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Jennifer Johnson, secretary
Board of Governors of the Federal Reserve System
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As the executive editor at Inside Mortgage Finance Publications, I appreciate the opportunity to comment on the proposed changes to bank call reports outlined in the joint notice and request for comment published by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corp. in the Nov. 21, 2011, *Federal Register*.

Inside Mortgage Finance Publications is a privately owned, accredited news organization that conducts statistical research on the residential mortgage market and mortgage- and asset-backed securities markets. In addition to our proprietary surveys and various public disclosures, we make extensive use of bank call report data as well as credit union call reports and thrift financial reports. We will focus our comments on provisions in the proposed bank call report revisions related to the residential mortgage market.

As a user of call report data, we strongly support the banking agencies' efforts to expand the amount of information reported by financial institutions and efforts to clarify reporting requirements. We understand that there is a balance to be maintained between the level of detail in reporting and the burden of compliance, but the significant role played by depository institutions and their affiliates in the housing market collapse and ensuing financial crisis dictate that regulators should collect as much mortgage information as possible, particularly concerning loan quality, liquidity and liability.

We encourage the agencies to consider adding mortgage characteristic reporting requirements to the proposed Schedule RC-U and a revised Schedule RC-P. The most useful residential mortgage loan quality indicators include loan pricing information already required by the Home Mortgage Disclosure Act and whether the loan meets the Qualified Mortgage and Qualified Residential Mortgage standards mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act. Although the QM and QRM concepts are yet to be defined, the agencies should consider notifying financial institutions that such information will be collected when final regulations take effect.

The pricing and QM/QRM data fields could be added as subcategories to existing (RC-P) and new (RC-U) reporting requirements for mortgage originations.

HMDA pricing information is a simple, if less than perfect, proxy for risk features. By requiring financial institutions to report the volume of loans originated or purchased that require pricing disclosure under HMDA, including the volume of loans subject to the Home Ownership and Equity Protection Act, the agencies will get a quick measure of the amount of less-than-prime mortgage lending taking place in the banking industry. The QM and QRM flags will further illuminate the credit risks being taken both in held-for-investment mortgage originations and mortgage-banking activity. These three data fields point to potential problems in borrower credit quality, loan-to-value ratios, loan purpose, occupancy, underwriting practices and loan terms.

Liquidity is a key issue even when the lender intends to hold the loan as an investment. Schedule RC-U could include a subcategory that requires lenders to disclose the volume of new originations that exceed Fannie Mae and Freddie Mac conforming loan limits. In addition to indicating whether new loans being put in portfolio could be readily sold or pledged as collateral, the loan-limit flag would help policymakers get significantly better data about the potential for portfolio lenders to absorb market share as the government-sponsored enterprises are wound down.

We support the agencies' proposed disclosure of representation and warranty reserves in Schedule RC-P, including separate disclosures of reserves related to: a.) government agencies and government-sponsored enterprises; and b.) other parties. More clarity may be needed in describing these items, however. The notice and request for comment appears to lump Ginnie Mae in with Fannie and Freddie as GSEs, while it does not address FHA and VA indemnifications at all. Current call report instructions include indemnifications related to mortgage insurance cancellations or rescissions, but they do not mention the FHA and VA specifically. We suggest that the final call report instructions clearly identify mortgage insurance indemnification – both for private MI and the government insurance programs – as activity to be included in repurchase and indemnification reporting.

The agencies should consider a requirement that financial institutions report the volume of pending repurchase/indemnification requests in addition to actual repurchases (currently required) and repurchase reserves (proposed). Some large publicly-traded banks with extensive mortgage banking businesses now report this information in quarterly earnings, but there is little consistency in how they do it and many institutions below the top tier provide little if any information about pending buybacks.

In conversations with individual banks, we are aware that some lenders include Ginnie Mae buyouts in their repurchase and indemnifications, while others do not. Although Ginnie Mae buyouts are reported elsewhere in the call report, the agencies should consider guidance on this issue in any revision of the call report instructions.

We strongly support the new Schedule RC-U, and we encourage the agencies to make clear what activity is to be included as a mortgage "origination." There are three major production channels in residential mortgage lending: retail (dedicated retail offices that typically work closely with real estate agents and home builders, bank branches and call centers/web sites); wholesale networks that fund loans through mortgage brokers; and correspondent programs that purchase closed loans on either a bulk or flow basis from unaffiliated lenders. At a minimum, the RC-U instructions and revised RC-P instructions should make clear that broker originations and purchases from correspondents should be included as "originations."

The TFR asks thrifts to report loans "disbursed," which includes retail and broker funding for both retained portfolio and mortgage banking activity, as well as loans purchased, which appears to cover their acquisitions from correspondents. Existing RC-P filing instructions include brokers and correspondents under the "wholesale" banner, although it appears that a number of financial institutions also include their mortgage warehouse lending activity as wholesale originations in the RC-P. And we know of at least one very large financial institution that includes purchases from affiliated entities in its wholesale originations in the RC-P.

In short, we believe this is an area that needs more clarity and, possibly, more detailed reporting. If the agencies want to collect information on warehouse lending, and there are good reasons why they may want to do so, they should separate this as a discrete mortgage banking activity on the RC-P. Such disclosures could cover both mortgage warehouse commitments outstanding and drawn down as of the end of the reporting period, as well as separate disclosures for warehouse lenders and warehouse line users.

The agencies should determine whether they want loans originated through mortgage brokers to be counted as retail (as under the TFR and HMDA) or as wholesale. It could be useful if the agencies specifically adopted the origination definition used in HMDA reporting (the originator makes the credit decision and funds the loan) for the purposes of call reports. The simplest resolution may be to ask for production in both the RC-P and the RC-U under all three categories, with appropriate instructions. This would mirror the standard understanding of these terms and their usage in the industry.

It is worth noting that banks of all sizes engage in wholesale broker and correspondent acquisitions, while also functioning as brokers and correspondents themselves.

We think the RC-P could be simplified somewhat by deleting the separate line items for closed-end second mortgages and home-equity lines of credit. Most banks engaged in this business do so as a portfolio product, rather than under a mortgage banking model, because there is almost no secondary market outlet for second mortgages. A revised RC-P could simply collect origination data that includes all loans secured by 1-4 family permanent mortgages for each of the three production channels.

Similarly, the loan sales, held for sale and repurchase/indemnification categories in the RC-P could be streamlined to eliminate separate line items for closed-end seconds and HELOCs. We think the most appropriate place to track home-equity activity is in the new RC-U.

An extremely useful bit of information about home-equity lending that is not tracked anywhere – in the existing or the proposed call reports – is how many home-equity loans the bank has that are linked to first mortgages that it either owns in portfolio or services for others. As the agencies are aware, this has become a hugely controversial issue in loss mitigation efforts, but collecting this data – especially regarding past originations – would likely be very difficult if not impossible for many banks. Collecting it on a going-forward basis may be more feasible.

The simultaneous servicing of a retained home-equity loan and a first mortgage serviced for another investor or securitization trust poses a complex reporting problem that covers new originations (RC-P and RC-U), the institution's portfolio (RC-C) and its servicing activities (RC-S).

We hope our observations about the pending mortgage-related changes to the bank call reports are useful. We would welcome any feedback or questions about our comments.

John Bancroft
Executive Editor
Inside Mortgage Finance Publications
7910 Woodmont Ave. Suite 1000
Bethesda, MD 20814
jbancroft@imfpubs.com
301.951.1240