Division of Depositor and Consumer Protection

FDIC New York Region
Regulatory Teleconference:

HMDA Data Validation Procedures

June 16, 2011

Objectives

- **Purpose and Importance of HMDA Data Accuracy**

- **Purpose of HMDA Data Validation**

- **What to Expect**

- **Information that Examiners May Request**

- **Common HMDA Data Violations**

- **Preventing Errors and Maintaining Compliance**

- **Resubmission**

- **Assessment of Civil Money Penalties**

- **Questions and Answers**

Purpose and Importance of Data Accuracy
For Regulators and Others

- **Essential for fair lending and CRA examinations:**

  - To draw conclusions about the institution.

  - For peer comparisons.

- **Data are public and are used by officials to evaluate housing activity.**

- **Used by private investors to identify areas in need of investment.**

Purpose and Importance of Data Accuracy
For Institutions

- **Benefits of maintaining accurate data and ensuring compliance.**

- CRA Perspective - Analyze the institution's lending patterns.
  - Identify CRA performance issues/weaknesses so an institution can correct or make modifications before CRA evaluation.
  - Awareness of areas in need of specialized lending products or other CRA-related activities.
  - Minimize risk of poor CRA rating.

Purpose and Importance of Data Accuracy
For Institutions

- **Benefits of maintaining accurate data and ensuring compliance.**

- Fair Lending perspective:

  - Identify possible discriminatory lending patterns

  - Disparities in HMDA data relative to prohibited bases groups or in certain geographies

  - HMDA Outliers

Purpose and Importance of Data Accuracy
For Institutions

Data errors have negative impacts and may result in:

- The appearance of discriminatory lending. Public availability of HMDA data may increase reputation risk.

- Inaccurate conclusions, if an institution conducts internal fair lending and CRA evaluations.

- The need for resubmission, examination delays, and potential civil money penalties, all of which are costly.

Purposes of HMDA Data Validation

- **To ensure <u>completeness</u>**

  - Checking for omissions of HMDA-reportable transactions.

- **To ensure LAR data <u>accuracy</u>**

  - Checking for accuracy of data reported.

What to Expect

- **Significant HMDA Reporters**

  - Institutions that reported over 500 lines on their most recently submitted LARs

    or

  - Institutions with assets in excess of $500 million.

- **Other HMDA Reporters**

  - Generally, those institutions that reported fewer than 100 lines on their most recently submitted LARs.

Information that Examiners May Request

- **For Validating LAR <u>Completeness</u>**

  - Loan trial balance

  - Explanation of codes

  - 'Pipeline' reports
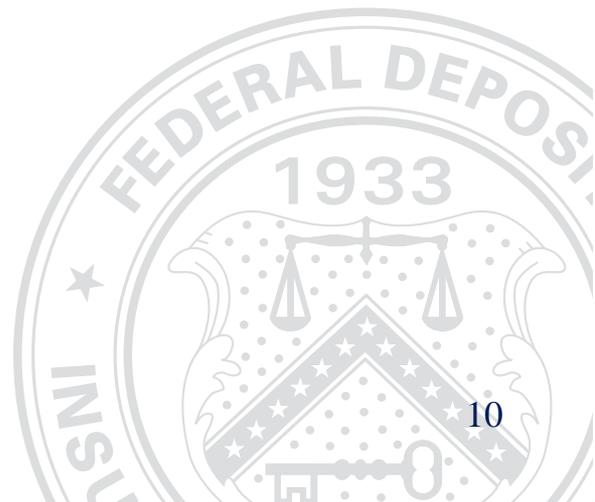
- **For Validating LAR Data <u>Accuracy</u>**

  - Most recently filed LAR and year-to-date LAR

Common HMDA Data Violations

- **Violations in relation to <u>completeness</u>**

  - commercial mortgages/loans when required.

  - Not reporting non-originated loans.

Common HMDA Data Violations

- **Violations in relation to LAR <u>accuracy</u>**

  - Reporting rate spreads for loans not subject to Regulation Z.

  - Not using the correct date for calculating rate spreads.

  - Over-reporting

Common HMDA Data Violations

- **Violations in relation to LAR <u>accuracy</u>**

  - Inaccurate reporting of data due to a misinterpretation of the "Broker Rule"

  - Inconsistent application dates

  - Inaccurate reporting of "action taken" code

Preventing Errors and Maintaining Compliance

- **Pertinent Questions to Ask**

    - How many business lines affected?

    - Are processes centralized or decentralized?

    - Does the institution evaluate data collection audit and exam findings and identify processes needing improvement?

    - Does the institution monitor changes in bank structure, staff, software systems, and regulations that can increase risk of data collection errors?

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Preventing Errors and Maintaining Compliance

- **Ensuring <u>Completeness</u>**

  - Implement tracking procedures for denied, withdrawn and incomplete applications.

  - Ensure automated systems identify HMDA transactions as appropriate.

  - Compare new loan lists, from all business lines, against the LAR loan entries.

Preventing Errors and Maintaining Compliance

- **Ensuring <u>Accuracy</u>**

  - Implement clearly defined data collection procedures.

  - Properly document the facts and progressions of the transactions in each loan file.

  - Update your data collection software and ensure that software settings are properly configured for appropriate coding.

Preventing Errors and Maintaining Compliance

- **Ensuring <u>Accuracy</u>**

  - Periodically train staff and, possibly, hire detailed-oriented staff.

  - Implement standardized forms and job aids.

  - Implement effective internal controls, such as second reviews and new loan reviews.

  - Conduct thorough data audits by comparing data reported to source documents, not just to collection forms.

Resubmission

- **Resubmission of HMDA LARs may be required depending on the following:**

  - The results of the HMDA validation testing.

    and/or

  - The errors found during the validation testing are of the type/number that would affect a CRA or fair lending review.

Resubmission

- **If an institution is required to resubmit it HMDA LAR:**

  - The institution will be advised to correct and re-submit LARs covering the most recent two calendar years.

- **For omissions and significant errors beyond the two most recent years:**

  - The institution will be required to correct, review, and verify the data.

    and

  - Maintain the corrected data for public disclosure in accordance with Regulation C.

Resubmission

- **When required to resubmit data, an institution should:**

  - Review the entire LAR for errors and correct all errors found.

    and

  - Prior to resubmission, acknowledge to the Regional Office that the data have been corrected.

- **Once the corrections have been made, examiners will <u>revalidate</u> the corrected LAR.**

Assessment of Civil Money Penalties

- **Civil Money Penalties may be assessed for one or more of the following reasons.**

  - A failure to report accurate data

  - A failure to report the LAR in a timely manner

  - A failure to comply with previous order to correct

  - Repeat violations under Regulation C.

Assessment of Civil Money Penalties

- **Other considerations for assessment.**

  - Size of LARs and significance of the number of errors

  - Inaccuracies of data, such as number of denials not reported as required, distorting fair lending reviews

  - Any violations indicating that an institution ignored previous examination's findings or audit findings

Questions and Answers