HMDA HUDDLE

QUESTIONS AND ANSWERS

TACKLING THE INTRICACIES OF HMDA

NOVEMBER 2022

ADI CONSULTING

Welcome to the fourth quarter! If you haven't been keeping your LAR spotless, you're almost out of time to ensure an accurate HMDA LAR for 2022. Will your submission pass the test? Are your loan officers making the right choices when entering data? Are your systems in sync?

In the Fourth Quarter issue of **HMDA Huddle**, we present questions that highlight nuances and misinterpretations of the HMDA guidance, along with the answers that will help you get it right.

ADI Consulting assists a wide variety of lender clients with HMDA LAR audits and quality control throughout the year, including preparing for standard submissions, resubmissions, and regulatory examinations. Please subscribe to [ADI Insights]() to automatically receive quarterly updates.

Q: We are making a loan to a consumer to purchase a vacation rental property. Would we report this as a "Business or Commercial Purpose" loan?

A: Getting the answer to this question right is critical due to its impact on five other reportable HMDA fields: Origination Charges, Discount Points, Total Loan Costs (or Total Points and Fees), Lender Credits, and Rate Spread.

Regulation Z exempts, as Business Purpose, loans extended to acquire, improve, or maintain rental property that is **not owner-occupied**. If the owner expects to occupy the property for **more than 14 days** during the coming year, this exemption does not apply.

We recommend lenders always document loan files to clarify whether rental property will be owner-occupied for more than 14 days. If so, loan closing fees should be reported. In addition, the property's occupancy type should be reported as Secondary Residence rather than Investment Property.

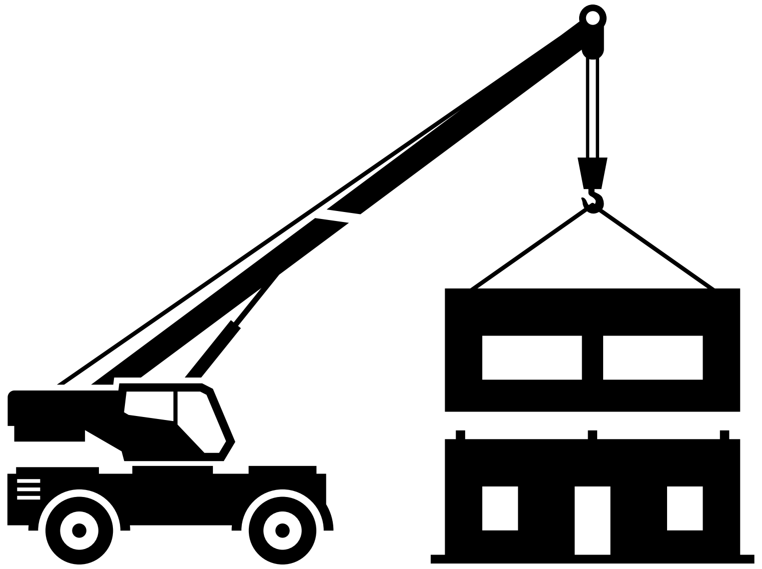
Source: www.consumerfinance.gov/rules-policy/regulations/1026/interp-3/#3-a-Interp-3-iii-C

Q: The appraisal shows that the property securing a HMDA reportable loan is one unit, plus an accessory unit. How many units should we report?

A: The number of individual **dwelling** units related to the property securing the loan should be reported for the Total Units field. Therefore, the lender must determine whether the accessory unit is a dwelling. If so, Total Units would be 2.

The CFPB does not specifically define an accessory dwelling unit, but the property appraisal will usually include a description and photos that show if the accessory unit is a dwelling.

Q: Should we report modular homes as site-built or manufactured homes?



A: Regulatory guidance specifies that modular homes and factory-built homes should generally be reported as site-built, whether they are built on-frame or off-frame, largely because they comply with different codes and standards than HUD's regulations for manufactured homes.

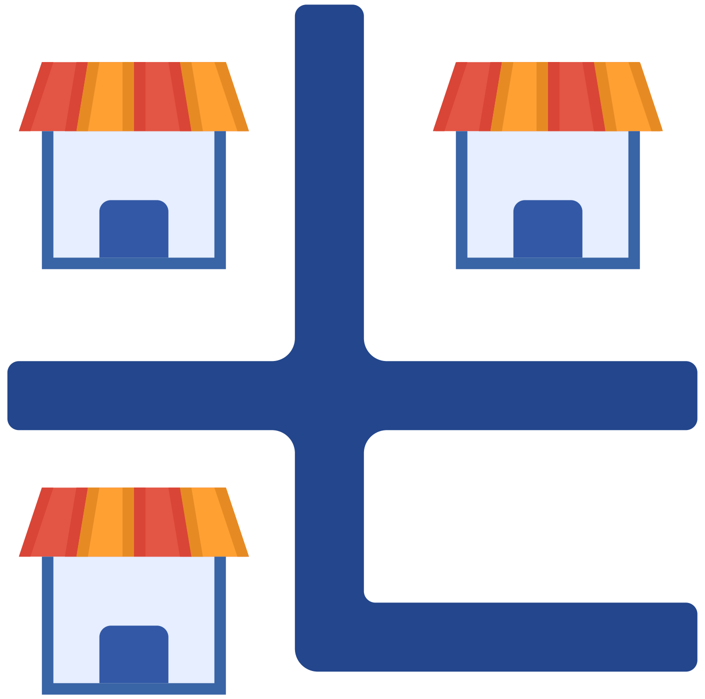
Modular homes comply with local or other recognized building codes rather than standards established by the National Manufactured Housing Construction and Safety Standards Act. Modular homes do not require HUD Certification Labels or data plates; their certification comes from a State licensing agency that documents compliance with State or other applicable building codes. Dwellings built with prefabricated components assembled at the permanent site should also be reported as site-built.

Source: www.consumerfinance.gov/rules-policy/regulations/1003/interp-4/#4-a-4-Interp-2

Q: An applicant requested a home improvement loan to update his beach rental property and secured the loan with his primary residence, which he owns outright. Should the occupancy type be reported as investment property or primary residence?

A: Regulation C's Official Interpretation specifies that the occupancy type should be reported on the property securing the loan. So, in this case, the lender would report that the borrower will use the property as a primary residence.

Q: If a loan is secured by nine single-family residences and we report 9 total units, would we report "0" for multi-family affordable units when none of the properties qualify as such, since there are more than five units?



A: No. The official interpretation of Regulation C clarifies that a covered loan secured by five or more separate dwellings in more than one location, in which none are multifamily dwellings, is not a loan secured by a multifamily dwelling. Therefore, because none of the buildings in this scenario are multifamily dwellings, Multifamily Affordable Units would be reported as "NA", not "0".

Source: www.consumerfinance.gov/rules-policy/regulations/1003/4/#4-a-32-Interp-6

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