HMDA Part II
Sue Quilty
Focus on Effective Dates

Collection of new HMDA Data Points

- *Action Taken* Dates as of 1/1/2018
- Will impact applications taken in 2017

“Applicant Demographic Information” (FKA GMI)

- New collection form effective for *applications* mandatory on and after 1/1/2018
- Transition rules will apply

Redesigned URLA released by Fannie/Freddie 8/26/2016
Applicant(s) Demographic Information
(previously known as Government Monitoring Information)

TRAINING – Closed End/HELOCs/Commercial

• Effective for Applications on and after 1/1/2018 (can collect earlier)

• Sub-categories added to Ethnicity and Race

• Detail on whether Ethnicity, Race and Sex were each collected based on visual observation or surname
### Applicant

**Ethnicity:**
- [ ] Hispanic or Latino — Check one or more
  - Mexican
  - Puerto Rican
  - Cuban
  - Other Hispanic or Latino — Print origin, for example, Argentinian, Colombian, Dominican, Nicaraguan, Salvadoran, Spanish, and so on.
- [ ] Not Hispanic or Latino

**Race:** Check one or more
- [ ] American Indian or Alaska Native — Print name of enrolled or principal tribe.
- [ ] Asian
  - Asian Indian
  - Chinese
  - Filipino
  - Japanese
  - Korean
  - Vietnamese
  - Other Asian — Print race, for example, Hmong, Laotian, Thai, Pakistani, Cambodian, and so on.
- [ ] Black or African American
- [ ] Native Hawaiian or Other Pacific Islander
  - Native Hawaiian
  - Guamanian or Chamorro
  - Samoan
  - Other Pacific Islander — Print race, for example, Fijian, Tongan, and so on.
- [ ] White

**Sex:**
- [ ] Female
- [ ] Male

I do not wish to provide this information

### Co-Applicant

**Ethnicity:**
- [ ] Hispanic or Latino
  - Mexican
  - Puerto Rican
  - Cuban
  - Other Hispanic or Latino — Print origin, for example, Argentinian, Colombian, Dominican, Nicaraguan, Salvadoran, Spanish, and so on.
- [ ] Not Hispanic or Latino

**Race:**
- [ ] American Indian or Alaska Native — Print name of enrolled or principal tribe.
- [ ] Asian
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  - Samoan
  - Other Pacific Islander — Print race, for example, Fijian, Tongan, and so on.
- [ ] White

**Sex:**
- [ ] Female
- [ ] Male

I do not wish to provide this information
**To Be Completed by Financial Institution (for an application taken in person):**

| Was the ethnicity of the applicant collected on the basis of visual observation or surname? | Yes | No |
| Was the race of the applicant collected on the basis of visual observation or surname? | Yes | No |
| Was the sex of the applicant collected on the basis of visual observation or surname? | Yes | No |

| Was the ethnicity of the co-applicant collected on the basis of visual observation or surname? | Yes | No |
| Was the race of the co-applicant collected on the basis of visual observation or surname? | Yes | No |
| Was the sex of the co-applicant collected on the basis of visual observation or surname? | Yes | No |
New HMDA Rule Readiness Steps

Systems and Application Evaluation

• Web based reporting in the future will make it easier

• BUT... internal IT resources?

  • New 1003
  • UCD implementation 9/2017
  • Demographic parameters: multiple vendors for residential?
New HMDA Rule Readiness Steps

Systems and Application Evaluation

• Perform gap analysis: start running expanded field analysis NOW

• Remember: Fair Lending red flags take time to fix!

• Evaluate HMDA software: do you have a Fair Lending component?
New HMDA Rule Readiness Steps

HMDA Data Integrity Health Check: Focus Now!
HMDA Data Integrity: Root Cause?
2015 HMDA Rule Readiness Steps

HMDA Data Integrity

• Equal Credit Opportunity Act (“ECOA”) and pipeline management
• What controls are in place to stop the data from being changed?
• Who is handling HMDA today: expanded skill set required for new rule
• Include HMDA experts in product development and initiatives
• HMDA CMS is KEY
HMDA Compliance Management System

- Policies, Procedures, Internal Controls
- Pre-Submission Internal Audits to test accuracy
- One or more individuals assigned to monitor accuracy
- Reviews of any regulatory changes
- Appropriate and sufficient training
- Effective corrective action
- Board and management oversight
HMDA CMS and Best Practices

**Step 1: Write HMDA policy and procedures**

- Provide detailed guidance for each of the data fields on the Loan Application Register (“LAR”)
- Procedures should reflect LOS functionality
- Should be a custom “HMDA Guide to Getting It Right” for your institution
- Action Taken Dates for Non-made loans!!
## "LENDER" SAMPLE HMDA PROCEDURES

<table>
<thead>
<tr>
<th>HMDA LAR FIELD</th>
<th>FIELD DETAIL</th>
<th>SOURCE DOCUMENT AND PROCEDURES</th>
</tr>
</thead>
</table>
| Action Taken Type | Application Withdrawn | Source document for detail is the Conversation Log.  
**Code 4: Loan Withdrawn** is used when:  
- the applicant expressly withdraws the application for loans that have not been approved yet  
- for loans where a commitment letter has been issued, but there are still credit related conditions outstanding and the applicant expressly withdraws.  
- The file should be documented to indicate the applicant initiated the withdrawal.  
- DO NOT use this if the applicant does not respond to the loan officer; the applicant must indicate their wish to withdraw.  
- Do not use this if the loan is approved and ready to close, and the applicant expressly withdraws.  
In that case, the loan is approved not accepted. |
| Action Taken Date | Application Withdrawn | **Indicate the date the Lender was notified by the borrower that they wished to withdraw in the Conversation Log.** |
| Action Taken Type | File Closed For Incompleteness | Source document for detail is the NOI or Conditional Commitment Letter  
**Code 5: File closed for Incompleteness** is used when:  
- The "Notice of Incomplete Application" was sent to the applicant requesting additional documentation and the applicant did not send in the items within the specified time frame.  
  ✓ **Review the incomplete notice in the file to make sure all documentation was not provided as requested.** In some cases, the applicant may have provided outstanding items, and loan should have been a denial. The processor should sign off on each item on the incomplete notice as it is received.  
- The loan was approved by Underwriting with credit conditions outstanding. The applicant did not send in outstanding conditions. (assuming the conditional commitment letter contains Reg. B language) |
HMDA CMS and Best Practices

Step 2: Identify an employee who will be responsible for overall HMDA quality

- Must have an understanding of lending – both Operations and compliance requirements

- Loan Officers and Operations staff should share HMDA responsibilities

- An officer of the institution must monitor HMDA reporting throughout the year, and must certify to its accuracy at year-end.
Online HMDA courses are just the beginning

Customize training to reflect policies and procedures

Training should be audience specific: Sales/Operations/Closing/Denied/Withdrawn

Supplement formal training classes throughout the year
HMDA CMS and Best Practices

Step 4: Perform Compliance Monitoring and Testing

Testing and Monitoring should include:

• Data Integrity Testing

• Omissions Testing
Step 4: Perform Compliance Monitoring and Testing

**Data Integrity Testing:**

- Choose random sample of loans to test
  - Review larger sample of denied/withdrawn loans

- Compare loan file to the actual LAR or HMDA export file for each of the data fields

- Data integrity testing should be performed monthly

- Retain audit work papers to document the file review

- Expand scope if significant error rate is identified
Step 4: Perform Compliance Monitoring and Testing

Data Integrity Testing:

• Reconcile HMDA data with NMLS Mortgage Call Report

• If data errors are identified during HMDA scrub, NMLS Call Report will need to be re-filed.
Omissions Testing

- Run Loan Production reports off the LOS for the calendar year for all HMDA reportable products

- Run reports for all types of action taken

- Include Loans In Process in your scope
  - Is the Pipeline Management up to date?
  - Has ECOA notification been provided?
HMDA CMS and Best Practices

Step 4: Perform Compliance Monitoring and Testing

- Analyze the error trends: find the source of the problem
- Strengthen Internal Controls
- Revise HMDA procedures if necessary
Step 5: Engage external testing of HMDA: Compliance Audit

- A strong compliance management system includes external or internal compliance audit

- HMDA data integrity reviews should be performed internally and externally

- Remember: this is the first step: Use HMDA LAR to conduct internal and external Fair Lending Analysis. Depending on the size of the organization these reviews may need to be conducted more frequently then annually.
High error rate for non-made loans

Often due to non-compliance with Equal Credit Opportunity Act ("ECOA")/Regulation B Notification Requirements

Residential and Commercial Lending Procedures are key

Need to be consistent with determining action taken date
Wrong HMDA Action Taken Type is assigned

HMDA Action Taken Type Codes

- Code 1: Loan Originated
- Code 2: Approved Not Accepted
- Code 3: Denied
- Code 4: Applicant Expressly Withdrew
- Code 5: File Closed for Incompleteness
- Code 6: Loan Purchased by Your Institution
- Code 7: Preapproval Request Denied
- Code 8: Preapproval Request Approved but not accepted (optional reporting)
Regulation B Section 1002.9 Notifications

- The source for HMDA Action Taken Type
- “Within 30 days of application”: Incomplete?
- “Within 30 days of completed application”: Deny; Counteroffer; Approve?
- Withdraw anytime
ECOA Notification Requirements: Discussion

• How do you define completed application?

• Do you have written procedures for processing loans?

• Does your staff have a processing timeline they manage to?

• Do you actively manage your pipeline?

• Need consistency for every application: Fair Lending concerns!!

• Consider using an ECOA Notification Checklist when loan is cancelled
## Excerpt from ECOA Notification Checklist

<table>
<thead>
<tr>
<th></th>
<th>At Application</th>
<th>At Final Disposition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applicant(s)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property Address</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan Program</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan Amount</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest Rate/Points</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Score</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property Value/LTV</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income/Ratios</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UW Findings</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
HMDA Data Fields

#1,2: **Loan Identifier Numbers**: Modified

#3: **Application Date**: Existing

#4: **Loan Type**: Existing

#5: **Loan Purpose**: Modified

- Home purchase
- Home improvement
- Refinance
- Cash-out refinance
- Another purpose
HMDA Data Fields

#6: **Preapproval: Modified**

Changed codes

#7: **Construction Method: Modified**

Site-built
Manufactured

#8: **Occupancy Type: Modified**

Principal Residence
Second Residence
Investment Property
**HMDA Data Fields**

#9: **Loan Amount**: Modified

#10,11: **Action Taken and Action Taken Date**: Existing

#12: **Property Address**: New

#13,14,15: **Property Location**: Existing

#16,17,18: **Ethnicity, Race and Sex**: Modified

If info was collected by visual observation or surname
Further breakdown on ethnicity and race
HMDA Data Fields

#19: **Age**: new

In # of years as of date of application

#20: **Income**: existing

#21: **Type of purchaser**: Modified

#22: **Rate spread**: Modified
HMDA Data Fields

#23: **HOEPA:** existing

#24: **Lien Status:** Modified

1st or subordinate lien

#25: **Credit Score:** New

Credit score relied on in making the credit decision
Include the name and version of the model used to generate the credit score choosing from a list of 10 codes
HMDA Data Fields

#26: **Reason for Denial**: Modified

No longer optional

#27: **Total Loan Costs or Total Points and Fees**: New

#28: **Origination Charges**: New

#29: **Discount Points**: New
HMDA Data Fields

#30: Lender Credits: New

#31: Interest Rate: New

#32: Prepayment Penalty Term: New

#33: Debt-to-Income Ratio: New

#34: Combined Loan-to-Value Ratio: New
HMDA Data Fields

#35: Loan Term: New

#36: Introductory Rate Period: New

#37: Non-Amortizing Features: New

Balloon payment, interest-only payments, negative amortization, or any other type of non-amortizing feature

#38: Property Value: New

Use NA if property value not used in credit decision
HMDA Data Fields

#39: Manufactured Home Secured Property Type: New

#40: Manufactured Land Home Property Interest: New

Information about ownership interest in land

#41: Total Units: New

#42: Multifamily Affordable Housing Units: New

# of units that are income restricted
HMDA Data Fields

#43: **Application Channel: New**

Indicate whether the application was submitted directly to your institution by answering true or false
Indicate whether the loan was initially payable to your institution by answering true or false

#44: **LO NMLS ID: New**

#45: **AU System: New**

Multiple codes to choose from
Specific rules on which codes are used for which automated underwriting systems
HMDA Data Fields

#46: Reverse Mortgage: New

#47: Open-End Line of Credit: New

#48: Business or Commercial Purpose: New
Readiness Recommendations

#1: START NOW!!!

#2: Fair Lending Program

#3: HMDA Compliance Management System

#4: Data Collection: are you ready across ALL business lines?
Questions?

Thank You!