



HMDA HUDDLE

Q & A: Tackling the Intricacies of HMDA

FOURTH QUARTER 2023

Issue 8

ASK ADI: HMDA HUDDLE

With three quarters of 2023 HMDA data already collected, ADI asks you: How accurate and ready for submission is your LAR? If you have not already begun, it's time to start reviewing HMDA LAR entries. Examine at least a sample of records from each quarter. Such a review will reveal whether established procedures are being implemented properly and may identify field or record types that require further attention. Make corrections accordingly. The better your sample, the better the chance for a smooth, error-free 2024 HMDA filing.

In our redesigned HMDA Huddle, we present questions and answers about some nuances of the HMDA requirements. Have a HMDA compliance issue we haven't addressed yet? Submit your own! Just open the **ASK ADI** form and send us your question. An ADI HMDA compliance professional will reply with guidance in short order. Please subscribe to **ADI Insights** to automatically receive updates each quarter.



CALCULATING RATE SPREAD

Rate Lock Agreement is not always the final determinant



When calculating rate spread, we typically use the rate lock date from our Rate Lock Agreement. Often, that rate expires a few days before the closing date, and a senior officer initials an approval extending the locked rate until closing. Since the rate does not change, should we calculate rate spread using the initial Rate Lock Agreement date?



The guiding principle for calculating rate spread is to use the Rate Set Date that reflects the date the lender exercised discretion in setting the rate for the final time before making the decision. In the scenario described above, the rate lock expired, and a loan officer used discretion as to whether the rate would change or stay the same. Though the rate stayed the same, the rate set date must be adjusted. The institution should calculate the rate spread based on the date the loan officer initialed approval to extend the existing rate.

Source: Regulation C Official Commentary of Paragraph 4(a)(12) Comment 5

Action Taken Type

- 1 - Originated
- 2 - Application approved but not accepted
- 8 - Pre-approval request approved but not accepted

Reverse Mortgage

- 2 - Not a reverse mortgage

Amortization Type

- Fixed
- Variable

Rate Set Date

APR%

Loan Term

Calculate rate spread

KNOW
THE
RULES

Conditions and Documentation for Action Taken

Code 2 - Approved but Not Accepted

The institution's conditional approval and letter to applicant may not contain any creditworthiness or underwriting conditions.

Code 3 - Denied

The institution must send a letter of denial that includes the reasons for the adverse decision.

Code 5 - Closed for Incompleteness

The institution must send a Notice of Incomplete Application that lists the required information and a deadline for response.



ACTION TAKEN

How to report when the applicant fails to respond



We often receive home loan applications that we approve with conditions such as verification of income and an appraised value that falls within our loan-to-value guidelines. We send applicants a conditional approval letter but often do not hear back. Can we report Action Taken as Approved but Not Accepted, since we didn't deny the application?



If this scenario is common for your institution, we recommend establishing procedures for reporting such applications as Closed for Incompleteness. Only customary closing conditions, such as termite inspection or an acceptable property survey, can be pending to report the loan as Approved but Not Accepted. When approval relies on creditworthiness or underwriting conditions such as income verification or appraised value, the institution reports Action Taken as Closed for Incompleteness or Denied (with Reason for Denial reported as Code 7 – Incomplete Application). Your institution must send the applicant a notice of incomplete application and list the information needed to make a credit decision as prescribed in Regulation B.

Source: CFPB Regulation C Comment 4(a)(8)(i)-13, Action Taken examples

DEFINING AN APPLICATION

Think beyond the “Reg Z Six”



We are updating our HMDA Policy and defining an application for reporting purposes. To keep procedures consistent across the board, we are planning to align our HMDA application definition with what we use for Regulation Z, consisting of the six pieces of information triggering initial disclosures. What do you recommend?



For HMDA purposes, prequalifications are not reportable; lenders have leeway in defining an application. ADI recommends defining a HMDA application to include more information than the six pieces of information required for initial disclosures under Regulation Z. Otherwise, some applications are likely to be missing information necessary for LAR reporting.

For example, if your institution does not require collection of debt-to-income, property value, and combined loan-to-value, problems can arise when reporting loans that were denied for incomplete application. For HMDA purposes, we recommend stipulating that an application must include all information necessary for reporting non-originated applications completely and accurately on your LAR.

[Source: CFPB 12 CFR Part 1003 \(Regulation C\), § 1003.2 Definitions, Official interpretation of 2\(b\) Application](#)

Mortgage AP

- 1 Title
- 2 Sex
- 3 Please enter ALL forenames
- 4 Surname
- 5 Date of Birth

Mr Mrs

Marital Status (delete as necessary)

AFTER THE COUNTEROFFER

Determining the Loan Amount and Action Taken Type



An applicant requested a \$450,000 loan to purchase a home. Based on the borrower's income and loan to value, our loan officer informed the applicant we could extend credit to a maximum of \$425,000. The applicant accepted our counteroffer. We continued processing the application, but the customer withdrew the application before we made a decision, after attaining an approval from another lender for the full \$450,000. Which Loan Amount and Action Taken type should we report?



Because the applicant accepted the counteroffer and continued with the application process before withdrawing the application, the accepted counteroffered amount is reported. Therefore, for this scenario, the loan amount would be reported as \$425,000, and the Action Taken as withdrawn. Had the applicant not accepted the counteroffer before withdrawing, however, the Action Taken would be reported as denied and the Loan Amount as \$450,000.

CONTACT US

With more than 20 years of experience, ADI can help your institution implement sound HMDA policy and improve the LAR filing process. Our services include customized audits, compliance program assessment, training, policy and procedures advice, and HMDA program management.



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