HMDA Implementation Strategy and Considerations

September 18, 2016

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John Haring, Director Compliance Enablement, Ellie Mae
Sheila Strong, Vice President of Compliance & General Counsel, AmeriFirst Home Mortgage
Kathleen Keller, Managing Director Regulatory Compliance, Newbold Advisors, LLC
HMDA Implementation Strategy and Considerations

September 2016

Presented by
Marc R. Heon
Senior Manager
Ernst & Young LLP
HMDA implementation strategy and considerations

Introduction

While the HMDA Rule calls for a staged implementation across 2017 through 2020, the necessary updates require immediate attention given the time and resource demands. Important activities include: assessing impacts, identifying gaps, drafting requirements, implementing changes, and testing operational, technology and data updates.

Strategic implementation considerations should include a focus on:

- End-to-end strategy and HMDA lifecycle challenges
- Implementation lifecycle and regulatory change management
  - 2017 – 2018 transition
  - Policies & procedures and training
- Lessons learned from TRID implementation
End to end strategy and lifecycle challenges
HMDA process lifecycle challenges

The Rule poses significant challenges that will involve changes across the loan origination business to people, processes, data and technology. These changes will be realized throughout the HMDA process lifecycle:

Data Collection & Reporting:
- With the addition or modification of data elements and new loan products, many of which contain complex rules, institutions will have to spend significant time assessing the sourcing and collection processes for these elements

Data Accuracy & Error Management:
- The increase in reportable elements and events also intensifies challenges around maintaining accurate data and addressing errors

Data Aggregation & Reporting Mechanics:
- Institutions will have to develop capabilities and system interfaces to aggregate reportable information; and controls to meet the new electronic submission tool and reporting frequency requirements (i.e., use of the CFPB portal)
- Challenges related to the change over in submission rules and mechanisms

Data Analytics:
- As the CFPB will now have access to more data across institutions, they will be able to perform more robust preliminary analytics to identify risk and prioritize the exam schedule
- Institutions should proactively conduct similar analysis to identify potential issues or regulatory focus areas.

Lending Strategy:
- With the data telling a more comprehensive story, institutions should consider reviewing lending strategies to identify problems and opportunities
Implementation lifecycle
Regulatory change management

The change management lifecycle requires a coordinated effort across the bank in order to be successful. Starting with setting the strategy and determining all impacted parties, it is critical to establish a strong PMO with buy-in and participation from impacted stakeholders at all levels, including Senior Leadership.

Effective Dates

Post-implementation testing and enhancements

Staged Implementation Efforts

Design, Development, Testing

Effectuate Non-technical changes

Non-Technical Change Coordination

Functional Design Specs

Functional: system and data changes
Non-Technical: changes to business support collateral (P&P, training, scripts, etc.)

Document specific changes to systems (data capture and reporting) and supporting business support collateral

Coding activity testing and defects (QA, UAT, SIT)

Deployment of system / process changes (as effective) across the various impacted areas, including appropriate communication

Go-live support for people, systems and operations

Ongoing monitoring of changes across the organization

Program Management, Executive Reporting, Workstream and LOB/Functional (Legal, Compliance) Area Coordination

Strategy Development and Impact Assessment

Gap Assessment

Business Requirement Documents (Technical and Non-Technical)

Define impacts across people, process and technology
Develop an implementation strategy and address leadership-level matters

Determine people, process, technology and data gaps
Design changes within impacted areas and engage system vendors

Draft BRDs outlining specific changes identified in the gap assessment (Functional and Non-Technical)
Implementation lifecycle
2017-2018 transition

One of the biggest challenges across the industry related to HMDA implementation is navigating the reporting requirements for applications taken in 2017 with a final Action Taken in 2018. Certain data elements that are collected during an application that starts in 2017 must be reported in compliance with the 2018 requirements if the Action Taken date is in 2018. However, certain data elements such as Government Monitoring Information (GMI), do not follow the same protocol.

In order to accurately report loans with Action Taken in 2018 with an application date in 2017, the following steps should be considered:

1. Establish a cross-functional project management and implementation governance structure
2. Create a requirements traceability matrix (RTM) that tracks implementation of the requirement across the develop, test and deploy stages and serves multiple purposes across the program
3. Schedule the deployment of the updated HMDA reporting systems early enough in the process, that the data is accurately captured
4. Develop a process (including policies and procedures), monitoring and controls around the collection and timing of LAR reportable data in 2017 and 2018 to facilitate the accuracy around the transition
5. Include real time results and a review process around reporting of data in the 2017 format versus the 2018 format due to the Action Taken date
6. Report notable fields that include GMI, if collected in 2017, in the 2017 format even if the Action Taken date is in 2018
Implementation lifecycle
Training and policies & procedures

The non-technical changes to business support collateral such as training and policies & procedures should be a significant task during the implementation lifecycle. In many cases, the collection and reporting of information is dependent on the facts and circumstances of the particular situation. LO’s and other customer-facing employees need to be well trained in these situations on the rules regarding collection. Key considerations include:

- Potential organizational changes to account for new or increased job responsibilities
- Conduct a gap analysis to identify required changes between existing functionality and new requirements
- Track non-technical requirements in conjunction with the technical requirements to ensure alignment and ability to meet rule implementation effective dates
- Develop and execute a comprehensive testing plan that includes vendor dependencies and business validation

HMDA training challenge examples:

<table>
<thead>
<tr>
<th>Race and Ethnicity</th>
<th>Land Loans</th>
<th>Non-Naturalized Persons</th>
<th>New URLA (1003)</th>
<th>“Relied On” Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Where a borrower applies in person and does not provide GMI, a LO is required to provide information to the borrower about GMI collection and collect such information using visual observation &amp; surname (but only at the “category level”)</td>
<td>While loans on raw land are not-reportable, they may become reportable if the institution knows a dwelling will be constructed on the land within two years</td>
<td>For loans to non-naturalized persons (e.g., trusts), it is key for GMI purposes to determine if the borrower is the trust, or a natural person and the beneficiary of the trust</td>
<td>With the new 1003 finalized Loan Originators and Loan Processors will need to be trained on usage.</td>
<td>Certain data fields, such as credit score and DTI, require the reporting of the information specifically relied on in making the credit decision.</td>
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</table>
Lessons learned
TRID implementation

With the volume of legal and regulatory change from the CFPB and other banking regulators, the industry has become accustomed to undertaking change management exercises. Given these efforts, a vast amount of intelligence on successes and challenges exists in the industry.

The most common reasons for challenges in implementation programs are starting late (most notably, with respect to technology) and a lack of holistic coordination amongst impacted stakeholders

- With the TRID implementation, institutions that did not commence efforts early were forced to go-live without sufficient time to implement and test, leading to defects and compliance issues
- The regulators view the ability to properly address regulatory change as indicative of a strong CMS program

Below are some best practices to consider when undertaking HMDA implementation efforts:

- Commence efforts with the strategic planning and business decision process – while key decisions will be made throughout the process, certain fundamental decisions are required to drive the project
- Develop a strong PMO function to act as a “Control Tower” to coordinate ongoing implementation activities
- Engage all impacted areas early in the process and define roles, responsibilities, expectations and deliverables
- Work with technology and data management partners (both internal and external) to develop realistic timeframes and milestones
- Perform robust scenario-based testing and include time for addressing defects prior to going live
- Test implications of the new fields to fair lending analytics prior to reporting
- Regular reporting to Board and Senior Management on decisions and progress
HMDA Implementation Strategy and Considerations

September 2016

Presented by
John Haring
Director Compliance Enablement
Ellie Mae
Supporting both historic and current data

Similar to other regulatory changes, loan origination systems which are both a system of record as well as a system for originating new loans, will need to be able to support different versions of data and exports such as:

- Maintain existing data on historic files in fields that correspond to current definitions.
- Maintain existing export formats (.DAT or .CSV)
- Provide new fields in advance of data collection start date requirements
- Provide new export formats (Pipe Delimited Text or MISMO?)
- Ensure that the correct combination of loan data and GMI/Demographic data is accessible based on both start of loan process as well as once action is taken.
Supporting Different Transaction Types

- Not all Loan Origination Software systems support all reportable transactions. Lenders may need to consult vendors to see whether or not transactions will be able to be reported from primary system.
  - Purchased Transactions
  - Assumptions
  - Reverse Mortgages
  - Open-End / Home Equity Lines of Credit
  - Multifamily Dwellings
- Alternative to producing report out of single system may be ensuring that each system is able to export data in a consistent format that can combine exports from different systems or send separate exports to a third party service provider.
Expanded Data Collection Considerations

New HMDA filing requirements require the reporting of more detailed information that could pose a risk or consumer harm unless appropriate safeguards are put in place such as:

• Ability to limit access to specific individuals granted the authority (ability) to generate HMDA reports
• Mechanisms to ensure that reports are being submitted to the correct portal (anti-spoofing)
• Ideally, bureau permitting, mechanisms to allow Business to Government (B2G) data exchange that can eliminate the need to store files locally in order to upload them
Revised HMDA Reporting
Implementation Considerations and Planning
September 18, 2016

Presented by
Kathleen Keller
Managing Director, Regulatory Compliance
Newbold Advisors, LLC
All regulatory changes require rule analysis and assessment across 4 domains: Process, Systems, Data, Organization. This analysis drives your planning efforts. The questions on the following slides, are a starting point to understanding the change on your organization.

Rule Analysis
Analyze the rule to understand it and its impact on your institution's business model.
Change Considerations - Process

Not intended to be a complete list

All regulatory changes require assessment across 4 domains: Process, Systems, Data, Organization. The new HMDA rule is no different. It is not just about the data.

PROCESS

Transactional Business Process

- How is data collected and modified through the business process?
- What are the implications of a new definition of an existing data element to the business process?
- Are there additional data controls or QC required?
- What 3rd parties are creating/changing data? Brokers? Correspondents?
- What does the ULI mean for your business process? What are the downstream impacts on purchased loans?

HMDA reporting Data Reporting Process

- What new data sourcing is required?
- What data scrubbing enhancements are needed?
- How will the file format be created? 2017...2018?
- What 3rd party vendors are involved? Will they need to make process changes?
- What policies and procedures are affected?
Change Considerations - Systems

Not intended to be a complete list

All regulatory changes require assessment across 4 domains: Process, Systems, Data, Organization. The new HMDA rule is no different. It is not just about the data.

SYSTEMS

Transactional Systems

- What are the data sources for the new data?
- Does the modification of existing elements have an impact on how data will be managed in your systems?
- What is the impact on upstream and downstream systems?
- Are additional automated data controls needed?
- Are 3rd party system vendor tools affected? Are there changes required?
- How will the ULI flow through systems? How does it affect purchased loans?
- Are data analysis tools provided sufficient?
- Are other systems used for multifamily, chattel and HELOCs?

HMDA reporting Data Reporting System

- What system changes are required to aggregate new data?
- Are there additional data systems that need to be integrated?
- Is there a need for additional automated data scrubbing prior to submission?
- How will the file format be created? 2017...2018?
- Will third party vendor tools require change?
Change Considerations – Data and Organization
Not intended to be a complete list

All regulatory changes require assessment across 4 domains: Process, Systems, Data, Organization. The new HMDA rule is no different. It is not just about the data.

DATA

Data Quality
• What is the quality of the current data that will be in the new data set? Does it vary by product type...by channel?
• What are they and how should they be remediated?
• What additional controls might be needed either in transaction or data reporting process?

Fair Lending Data Assessment
• Is there anything in your company’s current data that when aggregated might raise a fair lending concern?
• Are there credit policy and/or process issues that need to be reviewed and/or changed?
• What needs to be done to remediate any issues?

ORGANIZATION
(Communication & Training in this case)

• What communications are necessary? Internal/External?
• Publications? On line training? Webinars?
• Vendor supplied? Help desk?
• What about QC?
Integrate the HMDA Reporting Timelines Into Your Plan

*The rule is implemented over 4 years. It is critical to ensure that your plans consider these milestones. The plan must consider multiple deliveries of capability. There are 5 key milestones.*

1. For loans that start in 2017 that have a “Last Action Date” in 2018, the new data set is reportable except for disaggregated Government Monitoring Information (GMI).
3. Begin Collection of New Data Set Including Disaggregated GMI.
5. Quarterly Reporting Starts for Larger Institutions.

Must have strategy for dual tracking for these loans as it will not be clear under which rule they will be reported.
1. Collect New Data Set w/o Revised GMI
2. Collect With Revised GMI
3. New Pipe Delimited File for 2017 HMDA
4. Full Data Set Reporting for 2018 HMDA
5. Quarterly Reporting for 2019 HMDA
**Scoping and Planning**

<table>
<thead>
<tr>
<th>Key Activities</th>
<th>Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Rule Analysis and Impact Assessment</td>
<td>• Consider not only what products and business lines you currently have. Also consider future products and business lines.</td>
</tr>
<tr>
<td>• 3rd Party Vendor Planning</td>
<td>• Review all participants in the business process to assess impact.</td>
</tr>
<tr>
<td>• Plan Development and Resourcing</td>
<td>• Get your vendor plans and align milestones.</td>
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<tr>
<td>• ULI Structure Analysis</td>
<td>• Consider system customizations to determine if they create additional work.</td>
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<tr>
<td>• Stand Up Project Organization</td>
<td>• Plan for time of subject matter experts as well as implementers.</td>
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<tr>
<td></td>
<td>• Consider backfill for people who are diverted to implementation.</td>
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<tr>
<td></td>
<td>• Employ temporary help to either implement or backfill</td>
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<td></td>
<td>• Test your proposed ULI structure against the rule requirements.</td>
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# Information Management

<table>
<thead>
<tr>
<th>Key Activities</th>
<th>Considerations</th>
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<tbody>
<tr>
<td>• Gather Current Data (to extent possible)</td>
<td>• Ensure new data is assessed before collection period starts.</td>
</tr>
<tr>
<td>• Data Quality Analysis</td>
<td>• Collection period will start sometime in 2017 due to “last action taken date.”</td>
</tr>
<tr>
<td>• Fair Lending Analysis</td>
<td>• Review data for all products.</td>
</tr>
<tr>
<td>• Identify remediation</td>
<td>• Understand the conditionality that drives what data is used for HMDA. Depends on product and point in process loan fell out.</td>
</tr>
<tr>
<td>• Assign to appropriate work stream</td>
<td>• Remember that changing definitions of data may create complexity. Could affect upstream and downstream processes.</td>
</tr>
<tr>
<td>• Remediate</td>
<td>• Ensure data is not being changed outside of the source of HMDA data.</td>
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<td></td>
<td>• Consider using the MISMO HMDA standard for data aggregation.</td>
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# Process Assessment

<table>
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<tr>
<th>Key Activities</th>
<th>Considerations</th>
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<tbody>
<tr>
<td>• Operational Process Assessment</td>
<td>• Must be an early activity to drive out changes needed early.</td>
</tr>
<tr>
<td>• Originations</td>
<td>• HMDA Data Reporting process must consider dual pathing for transition period.</td>
</tr>
<tr>
<td>• Servicing</td>
<td>• Consider all channels, all products.</td>
</tr>
<tr>
<td>• HMDA Reporting Process Assessment</td>
<td></td>
</tr>
<tr>
<td>• Identify and Categorize Changes Needed</td>
<td>• Consider what changes your organization might be considering while HMDA is being implemented.</td>
</tr>
<tr>
<td>• Assign to appropriate work stream</td>
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# Technology Changes

<table>
<thead>
<tr>
<th>Key Activities</th>
<th>Considerations</th>
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<tbody>
<tr>
<td>• Loan Origination Systems (for each LOS involved)</td>
<td>• Must plan for each system impacts</td>
</tr>
<tr>
<td>• Requirements</td>
<td>• Ensure time for UAT</td>
</tr>
<tr>
<td>• Development (internal or 3rd party)</td>
<td>• Ensure time for end to end testing</td>
</tr>
<tr>
<td>• User Acceptance Testing</td>
<td>• Align development of new pipe-delimited file to January 1st submission timeline for 2017 data.</td>
</tr>
<tr>
<td>• Deployment</td>
<td>• Decide whether leveraging MISMO makes sense.</td>
</tr>
<tr>
<td>• <strong>HMDA Reporting Systems</strong></td>
<td>• Get the plans from your vendors as quickly as possible.</td>
</tr>
<tr>
<td>• Requirements</td>
<td>• Consider impact of customization your company has done on your work.</td>
</tr>
<tr>
<td>• Development (internal or 3rd party)</td>
<td>• Plan for how ULI will flow through your systems.</td>
</tr>
<tr>
<td>• User Acceptance Testing (both tool and CFPB Integration)</td>
<td>• If you don’t use a HMDA reporting system, now is the time to think about using one.</td>
</tr>
<tr>
<td>• Deployment</td>
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<tr>
<td>• End to End Integrated Test</td>
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Policy and Procedure Updates

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<th>Key Activities</th>
<th>Considerations</th>
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<tbody>
<tr>
<td><strong>Policy Changes</strong></td>
<td></td>
</tr>
<tr>
<td>Policy Review and Impact Assessment</td>
<td>• Process work will drive some of this out but a bottom up review of policy and procedure will also be helpful to ensure everything has been caught.</td>
</tr>
<tr>
<td>Make Changes</td>
<td>• Ensure enough time is allowed for approval processes.</td>
</tr>
<tr>
<td>Approval Process</td>
<td></td>
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<tr>
<td><strong>Procedure Changes</strong></td>
<td></td>
</tr>
<tr>
<td>Policy Review and Impact Assessment</td>
<td>• Ensure the ULI is covered in your policies and procedures.</td>
</tr>
<tr>
<td>Changes</td>
<td>• Remember readiness date is sometime in 2017.</td>
</tr>
<tr>
<td>Approval Process</td>
<td>• Procedures will finish after systems as systems are needed to finalize procedures. Allow enough time.</td>
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<td></td>
<td>• There are some items in the rule left to lender discretion. Work with your counsel to ensure that those decisions are clearly documented and reflected in policy and procedure.</td>
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# Communication and Training/Readiness

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<tr>
<td><strong>Communication and Training</strong></td>
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</tr>
<tr>
<td>- Identify Training Needs</td>
<td>- Ensure Loan Officers are training in new HMDA data collection rule and procedures.</td>
</tr>
<tr>
<td>- Create Training</td>
<td>- Ensure branch personnel understand new disclosure notices</td>
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<tr>
<td>- Approval Process</td>
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<tr>
<td>- Administer Training</td>
<td></td>
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<tr>
<td>- Develop Disclosure Notices</td>
<td></td>
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<tr>
<td>- Distribute Disclosure Notices</td>
<td></td>
</tr>
<tr>
<td><strong>Readiness</strong></td>
<td><strong>Readiness</strong></td>
</tr>
<tr>
<td>- Ensure everyone is ready to deploy when the time comes: Operations, Systems, Data, Vendors, Partners</td>
<td>- Ensure milestones are aligned with all involved.</td>
</tr>
<tr>
<td>- Go/No Go decision will occur at a few points in the plan.</td>
<td>- Ensure communication is provided to all who need to know both internal and external</td>
</tr>
<tr>
<td><strong>Key Implementation Milestones:</strong></td>
<td></td>
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<tr>
<td>- LOS Data Collection w/o revised GMI (mid 2017)</td>
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<tr>
<td>- LOS Data Collection w/revised GMI (Jan 2018)</td>
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<tr>
<td>- New Pipe Delimited File for 2017 reporting (Jan 2018)</td>
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<tr>
<td>- HMDA Reporting System Changes for Reporting of 2017 data (Jan 2018)</td>
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<tr>
<td>- Quarterly Reporting (Jan 2020)</td>
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</tbody>
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## Summary

<table>
<thead>
<tr>
<th></th>
<th>Aggressive</th>
<th>Conservative</th>
<th>Number of Weeks 1/1/2018 is from today (9/1/2016)</th>
</tr>
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<tbody>
<tr>
<td>Estimate of Elapsed Weeks</td>
<td>66</td>
<td>102</td>
<td></td>
</tr>
<tr>
<td>Contingency</td>
<td>6</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Total Weeks Required</td>
<td>72</td>
<td>108</td>
<td>70</td>
</tr>
</tbody>
</table>

- The elapsed totals assume concurrent work with appropriate staffing levels.
- Every company is different, however few companies will be able to support the aggressive estimate given other work and priorities.
- Plans should allow contingency time and not run right up to the rule implementation date.
- 3rd Party Vendor plans should be vetted in detail up front and allow ample time for UAT.
- There are several interim milestones that are required and need to be planned in the detailed work plans.

An early impact assessment is key to securing the funding and resources required for successful implementation. The time to start, if you have not already, is now!
HMDA — Big Issues Overview

Monday, September 19, 2016

Presented by
Sheila M. Strong
VP of Compliance & General Counsel
AmeriFirst Home Mortgage
Where should I be in my implementation plan?

• Read the rule in its entirety
• Consult with business units to determine the future of your financial institution
  • Reverse mortgages?
  • Preapprovals?
  • Open lines of credit?
  • Multi-family?
• Identify the departments affected by HMDA changes
• Begin updating policies and procedures
• Tested reliability of HMDA data
• Obtain Legal Entity Identifier
Where should I be in my implementation plan?

Global Markets Entity Identifier (GMEI) Utility

The Global Markets Entity Identifier (GMEI) utility is DTCC’s legal entity identifier solution offered in collaboration with SWIFT. The GMEI utility is a pre-Local Operating Unit of the Global Legal Entity Identifier System (GLEIS).

The GMEI utility creates and assigns globally accepted Legal Entity Identifiers (LEIs) in a standard format (ISO 17442). The system validates the accuracy of the associated reference data and stores all the information in a public database free for all to use and redistribute. The information afforded by the GMEI utility is a critical tool for helping regulators and market participants understand exposure, enhance market transparency and manage systemic risk.

Among the key functions the GMEI utility supports are:

**Register an entity:**
- The registered entity will be visible on the GMEI utility staging database once registration is completed.
- The record will then undergo review by the validation team, who will update the Record State.
- Upon completion of the validation review, an LEI will be assigned and the results listed on the GMEI utility portal.
- Users requesting an LEI on behalf of a client or other party must obtain that party’s authorization prior to registering on their behalf.

**Search existing LEI registrations:**
- Search the full set of LEI registrations that have completed validation and have an assigned LEI.
- Search the full set of LEI registration requests that are awaiting LEI assignment on our staging database.
- Add filtering criteria to make your search results more relevant.
Where should I be in my implementation plan?

- Develop an information security plan for HMDA data
  - Age
  - Gender
  - Address
  - Credit Score
- Determine whether reporting will be quarterly or annual
What is next?

- Review current data for fair lending trends
- Evaluate current HMDA procedures
- Training
  - Reporting
  - How to address questions regarding additional data point collection
  - Loan files will be reported under LO NMLS identifiers
- Determine whether reporting will be quarterly or annual
- Assess policies and procedures to determine necessary revisions
What is next?

- Review current data for fair lending trends
- Evaluate current HMDA procedures
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  - Reporting
  - How to address questions regarding additional data point collection
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Questions & Answers?