

FEDERAL RESERVE SYSTEM

12 CFR Part 203

[Regulation C; Docket No. R-1001]

HOME MORTGAGE DISCLOSURE

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rules; delay of effective date.

SUMMARY:

On February 15, 2002, the Board published in the Federal Register amendments to Regulation C effective for data collected beginning January 1, 2003, and solicited comment on several related issues with a comment period that closed on April 12. Financial institutions and their trade associations requested a postponement of the effective date until January 1, 2004, on the grounds that a January 1, 2003, deadline does not afford institutions adequate time to take the steps necessary to ensure full compliance with the new rules (including reprogramming their data systems and retraining their employees). Consumer and community organizations generally opposed postponement of the effective date. The Board has weighed the financial institutions' claims and underlying assumptions against public policy benefits of collecting the new data as soon as possible. The Board believes that some HMDA reporters, especially the largest ones, will not be able to fully implement the new rules by January 1, 2003, without jeopardizing the quality and usefulness of the data and incurring substantial additional implementation costs that could be avoided by a postponement. Accordingly, the Board is changing the effective date of the amendments from January 1, 2003, to January 1, 2004. The Board is, however, adopting an interim amendment to Appendix A, effective January 1, 2003, mandating the use of 2000 census data.

DATES: The effective date of the amendments to Regulation C (12 CFR part 203) published February 15, 2002, at 67 FR 7222 is delayed from January 1, 2003, to January 1, 2004. The interim amendment to Appendix A to part 203 contained herein is effective January 1, 2003.

FOR FURTHER INFORMATION CONTACT: Kathleen C. Ryan, Senior Attorney, or Dan S. Sokolov, Attorney, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, at (202) 452-3667 or (202) 452-2412. For users of Telecommunications Device for the Deaf (TDD) only, contact (202) 263-4869.

SUPPLEMENTARY INFORMATION:

I. Background

On February 15, 2002, the Board published in the Federal Register significant changes to Regulation C that expanded its coverage, redefined key terms, and required the collection of

additional categories of data, including loan pricing data (the spread between the annual percentage rate on a loan and the yield on comparable Treasury securities). (67 FR 7222) The Board made the changes effective for data collected beginning January 1, 2003, and reported in March 2004.

In a related action, the Board sought public comment on a proposed rule to require lenders to report lien status for applications and originated loans and to ask telephone applicants their ethnicity, race, and sex. The Board also sought comment on the appropriate percentage thresholds for the reporting of loan pricing data. The public comment period closed on April 12, 2002.

II. Postponement of the Effective Date

Some financial institutions and several major trade associations submitted letters indicating that the January 1, 2003, effective date does not give financial institutions adequate time to implement the amendments effectively and efficiently. These commenters explained that, to comply with the amendments, the typical institution must take multiple steps including reprogramming systems for data collection, processing, and reporting; testing the software changes; and retraining employees, which ideally awaits development and testing of the software they will use. Commenters stated that these steps are particularly complex and time-consuming for large institutions with several interfacing data systems; employees in numerous locations and departments; and relationships with affiliates and with many third party brokers. Moreover, the commenters submit that the time available to them to accomplish these steps is even more limited than might appear given that they cannot get the changes fully under way until the Board acts on the proposed rule.

The Board also solicited input from consumer and community organizations. Their representatives generally oppose a postponement, and argue that forgoing even temporarily the anticipated public policy benefits of the amendments would be a substantial cost to the public. They believe that financial institutions are generally able to comply with a January 1, 2003, effective date without compromising the quality of the data.

There are significant public policy benefits to collecting the data as soon as possible, but those benefits will accrue only if the data are reliable and accurate. The Board believes that some HMDA reporters, especially the largest ones, will not be able to fully implement the new rule by January 1, 2003, without jeopardizing the quality and usefulness of the data and incurring substantial additional implementation costs that could be avoided by a postponement. Accordingly, the Board is changing the effective date of the revisions to Regulation C published on February 15, 2002, from January 1, 2003, to January 1, 2004.

III. Change that Will Take Effect on January 1, 2003: 2000 Census Data

The requirement to use 2000 census data rather than 1990 census data will become effective January 1, 2003, as previously scheduled. The change is implemented by an interim amendment to the current provisions in Appendix A concerning census data.

Changing to 2000 census tracts will make the HMDA data substantially more useful. Many of the output tables that comprise the individual institutions' HMDA disclosures and the aggregate disclosure statements for metropolitan areas rely on population and other characteristics for given census tracts (for example, the distribution of a census tract's residents by their income level). Given the many changes that have occurred since 1990, use of 2000 census tracts and demographics will produce more accurate and useful data in the HMDA disclosure statements and aggregate reports. Updated information will enhance evaluations under the Community Reinvestment Act, which rely on census data. The burden of changing to 2000 census tracts is mitigated by the availability of geocoding services from public and private sources, and should be about the same regardless of the effective date.

IV. Pending Item on Telephone Applications

The comment period on several items related to the final amendments to Regulation C closed on April 12. The Board has not yet taken final action. One item is a proposed amendment requiring lenders to ask telephone applicants for their race, ethnicity, and sex. This proposed amendment does not appear to require substantial changes to institutions' data systems. Accordingly, if the amendment is adopted, it may be made effective January 1, 2003, to reduce the risk of a further increase in the rate of missing data on race, ethnicity, and sex.

List of Subjects in 12 CFR Part 203

Banks, Banking, Federal Reserve System, Mortgages, Reporting and recordkeeping requirements.

Authority and Issuance

For the reasons set forth in the preamble, the Board amends 12 CFR part 203 as follows:

PART 203 – HOME MORTGAGE DISCLOSURE (REGULATION C)

1. The authority citation for part 203 continues to read as follows:

Authority: 12 U.S.C. 2801-2810.

2. Appendix A, paragraphs V.C.3.b. and 4., are amended by removing "1990" and adding "2000" in its place wherever it appears.

By order of the Board of Governors of the Federal Reserve System, May 2, 2002.

(signed) Robert deV. Frierson
 Robert deV. Frierson
 Deputy Secretary of the Board