



HMDA HUDDLE

Q & A: Tackling the Intricacies of HMDA

FIRST QUARTER 2024

Issue 9

ASK ADI: HMDA HUDDLE

Happy New Year! The first quarter of each year requires attention to two sets of LAR data. As the 2023 HMDA filing deadline approaches, the process of scrubbing and preparing that data enters its final stages. Meanwhile, 2024 HMDA data must remain accurate and complete. The tolerance for errors in HMDA LAR filings is low, and too many errors may trigger the need for resubmission. ADI recommends testing a sample of HMDA LAR entries from each quarter prior to filing.

On the following pages, we answer some questions that highlight nuances and sometimes misinterpretations of the HMDA requirements. ADI also offers [Building HMDA Skills](#), a lender training course with instruction and Q&A to reinforce the topics covered. [Click here](#) for more information about this live and interactive training program, available virtually or in person.

Have a HMDA compliance issue we haven't addressed? 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.



LOAN PURPOSE

Determine use of all proceeds early in application process



Our borrower is seeking a loan secured by his primary residence. The borrower intends to refinance credit card debt and will receive \$250,000 in cash at closing. How should we report the Loan Purpose?



With the limited information provided, the loan purpose is not fully discernible. ADI recommends that lenders request how the borrower will use the cash proceeds. This should always occur early in the application process, as the use of the proceeds will determine both Loan Purpose and whether the transaction is primarily for a business or consumer purpose.

If the borrower indicates the proceeds of the loan will not be used toward purchase, refinancing, or home improvement, and will not be used for a business purpose, then the Loan Purpose for this loan would be reported as Code 4 - Other.

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





PREPARATION
IS THE KEY

Prepare for HELOC reporting success

- 1) Set up a way to collect enough information on initial use of proceeds. This information may be collected verbally or in written form, but it must be documented.
- 2) Ensure your LOS is designed to report balloon payments, interest-only payments, prepayment penalties, and negative amortization (common terms of a HELOC).
- 3) Calculate rate spreads with the [FFIEC's rate spread calculator](#) using one year to first adjustment.
- 4) Consider a training program such as ADI's [Building HMDA Skills](#), which features a segment on HELOC reporting.

ROOKIE HELOC MISTAKES

How to avoid common HELOC reporting errors



We will be reporting Home Equity Lines of Credit (HELOCs) for the first time this year. What are the common mistakes you see in HELOC reporting?



ADI's extensive experience with HMDA reviews and [training](#) for first-time HELOC filers show that these loans contribute to a high percentage of the lenders' errors. Loan Purpose can be especially difficult to identify for HELOCs, so it is important to request use of the initial proceeds early in the application process.

HELOC contracts often include balloon payments, interest-only payments, prepayment penalties, and/or negative amortization. The lender's Loan Operating System must be set up to report these fields according to the terms of the HELOC contract.

Finally, remember that rate spreads are usually calculated using a variable rate with one year to the first adjustment. Ensure that you are using the correct settings when calculating rate spreads.

Source: <https://ffiec.cfpb.gov/tools/rate-spread/requirements>

DETERMINING ACTION TAKEN

Withdrawn, Closed for Incompleteness or Denied?



An applicant requested a HMDA-reportable loan for \$280,000, yet after weeks of calls and emails to the applicant, the applicant was completely nonresponsive. Therefore, the loan officer sent a note to the loan processing department requesting the application be withdrawn. How should the Action Taken be reported?



You may recognize this question from a past HMDA Huddle, yet it bears repeating as we frequently see Action Taken errors in our HMDA reviews. To report an application as withdrawn on the LAR, the application must be withdrawn as defined by HMDA.

Unless the applicant **expressly** withdraws the request, an application cannot be reported as withdrawn. In this instance, the lender can either send a Notice of Incomplete Application to report the file as Closed for Incompleteness after the disclosed amount of time has passed, or report the application as Denied for the reason of “Credit application incomplete.”

[Source: CFPB § 1003.4 Compilation of reportable data, § 1003.4 Official interpretation of Paragraph 4\(a\)\(8\)\(i\)](#)



LIGHTNING ROUND

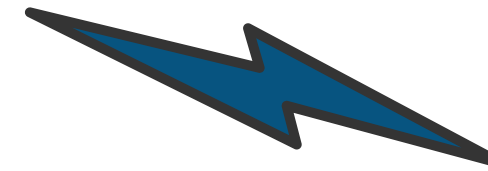
Challenge yourself with these quick reporting questions



Our borrower just renewed his HELOC, increasing the credit available by \$50,000 (from \$100,000 to \$150,000). What is the Loan Amount?



Report the full line of credit available to the borrower. For this scenario, the Loan Amount is \$150,000.



A borrower requested a loan to replenish cash he used to buy a home, secured by that residence. Is the Loan Purpose “Home Purchase”?



No. Since the borrower owns the dwelling already, this loan is not reportable as a home purchase loan. The lender should request how the loan proceeds will be used and report the purpose accordingly.

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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