

Guide to HMDA-Reportable Loans

The joy of compliance is trying to make sense of different regulations that may use similar terms, but have different meanings. Veteran compliance officer James Bedsole, Carolina First Bank (\$4.9 billion), Greenville, S.C., created the following chart to help loan officers answer this question: Which loans require the collection of government monitoring information, e.g., race, national origin and sex?

The answer is deceptively simple: Loans that are reportable under the Home Mortgage Disclosure Act and for which the borrower is a natural person. But the devil is in the details, i.e., the definition of temporary financing, and perhaps also in Reg B.

Loan Purpose

| Purchase a dwelling | Refinance | Home Improvement | Construction Only | Construction/Perm |
|--|--|--|---|--|
| Secured by a dwelling (not necessarily the one being purchased); AND | Original loan secured by a dwelling; AND | Purpose is home improvement; AND | Never HMDA reportable (even if we have committed to permanent financing in-house or through mortgage company) | Purpose is initial construction of a dwelling; AND |
| Purpose is to purchase a dwelling; AND | New loan secured by a dwelling; AND | Classified on bank system as "Home Improvement"; AND | | Construction/perm loan is made at a one-time closing |
| Not temporary financing* (see below) | Not temporary financing* (see below) | Not temporary financing* (see below) | | |

*Temporary Financing

Don't jump to conclusions about definitions. While a loan with *a term of more than 2 years* would ordinarily not be considered temporary financing, *a loan with a term of two years or less* is NOT automatically temporary financing.

Case #1: Loan is HMDA-reportable

Look to the expected source of repayment of the loan to determine whether it is temporary financing. If the expected source of repayment for the loan is another loan (either from your bank or another lender), and the term of your loan is two years or less, your loan is temporary financing.

- If the expected source of repayment is some other source, the loan may be HMDA reportable, *even if the term of your loan is 90 days*. For example, suppose an applicant applies for a six-month loan to build a deck. You expect the loan to be repaid from a combination of his regular salary and a Christmas bonus. This loan would be reportable under HMDA as a home-improvement loan. *Even though the term is only six months, it is NOT temporary financing.*

Case #2: Loan is NOT HMDA-reportable

Here's another scenario: An applicant applies for a six-month loan to build an addition to his house. During that six-month period, he expects to apply for a refinance on the first mortgage that would include a payoff of your loan for the addition. This loan would NOT be reportable under HMDA, as it would be considered temporary financing.

In both cases the loan term is six months. It is the expected source of repayment, not the term of the loan exclusively, that determines whether the loan is temporary financing or not.

The Regulation B Factor

If the purpose of the loan is the purchase or refinancing of a dwelling occupied or to be occupied by the applicant as a principal residence where the credit will be secured by the principal residence, Regulation B applies. In this case, along with the government monitoring information, you must also collect the age of the borrower(s), the marital status of the borrower(s) and use the categories married, unmarried or separated.