



# WHITE PAPER

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## HMDA READINESS CHECKLIST

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## WHY IS HMDA DATA IMPORTANT TO THE REGULATORS?

It helps them scope out the lenders who statistically appear to have the greatest issues in Fair Lending. This scoping assists in the prioritization of ECOA exams.

## HMDA IS JUST A REPORTING REQUIREMENT, RIGHT?

Well, as much as we would like to write off this pesky update of an old regulation to just a “reporting update,” it is much more than that! The reporting of all of this new data will be a heavy lift in your organization, yet there are far more implications about the data collection that every mortgage lender needs to be concerned with.

The new HMDA guidelines are over 800 pages and should be digested by your compliance lead, as there is little room for error and not much time to implement all of the changes that are necessary. It is also important to point out that there are still some changes that need further clarification, which will need to be accounted for in your project plan. While our HMDA Readiness Checklist is by no means fully inclusive of all that you need to do, we hope that it gets you started and thinking down the path of what you will ultimately need to do in your company!

### THINGS TO DO NOW

**Form Your HMDA Committee and begin your strategic planning.**

You should be meeting regularly, and include a project lead from each department in your company.

**Budget for this project.**

It is going to be a heavy lift, and proper consideration should be given to both internal and external resources.

**Work with an internal or external project manager.**

There is a lot of detail and moving parts associated with the changes needed for this regulation, and a project manager will help keep everyone on task.

**Begin regular conversations with your LOS providers.**

They will certainly work toward compliant systems, but in the end, even if they are not ready, you are legally required to be ready. Moral to the story is, plan that they will be ready, but have a back-up plan just in case they are not.

**If you are a bank or a lender that does commercial loans where residential real estate is used as collateral..**

This process will need to be revamped to ensure that you are collecting the data necessary under the new HMDA rules.

## COMPLEXITY CONCERNS AND PRO-ACTIVE MEASURES

1. The 1003 mortgage application is changing, and it is unknown what data this will entail. We hope to see this new form shortly. What we do know is that it will change, affect your intake of information, and likely cause additional fields to be considered in your technology platforms.

2. The old submission process allowed you to submit your HMDA data, and then it produced any data validity issues after submission. The CFPB platform, which will not be introduced until next summer, will present data validity issues that need to be corrected prior to submission; and require correction of those issues before you submit the data. This will force lenders to plan ahead and not wait until the last minute to submit, as validation and submission is likely to take longer. If you only have a few loans to validate, it may be easy. On the other hand, high-volume lenders may have tens of thousands of files to sort through. Bottom line, plan well ahead of your submission date!

3. One legal issue that is still awaiting resolution is the GMI (Government Monitoring Information) and loan applications. You are required to intake the new GMI fields for 2018 loans. However, this is not based on application date, it is based on action taken date. So let's say you take a loan in December of 2017 and do not collect the expanded data, yet take action on the file in January of 2018? Come 2019, when you need to report the new data, will you have it for those transitional files? This is one of several issues where lenders are seeking clarification from the CFPB.

**Our HMDA Readiness Checklist is designed to assist your organization in getting ready for ALL aspects of this important update. Here are the SIX areas we will focus on to help you get prepared!**

- Timeline
- Data
- Technology
- Process Flow and Operations
- Training
- Compliance and Executive Management

## TIMELINE

Jan 1, 2018:  
Start Collecting  
New Data Fields\*

Between 1/1-3/1, 2018:  
Submit Data from 2017  
(old fields) into CFPB  
Portal.

Between 1/1-3/1, 2019:  
Submit NEW data fields  
into CFPB portal.

\*Note: Files that need the new data reported are based on the "action taken" date, not the application date. Therefore, you may have some loans that you originate in December 2017 and take action on in January 2018. It is important to plan on how you will handle this process.

## DATA

The data piece to the new regulation will challenge even the most data-sophisticated company. Lenders presently have 26 fields of data, and according to the regulatory bodies the present reporting is consistently incorrect for a large majority of the lenders.

There are now 48 fields to get right, and within those fields, there are 13 Free Form opportunities. Free Form and Technology do not get along, as many of you know well. Of the current 26 fields, there are many changes to those fields as well. The manual explaining the data specification is 78 pages and linked below for your convenience.\*

### CHECKLIST FOR DATA:

Covered loans have been expanded for 2018. For some lenders, this will present a distinct challenge because they adapted to TRID by using multiple LOS systems for traditional mortgages, another for home equity lines, and yet another for reverse mortgages. To add one more layer of complexity, commercial loans that use residential real estate as collateral need to be reported. If all of these loans are in your mortgage wheelhouse, consider the following:

	Review the HMDA manual to ensure that you are collecting data for all of the loans required under the new regulation for your institution.
	Define all of the types of loans that your company offers that will be reported to HMDA.
	If you are using multiple LOS systems, do all of your LOS systems name fields the same way? Resolve any disconnects.
	How will you collect the HMDA data on each of those lines of business/loans?
	How will those data fields then convert to HMDA file specs?
	How will those fields collectively present to the CFPB HMDA submission portal?
	Data map the reportable fields and the fields you collect presently. Resolve any disconnects.
	How can you use technology to "disqualify" a file that does not have to be reported? Kicking this data out of your report prior to converting the data to HMDA format, will assist you in the validation stage.

### Current Data Fields (\*some of which are modified):

- Legal Entity Identifier\*
- Application Identifier\*
- Application Date
- Loan Type
- Loan Purpose\*
- Preapproval Request\*
- Occupancy Type\*
- Loan Amount\*
- Property Type / Constr. Method\*
- Action Taken
- Action Taken Date\*
- State
- County
- Census Tract
- Ethnicity\*
- Race\*
- Sex
- Income
- Type of Purchaser\*
- Rate Spread\*
- HOEPA Status
- Lien Status
- Reasons for Denial\*

### Added Data Fields:

- Age
- Interest Rate
- Loan Term
- Origination Charges
- Discount Points
- Lender Credits
- Total Loan Costs, or Total Points & Fees
- Credit Score
- Debt-to-Income Ratio
- Combined Loan-to-Value Ratio
- Application Channel
- Property Address
- Property Value
- AUS
- AUS Result
- Introductory Rate Period
- Prepayment Penalty Term
- Non-Amortizing Features
- Manufactured Home Secured Property Type
- Manufactured Home Land Property Interest
- Total Units
- Multifamily Affordable Units
- Rate Spread\*
- Mortgage Loan Originator NMLSR Identifier
- Reverse Mortgage
- Open-End Line of Credit
- Business or Commercial Purpose

\*Filing Specifications: <http://www.consumerfinance.gov/data-research/hmda/static/for-filers/2018/2018-HMDA-FIG.pdf>

## TECHNOLOGY

The typical mortgage lender deals with multiple technology platforms, as well as the data flow between each of those. Here are some items to add to your initial evaluation:

	<p>Define what system will be used to transmit base HMDA fields to your HMDA conversion software. If you are not familiar with HMDA data submission, take a look at the <a href="#">Filing Specification</a> document through the link above. Data in your LOS, as an example, will need to convert to acceptable codes for HMDA data submission.</p>
	<p>Most lenders use their LOS as their database of record. As mentioned earlier, if you have more than one LOS, consider how this data will populate and convert to meet HMDA submission guidelines.</p>
	<p><b>How will you ensure that your pricing data is correct in your LOS? Here are some recommendations:</b></p>
	<p>Make sure your integrations are up-to-date, so that your data is pushing and pulling in both your LOS system and your pricing engine.</p>
	<p>Add your fee templates to your pricing engine.</p>
	<p>Simplify your pricing by pushing a Par price to your origination staff. This will make lender credits and discount points easier to account for.</p>
	<p><b>How will you move data consistently and correctly from your multiple platforms to the final data set? Consistency will be your best friend with this updated rule. The same data should be asked for, identically named in your varying systems, and reported the same way. Big lift, but a necessary one!</b></p>
	<p>A good contingency plan includes software bridges that fill the gaps between your varying platforms which are not solved by your technology vendors. There are many skilled developers who are experts on your LOS systems, who will be able to assist you. Hire them before other lenders gobble them up!</p>
	<p><b>How will you handle the Free Form fields so that data is consistent? There are two challenges here:</b></p>
	<p>Borrower direct input to Free Form fields.</p>
	<p>Loan originator input to Free Form fields, when they fill out the GMI based on visual observation.</p>
	<p><b>Meet consistently with your technology providers to keep up-to-date on their progress. As stated earlier, the law applies to the lenders, so even if your vendors are not ready, you still have to be ready.</b></p>

## PROCESS FLOW AND OPERATIONS

One of the good things about regulatory change is that it forces us to get consistent in our process flows. As an industry we are highly challenged with this, and each new regulation forces us to think about how we do business. The bad news is that we are experiencing so much change it throws us into chaos if not done well.

When it comes to HMDA regulation and Fair Lending, consistency in your methods and flow is your best friend. The more consistent you become in your practices, the happier you will be during the exam process and the more money you will save.

### GOOD PROCESS FLOW IS EFFICIENT, LEAN AND PREVENTS THE WASTE OF YOUR HARD EARNED DOLLARS.

	Pull every document that you presently use. What needs to be updated?
	Do those updates correlate to your technology usage and requirements? If not, what specifically needs to be changed? Create your project plan and task assigning to this immediately.
	How are you defining your "Result," "Action," "Relied Upon" and "Closest To" dates? This needs to be thought through and highly consistent or you will have a big mess.
	What will be the audit and transition plan for those loans whose application is taken in 2017, and have action taken in 2018? How will you pull and reconcile the proper collection of data based on which year the action was taken? One idea is to start collecting that data mid-year 2017, so that you have the data if you need it.
	If you have multiple channels of origination, is the data intake and defined "Result," "Action," "Relied Upon," and "Closest To" date consistent? If not and you plan on keeping it that way, then how will you reconcile this?
	Map the flow of each channel. If you have disconnects, resolve them.
	Map the flow of the process and verify that this process is actually performed. It has been my experience in working with many lenders, that they have multiple processes going on in varying locations that are in direct conflict with the process flow they are presenting to an examiner.
	Consider one person or one department to fill out your adverse action documents to achieve consistency.
	What monthly audits will be done on the data to make sure that consistent data and correct data is being used in your systems? Discovering this fast is the key to avoiding a mess at the end of the year!
	How will you test your new flow and forms prior to implementation?
	Consider a pre-close data integrity check. Take the closing docs and compare them to the database of record. Have the audit assistant correct any disconnects.
	What is your "scrubbing plan?" Remember, you don't want to wait until submission time to scrub your data, as it may cause you to miss your filing deadline! Scrubbing plans should be done weekly or monthly depending on your volume. This makes your submission process so much easier!

## TRAINING

Each area of your company will have different training needs depending on their particular job tasks. As soon as you have your operational and technical issues sorted out, it's time to start onboarding your staff to the new way of doing things.

	What are your company expectations in the collection of the new GMI? Your staff should have clear guidance as to what is expected and how to properly report this information in your systems, as well as on paper.
	How will your staff handle the Free Form fields of the new GMI? If they are not all on the same page, you will have inconsistent data.
	Train your staff on the basic elements of HMDA. What is it? Why is data integrity so important? What issues can be caused if things are not correct? If they don't know why, they will likely not see data integrity as important.
	Thoroughly train the people sending out the adverse action notices. Consistency in this process will not only save you effort in your HMDA submission, but will also make your Fair Lending exam easier.
	Train, test, retrain and retest. Then repeat!
	The staff at many companies is in a constant state of fluctuation. How will you train the newly on boarded personnel to follow the HMDA guidelines based on your company interpretations? Employees coming from other companies may have been trained differently or not at all, so assume nothing!

## COMPLIANCE AND EXECUTIVE MANAGEMENT

The performance of all of these departments will eventually fall on your shoulders. Your goal is to keep them moving in the right direction, so that you are not faced with a nightmare come submission time. Certainly the focus of this white paper is to provide framework around the things you need to consider. However, you will need to consider far more than this based on the new data collected; and that big item is, what does your data say about your Fair Lending practices?

	The executive team is the responsible party and should be the driving force in managing the success of these tasks. Ultimately the headaches for any issues will rest on your shoulders so herd the cats and get them moving in the same direction by leading from the top.
	The first quarter of 2017 is quickly approaching, and your staff will need a budget to successfully pull this project off. Have each department carefully consider the resources they will need and submit their budgetary needs by the end of Q3.
	Is someone on your staff a subject matter expert on HMDA, and have they completely read the 800-page rule and 78-page file specification documents? If not, that task needs to be assigned to some lucky person!
	What will the monitoring, data integrity and validation testing look like? How often will it be performed?
	How will you perform your impact analysis?
	What are your plans for reviewing and evaluating data from 2016 and 2017 for Fair Lending patterns of practice that may be problematic? Remember, the 2019 submission will be used for scoping. If you are chosen for an ECOA exam, it is highly likely that the examiners will ask for the expanded data set for previous years as well. If you don't know what this data says about your company, you could have big issues.
	What action plans are you putting in place to correct any negative patterns of practice suggested by your data; for Fair Lending purposes?

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**A COMPLETE SUITE OF  
TECHNOLOGY TOOLS**  
that assist you in Best  
Practices monitoring  
through our Enterprise  
Lending Services.

## HOW CAN OPTIMAL BLUE HELP?

Real facts on a loan-by-loan basis or as an aggregate of your files!

- **Optimal Blue eOriginations** locks down the potential exclusion or mistreatment of a client by automating controls in production.
- **Optimal Blue Banker** Product Eligibility and Pricing lock down LO Comp, consistency in the pricing and management of products and distribution channels.

Optimal Blue Banker **Premium Services** control re-locks, and allows the lender to look back historically to prove to a regulator that your consumer was priced based on their financial profile.

- **Optimal Blue Advantage** allows the lender to monitor pricing disparity and pricing exceptions, and demonstrate that to a regulator. Use of Optimal Blue Advantage with a periodic third-party statistical analysis review allows a lender to stay on top of potential Disparate Impact issues.
- **Optimal Blue Insight** quickly detects issues with product and pricing per MSA that may be a contributing factor to Disparate Impact.

Contact Optimal Blue for additional information or assistance with how these products can work with some of your existing technologies.

## ABOUT THE AUTHOR

Tammy Butler, Master CMB and LSS Black Belt, is the CEO of Fair Lending Diversity, a Fair Lending Strategy company that assists lenders in fixing Redlining, Disparate Impact, Pricing Disparity and other Fair Lending issues discovered by their legal counsel, prudential regulators or statistician. As the author of one of the top compliance discussions groups on LinkedIn, industry blogs, and frequent contributor to magazines such as Mortgage Compliance Magazine and Mortgage Banking Magazine, Tammy has guided many lenders through all of the new compliance regulations with practical tips and solutions for proper compliance implementation. She can be reached at [tammybutler@fairlendingdiversity.com](mailto:tammybutler@fairlendingdiversity.com) or 847-276-0399. Her fair lending insights can be found on [www.fairlendingdiversity.com](http://www.fairlendingdiversity.com).

