

**Division of Supervision and
Consumer Protection
MEMORANDUM SYSTEM**

Classification Number: 6400		
Date: May 3, 2004		
Issuing Office: Compliance Policy and Examination Support Branch		
Contact: Robert Mooney, Assistant Director		
Notice		Memorandum X

To: Regional Directors

From: Michael J. Zamorski
Director

Subject: Revised Interagency Examination Procedures for the Home
Mortgage Disclosure Act

1. Purpose. To distribute updated interagency examination procedures that address amendments made to Regulation C, which implements the Home Mortgage Disclosure Act (HMDA).
2. Background. The procedures reflect amendments to Regulation C made in 2002 by the Federal Reserve Board. (see <http://www.ffiec.gov/hmda/pdf/regulationc2004.pdf> and <http://www.ffiec.gov/hmda/>). These amendments, which became effective on January 1, 2004, redefine refinancing transactions, revise the criteria that determine whether non-depository institutions must report annual data, and conform applicant information to the Office of Management and Budget's (OMB) categories of race and ethnicity.

The procedures also focus examiner attention on an institution's compliance management and compliance management systems.

3. Revised Examination Procedures. The Task Force on Consumer Compliance of the Federal Financial Institutions Examination Council (FFIEC) has approved revised interagency examination procedures to conform with the amendments to Regulation C and changes by OMB. The procedures direct examiners to:
 - Appraise the quality of the financial institution's compliance risk management system to ensure compliance with Regulation C.
 - Determine the reliance that can be placed on the financial institution's compliance risk management system, including internal controls, policies, procedures, and compliance review and audit functions for Regulation C.

- Determine the accuracy and timeliness of the financial institution's submitted HMDA-LAR.
 - Initiate corrective action when policies or internal controls are deficient, or when violations of law or regulation are identified
4. Policy. Compliance examiners should apply these procedures within the framework of the FDIC's refocused compliance examination process, which places primary emphasis on an institution's compliance management systems.
 5. Action. Regional Directors should distribute this memorandum and attached examination procedures to DSC compliance examination staff.
 6. Effective Date. This memorandum and attached examination procedures are effective immediately.
 7. Rescission of Previous Guidance. This memorandum and attached examination procedures supercede circular 6440.2 dated July 14, 1997 (Transmittal No. DCA—97-018), which is rescinded immediately.

Attachment

Transmittal No: 2004-015

Home Mortgage Disclosure Act Examination Procedures

Background and Summary

The Home Mortgage Disclosure Act (HMDA) was enacted by the Congress in 1975 and is implemented by the Federal Reserve Board's Regulation C (12 CFR Part 203). The period of 1988 through 1992 saw substantial changes to HMDA. Especially significant were the amendments to the act resulting from the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Coverage was expanded in the FIRREA amendments to include many independent nondepository mortgage lenders, in addition to the previously covered banks, savings associations, and credit unions. Coverage of independent mortgage bankers was further expanded effective January 1, 1993, with the implementation of amendments contained in the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). For a more detailed discussion of the history of HMDA see the FFIEC's web site at www.ffiec.gov/hmda/history2.htm.

HMDA grew out of public concern over credit shortages in certain urban neighborhoods. The Congress believed that some financial institutions had contributed to the decline of some geographic areas by their failure to provide adequate home financing to qualified applicants on reasonable terms and conditions. Thus, one purpose of HMDA and Regulation C is to provide the public with information that will help show whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. A second purpose is to aid public officials in targeting public investments from the private sector to areas where they are needed. Finally, the FIRREA amendments of 1989 require the collection and disclosure of data about applicant and borrower characteristics to assist in identifying possible discriminatory lending patterns and enforcing antidiscrimination statutes.

As the name implies, HMDA is a disclosure law that relies upon public scrutiny for its effectiveness. It does not prohibit any specific activity of lenders, and it does not establish a quota system of mortgage loans to be made in any Metropolitan Statistical Area (MSA) or other geographic area as defined by the Office of Management and Budget.

Financial institutions must report data regarding loan originations, applications, and loan purchases, as well as requests under a preapproval program (as defined in §203.2(b)) if the preapproval request is denied or results in the origination of a home purchase loan. HMDA requires lenders to report the ethnicity, race, gender, and gross income of mortgage applicants and borrowers. Lenders must also report information regarding the pricing of the loan and whether the loan is subject to the Home Ownership and Equity Protection Act, 15 U.S.C. 1639. Additionally, lenders must identify the type of purchaser for mortgage loans that they sell. Some lenders have the option of indicating the reasons for their decisions to deny a loan application. (Lenders regulated by the OCC or OTS must indicate the reasons for denial.)

Regulation C requires institutions to report lending data to their supervisory agencies on a loan-by-loan and application-by-application basis by way of a "register" reporting format. The supervisory agencies, through the Federal Financial Institutions Examination Council (FFIEC), compile this information in the form of individual disclosure statements for each institution, and in the form of aggregate reports for all covered institutions within each MSA. In addition, the FFIEC produces other aggregate reports that show lending patterns by median age of homes and by the central city or non-central city location of the property. The public may obtain the individual disclosures and aggregate reports from the FFIEC or from central

depositories located in each MSA. Individual disclosure statements may also be obtained from financial institutions.

Applicability

The regulation covers two categories of financial institutions. The first category is a “depository institution,” which the regulation defines as a bank, savings association, or a credit union that:

- on the preceding December 31, had assets in excess of the annually published asset threshold;
- on the preceding December 31, had a home or branch office in an MSA;
- in the preceding calendar year, originated at least one first-lien home purchase loan (or a refinancing of such loan) on a one-to-four-family dwelling; and
- meets one of the following criteria: (1) the institution is federally insured or regulated; (2) the mortgage loan referred to is federally guaranteed, insured, or supplemented; or (3) the institution intended to sell the loan to Fannie Mae or Freddie Mac.

The second category is a for-profit, nondepository “mortgage lending institution.” A nondepository mortgage lending institution is covered if:

- in the preceding calendar year, it originated home purchase loans (including refinancings of home purchase loans) that either: (1) equaled ten percent or more of its loan origination volume, measured in dollars; or (2) equaled \$25 million or more;
- on the preceding December 31, had a home or branch office in an MSA²; and
- either: (1) on the preceding December 31, had total assets of more than \$10 million, counting the assets of any parent corporation; or (2) in the preceding calendar year, originated at least 100 home purchase loans, or refinancings of home purchase loans.

For purposes of this discussion and the examiner procedures, the term “financial institution” will signify both a depository and a nondepository institution.

The definition of mortgage lending institution applies to majority-owned mortgage lending subsidiaries of depository institutions and, since 1990, to independent mortgage companies. Mortgage lending subsidiaries of bank and savings and loan holding companies, as well as savings and loan service corporations, have been covered by HMDA since 1988. Mortgage lending subsidiaries are treated as distinct entities from their “parent,” and must file separate reports with their parent’s supervisory agency.

The Board may exempt from Regulation C state-chartered or state-licensed financial institutions if they are covered by a substantially similar state law that contains adequate provision for enforcement by the state. As of January 1, 2004, no exemptions are in effect.

Compilation of Loan Data

For each calendar year, a financial institution must report data regarding its applications, originations, and purchases of home purchase loans, home improvement loans, and refinancings. Loans secured by real estate that are neither refinancings nor made for home purchase or home improvement are not reported. Data must

² The institution may or may not have a physical presence in the MSA per section 203.2(c)(2) of Regulation C.

also be given for loan applications that did not result in originations: applications approved by the institution but not accepted by the applicant, denied, withdrawn, or closed for incompleteness. Required reporting also includes certain denials of requests for preapproval of a home purchase loan under a program in which a lender issues a written commitment to lend to a creditworthy borrower up to a specific amount for a specific time.

Loan Information

For each application or loan, institutions are required to identify the purpose (home purchase, home improvement, or refinancing), lien status, and whether the property relating to the loan or loan application is to be owner-occupied as a principal dwelling. As defined by Regulation C, a home purchase loan is a loan secured by a dwelling and made for the purpose of purchasing that (or another) dwelling. A dwelling is a residential structure that may or may not be attached to real property, located in a state, the District of Columbia or the Commonwealth of Puerto Rico. It includes an individual condominium or cooperative unit, a mobile or manufactured home, and a multifamily structure such as an apartment building. A home improvement loan is defined by the regulation as one that is at least in part for the purpose of repairing, rehabilitating, remodeling or improving a dwelling or the real property on which the dwelling is located. Home improvement loans not secured by a dwelling should be reported only if the institution classifies the loan as a home improvement loan; dwelling secured home improvement loans should be reported without regard to classification. Finally, a refinancing is defined as a transaction in which a new obligation satisfies and replaces an existing obligation by the same borrower. For coverage purposes (*i.e.*, to determine whether or not an institution is covered by HMDA), the existing obligation must be a home purchase loan and both the new and existing obligation must be secured by first liens on dwellings. For reporting purposes, both the existing obligation and the new obligations must be secured by liens on dwellings.

In addition, the regulation requires financial institutions to identify the following general loan types: conventional, FHA-insured, VA-guaranteed, and FSA/RHS guaranteed. Institutions must report the property type as a one-to-four family dwelling, multifamily dwelling, or manufactured housing. The amount of the loan or loan application, application date, action date, and the type of action taken must also be reported.

Property Location

Certain geographic location information must be reported by financial institutions for loans on, and applications for, properties in any MSA where the institution has a home or branch office³. This geographic data is optional for loans on properties located outside these MSAs or outside any MSA, except in the case of large financial institutions subject to additional data reporting requirements under the Community Reinvestment Act (CRA). The geographic information consists of the MSA or MD number, state and county codes, and the census tract number of the property to which the loan or loan application relates.

Large institutions subject to both the CRA and HMDA must collect and report geographic information for all loans and applications (whether located in an MSA or not), not just for loans and applications relating to property in MSAs where the institution has a home or branch office⁴. Under the CRA, a large institution is a bank or savings association that has assets of \$250 million or more, or is a subsidiary of a holding company with total banking and thrift assets of \$1 billion or more.

Applicant Information

³ In the case of an MSA divided into Metropolitan Divisions (MDs), the relevant unit for this purpose is the MD.

⁴ In a county with less than 30,000 in population, the institution may enter NA.

In addition, institutions must report data regarding the ethnicity, race, sex, and annual income of applicants for applications and originated loans; reporting these data is optional for purchased loans. Information regarding the ethnicity, race, and the sex of the borrower or applicant must be requested by the lender, including for applications made entirely by telephone, mail, or Internet. If the information is not provided by the applicant and if the application is submitted in person, the lender is required to note the information on the basis of visual observation or surname. Regulation C contains a model form that can be used for the collection of data on ethnicity, race, and sex. Alternatively, the form used to obtain monitoring information under 12 C.F.R. § 202.13 of the Federal Reserve Board's Regulation B (Equal Credit Opportunity) may be used.

If an institution originates or purchases a loan and then sells it in the same calendar year, it must report the type of entity that purchased the loan. Except in the case of large secondary market purchasers such as Fannie Mae and Freddie Mac, the exact purchaser need not be identified. For example, an institution may indicate that it had sold a loan to a bank, without identifying the particular bank.

Pricing-Related Data

Institutions must report the rate spread between the annual percentage rate (APR) on a loan at consummation and the yield on comparable Treasury securities if the spread is equal to or greater than 3 percentage points for first-lien loans, or equal to or greater than 5 percentage points for subordinate-lien loans. The rate-spread reporting is required only on originations of home purchase loans, dwelling-secured home improvement loans, and refinancings. The following are excluded from the rate-spread reporting requirement: (1) applications that are incomplete, withdrawn, denied, or approved but not accepted; (2) purchased loans; (3) home-improvement loans not secured by a dwelling; (4) assumptions; (5) home equity lines of credit; and (6) loans not subject to Regulation Z. To determine the applicable Treasury security yield, the financial institution must use the table published on the FFIEC's Web site (<http://www.ffiec.gov/hmda>) entitled "Treasury Securities of Comparable Maturity under Regulation C."

Lenders must also report whether the loan is subject to the Home Ownership and Equity Protection Act (HOEPA), 15 U.S.C. 1639. A loan becomes subject to HOEPA when the APR or the points and fees on the loan exceed the HOEPA triggers. (Additional information on HOEPA coverage is found in the FFIEC Truth in Lending Act and HOEPA examination procedures.)

Lenders must also report the lien status of the loan or application (first lien, subordinate lien, or not secured by a lien on a dwelling).

Optional Data

Finally, financial institutions supervised by the Federal Reserve or FDIC may, at their option, report the reasons for denying a loan application. Financial institutions regulated by the OCC and the OTS, including subsidiaries of national banks and savings associations, are required to provide reasons for denials. Credit unions regulated by the NCUA are also required to provide reasons for denial. Institutions may also choose to report certain requests for preapproval that are approved by the institution but not accepted by the applicant and home equity lines of credit made in whole or in part for the purpose of home improvement or home purchase.

Excluded Data

A financial institution should not report loan data for:

- loans originated or purchased by the institution acting as trustee or in some other fiduciary capacity;
- loans on unimproved land;
- temporary financing (such as bridge or construction loans);
- the purchase of an interest in a pool of loans (such as mortgage-participation certificates);
- the purchase of mortgage loan servicing rights; or
- loans acquired as part of a merger or acquisition or acquisition of all the assets and liabilities of a branch office.

Reporting Format

Financial institutions are required to record data regarding each application for, and each origination and purchase of, home purchase loans, home improvement loans, and refinancings on a Loan/Application Register, also known as the HMDA-LAR. Financial institutions are also required to record data regarding requests under a preapproval program (as defined in § 203.2(b)), but only if the preapproval request is denied or results in the origination of a home purchase loan. Transactions are to be reported for the year in which final action was taken. If a loan application is pending at the end of the calendar year, it will be reported on the HMDA-LAR for the following year, when the final disposition is made. Loans originated or purchased during the calendar year must be reported for the calendar year of origination even if they were subsequently sold.

The HMDA-LAR is accompanied by a listing of codes to be used for each entry on the form. Detailed instructions and guidance on the requirements for the register are contained in Appendix A to Regulation C. Additional information is available in the FFIEC publication, “A Guide to HMDA Reporting, Getting it Right!” and on the FFIEC web site.

Financial institutions must record data on their HMDA-LAR within 30 calendar days of the end of the calendar quarter in which final action was taken. Financial institutions, however, have flexibility in determining how to maintain the HMDA-LAR since the entries need not be grouped in any prescribed fashion. For example, an institution could record home purchase loans on one HMDA-LAR and home improvement loans on another; alternatively, both types of loans could be reported on one register. Similarly, separate registers may be kept at each branch office, or a single register may be maintained at a centralized location for the entire institution. These separate registers must be combined into one consolidated register when submitted to the relevant supervisory agencies.

For each calendar year, a financial institution must submit to its supervisory agency its HMDA-LAR, accompanied by a Transmittal Sheet. Unless it has 25 or fewer reportable transactions, an institution is required to submit its data in automated form. For registers submitted in paper form, two copies must be mailed to the institution’s supervisory agency. For both automated and hard-copy submissions, the layout of the register that is used must conform exactly to that of the register published by the Federal Reserve Board as Appendix A to Regulation C.

The HMDA-LAR must be submitted to the financial institution’s regulatory agency by March 1 following the calendar year covered by the data. The FFIEC then will produce a disclosure statement for each institution, cross-tabulating the individual loan data in various grouping, as well as an aggregate report for each MSA. The disclosure statements will be mailed to the financial institutions.

Disclosure

As the result of amendments to HMDA incorporated within the Housing and Community Development Act of 1992, an institution must make its disclosure statement available to the public at its home office within three business days of receipt. An institution must also either (1) make its disclosure statement available to the public in at least one branch office in each additional MSA or MD where it has offices within ten business days of its receipt from the FFIEC, or (2) post the address for requests in each branch office in each additional MSA or MD where it has offices, and send the disclosure statement within 15 calendar days after receiving a written request.

Also, an institution must make its loan application register available to the public after deleting the following fields: application or loan number, date application received, and date of action taken. These deletions are required to protect the privacy interests of applicants and borrowers. The modified HMDA-LAR for a given year must be publicly available by March 31 of the following year for requests received on or before March 1, and within 30 days for requests received after March 1.

The FFIEC also produces aggregate tables to illustrate the lending activity of all covered financial institutions in each MSA or MD. These tables and the individual disclosure statements are sent to central data depositories, such as public libraries, in each MSA or MD. A list of depositories is available from the FFIEC.

A financial institution must retain its full (unmodified) HMDA-LAR for at least three years for examination purposes. It must also be prepared to make each modified HMDA-LAR available for three years and each FFIEC disclosure statement available for five years. Institutions may impose reasonable fees for costs incurred in providing or producing the data for public release.

Finally, institutions must post a notice at their home office and at each branch in an MSA, to advise the public of the availability of the disclosure statements.

Enforcement

As set forth in Section 305 of HMDA (12 U.S.C. 2804), compliance with the act and regulation is enforced by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of Thrift Supervision, and the U.S. Department of Housing and Urban Development. Administrative sanctions, including civil money penalties, may be imposed by the supervisory agencies.

An error in compiling or recording loan data is not a violation of the act or the regulation if it was unintentional and occurred despite the maintenance of procedures reasonably adopted to avoid such errors.

Examination Objectives

1. To appraise the quality of the financial institution's compliance risk management system to ensure compliance with the Home Mortgage Disclosure Act and Regulation C.
2. To determine the reliance that can be placed on the financial institution's compliance risk management system, including internal controls, policies, procedures, and compliance review and audit functions for the Home Mortgage Disclosure Act and Regulation C.
3. To determine the accuracy and timeliness of the financial institution's submitted HMDA-LAR.
4. To initiate corrective action when policies or internal controls are deficient, or when violations of law or regulation are identified.

Examination Procedures

A. Initial Procedures

Depository Institutions

1. Determine whether the depository institution is subject to the requirements of HMDA and Regulation C by determining if the regulatory criteria addressed in sections 203.2(e)(1)(i) - 203.2(e)(1)(iv) are met; and

Non-depository Institutions

2. Determine whether the depository institution has a majority-owned mortgage subsidiary that meets relevant criteria contained in sections 203.2(e) (2) (i) – 203.2(e) (2) (iii). If all relevant criteria are met, then the subsidiary is subject to the requirements of HMDA and Regulation C.
3. Determine whether there were any mergers or acquisitions since January 1 of the preceding calendar year.
 - a. Determine whether all required HMDA data for the acquired financial institutions were reported separately or in consolidation. Examination procedures that follow concerning accuracy and disclosure also apply to an acquired financial institution’s data, even if separately reported.

Note: If HMDA and Regulation C are applicable, then the following examination procedures should be performed separately for the depository institution and any of its majority-owned mortgage subsidiaries; and a separate checklist should be completed for each institution subject to HMDA and Regulation C. Also, when determining whether a financial institution is subject to HMDA, the examiner should remain cognizant of any newly created MSAs and changes in MSA boundaries, including counties which may have been added or deleted from an MSA, thus causing a financial institution either to become a new HMDA reporter or no longer be a HMDA reporter. Refer to the FFIEC’s web site and to the booklet, “A Guide to HMDA Reporting, Getting It Right!” This can be a source of reference, as it lists counties in an MSA by state.

B. Evaluation of Compliance Management

Examiners should obtain information necessary to make a reasonable assessment regarding the institution’s ability to collect data regarding applications for, and originations and purchases of, home purchase loans, home improvement loans, and refinancings for each calendar year in accordance with the requirements of the HMDA and Regulation C.

Examiners should determine, through a review of written policies, internal controls, the HMDA Loan Application Register (HMDA-LAR), and discussions with management, whether the financial institution has adopted and implemented comprehensive procedures to ensure adequate compilation of home mortgage disclosure information in accordance with §203.4(a)-(e).

During your review of the financial institution’s system for maintaining compliance with HMDA and Regulation C obtain and review policies and procedures along with any applicable audit and compliance program materials to determine whether:

1. Policies and procedures and training are adequate, on an ongoing basis, to ensure compliance with the Home Mortgage Disclosure Act and Regulation C.

2. Internal review procedures and audit schedules comprehensively cover all of the pertinent regulatory requirements associated with HMDA and Regulation C.
3. The audits or internal analysis performed include a reasonable amount of transactional analysis, written reports that detail findings and recommendations for corrective actions.
4. Internal reviews include any regulatory changes that may have occurred since the prior examination.
5. The financial institution has assigned one or more individuals responsibility for oversight, data update, and data entry, along with timeliness of the financial institution's data submission. Also determine whether the Board of Directors is informed of the results of all analyses.
6. The individuals who have been assigned responsibility for data-entry receive appropriate training in the completion of the HMDA-LAR and receive copies of Regulation C, Instructions for Completion of the HMDA-LAR (Appendix A), the Staff Commentary to Regulation C, and the FFIEC's "Guide to HMDA Reporting, Getting it Right!" in a timely manner.
7. The institution has ensured effective corrective action in response to previously identified deficiencies.
8. The financial institution performs HMDA-LAR volume analysis from year-to-year to detect increases or decreases in activity for possible omissions of data.
9. The financial institution maintains documentation for those loans it packages and sells to other institutions.

C. Evaluation of Policies and Procedures

Evaluate whether the institution's informal procedures and internal controls are adequate to ensure compliance with HMDA and Regulation C. Consider the following:

1. Whether the individual(s) assigned responsibility for the institution's compliance with HMDA and Regulation C possess(es) an adequate level of knowledge and has established a method for staying abreast of changes to laws and regulations.
2. If the institution ensures that individuals assigned compliance responsibilities receive adequate training to ensure compliance with the requirements of the regulation.
3. Whether the individuals assigned responsibility for the institution's compliance with HMDA and Regulation C know whom to contact, at the financial institution or their supervisory agency, if they have questions not answered by the written materials.
4. If the institution has established and implemented adequate controls to ensure that separation of duties exists (e.g. data entry, review, oversight, and approval).
5. Any internal reports or records documenting policies and procedures revisions as well as any informal self-assessment of the institution's compliance with the regulation.
6. If the institution offers preapprovals, whether the institution's preapproval program meets the specifications detailed in the HMDA regulation. If so, whether the institution's policies and

procedures provide adequate guidance for the reporting of preapproval requests that are approved or denied in accordance with the regulation.

7. Whether the institution's policies and procedures address the reporting of (1) non-dwelling secured loans that are originated in whole or in part for home improvement and classified as such by the institution; and (2) dwelling-secured loans that are originated in whole or in part for home improvement, whether or not classified as such.
8. Whether the institution established a method for determining and reporting the lien status for all originated loans and applications.
9. Whether the institution's policies and procedures contain guidance for collecting ethnicity, race and sex for all loan applications, including applications made by telephone, mail and Internet.
10. Whether the institution's policies and procedures address the collection of the rate spread (difference between the APR on the loan and the comparable Treasury yield) and whether the institution has established a system for tracking rate lock dates and calculating the rate spread.
11. Whether the institution's policies and procedures address how to determine if a loan is subject to the Home Ownership and Equity Protection Act and the reporting of applications involving manufactured home loans.
12. Whether the HMDA-LAR is updated within 30 days after the end of each calendar quarter.
13. Whether data are collected at all branches, and if so, whether the appropriate personnel are sufficiently trained to ensure that all branches are reporting data under the same guidelines.
14. Whether the financial institution's loan officers including loan officers in the commercial loan department who may handle loan applications reportable under HMDA (including loans and applications for multi-family or mixed-use properties and small business refinances secured by residential real estate) are informed of the reporting requirements necessary to assemble the information.
15. Whether the Board of Directors has established an independent review of the policies, procedures, and HMDA data to ensure compliance and accuracy, and is advised each year of the accuracy and timeliness of the financial institution's data submissions.
16. What procedures the institution has put in place to comply with the requirement to submit data in machine-readable form and whether the institution has some mechanism in place to ensure the accuracy of the data that are submitted in machine-readable form.
17. Whether the financial institution's loan officers are familiar with the disclosure, reporting and retention requirements associated with the loan application registers and the FFIEC public disclosure statements.
18. Whether the financial institution's loan officers are familiar with the disclosure statements that will be produced from the data.
19. Whether the financial institution's loan officers are aware that civil money penalties may be imposed when an institution has submitted erroneous data and has not established adequate procedures to ensure the accuracy of the data.

20. Whether the financial institution's loan officers are aware that correction and resubmission of erroneous data may be required when data are incorrectly reported for at least 5 percent of the loan application records.

D. Transaction Testing

Verify that the financial institution accurately compiled home mortgage disclosure information on a register in the format prescribed in Appendix A, by testing a sample of loans and applications.

The review of the HMDA-LAR, for submitted data, should include a sample of the applications represented on the HMDA-LAR to verify the accuracy of each entry. A sample of the current year's data should also be reviewed. The samples may include the following:

1. Approved and denied transactions subject to HMDA
2. Housing-related purchased loans
3. Withdrawn housing-related loan applications

E. Disclosure and Reporting

1. Determine whether the financial institution:
 - a. Submits its HMDA-LAR to the appropriate supervisory agency no later than March 1 following the calendar year for which the data are compiled and maintains its HMDA-LAR for at least three years thereafter.

Note: Financial institutions that report twenty-five or fewer entries on their HMDA-LAR may collect and report HMDA data in a paper form. Any financial institution opting to submit its data in such a manner must send two copies that are typed or computer printed. They must use the format of the HMDA-LAR, but need not use the form itself.

- b. Makes its FFIEC disclosure statement available to the public at its home office no later than three business days after receiving its statement from the FFIEC.
 - c. Either (1) makes its FFIEC disclosure statement available to the public in at least one branch office in each additional MSA or MD where the financial institution has offices within ten business days after receiving the disclosure statement from the FFIEC; or (2) posts the address for sending written requests for the disclosure statement in the lobby of each branch office in additional MSAs or MDs where the institution has offices and mails or delivers a copy of the disclosure statement within 15 calendar days of receiving the written request.
 - d. Makes its modified HMDA-LAR (loan application number, date application received, and date action taken excluded from the data) available to the public by March 31 for requests received on or before March 1, and within 30 days for requests received after March 1.
 - e. Has maintained its modified HMDA-LAR for 3 years and its disclosure statement for 5 years. It has policies and procedures to ensure its modified HMDA-LAR and disclosure statement are available to the public during those terms.

-
- f. Makes available the modified HMDA-LAR and disclosure statement for inspection and copying during the hours the office is normally open to the public for business. If it imposes a fee for costs incurred in providing or reproducing the data, the fee is reasonable.
 - g. Posts a general notice about the availability of its HMDA data in the lobby of its home office and of each branch office located in an MSA.
 - h. Provides promptly upon request the location of the institution's offices where the statement is available for inspection and copying, or includes the location in the lobby notice.
2. If the financial institution has a subsidiary covered by HMDA, determine that the subsidiary completed a separate HMDA-LAR and either submitted it directly or through its parent to the parent's supervisory agency.
 3. Determine that the HMDA-LAR transmittal sheet is accurately completed and that an officer of the financial institution signed and certified to the accuracy of the data contained in their register. (Appendix A) *Note: If the HMDA-LAR was submitted via the Internet, this signature should be retained on file at the institution.*
 4. Review the financial institution's last disclosure statement, HMDA-LAR, modified HMDA-LAR, and any applicable correspondence, such as notices of noncompliance. Determine what errors occurred during the previous reporting period. If errors did occur, determine what steps the financial institution took to correct and prevent such errors in the future.
 5. Determine if the financial institution has the necessary tools to compile the geographic information.
 - a. Determine if the financial institution uses the U.S. Census Bureau's Census Tract Street Address Lookup Resources for 2000, the Census Bureau's 2000 Census Tract Outline Maps, LandView 5 equivalent materials available from the Census Bureau or from a private publisher, or an automated geocoding system in order to obtain the proper census tract numbers.
 - b. If the financial institution relies on outside assistance to obtain the census tract numbers (for example, private "geocoding" services or real estate appraisals), verify that adequate procedures are in place to ensure that the census tract numbers are obtained in instances where they are not provided by the outside source. For example, if the financial institution usually uses property appraisals to determine census tract numbers, it must have procedures to obtain this information if an appraisal is not received; such as in cases where a loan application is denied before an appraisal is made.
 - c. Verify that the financial institution has taken steps to ensure that the provider of outside services is using the appropriate 2000 Census Bureau data.
 - d. Verify that the financial institution uses current MSA and MD definitions to determine the appropriate MSA and MD numbers and boundaries. MSA definitions and numbers (and state and county codes) are available from the supervisory agency, the "FIPS PUB 8-6, Metropolitan Statistical Areas" (as updated periodically), or "A Guide to HMDA Reporting, Getting it Right!"
 6. For banks and savings associations required to report data on small-business, small-farm, and community development lending under the CRA, verify that they also collect accurate data on
-

property located outside MSAs or MDs in which the institution has a home or branch office, or outside any MSAs or MDs.

Examination Conclusions

1. Summarize the findings, supervisory concerns, and regulatory violations.
2. For the violations noted, determine the root cause by identifying weaknesses in internal controls, audit and compliance reviews, training, management oversight, or other factors; also, determine whether the violation(s) are repetitive or systemic.
3. Identify action needed to correct violations and weaknesses in the institution's compliance system.
4. Discuss findings with the institution's management and obtain a commitment for corrective action.

Examination Checklist

Applicability

Depository Institutions

1. Is the depository institution a bank, savings association, or credit union that originated in the preceding calendar year at least one home purchase loan (or refinancing of a home purchase loan) secured by a first lien on a one-to-four family dwelling? (§203.2(e)(1)(iii))
2. Does the depository institution meet at least one of the criteria below?
 - a. The depository institution is a federally insured or regulated institution (§203.2(e)(1)(iv)(A));
 - b. The depository institution originated a mortgage loan (reference checklist question #1) that was insured, guaranteed, or supplemented by a federal agency (§203.2(e)(1)(iv)(B)); or
 - c. The depository institution originated a mortgage loan (reference checklist question #1) intending to sell it to Fannie Mae or Freddie Mac (§203.2(e)(1)(iv)(C)).
3. Did the depository institution have either a home or branch office in an MSA on December 31 of the preceding calendar year? (§203.2(e)(1)(ii))
4. On the preceding December 31 did the depository institution have assets in excess of the asset threshold that is adjusted annually and published annually by the Federal Reserve Board? (§203.2(e)(1)(i))

If the answers to checklist questions #1 through #4 are “Yes”, then the depository institution is subject to the requirements of HMDA and Regulation C, and the examiner should complete the remaining portion of the checklist.

Non-Depository Institutions

5. Is the depository institution a majority owner of a for-profit mortgage subsidiary?

If the answer to question #5 is “Yes,” then complete questions #6 through #8; otherwise proceed to question #9.

6. In the preceding calendar year, did the mortgage subsidiary either:
 - a. Originate home purchase loans or refinancings of home purchase loans, that equaled at least 10 percent of its total loan-origination volume, measured in dollars? (§203.2(e)(2)(i)(A)) or,
 - b. Originate home purchase loans or refinancings of home purchase loans, that equaled at least \$25 million? (§203.2(e)(2)(i)(B))
7. Did the mortgage subsidiary have a home or branch office⁵ in an MSA as of December 31 of the previous year? (§203.2(e)(2)(ii)) and,

⁵ A nondepository institution is deemed to have a branch office in an MSA or MD if, in the preceding calendar year, it received applications for, originated or purchased, five or more home purchase loans, home improvement loans, or

-
8. Does the mortgage subsidiary meet at least one of the criteria below? (§203.2(e)(2)(iii))
- a. The mortgage subsidiary had total assets (when combined with the assets of the parent corporation) exceeding \$10 million on the previous December 31, or
 - b. The mortgage subsidiary originated at least 100 home purchase loans (including refinancings of home purchase loans) in the preceding calendar year.

If the answers to questions #6 through #8 are “Yes,” then the mortgage subsidiary is subject to the requirements of HMDA and Regulation C. If the depository institution that has a majority interest in the mortgage subsidiary is also subject to HMDA and Regulation C, then the examiner should complete a separate checklist for each entity beginning with question #9 for the mortgage subsidiary. If the depository institution that has a majority interest in the mortgage subsidiary is not subject to Regulation C and HMDA, the examiner should use the remaining portion of this checklist for the mortgage subsidiary. The examiner should note to which financial institution the remaining checklist questions apply.

Compilation of Loan Data

9. Does the financial institution collect the following data in accordance with section 203.4(a) and Appendix A?
- a. An identifying number (that does not include the applicant’s name or social security number) for the loan or loan application, and the date the application was received? (§203.4(a)(1))
 - b. The type of the loan or application? (§203.4(a)(2))
 - c. The purpose of the loan or application? (§203.4(a)(3))
 - d. Whether the application is for a preapproval and whether it resulted in a denial or an origination. (§203.4(a)(4))
 - e. The property type to which the loan or application relates? (§203.4(a)(5))
 - f. The owner-occupancy status of the property to which the loan or application relates? (§203.4(a)(6))
 - g. The loan amount or the amount requested on the application? (§203.4(a)(7))
 - h. The type of action taken? (§203.4(a)(8))
 - i. The date such action was taken? (§203.4(a)(8))
 - j. The location of the property to which the loan or application relates by (§203.4(a)(9)):
 - i. MSA or MD number (5 digits)?
 - ii. State (2 digits)?
 - iii. County (3 digits)?

refinancings in that MSA or MD.

- iv. Census tract number (6 digits)?
- k. The ethnicity and race of the applicant or borrower? (§203.4(a)(10))
- l. The ethnicity and race of the co-applicant or co-borrower? (§203.4(a)(10))
- m. The sex of the applicant or borrower? (§203.4(a)(10))
- n. The sex of the co-applicant or co-borrower? (§203.4(a)(10))
- o. The gross annual income relied on in processing the applicant's request? (§203.4(a)(10))

Note: Collection of data concerning ethnicity, race, and sex is mandatory for all transactions unless the financial institution purchased the loans or the borrower is not a natural person (a corporation or partnership). Data on annual income is mandatory for all transactions unless the financial institution purchased the loan, the borrower is not a natural person, the loan is for a multifamily dwelling, income was not relied upon in the credit decision, or the loan is to an employee.

- p. The type of entity purchasing a loan that the financial institution originates or purchases and then sells within the same calendar year? (§203.4(a)(11))
 - q. For originated loans subject to Regulation Z, the difference between the loan's APR and the yield on Treasury securities having a comparable maturity period, if the APR equals the yield on the Treasury security with a comparable maturity period or exceeds it by 3 percentage points for first lien loans and 5 percentage points for subordinate lien loans. (§203.4(a)(12))
 - r. Whether the loan is subject to HOEPA? (§203.4(a)(13))
 - s. The lien status of the loan or application? (§203.4(a)(14))
 - t. Does the financial institution provide the reasons for denial of an application? (§203.4(c)(1)) If yes, are the reasons accurate?
 - u. Is the HMDA-LAR updated within 30 calendar days after the end of the quarter in which final action is taken? (§203.4(a))
10. Does the institution request ethnicity, race, and sex data for all telephone, mail and Internet applications in accordance with Appendix B? (§203.4(b)(1))
11. For applications taken face-to-face, does the financial institution note data concerning ethnicity, race, and sex on the basis of visual observation or surname if the applicant chooses not to provide this information? (§203.4(b)(1))

Note: If the applicant fails to provide this information in mail, telephone, or Internet applications, the ethnicity, race and sex are not recorded; instead, an applicable code number is provided (ethnicity 3, race 6, and sex 3; NA should not be used for these three situations).

Disclosure and Reporting

12. Is the loan or applicant data presented in the format prescribed in Appendix A of the regulation? (§203.4(a))

-
13. Has the institution reported all applications for, originations of and purchases of home-purchase loans, home-improvement loans, and refinancings? (§203.4(a))
14. Has the financial institution refrained from reporting: (§203.4(d))
- Loans originated or purchased by the financial institution acting in a fiduciary capacity (such as trustee)?
 - Loans on unimproved land?
 - Temporary financing (such as a bridge or construction loan)?
 - Purchase of an interest in a pool of loans (such as mortgage-participation certificates, mortgage-backed securities, or real estate mortgage investment conduits)?
 - Purchase solely of the right to service loans?
 - Loans acquired as part of a merger or acquisition or as part of the acquisition of all assets and liabilities of a branch office?
 - A refinancing if, under the loan agreement, the financial institution is unconditionally obligated to refinance the obligation, or is obligated to refinance the obligation subject to conditions under the borrower's control? (Appendix, I.A.5a)
15. Did the financial institution submit its completed HMDA-LAR to the appropriate supervisory agency in automated machine-readable format by March 1 following the calendar year for which the data are compiled? (§203.5(a))
- Note: Financial institutions that report twenty-five or fewer entries on their HMDA-LAR may collect and report their HMDA data in a paper form. Any financial institution opting to submit its data in such a manner must send two copies that are typed or computer printed. The institution must use the format of the HMDA-LAR, but need not use the form itself.*
16. Has an officer of the financial institution signed the HMDA-LAR transmittal sheet certifying the accuracy of the data contained in the register? (Appendix A)
17. Is the transmittal sheet accurately completed? (Appendix A)
18. Has the financial institution maintained its HMDA-LAR in its records for at least three years? (§203.5(a))
19. Has the financial institution made its FFIEC prepared disclosure statement:
- Available to the public at its home office no later than three business days after receiving it from the FFIEC? AND
 - Available within ten business days in at least one branch office in each additional MSA or MD where the financial institution has offices; or posted the address for sending written requests in the lobby of each branch office in other MSAs or MDs where the institution has offices and delivered a copy of the disclosure statement within fifteen calendar days of receiving a written request? (§203.5(b))
-

-
20. Has the financial institution made its modified HMDA-LAR (loan application number, date application received, and date action taken excluded from the data) for the preceding calendar year available to the public, by March 31 for requests received on or before March 1, and within 30 days for requests received after March 1? (§203.5(c))
 21. Has the financial institution maintained its modified HMDA-LAR for three years? Does the financial institution have policies and procedures to ensure its modified HMDA-LAR is available to the public during that term? (§203.5(d))
 22. Has the financial institution maintained its disclosure statement for 5 years? (§203.5(d))
 23. Does the financial institution have policies and procedures to ensure its disclosure statement is available to the public during that term? (§203.5(d))
 24. Does the financial institution make available the modified HMDA-LAR and disclosure statement for inspection and copying during the hours the office is normally open to the public for business? If it imposes a fee for costs incurred in providing or reproducing the data, is it reasonable? (§203.5(d))
 25. Has the financial institution posted a general notice about the availability of its disclosure statement in the lobby of its home office and in each branch office located in an MSA? (§203.5(e))
 26. Does the institution provide promptly upon request the location of the institution's offices where the statement is available for inspection and copying, or include the location in the lobby notice? (§203.5(e))
 27. Did errors occur in the previous reporting period? (Review the financial institution's last disclosure statement, HMDA-LAR, modified HMDA-LAR, and any applicable correspondence from the regulatory agency, such as notices of noncompliance.)
 28. If errors did occur, has the financial institution taken appropriate steps to correct and prevent such errors in the future?
 - a. Have individuals who are responsible for all data-entry:
 - i. Received appropriate training in the completion of the HMDA-LAR?
 - ii. Been provided copies of Regulation C, including the instructions for completion of the HMDA-LAR, and the "A Guide to HMDA Reporting, Getting it Right!"
 - iii. Know whom to contact, at the financial institution or the institution's supervisory agency, if they have questions not answered by the written materials?
 - b. Are the financial institution's loan officers including loan officers in the commercial loan department who may handle loan applications for HMDA reportable loans (such as multi-family or mixed-use properties and small business refinances secured by residential real estate):
 - i. Informed of the reporting requirements so they can assemble the necessary information, and do they understand the importance of accuracy?
 - ii. Familiar with the disclosure statements that are produced from the data and cognizant of the ramifications for the financial institution if the data are wrong?
-

- iii. Maintain appropriate documentation of the information entered on the HMDA-LAR?
- c. If data are collected at more than one branch, are the appropriate personnel sufficiently trained to ensure that all branches are reporting data using the same guidelines?
- d. Does the financial institution have internal control processes to ensure that the persons who capture and code the data are doing so accurately and consistently?
- e. Does the financial institution have controls established to ensure separation of duties (e.g. data entry, review, oversight approval, etc.)?