

### Summary:

- Analysis of the CFPB’s HMDA compliance cost estimates in the October 2015 HMDA amendments indicates the CFPB is projecting the compliance burden to increase 16% for lenders with more than 20,000 applications and between 100% and 200% for all other lenders.
- Analysis indicates that data management and validation costs represent approximately 87% of estimated aggregate annual costs of \$489 Million. Representing approximately \$425 million in aggregate, HMDA data management and validation costs can be managed – and reduced – through advanced analytical protocols.

### Analysis:

Part VII.F.1 of the October 2015 HMDA Amendments contains the CFPB’s “concise, high-level overview of the benefits and costs of the final rule”. While the 33 pages comprising Part VII.F.1. are admittedly high-level and, in many cases, riveting, the three pages of cost analysis provided as Part IX pursuant to the Paperwork Reduction Act are much more concise and, therefore, useful. The following Table from Part IX is particularly interesting:

**Table 2**  
**Total Annual Burden, All Information Collections- All Regulated Entities**

	Lower Bound Estimate			Upper Bound Estimate		
	Number of Respondents	Total Burden per respondent <sup>1</sup>	Total Burden (Rounded to Nearest Thousand)	Number of Respondents	Total Burden per respondent <sup>1</sup>	Total Burden (Rounded to Nearest Thousand)
Tier One Annual Reporter	259	10,448 hours	2,706,000 hours	187	10,588 hours	1,980,000 hours
Tier One Quarterly Reporter	29	11,034 hours	320,000 hours	29	11,034 hours	320,000 hours
Tier Two	2,015	1,619 hours	3,262,000 hours	5,111	1,434 hours	7,330,000 hours
Tier Three	3,943	143 hours	563,000 hours	921	173 hours	159,000 hours
<b>Total</b>	<b>6,250</b>	<b>NA</b>	<b>6,851,000</b>	<b>6,250</b>	<b>NA</b>	<b>9,789,000</b>

**Total Estimated Burden for all Respondents (Rounded to 100 Thousands): 8,300,000 hours<sup>2</sup>**

Table 2 above makes it clear that the CFBP anticipates that in order for a lender to meet the new HMDA reporting requirements, the average Tier One Respondent will need approximately five Full-Time Equivalent (FTEs), the average Tier Two Respondent will need approximately 75% of one FTE, and the average Tier Three respondent will require approximately 4 week of effort. As shown in the following table, the expectations represent a significant increase over the CFPB’s estimate of the current, or “baseline<sup>1</sup>”, HMDA reporting burden:

	Part VII.F.1 Baseline Hours	Part IX Table 2 Burden Hours <sup>2</sup>	Increase	% Change
Tier One <sup>3</sup>	9,092	10,588	1,496	16%
Tier Two	685	1,434	749	109%
Tier Three	62	173	112	181%

<sup>1</sup> The baseline was set through “a cost-accounting, case-study methodology consisting, in part, of interviews with 20 financial institutions of various sizes, nine vendors, and 15 government agency representatives). See Federal Register, Volume 80, No. 208 pages 66271 through 66273.

<sup>2</sup> The number of Upper Bound Tier 3 respondents (921) is less than the number of Lower Bound Tier 3 respondents (3,943) which identifies The Upper Bound as the most likely reporting scenario. This conclusion is further confirmed by the fact that the Tier 2 Upper Bound burden hours (1,434) is less than the Tier 2 Lower Bound burden hours (1,619).

<sup>3</sup> Tier 1 Upper Bound burden segment differential of 476 hours (11,034 hours – 10,558 hours) is attributable to quarterly reporting requirements imposed on lenders reporting more than 60,000 applications exclusive of loans purchased.

The preceding tables indicate that somewhere between the CFPB’s assessment of the current – or historical – HMDA reporting “baseline” and issuance of the final rules, the reporting burden for Tier One lenders increased nominally while the reporting burden for Tier Two respondents doubled and the burden for Tier Three respondents almost tripled. The tables above frame two fundamental (and possibly existential) questions for mortgage lenders – **what are the costs associated with the CFPB’s estimated burden hours** and **what Tier am I in?**

### HMDA Compliance Costs

The following chart<sup>4</sup> quantifies the costs associated with the CFPB’s estimated HMDA reporting burden<sup>5</sup>:

**Chart 1 | Annual HMDA Compliance Cost Estimate**

CFPB Total Annual Burden, All Information Collection - All Regulated Entities							
	Number of Respondents		Total Burden [Hours]		Projected Annual Compliance Burden [\$]		
		%	Per Respondent	Total	Rate	Respondent	Aggregate
<b>Lower Bound Estimate</b>							
Tier One   Quarterly	29	0.46%	11,034	319,986	\$50.00	\$ 551,700	\$ 15,999,300
Tier One   Annual	259	4.14%	10,448	2,706,032	\$50.00	\$ 522,400	\$ 135,301,600
Tier Two	2,015	32.24%	1,619	3,262,285	\$50.00	\$ 80,950	\$ 163,114,250
Tier Three	3,947	63.15%	143	564,421	\$50.00	\$ 7,150	\$ 28,221,050
No Applications							
<b>Total</b>	<b>6,250</b>	<b>100.00%</b>		<b>6,852,724</b>			<b>\$ 342,636,200</b>
<b>Upper Bound Estimate</b>							
Tier One   Quarterly	29	0.46%	11,034	319,986	\$50.00	\$ 551,700	\$ 15,999,300
Tier One   Annual	187	2.99%	10,588	1,979,956	\$50.00	\$ 529,400	\$ 98,997,800
Tier Two	5,111	81.78%	1,434	7,329,174	\$50.00	\$ 71,700	\$ 366,458,700
Tier Three	923	14.77%	173	159,679	\$50.00	\$ 8,650	\$ 7,983,950
No Applications							
<b>Total</b>	<b>6,250</b>	<b>100.00%</b>		<b>9,788,795</b>			<b>\$ 489,439,750</b>

Chart 1 indicates the estimated average annual HMDA compliance cost, exclusive of amortized adoption costs<sup>6</sup>, is \$529,400 for Tier One Respondents, \$71,700 for Tier Two Respondents, and \$8,650 for Tier Three Respondents with an estimated aggregate annual cost estimate of \$489 million. The CFPB indicates that that these are averages and should not be construed to indicate that every lender in a specific tier will incur the indicated average cost. We agree with this position but we believe it is particularly true for Tier One as noted below.

### Reporting Tier Applications Counts

This brings us to the critical question facing each mortgage lender – **what HMDA Reporting Tier am I in?** The answer to this question requires identifying the number of applications associated with the respondents in each tier. Our estimate of applications in each tier, presented in the Chart below requires, some explanation. Specifically:

- The CFPB’s estimate of 6,250 HMDA filers for 2013 includes an estimate of new filers. We don’t have the information needed to form our own estimate so our analysis applies the new HMDA reporting provisions to the 2013 HMDA data submitted by 7,190 respondents.
- We determined pro forma 2013 HMDA respondents based on whether or not the reporting threshold was met for each of the two preceding years and then categorized the respondents into Tiers as set forth in Part VII.F.1.
- Our analysis determined that 5,527 of the 2013 HMDA respondents meet the reporting threshold.

<sup>4</sup> Our cost estimate is based on an hourly rate of \$50. CFPB baseline costs are based on an hourly rate of \$33 which represents the national average hourly wage for compliance officers based on the May 2014 Bureau of Labor Statistic’s National Compensation Survey. We believe increasing this rate to \$50 is necessary to incorporate non-wage employee costs including benefits, payroll taxes and allocated overhead such as financial accounting and controls, insurance, office space and information technology costs.

<sup>5</sup> The number of respondents in the CFPB’s Table 2 did not foot to the indicated totals. We assigned differences to Tier 3.

<sup>6</sup> The adoption costs associated with the new HMDA rules will be addressed in a separate HMDA Insight.

We noted a number of issues in preparing the Chart below that call into question whether or not the major benefits enumerated by the CFPB in Part VII.F.1 can be achieved. Among these issues:

- 217 of the 5,527 respondents that qualified based on 2011 and 2012 originations do not report any applications in 2013.
- 6 respondents each reporting more than 1,000 applications in 2013 do not meet the origination threshold in 2012. These 6 respondents result in the omission of 332,564 applications. One of the 6 lenders reported 315,608 applications, essentially all of which were purchased loans.
- 38 respondents each reporting more than 1,000 applications in 2013 do not meet the origination threshold in 2011. These 30 respondents result in the omission of 150,796 applications with one lender accounting for 36,197 applications.
- 29 respondents each reporting more than 1,000 applications in 2013 do not meet the origination threshold in either 2011 or 2012. These 29 respondents result in the omission of 181,740 applications with one lender accounting for 96,897 applications.

Here is table presenting the number of applications by Tier:

**Chart 2 | Annual HMDA Compliance Cost Estimate with Applications by Tier**

CFPB Total Annual Burden, All Information Collection - All Regulated Entities   Mortgage TrueView Model (2013)												
	Respondent			Application Range		Average Applications	Total Burden [Hours]		Projected Annual Compliance Burden [\$]			Cost Per Application
	Count	%	Applications	From	To		Respondent	Total	Rate	Respondent	Aggregate	
<b>Lower Bound Estimate</b>												
Tier One   Quarterly	28	0.51%	8,189,921	60,000	2,246,691	292,497	11,034	308,952	\$50.00	\$ 551,700	\$ 15,447,600	\$1.89
Tier One   Annual	147	2.66%	3,615,488	10,000	60,000	24,595	10,448	1,535,856	\$50.00	\$ 522,400	\$ 76,792,800	\$21.24
Tier Two	1,773	32.08%	3,804,703	500	10,000	2,146	1,619	2,870,487	\$50.00	\$ 80,950	\$ 143,524,350	\$37.72
Tier Three	3,362	60.83%	653,301	-	500	194	143	480,766	\$50.00	\$ 7,150	\$ 24,038,300	\$36.80
No Applications	217	3.93%	-									
<b>Total</b>	<b>5,527</b>	<b>100.00%</b>	<b>16,263,413</b>			<b>3,063</b>		<b>5,196,061</b>			<b>\$ 259,803,050</b>	<b>\$15.97</b>
<b>Upper Bound Estimate</b>												
Tier One   Quarterly	28	0.51%	8,189,921	60,000	2,246,691	292,497	11,034	308,952	\$ 50.00	\$ 551,700	\$ 15,447,600	\$1.89
Tier One   Annual	123	2.23%	3,271,927	12,000	60,000	26,601	10,588	1,302,324	\$ 50.00	\$ 529,400	\$ 65,116,200	\$19.90
Tier Two	4,394	79.50%	4,750,385	80	12,000	1,081	1,434	6,300,996	\$ 50.00	\$ 71,700	\$ 315,049,800	\$66.32
Tier Three	765	13.84%	51,180	-	80	67	173	132,345	\$ 50.00	\$ 8,650	\$ 6,617,250	\$129.29
No Applications	217	3.93%	-									
<b>Total</b>	<b>5,527</b>	<b>100.00%</b>	<b>16,263,413</b>			<b>3,063</b>		<b>8,044,617</b>			<b>\$ 402,230,850</b>	<b>\$24.73</b>

This table indicates that:

- the average Tier One costs are for a lender with approximately 26,000 applications;
- the average Tier Two costs are for a lender with approximately 1,100 applications; and
- the average Tier Three costs are for a lender with approximately 65 applications.

As noted above, the calculated compliance costs per tier are based on average applications per tier. Therefore, a lender's actual compliance cost will likely vary; however, the degree of variance is (i) nominal for Tier Three due to the number of estimated hours and application standard deviation (101) and (ii) significant for Tier One based on the number of estimated hours and application standard deviation (27,186).

Finally, the increase in compliance hours over the baseline model are most likely attributable to data management and validation activities as baseline reporting and submission, audit, and examinations charges are relatively fixed. This means that approximately 87% (\$425 million) of HMDA compliance costs – the management and validation of data – are controllable and any savings drop to the lender's bottom line!

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Our next HMDA Insight will take a deeper dive into the numbers and outline implications and solutions.

***"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*