ADI CONSULTING

HMDA HUDDLE

Q & A: Tackling the Intricacies of HMDA

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ASK ADI: HMDA HUDDLE

With the passing of another HMDA filing deadline, lenders can breathe a little easier. With renewed strength, you can continue to implement the procedures your institution used to file a clean LAR. HMDA data is essential to realistic Fair Lending analysis, so regulators persist in scrutinizing the LAR for accuracy. HMDA data management demands ongoing training and monitoring. Still, take a minute to enjoy that short sigh of relief!

On the following pages, we answer questions that highlight nuances and sometimes misinterpretations of the HMDA requirements. ADI's Building HMDA Skills lender training course offers instruction and Q&A to reinforce the topics covered. Click here for more information about this live training service, available in person or online.

Are you facing a HMDA compliance issue that needs an immediate answer? Send us your question via **ASK ADI**. An ADI HMDA compliance professional will reply with the guidance you need. Please subscribe to **ADI Insights** to automatically receive updates each quarter.

PREPAYMENT PENALTY

NA for all commercial loans

Q Our consumer home loan contracts do not include a prepayment penalty; however, our commercial loan contracts have a 36-month prepayment penalty. Should we report 36 in the Prepayment Penalty Term field for our reportable commercial loans?

A Even though your commercial loans involve a prepayment penalty, report "NA" for this field. Loans made primarily for business or commercial purposes are not subject to the disclosure requirements of Regulation Z; therefore, the field is reported as "NA" in all cases.

TYPE OF PURCHASER

Report purchaser if transaction occurred in the year originated

Q We closed a HMDA-reportable loan in December 2023, and we sold it to Fannie Mae in January 2024. How do we report the Type of Purchaser?

A Your institution should report the type of entity that purchased the loan only if that transaction occurred within the same calendar year that you originated the loan. Therefore, even though Fannie Mae purchased the loan, report this loan's <u>Type of Purchaser</u> as Code 0 - Not applicable.

LOAN PURPOSE

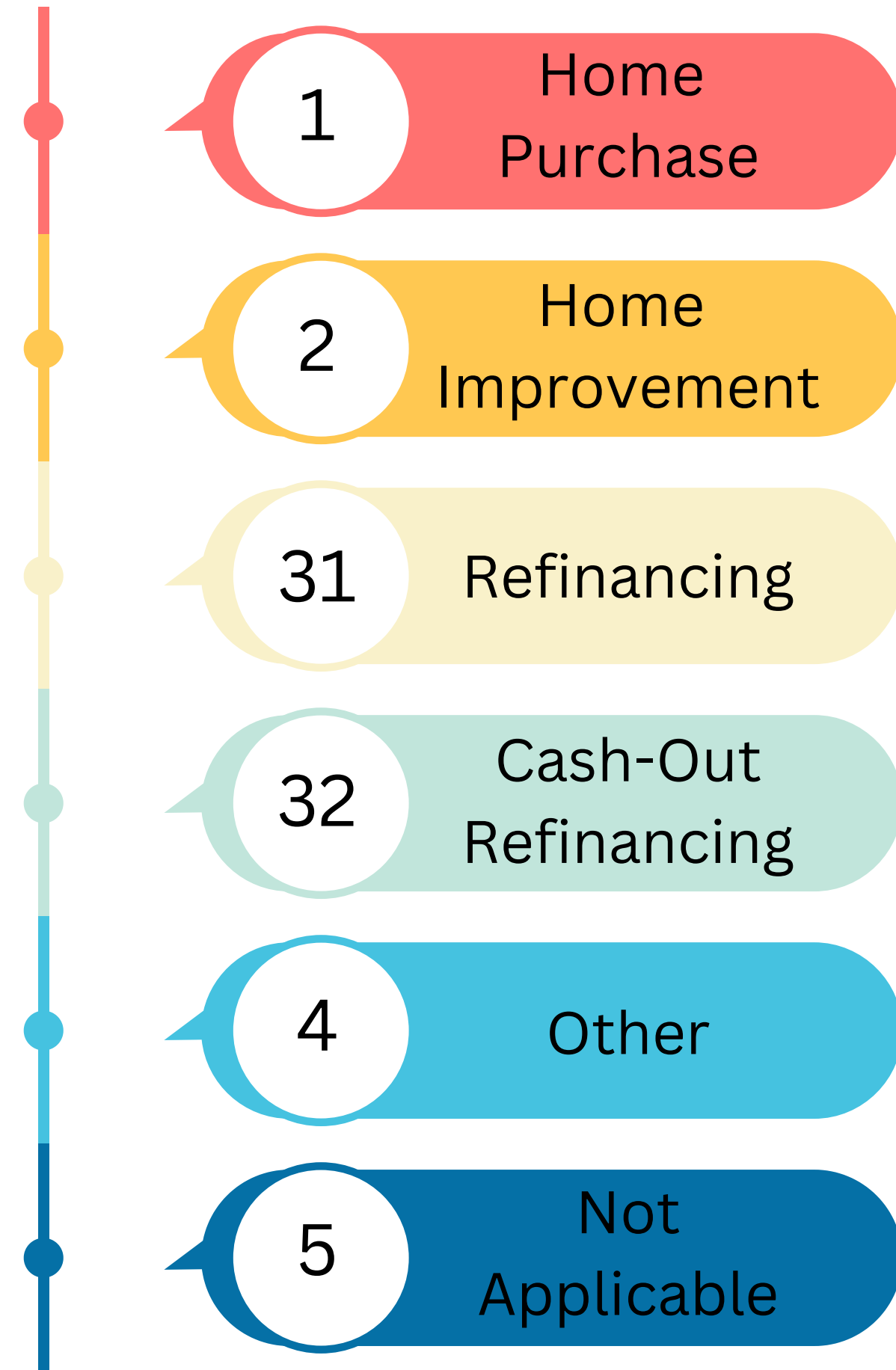Refinance? Only if satisfying an existing mortgage

Q An applicant requested a "refinance loan" to consolidate unsecured consumer debt, and he will also use proceeds from the loan to pay his daughter's college tuition and make some repairs around the house. This loan will be secured by the borrower's primary residence. How should the Loan Purpose be recorded?

A Though the loan refinances current debt, it does not pay off a mortgage on a dwelling. The new loan is secured by a dwelling, but the original debt was unsecured. Therefore, the loan does not match the definition of a <u>refinance</u> under HMDA.

Regulation C's loan purpose hierarchy lists Home Improvement above Other, which would apply to consolidating unsecured debt. Therefore, your institution should report the Loan Purpose field as Home Improvement. The <u>FFIEC Guide to Getting it Right</u> presents some examples of this hierarchy in Section 5.7, on page 67.

Source: https://www.consumerfinance.gov/rules-policy/regulations/1003/4/#a-3

1	Home Purchase
2	Home Improvement
31	Refinancing
32	Cash-Out Refinancing
4	Other
5	Not Applicable

AUS REPORTING

If an AUS report was run, record the System and Result

Q Early in the application process, we ran the applicant's information through the Desktop Underwriter (DU) AUS and received a Refer with Caution result. Subsequently, the file went to underwriting and was manually underwritten, approved, and closed. How should we report the AUS System and Result fields?

A In this case, report the AUS System as Code 1 for DU and the Result as Code 5 for Refer with Caution, rather than Codes 6 and 17 for NA, even though the file was ultimately manually underwritten for approval. Regulation C's Official Interpretation of Paragraph 4(a)(35) states that a financial institution reports the name and result of the AUS it used to evaluate the application, regardless of whether the AUS was used in the underwriting process. Simply put, if your institution generated an AUS, you should report the system and result.

Source: https://www.consumerfinance.gov/rules-policy/regulations/1003/4/#a-35
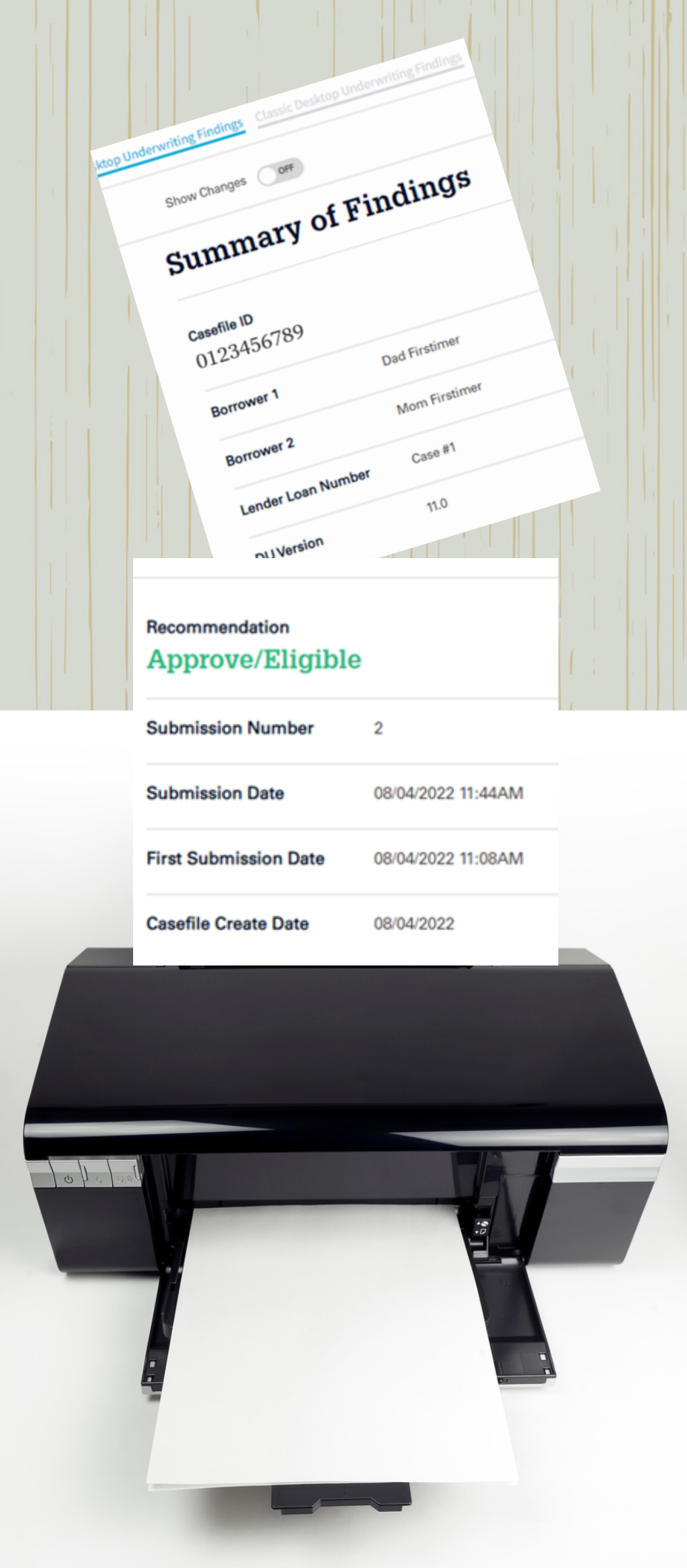
TOTAL UNITS

Count each individual **dwelling** unit

Q We made a commercial loan to a customer for the purchase of a nine-unit building. The three units on the first floor will be business offices and a store, while the remaining six units will be rented out as residential studio apartments. How many units should we report?

A Each individual dwelling unit is reported for Total Units; therefore, report six units. Note also that because this is a multifamily dwelling property (containing five or more individual dwelling units) you must also report the number of multifamily affordable units, even if the building has no such dwellings.

LIGHTNING ROUND

Challenge yourself with these quick reporting questions

Q A borrower requests a Home Equity Loan to make home repairs and reduce the balance on an existing HELOC on the subject property. The borrower will subordinate the existing HELOC to the new HE Loan. What Loan Purpose should be reported?

A Report the Loan Purpose as Home Improvement. This is not a refinance because the new loan will not satisfy and replace the existing HELOC.
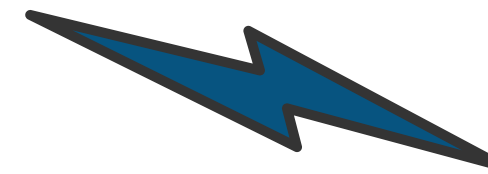
Q A loan officer pulls credit on an applicant and each of the three credit bureaus returns no score due to insufficient credit information. How should Credit Score and Credit Scoring Model be reported?

A Use Code 8888 and Code 9, respectively, for Not Applicable, as the credit score in this scenario was not a factor in the credit decision.

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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HMDA • CRA • Fair Lending • BSA/AML

info@adiconsulting.com | 703.836.1517

adiconsulting.com