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Director Cordray Remarks at the Consumer Advisory Board Meeting

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Prepared Remarks of Richard Cordray
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I would like to thank Dr. Altley, Mississippi Valley State University, and the community of Itta Bena for hosting us so graciously. Today we are announcing two initiatives: the first aimed at improving understanding of the mortgage market; and the second aimed at boosting financial empowerment for certain low- and moderate-income consumers.

On the first of today's initiatives, let me begin by saying as a matter of background that one of the bedrock principles at the Consumer Financial Protection Bureau is transparency. We have a deep respect for the power that knowledge conveys. We want information to be readily accessible to help inform the public and improve our own policymaking. Accurate information and solid analytics based on that information are capable of changing the world for the better.

Nowhere is this more true than in the American mortgage market, valued at over $10 trillion and representing the largest single consumer financial market in the history of mankind. We also know that problems in the mortgage market were the leading cause of the recent financial crisis, which will likely stand as the most significant financial catastrophe of our generation. And so today we are launching a web-based tool to provide the public with easy access to mortgage information collected under the Home Mortgage Disclosure Act (or HMDA, as it is known more familiarly within industry circles).

Just as the real estate motto "location, location, location" was true before the recent financial crisis, it was true for the crisis as well. Every community was affected differently. We simply do not have one national real estate market in this country; nor do we have 50 state markets. Instead, we have a very large number of localized markets that may act quite differently from one another at any given time, for a variety of reasons that can be hard to identify and hard to explain.

Our tool addresses this reality by putting valuable information into the hands of the public in an accessible way, so they can understand what is actually happening in their local mortgage markets and over time they will be able to see trends and changes developing.

Congress passed the Home Mortgage Disclosure Act in 1975, which requires most banks, savings associations, credit unions, and mortgage companies to report their mortgage applications and originations. The original purpose was to be able to track how financial

institutions were serving the housing needs of their communities and also to help determine how to allocate any public capital so as to attract private investment where it is needed. Later on, the HMDA data was recognized as shedding valuable light on patterns of lending that might reveal violations of the Fair Housing Act or the Equal Credit Opportunity Act. Over almost 40 years now, HMDA has become an accepted feature of the mortgage industry that plays a critical role in the regulatory landscape.

In 2011, Congress transferred rulemaking authority under HMDA from the Federal Reserve Board to the new Consumer Financial Protection Bureau. Responsibility for supervising and enforcing the law is shared among the Bureau, other federal banking regulators, and the Department of Housing and Urban Development. Each autumn, through the interagency body known as the Federal Financial Institutions Examination Council, the banking regulators make public the HMDA information from the previous year.

The annual release of the HMDA information – and today is the day – helps shine a spotlight on lending disparities. It reveals lending patterns, including some that might be discriminatory. It helps show whether lenders are serving the housing needs of their communities. It also arms public officials with information that helps them make judgments, set policies, and take more considered action.

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During the Civil Rights movement of the 1960s, Congress enacted the Fair Housing Act to ensure that all Americans had equal access to the housing market. Over the next decade, many had growing concerns about whether these aspirations were being achieved: about whether mortgage "redlining" was continuing in more subtle forms and about the effects of disinvestment on certain neighborhoods. The lack of credit availability was seen as contributing to the deteriorating condition of lower-income and minority neighborhoods. Congress mounted multiple responses to these persistent issues.

The Equal Credit Opportunity Act went further to outlaw discrimination across all types of lending, including mortgage lending. The Community Reinvestment Act provided a framework for encouraging broader investment in our communities. And the Home Mortgage Disclosure Act created a means to use transparency and public disclosure as tools to influence and improve conditions in the marketplace.

The decision to employ transparency as a policy response was not a new idea. As Louis Brandeis, America's original consumer advocate and later a distinguished Supreme Court Justice, had observed decades before, "Sunlight is said to be the best of disinfectants; electric light the most efficient policeman." Interestingly, he wrote these words in an article arguing for the need to compel public disclosure of banker commissions and profits. Exactly one hundred years ago, he opined that in all walks of commercial life, "The archaic doctrine of caveat emptor [or "let the buyer beware"] is vanishing. The law has begun to require publicity in aid of fair dealing." If people can only know the facts, according to his convincing argument, then they often can take sufficient steps to protect themselves and insist on proper business conduct.

Today there is general agreement that the information revealed through HMDA has helped to bring greater fairness and efficiency to the residential home loan market. The information is now used for a range of purposes by economists, social scientists, community advocates, fair lending advocates, government officials, financial institutions, and the news media. And when the public is enabled to have ready access to this kind of information, their curiosity and tenacity can lead to unexpected insights and conclusions. Public disclosure also creates incentives for lenders to focus more closely on managing their legal and reputational risk by paying attention to the patterns in how their loan originations are distributed.

But while the HMDA information has always been available to the public, the size and complexity of the data can make it hard for the public to digest and understand it. That matters a great deal, and let me illustrate why. At my home, we use our garage as a storage space. Some things are at ground level and right in front; others are tucked away in the back; still others are stowed up in the rafters. And we have found, naturally enough, that the harder it is to get to things, the less inclined we are to take the trouble to dig them out and use them. Brandeis made the same point in his article about sunlight as the best disinfectant, noting that public disclosure of banker commissions "must be real. And it must be a disclosure to the investor [public]."

He particularly noted that the mere filing of a formal statement with federal or state officials would be "ineffective," and instead the information must be provided to the public in a form they could readily use and understand. In the example he was describing, he noted that "this can best be done by requiring the facts to be stated in good, large type in every notice, circular, letter and advertisement" made to the public.

The same is true of valuable information about the mortgage market. Providing public access to a dataset with millions of lines of information is one thing. But to maximize the value that we think can be gained from people understanding the HMDA data, we should find ways to make it more "user friendly." That marvelous phrase – "user friendly" – exactly describes the approach we have taken to this issue. So the Consumer Bureau is releasing a tool today that makes the information easier to find and easier to work with. Focusing initially on loans for 2010 through 2012, the tool looks at the number of mortgage applications, actual mortgage loans, loan purposes, and types of loans.

We have prepared a demonstration to show you in a few moments. As you will see, this new tool will make it much easier for the public to identify mortgage trends. For example, heat maps show that mortgage applications and originations were up in 2012. Interactive graphs show that mortgage volume increased, driven by refinancing. And interactive graphs on loan type show the prevalence of FHA and VA lending.

By helping get this valuable information into the hands of consumers in accessible formats, they will more easily understand what is happening in their communities, because, again, these markets can be so very different from one place to another. Financial conditions in Jackson, Mississippi will be vastly different from the Upper West Side of New York City. My hometown in Ohio may have experienced the financial crisis

and may feel the current housing recovery very differently from Las Vegas or Miami (or even very differently from Toledo or Youngstown).

We intend and expect that this new HMDA tool, and the ones we will build off it in the near future, will continue to help spotlight important trends in mortgage lending. Do people have adequate access to credit? Are various communities seeing the same levels of recovery in the housing market? Do loan denial rates vary for different populations? On all of these questions, we commit ourselves to the central concept that sunlight is the best disinfectant and electric light the best policeman. Here as elsewhere, if we empower the consumer public, we can hardly anticipate what all may follow.

So I hope you enjoy the demonstration of this new tool. And I hope you find some time to work with it – or even play with it – to see what is actually happening in the mortgage markets in your own communities.

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Another effort we are launching today is a pilot training program called "Your Money, Your Goals." The purpose of this program is to assist front-line social services staff in helping their clients manage their financial affairs more effectively. Through this initiative, clients will be empowered to identify financial challenges and goals, create saving plans and spending plans, understand credit, manage debt, choose financial products, and access consumer protections. On the last item, in particular, I found from my experience in local and state government in Ohio that many people do not realize they are entitled to certain consumer protections under the law. And when they do not know such things, they are in no position to stand up for themselves. In our pilot program, social services staff and non-profit volunteers in 21 states and the District of Columbia will offer "train the trainer" instruction to more than 1,000 case managers. With this training in hand, they will be equipped to serve, in turn, thousands of clients who otherwise lack access to sound information and advice on how to establish and plan for future financial goals.

This pilot program is just part of the work that is underway at the Consumer Bureau to pursue and achieve the financial empowerment of consumers. Although our duty under the law is to act to protect consumers in the financial marketplace, we see quite clearly that one of the very best forms of consumer protection is self-protection. When people can be enabled to look out for themselves, to have the know-how to formulate their own plans and objectives, and to identify and avoid potential pitfalls, much harm can be avoided. After-the-fact enforcement is important, both for deterrence and to make things right wherever possible, but it comes along only after significant damage already may have been done to people's lives. Our Office of Financial Empowerment, along with our Office of Financial Education, is working every day to help American consumers from every walk of life to muscle up and become more formidable participants in the financial marketplace.

One place where today's two initiatives intersect is where consumers sit down at the table to discuss their prospects for a home loan. Often they are unaware of the options available to them and may assume that those working with them across the table have

their best interests at heart. But in many instances, especially in the run-up to the financial crisis, the mortgage market was laden with hidden incentives for brokers or loan officers to disserve consumers, such as by negotiating higher rates in return for fees that were either hidden or poorly disclosed. These sorts of arrangements resulted in many African American and Hispanic borrowers paying more than they should have for mortgages.

Our empowerment efforts will enable people to understand and act more effectively in exercising their borrowing options; our new HMDA tool will allow both the public and policymakers to understand and make better use of available information about the mortgage market. In addition, we have an Office of Fair Lending dedicated to monitoring these issues and ensuring compliance with federal fair lending law. They will continue to take appropriate action to ensure that all consumers have fair, equitable, and nondiscriminatory access to credit.

These measures are especially important for people living in the rural communities that we are seeing in the Mississippi Delta this week. Traditional brick-and-mortar banks are abandoning parts of this state, even though the total number of bank branches located in the State of Mississippi has grown by ten percent over the past decade. These are the kinds of practical realities that mean as much to people's lives as what any law may say about equal access to credit. When this happens, opening a checking account becomes more difficult for consumers. Getting a car loan becomes harder. And buying a home may seem increasingly unrealistic.

Following the financial crisis, it was only to be expected that the American economy would experience a substantial tightening of credit across the board. Inevitably, that meant less mortgage financing available to all aspiring homebuyers. The entire country is digging itself out of this situation, and we have been mindful of these developments in writing new rules for the mortgage market. But if, in addition, lending patterns tighten even more in some communities than in others, we need to understand that phenomenon better. These are exactly the kinds of informative patterns that the Home Mortgage Disclosure Act was designed to identify. For a lack of available credit is an obstacle not only to the American dream of homeownership, but also to this critical avenue through which consumers are able to build wealth.

The Consumer Financial Protection Bureau is working to create the market conditions that will allow better access to credit, information, and financial services. We will spend much of our time during this Consumer Advisory Board meeting talking about these issues and what can be done about them. We look forward to your feedback.

Thank you.

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The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit consumerfinance.gov.

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