Fair Lending at the CFPB and the Role of the Home Mortgage Disclosure Act (HMDA) in Protecting America's Consumers

Consumer Financial Protection Week| July 2020

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Opening Remarks from Director Kraninger

- The Home Mortgage Disclosure Act (HMDA) plays an important role in protecting America's consumers.

- The CFPB takes seriously its obligations to enforce HMDA and holds mortgage lenders accountable for failing to comply with the law.

- HMDA data are used for a variety of purposes including to assess housing needs, public investment, and possible discrimination under numerous federal and state laws, as well as general market and economic monitoring.

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The Office of Fair Lending and Equal Opportunity: Today's Presenters

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About the Office of Fair Lending and Equal Opportunity

Structure

The Dodd-Frank Act

→ Office of the Director

   → Office of Equal Opportunity and Fairness

      → Office of Fair Lending and Equal Opportunity

Sec. 1013 (c) Office of Fair Lending and Equal Opportunity.--

(1) Establishment.--The Director shall establish within the Bureau the Office of Fair Lending and Equal Opportunity.

(2) Functions.--The Office of Fair Lending and Equal Opportunity shall have such powers and duties as the Director may delegate to the Office, including--

(A) providing oversight and enforcement of Federal laws intended to ensure the fair, equitable, and nondiscriminatory access to credit for both individuals and communities that are enforced by the Bureau, including the Equal Credit Opportunity Act and the Home Mortgage Disclosure Act;

(B) coordinating fair lending efforts of the Bureau with other Federal agencies and State regulators, as appropriate, to promote consistent, efficient, and effective enforcement of Federal fair lending laws;

(C) working with private industry, fair lending, civil rights, consumer and community advocates on the promotion of fair lending compliance and education; and

(D) providing annual reports to Congress on the efforts of the Bureau to fulfill its fair lending mandate.

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Office of Fair Lending: Mission & Vision

MISSION:

- The Office of Fair Lending's mission is to advance the CFPB's role as a national leader in ensuring fair, equitable, and nondiscriminatory access to credit for individuals and communities.

VISION:

- The Office of Fair Lending envisions driving the CFPB's fair lending priorities, and also facilitating national dialogue and collaboration on efforts that advance fair, equitable, and nondiscriminatory access to credit for individuals and communities.

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The Home Mortgage Disclosure Act (HMDA)

Some background.

Brief History of HMDA

- Enacted by Congress in 1975, implemented by the Federal Reserve Board rulemaking in 1976 (called "Regulation C")

- Both the statute and the regulation were amended several times over the following four decades

- HMDA's purposes:

  - Helps show whether financial institutions are serving the housing needs of their communities

  - Assists public officials in distributing public-sector investment to attract private investment to areas where it is needed

  - Assists with the identification of possible discriminatory lending patterns and enforcement of antidiscrimination laws

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What kinds of transactions are reported under HMDA?

- Mortgages (including single family and multi-family, refinancing, preapprovals, applications, originations, secondary market purchases) secured by a dwelling

- Home Equity Lines of Credit (HELOCs) and other open-end credit secured by a dwelling

- Includes reverse mortgages and manufactured housing loans

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Data Points (data that must be reported)

Applicants & Applications

- Ethnicity, race, and sex
- Age
- Income
- Debt-to-income ratio
- Credit score
- Automated underwriting system
- Application channel
- Reason for denial
- Application date
- Preapproval request

Property

- Property location by state, county, and census tract
- Lien status
- Property value
- Combined loan-to-value ratio
- Construction method
- Manufactured home secured property type
- Manufactured home land property interest
- Total units
- Multifamily affordable units
- Occupancy type

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Data Points: Transaction

- Loan type

- Loan purpose

- Loan amount

- Action taken and action taken date

- Type of purchaser

- Rate spread

- HOEPA status

- Total loan costs or total points and fees

- Origination charges

- Discount points

- Lender credits

- Interest rate

- Prepayment penalty term

- Loan term

- Introductory rate period

- Non-amortizing features

- Reverse mortgage

- Open-end line of credit

- Business or commercial purpose

Who uses HMDA data?

Who uses HMDA data?

- Federal Government
  - CFPB
  - Department of Justice
  - Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) Agencies (FDIC, OCC, NCUA, FHFB, FCA)
  - Department of Housing and Urban Development (HUD)
- State banking regulators and Attorneys General
- Consumer groups
- Compliance vendors
- Financial institutions
- Private parties
- Academics / researchers (including Congressional researchers)

HMDA Data are used by nearly every office at the Bureau:

- Supervision

- Enforcement

- Fair Lending

- Markets

- Regulations

- Research

- Technology & Innovation

- Legal

- And more!

Who can access HMDA data?

The data are available to the public.

You can! This powerful dataset is available to the public

- There is something for everyone at https://ffiec.cfpb.gov/

- You can conduct basic searches, like finding out how many mortgages were originated in your area or which lenders are based in your area

- HMDA data can also be used to conduct more sophisticated analyses and identify fair lending risk

See how many home purchase loans were originated in your area

- Go to https://ffiec.cfpb.gov/

- Select "HMDA Data Browser"

- Then select "HMDA Dataset Filtering"

- Type in the geography, you can use:

  - State

  - Metropolitan Statistical Area (MSA)

  - County

  - Nationwide

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Start by accessing the HMDA Data Browser

Filter the dataset

Filter the data

- Let's use Pittsburgh, Pennsylvania, which is in Allegheny County, Pennsylvania

HMDA Dataset Filtering

You can use the HMDA Data Browser to filter and dow
files contain all data fields available in the public dat
analysis. You can also access the Data Browser API di
contact hmdahelp@cfpb.gov.

Step 1: Select Geography

Start by selecting a geography filter using the dropdown menu below.

County   ∨   Select or type additional countie

42003 - ALLEGHENY COUNTY - PENNSYLVANIA ✕

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Filter the data

- Leave the "Select Financial Institution" field blank to include all financial institutions in your chosen geography

- Notice that the field automatically calculates how many lenders reported HMDA data in that county (541 here)

Step 1: Select Geography

Start by selecting a geography filter using the dropdown menu below. View more information on the

| County | ∨ | Select or type additional counties |

42003 - ALLEGHENY COUNTY - PENNSYLVANIA ✕

Step 2: Select Financial Institution (optional)

You can select one or more financial institutions by entering the financial institutions LEI or name.
NOTE: Only Institutions that operate in the selected geography are available for selection.

All institutions selected. Select or type the name of one or more LEIs to filter

All Financial Institutions (541)

1ST ALLIANCE LENDING, LLC - 549300X973YPKT8V0H73

1ST SUMMIT BANK - 5493009HFRW3TN5NRR78

21ST MORTGAGE CORPORATION - 549300XQVJ1XBNFA5536

360 MORTGAGE GROUP, LLC - 549300CD76YM6Y3IZ451

ACCELERATE MORTGAGE, LLC - 549300JHSXRPXKX47M78

ACCESS NATIONAL BANK - 549300QWEDZGLJE73X04

ACOPIA, LLC - 549300L1DBFIJZI8LA40

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Filter the data

- Action Taken
  - 1 = originated
- Loan Purpose
  - 1 = home purchase

Step 3: Select a filter (optional)

Narrow down your selection by filtering on up to two popular variables

Remove a variable to select another

Action Taken ✕   Loan Purpose ✕

Action Taken

- ☑ 1 - Loan Originated
- ☐ 2 - Application approved but not accepted
- ☐ 3 - Application denied
- ☐ 4 - Application withdrawn by applicant
- ☐ 5 - File closed for incompleteness
- ☐ 6 - Purchased loan
- ☐ 7 - Preapproval request denied
- ☐ 8 - Preapproval request approved but not accepted

Loan Purpose

- ☑ 1 - Home Purchase
- ☐ 2 - Home Improvement
- ☐ 31 - Refinancing
- ☐ 32 - Cash Out Refinancing
- ☐ 4 - Other Purpose
- ☐ 5 - Not Applicable

Download Dataset   **View Summary Table**

Filter the data

- View the data summary to see how many records you retrieved (14,922 here)

- You can also download the dataset if you want to learn more about those loans

Data Summary

| County: | Action Taken: | Loan Purpose: |
| ALLEGHENY COUNTY | 1 - Loan Originated | 1 - Home Purchase |

Selected Variables	# of Records	$ Amount
1 - Loan Originated, 1 - Home Purchase	14,922	3,107,330,000

The filtered data contains **14,922** rows, each with all 99 public data fields.

Download Dataset

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Want to see if any HMDA reporting lenders are based in your town or state?

- Start at the same website, https://ffiec.cfpb.gov/

- Select "Data Publication"

- Then select "Snapshot National Loan-Level Dataset"
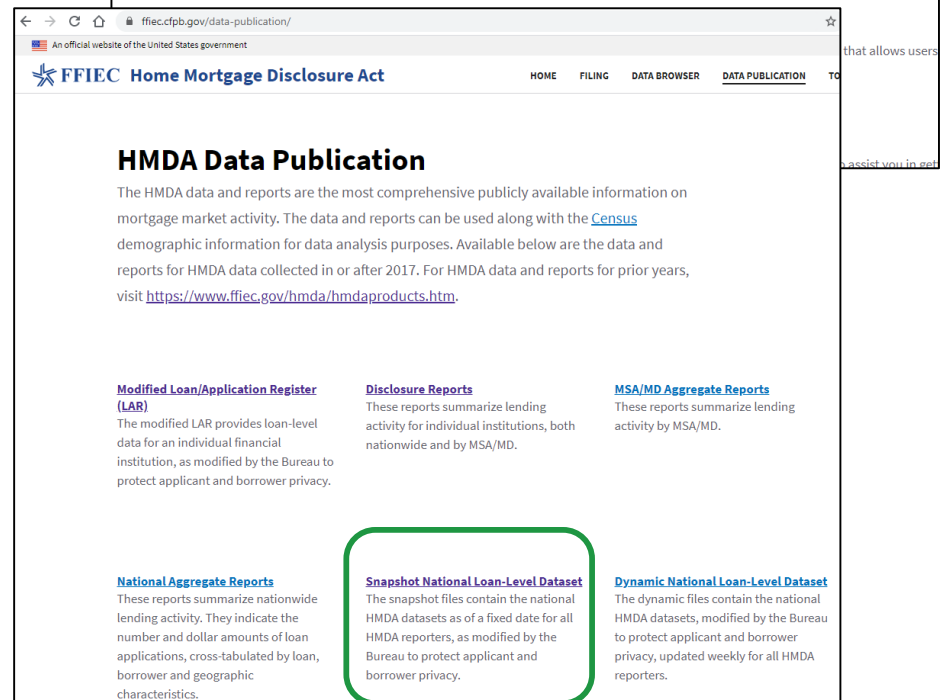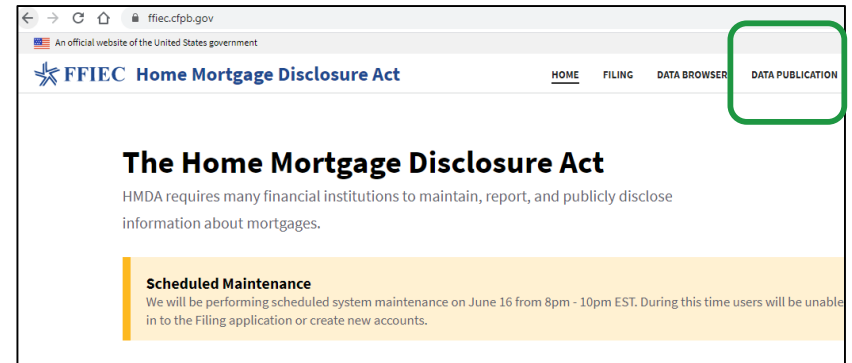
Want to see if any HMDA reporting lenders are based in your town or state?

- Select the year

- The select the Transmittal Sheet CSV file to get a list of all HMDA reporters for that year

- Download the file

Want to see if any HMDA reporting lenders are based in your town or state?

- I'm from New Hampshire, it's not a very big state, but let's see if any lenders are based there.

- Once we open the downloaded transmittal sheet, we can sort by city or state

- You can also see how many HMDA records each lender reported

- Sort from largest to smallest to see the largest mortgage lenders based out of your area!

	F respondent_name	G respondent_sta	H respondent_city	I respondent_zip_code	J lar_count
473	Northway Bank	NH	Berlin	3570	616
113	New Hampshire Federal Credit Union	NH	Concord	3301	107
116	Merrimack County Savings Bank	NH	Concord	3302	438
387	Federal Savings Bank	NH	Dover	3820	192
801	Franklin Savings Bank	NH	Franklin	3235	241
626	Bank of New Hampshire	NH	LACONIA	3246	1418
032	Bellwether Community Credit Union	NH	Manchester	3104	421
034	Coastway Bank	NH	Manchester	3101	1351
035	Members First Credit Union of N.H.	NH	MANCHESTER	3101	272
036	Granite State Credit Union	NH	Manchester	3101	670
037	HarborOne Mortgage LLC	NH	MANCHESTER	3101	5095
038	St. Mary's Bank	NH	Manchester	3103	1149
210	Meredith Village Savings Bank	NH	Meredith	3253	629
509	TRIANGLE CREDIT UNION	NH	Nashua	03064-2639	514
174	Service Credit Union	NH	PORTSMOUTH	3801	1177
175	Piscataqua Savings Bank	NH	Portsmouth	3801	128
176	Northeast Credit Union	NH	PORTSMOUTH	3801	1828
178	Optima Bank & Trust	NH	Portsmouth	3801	374
350	Profile Bank	NH	ROCHESTER	3866	124
354	Holy Rosary Credit Union	NH	ROCHESTER	3867	228
495	Salem Co-operative Bank	NH	Salem	3079	273
501	New England Regional Mortgage	NH	Salem	3079	1
503	Bank of New England	NH	Salem	3053	42
423	Northeast Home Loan LLC.	NH	West Chesterfield	3466	1070

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More advanced HMDA analytics

Also available to the public.

Loan Distribution Analysis

- Problem statement: Determine what percentage of loans are going to minority neighborhoods in the Birmingham, Alabama Metropolitan Statistical Area (MSA); compare lenders to see which lenders are receiving more applications from minority neighborhoods

REMEMBER!

HMDA data can signal fair lending risk, but may not include some legitimate credit risk considerations for loan approval and loan pricing decisions. Therefore, when regulators conduct fair lending examinations, they analyze additional information before reaching a determination about an institution's compliance with fair lending laws. (*See* FFIEC Press Release: "FFIEC Announces Availability of 2018 Data on Mortgage Lending," August 30, 2019, *available at* https://www.ffiec.gov/press/pr083019.htm.)

Fair Lending Use Case 2: Loan Distribution Analysis

- Step 1: Select Geography – MSA/MD – type "BIRMINGHAM-HOOVER - ALABAMA"

- Step 2: Select Financial Institution – leave blank to pull all institutions (or filter if you are looking at one institution)

- Step 3: Select a Filter – you can filter on 0-2 different variables - some filters you may find helpful for comparing institutions:

  - Action Taken – select action codes 1-5 (to capture all applications and exclude preapprovals and loans purchased by an institution)

  - Loan Purpose – can include all or narrow to only consider, for example, home purchases (loan type code 1), or only home purchases and refinances (codes 1, 31, and 32)

- Step 4: Download the dataset – this dataset is small enough to work with in Excel (24,202 records)

Select Geography

Select Financial Institution

Step 1: Select Geography

Start by selecting a geography filter using the dropdown menu below. View more information on the available filters.

| MSA/MD ⌄ | Select or type additional MSA/MDs ✕ ⌄ |

13820 - BIRMINGHAM-HOOVER - ALABAMA ✕

Step 2: Select Financial Institution (optional)

You can select one or more financial institutions by entering the financial institution LEI or name.

NOTE: Only Institutions that operate in the selected geography are available for selection.

All institutions selected. Select or type the name of one or more LEIs to filter ⌄

> Leave blank to pull all institutions

Step 3: Select a filter (optional)

Narrow down your selection by filtering on up to two popular variables

Select a variable ⌄

Download Dataset   **View Summary Table**

Select a Filter

Step 2: Select Financial Institution (optional)

You can select one or more financial institutions by entering the financial institutions LEI or name.

NOTE: Only Institutions that operate in the selected geography are available for selection.

> All institutions selected. Select or type the name of one or more LEIs to filter

Step 3: Select a filter (optional)

Narrow down your selection by filtering on up to two popular variables

> Remove a variable to select another   × ⌄

Action Taken ✕   Loan Purpose ✕

Action Taken

- ☑ 1 - Loan Originated
- ☑ 2 - Application approved but not accepted
- ☑ 3 - Application denied
- ☑ 4 - Application withdrawn by applicant
- ☑ 5 - File closed for incompleteness
- ☐ 6 - Purchased loan
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Loan Purpose

- ☑ 1 - Home Purchase
- ☐ 2 - Home Improvement
- ☐ 31 - Refinancing
- ☐ 32 - Cash Out Refinancing
- ☐ 4 - Other Purpose
- ☐ 5 - Not Applicable

Download Dataset   **View Summary Table**

Selection "Action Taken" and "Loan Purpose"

Check boxes for the loans of interest.

Click "View Summary Table"

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View the Data Summary and Download the Dataset

Data Summary

MSA/MD:
13820 - BIRMINGHAM-HOOVER

Action Taken:
1 - Loan Originated
2 - Application approved but not accepted
3 - Application denied
4 - Application withdrawn by applicant
5 - File closed for incompleteness

Loan Purpose:
1 - Home Purchase

Selected Variables	# of Records	$ Amount
1 - Loan Originated, 1 - Home Purchase	16,938	3,623,290,000
2 - Application approved but not accepted, 1 - Home Purchase	652	116,780,000
3 - Application denied, 1 - Home Purchase	2,613	347,655,000
4 - Application withdrawn by applicant, 1 - Home Purchase	3,168	620,300,000
5 - File closed for incompleteness, 1 - Home Purchase	831	101,305,000

The filtered data contains **24,202** rows, each with all 99 public data fields.

Download Dataset

actions_taken_1-2-....csv
2.9/9.0 MB, 14 secs left

Download the dataset

Continuing the analysis in Excel

- Census and economic data (at the tract level) are appended in columns CO-CU (population, percent minority, median family income, income percentage, owner-occupied units, 1-4 family homes, median age of housing units)

- Click on the upper left hand corner of the excel table and select "Insert" and then "Pivot Table"

- Drag "LEI" (legal entity identifier) into the "rows"

- Drag "tract_minority_population_percent" into the "columns" box

- Drag "LEI" into the "values" box (to count how many records there are for each institution)

- Group the percent minority values (0-49%, 50-79%, 80-100%)

- You now have a list of what percentage of loans from every lender in the MSA are going to low-, moderate-, and high-minority neighborhoods

- You can look up the entity names and contact information using https://ffiec.cfpb.gov/data-publication/disclosure-reports/2018

- You can continue to filter if you only want to compare certain types of loans

  - Common filters include Total Units, Open-End Line of Credit, Occupancy Type, Construction Method (e.g., site-built or manufactured home), and Reverse Mortgage.

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Pivot tables are a great way to understand your data

Getting comfortable with pivot tables

Analysis Results

	A	B	C	D	E	F
1						
2						
3		Column Labels ▼				
4		⊞ 0-49% Minority Census Tract	⊞ 50-79% Minority Census Tract	⊞ 80-100% Minority Census Tract	Grand Total	
5						
6	Count of lei	21216	2102	884	24202	
7		87.66%	8.69%	3.65%	100.00%	
8						
9						

How the CFPB uses HMDA Data

Putting the pieces together.

HMDA Data are one of the foundations of our fair lending work.

- Understanding the market size and landscape
- Prioritizing our work
- Identifying non-compliant financial institutions
  - HMDA non-reporters
  - Poor HMDA data quality as an indicator of overall poor compliance
- Redlining
  - Identifying risk
  - Mapping application patterns
- Reporting
  - Annual report to Congress

→ PROTECTING CONSUMERS

Freedom Mortgage (June 2019)

- The Bureau announced a settlement with Freedom Mortgage Corporation (Freedom), one of the ten largest HMDA reporters nationwide.

- Freedom violated HMDA and Regulation C by submitting mortgage-loan data for 2014 to 2017 that contained errors.

  - Freedom reported inaccurate race, ethnicity, and sex information

  - Much of Freedom's loan officers' recording of this incorrect information was intentional

  - For example, certain loan officers were told by managers or other loan officers that, when applicants did not provide their race or ethnicity, they should select non-Hispanic white regardless of whether that was accurate.

- Under the terms of the consent order, Freedom must pay a civil money penalty of $1.75 million and take steps to improve its compliance management to prevent future violations.

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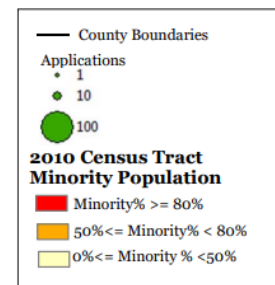# HMDA Warning Letters (October 2016 & February 2019)

- Purpose
    - Through these letters the Bureau seeks to increase compliance with HMDA through enhanced education efforts and direct outreach to potentially non-compliant mortgage lenders, and to increase HMDA data quality and completeness through accurate reporting.
    - Since commencing the issuance of the HMDA warning letters more than 140,000 new mortgage loan application registers (LARs) that previously went unreported by the entities have now been reported.
- Commitment to follow through
    - The Bureau will follow up on these letters to ensure compliance, as appropriate.

Fair Lending Report of the Bureau of Consumer Financial Protection, April 2020.

United States of America and Consumer Financial Protection Bureau v. BancorpSouth Bank (June 2016)

- CFPB and Department of Justice (DOJ) joint action against BancorpSouth Bank for discriminatory mortgage lending practices that harmed African Americans and other minorities, including:

  - Illegally redlining in Memphis

  - Denying certain African Americans mortgage loans more often than similarly situated non-Hispanic white applicants

  - Charging African-American customers for certain mortgage loans more than non-Hispanic white borrowers with similar loan qualifications

  - Implementing an explicitly discriminatory loan denial policy

- Consent Order - BancorpSouth was required to pay:

  - $4 million in direct loan subsidies in minority neighborhoods in Memphis

  - At least $800,000 for community programs, advertising, outreach, and credit repair

  - $2.78 million to African-American consumers who were unlawfully denied or overcharged for loans

  - $3 million penalty

- In resolving this lawsuit, the Bureau required BancorpSouth to take a number of actions to increase access to credit for majority African American communities in the Memphis area. These actions included a loan subsidy program that offered qualified applicants mortgage loans on a more affordable basis, and the opening of new branches in the formerly redlined areas.

BancorpSouth Application Volume, 2011 – 2013, Memphis MSA

Legend:
— County Boundaries
Applications
· 1
● 10
● 100

2010 Census Tract Minority Population
- Minority% >= 80%
- 50% <= Minority% < 80%
- 0% <= Minority % < 50%
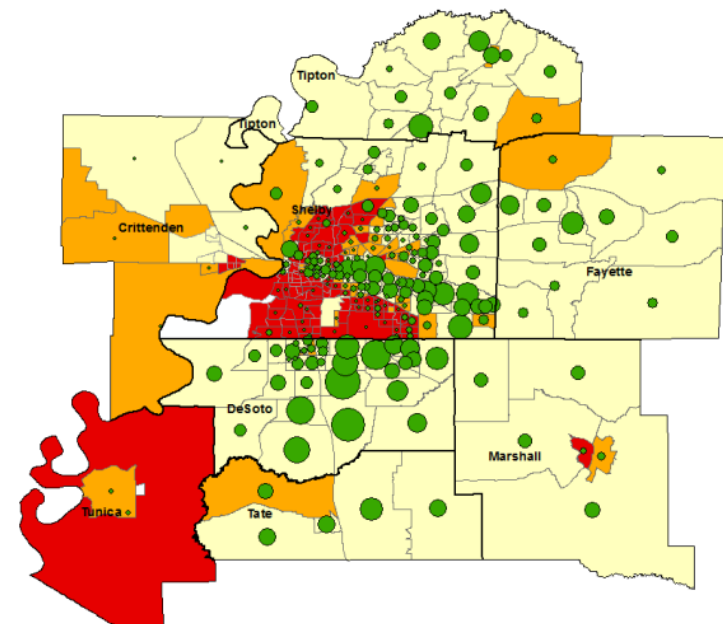
Resources

Resources

- "Data Point" research papers
- FFIEC's HMDA-related resources – organized by year
  - Frequently Asked Questions
  - How to file HMDA data, including the FFIEC's Filing Instructions Guide (FIG)
  - HMDA publications (e.g., Modified Loan/Application Registers (or LARs), Aggregate and Disclosure Reports, etc.)
  - Snapshot and Dynamic National Loan Level Dataset
  - HMDA tools (e.g., Data Browser, Rate Spread, LAR formatting tool, etc.)
- HMDA implementation resources – aimed at HMDA reporters, but useful for data users
  - Institutional and transactional coverage charts
  - Regulatory and reporting overview charts by year
  - Bureau's user-friendly version of Regulation C
  - Executive summaries of the Bureau's Regulation C rulemaking activities

Thank you for joining us today!

If you have further questions, please do not hesitate to reach out to us.

If you have questions about the Office of Fair Lending, please email us at **cfpb_fairlending@cfpb.gov**.

If you have questions about the HMDA Data Browser, please email our HMDA Operations team at **hmdahelp@cfpb.gov**.

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