Office of Thrift Supervision - West Region February 3, 2005

Regional Bulletin: 05-01

Home Mortgage Disclosure Act (HMDA) Data Analysis

Dear Chief Executive Officer:

At the beginning of 2004, changes to the data collected under the Home Mortgage Disclosure Act (HMDA) became effective. By now, your institution should be preparing to file its 2004 HMDA data by March 1, 2005. We would like to take this opportunity to make some recommendations regarding the preparation for filing and the analysis of this data.

The federal regulatory agencies have been working with institutions during examinations and through review of preliminary data to understand the new data. It became clear through these efforts that additional guidance was necessary to ensure accurate reporting. Recently, the Federal Financial Institutions Examination Committee (FFIEC) issued a memorandum (Attachment A) describing some areas of concern. Please provide this information to your institution's compliance officer and staff handling HMDA data collection and filing. In addition to this memorandum, the FFIEC's HMDA web-site, at http://www.ffiec.gov/hmda/, provides guidance, including a regularly updated Frequently Asked Questions (FAQ) page, at http://www.ffiec.gov/hmda/faqreg.htm, and other tools to assist in data collection, editing, and filing. Accurate reporting is especially important given the scrutiny that the new data, particularly data about pricing, is expected to receive from public interest and governmental entities.

Ensuring the accuracy of your institution's HMDA data should be only the first step. Many of the reporting changes were made to allow for more meaningful analysis. The new data provides institutions with more detailed information to use in analyzing their credit activity for Community Reinvestment Act (CRA) performance, fair lending management, and identification of disparities in pricing. It does, however, create new challenges for institutions to understand and explain this information, especially since this will be the first time that information regarding pricing of higher cost loans has been reported. Though there may be risks associated with the reporting of this data if apparent disparities are found, the new data also provides an opportunity for institutions better to understand and serve all segments of their markets.

We have long expected institutions to analyze the distributions of their credit activity by applicant race, sex, income, and geography (census tract) so that they can identify and address potential disparities to fulfill their fair lending responsibilities. While disparities alone are not evidence of prohibited discrimination, they are an indication that there may be questions that need to be answered or additional information that might be helpful in understanding the data. At this time, we would like to affirm those expectations and provide some suggestions on how your institution might incorporate the new data in its analysis.

First, some general recommendations:

- The analysis should be done at a market level (using Metropolitan Divisions or Metropolitan Statistical Areas) rather than at a state-, region-, or institution-wide level.
- Local demographics and income information should be incorporated into the analysis.
- Race and ethnicity should be analyzed discreetly rather than on an aggregate (all minorities) basis so that meaningful comparisons can be made with local demographics and among races and ethnicities.
- To the degree possible, product groups (home purchase, home refinance, multifamily residential, manufactured housing, home equity, and home improvement lending) should be analyzed separately.
- The number of loans should be analyzed as well as dollar volumes.
- Market aggregate data should be used for comparison purposes as it can provide useful performance benchmarks. Because of the 2004 changes in HMDA reporting, fully comparable information will not be available until mid-2005; after that, however, such data should be included.
- Analysis should typically be done quarterly (where volumes are too low to yield meaningful results, however, it would be appropriate to use a longer or rolling time-frame).
- Results of the analyses should be reported to the board of directors and senior management, along with any additional contextual or explanatory information and action plans to address disparities.
- This information should be made available to the examiners at the start of each comprehensive, compliance, or CRA examination.
- We suggest keeping separate the reporting of CRA and fair lending analyses, as there may be different levels of public disclosure for each.

We also recommend that institutions perform the types of fair lending and CRA analyses outlined in Attachment B.

While we realize that the analytical approach to the new pricing data is still evolving, we believe that the issues that are likely to be raised when the 2004 HMDA data is publicly released are sufficiently serious that early analysis (and, if necessary, prompt corrective actions) by institutions is extremely important. We also recognize that large or complex lenders are likely to need to perform more sophisticated statistical analyses of their data. Nevertheless, the steps outlined above should help you get started on this analysis.

It is important for institutions to identify through their internal analyses the kinds of questions that might arise in the analysis of the publicly reported HMDA data and be prepared to address them by providing contextual information regarding your pricing strategy and the loan or borrower characteristics affecting pricing. As you review your analyses, you will likely recognize that information that is not reported about credit worthiness, collateral, and other non-reported factors has a bearing on your pricing distributions. Since reported data does not include these factors, you may wish to incorporate such factors into your analyses so you can be prepared to address any apparent disparities that might be resolved with such additional information. Any such additional, contextual data that might provide a more complete and accurate understanding of your lending performance should be included when you present your analyses to the examiners.

Because pricing data has not previously been publicly available and may be misunderstood, you may also want to consider whether there is information that you might wish to make public to supplement the reported data, such as aggregate data on relevant non-reported factors and general information about your pricing strategy. We also encourage your involvement in industry or direct outreach and educational activities to ensure that public interest groups and other entities have a context for understanding the publicly disclosed pricing data.

If you have any questions regarding the information in this bulletin or wish to discuss concerns that arise from the analysis of your institution's HMDA data, please feel free to contact your Assistant Regional Director or Compliance Specialist Mariana Rexroth at (650) 746-7144 or mariana.rexroth@ots.treas.gov.

Sincerely,

Michael E. Finn
Regional Director

Enclosures (2)

Attachment A:

FFIECguidance2004.url

Attachment B
Recommended HMDA Data Analyses

A. For an overview of total, institution-wide lending:
  - Total activity for various loan products, segregating multifamily residential, manufactured housing, home improvement, and home equity lending where applicable;
  - The level of home mortgage loan refinances versus originations for various products;
  - The level of lending within and outside of the institution's CRA assessment area; and
  - Overall loan-to-deposit ratio.

B. For CRA analysis at an assessment area level:
  - Levels of home mortgage loan originations by borrower income level (low, moderate, middle, and upper);
  - Levels of home mortgage originations by borrower geography (census tract) income level (low, moderate, middle, and upper); and
  - Comparisons of home mortgage originations with market aggregate originations by borrower and census tract income.
  - In addition, levels of other residential lending, small business, reported consumer lending (by borrower and census tract income), and community development lending should be evaluated periodically.

C. For fair lending analysis of application and decision patterns by market:
  - Breakdowns of credit activity (including preapproval, origination, denial, and fallout (withdrawn, incomplete, and cancelled) rates) by:
    - Borrower race and ethnicity;
    - Census tract race and ethnicity; and
    - Borrower sex (and, although not reported for HMDA, if available consider breakdowns of credit activity by borrower age and marital status and age of dwelling); and
  - Comparisons of these breakdowns with market aggregate data (once available) and local demographic characteristics.

D. For fair lending analysis of pricing by market:
  - Analysis should be segregated by reported factors that significantly affect pricing, such as lien position and whether the dwelling is manufactured housing.
  - There are three major areas of review that should be done:
    - Levels of "triggered loans," that is, the level of loans meeting the threshold for reporting, versus non-triggered loans;
    - For triggered loans, the distribution of prices (the size of the margins) and degree of variation; and
    - Levels of loans covered by the Home Owners Equity Protection Act (HOEPA).
  - The analyses of each of these areas of review should be broken down by:
    - Borrower race and ethnicity;
    - Census tract race and ethnicity;
    - Borrower and census tract income; and
    - Borrower sex (and if available, consider similar analyses by borrower age and marital status and age of dwelling).

- These breakdowns should be compared with market aggregate data (once available) and local demographic characteristics.
- If the institution has a subprime lending affiliate or referral arrangement, comparisons between the institution and the subprime lender should be done for the three major areas of review.
- Overall levels of “triggered” and HOEPA loans reported should be compared with business projections (this may also help identify inaccuracies in reported data).