

The Home Mortgage Disclosure Act

History, Evolution, and Limitations

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History of HMDA

- Enacted 30 years ago, HMDA's purposes and requirements have evolved over time to match changes in mortgage market
- Evolution - 3 phases
 - Community Reinvestment/Disinvestment
 - Mortgage Lender Discrimination
 - Predatory Lending/Price Discrimination

History of HMDA – Phase 1

- In 1975, Congress believed many banks and thrifts were not “reinvesting” in their local, urban communities
- View was that inner city neighborhoods were declining due to lack of available credit for sale, improvement and rehabilitation of homes

History of HMDA – Phase 1

- Banks and thrifts taking deposits from those areas should reinvest by lending in those areas
- This purpose dovetailed with the Community Reinvestment Act, also enacted in 1975

History of HMDA – Phase I

- HMDA enacted to require data on banks' and thrifts' lending patterns to show whether they were “red-lining” these urban areas
- No loan-level data on race, ethnicity, gender, etc. of borrowers was required
- Institutions covered were those with \$10 MM in assets with location in metro area

History of HMDA – Phase 1

- Only summary statistics on number and total dollar amount of loans made or purchased were required
- Loans covered were home purchase loans, home improvement loans, or refinancings of these loans
 - Second lien home equity loans only covered if for home improvement

History of HMDA – Phase 1

- Data included loans within/outside of institution's metro area
- Data tabulated by census tract or, if no census tract, zip code
- Loans categorized by Gov't loans, loans to non-occupying investors, and home improvement loans
- Report was available to public at the home office and one branch

History of HMDA – Phase 1

- 1980 – HMDA purpose began to evolve beyond mere location of loans
- Data now showed lending activity in census tracts by income and race of borrower, as well as age of housing stock (not loan-level data)
- HUD began collecting data on non-bank FHA lenders not subject to HMDA
- FFIEC began compiling aggregate lending data for HMDA reports in centralized repositories

History of HMDA – Phase 1

- 1987 - HMDA expanded to cover bank holding company affiliates
- This change mirrored market changes
 - Banks and thrifts increasingly moved mortgage operations into holding company affiliate
- Holding company subsidiary was covered if 10% of loan volume was home purchase loans (including refinancings), had home office or branch in a metro area, and assets > \$10MM

History of HMDA – Phase 2

- 1989 changes in FIRREA made HMDA explicit tool to identify possible discrimination
- Coverage expanded to independent mortgage companies
- Lenders now reported “completed applications” including rejected or withdrawn applications, and identified race, sex, and income for each applicant (N/A for lenders with assets <\$30MM)
- Lenders identified the type of purchaser (named GSE or other generic classification)

History of HMDA - Phase 2

- 1990 Fed rules - mortgage lender covered if:
 - assets (incl. parent's assets) > \$10 MM and
 - dealt with 5+ purchase/home improvement loans or applications in a metro area, regardless whether lender located in that area
- HMDA now fully beyond initial purpose of testing whether deposit-taking institutions “reinvest” in communities from which they take deposits

HMDA Phase -2

- In 1990, Fed also assumed from lenders task of summarizing data
 - Created the standard Loan Application Register (LAR)
 - LAR information used for both institution-specific report and aggregate reports
- In 1992, Congress required disclosure of LAR to public
 - Data redacted to protect consumer privacy

History of HMDA – Phase 2

- 1996 - the \$10 MM asset test was indexed for cost of living (retroactive to 1975)
- Current asset test is \$34MM (for depository institutions)
- Mortgage company currently covered if:
 - Home purchase loans > 10% of loan volume or \$25MM+
 - Location in metro area
 - Assets (+parent) > \$10MM or 100 home purchase loans (including refis) originated in previous year

History of HMDA – Phase 3

- With development of credit scoring technology, risk-based pricing and the nonprime market, HMDA reporting of approvals / denials became less meaningful
- Loans were being made to more borrowers but at varying prices – concern was now “reverse red-lining”
- Fed responded by requiring lenders, as of 1/1/2004, to include pricing information on loans above a certain rate threshold

History of HMDA – Phase 3

■ Rate Spread Reported:

- For first loans, the “spread” between the loan’s APR and yield on comparable Treasury instruments if spread is at least 3 percentage points
- For second loans, the “spread” between the loan’s APR and yield on comparable Treasury instruments if spread is at least 5 percentage points

HMDA Current Requirements

■ Data Reported

- Loan number, application date, loan type
- Property type, loan purpose, occupancy
- Loan amount (balance for purchases)
- Whether loan initiated as “preapproval request”
 - A request for written, time-limited commitment to make a loan subject only to finding acceptable property and typical closing conditions

HMDA Current Requirements

Reported “Action taken”:

- Loan originated
- Approved but not accepted by consumer
- Application denied
- Application withdrawn
- File closed for incompleteness
- Preapproval request denied
- Preapproval request approved, not accepted
 - This is optional

HMDA Current Requirements

■ Data Reported (Cont'd)

- Date action taken
- Property location
 - Metro area, state, county, census tract
 - No census tract if county < 30,000 pop.
- Income
- Type of purchaser
- Sex of applicant and co-applicant

HMDA Current Requirements

- Race and ethnicity of applicant and co-applicant
 - Optional for purchased loans
- Race categories
 - American Indian or Alaskan Native
 - Asian
 - Black or African American
 - Native Hawaiian or Other Pacific Islander
 - White
- Ethnicity
 - Hispanic or Latino

HMDA Current Requirements

■ Data reported (cont'd):

- Up to 3 reasons for denial
 - Optional, except for OTS/OCC institutions
- Rate Spread for above-threshold loans
 - Threshold: 3% firsts, 5% seconds
- HOEPA status
- Lien status

HMDA Current Requirements

■ Collection Rules

- Lenders must collect, and require their brokers to collect, race/ethnicity data for all apps taken face-to-face
- If applicant refuses to provide, use visual observation and surname
- Must ask for race/ethnicity for telephone, internet and mail applications, but if not given, no follow-up required

HMDA Current Requirements

- Lender must submit LAR info to Fed by 3/1 of following year
- “Modified” LAR available to public by 3/31
 - Delete loan number, application date, action taken date
- FFIEC uses LAR to compile statement for each lender
- FFIEC produces aggregate reports for nation, metro areas, and census tracts
 - Available on FFIEC website

TABLE 11-3: PRICING INFORMATION FOR CONVENTIONAL HOME-PURCHASE LOANS, FIRST LIEN, 1- TO 4-FAMILY OWNER-OCCUPIED DWELLING (EXCLUDES MANUFACTURED HOMES), BY BORROWER OR CENSUS TRACT CHARACTERISTICS, 2004

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MSA/MD: 9999 - XXXXXXXXXXXXXXXXXXXXXXXX

BORROWER OR CENSUS TRACT CHARACTERISTICS	15/ NO REPORTED PRICING DATA \$000's	REPORTED PRICING DATA \$000's	PERCENTAGE POINTS ABOVE TREASURY: ONLY INCL. LOANS WITH APR ABOVE THE THRESHOLD 16/							MEAN	MEDIAN
			3 – 3.99 \$000's	4 – 4.99 \$000's	5 - 5.99 \$000's	6 – 6.99 \$000's	7 – 7.99 \$000's	8 OR MORE \$000's			
GENDER 19/ MALE FEMALE JOINT (MALE/FEMALE) GENDER NOT AVAILABLE 6/											NA NA NA NA
CENSUS TRACT CHARACTERISTICS 10/ RACIAL/ETHNIC COMPOSITION 11/ LESS THAN 10% MINORITY 10-19% MINORITY 20-49% MINORITY 50-79% MINORITY 80-100% MINORITY INCOME CHARACTERISTICS 12 / 13/ LOW INCOME MODERATE INCOME MIDDLE INCOME UPPER INCOME											NA NA NA NA NA NA NA NA

HMDA Data - Limitations

- HMDA provides “outcome” data, not information on how those outcomes were determined
- Even the outcome data is an approximation
 - For many lenders, a high percentage (40% +) of reportable loans don't capture race/ethnicity because applicant doesn't provide it on telephone, or on internet or by mail
 - Pricing information (APR) does not include many closing costs nor account for a borrower's decision to avoid costs by paying a higher rate

HMDA Data Limitations

- Data does not include underwriting factors upon which loan decisions were made
 - Credit history
 - Employment history
 - Applicant's assets
 - Debt load (to determine debt-to-income ratios)
 - Property value (to determine loan-to-value ratios)
- Nor does data take into account other determinants of a lender's pricing decision
 - Market factors, supply/demand

Conclusion

- HMDA was initially designed to show general lending patterns to assess “re-investment” in urban areas
- Expanded to show more specific loan-level lending results, although imperfectly
- Never designed to, and cannot, establish discrimination because does not include the myriad factors that determine pricing decisions