



## CERTIFICATION NEWS

### Regulatory Compliance

# What's on the Horizon? HMDA Changes

By Ania Scanlan

Most of us know Home Mortgage Disclosure Act (HMDA) requirements well. We gather the loan information, scrub the Loan Application Register (LAR), file it, and keep our fingers crossed that we have not missed a thing. Hold on to your chair! HMDA changes are fast approaching, so out with the familiar and in with a dramatic overhaul.

On Oct. 15, 2015, the Consumer Financial Protection Bureau released a final HMDA rule



which makes sweeping changes to Regulation C. The final rule vividly expands HMDA reporting and compliance obligations by adding new data collection fields and expanding the types of loans covered.

#### What is the effective date?

The final rule includes important dates that should be considered as you create an implementation plan for your community bank:

- Jan. 1, 2017 – The coverage test for depository institutions subject to Regulation C changes. In addition, those institutions that originated fewer than 25 home purchase loans (including refinances of home purchase loans) during each of the last two calendar years will no longer be subject to the rule as of Jan. 1, 2017. For example, if your community bank originated fewer than 25 home purchase loans in 2015 and 2016, it will be excluded from collection and reporting

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## 2016 CERTIFICATION CALENDAR ▶

#### Audit Institute (Week 1)

- Sept. 12-16; Minneapolis

#### Audit Institute (Week 2)

- Sept. 19-23; Minneapolis

#### Annual Current Issues/ Certification Conference

- Oct. 4-7; Minneapolis
- Oct. 17-20; Orlando

#### Bank Security Institute

- Sept. 11-14; Minneapolis

#### BSA/AML Institute

- Aug. 1-3; Denver
- Nov. 7-9; Dallas

#### Community Bank IT Institute

- May 9-13; Nashville
- Aug. 8-12; Minneapolis

#### Compliance Institute

- June 12-17; Nashville
- Sept. 25-30; Denver

#### Consumer Lending Institute

- Sept. 18-21; Minneapolis

#### Commercial Lending Institute

- Oct. 23-28; Phoenix

#### Credit Analyst Institute (NEW)

- Aug. 14-17; Minneapolis

### PROFESSIONAL PROFILE

## Get to Know Ali Andrasko, an ICBA Certified Banker in Illinois

By Runay Olson

Ali Andrasko is the compliance officer and internal auditor at First National Bank in Staunton, Ill. She became a Certified Community Bank Internal Auditor in 2010 and a Certified Community Bank Compliance Officer through ICBA's Certification Programs in 2012.

**What makes a community bank different from the largest banks?**

**Andrasko:** We want our customers to feel

#### Fact Check

#### First National Bank in Staunton

**Headquarters:** Staunton, Ill.

**Retail offices:** Nine

**Bank asset size:** \$500 million

**Number of bank employees:** 151

**Number of staff in auditing and BSA/AML:**

Four in auditing and three in BSA/AML

**Website:** www.fnbstaunton.com

**Taglines/Motto:** Get it Right the First Time

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requirements in 2017.

- **Jan. 1, 2018**—Most of the rule's requirements become effective on this date. The new collection requirements will apply to loans and lines of credit for which final action is taken on or after Jan. 1, 2018.
- **Jan. 1, 2019**—Amendments related to electronic data submission and public disclosures become effective. Institutions will report the data collected in 2018 under the new collection requirements by March 1, 2019.
- **Jan. 1, 2020**—Large volume lenders begin quarterly reporting of HMDA data. The HMDA data for the first quarter of 2020 must be submitted by May 30, 2020. Large volume lenders are those reporting a combined 60,000 or more applications and loans in the preceding calendar year.

### Which institutions are covered?

The final rule provides a uniform loan-volume threshold for all institutions. The threshold is the origination of 25 closed-end mortgage loans or 100 open-end lines of credit in each of the preceding two calendar years. This threshold becomes effective for all institutions on Jan. 1, 2018.

The asset-size element of the rule for depository institutions remains unchanged. The final rule adds the new loan-volume threshold to this existing coverage test. The positive effect of the new threshold is that low-volume depository institutions will be exempt from collecting and reporting data. Still, if your community bank is a low-volume depository institution, you will need to monitor the number of originated closed-end mortgage loans and open-end lines of credit to ensure compliance with HMDA once your bank exceeds the coverage threshold and joins those banks that must collect and report HMDA data.

### Which loans are covered?

**Collateral-based test.** Currently, the test for whether loans are reported or not is the loan's purpose—specifically, whether the loan is used for a home purchase, home improvement or refinancing. The final rule removes the purpose-based test in favor of a collateral-based test. This means that as of Jan. 1, 2018, data must be collected

and reported on consumer loans that are secured by a dwelling, regardless of the loan purpose. For example, if a consumer applies for a loan to pay off personal debt, the loan will be covered if it is secured by a dwelling.

**Open-end lines of credit.** Currently, lenders have a choice whether or not to report open-end lines of credit secured by a dwelling (i.e., home equity lines of credit). Once Jan. 1, 2018 arrives, this choice will no longer be available—data will need to be collected and reported on all lines of credit secured by a dwelling, regardless of the loan's purpose.

**Business/commercial loans.** As of Jan. 1, 2018, data must be collected and reported on a business or commercial loan or line of credit if that loan/line of credit is secured by a dwelling and originated for a home purchase, home improvement or refinancing.

**Unsecured loans.** Currently, unsecured home improvement loans (classified as "home improvement") require reporting. As of Jan. 1, 2018, home improvement loans will only be covered if they are secured by a dwelling. Therefore, unsecured loans will not require reporting action in the new HMDA environment.

### What data will be reported?

Covered institutions will be required to collect, record and report considerable information about origination of, purchases of and applications for covered loans. Here are the new data fields:

- Information about applicants and borrowers, including their age, credit scores and debt-to-income ratios.
- Information about the loan process, including how the application was submitted (whether directly to the institution), whether the loan would have been initially payable to the institution, and the name of and results from any automated underwriting system that was used.
- Information about the property securing the loan, including value and type.
- Information about the features of the loan, including total loan costs or total points and fees, origination charges, discount points, lender credits, interest rate, prepayment penalty term, loan term, introductory rate period and

nonamortizing features.

- Unique identifiers, such as property address, entity identifiers for the financial institution and mortgage originator National Mortgage Licensing System and Registry identifiers.

### What does this mean to you?

Under the new HMDA rule, covered institutions will be required to report much more data than is currently required. There will be a total of 48 fields, 25 of them new and some modified. The reported data will include much more detail about applicants, borrowers, credit, collateral, loan type, fees, originator, pricing, charges and the covered institution. Whether your community bank likes it or not, this new HMDA data will serve as detailed data for future fair lending reviews and risk assessments both for your institution and its examiners.

The changes take effect in 2018. However, now is the time to begin looking at compliance management systems in order to determine how the expanded data requirements will be collected, stored and reported at your bank. Here are some things to consider.

- **Executive buy-in.** Senior leadership at your bank must understand the far-reaching changes to HMDA and that it will take a team to implement these changes. You and your senior leadership will need to understand how the different lines of business may be impacted by the recent HMDA changes.
- **Lending team buy-in.** Now is the time to start talking about these sweeping changes with your bank's entire lending team. Start early with these conversations so that fears and anxiety can be mitigated. Consider designating a task force or working group to handle the full implementation of these changes and involve lending designees.
- **Data collection and retrieval.** Does your bank collect all of the data items that will be required in 2018? If no, when will it start collecting it? If yes, where is this data located? Is it easily extracted to file it when the time comes? Are the expanded fields available for collection on an existing application form or system? Will data come from many sources? What are those sources? Will there be one col-

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lection point or many?

- **Systems.** If you have a manual system, make an assessment if it will still be sufficient and efficient to allow your bank to file accurate expanded data. If you use an automated data system, assess whether it will be able to handle expanded demands and the required additional data sets. Does the system need updating? If so, what needs to be updated, who will do it and how much will it cost?
- **Staffing levels.** Determine the necessary staffing levels for your bank. Will current staffing levels be adequate to manage the additional data collection and reporting requirements? Who will be responsible for each component of the implementation?
- **Operations.** Policies, procedures, processes, templates and forms will likely need to be updated. Who will update them? When? Are there proper controls in place that will align with the new requirements?
- **Fair lending.** The CFPB has made it clear that HMDA data integrity is an integral part of fair lending compliance and enforcement. The expanded data fields will likely be used for enhanced fair lending scrutiny. You need a comprehensive understanding of your bank's HMDA data, the possible compliance risks and the lending performance that could be inferred from the data. This understanding will be more important than ever before once the HMDA final rule goes into effect in 2018.
- **Document, document, document.** It goes without saying that all of your bank's assessments, processes, procedures, system mappings, etc., should be well documented. Documentation may occur electronically or in hard copy format.

Jan. 1, 2018, will be here sooner than we want it to be. Take a deep breath, prepare your plan, outline specific steps, build understanding across your bank, and you should be ready to tackle this major rule implementation.

**Ania Scanlan** (ania.scanlan@icba.org) is vice president, Community Bank



## COMPLIANCE DATES TO REMEMBER

**March 31, 2016** – HELP Act effective date; the Consumer Financial Protection Bureau's interim final rule provides that as of March 31, 2016, a small creditor is eligible to make balloon-payment Qualified Mortgages if it originates at least one covered mortgage loan on a property located in a rural or underserved area in the prior calendar year.

**April 1, 2016** – Remember to update your CRA Public File.

**June 30, 2016** – Mandatory compliance with Option to Escrow Flood Insurance.

**Oct. 3, 2016** – Department of Defense's Military Lending Act effective date.

**Jan. 1, 2017** – HMDA effective date for excluding low volume depository institutions from coverage.

**Jan. 1, 2018** – HMDA final rule effective date for provisions related to institutional and transactional coverage, data collection, recording, reporting, and disclosure.

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welcome when they walk in the front door. Our employees live in the communities we serve. It makes the banking experience more genuine for a customer when they know you and see you in the community.

### What makes you most proud about your bank?

**Andrasko:** I am most proud of our relationships with our customers and our community. When you walk into any of our lobbies you will always notice employees greeting customers by name and visiting with them. We have a vested interest in our customers and in the community we serve. FNB employees recently volunteered together to host a pancake breakfast to benefit our local food pantry. It's this type of event that strengthens our ties to our community.

### How did you find your way into banking?

**Andrasko:** I started in banking as a college student. I was a part-time teller at a large bank. I decided to move home while I finished my degree. It was then that I spoke to the bank owner about a possible job here. I started working at FNB in 2005 part-time as the assistant internal auditor/compliance officer with no intentions of remaining a banker after graduation. I really enjoyed the work I was doing and was offered a full-time position once I graduated. In 2010, I was promoted to compliance officer/internal auditor.

### Tell us your biggest and best accomplishment.

**Andrasko:** I became the compliance officer in the midst of a regulatory exam. It was during a time that regulatory scrutiny was at a high point. Navigating my way successfully through that exam was a turning point in my career.

### What do you like best about the work you do?

**Andrasko:** I like to solve puzzles. Anyone who works in compliance/audit knows that daily you are forced to figure out what someone else was thinking. I like to review a topic, dissect it, and then put all the pieces back together again.

### What is your bank's customer-service philosophy?

**Andrasko:** Our bank's motto is, "Get it Right the First Time." It is our goal to concentrate on doing our best to always handle things correctly the first time. We strive to serve our customers in a way that leaves them smiling when they walk out the door.

### What's your best advice to a new bank employee?

**Andrasko:** My best advice is to soak it all in. In banking your opportunities are endless. Many CEO's spent their summers working on a teller line. Any knowledge of how the bank works and why is beneficial to you.

**Runay Olson** (runay.olson@icba.org) is vice president, education seminars, Community Banker University at ICBA.



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 Nonmember: \$200  
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*Stephanie Taylor  
 Credit Analyst  
 American Bank & Trust  
 Huron, S.D.*

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