

### Summary:

- The Federal Financial Institutions Examination Council (“FFIEC”) performs syntactical, validity and quality edit checks before accepting a Respondent’s Loan/Application Register (“LAR”).
- Mortgage TrueView HMDA Insight Dashboards<sup>1</sup> show that FFIEC edit checks are not sufficient to prevent HMDA Respondents from filing erroneous and/or inaccurate data that, at best, calls into question the quality of a Respondent’s data or, at worst, adversely impacts the evaluation of a lender’s lending profile.

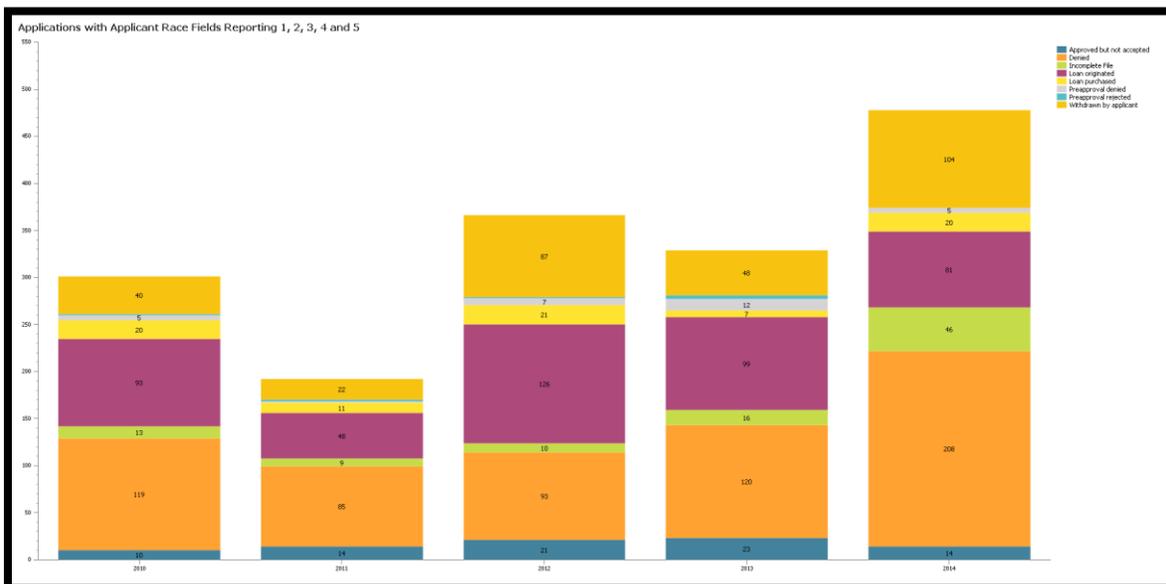
### Analysis:

The following simple examples are illustrative of the shortcomings associated with FFIEC edit checks:

*Example 1.* Respondents are required to provide at least one, but not more than five, Applicant Race indicator(s) for each application. Allowable indicators consist of 1 (American Indian or Alaska Native), 2 (Asian), 3 (Black or African American), 4 (Native Hawaiian or Other Pacific Islander), 5 (White), 6 (Information not provided by applicant in mail, Internet, or telephone application), or 7 (Not Applicable).

FFIEC HMDA Validity Error Check V310 tests to ensure that the Applicant Race field includes at least one defined value and Validity Error Check V480 tests to ensure that if two or more Applicant Race values are included, the same value is not reported more than once (for example, 1,1, 2,2, etc.). Chart 1 shows, however, that there is not an FFIEC HMDA edit check to ensure that the Applicant Race fields are not populated with all available race values (i.e. 1,2,3,4,5).

**Chart 1 | Applications with Applicant Race Fields Reporting 1, 2, 3, 4, and 5 by Action Taken Category**



While reporting 1,2,3,4,5 might be a valid racial profile, further analysis of the this reporting pattern suggests that such instances may not always be indicative of a multi-racial applicant. For example, analysis of the 2014 results indicate:

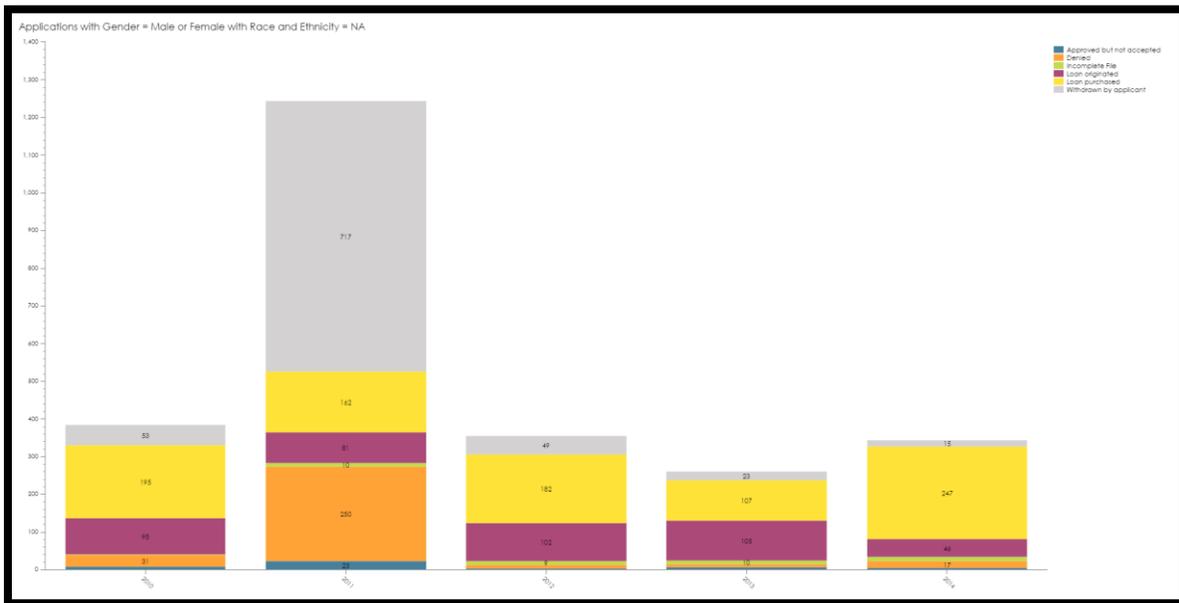
<sup>1</sup> Mortgage TrueView dashboards can be accessed by 2015 HMDA Survey participants using their complementary access credentials. Non-participants may obtain credentials by sending a request to [hmda@mortgagetrueview.com](mailto:hmda@mortgagetrueview.com).

- 43.51% of the reported instances are associated with denied applications. This indicates that the coding may be attributable to the disposition of the application within regulatory timelines.
- One Respondent accounts for 228 (approximately 50%) of the comprehensive racial instances with 112 of the 228 (approximately 50%) of those instances associated with denied loans.

*Example 2.* Respondents are required to provide at least one Applicant Gender indicator, one Applicant Race indicator, and one Applicant Ethnicity Indicator. Such indicators may report that the field is “Not Applicable” (Gender code 4, Race code 7, and Ethnicity code 4). The HMDA reporting instructions indicate that “Code 4 for Ethnicity and Code 7 for Race...can only be used when the Applicant...is not a natural person or when applicant information is unavailable because ...the loan has been purchased...”.

Chart 2 indicates those instances where the Applicant Gender code is reported as either Male or Female but the related Race and Ethnicity codes are reported as Not Applicable. This suggests that either the reported Gender code is incorrect or the reported Race and Ethnicity codes are incorrect.

**Chart 2 | Applications with Gender = Male or Female with Race and Ethnicity = NA**



With regards to 2014, approximately 72% of the non-compliant usage is associated with Loans Purchased (and approximately 50% of the non-compliant usage is reported by one Respondent) suggesting that the reported Gender code should be “Not Applicable” or that the Ethnicity and Race codes should be reported as other than “Not Applicable”.

Unfortunately, space does not permit more exposition on this topic but we have other examples we’ll share in future HMDA Insights.

***“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