



CrossCheck Compliance

Three Steps to Strengthen HMDA Compliance

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The lending industry and regulators have doubled down on fair lending and redlining initiatives, and the key to any fair lending analysis is accurate HMDA data. As a result, regulators have increased their scrutiny of HMDA compliance programs and data accuracy.

The Home Mortgage Disclosure Act (HMDA) was initially approved by Congress in 1975 and is aimed at providing greater transparency in mortgage lending and protecting consumers. Each year, mortgage lenders are required to collect and submit comprehensive HMDA data for covered mortgage loan transactions on a Loan Application Register (LAR). The LAR includes everything from borrower demographics and incomes to loan types and amounts. Each HMDA LAR includes 48 different data points and 110 different data fields for each reportable loan application. After a lender submits its LAR, the data for all reporters is aggregated for public use and analysis.

Federal and state regulators use HMDA data to conduct fair lending analysis. Researchers and policymakers also use this information to follow lending trends and evaluate industry (and individual companies) efforts to improve fair lending practices, design new borrower programs, and fairly allocate resources.

When lenders submit incorrect data, it can skew the analysis of not only their own lending performance, but also, because the data is aggregated, it can skew the analysis of all HMDA reporters.

As we approach the HMDA filing deadline (March 1), here are three things you can do to help ensure your LAR is accurate.



Three Steps to Help Comply with HMDA



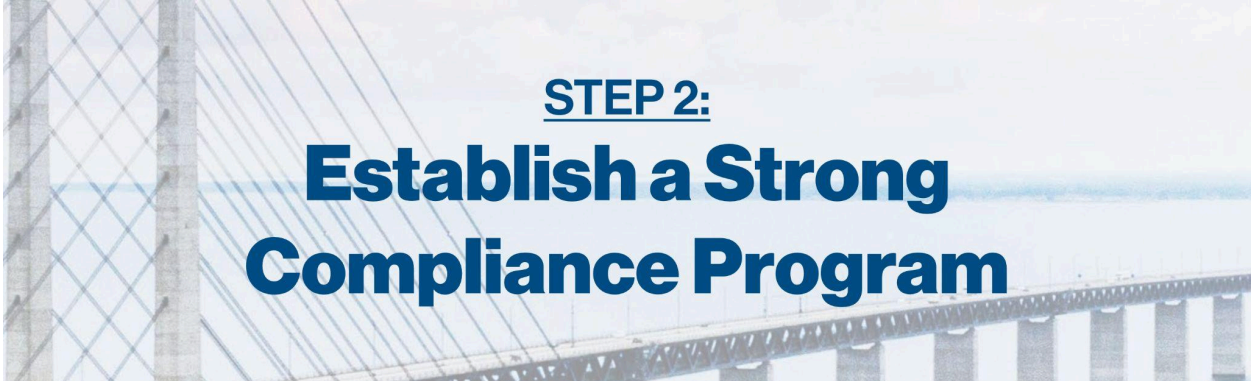
STEP 1: Understand Regulator Expectations

With the enhanced regulatory scrutiny of redlining and fair lending compliance, it is not surprising that the number—and severity—of enforcement actions related to HMDA has risen. There have been recent large settlements related to inaccurate HMDA data with penalties as high as \$12 million.

As part of any settlement, regulators may also require policy and procedure revisions, additional audits, and monitoring, costing your company even more. Not to mention the attorney fees and damage to your reputation.

The bar for HMDA data accuracy is set very high. The Federal Financial Institutions Examination Council (FFIEC) "[HMDA Examiner Transaction Testing Guidelines](#)" is often used as the standard for accuracy, and those guidelines indicate that the resubmission threshold for a field with errors is 5.1% on a LAR containing between 501 and 100,000 applications. That means in a sample size of 79 LAR applications, if one field has 4 or more errors, the LAR should be scrubbed, corrected, and resubmitted. The threshold is even lower for LARs with more than 100,000 applications, at a field error rate of 2.5%.

Regulators also expect lenders to have a strong HMDA compliance management program that includes policies and procedures, training, and ongoing monitoring.



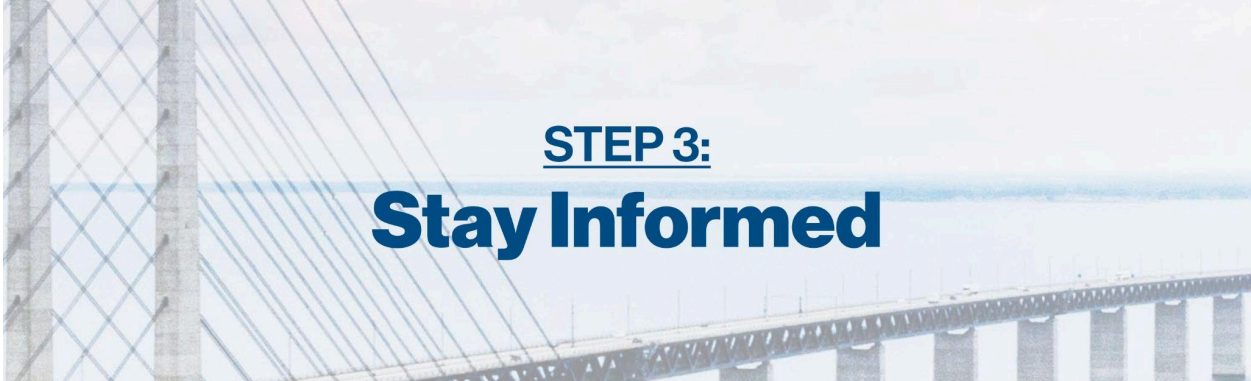
Establishing a strong HMDA compliance program is critical to ensuring compliance. It may seem obvious but ensuring that your LAR is accurate starts at the beginning, with the application-taking process and making sure that data is collected and documented correctly. This requires ensuring your online applications are configured properly, and lenders and processors understand HMDA data and how the information documented in the loan file and loan origination system ultimately impacts the HMDA LAR. It also requires providing your HMDA compliance team with detailed policies and procedures and ongoing training and conducting regular reviews of HMDA data.

Policies and procedures should provide detailed guidance about the specific information to be collected and indicate a “source document” that supports **each** data field on the LAR. Some common sources might be the application or the Transmittal Summary, but some other sources may depend on your specific operations. For example, the recorded phone call conversation may be the source of the date an application was withdrawn by the customer. A detailed, well-designed source document can be invaluable to the accuracy and consistency of your HMDA LAR. It can also be used as a training tool, and for monitoring and auditing.

Ongoing monitoring is also critical to your HMDA compliance program. Monitoring should include systemic reviews and logic testing, as well as a loan file to LAR field-by-field review. That means, for a sample of LAR applications, reconciling every field on the LAR back to supporting information in the loan application file. The source document discussed above is critical to this process.

Depending upon the nature and size of your operations, monitoring should be done periodically throughout the year rather than waiting until the last minute, so issues can be identified early and corrected prior to the LAR submission deadline on March 1st.

Loan file reviews should include sample sizes to properly reflect your LAR. At a minimum, testing should follow the FFIEC’s [HMDA Transaction Testing Guidelines](#). The sample must also be representative of the institution’s loan types, application outcomes, loan channels, etc. For example, if your LAR includes withdrawn, incomplete, multifamily, and or business purpose loan applications, then your monitoring samples should also include applications from those various products, channels, and decision outcomes.



It is not enough to occasionally research HMDA requirements—smart lenders are constantly training and re-training compliance staff.

Ensure your team has a deep understanding and knowledge of the HMDA resources that are available from the FFIEC and CFPB. Each year, an updated “[A Guide to HMDA Reporting Getting it Right](#)” and “[Filing Instructions Guide](#)” are published that provide detailed information for each individual data reporting field on the LAR, as well as instructions for filing the LAR. Regulators also publish annual updates to reference materials including [A Regulatory Reporting Overview Reference Chart for HMDA Data](#) Collected in (current) Year, [HMDA Transactional Coverage Chart](#), and an [Institutional Coverage Chart](#). Personnel responsible for HMDA reporting should be very familiar with these resources.

Another way to ensure that you are getting the latest information is to take advantage of existing industry trade partnerships, memberships, and alliances. Conversations, discussion groups, and webinars focused on best practices and common challenges are also invaluable for compliance professionals.

CrossCheck’s quarterly [HMDA Hub](#) addresses common questions that lenders face while collecting and scrutinizing data as they prepare the LAR for submission. You’ll gain valuable insights to unravel complexities and help to ensure full regulatory compliance.

In each issue, we tackle practical questions regarding the nuances of reporting HMDA data. For example:

- Reporting loans for dwellings purchased for college students
- Reporting repurchased loans
- Reporting short-term rentals and vacation properties

[Submit your own questions](#) for our HMDA specialists to answer in an upcoming release!

Connect with [CrossCheck Compliance](#) and get the insights and tools you need to manage compliance risk, navigate complex regulations, and keep pace with evolving federal and state laws and agency guidelines.