



THOUGHT LEADER



HMDA IN TRANSITION

What Lenders Should Do in Times of Uncertainty

NAVIGANT



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HMDA has experienced several changes in the last 40 years, but sweeping updates recently took effect with the implementation of the Consumer Financial Protection Bureau's (CFPB) 2015 HMDA Final Rule. Effective Jan. 1, 2018, lenders became subject to expanded transactional coverage, loan-level reporting requirements, and increased reporting frequency.

Starting this year, all lenders meeting requirements under the new HMDA rule are mandated to report any originated open-end lines of credit such as home equity lines of credit (HELOC) and reverse mortgages—as opposed to only reporting closed-end credit transactions. Secondly, lenders are required to report 48 data points, amounting to 110 total reporting fields for each record reported on their Loan Application Register (LAR). This expansion is not simply an appendage to the previous reporting requirements, 14 of the 23 legacy data points have been modified in different ways. Lastly, starting in 2019, certain lenders will be required to report their LAR on a quarterly basis instead of annually. As these changes come into effect, significant updates to both technology and processes are required throughout each lender's HMDA Compliance Management System (CMS). Technological updates are especially costly to implement for institutions that utilize their own proprietary Loan Origination Systems (LOS) and require validation from a third party, compliance, and / or legal team.

Changes in Reporting Threshold Requirements

Although there has been significant advancement in the scope of transactional coverage with the rollout of the 2015 HMDA Final Rule, the CFPB has dialed back institutional coverage requirements.

For example, the CFPB mandated that at the beginning of 2018, all *Depository* and *Non-Depository* institutions would be required to report under HMDA if, in each of the two preceding years, the institution originated at least 25 closed-end mortgage loans or 100 open-end lines of credit. In August 2017, however, the CFPB eased requirements on smaller lenders from 100 to 500 open-end mortgages in the last two years.

Since the CFPB's decrease of this reporting threshold, continued consideration of HMDA has occurred in Congress. On January 19, 2018, the US House of Representatives voted in favor of further limiting institutional coverage requirements expanding both closed-end and open-end origination requirements to 500 loans. Most recently, on March 14, 2018, the Senate passed the

Economic Growth, Regulatory Relief, and Consumer Protection Act, which includes provisions that state banks and credit unions that originate fewer than 500 open-end and 500 closed-end mortgages are exempt from the HMDA's expanded data disclosures. These changes relieve smaller institutions of the burdens associated with the intricacies and costs of reporting requirements.

The Cost of Noncompliance

The cost of noncompliance can be severe, as shown by the last year's HMDA enforcement action imposed on Nationstar Mortgage. The CFPB mandated the originator to pay \$1.75 million for allegedly failing to accurately report mortgage origination data from 2012 to 2014. The mandate included the implementation of an HMDA CMS and the correction of the HMDA data from the affected period. Although this was the largest HMDA enforcement action to date, the CFPB recently announced the delay of any civil penalties for noncompliance with the new HMDA rule during 2018 and encouraged lenders to use this time to perfect data capture and enhance their compliance program.

Although there are many changes at present, we recommend that institutions

continue to enhance their HMDA CMS — especially given that HMDA data is utilized for other areas of compliance such as Fair Lending. Should originator processes fail to properly comply with the regulatory update and incorrect transaction reporting ensues, lenders may run the risk of creating fair lending anomalies when no such problems may exist.

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What Lenders Should Do Now

We recommend that lenders continue to take measured steps to ensure compliance with the 2015 HMDA Final Rule. In addition to validating that technology updates are properly configured, lenders should maintain a HMDA project plan with set milestones and detailed steps necessary for timely completion. At a minimum,

the plan should include the following:

1. Development of a data dictionary inclusive of each LAR reporting field, field definition, and characteristics such as systems/forms used for sourcing the data field, and, if applicable, steps to for calculating the reported value
2. Development of updated policies, procedures, and controls to address rule changes and corresponding process updates
3. Conduct HMDA training and update HMDA quality control program to include detailed testing scripts and recurring sample testing

Focus on these areas is critical and can be easily overlooked should lenders strictly prioritize and rely upon technology updates during this transition. In realizing these initiatives, lenders bridge knowledge gaps across business units, maintain effective monitoring of HMDA reporting, and, in effect, help to mitigate their risk of noncompliance.

To learn more, please visit navigant.com/hmda.