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Financial Institution Letters

Home Mortgage Disclosure Act

FIL-71-2004
June 15, 2004

TO: CHIEF EXECUTIVE OFFICER (also of interest to Compliance Officer)

SUBJECT: New Rules and Reference Materials for HMDA Data Collection During 2004

Summary: *Federal Reserve Board Regulation C, which implements the Home Mortgage Disclosure Act (HMDA), has been revised in several ways that affect applications or loans on which final action is taken on or after January 1, 2004. These revisions apply to HMDA data collected for calendar year (CY) 2004, which must be submitted by March 1, 2005.*

Federal Reserve Board Regulation C, which implements the Home Mortgage Disclosure Act (HMDA), has been revised in several ways that affect applications or loans on which final action is taken on or after January 1, 2004. These revisions, highlighted below, apply to HMDA data collected for calendar year (CY) 2004, which must be submitted by March 1, 2005. Updated HMDA reference materials are also identified below.

Highlighted Changes to Regulation C

- The asset-size exemption threshold for depository institutions under Regulation C was raised from \$32 million to \$33 million. Depository institutions with assets of \$33 million or less as of December 31, 2003, are not required to collect HMDA data for CY2004. The coverage requirements for nondepository institutions was changed to add a loan origination volume test of \$25 million in addition to the existing coverage tests.
- Lenders are required to track preapproval requests that result in loans or denials. Prequalification requests continue to be excluded.
- Lenders must identify whether an application or loan involves a "manufactured home."
- Lenders must report for certain loans the rate spread between a loan's annual percentage rate (APR) and the yield on Treasury securities with a comparable maturity when the spread is equal to or greater than three percent for loans secured by a first lien on a dwelling and five percent if secured by a subordinate lien.
- Lenders are required to report whether an originated or purchased loan is covered by the Home Ownership and Equity Protection Act (HOEPA), implemented by Regulation Z.
- The lien status for applications and loan originations must be separately reported on the HMDA loan/application register (LAR). Lien status does not have to be collected for purchased loans.
- The classification test for reporting home improvement loans has been eliminated for dwelling-secured loans, but has been retained for loans not secured by a dwelling. A lender may rely on an applicant's statement of the loan purpose.
- The definition of a "home improvement loan" is a dwelling secured loan in which any part of the

proceeds will be used for home improvement. If the loan is not secured by a dwelling, the lender has the option of deciding whether to classify the loan as a home improvement loan, regardless of whether all, some or none of the loaned funds will be used for home improvement.

- The definition of "refinancing" has been revised, for reporting purposes, as a new loan that satisfies and replaces an existing loan by the same borrower and where both the existing loan and the new loan are secured by a lien on a dwelling. The following interagency "FAQ" (see "Frequently Asked Questions" on the Federal Financial Institution's Examination Council's [FFIEC's] Web site at <http://www.ffiec.gov/hmda/faqreg.htm#firstword>) addresses the question of whether satisfaction of a lien is relevant to determining a reportable refinancing:

"Refinancing - satisfaction of lien. Is the satisfaction of a lien (mortgage) relevant to determining whether an obligation is a reportable refinancing?"

"Answer: No, the satisfaction of a lien is neither necessary nor sufficient to create a reportable refinancing. The credit obligation must be satisfied and replaced; it is not relevant whether the lien is satisfied and replaced. [See 203.2\(k\)\(2\) - PDF 271k \(PDF Help\)](#)"

- Lenders must, in conformance with Office of Management and Budget (OMB) guidance, collect and report both applicant race and ethnicity using a new format and revised descriptive codes. Additional information regarding race and ethnicity is available at <http://www.ffiec.gov/hmda/faqreg.htm> and OMB's definitions can be found at http://www.whitehouse.gov/omb/inforeg/re_app-a-update.pdf - PDF 13k ([PDF Help](#)).

Transition Rules

- For applications received in 2003 on which final action is taken on or after January 1, 2004, lenders must convert data to the ethnicity and race codes in effect in 2004 for reporting purposes. Further detailed information on this topic, including a conversion guide, is located at <http://www.stlouisfed.org/hmdaregcamendments/pages/transition.html>.
- In addition to the transition rules applicable to applicant information, transition rules were developed to provide lenders with flexibility and guidance for collecting other HMDA reportable data for applications received in 2003, but not acted upon until after January 1, 2004. The data fields affected by the special rules include: Preapprovals, Property Type/Manufactured Housing, Pricing Data, and Purpose of Loan. Detailed information on each of these can be found by accessing the link in the previous bullet.

OMB's New Geographic Definitions

The Office of Management and Budget published revised Metropolitan and Micropolitan Statistical Areas and Components based on 2000 Census data. These new boundary definitions are to be used in collecting HMDA and Community Reinvestment Act (CRA) data beginning January 1, 2004, for submissions due by March 1, 2005.

- A detailed summary of the MSA boundary changes, as they apply to HMDA and CRA reporting, is provided at <http://www.ffiec.gov/cra/>.
- The new Metropolitan Statistical Areas (MSAs) can be found in the OMB's Bulletin No. 03-04, Attachment, List 2, at http://www.whitehouse.gov/omb/bulletins/b03-04_attach.pdf - PDF 658k ([PDF Help](#)).
- The new geographic definitions are available in downloadable format from the Census Bureau's Web site at <http://www.census.gov/population/www/estimates/metrodef.html>.
- For a complete reference to FFIEC 2004 HMDA edits with information on new OMB definitions, refer to the FFIEC's Web site at <http://www.ffiec.gov/hmda/>
- A five-digit MSA code from the CY2004 list of MSAs is to be used for any application on which final action is taken in 2004. The five-digit code for Metropolitan Divisions should be used whenever it is

available for CY2004 data.

- An institution that has become a HMDA reporter for the first time because of the OMB's 2003 changes in MSA boundaries must collect data on applications received on January 1, 2004. These new HMDA reporters are not required to collect data on applications received in CY2003 even if final action is taken on those applications in 2004.

2004 A Guide to HMDA Reporting: Getting It Right! and Other HMDA Resources

Many resources are available on the FFIEC's Web site at <http://www.ffiec.gov/hmda/> to assist lenders in complying with the CY2004 requirements of Regulation C. Among them are:

- The updated *A Guide to HMDA Reporting: Getting It Right!*, which includes a revised lobby notice in printable form;
- Answers to regulatory, interpretive and technical frequently asked questions;
- Data-entry software and a rate-spread calculator; and
- Training presentations to educate institution staff.

Revised HMDA Examination Procedures

Revised interagency examination procedures effective January 1, 2004, reflect the significant changes to Regulation C. The procedures are available at <http://www.fdic.gov/news/news/financial/2004/fil7104b.pdf> - PDF 254k ([PDF Help](#)).

Questions about HMDA issues or the information referenced in this letter can be addressed to your FDIC Division of Supervision and Consumer Protection (DSC) regional office on the attached list.

For your reference, FDIC Financial Institution Letters may be accessed from the FDIC's Web site at www.fdic.gov/news/news/financial/2004/index.html.

Michael J. Zamorski
Director
Division of Supervision and Consumer Protection

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[Attachment](#)

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