

Changing Data Requirements Will Effect the CRA and Fair Lending Environment

Prepared for the 2012 National
Community Reinvestment
Conference
by
Glenn Canner
March 28, 2012

The views expressed are those of the authors and do not necessarily represent those of the Board of Governors of the Federal Reserve System or its staff.

Presentation Topics

- Census data update and implications for CRA, HMDA and Fair Lending
- Forthcoming changes to HMDA
- Forthcoming new small business data reporting requirements under ECOA

Census Data are Central to CRA, HMDA and Fair Lending Assessments

- Census data used to evaluate lending, services and investment activity for regulated institutions, their regulators and the public at large
 - Income data used to categorize census tracts and borrowers by relative median family income (MFI)
 - Regulated entities can quantify lending across income groups and compare to peers or broader market
 - Regulators can evaluate institution performance
 - Public can track performance and respond
 - Race data used in fair lending and redlining analysis
 - Population and housing data provide context

Key Census Sources

- Census 2010 (the decennial census) is a complete population count and is source for:
 - Race and ethnicity data
 - Visit <http://2010.census.gov/2010census/>
- American Community Survey (ACS)
 - Replaces “long form” of the decennial census
 - Source of income and population and housing data
 - Conducted **annually**; but relatively small sample size
 - About 2.9 million households nationwide
 - Insufficient size for annual census tract estimates
 - Visit <http://www.census.gov/acs/www/>
 - Combined **2006-2010 ACS** provides income estimates for:
 - census tract income classification
 - borrower income classification

Timeline for Key Census and FFIEC Releases

- **Summer 2011:** Census Bureau released 2010 decennial census, uses 2010 tract boundaries
- **December 2011:** Census Bureau released 2006-2010 ACS data
- **January 2012:**
 - Reporters started geocoding 2012 CRA and HMDA reportable loans using 2010 census tract identifiers
 - FFIEC updated on-line geocoding system using 2010 street address/census tract correspondence
 - FFIEC released updated MFI estimates for census tracts
 - Visit: www.ffiec.gov/hmda/default.htm (What's New)
- **March 2012:** Reporters submit 2011 HMDA and CRA data using **2000** census tract geographies and income
- **June 2012:** By June (maybe earlier) FFIEC will release updated Census demographic file including pop. and housing characteristics (ex. age of housing stock) and list of distressed census tracts

Census Related Changes will Affect CRA, Fair Lending and HMDA Data Assessments

- Three key changes affect census tract relative income classifications:
 - Income updates
 - Revised geographic dimensions of census tracts
 - Revisions to MSA designations by Office of Management and Budget (OMB)

Income Updates from ACS

- Income updates lead to revised classifications of census tracts by relative median family income
 - Revised classifications arise from:
 - (1) New MFI estimates for each census tract
 - The numerator
 - The FFIEC will use 2006-2010 ACS estimates for 5 years and then update again for 5 years
 - » For 2010, income estimates are not available for about 1,000 census tracts or .72% of total
 - (2) New MFI estimates for each broader area (MSA or non-MSA portion of state)
 - The denominator
 - The denominator is included in the 2006-2010 ACS data
 - Comparing **2000 classifications** with **2006-2010 classifications**:
 - Find increased share of LMI tracts and fewer middle income

Census tract income profile, 2000 census compared with the 2006-2010 ACS

Census tract income group	MSA		Non-MSA		National	
	2000 census	2006-2010 ACS	2000 census	2006-2010 ACS	2000 census	2006-2010 ACS
Low	7.3%	9.1%	0.8%	1.6%	6.1%	7.8%
Moderate	23.7%	23.5%	13.8%	16.2%	21.9%	22.2%
Middle	43.8%	39.6%	73.2%	65.8%	49.4%	44.3%
Higher	25.1%	27.8%	12.2%	16.5%	22.7%	25.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Population Updates from 2010 Census

- Population updates from 2010 Census lead to revised classifications of census tracts by race and ethnicity
 - Revised classifications arise from both changes in the composition of the population but also revised geographic boundaries of census tracts
 - Most notable change is the smaller share of predominately non-Hispanic white census tracts

Census tract racial profile, 2000 census compared with the 2006-2010 ACS

Census tract race composition	MSA		Non-MSA		National	
	2000 census	2006-2010 ACS	2000 census	2006-2010 ACS	2000 census	2006-2010 ACS
Less than 10%	28.3%	19.9%	57.9%	50.9%	33.8%	25.5%
10%-49%	43.0%	47.7%	32.1%	37.9%	40.9%	46.0%
50%-79%	12.9%	16.4%	6.8%	8.1%	11.8%	14.9%
80% or greater	15.8%	16.0%	3.3%	3.1%	13.4%	13.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Revised Census Tract Boundaries

- Reflecting population changes due to births, deaths and in- or out-migration and changing infrastructure (for example, new highways) the 2000 census tract boundaries have been revised
 - These changes alter the count and composition of the population and housing in an area and lead to changes in area characteristics (income, population and housing)
 - These physical boundary changes can lead to changes in census tract income classifications

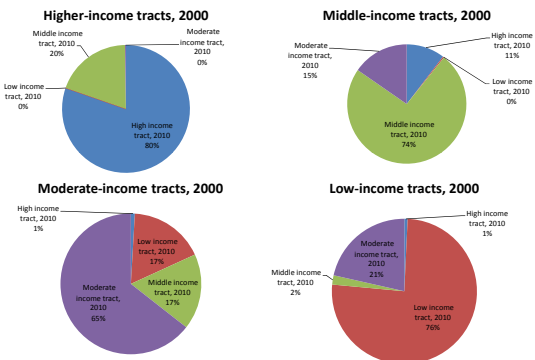
Revised Census Tract Boundaries (cont.)

- In 2000, there were 66,309 census tracts
- In 2010, there are 74,002 census tracts
 - 46.5% of 2010 tracts have the **same** land area as in 2000
 - 72.1% of 2010 tracts were 95% or more similar based on land area in 2000
 - Remaining tracts were either split, merged, or some other combination that was substantially different from 2000

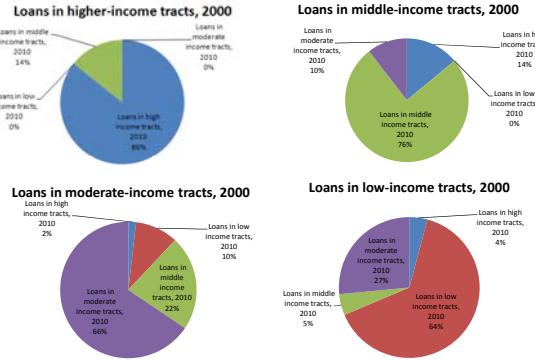
Measuring the Possible Effects of the Revised Income Estimates

- To measure likely effects of revised census tract income classifications we took the 2006-2010 MFI estimates for each census tract and its broader area (MSA or non-MSA) and compared to the income classification based on 2000 census
 - Census tracts were first sorted based on initial 2000 MFI grouping (low, moderate, middle or higher) and then their revised 2006-2010 income classification
 - **ONLY use tracts with little or no boundary change**
 - Excludes about 30% of tracts
 - Transition matrix is the resulting outcome
 - Use two measures:
 - Number of census tracts
 - Number of loans (used 2010 lending)

Transition Effects of the Revised 2010 Census Data on Census Tracts



Transition Effects of the Revised 2010 Census Data on Lending

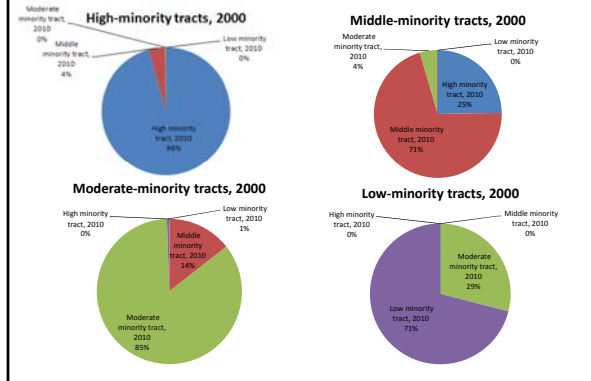


Measuring the Possible Effects of the Revised Racial and Ethnic Population Counts

- The 2010 Census updates race and ethnicity population counts for each census tract using the 2010 census tract boundaries
- To estimate the potential effects, we again use the 72% of tracts that had little or no change in boundaries
- Created 4 minority population share groups:
 - Low minority -- Less than 10%
 - Moderate minority -- 10%-49%
 - Middle minority -- 50%-79%
 - High (or predominately) minority -- 80% or more

Transition analysis based on **count of census tracts**

Transition Effects of the Revised 2010 Census Data on Census Tracts



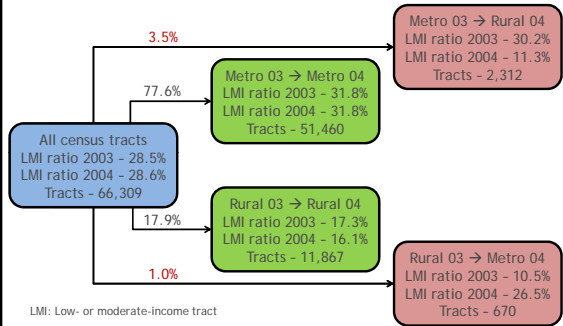
OMB MSA Designations

- Revised MFI classifications will occur when OMB designates a revised list of MSAs
 - OMB plans to announce delineations of areas based on the 2010 census in 2013
 - New MSA designations will alter the geographic boundaries of the “broader” areas used in the denominator of MFI relative income classifications
 - These changes can lead to significant changes in classifications, particularly in census tracts that were
 - (1) Rural and become MSA
 - (2) MSA and become rural

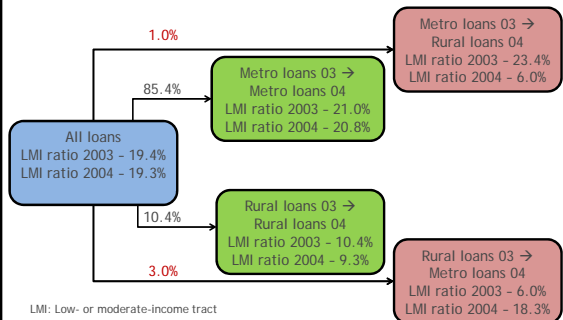
Effects of MSA Redesignation in 2003

- 49 entirely new MSAs were added in 2003
- Large number of old MSAs were modified
 - Counties added to or dropped from old boundaries
- 98% of all census tracts were affected in some fashion
 - Most effects slight
 - Vast majority had no change in MFI CRA classification
 - About 6% of tracts experienced a shift in relative tract income
 - Most shifts were to or from middle-income category
 - » About 1.2% lost CRA eligibility
 - » About 1.4% gained CRA eligibility

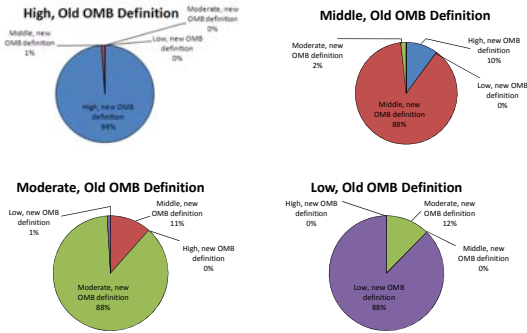
Effects of MSA Redesignation on Census Tract Income Classification, by 2004 Census Tracts



Effects of MSA Redesignation on Census Tract Income Classification, by 2004 loans



Effects of MSA Redesignation on Borrower Income Classification, by 2004 loans



Summary

- Census changes and forthcoming OMB MSA redesignations will affect CRA and fair lending evaluations and enforcement
- Regulated entities need to prepare for CRA reviews
 - Review 2010 and 2011 lending in light of new census changes to see if CRA eligible shares change
 - Review initial 2012 lending in the context of the new MFI census tract income changes and boundary changes
- Regulated entities need to prepare for fair lending reviews
 - Review lending in light of new census racial and ethnic composition
 - Review lending in light of new housing stock characteristics

Congressional Changes to HMDA

- Dodd-Frank Act sets new reporting requirements for HMDA and shifted rule-writing from the Federal Reserve to the CFPB
 - Federal Reserve will continue to collect and process the data
 - New HMDA data elements **required** in Section 1094
 - Loan terms: (total points and fees, rate spread for all loans, duration of prepayment penalty, length of intro.-rate period, presence of negative amortization feature, term to maturity)
 - Channel through which application started
 - Borrower information: (credit score, age)
 - Property information: (property value)
 - Other items as the CFPB determines appropriate:
 - Parcel ID number
 - Universal loan ID number
 - Safe Act loan originator ID number

Possible Regulatory Changes to HMDA

- General issues that will be considered in rulemaking:
 - Coverage
 - Loan coverage could be expanded
 - All dwelling-secured loans regardless of purpose
 - HELOCs
 - Reverse mortgages
 - Loan modifications
 - Closed-end home equity loans regardless of purpose
 - Lender exemption standard could change
 - Activity-based: number or dollars of applications or originations
 - Geographic criteria: Eliminate rural-based exclusion
 - Brokers

Regulatory Changes to HMDA (cont.)

- Additional data elements (beyond new required items)
 - Contract rate and points, closing costs
 - Interest rate type (adjustable versus fixed-rate)
 - DTI (front-end, back-end)
 - CLTV
 - Piggyback status
 - Amount of reserves in liquid form
 - Balloon feature
 - PMI coverage
 - Co-signer/guarantor indicator
 - Primary language of applicant(s)
 - More refined race or ethnicity (example, finer breakdown of Asians)
- Modify existing elements
 - Preapprovals (eliminate; more clearly define)
 - Refine owner-occupancy (consumer purpose versus business)
 - Denial reasons (drop or more refined or mandatory)

Changes to HMDA

- HMDA has several goals
 - Ascertain whether community housing needs are being met; identify targets for public investment
 - Help public assess institution performance and fair lending compliance: implies details about individual applications
- Achieving multiple goals can lead to conflict
 - Generally, achieving goals implies disclosing as much loan level information as possible
 - Privacy of individuals must be protected
 - Some data items are highly sensitive
- Many HMDA records are not unique and can be matched
 - Despite redaction of dates, individuals can be identified
 - Additional items (parcel number) make it easier or more certain

Unique HMDA Loan Records Under Varying Constraints, 2010

Geographic or loan amount constraint	Lender Status		Lenders with fewer than 100 originations
	Lender known	Lender unknown	Lender known
Census tract, county, and state known			
<i>Loan amount to the nearest \$1,000</i>	90.97	45.93	95.74
<i>Loan amount in intervals of \$50,000</i>	38.08	1.11	67.33
<i>Loan amount unknown</i>	15.25	0.01	44.73
County and state known			
<i>Loan amount to the nearest \$1,000</i>	43.04	3.27	82.32
<i>Loan amount in intervals of \$50,000</i>	5.93	0.06	24.71
<i>Loan amount unknown</i>	1.55	0	8.62
State known			
<i>Loan amount to the nearest \$1,000</i>	12.51	0.2	70.53
<i>Loan amount in intervals of \$50,000</i>	0.63	0	8.15
<i>Loan amount unknown</i>	0.09	0	1.13

Method of Disclosure

- Given conflicting goals how can the information be made available to public
 - Prearranged aggregated tables by lender
 - Develop a interactive interface to create aggregated tables on the fly
 - Provide individual data items but suppress lender name and geography
 - Provide most information, but suppress certain items that are deemed highly sensitive – credit score, financial data
 - Provide some sort of credit score info: ranges; risk-ranking, aggregation of individuals

Timing of Expanded HMDA Data

- Institutions will not be required to begin collecting the expanded HMDA data until the first January that occurs after the 9-month period following issuance of the final rules
- Based on experience, assuming a final rule comes by end of March 2013, then first data would be for activity in 2014 with reporting in early 2015

Congressional Changes to ECOA

- Sec. 1071 of Dodd-Frank amends ECOA to include small business data reporting
 - Purpose
 - Facilitate enforcement of fair lending laws
 - Enable identification of community development needs and opportunities for women-owned and minority-owned businesses, and small businesses
 - More expansive than current CRA data
 - Covers all financial institutions
 - CFPB may exempt any financial institution or class of institution (ex. asset size, volume, type of firm, etc.)

Congressional Changes to ECOA

- Covers applications for all small business loans and applications for minority- or women-owned businesses **regardless** of size
- Must inquire whether firm is minority- or women-owned regardless of how the application is received: (mail, telephone, in-person, etc.)
- Must maintain record of application
- Must prevent loan underwriters (to the extent possible) from having access to the gender- or minority-status information

Congressional Changes to ECOA

- Required data elements for each application:
 - Application number and date received
 - Type and purpose of the loan request
 - Amount requested; amount approved
 - Type of action taken and date of action
 - Census tract of principal place of business
 - Gross annual revenue in prior year
 - Race, sex and ethnicity of principal owner(s)
 - **Any other information** needed to fulfill purpose of law
- Data cannot include personally identifiable information (For ex., name, address)

Possible Additional Items

- CFPB may determine they need additional information
 - Analogy to HMDA data and the new required reporting requirements such as credit score, LTV, term to maturity, etc.
- Need to protect personal privacy
 - Withhold or mask information that might allow user to identify owner of firm or proprietary information

Availability of Data: Like HMDA

- Data to be submitted annually to CFPB
- Data to be compiled and maintained by financial institution for 3 years
 - Made available to public in form set by CFPB
- CFPB shall make data available to the public
 - Precise form of disclosures up to CFPB

Timing of Expanded Data

- Compliance does not begin until final rules are issued (Letter from CFPB, 3/11/2011)
- Regulations need to be crafted:
 - Proposal needs to be developed
 - Public comment solicited
- Data collection and reporting tools need to be designed
- Data integrity needs to be assured:
 - Edit checks need to be established
 - Syntactical, validity and quality edits
- Disclosure reports need to be designed

Issues to Consider: Reconciling CRA and ECOA

- Can ECOA data substitute for the CRA data?
- Key differences need to be overcome:
 - Institution coverage
 - Type (CRA limited to banks, ECOA to any SB lender)
 - Firm size (CRA set firm size; ECOA no set size limit for woman- or minority-owned firms)
 - Definition of small business
 - CRA uses loan size and *Call Report* definition of SB
 - ECOA uses Section 3 of the SBA Act
 - Loan coverage:
 - CRA includes community development and farm loans
 - Data items
 - (CRA originations; ECOA applications and specific items)

Issues to Consider: Fair Lending and More

- Use of data
 - Review from fair lending perspective
 - Equal treatment
 - Richer data, more intense scrutiny
 - Redlining
 - Track product distribution across areas
 - Review from CRA perspective
 - Learn more about your institution, competitors and peers

Issues to Consider: Fair Lending and More

- Benefits of the expanded data
 - Broad picture of the market; competitors
 - Facilitates fair lending and CRA enforcement
- Costs of the expanded data
 - Compliance: Lenders will need to build data collection and reporting systems; internal reviews
 - Risk from mischaracterization of findings
 - Cannot substitute for lender/product review
- Unintended consequences
 - More sophisticated external reviews requires more sophisticated internal reviews
