supplies some or all of the information, the lender must report the information supplied. Unless the applicant clearly indicates he or she declines to supply any information, the applicant must be given the opportunity to supply any part of the information he or she chooses.



Vicci Niebauer of Placerville, CA works on her new home being built in conjunction with USDA's self help program.



These homes in Placerville, CA are being built through USDA's self help program.

changes in the definitions of home improvement loans and refinancings to standardize the data reported.

- Lenders are required (1) to report denials of requests for preapproval and (2) to report, as a separate category of originations, approvals of “requests for preapprovals” that result in originations.

The federal banking regulators, as well as industry trade groups and consultants, have been alerting bankers for the past couple of years about the revisions to HMDA reporting requirements, and the potential implications of those revisions for banks. Specifically, the OCC has been urging banks to validate their data systems, and to understand and be able to explain their data.

The Federal Reserve Board (FRB), on behalf of the interagency Federal Financial Institutions Examination Council (FFIEC), stores the HMDA data, performs edit checks on specific reported data, and maintains the database for all the HMDA reporters. The FRB staff generates various data quality and validity reports, and contacts reporting institutions to resolve outstanding reporting issues. Certain data must be corrected; the most common example is incorrect census tract information. It is critical that lenders ensure that their data are accurate; otherwise, the FFIEC will

Pricing Disparities: Do They Necessarily Mean Trouble?

If the new HMDA data show that certain protected groups pay more for loans than other protected groups, on average, do these pricing disparities prove unlawful discrimination?

No, price disparities in the HMDA data do not prove unlawful discrimination. However, such disparities may indicate a need for closer scrutiny. Supervisory agencies investigating disparities typically collect additional information about price determinants, such as borrower credit history, debt-to-income ratio, and loan-to-value ratio, from lenders' loan files or other sources. Without information regarding relevant price determinants, one cannot draw definitive conclusions about whether particular lenders discriminate unlawfully or take unfair advantage of consumers.

If HMDA data do not include prices in the prime lending market, how will the government detect and prevent price discrimination in that market?

The federal banking agencies will continue to evaluate the potential for price discrimination in the prime lending market using the “Interagency Fair Lending Examination Procedures.” The procedures direct examiners to identify risk factors for illegal discrimination by reviewing a variety of information, including the institution's records, to understand the institution's program for compliance with anti-discrimination laws. Examiners evaluate a lender's risk of price discrimination based on several factors, including the relationship between loan pricing and compensation of loan officers or brokers; the presence of broad pricing discretion; the use of a system of risk-based pricing that is not empirically based and statistically sound; substantial disparities, revealed by samples of loan files, among prices quoted or charged to applicants who differ in their protected characteristics, such as race; and consumer complaints alleging price discrimination. The level of risk of price discrimination determines the depth and breadth of the examination.

produce flawed public disclosure statements, thereby hampering the ability of third parties to evaluate the performance of HMDA-covered lenders. [See *Lenders Covered by HMDA Data Reporting Requirements*, page 11].

Implications of the New HMDA Data for National Banks

Despite providing a useful body of information, HMDA data may be subject to misinterpretation. The recent interagency questions and answers on HMDA, dated March 31, 2005, point out that, while the enhanced pricing data will serve as an important screening tool for self-monitoring and enforcement efforts, HMDA data alone



Bill Adkisson works on the roof of the Placerville, CA home he's building in conjunction with USDA's self-help program.

continued on page 10

How To Determine Rate Spreads on HMDA Loans

The FFIEC has made calculating rate spreads easy for HMDA reporters. Rate spreads on all HMDA reportable loans can be quickly determined by using the FFIEC's rate spread calculator, which can be found on its Web site at www.ffiec.gov/ratespread/default.aspx. The FFIEC has developed a system that has embedded the Treasury rates of comparable maturities for all of the reporting months for HMDA reports. Lenders only have to fill in the information on loan lock-in date, annual percentage rate (APR), term, and then click on the appropriate lien status from the drop-down box, and the system will do the calculation. For example, if the rate on a first lien exceeds the comparable maturity Treasury by more than 3 percentage points, the program will identify the actual rate spread and the HMDA reporter will then place this number in the rate-spread column. Conversely, if the APR on a first lien is less than 3 percentage points greater than the comparable maturity Treasury, then the system will indicate "NA" and the HMDA reporter will place this code in the rate-spread column.

Additionally, the FFIEC has developed a batch rate spread calculator, which can be used by HMDA reporters on multiple loan application registers (LARs).

If the reporter does not wish to use the FFIEC's rate spread calculator, it must refer to the table published at www.ffiec.gov/hmda, entitled "Treasury Securities of Comparable Maturity under Regulation C," to determine the applicable Treasury security yield. Further instructions on calculating the rate spread can be found at Appendix A, Section I (G), to 12 CFR part 203.

FFIEC Rate Spread Calculator

Action Taken: 1 - Loan Originated [Go To](#)

Lock-In Date (mm/dd/yyyy): 05/15/2004

APR (00.00%): 9

Term (Years, Whole Number): 30

Lien Status: 2 - Secured by a Junior lien

Rate Spread (percentage points): NA (See [Link](#) for more details)

FFIEC Rate Spread Calculator

Action Taken: 1 - Loan Originated [Go To](#)

Lock-In Date (mm/dd/yyyy): 05/15/2004

APR (00.00%): 9

Term (Years, Whole Number): 30

Lien Status: 1 - Secured by a first lien

Rate Spread (percentage points): 02.46

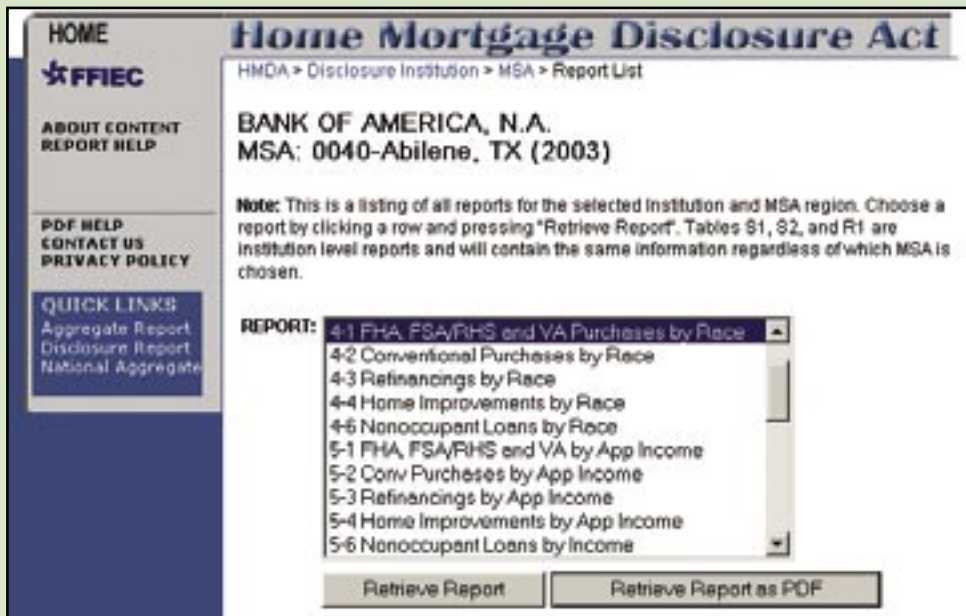
Illustrated above are examples of an identified first lien rate spread loan and a "NA" junior lien loan on the FFIEC's rate spread calculator. The FFIEC's rate spread calculator can be accessed on line at <http://www.ffiec.gov/ratespread/default.aspx>

HMDA Disclosure Requirements: What the Public Has the Right to See – and When

The HMDA regulations require HMDA reporters to make their loan application registers, or LARs, available for public review within specific time periods following submission of the LARs to their supervisory agencies. For each calendar year, a financial institution submits the HMDA-LAR to its regulatory agency by March 1, in automated format, unless there are 25 or fewer reportable transactions. The LAR itemizes reportable transactions on an application-by-application basis, as well as a loan-by-loan basis. Although lenders are not required to arrange transactions on the LAR in any particular fashion, they are strongly encouraged to make the data available in census tract order, if possible, to enhance their utility. The layout of the register must conform exactly to the register published by the Federal Reserve Board in Appendix A of Regulation C.

With respect to the 2004 reported data, lenders covered by HMDA were required to make price and other information about their home loans available to the public as early as March 31, 2005. An institution must release its HMDA-LAR to the public after deleting three fields; this redaction is done for privacy considerations. The deleted fields are: application or loan number; date on which the application was received; and the date on which action was taken. The “modified” LAR for a given year must be publicly available by March 31 of the following year for requests received on or before March 1, and within 30 days for requests received after March 1. An institution must make each modified LAR available for public review for three years.

On or about September 1 of this year, using data from an institution’s LAR, the Federal Financial Institutions Examination Council (FFIEC) will prepare and send to that institution, by CD-ROM, a series of tables that comprise the disclosure statement for the institution. The FFIEC has revised substantially the disclosure statements, primarily by adding a large number of new



tables focusing on pricing data, requests for preapprovals, and manufactured home lending information. The FFIEC will publish a disclosure statement for each mortgage lender, cross-tabulating the individual loan data in various groupings, for each metropolitan area in which the lender conducts business.

In addition, the FFIEC will produce summary-level tables for every metropolitan statistical area (MSA) or metropolitan district (MD), which is a geographical subset of an MSA, that aggregates information about the different covered lenders' activity in the area, as well as for the nation as a whole.

An institution must make its disclosure statement available to the public at its home office for inspection and copying, in printed or electronic form, within three business days of receipt from the FFIEC. An institution also must (1) make its disclosure statement available to the public in at least one branch office, in each

additional MSA or MD in which it has offices, within 10 business days of receipt from the FFIEC, or (2) post the address to which requests should be directed in each branch office, in each additional MSA or MD in which it has offices, and it must send the disclosure statement within 15 calendar days after receiving a written request. Institutions may impose reasonable fees for the costs incurred in producing the data for public release. Each FFIEC disclosure statement is available for public review for five years.

The aggregate tables and the individual disclosure statements also are sent to central data depositories, typically public libraries or planning commission offices, in each MSA or MD. A directory of central data depositories is available from the FFIEC. For more information about the FFIEC tables, see <http://www.ffiec.gov/hmda>.

are insufficient to prove discriminatory practices by financial institutions.

The new HMDA data represent both a challenge and an opportunity to understand lending patterns and pricing decisions. At a minimum, banks certainly should have conducted a preliminary review and analysis of their HMDA data, in order to understand what the data show – and what they do

not – and bankers should be prepared to explain and support fully their underwriting and pricing process.

When evaluating data from HMDA-covered institutions, it is important to be mindful of the underlying data not reported, such as borrower creditworthiness, loan-to-value ratios, debt-to-income ratios, borrower assets, and other relevant underwriting factors.

Nonetheless, the new data reporting requirements, which capture salient pricing information regarding higher-cost loans, lien status, manufactured housing, race and ethnicity, and preapprovals, will provide more fertile ground from which to increase the breadth and depth of the analysis. The OCC will use the latest HMDA data to deploy our compliance management and examination resources strategically

How Banks Can Expand Their Reach with USDA's Rural Housing Programs

Created in 1963, USDA's mutual self-help program has been training income-eligible participants to build or rehabilitate their own homes for over 40 years. Sponsoring nonprofit housing organizations provide supervision and training. Families contribute about 65 percent of the labor needed. They work in groups, and no family moves into its new home until all of the houses in the group have been completed. Their "sweat equity" reduces the cost of the home and serves as their downpayments. Loans to purchase the home are provided under USDA's section 502 loan program at a below-market interest rate. Sometimes a direct 502 loan is combined

with a loan from a bank to make funds available to a prospective home-buyer (called "leveraged loans"). Leveraged loans benefit participating banks because they obtain first lien position, which can reduce the risk of loss in the event of default. Leveraged loans can also be sold to Fannie Mae and Freddie Mac in the secondary markets. Community Reinvestment Act credit may be available to lenders offering "leveraged loans" in conjunction with the USDA 502 loan program. For details see: <http://www.rurdev.usda.gov/wy/rhs.htm>

and determine if there are fair lending concerns that should be investigated further. [See "Pricing Disparities: Do They Necessarily Mean Trouble?" page 8.] To that end, the federal banking agencies acknowledge HMDA's value as a regulatory resource, even though HMDA reporting per se is imperfect as a mechanism to compare pricing decisions, given the full array of underwriting considerations that are not part of the reported data.

On their face, HMDA data could well lead the public, especially the media and various interest groups, to conclude that there is disparate treatment based on race, ethnicity or gender, and that certain lenders are engaging in

predatory or abusive loan practices. Even if HMDA data show nothing more than concentrations of higher-cost loans in minority neighborhoods, the burden will be on lenders to explain why disparities exist and what they mean.

While there are inherent limitations to the new HMDA data, it will unquestionably contribute to a greater overall understanding of the mortgage industry. The information reported will provide regulators, lenders, and other affected parties with more complete context for evaluating the prime and subprime markets. Additionally, the data will furnish the backdrop for additional compliance risk management

activities on the part of banks, particularly with respect to fair lending and predatory lending.

Lenders Covered by HMDA Data Reporting Requirements

Both depository institutions – such as banks, savings and loan associations, and credit unions – and nondepository institutions – including mortgage and consumer finance companies – are required to report HMDA data if they meet the regulatory criteria for coverage. These criteria are found in section 203.2(e) of the Federal Reserve Board's Regulation C. Generally, the determination of HMDA coverage depends on:

- The lender's asset size. For example, an institution is subject to HMDA reporting requirements if it has assets of \$34 million or more, as of December 31, 2004. The Federal Reserve Board adjusts the coverage threshold from year to year to reflect changes in the consumer price index for urban wage earners and clerical workers. For a nondepository institution, total assets must exceed \$10 million, as of December 31 of the preceding year, counting the assets of any parent corporation;
- Whether the lender has an office in a metropolitan statistical area; and
- The extent of the lender's housing-related lending activity.

In 2004, 8,121 lenders reported HMDA data for 2003. The number of national banks that reported HMDA data for 2003 totaled 1,020. For more information about the specific coverage criteria for institutions under the HMDA regulations, go to <http://www.ffiec.gov/hmda/pdf/2004guide.pdf>.

What Is a HOEPA Loan?

The Home Ownership and Equity Protection Act of 1994 (HOEPA), which is part of the Truth in Lending Act, requires additional disclosures and provides substantive protections for certain home-secured loans having rates or fees above specified triggers.

HOEPA covers mortgage loans for which the annual percentage rate (APR) exceeds the yield on Treasury securities with a comparable maturity by the following number of percentage points:

- 8 percentage points for first-lien loans.
- 10 percentage points for subordinate-lien loans.

OR

The total points and fees payable by the consumer at or before loan closing exceed the greater of:

- \$510* or 8 percent of the total loan amount.

*The Federal Reserve Board annually adjusts this limit based on the annual percentage change reflected in the Consumer Price Index in effect as of June 1. For additional information, see <http://www.occ.treas.gov/ftp/bulletin/2004-44.doc>.

A Review of the OCC's Recent Residential Mortgage Lending Standards

by Stephanie Caputo, community development expert, Community Affairs Department, OCC

Predatory mortgage lending continues to be a problem in many communities. In addition to victimizing would-be homeowners, it creates economic instability by producing high foreclosure rates and undermining community revitalization efforts. Although the OCC has not seen evidence that national banks are engaging in such activities, we have issued regulatory and other guidance to ensure that banks operating in various segments of the mortgage market are aware of their compliance obligations, and to support them in promoting the goal of treating all customers fairly.

The OCC's Response

The OCC recently adopted *Guidelines for Residential Mortgage Lending Standards*, comprising appendix C to part 30 of our regulations. These standards, which we refer to as “part 30,” became effective in April 2005. They further the goal of ensuring that national banks and their operating subsidiaries are not involved, directly or indirectly, in predatory or abusive residential mortgage lending practices. The guidelines reinforce the substance of earlier guidance in the OCC's 2004 revisions to the real estate lending regulations and advisory letters 2003-2 and 2003-3. The amendments to our regulations preclude lending based predominantly on the realization of the foreclosure or liquidation value of the borrower's collateral without regard to the borrower's ability to repay the loan according to its terms. They also prohibit banks from engaging in unfair and deceptive practices as defined in section 5 of the Federal Trade Commission Act. The advisory letters provide guidance concerning avoidance of abusive lending

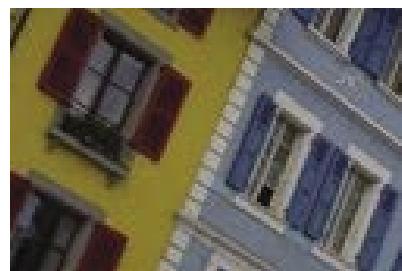
practices relating to the origination and purchase of mortgage loans and the use of third party lenders.

Practices Inconsistent with Sound Residential Mortgage Lending Activities

The new “part 30” guidelines stipulate that national banks should not become involved, directly or indirectly, in residential mortgage lending activities involving abusive, predatory, unfair, or deceptive lending practices, including – but not limited to – the following:

- *Equity Stripping and Fee Packing:* Multiple refinancings that siphon the unwary borrower's equity through excessive fees.
- *Loan Flipping:* Repeated refinancings under circumstances in which the terms and costs of the new loan do not provide a tangible economic benefit to the borrower.
- *Refinancings of Special Mortgages:* Refinancing a subsidized mortgage that has favorable terms with a loan that provides no tangible economic advantage to the borrower.
- *Encouragement of Default:* Encouraging a borrower to default on an existing loan for the purpose of refinancing that loan.

The OCC recognizes that certain loan terms, features, and conditions, while subject to abuse, may represent acceptable risk mitigation measures that benefit customers and are consistent with safety and soundness standards. The part 30 guidelines state that national banks should give careful consideration to the circumstances, including the characteristics of the targeted market and



applicable consumer and safety and soundness safeguards, under which the bank will engage directly or indirectly in making residential loans that have the following terms, features, and conditions:

- Financing single premium credit life, disability, or unemployment insurance.
- Negative amortization.
- Balloon payments on short-term transactions.
- Prepayment penalties that are not limited to the early years of the loan, particularly in subprime loans.
- Interest rate increases upon default at a level not commensurate with risk mitigation.
- Call provisions permitting the bank to accelerate payment of the loan under circumstances other than the borrower's default under the credit agreement or to mitigate the bank's exposure to loss.
- Absence of an appropriate assessment and documentation of a consumer's ability to repay the loan in accordance with its terms, commensurate with the type of loan.
- Mandatory arbitration clauses or agreements, particularly if the eligibility of the loan for purchase in the secondary market is impaired.
- Pricing terms that fall within the Home

Ownership and Equity Protection Act (HOEPA).

- Original principal balance of the loan in excess of appraised value.
- Payment schedules that consolidate more than two periodic payments and pay them in advance from the loan proceeds.
- Payments to home improvement contractors other than by an instrument payable to the consumer, or jointly to the consumer and the contractor, or through an independent third-party arrangement.

A national bank should exercise great care if it uses these residential loan terms, conditions, and features. A bank's residential mortgage lending activities should include provision of timely, sufficient, and accurate information to consumers with respect to the terms and costs, and the risks and benefits, of the loan products offered.

Managing Third-Party Origination Channels

Reliance on third-party relationships can significantly increase a bank's risk exposure, notably reputation, compliance, and credit risks. Predatory and abusive loans originated through brokers or by third-party lenders raise fundamental safety and soundness issues, and also present a wide range of heightened legal risks for national banks – risks that could subject them to civil liability as well as supervisory action.

The part 30 guidelines and advisory letter 2003-3 stipulate that a national bank should have an effective and comprehensive process for managing the risks associated with third-party relationships. When a bank purchases consumer residential loans or makes them through a mortgage broker or other intermediary, part 30 guidelines require standards and practices to be consistent



The OCC and several Federal agencies collaborated to develop a consumer brochure to help alert homeowners as to the risks associated with borrowing on the equity in their homes. This brochure can be downloaded by financial institutions and community groups and customized for public awareness campaigns. <http://www.federalreserve.gov/pubs/riskyhomeloans/predatorylendingbrochure.pdf>

with those applied by the bank in its direct lending activities and include appropriate measures to mitigate risks, such as the following:

- Criteria for entering into and continuing relationships with intermediaries and originators, including due diligence requirements.
- Underwriting and appraisal requirements.
- Standards related to total loan compensation and total compensation of intermediaries, including maximum rates, points, and other charges, and the use of overages and yield-spread premiums, structured to avoid

providing an incentive to originate loans with predatory or abusive characteristics.

- Requirements for agreements with intermediaries and originators, including, with respect to risks identified in the due diligence process, compliance with appropriate bank policies, procedures, and practices and with applicable law (including remedies for failure to comply), protection of the bank against risk, and termination procedures.
- Loan documentation procedures, management information systems, quality control reviews, and other methods through which the bank will verify compliance with agreements, bank policies, and applicable laws, and otherwise retain appropriate oversight of mortgage origination functions, including loan sourcing, underwriting, and loan closings.
- Criteria and procedures for the bank to take appropriate corrective action, including modification of loan terms and termination of the relationship with the intermediary or originator in question.

Conclusion

The OCC's decision to issue the part 30 guidelines as part of its safety and soundness framework affords it the necessary flexibility to take the most appropriate course of action if examiners find evidence that abusive practices are occurring. For example, the OCC could notify a bank of its concern and require the bank to submit a plan specifying the steps it will take to ensure compliance with the standards. Having the flexibility to act on a case-by-case basis will help the agency – and the banking community – to protect consumers and promote fair lending practices nationwide.

HMDA: Love It or Hate It, This Could Be an Opportune Time for Lenders and Community Advocates

by Anne Diedrick, senior vice president, JP Morgan Chase Community Development Group

Love it or hate it, HMDA has had a major influence on the evolution of the affordable mortgage industry. And it's going to continue to have a significant impact on how lenders do business and interact with consumers and community advocates.

Beginning in 1989, expanded HMDA data included demographic information for every mortgage loan applicant, including race, gender, income level, and geography. Among other things, the enriched data made it possible to compute mortgage denial rates by race and income — and the data showed that African American and Hispanic applicants were being turned down far more often than white applicants at every income level. These findings, which prompted nationwide headlines, alarmed consumers, lenders, advocates, and regulators, and became the basis for

extensive research probing the question of whether the data provided evidence of systematic racial discrimination in the mortgage industry.

Challenging lenders

Gradually, a consensus view emerged that the HMDA data alone did not constitute proof of such discrimination but did dramatically demonstrate the need to do more to meet the credit needs of lower-income and minority borrowers. The data challenged the mortgage lending industry to be more innovative, flexible, and even experimental in developing products and exploring alternate delivery channels.

And the data helped forge new and stronger relationships between bankers and community advocates. To better address the mortgage needs of low- and moderate-income (LMI) and minority borrowers, lenders, and community

groups began working more closely together to design new affordable mortgage products and programs. They analyzed underwriting criteria and questioned conventional assumptions about sources of income, indebtedness, and the necessity of requiring a 20 percent down payment. Chase and other lenders experimented with expanded ratios and lower down-payment requirements by holding and seasoning mortgages in their own portfolios. Those early experiments paid off, and by the mid-1990s, the secondary markets began to offer a new array of affordable products that reached more potential first-time home buyers.

There was also a clear need for more counseling to help borrowers successfully navigate the mortgage transaction process and prepare them for the responsibilities of homeownership. Poor credit was the top reason for the high declination rates. In some cases poor credit resulted from student loan defaults and hardships created by unforeseen medical bills. But, in case after case, it was caused by consumers having access to more credit than they could handle.

More than anything else, over-extended consumers needed financial education and credit remediation. Lenders and community advocates began setting aside their differences in order to meet consumers' needs. Lenders actually began to hear what advocates had to say about outreach, marketing, and product enhancements — and advocates actually began to view bankers as people who cared about consumers and wanted to help local communities. The result was a stronger nationwide network of mortgage counseling programs.



Chase Relationship Manager Mandala Jones assisting a conference attendee on the Chase Home Center Bus.

Referral-up

With the advent of credit scoring and risk-based pricing in the mid-1990s, fair lending compliance took on even more importance, especially within the evolving subprime lending field. When Chase Home Finance, a subsidiary of JPMorgan Chase Bank, began offering subprime mortgages, we immediately instituted a “referral-up” program to ensure that borrowers who applied for a subprime loan but who appeared qualified for a prime loan were offered such a product. Over the years, we’ve relied heavily on this “best practice.”

We’ve also developed a strong network of mortgage counseling relationships. Last year, for example, we sponsored 450 financial education workshops, partnering with organizations such as ACORN, the National Urban League, the National Council of LaRaza, Asian Americans for Equality, Rural Opportunities, Housing Opportunities of Houston, the New York Mortgage Coalition, and the MiraCit Community Development Corporation of Columbus, Ohio. More than 10,000 people acquired financial education and money management skills at these workshops.

To augment these efforts, we’ve created a virtual Financial Education Library on our Web site <www.chase.com> featuring workbooks that can be downloaded in multiple languages. Currently available in English and Spanish, the workbooks are being translated into Chinese, Korean, and Vietnamese. More than 20,000 consumers have downloaded our workbook “Understanding the Mortgage Process.”

Chase Home Finance currently has more than 50 community loan officers who work exclusively with mortgage counseling agencies focusing on the credit needs of lower-income and minority home buyers. Loan officers can

provide mortgage subsidies to customers who receive mortgage counseling and meet creditworthiness criteria. Chase expects to provide \$10 million in such mortgage subsidies this year.

The new HMDA data will help keep lenders and advocates focused on the goal of ensuring that borrowers get the right product at a fair price.

To help identify obstacles to serving emerging markets and to brainstorm solutions, we created a National Housing Advisory Council whose 14 members — representing underserved populations including the African American, Asian, Hispanic, and Gay and Lesbian communities — are not shy about letting us know what we need to do to expand homeownership and take our community partnerships to the next level.

New data = new opportunities

This year, the most recent revisions to HMDA data will be available to the public, including data indicating pricing spreads on loans over certain thresholds (see “The ABCs of HMDA,” page 6). Federal Reserve Board senior economist Glenn Canner predicts that “the market segment in which prices will be disclosed will be about 10 percent to 15 percent of the total mortgage market.”

While HMDA provides useful information, it does not contain all the relevant pricing information that would be reflected in the spreads, including credit score, property type, down payment amount, cash-out information, property value, debt-to-income ratio, loan-to-value ratio, employment and payment history, and assets of the borrower. We’re working with our community partners to make sure there’s

broad understanding of legitimate differences in pricing, such as product choices or credit characteristics that correlate to delinquency and default.

The risk-based pricing now used by the mortgage lending industry has expanded access to credit and contributed to the highest levels of homeownership in history. A record 70 percent of Americans now own their homes — and, although minority homeownership continues to lag, the rates of increase in African American, Hispanic, and Asian homeownership over the past decade have outpaced that of whites. Consumers generally are benefiting because mortgage lending is more competitive today than ever before, helping to keep prices affordable and allowing consumers to shop around for a better-priced loan.

The challenge to lenders is to ensure that all borrowers get the right product at a fair price. The new HMDA data will help keep lenders and advocates focused on this important goal. Homeownership remains the surest pathway to wealth — but too many Americans today are running up debt, falling behind on their bills, and failing to save for their future. Lenders and community advocates can, and must, work together to change these behaviors and to provide meaningful guidance to would-be homeowners.

HMDA data will play a key part in this process. The future of the mortgage business is in the “emerging market” of groups significantly lagging the national 70-percent homeownership benchmark. Getting pricing fair and right will be key to winning this business — and opening new doors to homeownership. This could, in fact, be an opportune moment when lenders and community advocates seek to achieve exactly the same thing and the consumer is the winner.

For more information, contact Anne Diedrick at anne.diedrick@chase.com.

New Tools to Challenge Predatory Lending and Create More Homebuyer-Ready Borrowers

by Kenneth Wade, chief executive officer, NeighborWorks® America

Although the nation has made great progress in increasing homeownership, we still face significant challenges — especially in combating the rise in predatory lending and persistent gaps in homeownership and wealth.

NeighborWorks® 26 years of experience provides some instructive lessons and insights into how consumer education and counseling, creative lending, and technology can confront predatory lending and reach underserved markets.

The NeighborWorks® network of 235 community development organizations across the nation serves 2,700 rural, suburban, and urban communities. Since 1993, they've provided homeownership education and counseling to more than 500,000 people and helped more than 90,000 families attain homeownership. Many of these clients are consumers typically left out of the prime market and vulnerable to predatory lending. The average NeighborWorks® client has a FICO credit score in the 600s and earns about \$35,000 per year. About half are minorities and more than a third are women.

Intensive support

Through intensive and thorough education and counseling, these clients pay off collections, correct credit report errors, collect alternative forms of credit history, such as phone and utility bills, and take other action to become more bankable borrowers. To illustrate, our NeighborWorks® organization in Troy, New York — the



Jose Santiago repairing a porch in conjunction with a NeighborWorks® initiative in Providence.

Troy Rehabilitation and Improvement Program, Inc. — reports a more than 60-point credit score increase from the time a client walks in the door to when he or she completes education and counseling. Those points can translate into thousands of dollars in savings for the consumer and a much less risky borrower for the bank. Delinquent payments at the 90-day mark are cut by a third and default rates are cut in half.

In Montana, the Montana Board of Housing has set aside a \$62 million loan pool to promote homeownership. Montanans who successfully complete pre-purchase counseling through Neighborhood Housing Services (NHS) of Great Falls can take their certificate to a local lender, who will work with NHS to place homebuyers in an appropriately priced mortgage product. The lender completes the loan and sells it to the board of housing at 102 percent of the loan price. By tapping the state

loan pool, lenders receive a rate three-quarters of a percent below the standard board of housing rate.

The state and lenders alike understand that educated consumers are not only good credit risks, but also save precious time in assembling a credit profile and accessing down payment and mortgage supplement assistance. The evidence of success is clear. NHS of Great Falls is the second highest producer in the national NeighborWorks® network, generating more than 400 loans per year.

Nevertheless, we estimate that nationwide only about 15 percent of current first-time homeowners receive adequate counseling and education. The number of consumers who could benefit from homeownership education and counseling is growing at a much faster pace. At the current rate, we've projected a 'counseling gap.' From

2005 to 2025, 15.8 million first-time buyers will go uncounseled, including 3.2 million African Americans, 3.0 million Hispanics, and 6.3 million lower-income households.

To help close this gap, NeighborWorks® is tripling the number of homeownership and financial education counselors. Our goal is to increase the number of counselors trained from 700 to more than 2,000 per year by 2007, providing education and counseling for more than two million families each year.

Stretching without breaking

While education is an important tool for creating more bankable customers, technology is creating new ways to help those customers stretch without breaking to achieve homeownership. Our secondary market partner, Neighborhood Housing Services of America (NHTSA), will soon pilot a state-of-the-art, Web-based, automated underwriting system. Created with private sector funding, the program will interface with lenders and alternative credit providers across the nation, rendering faster decisions that take into account nontraditional credit criteria, such as telephone and utility bills and pooled family savings.

NHTSA provides a secondary market for our NeighborWorks® network of local community development organizations, offering loan products and purchasing loans from network members to ensure their continued solid lending capacity. NHTSA provides liquidity to local revolving loan funds and capital pools for network organizations and their financial partners by purchasing their loans. This frees up new local capital to be available to the communities they serve. The second mortgages are used to cover down payment and closing costs for low-income homebuyers

who qualify for a first mortgage loan from private lenders. In the past two years alone, the NeighborWorks® revolving loan fund financed \$61.4 million in second mortgages — and secured funding from private lenders, foundations, government agencies, and other sources to finance another \$143.4 million in second mortgages.

NHTSA's new Web-based underwriting system has the potential to provide the smallest NeighborWorks® organization in the nation with the power to partner with new lenders and should significantly reduce the cost of underwriting — one of the most expensive facets of lending.

The openness of this networked system should also bring unprecedented transparency to lending, creating new opportunities to define and measure creditworthiness. And the increased number and diversity of lenders and alternative credit providers in the system has the potential to create breakthroughs in comparison shopping, providing borrowers with more appropriately priced loan

products. This transparency and capacity to compare products can provide NeighborWorks® organizations a greater rationale for pursuing appropriately priced subprime products for their clients. Recognizing that expansion of the lender pool introduces more fringe elements, the system contains a built-in fraud-detection mechanism.

The need for more tools to reach underserved markets has never been greater. Federal and state policies are aggressively promoting homeownership; mortgages are becoming increasingly complex and risky; personal debt is rising; and stubborn homeownership and wealth gaps persist. Using a combination of education and counseling, creative lending and technology, lenders and community development organizations can work together to ensure that no potential homeowner is overlooked, underserved, or overcharged.

For more information, contact Kenneth Wade at kwade@nw.org or (202) 220-2410.



Among those saluting the Sears American Dream Campaign are Kathy Flanagan Payton (third from left), Fifth Ward president and CEO; Harvey Clemons Jr. (fifth from left), Fifth Ward board chair; Tony Davis (fourth from right), Sears district general manager; and Gary Wolfe (third from right), director, NeighborWorks® America's Rocky Mountain District.

How Counseling Technology Helps To Guide Consumers Toward Homeownership

by William Reeves, lead expert/manager, Community Affairs Department, OCC

Housing counseling agencies are increasingly using technology — and partnering with lenders — to help unbanked consumers, credit-blemished borrowers, and first-time homebuyers. New data collection tools can pull and store credit information, track credit scores going forward, develop budgets, and create step-by-step plans to lead a consumer along the path to homeownership. While counselors typically serve any consumer willing to complete credit education courses and counseling, they especially reach out to borrowers with blemished credit who might otherwise end up with subprime loans. As lenders are learning, would-be borrowers who benefit from homeownership counseling — including financial education and work to improve their credit profile — can often qualify for lower-rate conventional financing.

Data from 40,000 Freddie Mac Affordable Gold® mortgages originated

Customized counseling software can aid lenders by tracking creditworthiness, developing budgets, and creating step-by-step plans to guide a consumer to homeownership.

between 1993 and 1998 showed that borrowers who completed counseling were 19 percent less likely to experience a 90-day delinquency than noncounseled borrowers. The most effective counseling was in one-on-one setting with a counselor, which reduced such delinquencies by 34 percent, followed

by classroom (26 percent) and home study (21 percent).

Ready to link

Technology plays a key role in helping counseling agencies ensure that their customers get the best-priced mortgage for which they're qualified. About 400 agencies use Freddie Mac's CounselorMax® software to track borrowers going through education programs. The program standardizes education and enables counselors to walk consumers through a customized set of action steps that move the client toward a stated objective, such as saving for a down payment or improving a credit score. All clients with a particular issue will follow the same guidelines, and CounselorMax® will track the delivery of those services. Lenders know the type and quality of financial education that the borrower has received.

To strengthen the connection between housing counselors and lenders, Freddie Mac is testing a LoanProspector®-like automated underwriting tool that counselors can use to determine whether a consumer would successfully pass through the GSE's underwriting system. Among the Freddie Mac products specifically geared to the housing-counseling population are Home Possible™ mortgages, which offer \$500 down payments and credit flexibility.

Fannie Mae's Web-based home counseling technology, Home Counselor Online™, tracks customers from intake through post-purchase counseling. Launched in 2001, the technology has been used by 1,900 agencies



Participants in a pre-homeownership workshop in Montana – sponsored by NeighborWorks® America.

Expanding Homeownership through Partnerships with Housing Counseling Organizations

Financial institutions across the country have been successful in partnering with housing counseling organizations to develop leads for new customers in market segments they hadn't previously served. These housing counseling agencies often can supplement a first mortgage lender's financing through down payment assistance and soft second mortgages. Lenders interested in finding a housing counseling organization with whom they might partner can contact their state or local housing finance

agency. Information is also available about housing counseling organizations from:

- The U.S. Department of Housing and Urban Development <http://www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm>
- NeighborWorks® America <http://www.nw.org/network/Utilities/NWOLookup.asp>

across the country. The software is available in English with key tools also available in Spanish. It enables counselors to analyze how much house a client can afford, retrieve credit profiles, and assess eligibility for loan products such as Fannie Mae's MyCommunityMortgage™, which offers \$500 down payments, 100 percent loan-to-value ratios and flexible qualifying criteria at conventional rates. Home Counselor Online is fully integrated with the company's Desktop Underwriter® automated underwriting system via Fannie Mae's lender partners. Once a consumer is ready to seek a mortgage, the counseling agency can electronically transmit the customer's file to the lender.

Housing counseling groups have developed similar technology. For example, NeighborWorks'® desktop application, NSTEP, which stands for NeighborWorks® Solutions To Enhance Performance, creates a schedule to guide consumers in paying creditors and alleviating debt. A down payment accumulator calculates how long it will take the consumer to save a down payment. Once the borrower appears mortgage-ready, NSTEP can be linked to a mortgage origination system, which can, in turn, link to the GSEs' automated underwriting systems.

The time it takes for a consumer to complete the counseling process varies. While a typical beginning homeownership class might run one hour a week for two months, consumers

with significant credit challenges may need much more time to complete the process of improving their credit, including tasks such as paying down revolving debt, correcting credit report errors, and saving for a down payment.

These programs demonstrate that housing counselors are upgrading their technological capacity and thus their ability to standardize counseling. As GSEs and counseling groups expand their use of technology and gain better access to automated underwriting, the effectiveness of these groups in aiding borrowers with troubled credit histories will continue to increase.

Putting it all together

The tools, products, and educational services provided by counseling agencies have already generated impressive results, enhancing borrower creditworthiness and reducing lender risk. They're helping lenders reach market segments that are unexplored or underserved and creating better borrowers in the process. The challenge for the future is how much lenders are willing to use these tools to maximize housing ownership opportunities.

The screenshot shows the mymoney.gov website. At the top, there's a navigation bar with links for Home, About Us, FirstGen.gov, FirstSteps.gov, Consumer.gov, and an Español link. Below the navigation bar, there's a list of topics to click on for more information, including Budgeting & Taxes, Credit, Financial Planning, Home Ownership, Paying for Education, Privacy, Fraud, & Scams, Responding To Life Events, Retirement Planning, Saving & Investing, Starting a Small Business, an Español link, and Member Agencies. A prominent offer for a '\$\$\$ Free "My Money" Tool Kit \$\$\$' is displayed, along with an 'Order Form' link and a 'Privacy Policy' link. The website footer includes a link to mymoney.gov and a note that the site is managed by the Federal Financial Literacy and Education Commission.

The Federal government's "mymoney.gov" Web site identifies several government publications that financial institutions and community organizations can use in conjunction with homebuyer education outreach activities. www.mymoney.gov

'No Credit? No Problem!'

Taking the Nontraditional Route To Bring Borrowers into the Prime Mortgage Market

by Barry Wides, deputy comptroller for Community Affairs, OCC

By some estimates, 50 million people lack traditionally established credit — but still have track records in paying regular bills such as rent, utilities, insurance, and telecommunications. The absence of a credit history shouldn't be seen as an insurmountable barrier when considering whether to underwrite a mortgage. After all, many people prefer to pay as they go to avoid debt.

The Federal Housing Administration (FHA) and conventional secondary market programs offer ways to establish a borrower's creditworthiness other than the traditional approach of relying on use of credit cards, installment loans, mortgages, and similar borrowing methods. Alternative approaches can help borrowers who might otherwise get shut out of the prime market — and the lenders who might not otherwise reach them.

Breaking with tradition

Traditionally, credit history looks at the number of trade lines a consumer has opened and his or her payment history. To generate a traditional credit score, a borrower must have one trade line that is at least six months old, with a balance on it. Fair Isaac Credit Services, Inc. estimates that 50 million U.S. consumers have credit histories that can't clear that hurdle. These nontraditional borrowers are disproportionately Hispanic (24 percent), African-American (14.6 percent), and recent immigrants.

"A lack of traditional credit is one

of the largest barriers to Hispanic homeownership," says Gary Acosta, chief executive officer of Prado Mortgage and chairman of the National Association of Hispanic Real Estate Professionals.

Although many people now renting do not have traditional credit histories or scores, they do want to become homeowners. Fannie Mae estimates

that 5 million renters without credit scores can afford to purchase a home. And about 500,000 new homebuyers without traditional credit scores complete a home purchase through FHA or the subprime market each year. By taking advantage of nontraditional credit history programs now offered in the secondary mortgage market, lenders can avoid needlessly relegating would-be borrowers to the subprime or "Alt A" market.

Fannie Mae, Freddie Mac, and FHA each have established guidelines that lenders must follow when underwriting a loan for a borrower without a traditional credit score or history.

FHA guidelines

FHA allows a lender to develop its own Non-Traditional Mortgage Credit Report (NTMCR) or to use a credit reporting agency to document the borrower's payment history. A NTMCR, however, may not be used to enhance the credit history of a borrower with a poor payment record or traditional credit score or to "manufacture" a credit report for someone without a verifiable credit history. In creating an NTMCR, lenders may use several types of credit that require the borrower to make periodic payments on a regular basis, such as rental housing and utilities that are paid at least every three months. In some cases, a record of voluntary periodic payments — such as savings deposits — may also help qualify the borrower. FHA's guidelines may be found in chapter 2 of HUD Manual 4155.1

Sources for Nontraditional Payment History

- Rental housing
- Utilities
- Telephone service
- Cable television service
- Insurance premiums (excluding those paid through payroll deductions)
- Child care
- School tuition
- Medical bill payments
- Automobile loans
- Union dues
- Remittances
- Previous mortgage payment history
- Recent or undisclosed debts
- Collections and judgments
- Previous mortgage foreclosure
- Bankruptcy
- Consumer credit counseling payment-plan participation



Tiffney Ayers and her daughter Sydney beam with happiness in front of their new home after the NeighborWorks® organization in Salisbury, MD assisted them with the purchase and rehab.

REV-5: Mortgage Credit Analysis for Mortgage Insurance, One- to Four-Family Properties.

Fannie Mae guidelines

Fannie Mae allows lenders to use NTMCRs only when a traditional credit score is unavailable for the borrower from any of the three major credit repositories. Fannie Mae then segregates the borrower's periodic payments into one of three tiers. Tier I credit includes rent, utilities, and telecom payments. Tier II payments are those the borrower paid directly to insurers (rather than through payroll deduction) for automobile, life, household, or renter's insurance. Tier III credit includes payments to local stores, payments for durable goods such as automobiles, medical bill payments and payments for school tuition, childcare, or personal loans (documented by a written loan agreement and canceled checks).

Alternative approaches to determining creditworthiness can help borrowers who might otherwise get shut out of the prime market — and the lenders who might not otherwise reach them.

In establishing the borrower's credit history, the lender must start with tier I creditors. The goal is to obtain a 12-month history from four sources. If the lender cannot retrieve information from four tier I sources, it must then check tier II and eventually tier III to develop a history that includes four to six sources of positive or negative history. Fannie Mae's guidelines may be found in the Fannie Mae Selling Guide, Part X (Underwriting Guidelines), sections 103 and 804.

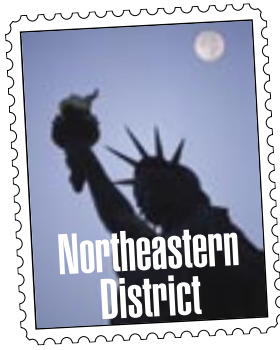
Freddie Mac guidelines

To create an NTMCR, Freddie Mac lenders must directly verify timely payments of a mandatory nature, including rent, utilities, or union dues using canceled checks, receipts, or written verification from a professional property manager. Freddie Mac also allows lenders to consider regular payments of a voluntary nature, such as savings deposits or contributions to a payroll savings plan or stock purchase plan. A documented savings history of 12 months' duration, with deposits made at least quarterly that result in a growing balance over the year, can be counted as a trade line. To establish an acceptable credit history, a borrower would need three trade lines or four noncredit payment references seasoned 12 months. If the borrower has both trade lines and noncredit payment references, then a total of four regular payments are required. Freddie Mac's guidelines may be found in the Freddie Mac Single-Family Seller/Servicer Guide, volume 1, chapters 37.4 and 37.11.

Summing it up

It seems clear that careful and appropriate use of NTMCRs can help reduce obstacles for consumers who might otherwise be subjected to unnecessary subprime mortgage rates or even be rejected entirely for financing. In short, taking the nontraditional route — “the road less taken” — can be a good way for lenders to help borrowers move into the mainstream of homeownership financing.

This just in . . . OCC's districts report on new opportunities for banks



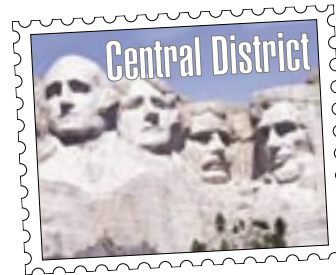
John Farrell (617) 482-1643
Denise Kirk-Murray (212) 790-4053

Congratulations to the New Hampshire Community Loan Fund

The New Hampshire Community Loan Fund was selected by USDA Rural Development to receive its “Partner of the Year Award” in 2005. NHCLF was one of the first statewide Community Development Financial Institutions in the country to be certified by the Treasury Department’s CDFI Fund. It has made over 1,000 loans totaling more than \$65 million supporting affordable housing, job creation, and community services statewide. USDA Rural Development cited NHCLF’s many loan programs — including its innovative Manufactured Housing Park Program, which helps homeowners in housing parks form cooperatives to take ownership of the land they rent — in support of its award. Last year, NHCLF received a \$300,000 Rural Cooperative Development Grant from USDA to help expand that program. For more information, visit www.nhclf.org.

New Venture Fund Emerges in New Jersey

A new venture fund, Garden State Life Sciences Venture Fund, was recently created in New Jersey to fund emerging life sciences companies in the state. The New Jersey Economic Development Authority (NJEDA), a state agency, has entered into a 10-year limited partnership agreement with Quaker BioVentures, a life sciences venture capital fund serving the Mid-Atlantic region, to create and manage the new \$10 million fund. The initial funding will be leveraged for an additional \$30 million to be used in New Jersey. An integral part of the state’s overall economic development strategy, the venture fund is intended to complement the many other technology investment programs offered by NJEDA. For more information, visit www.njeda.com or call NJEDA at (609) 292-1800.



Paul Ginger (312) 360-8876
Norma Polanco (216) 447-8866

Louisville Community Development Bank (LCDB)

When is a bank more than a bank? When it’s formed to “stimulate economic growth within . . . the neighborhoods of Louisville, Kentucky, by providing an array of financial and development resources.” LCDB’s goal of “rebuilding a financially vibrant and fiscally healthy community” is to be achieved through loans to small businesses and homeowners that may not otherwise have had access to capital. LCDB funds its loans solely through certificates of deposits purchased by investors. LCDB offers four types of CDs, including a “Community CD” for the socially conscious investor, and offers a rate from 0 percent to 1 percent for terms up to five years, and a “Market Rate CD” which earns a competitive market rate and also offers a term of up to five years. For more information, contact Lisa Thompson at (502) 778-7000 or lisat@morethanabank.com.

International Institute of St. Louis – Micro Loans & IDAs

The International Institute of St. Louis, an 85-year-old social service agency, operates an economic development program that helps refugees and immigrants build assets and establish businesses. The Business Links Program provides business planning and consulting assistance and now is forming a micro loan fund to finance new immigrant businesses. Since 1999, Business Links has helped more than 120 businesses generate more than \$15 million of combined revenue and provide more than 190 jobs. The institute’s economic development initiative also includes an Individual Development Accounts (IDA) program that has helped more than 400 participants save to start a business, purchase a home, or further their education. Banks can make loans to business owners who receive assistance from Business Links, can make an investment in the institute’s micro loan fund, can provide deposit account services for the IDA program, can make business, mortgage, or student loans to IDA participants, and can provide grant funding to support the Institute’s programs. For more information, contact Betsy Slosar at (314) 773-9090, ext. 156 or slosarb@iistl.org.



Karol Klim (678) 731-9723 x252
David Lewis (214) 720-7027

Southern Bancorp Invests in the Community

Southern Bancorp is a \$500-million development bank holding company that works to transform rural economies by stimulating investments in people, jobs, businesses, and real property. Formed in 1986 with a mission to improve the future of rural Arkansas, Southern has expanded its reach into the Arkansas and Mississippi Delta — one of the nation's most impoverished regions. Southern's family of companies offers a full line of financial products and development services to residents, including bank credit, housing development, small business assistance, "nonbank" lending, work force training, asset building, and advocacy for the poor. Financial institutions can support the work of Southern Bancorp by making a deposit into one of its three FDIC-insured financial institutions. The Community Deposit account is a certificate of deposit that pays competitive market rates and may qualify for the CRA credits for the investing institution. Deposits are re-invested in rural communities in the form of development loans that help borrowers start or expand small businesses, purchase homes, and grow crops. As one of the few rural CDFI organizations, Southern uses deposits to fund development loans in distressed communities throughout the region. Direct investments into one of its three affiliated nonprofit organizations are also available. For more information, contact Ben Steinberg at (870) 816-1148 or visit www.southernbancorpinc.com.

CD Investments in Houston, TX

Banks interested in participating with Houston area banks to make community development investments can contact one of the multi-bank community development (CDC) entities. Created and operated by bankers, they provide financing and expertise for community development lending, investment, and services activities. These include: affordable housing, financing for small businesses, area revitalization and stabilization, and support of other community services and facilities that primarily benefit low- and moderate-income families within the CRA assessment area of participating banks. Area multi-bank CDCs include: Houston Small Business Development Corporation (HSBDC) at (713) 845-2400 or info@hsbdc.org; Third Coast CDC at (713) 503-5124 or thirdcostcdc@aol.com; and Texas Mezzanine Fund (TMF) at (214) 943-5900 x 101 or Jreid@tmfund.com. Other Texas cities with multi-bank CDC investment opportunities include Austin, Brownsville, Dallas, Fort Worth, Houston, McAllen, and San Antonio.



Susan Howard (818) 240-5175
Dave Miller (720) 475-7670

Kansas City Revolving Loan Fund Aids Small Businesses

Many small businesses need fixed-asset financing for amounts less than the \$120,000 minimum loan amount under SBA's 504 Certified Development Company loan program. The city of Kansas City, Missouri created the Neighborhood Commercial Revolving Loan Fund (NCRLF) to provide fixed-rate loans for less than \$150,000 to small businesses in low- and moderate-income neighborhoods needing revitalization. Banks participate in the NCRLF program by providing loans at market rates for terms of up to 10 years to small business borrowers for 50 percent of the purchase price or cost of improvements; NCRLF loans 40 percent of the cost or a maximum of \$50,000 for 10 years at a fixed interest rate of 5 percent using a lien position subordinated to the bank's lien position. For more information, contact Brian Standage of the Economic Development Loan Corporation at (816) 691-2108 or visit www.edckc.com/edcloan.

Nevada Community Development Capacity-Building Initiative

Nevada bankers are launching a new initiative to enhance the state's nonprofit community development landscape. Nevada is in the midst of an economic boom that has created a need for well-managed nonprofits. While many mature organizations are stretched to capacity, newer organizations have insufficient access to development resources. The bankers have responded by creating the Community Development Capacity Building Initiative. In addition to seeding and cultivating organizations, the Initiative's training and technical assistance will aid in providing accountability for future bank-funded grants and investments. Training will be provided statewide and tailored to meet the needs of new and mature organizations, with an emphasis on financial management and strategic planning. The bankers view the initiative as a win-win for the nonprofits and the banks — with Nevada residents as the biggest winners. For more information, contact Joselyn Cousins or Nancy Hamilton: Joselyn.Cousins@citigroup.com or Nancy.Hamilton@wellsfargo.com.



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

OFFICIAL BUSINESS
Penalty for Private Use, \$300

FIRST-CLASS MAIL
POSTAGE & FEES PAID
Comptroller of the Currency
PERMIT NO. G-8

Comptroller Dugan on Using HMDA to Expand Lending Opportunities

The ABCs of HMDA

OCC's New Residential Mortgage Lending Guidelines

Lending Partnerships with Community-Based Organizations

Leveraging the Neighborworks® America Network

Helping Homebuyers with Housing Counseling Technology

Underwriting Homebuyers Using Nontraditional Credit Reports

News You Can Use from OCC's Districts