

# Get ready ... HMDA Plus is coming

For over 40 years, the Home Mortgage Disclosure Act (HMDA) has provided communities throughout the nation with information about mortgage lending activity. During this period, the act has been amended several times in order to achieve its primary goals:

- Identify whether financial institutions are serving the housing needs of their communities
- Assist public officials in distributing public-sector investment to attract private investment in areas where it is needed
- Aid in the identification of possible discriminatory lending patterns and enforcement of anti-discrimination laws

In October 2015, the Consumer Financial Protection Bureau (CFPB) finalized HMDA Plus — new rules to further improve information collection and reporting about residential mortgages. Intended to provide more clarity regarding consumer access to mortgage credit, the new rule updates reporting requirements of the HMDA regulations. The CFPB is also working to reduce the reporting burden for lenders through streamlining and modernizing the submission of HMDA data.

#### **4 key changes included in the new HMDA rule**

At its most basic, the new HMDA rule makes modifications to the following:

- Institutional coverage
- Transactional coverage
- Reporting requirements and new data points
- Reporting and release

In the sections below, we will discuss each new modification in greater detail.

#### **Institutional coverage**

The new rules will ease the reporting requirements for smaller depository institutions such as banks and credit unions, while increasing the number of nondepository institutions covered by the regulation. Additionally, a new uniform loan-volume test has been created to cover both depository and nondepository institutions. Under this loan-volume test, smaller depository institutions will be exempt from HMDA reporting requirements if they have originated fewer than 25 closed-end mortgage loans and 100 open-end mortgage loans in the previous two years. Institutions that are below this volume threshold in 2015 and 2016 will not be required to report beginning in 2017.

The rule will have the opposite effect on nondepository institutions. The rule removes certain exemptions for these institutions such as asset size, thus increasing the number required to report.

In addition, the number of covered loan applications needed to be considered a larger volume institution has been reduced from 75,000 to 60,000. Not only will these institutions be subject to reporting the new data points, but they will also be required to do quarterly reporting beginning in 2020 (data collected Q1 2020 will be due by May 30 of that year).

### Transactional coverage

HMDA Plus will significantly change methods for determining the scope of loans to be reported. Currently, HMDA rules apply to home purchase, refinance and home improvement, but the new rules shift the determination from a purpose test to a dwelling secured test. For example, under the current rule, open-end lines of credit secured by a dwelling for home improvement or purchase purposes are reportable at the option of the lender. Under the new rule, these loans will make data collection and reporting mandatory. This will have a huge effect on the number of transactions that institutions must report by expanding the previous list of reportable loans to include closed-end home equity loans, home equity lines of credit and reverse mortgages. Commercial loans must be reported under the new rule if they are secured by a dwelling and are home purchase loans, home improvement loans or refinancings.

### Reporting requirements and new data points

Likely the most widely known and most daunting aspects of the new HMDA ruling are the reporting requirements, and the new and modified data fields now required as reportable. The new rule more than doubles the number of required data fields reported on the HMDA loan application register (LAR) from 23 to 48, with some data points even involving multiple data fields. The new data points include several that were identified in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), in addition to the data points added under the bureau's discretionary authority (see sidebar).

These new data reporting requirements serve many different and usable functions — from making loan origination and underwriting practices more easily understood and helping institutions gain a better understanding of markets and the credit challenges they face, to aiding regulatory bodies with oversight of fair lending laws. With access to more granular information regarding an institution's lending practices, there will no doubt be increased scrutiny of the data provided. Institutions with found disparities will face tougher questions on their lending practices and bear the burden of explaining these disparities. While at face value this may seem unnerving, the requirements can be of great assistance to an institution's own compliance management system by helping them identify problem areas and addressing them before they become even greater issues.

#### Data points identified by the Dodd-Frank Act:

- Property address
- Age
- Total loan costs, or total points and fees
- Property value
- Prepayment penalty term
- Introductory rate
- Nonamortizing features
- Mortgage loan Nationwide Multistate Licensing System and Registry identifier
- Loan term
- Application channel
- Credit score

#### Data points added under the bureau's discretionary authority:

- Origination charges
- Discount points
- Lender credits
- Debt-to-income ratio
- Combined loan-to-value ratio
- Manufactured home secured property type
- Manufactured home land property interest
- Total units
- Multifamily affordable units
- Automated underwriting system
- Reverse mortgage
- Open-end line of credit
- Business or commercial purpose

### Reporting and release

Reporting and release of HMDA data is the least challenging of the changes and, in some ways, has made reporting and provision of data less burdensome for covered institutions. There has been no change to the date of required reporting; covered institutions are still required to submit LAR data to the appropriate federal agency by March 1, following the calendar year in which data is collected. The new rule no longer requires institutions to provide the disclosure statement and modified LAR to the public. Instead, financial institutions must notify members of the public seeking this data that the information is available on the CFPB's website.

Additionally, beginning in 2020, larger volume financial institutions receiving 60,000 covered applications or greater will be required to report HMDA data on a quarterly and annual basis. Beginning in 2017, all institutions will file their HMDA LAR with the CFPB using a web interface referred to as the HMDA platform, and unlike the previous process for submission, institutions must address all edits prior to submission to the CFPB in order to complete the process.

In order to assist covered institutions with implementation and reporting, the Mortgage Industry Standards Maintenance Organization (MISMO) has released a set of products, including guidance, mapping documents and other information about the rules; this is collectively referred to as the HMDA Implementation Toolkit. Within it, users will have access to business scenario examples, mapping and a sample XML, along with LAR requirements. The toolkit will be available as a benefit to MISMO members and other industry participants for a small fee.

### **Being HMDA-ready**

#### **Timing is everything**

While smaller banks and credit unions originating fewer than 25 closed-end mortgage loans or 100 open-end lines of credit in the previous two years will be exempt from reporting on Jan. 1, 2017, the remainder of the rule becomes effective Jan. 1, 2018. However, the rule states that loans with a final action date of Jan. 1, 2018, are covered, meaning loans in an institution's pipeline many months prior in 2017 can and will be reportable. For example, a covered loan application may be received by an institution on Nov. 1, 2017, and not close until Jan. 15, 2018 — this application would be subject to new reporting requirements.

It will be of upmost importance to have systems that can collect the new data points several months before the rule goes into effect. Implementation of new systems should be updated and tested in the very near future, if not already begun. Institutions covered under this new rule should begin dual-tracking and collecting information needed under the current and new rule no later than the beginning of the fourth quarter of 2017.

### **Understanding the risks**

The latest amendment of Regulation C will have a far-reaching impact on the mortgage lending industry and its members. With a final ruling date of Oct. 15, 2015, one would not expect much in the way of leniency for lenders who fail to be fully compliant by the Jan. 1, 2018, go-live date. The ruling gives regulators, media outlets and members of the public much more access to previously unavailable data when evaluating an institution's fair lending practices, and lenders will face increased scrutiny when irregularities are revealed.

The biggest risk lenders will face with the multitude of new and modified data fields is data integrity. It is paramount that lenders have a firm grasp on the accuracy of the information contained on the HMDA LAR. Systems must be updated and/or implemented to scrub the 25 new data fields. There will be red flags for those institutions that have not conducted sound due diligence of their system vendors. Sales and operations staff must be trained and ready to support the new requirements to ensure data is captured well before the final implementation date of Jan. 1, 2018, because, as previously discussed, many applications at the end of 2017 have the potential to be covered under the new rule.

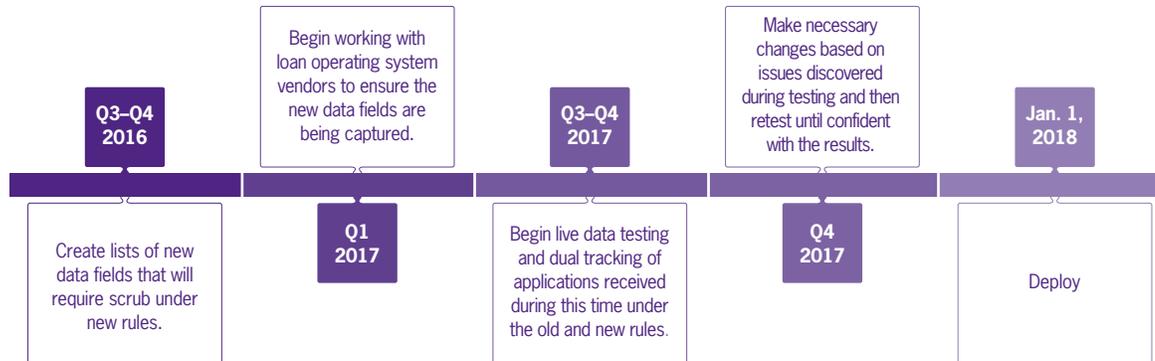
### **Being ready starts now**

#### **Be prepared**

As with any large industry rule change, preparation within an organization is paramount. It is of the utmost importance that leadership at all levels understands the scope and magnitude of the changes to come. In order to adequately prepare for these changes, institutions should take the following steps:

- Create and administer training courses for all personnel charged with collecting, scrubbing and presenting data
- Conduct due diligence and careful oversight with vendors to ensure systems are updated and equipped to capture all of the new and modified data fields in an accurate and consistent manner
- Test and/or perform trial runs on the newly collected data in order to analyze and correct any errors or irregularities that may exist in the process
- Take measured steps and make process improvements to ensure greater integrity within the data if mistakes and errors are discovered

## Implementation timeline



In addition to these steps, it is also beneficial to have a third party engaged to give an impartial view of the processes, help identify weak spots, and recommend changes that may be necessary in order to make sure the transition is smooth and the implementation is on the right track.

Within the current regulatory environment, there is only one constant: change. As with any significant change such as HMDA Plus, there is no time like the present for an institution to get its house in order so that they may be prepared when the implementation date arrives. Having the proper people, processes and systems in place; taking proactive rather than reactive measures to ensure compliance; and having a plan for improvement when challenges arise (and they will arise) are key components of any compliance management system and will be essential to a successful implementation as 2018 approaches.

This content is not intended to answer specific questions or suggest suitability of action in a particular case. For additional information about the issues discussed, contact a Grant Thornton LLP professional.



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