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OCC Chief Counsel Spotlights Challenges and Opportunities Presented By New Home Mortgage Disclosure Act Reporting Requirements

Arlington, VA – Chief Counsel and First Senior Deputy Comptroller Julie L. Williams told bankers today that new Home Mortgage Disclosure Act (HMDA) reporting requirements present challenges, but also offer banks an opportunity to grow and enhance their business.

"The more you learn about your customers and where their dreams hope to take them, the better situated you are to shape financial products and services to fit their needs—and help make those dreams a reality," Ms. Williams said in a speech before a meeting of the Consumer Bankers Association. "And the more perspectives you have on how you are doing that job, and where you may need to improve, the better positioned you are to adjust your practices to better achieve your goals."

Next year, lenders will be required to publicly report new data concerning their home mortgage lending. For the first time, lenders must report pricing information for higher-priced loans by borrower characteristics, and the racial and ethnic composition and income level of the census tract in which the property is located. Reporting is also required for higher-priced loans for home purchase loan originations, secured home improvement loans and refinancing. In addition, lenders must report whether a loan is subject to the Home Ownership and Equity Protection Act, on the lien status of applications and originations, and on whether the mortgage is for a manufactured home.

"Right now, you may not be thinking about these requirements as an opportunity to understand your customers better," she said. "And you may be thinking less in terms of how the new data might ultimately reduce your risk than of how it might expose you to risk. All those perspectives may have validity, but thinking about the new requirements only from a narrow perspective, strictly as a risk and a burden, would be a mistake."

While noting that economists have said that the HMDA reporting requirements have played a critical role in encouraging low-and moderate-incoming lending—and in identifying and developing new markets for financial institution in low-and moderate communities, Ms. Williams acknowledged that the new HMDA requirements present major challenges for bankers.

"For financial institution that now spend what they see as way too much time and energy complying with disclosure requirements, the newest HMDA requirements will undoubtedly represent an unwelcome addition to what feels like an already excessively heavy load," said Ms. Williams. "Community banks especially might notice the increase as they make the necessary initial adjustments to their systems to generate the new data."

Ms. Williams cautioned that all banks should be doing some form of preliminary analysis of their HMDA data by now as the challenges will become more difficult in August 2005, when the new HMDA data becomes public.

Ms. Williams recalled warnings she gave six years ago raising concerns about privacy and information security, and customer service and competition, suggesting that the industry needed to confront the issues early and rise to the challenge of self-regulations, or government would be compelled to step in.

"What worries me here is that this may be yet another case in which such a failure of preparedness—a failure, if you will, to anticipate and understand consequences—will wind up being enormously costly, not only for individual financial institutions, but for the entire banking industry," Ms. Williams said. "The exposure here is not necessarily dollars out-of-pocket—although that may well be the case—but the loss of a more precious and consequential commodity—the good name of your institution and the reputation of the banks at large."

"If you find a problem—Correct it!" said Ms. Williams. "Better you find it and correct it promptly, than we find a festering problem and have to order it fixed."

"The new HMDA data offers a new set of clues on how well each of your institutions is doing," Ms. Williams concluded. "The new data is by no means a dispositive judgment on a bank's lending practices. But it will give bank managers another set of signals about their bank's operations; a set of signals that may point to successes to build on, to issues that should be addressed, or to problems that must be corrected."

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