Checklist

Help Avoid HMDA Pitfalls With These Five Steps

By Laurie M. Johnson, CRCM, and
Niall Twomey, CRCM

The *Home Mortgage Disclosure Act* (HMDA) changes the types of institutions and transactions subject to the regulation and dramatically increases the amount of detailed information covered financial institutions must collect, record, and report.

As of Jan. 1, 2018, banks, credit unions, and other lenders will enter into an even more complex data reporting reality. The number of data points that they will have to report on the Loan Application Register (LAR) will double to 48 (from 24) with a potential total of 110 data fields, dependent on application variables. New data points include applicant age, credit score, property value, application channel, points and fees, and much more. Additionally, the new rules modify several existing data points.[1]

Because financial institutions are not required to report based on the new standards until January 2018, they can close 2017 with the old rules. Consequently, during the first few months of 2018, banks and credit unions will simultaneously need to submit HMDA data under the previous rules and collect information for loans closing on the new rule. Data housed on their systems will thus be required to retain and report old information, but also collect new information.

The tolerance level of mistakes in the LAR is low, and with twice as many data points to report, financial institutions face twice the risk of submitting erroneous data through careless collecting and reporting practices. Lenders can help protect themselves by establishing sound procedures for complying with HMDA, complete with checks throughout the loan application process to promote data accuracy.

The following checklist details five steps banks, credit unions, and other lenders can take to help safeguard their systems and protect against running afoul of the new HMDA reporting requirements.

✓ 1. Establish a Robust HMDA Plan

While all lenders must comply with HMDA, each organization will take its own approach, making choices about which and how many staff members to deploy toward HMDA compliance and which software programs to use. While differences in infrastructure may exist, financial institutions must have strong policies and procedures in place for managing HMDA responsibilities. An exam checklist prepared by the Consumer Financial Protection Bureau (CFPB) can serve as a guide.

Establishing a robust HMDA plan can streamline the compliance process, reduce the incidence of errors, and, ultimately, save the organization money by forestalling the need to resubmit. An important component of this plan will be training. Organizations should train employees on all policies and procedures to align their personnel on goals and approach. Keep in mind certain lenders have never had to worry about HMDA in the past, such as those making home equity lines of credit, so training staff in processes and controls is critical.

✓ 2. Lock Down Application Processes

Financial institutions must evaluate the pathways customers have for applying for loans and make sure that, for each pathway, they have established loan application processes to provide certainty that the data collected is accurate and complete.

The new rules require multiple and more detailed data points, making the loan application process more taxing for lending officials and customers alike. For example, the new rules disaggregate ethnic and racial subcategories, providing applicants with more options to describe their backgrounds. Applicants can opt out of providing this information, but they have to opt out in three separate places in the application (one each for Hispanic/non-Hispanic origin, race, and gender). In the past, applicants could opt out of all these categories with a single check box.

One implication of this greater complexity in the application process is that applicants who prepare online or mail-in applications without the assistance of a loan officer could potentially submit incomplete or inaccurate information. Financial institutions should build in guardrails for customers to help them avoid application mistakes.

Online loan applications should include frequent stops at which point applicants can proceed only if they have completed all fields. For mail-in applications, banks should have a process by which loan officers contact prospective borrowers to double-check for data accuracy before putting their applications into the system.

✓ 3. Implement Strong Checkpoints

Many lenders offer loans through multiple business units – such as commercial, consumer, and residential mortgage loans – and each unit might use different loan operating systems to manage applications. In each of the business units, multiple stages exist at which point information is gathered and inputted manually. Within the residential mortgage unit, for example, the life cycle of a loan file changes hands multiple times, with each adding information necessary for the LAR. This complexity creates a great deal of potential for error. If a loan application reaches the end of the process without careful verification along the way, the likelihood of inaccurate data or erroneous entries is high. Additionally, using a manual process to create the LAR or using multiple loan operating systems to export data to the LAR increases the exposure to risk.

Lenders thus need to create checkpoints at each stage and within each business unit to scrub applications for data integrity. Systems should be set up such that they are capable of retaining the information needed for the LAR. Moreover, lenders should run regular system tests to confirm the system is working as anticipated.

4. Submit Accurate Data on First Attempt

In the past, financial institutions had a few months after the March 1 submission deadline to resubmit with corrections before the data was published. Now, however, the CFPB has indicated it intends to publish data within one month of the March 1 submission date.

This rapid pace of data publication means banks will be much more limited in their ability to make corrections and resubmit data before the CFPB releases it to the public. Failing to meet the time frame presents numerous hazards, including negative peer analysis and reputation risk in the form of increased consumer complaints, media attention, targeted community group analysis, and renewed class actions. The limited time for resubmission of data underscores the importance of verifying accuracy throughout the application process.

5. Know Your HMDA Story

Because of the new rules, detailed data on financial institutions and their lending practices will now be available to any interested regulatory agency before the agency even sets foot in the door for an exam. Assembled together, all the new data points collected tell a story about lenders that can invite a new level of scrutiny.

The availability of detailed data means examiners can do a preliminary fair lending analysis off-site. Going further, regulators will also be able to determine lenders' compliance with the TILA-RESPA Integrated Disclosure (TRID) rule.

Strategize Now

In the face of HMDA's new reporting requirements, financial institutions should create a strategy for HMDA compliance, consider the nuances of different loan application interfaces, and create checkpoints throughout the loan underwriting process. By taking these steps, they can improve their ability to submit accurate information on the first attempt and help avoid unwanted regulatory scrutiny.

Learn More

Laurie Johnson
+1 616 774 6729
laurie.johnson@crowe.com

Niall Twomey
Principal
+1 630 574 1806
niall.twomey@crowe.com

[1] "New Rule Summary: Home Mortgage Disclosure (Regulation C)," Consumer Financial Protection Bureau, Oct. 15, 2015, http://files.consumerfinance.gov/f/201510_cfpb_hmda-executive-summary.pdf

Text created in and current as of January 2018; Cover and artwork updated in May 2018.

Crowe

Checklist

Help Avoid HMDA Pitfalls With These Five Steps

By Laurie M. Johnson, CRCM, and
Niall Twomey, CRCM

Crowe

Checklist

Help Avoid HMDA Pitfalls With These Five Steps

By Laurie M. Johnson, CRCM, and
Niall Twomey, CRCM

Audit / Tax / Advisory / Risk / Performance

Smart decisions. Lasting value.™