



Clarification Provided February 24, 2014:
"Mandatory reporting of denial reasons"

February 7, 2014

FACTSHEET: CONSUMER FINANCIAL PROTECTION BUREAU TAKES STEPS TO IMPROVE INFORMATION ABOUT ACCESS TO CREDIT IN THE MORTGAGE MARKET

Today the Consumer Financial Protection Bureau (CFPB) is taking steps to improve information reported about the residential mortgage market to help the public and financial regulators better understand borrowers' access to credit. As a first step in the rulemaking process, the CFPB is convening a panel of small businesses to seek feedback on potential changes to mortgage information reported under the Home Mortgage Disclosure Act (HMDA). The CFPB is seeking to improve the quality of the information submitted by lenders, while streamlining the reporting process to reduce the burden on lenders.

WHAT IS HMDA?

The Home Mortgage Disclosure Act was passed in 1975 to give the public and financial regulators information to monitor whether financial institutions were serving the housing needs of their communities and providing access to residential mortgage credit. HMDA was later expanded to include information useful for identifying possible discriminatory lending patterns.

In 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which transferred rulemaking responsibility for HMDA to the CFPB. Congress directed the Bureau to expand HMDA to add certain types of loan information, and to consider adding more data points that would be helpful in spotting troublesome trends.

WHAT IS THE CFPB CONSIDERING?

The CFPB is considering changes to what information lenders will be required to report about mortgages, as well as changes to improve the reporting process.

New Information Required By Dodd-Frank

The Dodd-Frank Act specifically directed the CFPB to expand HMDA to include additional information. The CFPB will ask for small business feedback on these new requirements, including:

- **Total points and fees, and rate spreads for all loans:** For most consumers, a home is the biggest purchase they will ever make. It is critical that regulators understand how much borrowers are paying for their loans in the form of the total points and fees and the rate spread. These data points will significantly enhance financial regulators' understanding of pricing outcomes and risk factors for borrowers.
- **Riskier loan features including teaser rates, prepayment penalties, and non-amortizing features:** Particularly in the years leading up to the mortgage crisis, certain types of loan features have been problematic for consumers. Including this information in HMDA will give financial regulators a better view of the effect of riskier loan features.

- **Lender information, including a unique identifier for the loan officer and the loan:** Including information such as an identifier for the loan officer who works with the borrower, a unique identifier for the loan, and information about whether the applicant or borrower works with a mortgage broker, would help regulators keep track of lenders' business practices.
- **Property value and improved property location information:** The value of a property is an important part of a lender's decision whether to make a loan and what rate to charge. Property value information will help regulators better understand lenders' acceptances and denials, and the rates and fees they charge borrowers. Improved location information will help with analyses of local mortgage markets.
- **Age and credit score:** Unscrupulous lenders may target the elderly for unsuitable and costly loans – having applicant age will help regulators identify and potentially take action to discourage these schemes. Credit score will make it easier to understand why some borrowers are denied and why some borrowers pay higher rates than others. Credit score will also help regulators identify lenders who may warrant closer review.

Additional Data Points Under Consideration

The Dodd-Frank Act authorizes the Bureau to include additional data points in HMDA. The CFPB is asking the Small Business Review Panel to also provide feedback on potential proposals under consideration, including:

- **Mandatory reporting of denial reasons:** Denial reasons are important for understanding whether financial institutions are serving the housing needs of their communities and treating applicants fairly. Lenders currently have the option of reporting the reasons for denial of loan applications. Many, but not all, lenders report denial reasons – in fact, certain lenders that report to the OCC and FDIC are already required to provide this information. The Bureau believes that requiring this information for all HMDA reporters will result in more consistent and statistically meaningful data.
- **Debt-to-Income (DTI) ratio:** Debt-to-income is a key factor in underwriting decisions, closely related to borrowers' ability to repay, and is critical in understanding patterns in mortgage outcomes. When denial reasons are reported, too much debt is a primary reason for rejection of loan applications. In assessing repayment ability under Bureau rules, lenders are required to consider the borrower's total DTI or residual income. Thus, including DTI in HMDA data could provide additional insight into lenders' denial rates.
- **Qualified Mortgage status of loan:** The Bureau is considering proposing to require lenders to report whether they determined the loan to be a Qualified Mortgage. Qualified Mortgages are loans that meet certain criteria and are presumed to comply with the Bureau's Ability-to-Repay rule. Including Qualified Mortgage status in HMDA data could help regulators better determine how the CFPB's rules are impacting the mortgage market.
- **Combined loan-to-value (CLTV) ratio:** The combined loan-to-value (CLTV) ratio is a key factor in underwriting decisions, and is critical in understanding patterns in mortgage outcomes. The CFPB is considering requiring lenders to report the ratio of the combined unpaid principal balance of multiple loans to the value of the property. The Dodd-Frank Act expanded HMDA to include loan-to-value

ratios, but lenders consider the CLTV in underwriting and pricing loans, so including CLTV in HMDA will improve analyses of pricing information.

- **Automatic underwriting systems results:** Lenders widely use automatic underwriting systems (AUS), as a critical part of their decision whether to approve or deny an application. Including AUS decisions in HMDA could help regulators better understand credit decisions and identify problems.
- **Additional points and fees information:** The Dodd-Frank Act requires lenders to report total points and fees and rate spread. The CFPB is considering requiring more detailed pricing-related information which will help regulators compare similarly situated borrowers to identify potentially discriminatory lending practices for further investigation and reduce “false positives” when analyzing disparities.
 - **Total origination charges:** The Dodd-Frank Act expanded HMDA to require lenders to report total points and fees, which the CFPB is considering defining as the points and fees calculated for the Home Ownership and Equity Protection Act and Qualified Mortgages. Total points and fees, however, may not provide sufficient information to understand loan pricing. For example, total points and fees do not include certain bona fide discount points. Thus, to gain a clearer picture of the costs incurred by a consumer to access credit, the Bureau is considering proposing to require financial institutions to separately report total origination charges. The CFPB further believes that reporting this information could be minimally burdensome because most financial institutions will have calculated this amount for the Closing Disclosure.
 - **Total discount points:** Knowing the total discount points paid by the consumer to the creditor to reduce the interest rate – particularly when combined with other pricing information and underwriting information – may help regulators in better understanding loan pricing.
 - **Risk-adjusted, pre-discounted interest rate:** The Bureau is considering proposing to require lenders to report the base interest rate calculated in connection with the Qualified Mortgage and high-cost mortgage bona fide discount point calculations. Knowing the interest rate the consumer could have received in the absence of any discount points or rebates, along with the rate the consumer actually received and any discount points paid, may assist in understanding the value that the consumer received in exchange for total discount points paid.
 - **Interest rate:** The Dodd-Frank Act expanded HMDA to require lenders to report the loan’s APR and the rate spread (the difference between the APR and a benchmark rate). The Bureau is considering proposing to require lenders to also report the base interest rate. Knowing the interest rate that a consumer actually received, along with discount points paid and the rate the consumer would have received in the absence of any discount points or rebates, may be useful for understanding the transaction.
- **Affordable housing programs:** For loans secured by dwellings with more than one unit, the Bureau is considering requiring lenders to report whether the property is deed restricted for affordable housing. This data might enable more robust analysis of access to credit in certain communities and better targeting of public resources, consistent with HMDA purposes and assisting with Community Reinvestment Act compliance exams.

- **Manufactured housing data:** Lenders are currently required to report whether a loan will be for a manufactured home. The market for credit to finance manufactured home purchases is different from the market for credit to finance site-built home purchases. Additional information on manufactured home loans, including the type of financing and whether the borrower will own or lease the land where the home is sited, will make it easier to identify the sources of differences in denial rates, and will improve understanding of manufactured home financing.

Better Collection

Because it can be cumbersome for lenders to collect and submit HMDA information, the Bureau is comprehensively reviewing reporting requirements. The CFPB is asking for feedback on ways it can:

- **Streamline reporting:** Many financial institutions are collecting the same or similar data for their own processing, underwriting, and pricing of loans, or for the sale of loans on the secondary market. The Bureau is considering methods to align the HMDA data requirements with well-established data standards already in use by a significant portion of the mortgage market. The Bureau anticipates that these alignments could significantly mitigate the burden on many lenders, and could improve the quality of the information reported.
- **Standardize the threshold:** Currently, all banks, savings associations, and credit unions that meet certain conditions must submit annual HMDA reports even if they make only a single loan. However, nonbank mortgage lenders may be required to report only if they make 100 or more loans and meet other conditions. The Bureau is considering proposing a rule requiring banks and nonbanks to report if they make 25 or more loans in a year, if they meet other conditions.
- **Improve data entry:** In addition to seeking feedback through the SBREFA process, the CFPB is consulting with other federal agencies about improvements to the HMDA data reporting and disclosure process. One idea is to create web-based HMDA data-entry software so that financial institutions have more flexibility in reporting their information.

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The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit consumerfinance.gov.