

Tips for Reporting Accurate HMDA and CRA Data

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Objectives

- **HMDA Data Collection**
 - Regulatory requirements, challenges, and common errors
- **CRA Data Collection**
 - Regulatory requirements, challenges, and common errors
- **HMDA and CRA Data: Maintaining Compliance**
- **Using HMDA and CRA Data in Internal Reviews**
 - Fair Lending
 - CRA
- **Dodd-Frank Wall Street Reform and Consumer Protection Act**
 - Changes to HMDA Data Reporting
 - New Small Business Data Collection Requirements

HMDA Data Collection and Reporting



HMDA's Goals

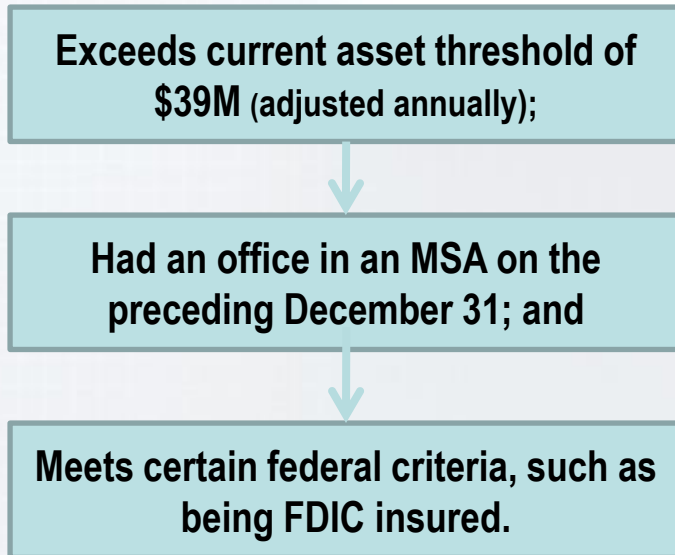
Provide public with information on whether financial institutions are meeting community housing needs

Aid public officials and private investors in identifying areas needing investment

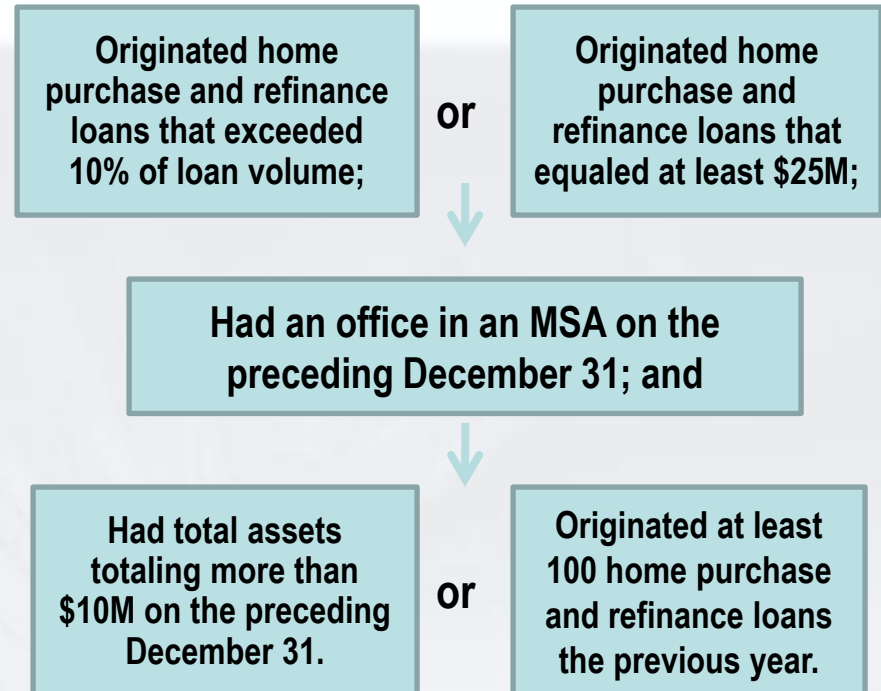
Identify possible discriminatory lending patterns and assist regulatory agencies in enforcing anti-discrimination statutes

HMDA – Who Reports the Data

Bank, savings association, or credit union that:



For-profit mortgage lender that:



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HMDA – What’s Reported

All applications for and originations and purchases of:

Home Purchase Loans	Home Improvement Loans	Refinance Loans	Home Equity Lines of Credit (optional)
<ul style="list-style-type: none"> • Purpose of purchasing a dwelling • Secured by a dwelling • Preapprovals if have covered preapproval program 	<ul style="list-style-type: none"> • Dwelling secured: Repair, rehabilitate, remodel or improve a dwelling or real property on which located • Non-dwelling secured: Same purpose and classified by FI as home improvement loan 	<ul style="list-style-type: none"> • New obligation that satisfies and replaces existing obligation by same borrower • Existing obligation and new obligation secured by a dwelling • NOT purpose driven 	<ul style="list-style-type: none"> • Open-end credit plan secured by a dwelling as defined by Regulation Z • Purpose: Home purchase or home improvement • Amount for home purchase or home improvement

HMDA Exemptions

Construction and temporary financing loans

Loans on unimproved land

Fiduciary loans

Purchase of interest in mortgage pool

Prequalification requests

Purchase of servicing rights

Loans acquired through merger/acquisition

Current HMDA Data Fields

Identifying number	Property location: MSA, county, state, census tract
Application date	Ethnicity, race, and gender of applicants/ co-applicants
Loan type	Gross annual income
Loan purpose	Type of loan purchaser
Preapproval status	Rate spread
Property type	HOEPA status
Owner occupancy status	Lien status
Loan amount	Reason for denial (optional)
Type of action taken and date	

Why is HMDA Reporting a Challenge

- **Difficult to identify all reportable transactions**
 - Multiple business lines affected
(Residential real estate, consumer, commercial real estate)
 - Must meet HMDA purpose and other definitions
 - Dwelling: Includes mobile homes (whether or not attached to real property), condo units, and co-ops
 - Covered preapproval program: Comprehensive underwriting, written commitment, valid for designated period of time, up to specified amount, home purchase, subject to limited conditions
 - Includes non-originated applications
(Denied, withdrawn, incomplete, approved but not accepted)

Why is HMDA Reporting a Challenge

- **Difficult to get all data fields accurate**
 - Data volume is large
 - Numerous data fields for numerous loans and applications
 - Expertise and significant time commitment required
 - Transactions can be complex
 - Multi-purpose: Report home purchase if also refinance or home improvement; report home improvement if also refinance
 - Multiple dwellings: Report property being improved if home improvement; report property securing loan if home purchase
 - Data not always readily accessible

Common HMDA Reporting Errors

Common Errors	Suggestions
<p>Failing to capture all HMDA reportable transactions</p>	<ul style="list-style-type: none"> • Implement tracking procedures for denied, withdrawn and incomplete applications • Ensure automated systems identify HMDA transactions as appropriate • Compare new loan lists against the LAR loan entries • Enhance training regarding HMDA definitions
<p>Borrower information incorrect or not collected</p>	<ul style="list-style-type: none"> • Ensure lenders collect monitoring information by visual observation when appropriate • Verify that reported borrower information reflects application and file data

Common HMDA Reporting Errors

Common Errors	Suggestions
Rate spread incorrect	<ul style="list-style-type: none"> • Verify that do not report rate spread if non-Regulation Z or non- dwelling secured home improvement loan • Provide tools to limit rate spread calculation errors
Income inaccurate	<ul style="list-style-type: none"> • Ensure reporting and documenting gross annual income relied on if 1- to 4-family dwelling loan • Report NA if corporate borrower or multifamily dwelling loan

Common HMDA Reporting Errors

Common Errors	Suggestions
<p>Loan amount incorrect</p>	<ul style="list-style-type: none"> • Ensure system capturing or staff entering loan note amount on closed-end originated loans • Watch for typographical errors/transposing numbers/rounding
<p>Property location inaccurate</p>	<ul style="list-style-type: none"> • Ensure using correct property and correct address, particularly if more than one dwelling involved • Ensure geocoding system is up to date • Create a reliable backup system if address not identified

Common HMDA Reporting Errors

Common Errors	Suggestions
<p>Preapproval code incorrect</p>	<ul style="list-style-type: none"> • Determine whether institution has covered preapproval program • If no covered program, preapproval code should be 3 (NA)
<p>Type of purchaser inaccurate</p>	<ul style="list-style-type: none"> • Review contracts to confirm type of purchaser, watch for merger/acquisition changes • After review, prepare cheat sheets to ensure consistent reporting

CRA Data Collection and Reporting



Community Reinvestment Act (CRA)

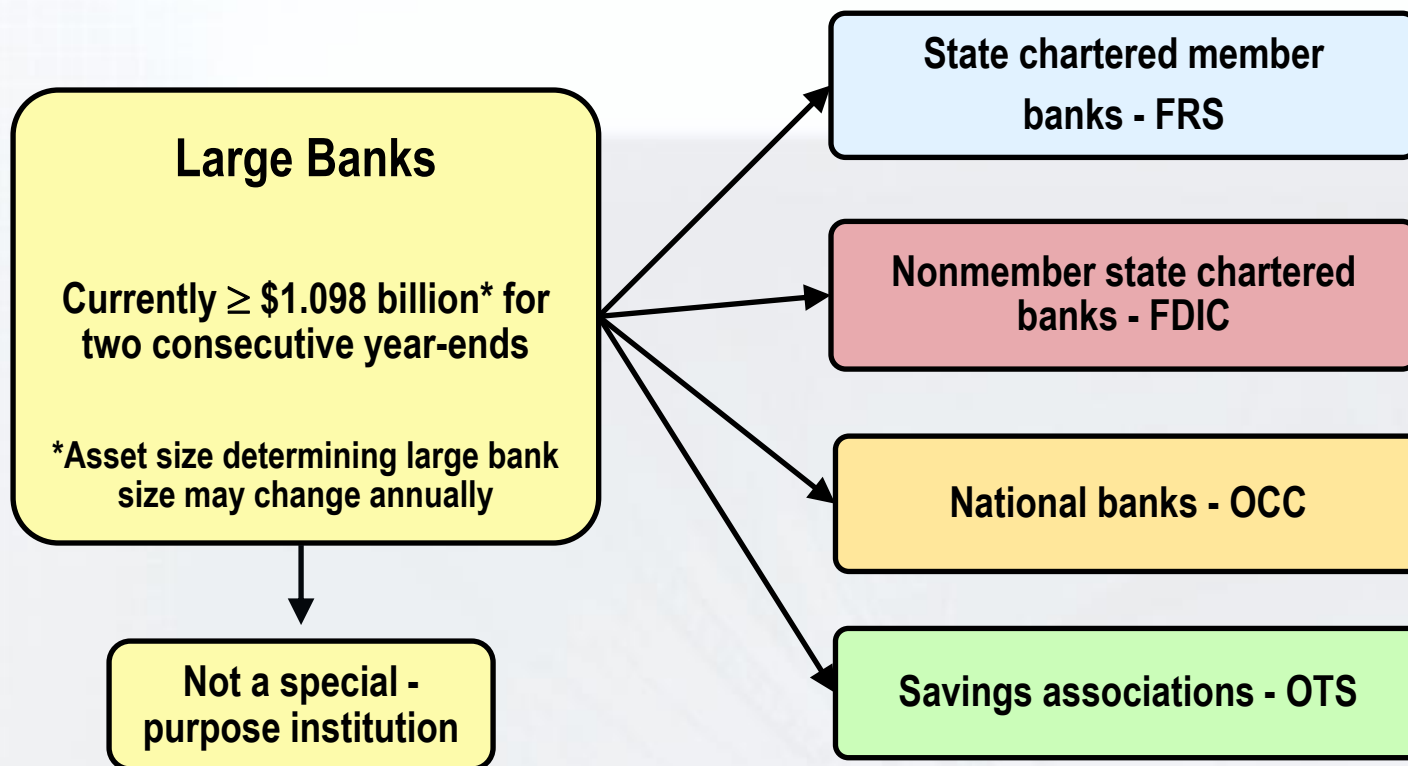
12 U.S.C. 2901

General purpose of CRA is to encourage banks, while operating safely and soundly, to help meet the credit needs of their communities

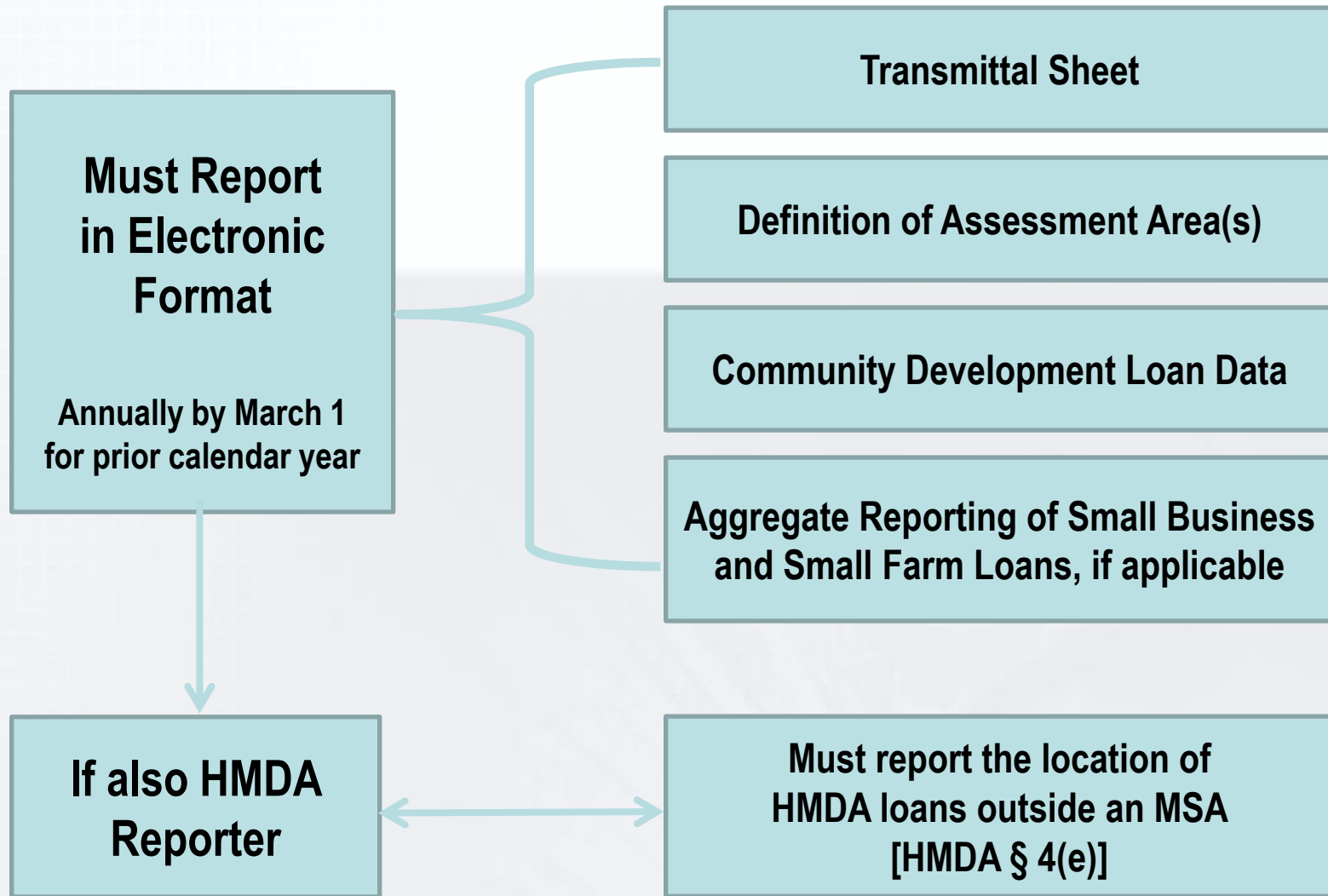
Purpose of CRA data collection is to enable examiners and the public to judge whether the institution is helping to meet the credit needs of its communities

CRA Data Collection:

Who is Required to Collect, Maintain, & Report CRA Data?

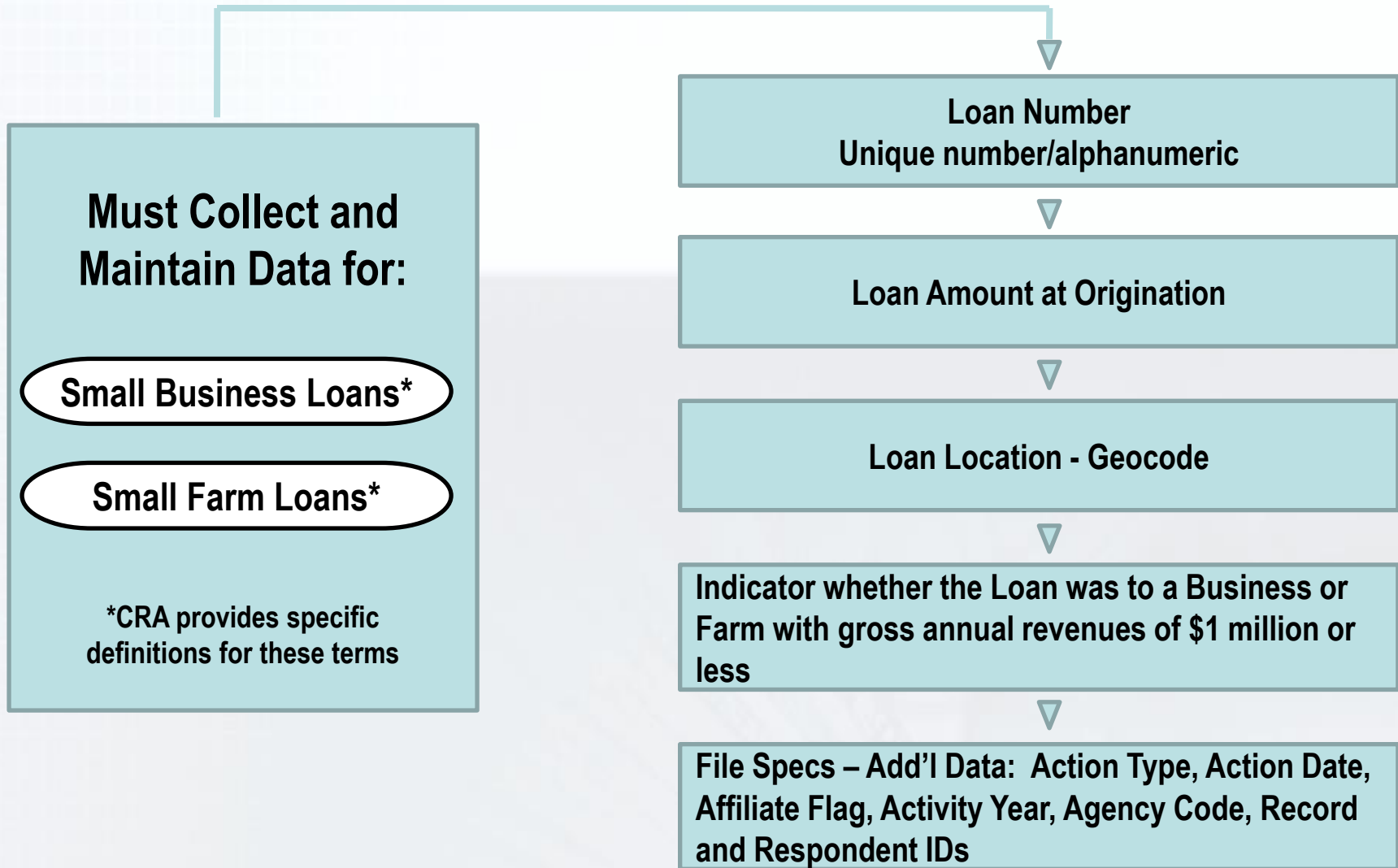


CRA Data Required to be Collected & Reported



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CRA Data Collection – Required Data §.42(a)



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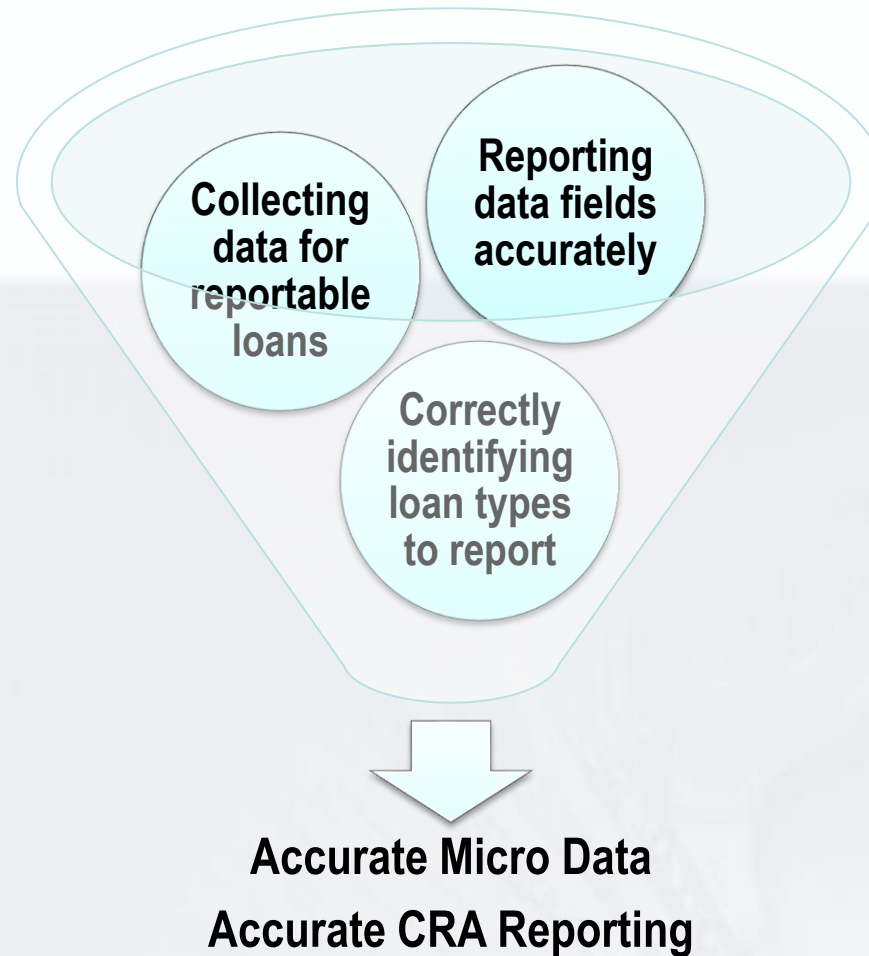
CRA Data Collection – Optional Data

At its option, a large bank may collect and report:

- Consumer loan data
 - Motor vehicle, credit card, home equity, other secured, or non-secured loans
- Other loan data
 - Small business real estate secured
- Affiliate lending
- Data on lending by a consortium or a third party

Optional data reporting fields are the same as for required loans – for business loans report gross annual revenues and for consumer loan types report gross annual income

Challenges in Reporting CRA Data



What's Difficult About Identifying CRA Reportable Loans?

Based on Call Report/TFR Instructions Schedule RC-C (TFR – Schedule SB)

Small Business Loans

- Loans with original amounts of \$1 million or less
- Loans reported in Schedule RC-C in:
 - part I, item 1.e
Loans secured by nonfarm nonresidential properties (in domestic offices)
 - part I, item 4 or 4.a
Commercial and industrial loans to U.S. addresses

Small Farm Loans

- Loans with original amounts of \$500,000 or less
- Loans reported in Schedule RC-C in:
 - part I, item 1.b
Loans secured by farmland (including farm residential and other improvements) (in domestic offices)
 - part I, item 3 or 4.a
Loans to finance agricultural production and other loans to farmers (in domestic offices)

Community Development Loans

Loans with a primary purpose of Community Development defined as either:

- 1) Affordable housing for low- and moderate-income individuals
- 2) Community services targeted to low- or moderate-income individuals
- 3) Activities promoting economic development by financing business or farms meeting the size eligibility standards
- 4) Activities that revitalize or stabilize
 - (i) low- or moderate-income geographies
 - (ii) designated disaster areas, or
 - (iii) designated distressed or underserved nonmetropolitan middle-income geographies

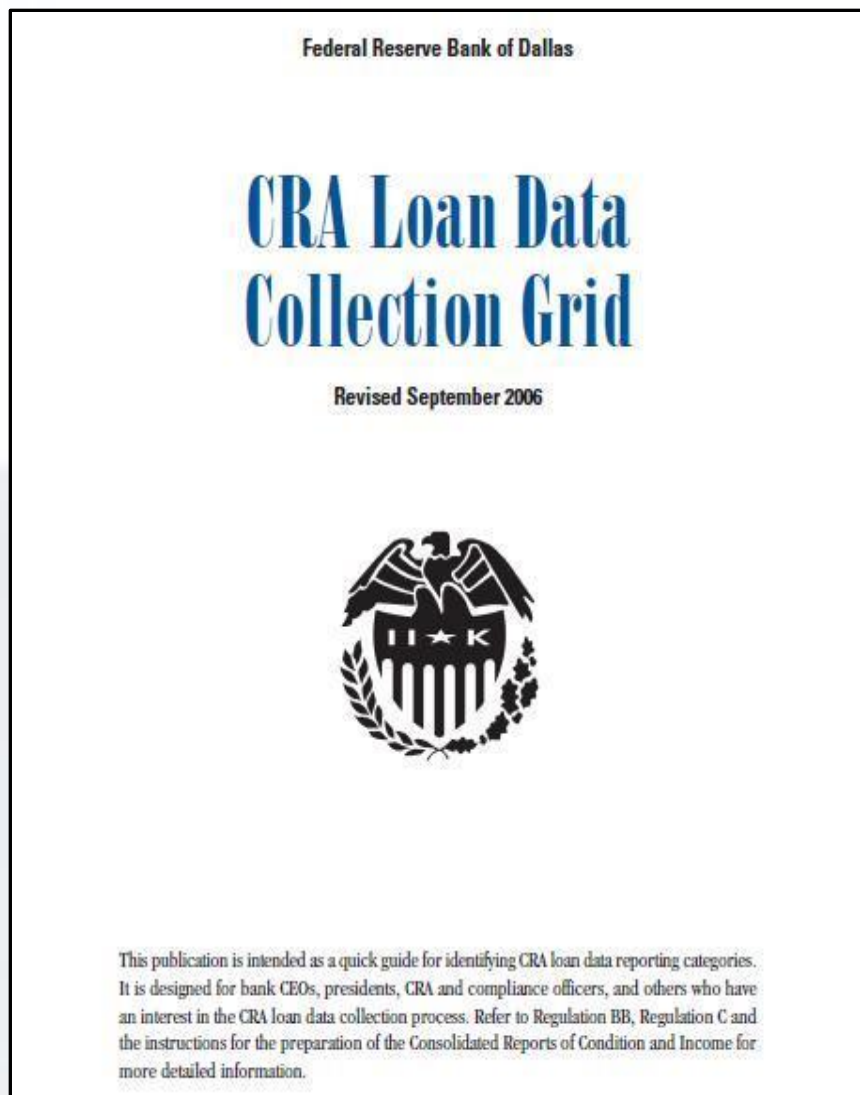
Additional
Reporting
Requirements
of HMDA

HMDA
Reportable
Loans

CRA Data Collection Resource:

A Quick Guide to CRA Loan Data Reporting Categories

**Published by the
Federal Reserve
Bank of Dallas**

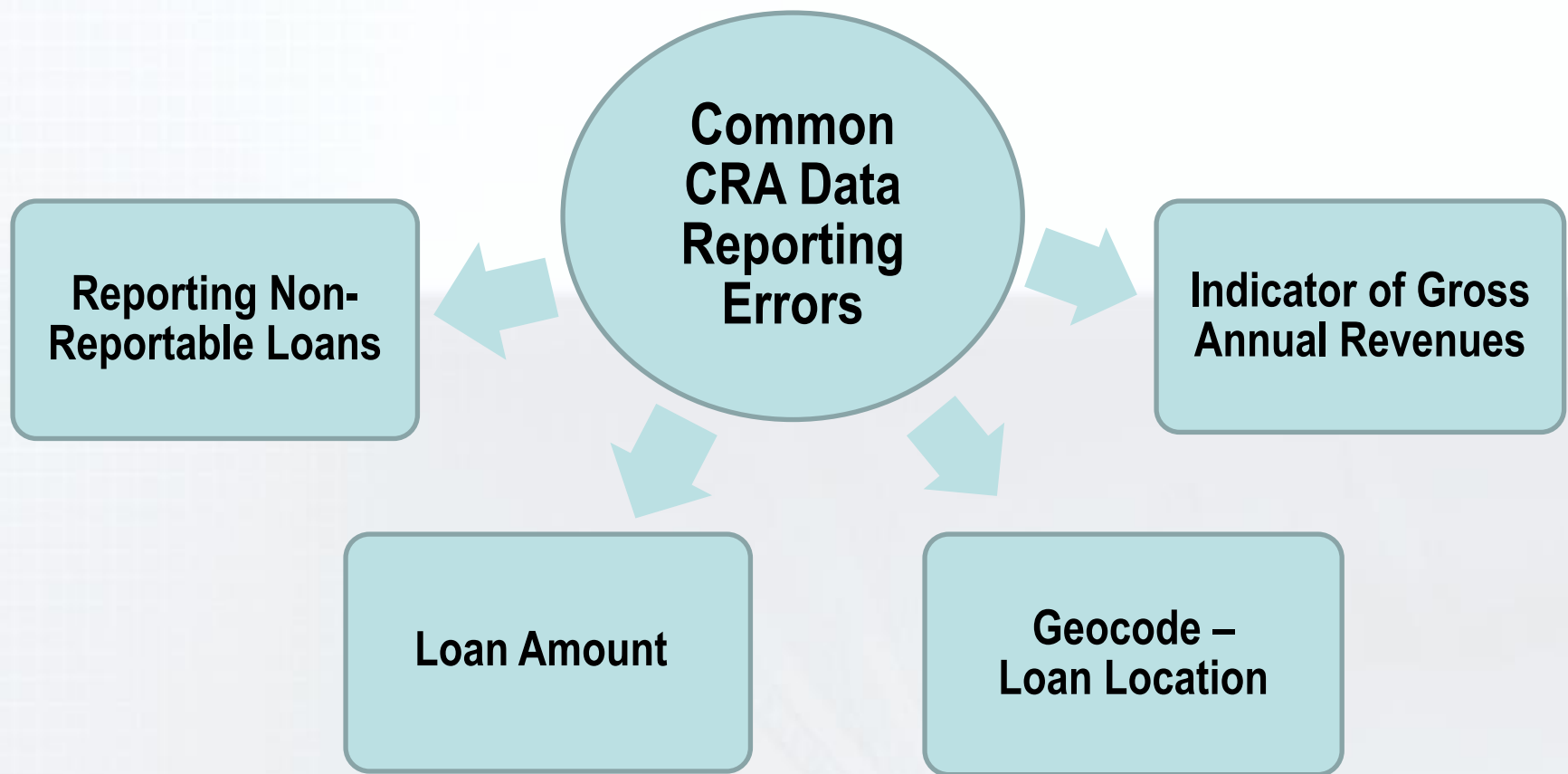


<http://dallasfed.org/ca/pubs/craloan.pdf>

Loans Made to For-Profit Entities

Type of loan		Small business	HMDA	Community development	Not collected
Non-real estate secured	Loan to a for-profit entity not secured by real estate and equal to or less than \$1 million.*	X			
	Loan to a for-profit entity not secured by real estate and greater than \$1 million with a primary purpose consistent with the definition of community development.			X	
	Loan to a for-profit entity not secured by real estate and greater than \$1 million without a primary purpose consistent with the definition of community development.				X
Nonfarm, nonresidential real estate secured	Permanent loan to a for-profit entity secured by nonfarm, nonresidential real estate and equal to or less than \$1 million.*	X			
	Permanent loan to a for-profit entity secured by nonfarm, nonresidential real estate and greater than \$1 million with a primary purpose consistent with the definition of community development.			X	
	Permanent loan to a for-profit entity secured by nonfarm, nonresidential real estate and greater than \$1 million without a primary purpose consistent with the definition of community development.				X

<http://dallasfed.org/ca/pubs/craloan.pdf>



Common CRA Reporting Errors

Common Errors	Suggestions
Reporting Non-Reportable Loans	<ul style="list-style-type: none"> • Ensure loans reported meet the size and definition tests <ul style="list-style-type: none"> – check loans to non-profits, only some are reportable • Ensure you follow the rules for refinance/renewal loans • Run and review monthly loan lists to ensure all reportable loans are reported
Loan amount incorrect	<ul style="list-style-type: none"> • Provide training on identifying the appropriate loan amount <ul style="list-style-type: none"> – refinances/renewals – credit line increases – credit cards • Watch for typographical errors/transposing numbers/rounding

Common CRA Reporting Errors

Common Errors	Suggestions
Loan Location Incorrect	<ul style="list-style-type: none"> •Ensure correct address is used; request street address •Create a reliable backup system if address not identified •Watch for typographical errors, transposing numbers, rounding •Update systems with FFIEC Census file geographic changes <ul style="list-style-type: none"> -Three MSA codes changed in 2010 (2 in FL and 1 in OH)
Gross Annual Revenues/Income	<ul style="list-style-type: none"> •Report gross annual revenues or income instead of net •Provide training on when to aggregate revenues if the underwriting relies/considers additional entity revenues •If file contains revenue information, it should be reported even if no reliance on revenue in underwriting

Rules for Reporting Refinances or Renewals

- May report only one origination (whether a refinance or renewal) per loan per year, unless an increase in the loan amount is granted
- If the loan amount increases when extending the term of the loan, always report the amount of the increase as a small business or farm loan
- Report only the amount of the increase if the original or remaining amount has already been reported

Reporting Gross Annual Revenues/Income

When to Aggregate Revenues

Indicator of Gross Annual Revenues: What to report?

Revenues Considered/Relied On			Gross Annual Revenues to Report
Entity Only			Only entity gross annual revenues
Entity	+	Parent or Subsidiary	Aggregate the revenues of the entity and the parent or subsidiary
Entity	+	Co-Signor or guarantor ≠ affiliate of borrower (i.e., a sole proprietor)	Only entity revenues – do not combine
Start-up business			Actual revenue to date, including \$0 if the business has no revenue to date

HMDA and CRA Data: Maintaining Compliance



HMDA and CRA Data: Maintaining Compliance

- **Why data accuracy is very important**
 - Public availability of data increases reputation risk
 - Data errors may result in the appearance of discriminatory lending
 - Necessary for accurate and meaningful internal fair lending and CRA reviews
 - Validity of aggregate data depends on accurate data
 - Data resubmission, examination delays, and potential penalties – all costly options

HMDA and CRA Data: Maintaining Compliance

- **Effectively managing HMDA and CRA data collection risk**
 - Determining the bank's data collection risk profile
 - How many business lines affected?
 - Are processes centralized or decentralized?
 - Does the institution evaluate data collection audit and exam findings and identify processes needing improvement?
 - Does the institution monitor changes in bank structure, staff, software systems, and regulations that can increase risk of data collection errors?

HMDA and CRA Data: Maintaining Compliance

- **Effectively managing HMDA and CRA data collection risk**

(continued)

- Has the bank implemented appropriate processes for controlling identified data collection-related risks?
 - Clearly identified data collection processes
 - Appropriate software coding
 - Well-trained, detail-oriented staff
 - Standardized forms and job aids
 - Effective internal controls, such as second reviews, new loan reviews
 - Thorough data audits (compare to source documents, not collection forms)

Using HMDA and CRA Data in Internal Reviews



Using HMDA and CRA Data for Internal Fair Lending Reviews

■ Using HMDA Data

- Think like an examiner!
- Evaluate risk of potential difference in treatment based on race, ethnicity, and/or gender
 - Lending and denial rates
 - Amount and frequency of rate spreads
 - Application processing times
- Evaluate potential redlining risk
 - Difference in application levels and lending and denial rates based on census tract's racial and/or ethnicity characteristics

■ Using CRA Data

- Evaluate potential redlining risk for small business and small farm lending

Using HMDA and CRA Data for Internal CRA Reviews

- **Why Conduct Internal CRA Analyses?**
 - Assists in determining risk of noncompliance
 - Identify CRA performance issues/weaknesses so can correct or make modifications before CRA evaluation
 - Minimize risk of poor CRA rating

- **Evaluations of CRA performance using HMDA/CRA data**
 - Designation of assessment area territory
 - Lending performance by geography
 - Lending performance by borrower revenue/income
 - Community development lending performance

Dodd-Frank Wall Street Reform and Consumer Protection Act

July 21, 2010



Dodd-Frank Act: HMDA Changes

New HMDA Data Fields

Age	Loan term
Total points and fees	Application channel (i.e., broker)
Rate spread for all loans	Credit score
Prepayment penalty term	Loan originator identifier (SAFE Act)*
Property value	Universal loan identifier*
Term of introductory rate period	Property's parcel number*
Negative amortization	(*As Bureau may determine to be appropriate)

- Bureau may require reporting of additional information
- Privacy interests of applicants to be considered during rulemaking
- Bureau to consult with other agencies before issuing regulations

Dodd-Frank Act: HMDA Changes

When will lenders be required to report the new HMDA data fields?

- Regulations will set reporting date; however, no deadline for issuing final regulations
- *One limitation:* No data reporting required before first January 1 that occurs after the end of 9-month period that begins on date final regulations issued

No reporting of new data BEFORE:	A Timing Example
Date final regulations issued	July 1, 2000
End of 9-month period following final regulation date	April 1, 2001
First January after the end of 9-month period	January 1, 2002

Dodd-Frank Act: New Data Collection Requirements for Small Business Loans

- **Equal Credit Opportunity Act Amendments – Section 704B**
 - Requires the collection of data for certain small business loan applicants
 - Disclosure of data to be balanced against privacy concerns

- **Bureau Action – Section 704B(g)**
 - The Bureau is to issue rules and guidance to carry out, enforce, and compile data pursuant to this section
 - The Bureau may adopt exceptions to any requirement of this section

- **Effective Date**
 - Bureau must issue rules. No deadline for doing so.

General Purpose of the Laws

Dodd-Frank Act Small Business Data Collection	CRA
<ul style="list-style-type: none">▪ Facilitate enforcement of fair lending laws▪ Enables communities, government entities, and creditors to identify business and community development needs and opportunities of women-owned, minority-owned, and small businesses	<ul style="list-style-type: none">▪ Encourage banks, while operating safely and soundly, to help meet the credit needs of their communities

Reporting Requirements

Dodd-Frank Act SB Data Collection Requirement

Must collect data on applications from businesses that are:

Women-owned

Minority-owned

Small businesses

CRA

Required data collection for:

Small business loans

Small farm loans

Community development loans

HMDA Reporters –
loan location

Additional Small Business Data Collection Requirements

Statutory requirements – prior to Bureau rule making and guidance:

- Applicant may refuse to provide requested information
- Must maintain collected data records separate from application
- No access to collected information by loan underwriters, officers, employees, or affiliates involved in the underwriting decision
- If underwriter or those involved in underwriting process gains, or will gain access to collected information:
 - Must notify applicant
 - Include notice that the financial institution may not discriminate on the basis of the information

Data Collection Comparison

Collected Data Fields	Dodd-Frank Act §1071(a) ECOA §704B(e)(2)	CRA
Application Number, Application Date, Loan Type, Loan Amount	Y	Y
Loan Purpose	Y	N
Amount of Credit/Credit Limit Applied For	Y	N
Race, Gender, and Ethnicity of the Principal Owners of the Business	Y	N
Action Taken, Action Date	Y	Y Only report originated or purchased loans

Data Collection Comparison

Collected Data Fields	Dodd-Frank Act § 1071(a) ECOA § 704B(e)(2)	CRA
Location: Census Tract	Y Location of principal place of business	Y Location = business headquarters or majority of loan proceeds used
Location: State, MSA, County Codes	Y*	Y
Gross Annual Revenue	Y Revenues in last fiscal year preceding the application date	Y Generally the revenues relied on If not relied on, not required to request Not required to request or consider but if collect expected to report

*Not specified in Dodd-Frank Act but census tract would be meaningless without additional location information

FFIEC Resources

- HMDA Resources
<http://www.ffiec.gov/hmda/default.htm>
- HMDA Analysis Reports
<http://www.ffiec.gov/reports.htm>
- CRA Materials – General
<http://www.ffiec.gov/cra/default.htm>
- Call Report and RC-C Instructions
<http://www.ffiec.gov/forms041.htm>
- Interagency Fair Lending Examination Procedures
<http://www.ffiec.gov/PDF/fairlend.pdf>

Questions

