

Revisions to Regulation C (Home Mortgage Disclosure)

AGENDA

- HMDA – Background & Purpose
- The Review – Goals and Process
- The Review – What's New and Why
- Transition Rules – 2003 to 2004
- Census 2000
- FAQs & Answers
- Sources of Information
- Questions?

BACKGROUND & PURPOSE

- HMDA data can be used to:
- help determine whether institutions are meeting the housing credit needs of their communities
- identify possible discriminatory lending patterns and help enforce antidiscrimination laws
- help public officials target investments to attract private investment to areas where it is needed

DATA REPORTED BY LENDERS

LENDERS MUST REPORT DATA ABOUT:

- EACH APPLICATION OR LOAN
 - Application date, action taken and date of that action, loan amount, loan type and purpose, and, if the loan is sold, type of purchaser
- EACH APPLICANT OR BORROWER
 - Ethnicity, race, sex, and income
- EACH PROPERTY
 - Location and occupancy status

THE REVIEW: GOALS

- Respond to technological and other changes in the mortgage market
- Improve quality and utility of data
- Minimize undue lender burden
- Clarify and simplify the rule

THE REVIEW: PROCESS

- Effective date: delayed until January 1, 2004
 - Exceptions: telephone applications rule and 2000 Census information, which took effect January 1, 2003

THE REVIEW: WHAT'S NEW & WHY

WHAT'S NEW

- Broader coverage: \$25 million loan volume test for nondepositories added to current loan percentage test
- Why? Ensures coverage of companies “in the business of mortgage lending” that also have large volumes of non-mortgage lending

WHAT'S NEW

- Preapprovals
- Manufactured Homes
- Revised definitions
 - Home improvement loans
 - Refinancings

WHAT'S NEW

- New racial & ethnic designations
- Requirement to ask applicants about their race and national origin in telephone applications (as of January 1, 2003)

WHAT'S NEW

- Loan Pricing Information:
 - Rate Spread
 - HOEPA Status
- Lien Status

Preapprovals

A request for preapproval is an application for credit if there is a...

- Program
- Comprehensive analysis of creditworthiness of applicant
- Written commitment to lend
 - Specific amount
 - Specific time period
 - Limited conditions

Preapprovals

- Report home purchase loans only
- Report originations that began as preapproval requests
- Report denials of preapproval requests
- Optional: report requests that were approved but not accepted
- Do not report requests that were withdrawn or incomplete

Preapprovals

WHY CAPTURE PREAPPROVALS?

- HMDA requires data on “applications”
- Preapproval as defined is an application
- Use of preapprovals growing since early 1990s
- Reflects change in mortgage market

Manufactured Homes

WHAT'S NEW?

- Lenders must identify applications for loans to purchase manufactured homes
- Use HUD standard: ready for occupancy at factory (can include modular homes)
- Make reasonable efforts
- Report 1- to 4-family when unable to determine through reasonable efforts

Manufactured Homes

WHY?

- Identifying loans involving manufactured homes will help explain higher denial rates and prices

Refinancing

What's new?

- New definition for reporting purposes

Why?

- Clearer definition yields more consistent and reliable data

Refinancing, cont.

- Current definition: New loan that satisfies and replaces existing loan, if
 - Lender determines purpose of existing loan, or
 - Lender relies on applicant's statement about existing loan, or
 - Existing loan is dwelling secured, or
 - New loan will be dwelling secured

Refinancing, cont.

New definition (for *reporting*)

- New loan satisfies and replaces existing loan; and
- Both existing loan and new loan secured by lien on dwelling

Refinancing, cont.

- Coverage test (unchanged)
 - The existing obligation is a home purchase loan (as determined by lender or as stated by applicant), and
 - Both the existing obligation and the new obligation are secured by *first liens* on dwellings
 - Remember to distinguish definition for *reporting* from definition for *coverage*

Refinancing, cont.

- NO purpose test
- MECAs (modification, extension, and consolidation agreements) continue to not be reported

Home Improvement

- Current rule: report loan if
 - Any part of proceeds for home improvement and
 - Lender classifies loan as home improvement
- For unsecured, continue to use current rule (purpose plus classification)

Home Improvement

WHAT'S NEW?

- New definition for dwelling-secured loans
 - Report as home improvement loan if any part of proceeds will be used for home improvement

WHY?

- A clearer definition yields better data

HELOCs

- Reporting HELOCs is optional (but be consistent)
- HELOCs may be for home purchase or home improvement
- Report only amount of line used for HMDA purpose

MULTIPLE PURPOSE LOANS

What if??

- A borrower refinances, uses cash out to improve home and buy vacation home?
 - Report as home purchase
- The same borrower uses a HELOC to achieve her goals?
 - Reporting is optional

MULTIPLE PURPOSE LOANS

Priorities:

- Home purchase trumps home improvement and refinancing
- Home improvement trumps refinancing
- HELOC trumps all--reporting is optional

ETHNICITY and RACE

What's new?

- Applicants will be asked to report race *and* ethnicity
- Applicants may report more than one race
- No "other" category

Why?

- Conform to 1997 OMB guidance

Ethnicity and Race - New Classifications

■ New Categories

Under the category of "Ethnicity", the choices are

- Hispanic or Latino
- Not Hispanic or Latino

Under the category of "Race", the choices are

- American Indian or Alaskan Native
- Asian
- Black or African American
- Native Hawaiian or Other Pacific Islander
- White

- For comparison, under the old category of "Race or National Origin", the choices are

- American Indian, Alaskan Native
- Asian, Pacific Islander
- Black
- Hispanic
- White
- Other (specify)

NATIONAL ORIGIN and RACE

- Lenders must request information in *all* applications (mail, telephone, and Internet)
- Lenders may not require applicants to provide information
- If applicant declines to provide information in a face-to-face application, lenders must identify applicants by visual observation or surname

NATIONAL ORIGIN and RACE

- If applicant declines to provide information (by mail, phone, or Internet), *do not attempt to identify*
- Use code 7 (codes 3 & 6 as of January 1, 2004)

True or False?

- Applicant must provide both ethnicity *and* race.
False
- If applicant declines to provide data in non-face-to-face, you must collect at closing.
False
- Telephone joint applicants: you must ask co-applicant.
False (Applicant may answer for co-applicant)

ETHNICITY and RACE

Sources of information (OMB Website

www.whitehouse.gov/omb/fedreg/directive_15.html)

- OMB definitions of race designations
- OMB guidance on using data for civil rights enforcement
- OMB guidance on using data for trend analysis

OMB Guidance

- American Indian or Alaska Native. A person having origins in any of the original peoples of North or South America (including Central America), and who maintains tribal affiliation or community attachment.
- Asian. A person having origins in any of the original peoples of the Far East, Southeast Asia, or the Indian subcontinent including, for example, Cambodia, China, India, Japan, Korea, Malaysia, Pakistan, the Philippine Islands, Thailand, and Vietnam.

OMB Guidance

- Black or African American. A person having origins in any of the black racial groups of Africa. Terms such as “Haitian” or “Negro” can be used in addition to “Black or African American.”
- Native Hawaiian or Other Pacific Islander. A person having origins in any of the original peoples of Hawaii, Guam, Samoa, or other Pacific Islands.
- White. A person having origins in any of the original peoples of Europe, the Middle East, or North Africa.

OMB Guidance

- Hispanic or Latino. A person of Cuban, Mexican, Puerto Rican, South or Central American, or other Spanish culture or origin, regardless of race. The term “Spanish origin” can be used in addition to “Hispanic or Latino.”

Rate Spread

What’s new?

- Pricing data on mortgage loans

Why? Information is critical to

- Address fair lending concerns related to loan pricing, and
- Better understand the mortgage market, especially the subprime market

Rate Spread, cont.

- Report spread between APR and Treasury yield if equals/exceeds thresholds
 - First lien loans 3 percentage points
 - Subordinate lien loans 5 percentage points
- Thresholds intended to exclude prime loans
- If spread below threshold, use “NA”

Rate Spread Examples

- If the APR (10-year first lien mortgage) is 9.45 and
- The yield (10-year Treasury) is 5.21
- Then the difference between the APR and the yield is 4.24. Because that amount exceeds 3.0, the applicable threshold, the amount of 4.24 is reported.

Rate Spread Examples

- If the APR (10-year first lien mortgage) is 8.00 and
- The yield (10-year Treasury) is 5.21
- Then the difference between the APR and the yield is 2.79, less than the applicable threshold of 3.0, and “NA” is reported

Rate Spread Lock Date

- Use date rate was locked for final time
 - Agreement
 - Float Down
 - Last lock before closing
- Use 15th-of-month before the date the rate was locked

Rate Spread: Examples

- Rate lock on April 21, 2004
- Use yields on April 15, 2004

- Rate lock on April 14, 2004
- Use yields on March 15, 2004

Rate Spread: Treasury Securities

- To calculate the rate spread, use Board’s calculator on FFIEC website

Rate Spread Calculator <http://www.ffiec.gov/ratespread>

Rate Spread – Treasury Yields <http://www.ffiec.gov/ratespread>

- Lenders must use the Treasury yields stated in the Board’s table, “Treasury Securities of Comparable Maturity under Regulation C”.
- To find the yield, identify the relevant date in the left-hand column (the 15th of the month before the date the rate was set for the final time) and follow the row to the yield corresponding to the term of the loan.

Rate Spread

- Report “NA” for
 - purchased loans
 - unsecured home improvement loans
 - loans not subject to Regulation Z

Rate Spread: Loan Term

- Use only whole numbers for loan term
- ARMs: use loan term, not rate period

HOEPA Status:**APR Trigger**

- HOEPA triggers: APR or “points and fees”
- 1st lien loan, APR at consummation exceeds yield on comparable Treasury security by 8 percentage points
 - or
- 2nd lien loan, APR at consummation exceeds yield on comparable Treasury security by 10 percentage points—OR

HOEPA Status:**Points and Fees Trigger**

- “Points and fees” trigger
 - Points and fees exceed greater of 8 percent of “loan amount” or \$488 (for 2003)
 - The dollar figure is adjusted annually by the Board in November or December

HOEPA Status

- Report only for originations and purchased loans
- Report only for loans subject to Regulation Z
- Remember: HOEPA does not apply to residential mortgage transactions

HOEPA Status

- How do you check the rate?
 - Refer to the H-15 at www.federalreserve.gov/releases/h15/update

HOEPA Status

- How do you determine which date to use?
 - Use the 15th of the month before the month in which the application was received
- Examples:
 - If the date of application is April 21, 2004, then the date of the Treasury security is March 15, 2004
 - If the date of application is April 14, 2004, then the date of the Treasury security is March 15, 2004
 - If the date of application is April 15, 2004, then the date of the Treasury security is March 15, 2004

Lien Status

WHAT'S NEW?

- Report as first lien, subordinate lien, or unsecured
- Report for all loans or applications (except purchases)
- Use best information readily available at time of final action

Lien Status, cont.

Why?

- Information may help explain pricing discrepancies because interest rates (and thus APRs) vary according to lien status

Transition Rules

Why? The transition rules...

- Reduce burden to “look back”
- Apply to applications received in 2003 with final action taken in 2004
- Provide flexibility for information captured at application
- Require collection of information captured at final action in 2004

Transition Rules

Requests for preapproval

- Lenders need not report whether an application taken in 2003 involved a request for preapproval

Manufactured housing

- Lenders need not report whether an application taken in 2003 involved a manufactured home

Transition Rules

Definitions of “home improvement loan” and “refinancing”

- Lenders may – at their option– apply the current definitions to applications taken in 2003 with final action taken in 2004

Transition Rules

- Lenders will not be required to report the rate spread for loans in which the lock date occurs before January 1, 2004

WHY?

- Staff considered using application or consummation date
- But rate lock date provides most accurate information

No Transition Rules

- If loan closes in 2004, lender must report
 - HOEPA status
 - Lien status
 - Purchaser type

WHY?

- Information about these items is available at the time of final action – in 2004

CONVERSION RULES: RACE & ETHNICITY

- Rules for the conversion from the current, single category of "Race and National Origin" to the new, dual categories of "Race" and "Ethnicity."

If the applicant (or lender) selected "American Indian or Alaskan Native" (Code 1) under the current category, then, under the new category of "Race" report "American Indian or Alaskan Native" (Code 1) and under the new category of "Ethnicity" report "Not Applicable" (Code 4).

If the applicant (or lender) selected "Asian or Pacific Islander" (Code 2) under the current category, then, under the new category of "Race" report "Asian" (Code 2) and under the new category of "Ethnicity" report "Not Applicable" (Code 4).

If the applicant (or lender) selected "Black" (Code 3) under the current category, then, under the new category of "Race" report "Black or African American" (Code 3) and under the new category of "Ethnicity" report "Not Applicable" (Code 4).

If the applicant (or lender) selected "Hispanic" (Code 4) under the current category, then, under the new category of "Race" report "Not Applicable" (Code 7) and under the new category of "Ethnicity" report "Hispanic or Latino" (Code 1).

If the applicant (or lender) selected "White" (Code 5) under the current category, then, under the new category of "Race" report "White" (Code 5) and under the new category of "Ethnicity" report "Not Applicable" (Code 4).

If the applicant (or lender) selected "Other" (Code 6) under the current category, then, under the new category of "Race" report "Not Applicable" (Code 7) and under the new category of "Ethnicity" report "Not Applicable" (Code 4).

If the applicant (or lender) selected "Mail or Telephone" (Code 7) under the current category, then, under the new category of "Race" report "Mail, Internet, or Telephone" (Code 6) and under the new category of "Ethnicity" report "Mail, Internet, or Telephone" (Code 3).

If the applicant (or lender) selected "Not Applicable" (Code 8) under the current category, then, under the new category of "Race" report "Not Applicable" (Code 7) and under the new category of "Ethnicity" report "Not Applicable" (Code 4).

CENSUS 2000

- Lenders must use census tract numbers and corresponding geographic areas from the 2000 Census for all applications and loans recorded on their 2003 LAR

CENSUS 2000

<http://www.census.gov>

FAQs & ANSWERS

Question: If an applicant declines to provide information about race, ethnicity, or sex in an application taken entirely by telephone, Internet, or mail, should the lender provide the information – for example, based on the applicant's surname?

FAQs & ANSWERS

Answer: NO. If an applicant declines to provide the information, the lender must use the code for "information not provided in mail, Internet, or telephone application."

FAQs & ANSWERS

Question: If an applicant declines to provide information about race, ethnicity, or sex in an application taken entirely by telephone, Internet, or mail, and the lender approves the application, may the lender request the information at closing?

FAQs & ANSWERS

Answer: The lender may but need not request the information at closing. If the lender requests the information at closing for some applicants, the lender must request it at closing for all applicants.

FAQs & ANSWERS

Question: May a lender use the revised race and ethnicity categories to collect monitoring information before January 1, 2004?

FAQs & ANSWERS

Answer: No. Lenders must not use the revised race and ethnicity categories to collect monitoring information before January 1, 2004.

FAQs & ANSWERS

Question: May lenders use the old race and national origin categories on applications received after January 1, 2004?

FAQs & ANSWERS

Answer: No. But if a lender provides an application form with the old race and national origin categories to an applicant prior to January 1, 2004, and the applicant submits the application on that form in 2004, the lender may consider the application as having been received in 2003 so long as the application is dated "2003."

FAQs & ANSWERS

Question: May a lender report the rate spread on purchased loans?

Answer: No. Enter "NA" in the rate spread column.

FAQs & ANSWERS

Question: If a lender chooses to report HELOCs, should the lender report the rate spread?

Answer: No. Enter "NA" in the rate spread column.

FAQs & ANSWERS

Question: How should a lender report a dwelling-secured loan used to refinance an existing dwelling-secured loan and to make home improvements?

FAQs & ANSWERS

Answer: The lender should report the loan as a home improvement loan, even if it also meets the definition of a "refinancing."

FAQs & ANSWERS

Question: When the Board revised the reg and commentary, the comment on "MECAs" (modification, extension, and consolidation agreements) was not retained. Why?

FAQs & ANSWERS

Answer: Dropping the comment was inadvertent. The Board's interpretation remains the same; MECAs are not refinancings under Regulation C. The comment will be restored the next time the commentary is updated.

SOURCES OF INFORMATION

- *A Guide to HMDA Reporting--Getting it Right!* (revised in 2003 and available online at <http://www.ffiec.gov/hmda/guide.htm>)

SOURCES OF INFORMATION

- FRB Division of Consumer and Community Affairs, (202) 452-2412 or 3667
 - Jane Gell, John Wood, Kathleen Ryan, Dan Sokolov

SOURCES OF INFORMATION

<http://www.stlouisfed.org/hmdaregcamendments>

A new web site to help you understand and implement the latest changes to HMDA reporting.

- The HMDA Regulation C Amendments web site provides timely and relevant information on the Regulation C changes.
- Learn all about these critical changes and their effect on 2004 HMDA reporting.

HOME MORTGAGE DISCLOSURE ACT QUESTIONS???