

HMDA HUDDLE

**QUESTIONS AND ANSWERS
TACKLING THE INTRICACIES OF HMDA**

JUNE 2022





Welcome back to ADI's quarterly HMDA Q&A series, **HMDA Huddle**. As the end of the second quarter of 2022 approaches, HMDA compliance should remain a consistent focus. Many lenders loosen procedures and fall back into pitfalls of inaccuracy after their previous year's LAR is filed. Don't let that happen to your institution, as it will create "catch-up" work in the third and fourth quarters.

ADI assists a wide variety of lender clients with HMDA LAR audits and quality control throughout the year, including preparing for standard submissions and resubmissions. Below, we present questions that highlight nuances and misinterpretations of the HMDA guidance, and our answers to those questions. Please check back for future installments or subscribe to [ADI Insights](#) to automatically receive updates each quarter.

Q: Our loan officer heard an applicant laugh as he purposely entered incorrect demographic information on his application for a home purchase loan. Should we accurately report the applicant's demographic information, according to the loan officer's account?



A: No. The CFPB specifically instructs institutions to report the ethnicity, race and sex fields as provided by the applicant, even if the information is clearly, or appears, incorrect. Further, lenders should not correct the applicant's spelling or other errors made when providing demographic information, but rather enter exactly what the applicant provided.

Q: When we run a Desktop Underwriting (DU) Automated Underwriting System (AUS) for FHA loans, how do we report the AUS System and AUS System Result?

A: The CFPB specifies in the 2022 Guide to HMDA Reporting (Sec. 5.23) that if an institution uses an AUS that matches the loan type, the system and result should match that loan type. Therefore, if Total Scorecard is used to evaluate an FHA application, the Total Scorecard system (Code 3) and applicable result should be reported. Use the following table as a general guide for AUS System Result reporting.

If the AUS Result is provided by...	Then use one or more* of the following codes
Fannie Mae (Desktop Underwriter – DU)	1,2,3,5,6,7, or 15
Freddie Mac (Loan Prospector – LP) or Loan Product Advisor	8,9,10,11,12, or 13
FHA Total Scorecard	1,2,3,4,8,13, 18, or 19
Guaranteed Underwriting System (GUS)	3,4,10,15,18,19,20,21,22, 23, or 24
• If no AUS used • If applicant/co-applicant are not natural persons • For Purchased loans	17
Lender qualifies for HMDA partial exemption	1111
*Multiple results would only be reported if multiple results were obtained in <u>close proximity</u> to the credit decision.	

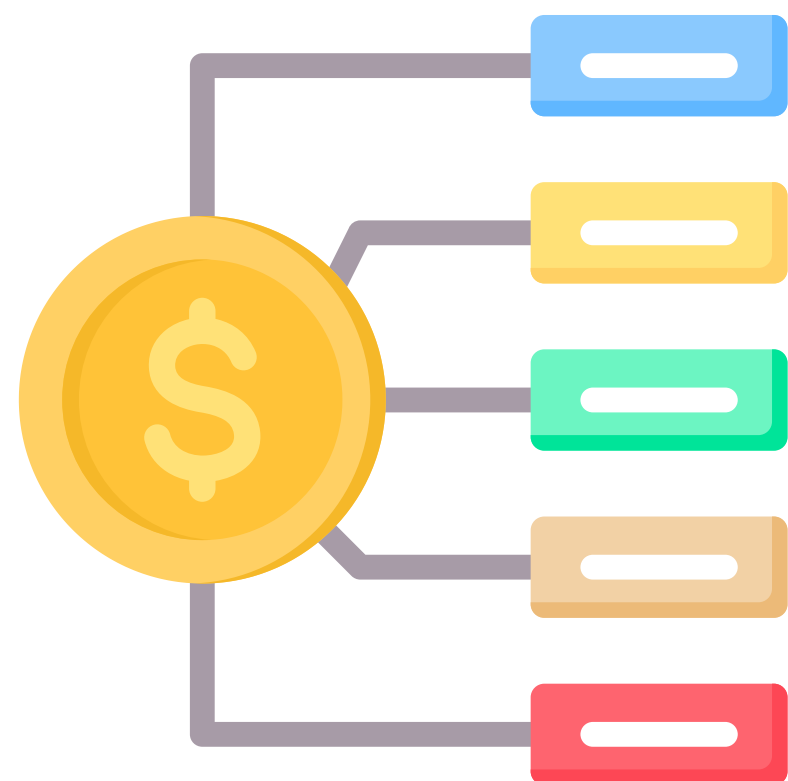
Q:

Is a 12-month loan, secured by a second mortgage on a borrower's residence and used to finance the borrower's down payment for purchasing that residence, HMDA reportable?

A:

Yes. Though this type of loan has a short term, it will not be replaced by a separate loan, so is not excluded as temporary financing, or a bridge loan. Rather, in this scenario, the loan is used to purchase a home; therefore, it should be reported as home purchase loan. The first-lien loan financing the purchase of the property, whether by the same or a different lender, should also be reported as a home purchase loan.





Q: Should we include seller-paid fees in the amounts reported for the LAR fields related to loan charges (e.g., Origination Charges, Discount Points, Total Loan Costs)?

A: The FFIEC defines Origination Charges as “Total borrower-paid origination charges.” However, Discount Points and Total Loan Costs (or Total Points and Fees) include both borrower and seller-paid fees. Therefore, when reporting the Origination Charges, include the borrower-paid fees only. For Total Loan Costs and Discount Points, report all fees.

Q: What is the Occupancy Type for a residence, purchased by a parent borrower, for their child to occupy?

A: If the son or daughter is not a borrower on the loan, the Occupancy Type is Investment (Code 3), assuming the parent borrower will not occupy the home. Section 1003.4(a)(6) requires a financial institution to identify a property as an investment property if the borrower or applicant does not or will not occupy the property, even if the borrower or applicant does not intend to use the property for investment purposes.





ADI Consulting has been helping financial institutions assess, design and implement strong compliance programs in the areas of [HMDA](#), [CRA](#), [Fair Lending](#) and [BSA/AML](#) for nearly twenty years. Visit our website for additional information.

HMDA • CRA • Fair Lending • BSA/AML

info@adiconsulting.com | 703.836.1517

adiconsulting.com

