February 15, 2018

ABA Statement on Reveal/Center for Investigative Reporting Mortgage Lending Analysis

Banks are in the business of making loans, and they provide mortgages to as many qualified borrowers as possible—and do so in a way that encourages a positive future relationship. ABA firmly believes discrimination has no place in the mortgage market. We continue to work closely with our members, regulators and other groups to make sure creditworthy Americans have access to the financial products they want, with the protections they deserve.

ABA also firmly believes that any meaningful review of mortgage lending practices, as regulators and the courts have made clear, cannot be based on statistics alone but must consider individual factors such as a borrower's credit history, debt-to-income (DTI) and loan-to-value (LTV) ratios, as well as other measures of his or her ability to repay. Unfortunately, that sometimes means hardworking Americans seeking a mortgage may not qualify under current rules. The banking industry remains committed to working with policymakers to ensure those borrowers eventually get the opportunity to obtain a mortgage appropriate for them. In the meantime, bankers will continue working with customers every day to help them resolve credit issues that may be preventing them from obtaining certain loans under federal rules.

Reveal Analysis

Unfortunately, the role banks play in the mortgage market and the very strict rules governing that market are not fairly represented in the recent analysis conducted by Reveal from the Center for Investigative Reporting. Based on related stories posted by the Associated Press and various news outlets over the last few days, it's clear that Reveal's reporting and analysis misrepresents the realities of the mortgage market and misleads the American people about bank lending to minorities. It is troubling that Reveal decided to report on such a serious issue without providing the necessary context and background needed to explain why some borrowers may not qualify for mortgages. It is also troubling that other news organizations chose to reproduce Reveal's work without asking tough questions about the limits of its analysis, and without doing their own due diligence. Computer-assisted reporting, just like old-fashioned shoe-leather journalism, requires accuracy, balance and context—all of which are sadly lacking in the Reveal analysis.

Limits of HMDA

We still do not know the exact methodology behind Reveal's analysis. We do know, however, that it was missing critical ingredients needed for an accurate assessment of fair lending practices. Quite simply, while Home Mortgage Disclosure Act (HMDA) data can help bankers and regulators identify areas for further examination, the HMDA numbers alone do not reveal a bank's fair lending performance. HMDA data can only determine if a disparity exists; it cannot be used to explain why it exists.

Generally, the most important factors in the decision to lend are a borrower's credit score and history, their income and DTI ratio, and the LTV ratio. By its own admission, Reveal only looked at income on that list. As a result, Reveal's analysis is not just incomplete; it's defective. It's like trying to bake a cake without butter, sugar and frosting. It might look like cake, but it won't be good.

Regulators Go Beyond HMDA

Why is that additional information not available for Reveal to analyze? Reveal suggests banks are to blame. The reality: federal privacy laws prevent the sharing of that information. Americans have long supported legal protection for sensitive information like their credit history, and banks are simply following the law. One group of people who **do** have access to all that information is federal regulators. They regularly review not only the HMDA data but also the other relevant information needed to assess whether discrimination is taking place. The Federal Reserve's latest Residential Mortgage Lending report, which we have attached here, attests that bank examiners use HMDA pricing data and loan application outcomes, "in conjunction with other information and risk factors that can be drawn directly from loan files or electronic records maintained by lenders," to scrutinize mortgage lending practices to make sure illegal discrimination is not occurring. Banks also use the HMDA data internally to make sure there are no disparities based on any protected classes, such as race. Banks routinely test loan files internally to confirm that denials are based equally on the same criteria, such as credit histories and other critical information to make sure they are in compliance with fair lending requirements. That work is shared with their federal examiners who retest the data to ensure compliance. Such multi-tiered controls protect against the possibility of "systematic denials" for any protected class.

Ability to Repay

Another important point the Reveal team failed to make is that banks are **required by federal law** to assess and reasonably assure an applicant's ability to repay. We have attached those guidelines, which were strengthened over the last 10 years. Federal regulations set forth comprehensive legal standards to govern the underwriting of residential mortgage loans, requiring creditors to follow precise guidelines regarding the consideration and evaluation of borrower repayment capacity.

Reveal Case Study

One of Reveal's own case studies depicting a Philadelphia loan applicant highlights the challenge for lenders. The borrower is described as an independent contractor earning $60,000 a year. Unfortunately, independent contract work typically contains gaps, wage variations and interruptions that run afoul of new federal standards that require documentation of consistent earning trends over the previous two years. Moreover, the rules require a reasonable expectation of *future* income verified through third-party records, and income alone doesn't tell the story of what outstanding debt the person might have, which for a recent college graduate could be substantial. In addition, the story affirms that the applicant had a "good credit score," although it does not describe what "good" means. Credit scores must generally be "excellent" to afford applicants with highest level of choice. In Reveal's example, the applicant's score "tanked," which provides additional rationale for a loan denial. If a bank granted a loan to this individual, based on the information available in the story, they risked violating federal standards.

Finally, Reveal's analysis also failed to distinguish between different types of creditors. The mortgage market includes more than just banks. In 2016, banks and thrifts collectively accounted for about 38 percent of all reported mortgage originations. Unlike other originators, banks face additional regulatory requirements and thorough exams.

Bottom Line
The bottom line is that banks want to make every loan they can to every creditworthy borrower they can find. That is the business of banking. The reality is not every borrower will qualify under the current rules. We know there are hardworking people in this country who cannot currently afford a mortgage, and that is a real issue banks, regulators, lawmakers and others are working to solve by reassessing the obstacles standing in the way. A more thoughtful analysis from Reveal could have helped that effort.