

FIVE OUTCOMES, ONE COMPREHENSIVE STORY

WHAT AUTOMATION GIVES YOUR HMDA REPORTING

BY DON SMITH – DIRECTOR OF TRANSACTION AND COMMERCE AUTOMATION SOLUTIONS, LOANLOGICS

Two thousand and twenty brought some relief to lenders reporting under the Home Mortgage Disclosure Act (HMDA). That relief came in the form of postponing quarterly reporting and a final CFPB ruling which raised the threshold for closed-end mortgages.^{1,2} While this alleviates pressure for lenders, HMDA reporting remains an annual requirement for many.

Given its purpose is to “help determine whether financial institutions are serving their communities’ housing needs; assist public officials in distributing public investment; assist in identifying possible discriminatory lending patterns and enforcing antidiscrimination statutes,” lenders must have a focus on ensuring the accuracy of their reporting.³

To ease the burden, lenders should consider an automate first strategy around data collection and loan file reviews. By leveraging technology for this, not staff, lenders will report with greater confidence in their data. They also can free resources to analyze the data and interpret the story it tells to improve their operations and controls. This can all be achieved when the HMDA reports produced are more: Consistent | Complete | Accurate | Efficient | Traceable

AUTOMATE HMDA AUDIT TASKS MORE THAN 90%

CONSISTENT

Regulators want to know your HMDA reporting process. They want to see that the policies and procedures you have in place are followed consistently on every loan, every time. That consistency assures them that the report they are reviewing is accurate.

Automated processes perform the same tasks over and over. People are inherently programmed to be inconsistent - from the post-lunch energy drop, to eyes glossing over after reviewing hundreds of data elements, to simple distractions that take them off task. Systems are programmed to be consistent and can produce the auditable, repeatable process that regulators demand.

COMPLETE

Current manual processes do not allow time for a complete data quality analysis. In fact, some lenders are only pulling data from their loan origination system (LOS), hoping it contains everything required for HMDA reporting. This is, in essence, doing a check on a subset of loan file data, that may be error prone, with nothing to validate it against. Automation can power a more comprehensive collection of not only LOS data, but also the data in the loan file documents. Comparing multiple sources of information ensures the completeness of what is reported.

ACCURATE

People resources are often the most expensive part of any process, including HMDA reporting. Lenders should consider how to set up their HMDA auditors to do what they do best, clear conditions. Auditors are well-trained, specialized, highly compensated resources and should not be used for rote tasks. Data entry or manual validation of information (aka the dreaded and clichéd “Stare and Compare”) wears down their focus and simply isn’t satisfying work.

An automated system can cull through thousands of data points across hundreds of pages in a loan file, match up all that data with the LOS and flag anything that is inconsistent between the two. Auditors then need only to focus their time making decisions about those errors or discrepancies. Not only does it result in higher quality outcomes, but it’s a far more efficient way for them to work.

COMPLETE FILE REVIEWS IN ABOUT

5 Minutes

EFFICIENT

Once the data is accurate, the review process is inherently more efficient. Automation presents only the inconsistent data an auditor needs to address. Guided by a workflow that flags items for review, auditors can greatly reduce their time in file to about five minutes.

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TRACEABLE

Automation enhances your traceability. With verified, validated data, cross-referenced across documents and systems, and all defects cited in the file, lenders have an audit trail to easily call upon when requested by regulators. The identified data discrepancies can then be corrected in the LOS so the system of record is accurate.

Producing a consistent, complete, accurate and traceable HMDA report results in more than just a quality report to submit to regulators. It also gives lenders a clearer picture of their lending story. Rest assured, the CFPB will be painting a picture of your lending practices, you should know what your data communicates before they do.

Leveraging your rich repository of HMDA data to track trends from month to month and profile your borrower engagement across branches, regions, underwriters and processors can provide great insight. Feeding this back into your processes can help you support the markets you serve better.

The fundamental principles of the Home Mortgage Disclosure Act were designed to create fair access to credit. By understanding the results of your strategies, you may uncover even more opportunity to create stories that start in a home.

Read more about LoanLogics' technology for [HMDA Audits](#).

¹ : https://files.consumerfinance.gov/f/documents/cfpb_hmda_executive-summary_2020-04.pdf

² : <https://www.consumerfinance.gov/about-us/newsroom/cfpb-provides-flexibility-during-covid-19-pandemic/>

³ : https://files.consumerfinance.gov/f/documents/cfpb_hmda-da-ta-collection-pia_122017.pdf

About the Author — Don Smith – Director of Transaction and Commerce Automation Solutions, LoanLogics

Don Smith is currently serving as Director of Transaction and Commerce Automation Solutions for LoanLogics®. In this role he is responsible for driving the implementation of features and improvement of the company's flagship SaaS based platform for loan quality management, LoanHD® and its closed loan acquisition platform. He also leads a team of business analysts.

About LoanLogics

LoanLogics is a leading provider of solutions for document processing, quality assurance, quality control and acquisition due diligence. Our technologies and services enable residential mortgage lenders, servicers and investors to “automate first” as means to lower loan defects, reduce costs and lower risk when manufacturing, buying or selling loan assets. We leverage the latest methodologies in cloud computing and machine learning technology to deliver greater value for our clients.

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