SMALL BUSINESS REVIEW PANEL AND COST OF CREDIT CONSULTATION FOR HOME MORTGAGE DISCLOSURE ACT (HMDA) RULEMAKING

DISCUSSION ISSUES FOR SMALL ENTITY REPRESENTATIVES

To help frame the small entity representatives' discussion of issues and cost of credit matters during the upcoming Small Business Review Panel (Panel) meeting, we are providing a list of questions on which the Consumer Financial Protection Bureau (Bureau) seeks your advice, input, and recommendations. As you think about the questions below, you may find it helpful to refer to the "Outline of Proposals Under Consideration and Alternatives Considered" ("Outline of Proposals") enclosed with this document.

Please note that the questions are designed to assist you in identifying the type of information you may need to participate effectively in the discussion with the Panel and other small entity representatives. We recognize that some of these questions may not apply to you or your business. When a topic is relevant to you, please discuss it based on your own experience or your knowledge of the experience of other small entities in your same line of business. It would also be useful to the discussion to provide specific examples of issues that have arisen in your HMDA data collection and reporting activities.

The Panel would like to understand the potential economic impacts of the particular proposals under consideration by the Bureau discussed in the Outline of Proposals. The Panel's understanding would be enhanced if you can provide a general sense of the type and amount of any costs of complying with existing HMDA requirements, as well as estimates of costs for the proposals under consideration. Some of the questions suggest ways in which you might want to consider these costs as you prepare for the general discussion. The Bureau welcomes any quantitative information you may choose to provide in response to those questions, either during the meeting or afterward, but those questions should not be treated as data requests. While company-specific information would be helpful to the discussion, we understand that you may wish to frame your response in a manner that protects your company's proprietary information, as your responses may be included in a public report.

As you prepare for the discussion please consider the following general issues:

- The potential effects of the proposed requirement and alternatives on your company's systems, operations, staff resources, and compliance costs.
- The amount of time you would need to make changes to your systems or operations, train your staff, or take other actions you believe would be required in order to comply with the proposals under consideration.
- The number or percentage of transactions conducted by your company that may be impacted by the proposals under consideration.
- The potential costs and benefits for your company.
- Based on any direct knowledge or experience you may have, how your or other small companies' anticipated compliance costs may differ from those of larger companies, and the characteristics of small companies compared to larger companies that may contribute to these differences.

I. HMDA INFRASTRUCTURE AND PROCESSES

As the Bureau developed the proposals under consideration, it reviewed the current HMDA compliance processes of financial institutions (FIs) of various sizes to gain a better understanding of their HMDA reporting procedures and infrastructure, as well as the costs of HMDA compliance. The Bureau identified 18 operational steps that FIs use to gather and report HMDA data, which can be grouped into four primary tasks: data collection; data reporting and re-submission; related compliance and internal audits; and HMDA-specific supervisory exam preparation and assistance.

The Small Business Review Panel will help the Bureau to expand our understanding of the processes and IT infrastructure small FIs use to collect and report HMDA data. To the extent applicable, the Bureau will assess the impact of each proposal under consideration on the 18 operational steps we've identified. As you consider each question, please think about how you currently meet or would meet the proposal under consideration and identify which of the 18 operational steps below would be impacted, what changes to your processes and systems would be required to meet the requirements under consideration, and any costs and benefits associated with implementation.

18 HMDA Operational Steps (for collecting and reporting HMDA data)		
Data collection	Step 1	Transcribing data
	Step 2	Resolving reportability questions
	Step 3	Transfer data to HMS
Reporting and re-submission	Step 4	Complete geocoding data
	Step 5	Standard annual edit and internal check
	Step 6	Researching questions
	Step 7	Resolving question responses
	Step 8	Checking post-submission edits
	Step 9	Filing post-submission documents
	Step 10	Creating public LAR
	Step 11	Distributing public LAR
	Step 12	Distributing disclosure report

18 HMDA Operational Steps (for collecting and reporting HMDA data)		
	Step 13	HMS /geocoding software
Audits	Step 14	Training
	Step 15	Internal audit
	Step 16	External audit
Exams	Step 17	Exam prep
	Step 18	Exam assistance

<u>Assessment of Existing HMDA Operations</u>

The Bureau has identified that small FIs generally collect and report HMDA data in one of two ways. *One*, some small FIs use a manual process in which the loan officer collects HMDA data from the consumer's application and inputs the data by hand into a spreadsheet each month. The HMDA records are then submitted to the government's data processor using the Federal Financial Institutions Examination Council's (FFIEC) HMDA Data Entry Software (DES). *Two*, other small FIs may input loan application data into loan origination systems (LOS) and a vendor-provided HMDA management system (HMS) then pulls the LOS data into the HMS. The annual HMDA filing is then submitted to the agencies via an e-mail from the HMS or is exported to DES and submitted through that software. The Bureau seeks information about your HMDA compliance systems and processes, and whether they are the same as or different than one of these processes.

1. How do you currently collect and report HMDA data? Is your compliance process manual or automated? What tools and resources are used to fulfill the HMDA requirements?
   a. If your process is manual, do you type loan data into the HMDA DES? Are edit checks conducted manually?
   b. If your process is automated, do you store data on spreadsheets and in HMDA DES? Do you use one LOS and HMS or do you use multiple systems and software?
   c. Do you use both a third-party HMS and DES to prepare and submit HMDA data?
   d. Are your systems integrated? If so, is the integration only forward (i.e., LOS to HMS) or both forward and backward (i.e., your edits update your LOS)?
2. Referring to the chart on page 2, do the 18 operational steps accurately reflect your institution's HMDA compliance process?
   a. Are there other steps you take that are not identified in the chart above? Are there steps identified in the chart that are not part of your compliance process?

    b. What are the most difficult and/or costly operational steps for HMDA compliance? What are those costs in terms of staff time, wages, and other expenses?
    c. Which operational steps are least costly? What are those costs in terms of staff time, wages, and other expenses?
3. When was the last time you updated your HMDA processes and systems, what were the drivers for change, and what actions were required?
    a. Which of the required services and products were provided by your own staff and which were obtained from external sources?
    b. What were the costs of updating your processes and systems in terms of dollars and staff time? If outside vendors are used, how might they pass on costs associated with updates to you?
    c. What would be your normal schedule for the next update of the processes and systems used for HMDA reporting?
4. How much staff time do you estimate is spent on HMDA compliance annually? What are the costs associated with HMDA compliance? If outside vendors are used, how is pricing for services structured and how are price increases passed on to you? How often are vendor contracts renegotiated?
5. On average, how much staff time do you estimate is required to complete an individual loan application register (LAR) record? What are those costs in terms of wages and other expenses for each LAR record?

II. OPERATIONS MODERNIZATION

The Bureau's HMDA rulemaking will implement amendments made to HMDA by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), and is also an opportunity to review, streamline, and modernize HMDA operations. As part of this effort, the Bureau is considering proposing changes that it believes would improve the HMDA reporting requirements and processes with respect to geocoding, LAR submissions and edits, and technical assistance and issue resolution.

A. Geocoding

For most reportable transactions, Regulation C requires FIs to report the Metropolitan Statistical Area (MSA) or Metropolitan division (MD), state, county, and census tract codes for the property pledged or proposed to be pledged as collateral for a loan or loan application. To reduce burden, the Bureau is considering a proposal that would require FIs to provide the property address or latitude/longitude coordinate in the HMDA LAR submission and geocoding would become an operation shared with or performed by the government.

1. How do you currently generate the geocodes for HMDA loans (e.g., FFIEC tool, vendor software, proprietary software)? How much time does it take to geocode a basic LAR record or, if applicable, a batch of LAR records? What are the type and amount of costs currently associated with generating such geocodes?
2. If you have experienced problems where a geocode returned from custom or vendor-provided software does not match the geocode from the government, please describe the

problems you experienced and what you estimate to be the costs of remedying such problems?
3. Referring to the chart on page 2, which operational step(s) would be impacted by this proposal? How might your operations be impacted? Would you continue to geocode data for internal analyses if the government assumed geocoding responsibility for HMDA?
4. What would be the one-time systems or processing adjustments, if any, to start generating a LAR with a property address instead of geocoded data?

B. Submission and Editing Improvements

The Bureau is considering changes to the HMDA data submission process by allowing certain edit flags to align more closely with loan types. This change would enhance the efficiency of the edit process by preventing the same edits from being raised multiple times. The Bureau is also considering upgrades to the HMDA DES such as moving DES to the web, which would mean that FIs would no longer need to download and install updates and would allow FIs to use the software from multiple terminals. In addition, the Bureau is considering allowing third-party HMDA management software to integrate with government back-end systems through an API.

1. How would the proposal under consideration impact your operations and systems? Please describe any changes you believe would be required and the amount and type of any costs associated with those changes.
2. Would the proposed changes improve efficiency or result in other benefits?
3. Would there be any one-time costs to implement the Bureau's proposed changes to the HMDA submission process? If so, please describe the amount and type of costs that you anticipate.
4. How many LAR records did you submit last year? On average, how many errors were identified for each LAR submission?
   a. What are the costs associated with responding to incorrect error messages (i.e., false positives) in terms of staff time, wages, and other expenses?
   b. Does your HMDA submission process rely solely on FFIEC edits? If not, please describe the nature of any additional custom edits that you employ.
   c. Are HMDA completeness checks only conducted in DES, or does your LOS also include HMDA completeness checks?
5. If you use a third-party HMS, how would your operations be affected if that system integrated directly with government systems?

C. Technical Assistance

Currently, the FFIEC provides written guidance and regulatory updates in the form of the "HMDA Getting It Right Guide," FAQs, a glossary of terms, and an annual newsletter. The FFIEC also provides technical assistance through an e-mail box and telephone mailbox. The Bureau understands that multiple sources of technical and interpretive guidance are difficult for FIs to work with and is considering how to provide more centralized HMDA guidance.

1. What are the types of issues or problems for which you typically seek technical assistance?
2. How often do you require technical assistance for HMDA-related matters?
3. How much time do you spend resolving HMDA-related issues on an annual or monthly basis? What are your costs in terms of staff time, wages and other expenses related to resolving HMDA-related issues on an annual or monthly basis?
4. To the extent applicable, please describe any challenges you have experienced in obtaining technical assistance for HMDA?
5. What type(s) of technical assistance would be most useful for your business? What would be the impact on your operations and costs?

III. DATA STANDARDS AND DATA POINTS

A. Adoption of a New Data Standard

To the greatest extent practicable, the Bureau is considering a proposal to align the HMDA data point definitions with existing data point descriptions in MISMO/ULDD, the data standard required by Fannie Mae and Freddie Mac for purchased loans.

1. Do you currently sell loans to Fannie Mae or Freddie Mac? If so, how do you currently collect and report loan information to them? What custom or vendor software do you use for submitting loan and appraisal data when selling loans to the GSEs?
2. Would aligning the HMDA data points with MISMO/ULDD standards require an upgrade to or replacement of your existing system? Is your LOS vendor MISMO-compliant?
3. What do you estimate are the one-time costs to prepare for the transition to the proposed MISMO/ULDD data standards, such as legal, compliance, software and hardware development and training?
4. What benefits or efficiencies do you think will be realized with the adoption of the MISMO/ULDD data standards for HMDA reporting?

B. Proposed New Data Points

The Bureau is considering a number of new and revised data points (data variables) that are either required or suggested by the Dodd-Frank Act, or that the Bureau believes are needed to fill existing information gaps in furtherance of the HMDA purposes. The data points under consideration are grouped into the following categories: (1) existing Regulation C requirements; (2) improvements and technical revisions to current Regulation C requirements; (3) data points specifically identified in the Dodd-Frank Act amendments to HMDA (including some adopted as the Bureau may determine to be appropriate); and (4) additional data points that target existing gaps in the mortgage loan information currently collected and are consistent with the purposes of HMDA. See Section III and Appendix A in the Outline of Proposals for a complete list and discussion of data point proposals under consideration.

1. For each of the proposed new or revised data points listed in Section III of the Outline of Proposals, please tell us: (a) whether you currently collect or retain the information for

other purposes; (b) the method you use to collect the information and the form in which it is retained; (c) the source of the information; (d) the purpose for which you collect the information; and (e) whether you currently report this information to any regulatory agency or industry organization.

2. Why might different variables have different compliance costs? Which variables present the greatest collection and reporting challenges?
3. Does the source of the data variable's definition matter? In other words, is there an impact on costs if the definition aligns with what is used in MISMO/ULDD or another existing regulation, or if the Bureau adopts a new definition altogether?
4. For each data point listed above where you do <u>not</u> currently collect and retain information, describe any changes that each of the new or revised data points being considered will require in your systems, operations, and processes and the type and estimated amount of additional cost you would occur if you were required to collect this information.
5. The Bureau seeks the following information about specific data point proposals under consideration:
   a. Are there ever instances in which you do not have an address for a dwelling used to secure a loan? If so, how often might this happen in a given year and what information do you report in such instances? How do you geocode the property in such instances?
   b. To what extent do you use financial institution entity identifiers for purposes other than HMDA? What is the source for any such entity identifiers, how do you obtain the number, and what are the associated costs?
   c. Do you use an automated underwriting system (AUS) to evaluate applications? If so, how do you handle loan applications referred for further review by the AUS? On average, how many times might you process a single application through your AUS system or multiple AUS systems?
   d. How do you characterize and categorize different application channels? Does the application channel affect pricing or other loan terms? If so, how? How does the application channel affect underwriting procedures or policies? How do financial institutions maintain information about application channels?
   e. Do you collect information about whether a multifamily property is deed restricted for an affordable housing program? If so, what would be the least burdensome way to report that information (e.g., flag, identification of specific program)?

IV. THE MODIFIED LAR APPLICATION REGISTER

Protecting consumer privacy is a significant priority for the Bureau in implementing HMDA. HMDA requires that financial institutions must make available to the public, upon request, a modified loan application register in the form the Bureau prescribes by regulation. HMDA requires the Bureau to require modification of items that will be made available to the public in order to protect the privacy interests of individual applicants or borrowers, and also mandates that the Bureau require deletions from the modified LAR to protect lenders from liability under state and federal privacy laws.

Regulation C currently requires financial institutions to delete three data points from its modified LAR before making it available to the public: the application or loan number, the date that the application was received, and the date action was taken. In addition to deleting these three fields, the Bureau is considering proposing that financial institutions modify or delete data points that may raise privacy concerns including, but not limited to, credit score and age.

1. How will the proposals under consideration impact your systems and operations? What are the amount and type of costs associated with any changes that may be needed to your systems and operations?
2. How many requests for a modified LAR do you receive each year for each Metropolitan Statistical Area or Metropolitan Division? What is the current cost to you to comply with each LAR request? How much do you charge consumers for each LAR request?
3. What process do you currently use to delete data fields from the modified LAR before it is made available to the public? What do you estimate to be the time and cost associated with the deletion of each required field in creating the modified LAR? What do you estimate to be the time and cost associated with each new deletion from the modified LAR that is under consideration by the Bureau?

V. COVERAGE AND SCOPE

A. Transactional Coverage

Regulation C currently requires FIs to report information regarding applications for, and originations and purchases of, closed- and open-end loans made for one of three purposes: home purchase, home improvement, or refinancing. Regulation C also provides for optional reporting of home equity lines of credit (HELOCs) made in whole or in part for the purpose of home improvement or home purchase. The Bureau is considering proposing to establish a more streamlined, bright-lined approach and require FIs to report HMDA data for all applications for and originations and purchases of dwelling-secured loans. In effect, this would: (1) eliminate reporting of non-dwelling secured home improvement loans; (2) capture all closed-end home equity loans (HELs); (3) capture all HELOCs; and (4) capture all reverse mortgages.

1. Please describe the changes, if any, that the proposal under consideration will require in your operational steps, systems, and processes, and any costs or benefits associated with those changes.
2. How many reportable applications and loan originations did you process last year? What percentage of total reportable applications and loan originations were not secured by a dwelling?
3. How many dwelling-secured loans did you originate in 2013? How many loans did you originate in 2013 that are secured by property other than a dwelling?
4. How many applications (non-originated) and loan originations did you complete in 2013 for the loan types below? Were any of these loan types excluded from your HMDA reporting?
   a. HELOCs
   b. Closed-end home equity loans
   c. Reverse mortgages

    d. Unsecured home improvement loans
5. How many pre-approvals and pre-qualifications each did you process in 2013?

B. Institutional Coverage

Currently, whether a FI is required to report under HMDA is determined by coverage tests based on loan volume, asset size, geographic location, and whether the subject loans are federally related. These tests differ depending on whether the FI is a depository institution (i.e., bank, savings association, or credit union) or a non-depository institution (i.e., mortgage company). To simplify the coverage tests, the Bureau is considering proposing a single, consistent minimum loan volume threshold for HMDA coverage for both DIs and non-DIs. The Bureau is considering proposing implementing a minimum loan threshold volume test where lenders who originate 25 or more closed-end first-lien home purchase or refinance loans in a given year would be required to report HMDA data. Because it is a statutory requirement, the existing annually adjusted asset volume threshold that triggers HMDA applicability for depository institutions (currently $43.0M in assets) would continue to apply.

1. How would the proposals under consideration impact your operations and systems? What type and amount of costs and benefits do you believe you would incur as a result of the proposal under consideration?
2. Hypothetically, if the loan volume threshold proposal under consideration were in effect, would you be required to submit HMDA data for calendar year 2013?
3. How many applications did you receive in 2013 that did not result in a loan origination? What are the costs associated with HMDA compliance for loan applications received, but not originated?
4. What types of loans should count towards the 25-loan threshold, including HELs and HELOCs, which typically are not first-lien products, and reverse mortgages?

C. Definition of Application

The Bureau has considered changes to Regulation C to clarify the definition for reportable applications and whether preapprovals should be excluded from the definition. Although the Bureau is disinclined to change the current requirements, it is interested in feedback on whether clarification of the definition of application would be useful, as well as the relative benefits and costs of reporting preapproval data.

1. What criteria do you use to determine whether you have received a reportable application?
2. Do you face any challenges in identifying whether a consumer request constitutes an application? If yes, what are those challenges? How much time does it add to the process to address these challenges?
3. How many requests for preapprovals did you receive in 2013?
4. How do you distinguish between requests for preapproval and a mortgage application?

VI. Additional Feedback

1. Are there any feasible alternatives to the proposals under consideration that would minimize any significant economic impact on your business while accomplishing HMDA's statutory mandates and objectives?
2. Are there any federal or state rules that you believe may duplicate, overlap, or conflict with the proposals under consideration?

VII. Cost of Credit

The proposals under consideration would apply to any consumer credit transaction secured by a residential dwelling or a residential property that includes a dwelling. Thus, while these are loans that are used primarily for personal, family, or household purposes, the proposals under consideration would also cover certain dwelling-secured loans used for business purposes.

1. Look back at the preceding topics under consideration.
   a. Which proposals, if any, do you believe may impact the cost of credit for small entities? Why might this occur?
   b. Are there feasible alternatives to any of the proposals that may minimize the impact on the cost of credit for small entities while accomplishing the statutory objectives addressed by the proposals under consideration?
2. Do you extend consumer mortgage loans that are used secondarily to finance a small business?
   a. If so, what percentage of your consumer loans falls into that category, i.e., loans used secondarily for business purposes by a small business? What is the average amount of the credit extended on such loans? What percentage of the credit extended is actually used for a business purpose?
   b. Would the proposals under consideration cause you to increase the rates or fees you charge for such credit? If yes, please describe the increase that you anticipate, your basis for anticipating that increase, and any feasible alternatives to the proposals under consideration you would recommend to minimize that increase.
   c. Do you believe that borrowers could instead obtain home-secured business loans (i.e., a home-secured loan used primarily for business purposes) from you or another lender?
3. For non-DIs: In the past year, have you taken out a consumer mortgage loan that you also used secondarily to finance your small business?
   a. If so, what percentage of your business costs did you fund through such credit?
   b. Do you believe that the proposals under consideration would cause you to pay higher rates or fees for such loans? If yes, why might this occur?
   c. As an alternative to this type of credit, could you obtain a home-secured business loan (*i.e.*, a home-secured loan used primarily for business purposes)?