



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

G. WILLIAM MILLER
CHAIRMAN

July 3, 1978

The Honorable Henry S. Reuss
Chairman
Committee on Banking, Finance
and Urban Affairs
House of Representatives
Washington, D. C. 20515

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Banking, Finance & Urban Affairs Committee

Dear Chairman Reuss:

Thank you for your letter of June 14, 1978, enclosing a copy of your recent press release regarding the Board's Home Mortgage Disclosure Act ("HMDA") enforcement policy. As a relative newcomer, I welcome the opportunity to clarify what I understand to be the Board's position on the question of use by System examiners of information gathered by State member banks under the Home Mortgage Disclosure Act.

Let me first state that you and I are in agreement that no source of information which might help to end illegal discrimination should be ignored. Consistent with such policy, System examiners are instructed to review information maintained by State member banks under the HMDA, consisting in major respects of data reflecting the number of mortgage loans and dollar amounts by census tracts, in order to insure compliance with that Act, as well as to help uncover evidence of possible discriminatory practices by such banks. As Chairman Burns stated in his letter to you of June 30, 1976, information collected under the HMDA may provide indications as to possible discrimination. At the same time, it should be noted that information collected by member banks under the Equal Credit Opportunity Act ("ECOA"), which our examiners routinely inspect, is an extremely important tool for detecting discrimination, particularly since it provides more precise data regarding race and sex of applicants, terms of loans, credit worthiness of applicants and reasons for credit rejection of a nature that, for the most part, is not required to be collected pursuant to the HMDA. Consequently, the ECOA information is subject to careful review as part of the System examination process.

The Honorable Henry S. Reuss

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In the recent litigation, which has now been dismissed as to the Board, there was no intent to suggest that the Board would overlook or fail to utilize the HMDA information gathered by State member banks. Rather, the question addressed in the pleadings from which you have quoted was whether such HMDA information should be aggregated by the Board on a nation-wide or regional basis. (Portions are enclosed for your reading.) In explaining the reasons why such aggregation is not made, the Board noted that "even as a method to 'flag' discriminatory loan making, use of HMDA data is very imprecise because it would have to be correlated with racial demographic data The ultimate result is simply to lead the examiner back to particular loan files for in-depth examination, which the Board regularly does anyway." Let me emphasize, however, that the failure to aggregate the HMDA data maintained by each State member bank in no way precludes study of the same by System examiners to determine whether unlawful discrimination has occurred at a particular institution.

In his June 30, 1976 letter, mentioned above, Chairman Burns added that the Board's staff "has been discussing, among other subjects, the possible uses that could be made of the data to be disclosed under the [HMDA]" and that the Board has "every hope that these data, together with other relevant information, will facilitate the enforcement plans and programs that develop as a result of these efforts." The enforcement program which has been developed since Chairman Burns wrote this letter relies chiefly on inspections of an on-site nature performed by trained examiners who review, among other things, information maintained by member banks pursuant to the Equal Credit Opportunity Act and the HMDA, rather than on aggregation and analysis of data on a nation-wide or regional basis.

The report by Pottinger and Company referred to in your letter was commissioned by the Board as part of its continuing effort to improve its civil rights enforcement program. A staff task force has reviewed the report and is preparing recommendations for consideration by the Board in the near future. Meanwhile, individual members of the Board are studying the report most carefully. We will continue to monitor the Board's enforcement program on a regular basis with a view towards making whatever changes are necessary for improving the program and insuring its effectiveness. You may be assured that the Board is wholly committed to full and effective enforcement of the Equal Credit Opportunity Act and the Home Mortgage Disclosure Act.

Sincerely,

Bill

Enclosures