



ISSUE PAPER

Subject: **Home Mortgage Disclosure Act (HMDA)
Reporting Requirements**

Issue: Significant changes in the Federal Reserve’s requirements have resulted in the reporting and public disclosure of additional data on mortgage loans subject to the Home Mortgage Disclosure Act (HMDA) for the years 2004 and 2005. These data include the “spreads” by which the Annual Percentage Rates (APRs) of certain higher rate mortgages exceed the interest rates of Treasury securities with comparable maturities, the lien status of mortgages, whether mortgages are subject to the Homeownership and Equity Protection Act (HOEPA) and whether they involve a manufactured home. These data are reported along with other required data including the race and gender of loan applicants and borrowers and the locations of properties. While the data now include rate related information, the data themselves do not fully explain why particular borrowers receive particular rates. Specifically, as the federal financial regulators have pointed out, while HMDA data include some relevant pricing factors such as lien status, they exclude many others such as borrower credit history, borrower debt-to-income ratio and loan to value ratio.

Background: As amended, HMDA requires lenders to make public various data for mortgage loans including the ethnicity, race, and sex of the applicant or borrower, and the gross annual income relied on in processing the application. According to the Federal Reserve Board (FRB), HMDA’s purposes are to help:

- Determine whether covered institutions are serving the housing needs of their communities;
- Assist public officials in targeting areas for investment; and
- Gather data to identify possible discriminatory lending patterns.

Originally, HMDA covered only depository institutions, but over the years since its enactment, its coverage has been broadened to encompass mortgage company subsidiaries of bank and thrift holding companies and independent mortgage companies. Similarly, while HMDA data was originally intended to include locational data on properties financed, the data set has been greatly expanded

Home Mortgage Disclosure Act (HMDA) Reporting Requirements

Page 2

over the years to include race and gender data of borrowers and applicants and most recently the data required under the 2002 amendments (below).

The FRB has regulatory authority under HMDA and publishes the HMDA regulations in Regulation C. Under Regulation C, each covered lender must make its Loan Application Register (LAR) containing HMDA data in unaggregated form available upon request of any member of the public, as early as March 31 following the calendar year for which the data was compiled. The Federal Financial Institutions Examination Council (FFIEC), composed of other federal financial regulators and the FRB, releases aggregated HMDA data on CD-ROM annually, usually in late August or September, including data for each metropolitan statistical area, nationwide summary statistics regarding lending patterns and the LARs submitted by each institution.

2002 Amendment to Regulation C, Linking Rate and Race and Other Data

In 2002, following rulemaking, the FRB amended Regulation C to: (1) require the reporting of new data elements; (2) expand the lenders required to report; and (3) clarify certain definitions and reporting requirements.

New Data Elements - Under the new rules, beginning in 2005, for 2004 data and following years, lenders must report as applicable regarding applications for, and originations and purchases of, home purchase loans, home improvement loans and refinancings:

- The difference or spread between a loan's APR and the yield on a Treasury security having a comparable maturity where there is a difference of at least three percentage points for a first-lien loan or five percentage points for a subordinate-lien loan. (This requirement does not apply to applications that are incomplete, withdrawn, denied, or approved but not accepted, or to purchased loans and unsecured home improvement loans);
- The lien status of the loan or application—first lien, subordinate-lien or not secured by a lien on a dwelling;
- Whether the loan is subject to the Home Ownership and Equity Protection Act (HOEPA);
- Whether the loan or application involves a manufactured home; and
- Whether an application has been denied under a "covered" pre-approval program.

Changed Definitions and Reporting Requirements – The new rules also changed the definition of home improvement loan and refinancing and changed the way race and ethnicity are reported.

Home Mortgage Disclosure Act (HMDA) Reporting Requirements

Page 3

In September 2005, the FFIEC released the 2004 HMDA data along with an extensive explanation by FRB staff of the new data. This explanation made clear that while the data indicates a higher frequency of higher rate mortgages among minority group members, the data does not include risk related factors that can explain these disparities. The FRB report also indicated, that most of the differences in the frequency of higher cost loans can be explained by analyzing publicly available HMDA data including the income of borrowers and that 98 percent of the lenders reporting did not show statistically significant differences. The report also suggested that among the remaining 2 percent, where there were statistically significant differences, these differences may be explained by non-publicly available risk related factors.

The latest data, reported by lenders in 2006, showed an increase in loans required to be reported as "rate spread" loans. In this year's article accompanying the data, FRB staff advised that year-to-year changes in the number or proportion of loans requiring reporting as "rate spread" loans should be interpreted with great care; changes in the "yield curve," that is the relationship between short and long-term interest rates in part affect the number of loans reported. This year's article also noted out that shopping and negotiation affect loan pricing.

MBA Position: MBA strongly believes HMDA data reported under these new rules demonstrate the achievements of the industry in putting homeownership in the reach of more borrowers than ever. Loan prices are determined based on credit and other risk related factors, as well as borrower shopping and negotiation, not the race or gender of the borrower.

Status: MBA will continue to provide leadership to educate and inform legislators, key policy makers, regulators, and the public about the appropriate interpretation of the HMDA data and the achievements of the industry. This effort will focus on explaining the pricing of loans and emphasize that as a result of the industry's work, consumers from an unprecedented range of incomes and racial and ethnic backgrounds are for the first time achieving homeownership. MBA also will continue to provide substantial assistance to its members to help them navigate the HMDA requirements including through a Web-based HMDA Clearinghouse for MBA members at <http://hmda.mortgagebankers.org>.

Staff Contact: Ken Markison
(202) 557-2930

Date January 2007