COMPLIANCE *CAN* BE EASY

The journey to 'easy street' isn't a simple one. Especially with the new HMDA rule, the time to prepare is now.

BY MATT HYDREW AND AMANDA PHILLIPS

We've entered a new paradigm in mortgage lending. Unlike the historical risks to lending like rate fluctuation or other market changes, lenders today know the greatest risk to their business is compliance. Those market-based storms of yester-year were weathered by the most prepared lenders in the space. Now, the compliance-based storms of today bring new risks, which must be properly prepared for in order to stay successful. Fortunately, this seemingly uphill battle is not yours to fight alone. The fast approaching Home Mortgage Disclosure Act (HMDA) Regulation C changes to the Loan Application Report (LAR) bring with it over 30 new data points to collect and report on, and staying compliant can seem hard, but it doesn't have to be. With proper preparation and technology, even the most complex regulations can become more approachable – almost, dare we say, *easy*.

The journey to 'easy street' isn't a simple one. Especially with the new HMDA rule, the time to prepare is now. By taking the appropriate steps today, you will ensure you are ready to collect these new data points well in advance of 2018. This journey isn't yours to make alone – it involves preparedness from you, your teams, and your technology providers. Here's how you can make the leap to compliance-made-easy.

Create Your Own Destiny. While you are hopefully partnering with providers that support and enable your ability to comply with new regulations, at the end of the day, the responsibility falls on your shoulders. If there's anything to take away from the recent TILA-RESPA Integrated Disclosure Rule (TRID) experience, it's that having a well-documented way to track your plan to address new regulations, including the expected outcomes, will help ensure everyone is on the same page. To be successful, this step is not optional. Once you have documentation in place, you can begin to design the processes.

The lowest hanging fruit to tackle is often systematic configuration. As it relates to HMDA, you may be collecting many of the new data points already, but collecting and submitting could still present many challenges. Make sure your system will be able to validate the HMDA LAR data elements prior to LAR submission to ensure completeness. If there are incomplete data elements, the system should message the user regarding the potential need for additional data. This may be done on platform or through an integration with a third party partner that specializes in HMDA data. As was the case with TRID, your loan origination platform partner should be forward-thinking regarding HMDA functionality and integrations. Communicate with them regularly to make sure your needs are aligned with their planned efforts. Additionally, if system logic and/or configuration around HMDA data isn't in the plans for you or your technology partner, you will, at a minimum, need to document the workflow steps and procedures that your operational staff will perform to comply with the regulation. Not
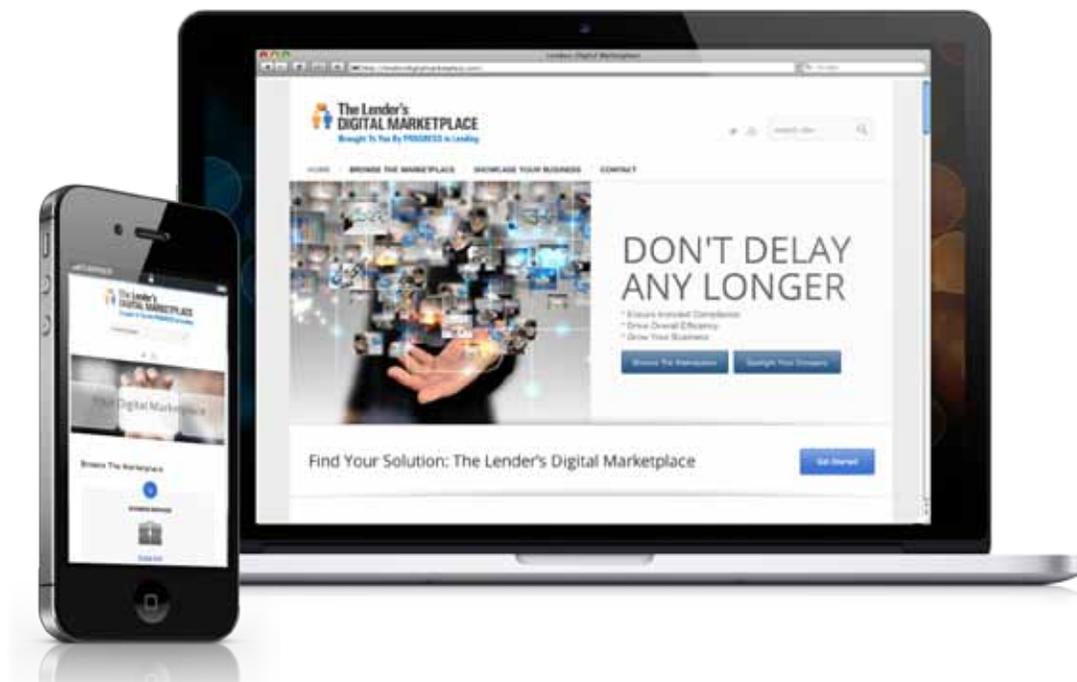
every piece of HMDA can be automated, so completeness and versioning of your compliance policies and procedures is critical. Take control of your own destiny and map out your plan. Everyone will sleep better when you do.

Get to the Data. Heading into these HMDA changes, you will need access to data on various levels – either from the system of record in the form of extracts, or from the database to allow reporting tools to take the information and provide the LAR report on your behalf. There are many approaches to this, and depending on your environment and situation, this might be a bit challenging – especially if you have a home equity-specific system and a separate mortgage production system. At some point, the required HMDA information needs to be available and transparent from all of your lending channels and business lines.

Fortunately, there will be solutions ready for these changes. If you aren't confident in your ability – or your technology partner's ability – to support the HMDA changes, now is the time to begin looking for alternatives. With the right technology, the additional data collection can be validated and checked by the appropriate system requirements, and in some cases, automated. In other words, if the data collected is incomplete, based on your policies, procedures, and system configuration, the system can stop a user from progressing the application until the data is complete. While this certainly presents new challenges and training needs for loan officers, ultimately, it ensures compliance with HMDA.

In addition, take time to establish a robust Fair Lending Program that requires quarterly and annual reviews of your HMDA data for accuracy and completeness. At least a few times a year, review LAR outliers. Also, consider having an independent third party conduct such reviews. How much of the Fair Lending review is conducted internally and how much is outsourced is certainly up to you.

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At the end of the day, establishing and maintaining compliance with HMDA is all about the data. Data is fickle and influenced by a number of factors, so the more checks in place, the less time and money you will have to spend retroactively analyzing, and even correcting, the data.

Questions to Ask Your Technology Partners. While HMDA feels far off, it's not. Although we've talked about your internal plan of action and how to get to the data, the technological side of things is not to be overlooked. Now is the time to begin communicating with your partners. Questions to ask include:

>>What is your interpretation of the HMDA rule?

>>How do you plan to support us?

>>Do you have educational sessions planned that we will be able to participate in?

>>Will you solicit our input as you work through the system changes?

By now, your partners should have a prescribed plan, including how it will affect your business. Your provider should be digesting, documenting, and designing their proposed changes to enable your compliance with the new HMDA requirements. In our new lending world, leveraging technology is essential, and although new regulations often feel like obstacles, after just a few months, your teams will find the new data points second nature.

With the need to collect the additional HMDA data points about a year away (likely beginning in Q3 or Q4 2017 for loans with an action taken date potentially in in 2018), the clock is ticking for documenting action plans. Everyone, by now, should have a start on taking the appropriate steps to prepare for the new HMDA rule. In my experience, while this might seem logical, it's often hard to fit in the day-to-day business of residential lending operations in our country. If the task seems daunting, seek help. Consult with your partners and peers to identify gaps in your plan. Through teamwork, proper planning, and great technology the HMDA changes might just seem like a walk in the park come 2018. ❖

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