Process Improvement

Don’t Fear HMDA

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By Tony Garritano

Here we go again. The industry just got over the pain of complying with TRID and now the CFPB is at it again. This time the changes will come for HMDA.

“The new HMDA reports will add significant costs and regulatory burdens to lenders, especially in the short run when lenders are becoming acclimated to the new reporting requirements,” noted Marisa Calderon, Executive Director of the National Association of Hispanic Real Estate Professionals (NAHREP). While the challenges and expenses will be similar to TRID, the richer HMDA data set will allow lenders to analyze their peers, their peers’ and their own lending patterns, and the communities they serve. The data analysis on a richer HMDA data set could help lenders uncover unmet needs and create new and better lending programs tailored to the needs of these communities.”

Calderon is an 18-year veteran of the financial services and housing industry. She takes a direct role in the association’s conference and event planning efforts, including NAHREP’s Housing Policy and Hispanic Lending Conference in Washington, D.C. and the association’s marquee event, the National Convention and Latin Music Festival. Ms. Calderon serves on the Fannie Mae Affordable Housing Advisory Council, Advisory board of Banc of California, on the board of directors of the Hispanic Wealth Project and is co-author of the association’s annual publication, The State of Hispanic Homeownership. She speaks at conferences and events regarding NAHREP’s advocacy efforts, policy positions and on general Hispanic housing trends.

“Beginning with the HMDA data collected in 2017 and submitted in 2018, the responsibility to receive and process HMDA data from lenders will transfer to the Consumer Financial Protection Bureau from the Federal Reserve Board,” Calderon pointed out. “In addition, filers will submit their HMDA data using a web interface referred to as the “HMDA Platform.” As part of the submission process, a HMDA reporter’s authorized representative has to certify to the accuracy and completeness of the data submitted.”

On the bright side, vendors are ready to help lenders meet this challenge. For example, PROGRESS in Lending gave QuestSoft its Innovations Award for the work it has already done to ensure lender compliance. Last October, QuestSoft sent specifications to 29 loan origination software companies, and those imports are expected to come online during the first quarter of 2017. Customers can then import live data from those LOS platforms to see gaps, interact with their systems, and internally adjust their procedures. QuestSoft’s CFPB HMDA test version is also being provided well in advance of the CFPB’s schedule. Compliance RELIEF has been designed so that as error codes and other specifications are made available by the CFPB, QuestSoft will be able to incorporate them quickly and distribute updates to lenders testing their processes.

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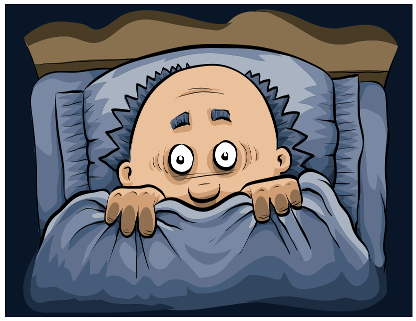
“On a granular level, HMDA will be a more smooth process to implement vs. TRID,” said Jon Johnson, Compliance Manager of Castle & Cooke Mortgage. “We were also given more time to implement HMDA and it won’t disrupt existing processes as much. Systems and people are being trained up right now.”

Johnson began working for Castle & Cooke Mortgage in 2016. Previously, he worked for the mortgage document preparation provider, IDS, where he was a project manager, compliance officer, and spokesperson for the implementation of TRID. Currently, Jon manages a team that helps with TRID, ECOA, and HMDA compliance. Jon is working on Castle & Cooke Mortgage’s new HMDA requirements implementation. Jon acquired a law degree from Arizona Summit Law School.

“Lenders need to make sure that their systems are updated and that they are collecting the new data," he advised. "If you have a file that you start this year, but it doesn't close until next year we have to gather those additional data points. This is a great opportunity for lenders to look at their data and begin to make changes. We've seen the CFPB be a little more lenient with TRID, but in this case the CFPB has come out strong even before the new rules are in place."

But the impact of these HMDA changes can be far reaching, according to Michael Vitali, Senior Vice President of Compliance at LoanLogics. "HMDA is cumulative whereas TRID is loan by loan. Before cell phones and cameras, investigators had to do much worse, but today everything is instantaneously available. HMDA is like the cell phone. It's now all out there for regulators to see much easier. The good side is that if a lender uses all this new data they can look at their portfolio in advance and make adjustments."



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At LoanLogics Vitali monitors regulatory developments and their practical implications for lenders, servicers and vendors in order to support Executive Management in high-level strategic decision-making. This includes identifying new market opportunities and new product enhancements. He supports the company's Compliance Analysts on a day-to-day basis, including reviewing and approving the scope and substance of compliance reviews, answering loan-level questions, and participating in the preparation for, and defense of, regulatory exams of our clients.

His duties also include the research, interpretation and conveyance of proposed legislation related to the industry to recommend policy and/or procedure changes to maintain continued compliance with all applicable laws, rules, and regulations, investor requirements, and standard mortgage practices. "The main thing in 2017 for lenders to do will be preparation," he said. "This business is very production geared. With refis drying up they may be focused there and not pay too much attention to this. That would be a mistake. You can't wait until 2018 to make sure that everything is collected. The LOs also need to be trained."

As we all know, the CFPB fined Nationstar $1.75 million for "consistently failing to report accurate data" about mortgage transactions from 2012 through 2014. It was the largest HMDA penalty ever imposed by the CFPB. This is what is to come for lenders that are not ready.

"Lenders need to do this right," warned Vitali. "The fine was not discrimination, it was for mistakes. I look at it this way: Nobody ever took HMDA data seriously before this, but they will now. In the end, technology will help lenders identify risk. Going forward, lenders will have an opportunity to look in the mirror to see if they like what they see. In the end, if mortgage lenders don't like what they see they can go get a haircut or a shave to look better. The major drawback is that lenders tend to rely too much on the technology without evaluating their own processes and data."

"The upside is that it will expand homeownership to classes of people that have been disenfranchised," added Dr. Rick Roque, President and Founder of MENLO, a firm that advises mortgage lenders on their M&A strategies. "The largest growing homeowners are women and immigrants. The HMDA data will provide more insight into who lenders are providing financing to and why. If I'm a local lender in Miami beech and my usual borrower earns $500,000 or more, that data is going to be very homogenized, which might open you up to litigation if that borrower is not representative of the majority of borrowers in your area. So, lenders that may be under capitalized may have difficulties."

This is where automation comes in. "Technology offers visibility," notes Roque. "Most lenders want to do the right thing, but they are not aware of how homogeneous their consumer base is. Lenders that are behind the eight ball now are going to be screwed in 2018."

Johnson at Castle & Cooke Mortgage notes that lenders need to customize the technology. "Lenders need to be able to build reports off of the data points so you can see patterns. Also, you have to compare the data in all of your systems so it's the same. The data in your LOS has to match the data on your docs, for example. Lenders can do this if they prepare." ❖

Tony Garritano is chairman and founder at PROGRESS in Lending Association. As a speaker Tony has worked hard to inform executives about how technology should be a tool used to further business objectives. For over 10 years he has worked as a journalist, researcher and speaker in the mortgage technology space. Starting this association was the next step for someone like Tony, who has dedicated his career to providing mortgage executives with the information needed to make informed technology decisions. He can be reached via e-mail at tony@progressinlending.com.