

Fair Lending & HMDA
Well Written Policies/Procedures
Board/Owner Approved

The Compliance Source, Inc.

- HMDA
 - » E-Mail
 - » Memo

- H

- M

- D

- A

- **How**
- **Many**
- **Damn**
- **Applications**

- 2000 Census Data Gathering
 - » 80/20 or 90/10 rule
 - » Last 10 to 20 percent of data hardest to get
 - Forms are not returned
 - Collected by foot soldiers

- Approximately 9,000 lenders reported HMDA data in 2005
- 36.1M loans reported
 - » 11.7M Home Purchases
 - » 15.9M Refinances
 - » 2.5M Home Improvements
 - » 5.9M Loans Purchased
- Represents 80% of all mortgage lending
- Likely a good representation of all mortgage lending

- HMDA Data is Good, but limited
- Helps Identify Lending Patterns
- Doesn't Reveal much about the Cause of those Patterns
- HMDA Reporting is tough enough now, to include all Quantifiable and Non Quantifiable Factors would be Virtually Impossible
- So What Do We Do?

- 2005 Data shows 20% “High Priced” loans/only 5% in 1995
- Percentage of loans w/rate spread reported up 69% over 2004
- When adjusted it’s still up 61% over 2004
- Blacks & Hispanics twice as likely to receive rate spread loan
- Black & Hispanics denial rates are twice that of Whites
- 24.6 percent of all Conventional loans are rate spread loans
- 0.9 percent of all Government loans are rate spread loans
- 60% of all Manufactured Housing loans are rate spread loans
- 36,000 loans were HOEPA covered (>1%)

HMDA Plan

- **Who's RESPONSIBLE for HMDA**
 - » Senior Management/Owners (decision making)
 - » Compliance Officer
 - » CRA/HMDA Officer
- **Who's Responsible for Data:**
 - » Input (central/production channels/branches...)
 - » gathering
- **When is Data Gathered**
- **How & When Data gets Tested**
 - » Data Scrubbing
- **Who's Responsible for Data Reporting/Re-reporting**
 - » To Senior Management
 - » To Regulator/HUD/FFIEC
- **Training**
- **Systems/Technology**

Fair Lending Plan

- **Who's RESPONSIBLE for Fair Lending**
 - » Senior Management/Owners (decision making)
 - » Legal Counsel (inside, outside, or both)
 - » Compliance Officer
 - » CRA/HMDA Officer

- **Who's Responsible for Data:**
 - » Gathering
 - » Analysis/report generation
 - Second review/disparate treatment
 - Matched pairs/disparate treatment
 - Regression/disparate treatment

Fair Lending Plan - continued

- **Identify/Document all Quantifiable factors**
 - » Cost of funds to be lent
 - » Credit risk (credit score, LTV, DTI, Prepayment)
 - » Overhead Costs
 - » Servicing Costs
 - » Competition
 - » Local Housing Markets
 - » Local Foreclosure Rates/Bankruptcy Laws
 - » Production channels
 - » Loan Negotiations/Discretionary Pricing
 - Who is allowed to
 - When it's allowed
 - Document reasons
- **Disparate Impact**
 - » Underwriting guidelines
 - » Policies in general (lending, employment...)

Fair Lending Plan - continued

- **Who's Responsible for Reporting**
 - » Senior Management
 - » Who's eyes can see the data
 - » When is Attorney Client Privilege necessary
- **Who's Responsible for Regulatory Contact**
- **Who's Responsible for Media Contact**
- **Training**
- **Counseling & Disciplinary Actions**
- **Document all of the Good Things you are doing**
- **Systems/Technology**

Conclusion:

- **Know what your data says about you:**
 - » **Before Your Regulator Knows**
 - » **Before any Litigator Knows**
 - » **Before the Media Knows**

- **Be ready to tell your story before anyone asks.**

- **If you find any lending patterns that cannot be explained by quantifiable factors take action immediately before you are forced to by:**
 - » **Your Regulator**
 - » **A Litigator**
 - » **The Media**