Remarks of Keith Ernst, Senior Policy Counsel

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Congressional Black Caucus Hearing

Mr. Chairman, honorable members, thank you for your leadership on the important questions flowing from improved HMDA data and for the invitation to comment. While civil rights advocates continue to fight for access to credit, our challenge is also to ensure that all borrowers have access to the fairly priced credit needed to move solidly into the middle class.

I represent two affiliated organizations that I believe share many of the same concerns on these issues as the Congressional Black Caucus. For 25 years, Self-Help has made credit available in communities traditionally denied access, providing more than $3.3 billion in financing to help 40,000 underserved families achieve homeownership.[1] Self-Help's sister organization, the Center for Responsible Lending, was formed to promote sound lending and protect the wealth of low- and moderate-income families.

Today's discussion of HMDA is particularly timely given the movement to amend federal laws on abusive mortgage lending. Leadership in the House Financial Services Committee has focused debate on two bills that concern predatory lending, a term that

[1] In these terms, our home financing can be described as having gone 44% to minority-headed households, 39% to women-headed households, and 21% to rural households.

includes financial abuses like home equity stripping, repeated harmful refinances, and steering borrowers into higher cost loans.

One of these bills, proposed by Congressmen Miller, Watt, and Frank (HR 1182), is modeled on successful state laws and provides important protections to all homeowners. The other, from Congressmen Ney and Kanjorski (HR 1295), is based on the weakest regulations and addresses predatory lending in name only.

HMDA has been critical to understanding the credit needs and, increasingly, the credit concerns of communities. It has enabled community organizations and lenders to target credit to the greatest need. HMDA has also helped identify lenders that were unfairly denying loans to individual borrowers and redlining entire communities.

We have requested 2004 HMDA data from dozens of lenders in advance of this fall's scheduled release. Some have been forthcoming, providing their data and helpful comments on pricing disparities. Unfortunately, others have chosen to shield their data. For example, Lehman Brothers sent us a file that contained more than 10,000 pages of data in a format that could not be brought into analytical software. Another lender, Aegis, went so far as to refuse to provide copies of their data.

Nevertheless, our own preliminary analysis and results from the National Community Reinvestment Coalition show that home loan pricing disparities persist. Compared to white, non-Latino borrowers, African-Americans face 3.6 times greater odds of receiving a subprime loan and Latinos 1.6 times greater odds. Compared to men, women face 1.5 times greater odds to receive a subprime loan. These findings echo those made in previous years, but are more powerful because of the improved HMDA data.

Despite protests by some lenders and their attorneys, disparities in the odds of receiving a higher-priced subprime loan are statistically significant, and they are large. Although we are still trying to understand what is behind these disparities, it does not appear that they can be satisfactorily explained solely by borrower risk. As you consider the opportunities presented by the improved HMDA data, I want to leave you with two recommendations and a caution.

First, with respect to the disparities revealed in HMDA data, we must seek clear and precise answers. For example, in last month's joint House subcommittee hearing on abusive mortgage lending practices, lenders and trade groups acknowledged to Representative Davis that disparities revealed by HMDA are partially the result of discrimination. The remaining task is to identify and remedy the specific methods by which this discrimination is carried out.

Second, we should be skeptical of claims that borrowers choose to pay more for their loans. For example, some will claim that borrowers willingly pay a higher interest rate than required so that their broker can earn fees. While such a story may hold for some borrowers, this mechanism—known as a yield spread premium—surely serves as nothing more than a kickback in other instances. The extent to which this practice and others like it are fueling the observed pricing disparities is a critical question.

Finally, I want to caution that while increasing financial literacy opportunities is a worthy goal, renewed commitments in this area should not come with weak federal standards that undermine effective state anti-predatory lending laws. Borrowers who lose their hard-earned equity and homes to predatory lenders have suffered an offense fairly labeled as criminal. While tips to avoid abusive lenders are welcome, those who engage in predatory lending must be deterred directly.

Thank you again for the opportunity to appear before you today. I look forward to our continuing discussion.