Mortgage lender fined for alleged HMDA violations

June 10, 2019

On June 5, 2019, the Consumer Financial Protection Bureau (CFPB) announced its consent order (consent order) with a large mortgage lender (the company) for allegedly reporting erroneous sex, race, and ethnicity Home Mortgage Disclosure Act (HMDA) loan/application register data from 2014-2017. The company was one of the nation's 10 largest HMDA reporters for each year of the alleged violations. Based on the consent order, most of the company's HMDA-reportable applications were generated through its call centers.

At the root of the alleged problem was the way in which the company's proprietary electronic application system (the system) was programmed to ensure loan officers (LOs) collected certain HMDA application data for call-in applicants – according to the CFPB, the LOs, in an attempt to get around certain programming issues, would intentionally enter incorrect HMDA data into the system. For example, based on the consent order, the company implemented a "hard stop" in the system that prevented LOs from continuing to enter an applicant's information if race or ethnicity data was not entered. According to the CFPB, to get around the hard stop, LOs were instructed by their managers and other LOs to select "non-Hispanic white" for the call-in applicants who did not provide their ethnicity and race. Another hard stop was implemented regarding applicants who did not provide information about their sex; the workaround for this resulted in inaccurate application information about the applicant's marital status and co-applicant income. Audio recordings of the telephone calls between applicants and LOs apparently revealed that, in some cases, LOs would incorrectly enter applicants as non-Hispanic white despite the applicant providing different information about their race or ethnicity.

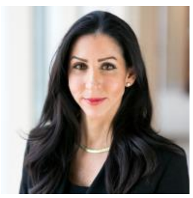
Under the terms of the consent order, the company will pay a US$1.75 million civil money penalty and must design a compliance plan that addresses the alleged HMDA issues. No customer remediation was required and no harm to customers identified.

Key takeaways:

- The call-center model is popular among many U.S. mortgage lenders. But it offers its own set of compliance challenges, including how to accurately collect HMDA data during the application process. Training call-center LOs and their managers about how to collect this information is imperative to help reduce risk of HMDA noncompliance.

- Receiving feedback from LOs about their HMDA data collection challenges, and acting on that feedback, can also help HMDA reporters identify issues and mitigate future HMDA problems.
- This consent order relates to HMDA data collected prior to the collection and reporting of data under the new HMDA rules. The increased amount of HMDA data now being collected and reported and the CFPB's ability to review this data for years to come amplifies the importance of compliance. As part of their larger compliance-management systems, HMDA reporters would be well-advised to monitor their HMDA data for trends that may indicate collection errors or potential fair lending issues – this monitoring should be followed by proactive remedial efforts if issues are identified. Likewise, we recommend staying informed as the CFPB reconsiders HMDA's coverage thresholds to understand the extent to which your institution is covered.

Contacts



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