Home Mortgage Disclosure Act:
Tips From the Field for Getting the Data Right

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Presentation Objectives

By the end of this session, you will:

- Be familiar with the history of the Home Mortgage Disclosure Act (HMDA)
- Understand
  - Reporting requirements
  - Commonly encountered data errors
  - Ramifications of inaccurate data
  - How to ensure that data is accurate
  - Ways to use the data to assess lending performance

What is HMDA and where did it come from?

- HMDA is a disclosure regulation
- It grew out of public concern over credit shortages in certain urban neighborhoods.
- Congress believed that some financial institutions were contributing to the decline of various geographic areas by their failure to provide adequate home financing to qualified applicants.
- HMDA was designed to assist in the prevention of “red lining.”

Congressional Response

- Congress recognized the need for better information.
- HMDA enacted in 1975 as a disclosure law to improve the transparency of home lending patterns.
- The law relies, in part, upon public scrutiny for effectiveness.

Threefold purpose of HMDA

- To show whether lenders serve the housing needs of the neighborhoods where they operate.
- To help public officials target public investment and promote private investment.
- To assist in identifying possible discriminatory lending patterns and in enforcing anti-discrimination statutes.

Major Changes in 2002

- Expanded coverage for non-depository lenders
- Definitions of reportable loans revised
- Definition of application revised, now includes pre-approvals
- Government monitoring data changes
- Reporting loan pricing / lien position
- Reporting Home Ownership and Equity Protection Act (HOEPA) status

Covered Institutions - §203.2(e)

- Banks, savings associations, or credit unions
  - Assets exceed threshold
  - Office in a metropolitan area
  - Federal criteria
- For-profit lender (other than the above)
  - Loans equal at least 10% of volume **OR** $25 million
  - Office in metropolitan area
  - Assets > $10 million **OR** originated at least 100 loans

Items Reported - §203.4(a)

1. Identifying loan number
2. Type of loan or application
3. Purpose of loan
4. Preapproval denial or origination
5. Property type
6. Owner occupancy status
7. Loan amount

Items Reported - §203.4(a)

8. Action taken
9. Location of property
10. Ethnicity, race, and gender of applicants
11. Type of entity purchasing
12. Pricing spread
13. Subject to HOEPA
14. Lien status

Optional Reporting - §203.4(c)

1. Reason for denial
2. Requests for preapproval that are approved, but not accepted by applicant
3. Home equity lines made in whole or in part for the purpose of home improvement or purchase

Excluded Data - §203.4(d)

- Loans purchased by institution acting in fiduciary capacity
- Loans on unimproved land
- Temporary financing
- Purchase of interest in a pool of loans
- Purchase of servicing rights
- Loans acquired through merger or acquisition

Frequently Asked Questions

- Q Is the refinance of a business purpose loan secured by a 1-4 family dwelling HMDA reportable?

- A Yes. If a new loan (including a business purpose loan) satisfies an existing loan and both are secured by a dwelling, the transaction is a reportable refinance under HMDA

- Q Is a home equity loan for the purpose of home improvement reportable?

- A Yes. If the loan is secured by a dwelling and is for the purpose of home improvement, it must be reported.

Frequently Asked Questions

- Q What is the term to enter on the rate spread calculator when the bank makes a loan with a balloon payment (e.g., 5 year term amortized over 10 years)?
- A Enter the actual maturity, not the amortization period.
- Q When is a loan considered to be “temporary financing” that is exempt from reporting?
- A The term of the loan, alone, is not determinative. A loan is considered temporary financing if it is designed to be replaced by permanent financing of a longer term.

Frequently Asked Questions

- Q If an applicant indicates that their ethnicity is Hispanic, must they also indicate a race?

- A Yes and no. If applicants choose to complete the monitoring, they should be instructed to complete both the ethnicity and race disclosures. However, if they choose not to complete one or both fields, the lender should complete it based on visual observation.

- Q How should the banker report income on the LAR?

- A Report the income relied upon in underwriting the loan.

Commonly Encountered Errors

- Incorrect Income
  - Improper rounding
  - Inaccurately reporting the qualifying income
- Incorrect geocoding
- Incorrect monitoring information
  - Failure to collect via visual observation
  - Data transposed or improperly entered during processing/underwriting
- Assorted key field errors – Failure to review accuracy of data

Data Reporting

- Transactions must be recorded in the LAR within 30 days of the end of the calendar quarter in which action is taken
- Data must be submitted by March 1 of each year.
- Modified register must be made available within 30 days of request.

Resubmission Standards

- Key Fields
  - Loan type
  - Loan purpose
  - Property type
  - Owner occupancy
  - Loan amount
  - Action taken
  - Preapproval request
  - Geocoding fields
  - Monitoring information
  - Income
  - Rate spread
  - HOEPA status
  - Lien status

- Resubmission required when error rate within a key field is 5% or more.

- Resubmission required when 10% of sampled files contain an error in any key field.

- Errors in non-key fields may lead to resubmission if they make an accurate analysis of lending impossible.

Ramifications

- Reputational Risk
- Examination Impact
- Enforcement - Administrative sanctions, including civil money penalties, may be imposed by the institution’s supervisory agency.

Ensuring Compliance

- Make the effort up front – It's cheaper than resubmission
- Train staff on the reporting requirements
- Use job aids to make reporting easier
- Sample loans to ensure that data is reported correctly
- Verify data to source documents, not data input sheets
- Use "HMDA: Getting It Right!" and other resources
- Keep senior management and the Board of Directors informed with periodic MIS

Now that the data's correct, what do you do with it?

- Fair lending reviews
  - Ready-made tool for comparative file reviews
  - Use geocoding data to identify geographic lending patterns by race
  - Use FFIEC HMDA tables to spot lending trends that may raise questions.
  - Be prepared for questions from regulators or the public

Now that the data's correct, what do you do with it?

- CRA Reviews
  - Use geocoding information to identify geographic lending patterns by income
  - Use income information to identify income lending patterns
  - Use FFIEC data to evaluate peer lending patterns
    - Identify potential untapped markets
  - Use to monitor lending volume & adjust lending strategy

Resources

- Federal Financial Institutions HMDA page
  - www.ffiec.gov/hmda/default.htm
- Federal Reserve Bank of St. Louis
  - stlouisfed.org/hmdaregcamendments/pages/faqs.html
- Examination Procedures
  - www.federalreserve.gov/boarddocs/supmanual/cch/200601/hmda.pdf
- Technical Questions – HMDAhelp@frb.gov

Questions?

THANK YOU

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