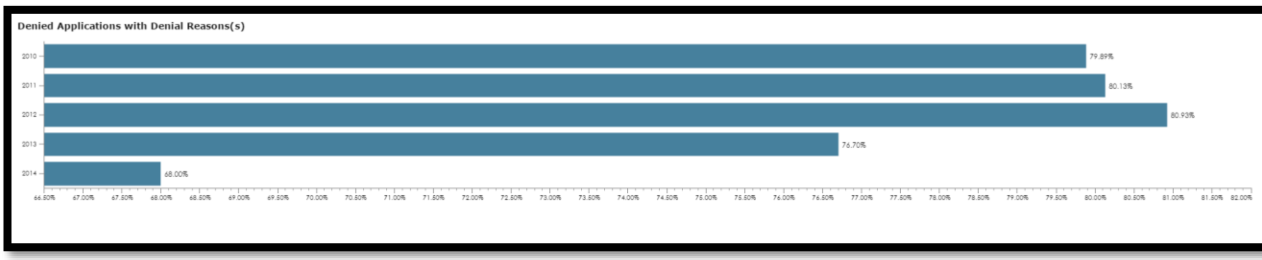
HMDA Insights : Capitalizing on New Perspectives
Denial Reason Codes: Trends and Opportunities

Summary:

- The reporting of HMDA Denial Reason Codes is currently optional for institutions that are *not* subject to OCC regulations (12 C.F.R 27.3(a)(1)(i) or 128.6) or FDIC regulations (12 C.F.R 390.147).

- Mortgage TrueView HMDA Insight Dashboards[1] indicate that the percentage of denied applications providing a Denial Reason Code ("DRC") has dropped approximately 16% - from approximately 80% to 68% - during the period 2010 – 2014[2] (Chart 1).

Chart 1 – Denied Applications with at least one Denial Reason Code



- Analysis confirms that the DRC reporting trend shown in Chart 1 is driven by lenders that are supervised by either the Federal Reserve System or the Department of Housing and Urban Development.

- The paradox of lower DRC reporting prior to mandatory[3] DRC reporting identifies a strategic opportunity for those lenders not currently required to provide a DRC. Such lenders have an opportunity to report DRCs prior to January 1, 2020, to provide a more comprehensive understanding of denial activity for the overall market and themselves.

Analysis:

Table 1 details the drop in DRC reporting rates among lenders by supervising regulatory agency. Overall, the percentage of denied applications reporting at least one DRC averaged approximately 80% during the period 2010 – 2012, dropping to 77% in 2013 and 68.00% in 2014.

Table 1 | Summary of Denied Applications with Denial Reason Code 1

Agency Code	2010	2011	2012	2013	2014
	Percent of Denied Applications with a DRC				
FDIC	51.05%	42.05%	36.24%	40.42%	41.23%
FRS	50.94%	54.64%	62.03%	46.61%	43.05%
HUD	57.79%	61.02%	66.04%	56.00%	45.76%
NCUA	71.55%	64.56%	64.17%	66.30%	65.23%
OCC	99.79%	98.07%	97.79%	98.30%	98.57%
OTS	99.93%				
CFPB		92.43%	93.77%	94.91%	91.90%
Aggregate	79.89%	80.13%	80.93%	76.70%	68.00%

The drop in DRC reporting presented in Table 1 is attributable to a several factors including (i) changes in market share between DRC reporting lenders and non-DRC reporting lenders, and (ii) lower levels of voluntary DRC reporting by lenders not obligated to report DRCs.

Table 2 highlights the trend in DRC reporting for a representative group of HUD-supervised lenders. Among other things, this table shows that some lenders "refined" their view on reporting DRCs over the

[1] Mortgage TrueView dashboards can be accessed by 2015 HMDA Survey participants using their complementary access credentials. Non-participants may obtain credentials by sending a request to hmda@mortgagetrueview.com.

[2] This trend is confirmed by the results of Mortgage TrueView's 2015 HMDA Survey which show that the 2015 DRC reporting rate was 67%, down only slightly from 2014's 68%.

[3] See 12 C.F.R. 1003.4(a)(16).

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five-year period but, in the end, all the lenders in Table 2 reached the conclusion to no longer report DRCs in 2014.

Table 2 | Representative Changes in DRC Reporting : HUD Lenders

De-identified Respondent	Application Band	2010	2011	2012	2013	2014
Respondent 1	250,000+	6,341	-	-	31,402	-
Respondent 2	250,000+	-	14,787	22,381	278	-
Respondent 3	75,000 - 100,000	28,638	31,550	39,395	15,912	-
Respondent 4	50,000 - 75,000	1,904	3,088	7,959	8,300	-
Respondent 5	50,000 - 75,000	1,889	3,332	5,602	-	-
Respondent 6	25,000 - 50,000	8,455	4,601	9,435	7,549	-
Respondent 7	Less than 25,000	484	267	1,038	3,400	-
Respondent 8	Less than 25,000	188	237	378	1,980	-
Total	Approximately 750,000	47,899	57,862	86,188	68,821	-

For those lenders reporting DRCs, Table 3 shows that the use of collateral-related DRCs as the primary DRC have declined from 28.97% in 2010 to 21.75% in 2014. Applicant-related DRCs have increased from 56.63% to 68.66% due primarily to an increase is use of the "Credit History" DRC (from 25.24% to 35.58%) and the "Debt-to-income" DRC (from 25.45% to 27.70%). The increase in applicant-related DRCs is, to some extent, due to decreases in the "Other" DRC.

The trend in the use of DRC "Other" – from 14.40% in 2010 to 9.59% in 2014 – is of interest in light of the provision in §1003.4(a)(16) that applications denied on the basis of "Other" include further details in free-form text field. This requirement for further information is likely to reduce – if not eliminate – the number of applications denied on the basis of "Other".

Table 3 | Summary of Denial Reason Codes

Denial Reason	2010	2011	2012	2013	2014
Collateral	26.48%	25.76%	23.62%	21.01%	18.60%
Insufficient cash (downpayment, closing costs)	2.49%	2.66%	2.82%	3.44%	3.15%
Sub-Total | Collateral	28.97%	28.42%	26.44%	24.45%	21.75%
Credit history	25.24%	28.37%	29.29%	32.66%	35.58%
Debt-to-income ratio	25.45%	24.73%	24.79%	24.66%	27.70%
Employment history	1.66%	1.58%	1.53%	1.57%	1.60%
Mortgage insurance denied	0.30%	0.24%	0.23%	0.21%	0.15%
Unverifiable information	3.99%	4.21%	4.87%	4.81%	3.63%
Sub-Total | Applicant	56.63%	59.13%	60.71%	63.92%	68.66%
Other	14.40%	12.45%	12.85%	11.63%	9.59%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Table 3 highlights how DRC reporting rates can help lenders evaluate their lending profile through comparison of their denial activity to the broader market. For example, while an individual lender demonstrating the trends in Table 3 might be subjected to questions about their lending profile, this lender-specific pattern in the context of market results such as those shown in Table 3 reduces the lender's risk for adverse determinations regarding their lending profile[4].

The absence of DRCs makes it more difficult for lenders to benchmark their lending activity. This fact suggests that lenders may be better served to include DRCs in their HMDA filings even if providing such information is not yet required. An indication by a lender as to the basis for denial of an application will provide essential context to any regulatory determinations of a lender's lending activity.

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Our next HMDA Insight provides insight into gender, race, and ethnicity reporting rates and discuss how this information can be used in evaluating lending activity.

"It is a capital mistake to theorize before one has data. Insensibly one begins to twist facts to suit theories, instead of theories to suit facts." *– The Adventures of Sherlock Holmes, A Scandal in Bohemia*

[4] Benchmarking also allows a lender to identify and leverage comparative market advantages. For an example of how benchmarking allows for a comparison of mortgage lenders, visit https://lenderscores.com.

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