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MARQUIS – See What’s Next 2019 User’s Conference

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Impacts of HMDA on CRA

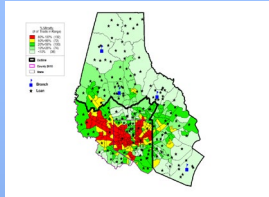
Rick Freer, Senior Director
American Bankers Association

Overview

- CRA HMDA data issues
 - Performance Context (expand your thinking)
 - Large bank lending test
 - Small bank lending test
- HMDA Data accuracy
- HMDA data documentation/analytics
- HMDA data impact on CRA
- Session Takeaways

Performance Context

Overall



**Raw HMDA
Data**



**Strategic
Direction &
Business
Plan**



**Fair
Lending
Analytics**



**CRA Facts
& Data**

Performance Context

CRA criteria

- Demographic data
- Housing stock and costs
- Products, services & strategies
- Financial condition, size & resources
- Economic conditions & opportunities
- Prior performance / Peer performance
- Written complaints/ bank responses
- Community group concerns and activities



CRA HMDA Data Requirements

Large banks

- Home mortgage credit needs
 - Loans originated and purchased (activity)
 - Geographic distribution
 - Borrower characteristics
 - Innovative and flexible lending practices

Small banks

- Loan to deposit ratio
- In/out ratio
- Geographic distribution
- Income distribution

Lending Matrix (OCC Handbook)

Lending Test Matrix

Characteristic	Outstanding	High Satisfactory	Satisfactory	Needs to Improve	Substantial Noncompliance
Lending activity	Lending levels reflect excellent responsiveness to assessment area credit needs.	Lending levels reflect good responsiveness to assessment area credit needs.	Lending levels reflect adequate responsiveness to assessment area credit needs.	Lending levels reflect poor responsiveness to assessment area credit needs.	Lending levels reflect very poor responsiveness to assessment area credit needs.
Assessment area(s) concentration	A substantial majority of loans are made in the institution's assessment area(s).	A high percentage of loans are made in the institutions' assessments area(s).	An adequate percentage of loans are made in the institution's assessment area(s).	A small percentage of loans are made in the institution's assessments area(s).	A very small percentage of loans are made in the institutions assessment area(s).
Geographic distribution of loans	The geographic distribution of loans reflects excellent penetration throughout the assessment area(s).	The geographic distribution of loans reflects good penetration throughout the assessment area(s).	The geographic distribution of loans reflects adequate penetration throughout the assessment area(s).	The geographic distribution of loans reflects poor penetration throughout the assessment area(s), particularly to low- or moderate-income geographies in the assessment area(s).	The geographic distribution of loans reflects very poor penetration throughout the assessment area(s), particularly to low- or moderate-income geographies in the assessment area(s).
Borrowers' profile	The distribution of borrowers reflects, given the product lines offered by the institution, excellent penetration among retail customers of different income levels and business customers of different size.	The distribution of borrowers reflects, given the product lines offered by the institution, good penetration among retail customers of different income levels and business customers of different size.	The distribution of borrowers reflects, given the product lines offered by the institution, adequate penetration among retail customers of different income levels and business customers of different size.	The distribution of borrowers reflects, given the product lines offered by the institution, poor penetration among retail customers of different income levels and business customers of different size.	The distribution of borrowers reflects, given the product lines offered by the institution, very poor penetration among retail customers of different income levels and business customers of different size.

Marketing Strategy

Solicitation Volume

Application Volume

Community Outreach

Fair Lending Analytics



Lending Matrix (OCC Handbook)

Marketing Strategy

Solicitation Volume

Application Volume

Community Outreach

Fair Lending Analytics

<p>Responsiveness to credit needs of highly economically disadvantaged geographies and low-income persons, small business</p>	<p>The institution exhibits an excellent record of serving the credit needs of the most economically disadvantaged area(s) of its assessment area(s), low-income individuals, and/or very small businesses, consistent with safe and sound banking practices.</p>	<p>The institution exhibits a good record of serving the credit needs of the most economically disadvantaged area(s) of its assessment area(s), low-income individuals, and/or very small businesses, consistent with safe and sound banking practices.</p>	<p>The institution exhibits an adequate record of serving the credit needs of the most economically disadvantaged area(s) of its assessment area(s), low-income individuals, and/or very small businesses, consistent with safe and sound banking practices.</p>	<p>The institution exhibits a poor record of serving the credit needs of the most economically disadvantaged area(s) of its assessment area(s), low-income individuals, and/or very small businesses, consistent with safe and sound banking practices.</p>	<p>The institution exhibits a very poor record of serving the credit needs of the most economically disadvantaged area of its assessment area(s), low-income individuals, and/or very small businesses, consistent with safe and sound banking practices.</p>
<p>Community development lending activities</p>	<p>The institution is a leader in making community development loans.</p>	<p>The institution has made a relatively high level of community development loans.</p>	<p>The institution has made an adequate level of community development loans.</p>	<p>The institution has made a low level of community development loans.</p>	<p>The institution has made few, if any, community development loans.</p>
<p>Product innovation</p>	<p>The institution makes extensive use of innovative and/or flexible lending practices in order to serve assessment area credit needs.</p>	<p>The institution uses innovative and/or flexible lending practices in order to serve assessment area credit needs.</p>	<p>The institution makes limited use of innovative and/or flexible lending practices in order to serve assessment area credit needs.</p>	<p>The institution makes little use of innovative and/or flexible lending practices in order to serve assessment area credit needs.</p>	<p>The institution makes no use of innovative and/or flexible lending practices in order to serve assessment area credit needs.</p>

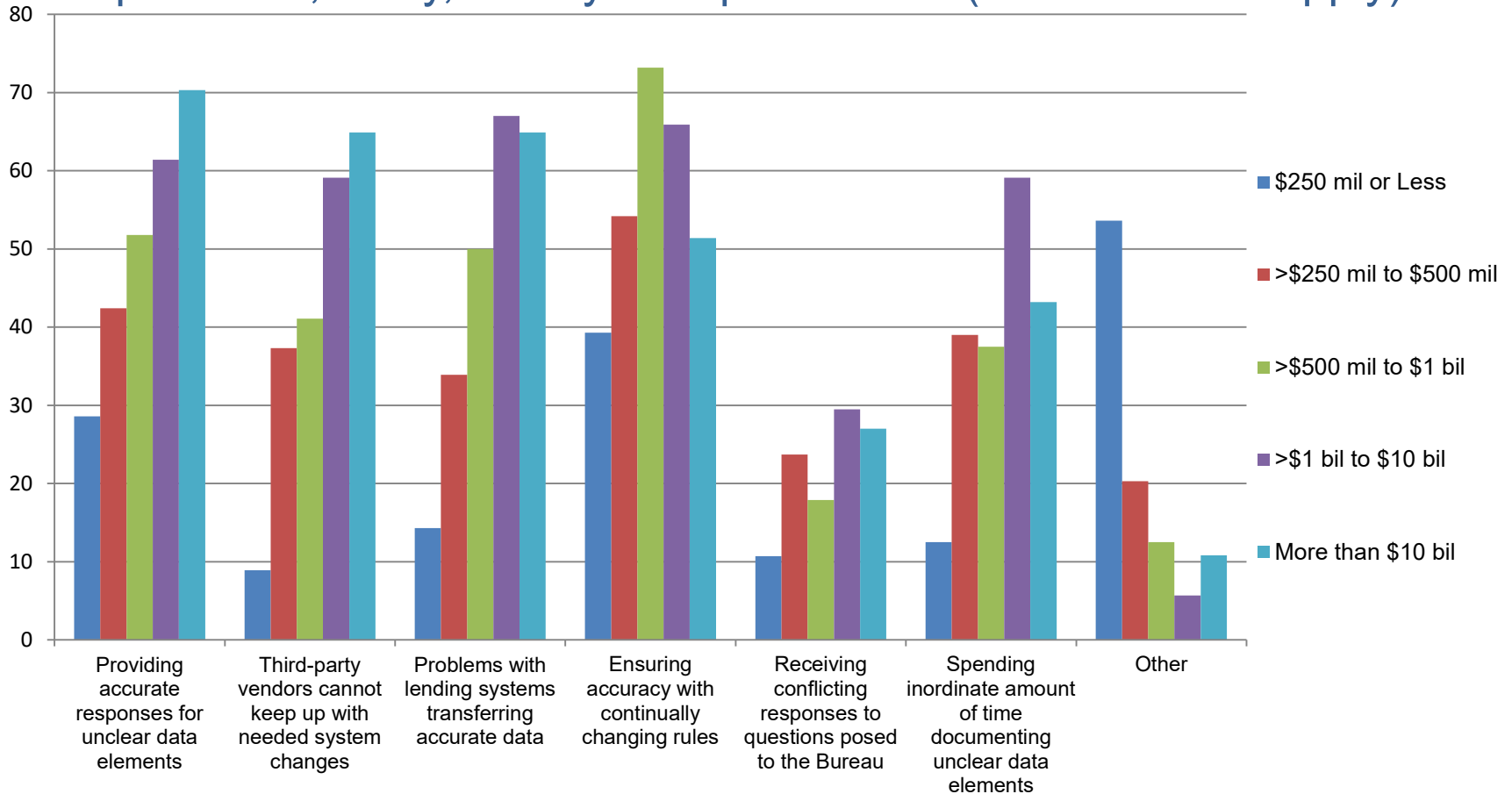


HMDA Data Accuracy

- Old habits die hard
 - Definitional changes created data review issues
 - Corrections and retraining
 - How thorough was review process
 - Multiple data accuracy checks – did you catch everything?

2019 BCCO Survey Data

Regarding collection and eventual reporting of your 2018 HMDA data what problems, if any, have you experienced? (Check all that apply)



HMDA Data Documentation/Analytics

Documentation

- Can you support the data interpretation issues you made?

Analytics

- Are you performing statistical analyses?
 - Frequency
 - Internal or external
 - Regulator data requirements
- Are you tracking exceptions
- What standards are you using to review the data?
 - Predictable
 - Reliable

HMDA Aggregate Data vs. Your HMDA Data

- Aggregate data may not reflect your data
- What do your internal HMDA reports cover?
 - Geographic patterns
 - Product mix
 - Sale to secondary market
 - Hold in portfolio
 - Exception guidelines and results
- Regulatory environment

Data Analytics Program Example

Fair Lending	Redlining	CRA
<p>Look at:</p> <ul style="list-style-type: none">• Underwriting – approval vs. denial; exceptions, if needed.• Pricing – yield and fees <p>Separate tests for:</p> <ul style="list-style-type: none">• Gender• Race• Ethnicity• Age <p>Start with DTI, LTV and Credit Score. Move to other factors if needed.</p>	<p>In majority, minority areas, look at:</p> <ul style="list-style-type: none">• Underwriting – approval vs. denial of applications taken• Pricing – yield and fees <p>Based on location of property and demographics of borrowers in comparison to peer.</p> <p>Statistical test compared to most current peer data – originators 50-200%</p>	<p>In low and moderate income areas, look at number of applications taken, number of loans originated and number of loans purchased.</p> <p>Based on location of property and income of borrowers in comparison to peer.</p> <p>Statistical test compared our selected peer group within each market</p>

Potential CRA Data Impacts

- Known geographic and income data impacts
- Possible unknown data impacts
 - Peer data history
 - Peer data accuracy
 - Data comparisons – Limited vs. expanded data
 - HELOC data

Other CRA Impacts

- Public nature of the HMDA data in general, and the new data points specifically
 - Freely available on the FFIEC website
- LAR data easily obtainable
 - You won't know who has gotten it
 - Data provided in uniform format
- CFPB aggregate data analyses available
 - What analyses have you done on your data?
 - Are you comfortable your data is accurate to draw conclusions?

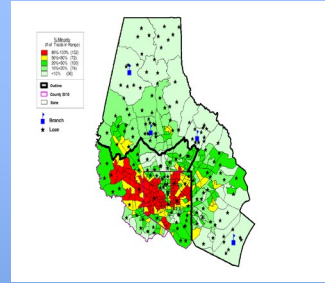
Enterprise-Wide Analytics Lens



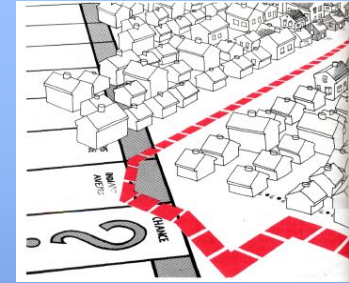
**Strategic
Direction &
Business
Plans**



**Fair
Lending
Analytics**



**HMDA Data
& Peer Data**



**Redlining
Data**

Are Data in-sync with Strategic Plans, Fair Lending risk profile, & CRA Goals

Compliance Management System

Risk Areas

- Board and senior management oversight
 - Risk Appetite / Risk Exposure
- Compliance program
 - Policies, procedures, and practices
 - Training
 - Monitoring and/or audit (who is responsible?)
 - Internal controls
 - Consumer harm
 - Consumer complaints
 - Compliance audit (independent)

Strategic Objectives – Business Issues

- Business plans – current and future direction
- Institutional changes and growth
 - Be aware that assessment area(s) & lending footprints may change
 - Ongoing communication with business line and/or strategy owners is key
 - Consider periodic assessment area reviews
- Strategic goals (How did we get here? Where headed?)
- Risks that threaten those goals? (Branch locations, assessment areas, lending footprint, and community group concerns: now and in the future)
- Growth objectives – Special programs

Strategic Objectives – Business Issues (con't)

- Marketing and advertising (Targeted or general)
- Merger and purchase history
- Alternative delivery systems (current and proposed)
- Loan production offices
- Purchased Loans
- Third party partners (current and new ones)

Strategic Objectives – Risk Issues

- Lending footprint
 - Policy designation
 - Lending footprint and CRA assessment area size
 - Loan production offices and alternative delivery channels
 - Percentage of applications v. originations
- Appropriate inclusion of MMCTs in footprint – considering assessment area(s) and those outside footprint
- Determination of Peer institutions: real v. all lenders

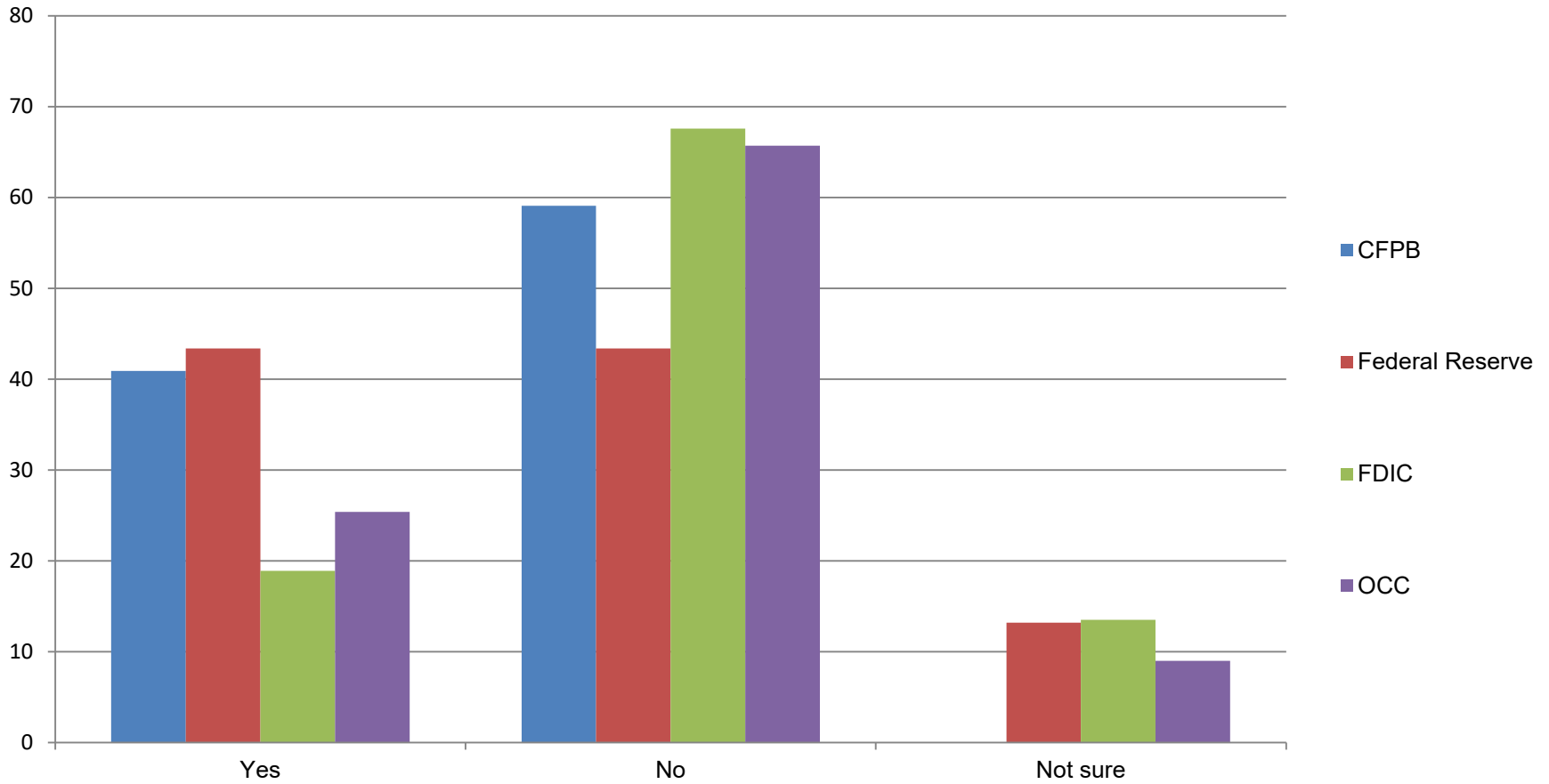
CRA Risk Issues

Redlining – What to consider?

- Lending footprint demographics
- Content and penetration of marketing and advertising outreach
- Significant lending gaps
- Current scope and amount of data you analyze
- Story your data tells
- Your reasonable non-discriminatory explanations for what your data may say

2019 BCCO Survey Data

Since the 2017 Survey, has your institution received a pre-examination fair lending review focusing on redlining? By Regulatory Agency



Takeaways

Examiners have an advantage

- You know what data you have and are best qualified to Identify potential or real gaps in performance
 - Be able to explain why
 - Determine how to fix issues found
- Use all data available to review and analyze by level of residual risk
- Policies, procedures, training, and practices are keeping pace with regulatory changes and strategic direction and plans

Takeaways

- Your answer to examiners is always, “We know – we found the same gaps, and they mean...”
- Ask Yourself: Can you make a good credible non-discriminatory case with your facts, data, and other information?
 - If not, what do you need to do to improve your data analysis or change your performance?
- Know where you are and where you want to go
- Understand the bank’s outreach and marketing efforts



Questions

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