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About Navigant

Navigant Consulting, Inc. (NYSE: NCI) is a specialized, global professional services firm that helps clients take control of their future. Navigant's professionals apply deep industry knowledge, substantive technical expertise, and an enterprising approach to help clients build, manage, and/or protect their business interests. With a focus on markets and clients facing transformational change and significant regulatory or legal pressures, the firm primarily serves clients in the healthcare, energy, and financial services industries. Across a range of advisory, consulting, outsourcing, and technology/analytics services, Navigant's practitioners bring sharp insight that pinpoints opportunities and delivers powerful results. More information about Navigant can be found at navigant.com.

BANKING, INSURANCE, AND CAPITAL MARKETS

HMDA COMPLIANCE SERVICES

The Home Mortgage Disclosure Act's ("HMDA") Regulation C ("Reg. C") was established in 1975 to increase transparency in mortgage lending practices and aid in identifying discriminatory lending practices. Reg. C addressed concerns that financial institutions – including banks, savings associations, credit unions, and other mortgage lending institutions – were not providing sufficient credit opportunities to qualified applicants in certain geographic areas. The requirements involve gathering and annually reporting applicant and borrower demographic data on the Loan Application Registry ("LAR") to the Federal Financial Institutions Examination Council ("FFIEC").[1]

In October 2015, the Consumer Financial Protection Bureau ("CFPB") amended HMDA to improve information reported by financial institutions about the mortgage market.

WHAT'S NEW

Changes in the Types of Institutions Required to Comply:

- The CFPB further defines institutions that are required to report beginning in both 2017 and 2018 as defined in 12 CFR § 1003.2. Beginning in 2017, the HMDA Rule adds new requirements in which depository institutions that originated fewer than 25 home purchase loans (including refinancing of home purchase loans) for the previous two calendar years will no longer be subject to Reg. C.[2] Beginning in 2018, similar coverage requirements will be extended to other mortgage lending institutions in which loan originations must include at least 25 closed end mortgage loans or 100 open-end lines of credit in the two preceding calendar years to meet the reporting threshold.[3]

Changes in Types of Transactions Required be Reported:

- Another significant change includes the types of transaction required to be reported. Beginning in 2018 institutions subject to the collection, recording and reporting requirements of Reg C will be required to report both closed-end mortgage loans and open-end lines of credit ("HELOCs"). This is an update from today's rule in which it is optional for an institution to collect and report HELOC data used for home improvement or home purchase purposes.[4]

1. https://www.ffiec.gov/hmda/
2. http://files.consumerfinance.gov/f/201510_cfpb_2017-hmda-institutional-coverage.pdf
3. http://files.consumerfinance.gov/f/201510_cfpb_2018-hmda-institutional-coverage.pdf
4. https://www.federalregister.gov/articles/2015/10/28/2015-26607/home-mortgage-disclosure-regulation-c

New and Modified Data Points:

- In January 2016, the CFPB released the 2018 HMDA File Specifications which includes details for submitting HMDA data to the CFPB in 2018. The 2018 HMDA File Specification includes 110 required data fields as applicable per loan as compared to the 39 data fields required today. Notable new fields include the following: 1) Applicant Credit Score; 2) Total Loan Cost; 3) Total Points and Fees; 4) Discount Points; 5) Debt-to-Income Ratio; 6) Combined Loan-to-Value Ratio; and 7) Business or Commercial Purpose.[5]

New Data Submission Process & Updates to Frequency in Reporting Requirements:

- Beginning in 2018, data will be reported using a new web-based submission tool currently in development,[6] and beginning in 2020, HMDA reporting will be required on a quarterly basis rather than the current annual submission.[7]

In order to avoid noncompliance resulting from these changes, and the associated fines, penalties, and reputational harm, institutions should begin taking steps, such as:

- Ensuring there is a dedicated owner for HMDA reporting oversight;
- Conducting current state assessments of HMDA collection, recording, and reporting activities;
- Conducting sample testing of quarterly LAR data to validate accuracy;
- Identifying and implementing an appropriate QC and monitoring program; and,
- Evaluating origination systems to verify required fields for 2017 and 2018 data collection are captured.

NAVIGANT CAN HELP

Navigant provides a suite of services to ensure the accuracy of collecting, recording and reporting of HMDA data. Navigant professionals can help lenders assess, enhance, or update their current HMDA compliance program to:

- Avoid the financial and reputational risks and penalties associated with non-compliance;
- Achieve greater accuracy in HMDA reporting; and,
- Gain efficiencies through HMDA compliance practices.

Our services include:

Current State Assessment of HMDA Compliance – Independent assessment of current state of HMDA collection, recording, and reporting practices. This review may cover policies, procedures, technology, staffing, training and controls and includes the development of current state process maps to easily identify areas of risk in the HMDA process.

HMDA LAR Lookback and Recurring Testing – Identification of potential inaccuracies in previous HMDA reporting. Typically we can conduct an initial probe sample of LAR reported data and based on the results of the probe sample, we will provide recommendations for any additional areas of testing. This approach help differentiate between one-time clerical errors and recurring systemic exceptions. Our testing services can be conducted either onshore or offshore and can be performed on a recurring basis to ensure the accuracy of the LAR data prior to final submission.

5.   2018 HMDA File Specifications." Consumer Financial Protection Bureau. Jan. 2016.
6.   "New Rule Summary: Home Mortgage Disclosure (Regulation C)." Consumer Financial Protection Bureau. 15 Oct. 2015.
7.   Ibid.

Future State Roadmap Design – Address any issues identified in the current state assessment and/or ensure compliance with the amended rule. We can develop a preparedness document that would include items such as an evaluation of the new and modified data points against current collection, recording, and reporting processes and an evaluation of the impact on the types of transactions to be reported.

HMDA Advisory and Expertise Support – Clarification of any areas of confusion and guidance on best practices in HMDA data collection, recording and reporting, particularly with regards to implementation recommendations for the amended rule.

Proprietary Tools and Methodology – To streamline the HMDA LAR testing process, Navigant has developed a customized testing software platform. When conducting either a one-time lookback testing or recurring monitoring testing of the HMDA LAR, we follow a three-step approach: 1) Import Client's HMDA Data; 2) Conduct Blind Entry of LAR Data from Mortgage Documents; and, 3) Conduct HMDA Data Comparison between the Client's LAR and the Blind Entry Results.

HMDA/Fair Lending Services – Navigant is a leading provider of fair lending analytics services. We build customized regression models to investigate disparate impact issues in the mortgage and other consumer finance portfolios. We also provide expert witness and litigation consulting services in regards to fair lending matters.

In addition to our consulting services, Navigant also provides creative solutions to short term staffing needs. Our experienced resources are available with applicable HMDA and Fair Lending experience to serve in a day-to-day operation capacity to augment any resource gaps.

WHY NAVIGANT

Experience: Navigant Consumer Finance team has extensive experience in delivering HMDA compliance-related projects. We have helped many of the top US mortgage servicers to develop HMDA compliance policies and procedures, monitor and enhance existing compliance programs, train compliance personnel, conduct loan-level testing, and prepare for regulatory examinations. Our experts have successfully assisted servicing companies with validating and reporting the existing required HMDA data fields; we are well-equipped to leverage this approach to tackle the 2016-2018 HMDA changes.

Proprietary HMDA Approach: To improve efficiency and enhance the quality of data, Navigant experts apply a tested HMDA compliance methodology. By assessing an organization's current program and identifying gaps, we are able to develop and implement a tailored HMDA compliance strategy for your organization. Where relevant, we can leverage our offshore resources to realize increased efficiencies. We also create and deploy customized training to your in-house personnel to ensure that processes are running in business as usual format.

Technology: Many of our compliance solutions are supported by sophisticated technologies that can be leveraged to streamline the HMDA compliance process. We utilize a software platform that obtain LAR data, load into the system, and key in loan-level data. This tool compares LAR to the client's data to identify trends vs. exceptions. This single source platform is used to track data can improve data quality in a cost-effective manner.

NAVIGANT AT WORK

Navigant has been retained by numerous lending establishments to assist with their HMDA compliance programs, requirements and examinations. Below is a sample of our work:

HMDA Current State Assessment

Navigant was engaged with a top retail bank to conduct a current state assessment of HMDA practices. Navigant evaluated the client's HMDA governance structure, policies and procedures, and quality control practices, and tested a sample of HMDA reportable records. The bank reported two separate LARs for four different originations systems and included inputs of consumer, commercial, and purchased loan records. As a result of the assessment, Navigant identified weaknesses in the HMDA governance structure, provided specific recommendations for updates to HMDA policy and procedure documentation and recommended enhancements to the client's quality control practices. Additionally, **results of the sample testing demonstrated weaknesses in the bank's reporting processes, which substantiated Navigant's process findings and were subsequently addressed prior to the March 1 submission deadline**.

HMDA LAR Lookback and Recurring Testing

For a top 20 U.S. bank, Navigant was engaged to validate the accuracy of loan application data on over 6,000 mortgage transactions spanning the course of a year to assist the client in complying with the HMDA-LAR data reporting and disclosure requirements. The bank was in the process of transitioning to a new technology platform, and the Navigant team quickly developed an understanding of the bank's internal business processes to efficiently navigate several systems validating over 20 data elements. **The review was successfully completed within a short, efficient timeframe, and the bank was able to submit their reports on time.** As a result of the work performed, Navigant was engaged to conduct an ongoing monthly review of the bank's LAR data testing approximately 200 funded and 200 non-funded loans on a recurring monthly basis.

Current Sate HMDA Review & HMDA LAR Lookback Testing

For a top 10 privately held mortgage lender, Navigant conducted a current state assessment of HMDA practices and a lookback review of the 2013 LAR file. For this review Navigant conducted an initial probe sample of 250 loans (125 funded and 125 non-funded) and identified eight common exceptions. Navigant then developed a statistically significant sample for each of the eight populations of error types for larger lookback sampling. Navigant tested approximately 2,000 loans in the second sample population. To cost-effectively hit the resubmission deadline, the testing of the 2,000 loans was performed over a two week timeline leveraging offshore resources. **As a result of this work the client was able to correct issues identified in their LAR file and meet the resubmission deadline**.

HMDA/Fair Lending Staff Augmentation Services

Navigant was hired by a midsize bank to assist with data analytics and reporting with respect to its fair banking compliance needs. Navigant assisted with development of the program and procedures for conducting a focused fair lending risk assessment. This involved the identification of areas of risk within the various lines of business and development of risk assessment templates based on the Office of the Comptroller of the Currency Fair Lending Guidelines. Navigant assessed the Bank's current risk assessment procedures, opined on its gaps and provided recommendations for closing gaps. Additionally as part of our engagement, Navigant conducted a full scale redlining review by performing an in depth analysis on the Bank's branching strategy. **Materials/templates developed throughout this engagement is currently being used by the Bank to conduct continuous monitoring to assess compliance with regulatory requirements**.

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