2018 HMDA Implementation

Presented By: Karen Ruckle, Director of Compliance – Bank of the Ozarks
# 2018 HMDA Loan Volume Test

<table>
<thead>
<tr>
<th>Home Purchase Or Refi (Dwelling Secured) in prior calendar year.</th>
<th># Loans</th>
<th>#Loans</th>
<th>#Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>≥1</td>
<td>≥1</td>
<td>≥1</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Closed-end Dwelling secured loans (Each of the prior TWO calendar years)</th>
<th>≥25</th>
<th>&lt;25</th>
<th>≥25</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Open-end Lines secured by a dwelling (Each of the prior TWO calendar years)</th>
<th>&lt;500</th>
<th>≥500</th>
<th>≥500</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>HMDA Reporting Status</th>
<th>Report ONLY Closed-end loans.</th>
<th>Report ONLY Open-end lines.</th>
<th>Report BOTH Closed-end loans and Open-end lines</th>
</tr>
</thead>
</table>
What is a dwelling?

A residential structure whether or not attached to real property.

- Primary, secondary, rental or investment property
- Condominiums
- Manufactured Homes
- Multi-family Dwellings (Apartment complexes)
- Mobile Home Communities/Park, even if it is not secured by any mobile homes.
- Medical Services + Longer Term Housing: property used for both long-term housing and to provide related medical services.
Mixed Use Property

If a dwelling is located on property used for both residential and commercial purposes, the lender must decide the property’s majority purpose. The institution may use any reasonable standard to determine the primary use of the property, such as square footage or by the income generated or a statement from the customer. The method may be applied on a case-by-case basis.

- Non-Residential Majority Purpose
- Residential Majority Property Purpose

Example: If a customer decides to buy a retail store with an attached apartment, the customer may state they bought the property based off the retail store. If that’s the case, the institution may classify this as a non-residential majority purpose.
Reportable Transactions:

A reportable transaction is an application for a closed-end loan or open-end line of credit secured by a dwelling where the purpose is to:

- Purchase a dwelling
- Refinance a dwelling
- Improve a dwelling
- Home Equity (consumer purpose only)

An institution may rely on the oral or written statement of an applicant regarding the proposed purpose of the loan proceeds.
Home Purchase Loan

An application for a loan or line secured by a dwelling that is for the purpose (whole or in part) of purchasing a dwelling.

- Multiple Properties (property being purchased doesn’t have to secure loan)
- Construction to permanent financing or permanent financing of a construction only loan
- Piggy Back Loans (second lien on home for down payment)
- Short Term financing (not designed to be replaced by permanent financing)
- Assumptions
- Contract for Deed Pay Off
Refinance Loan

An application for a loan or line secured by a dwelling in which a new, dwelling-secured debt obligation satisfies and replaces an existing, dwelling-secured debt obligation by the same borrower.

- The bank or investor guidelines have different application process or different terms distinguishing between refinance and cash-out refinance report how the application was evaluated.
- Does not need to be a cash-out refinance if the proceeds will be used to pay loan fees.
Home Improvement Loan

An application for a loan or line secured by a dwelling in which the purpose, in whole or part, of repairing, rehabilitating, remodeling or improving a dwelling or the real property on which the dwelling is located.

- Examples: Proceeds will be used for landscaping and college tuition. Proceeds will be used to improve a mixed-use dwelling if the proceeds are used either to improve the entire property or the residential portion of the dwelling.
Home Equity Loan – Other (Consumer Only)

An application for a loan or line secured by a dwelling in which the loan proceeds will not be used for purchasing, refinancing or improving a dwelling.

Examples: Loan for debt consolidation, to purchase vehicles, etc.
Loan Purpose - “Not applicable”

This purpose code was developed with the August 2017 Final Rule.

This purpose should be used if the institution purchased loans with action dates prior to January 1, 2018.
# 2018 Loan Purpose Hierarchy

<table>
<thead>
<tr>
<th>Multiple Purposes</th>
<th>Reportable Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Purchase Loan and Home Improvement Loan</td>
<td>Home Purchase Loan</td>
</tr>
<tr>
<td>Home Purchase Loan and Refinancing</td>
<td>Home Purchase Loan</td>
</tr>
<tr>
<td>Home Purchase Loan and cash-out Refinancing</td>
<td>Home Purchase Loan</td>
</tr>
<tr>
<td>Home Purchase Loan and other</td>
<td>Home Purchase Loan</td>
</tr>
<tr>
<td>Home Improvement Loan and Refinancing</td>
<td>Refinancing</td>
</tr>
<tr>
<td>Home Improvement Loan and cash-out Refinancing</td>
<td>Cash-out Refinancing</td>
</tr>
<tr>
<td>Refinancing and other</td>
<td>Refinancing</td>
</tr>
<tr>
<td>Cash-out Refinancing and other</td>
<td>Cash-out Refinancing</td>
</tr>
<tr>
<td>Home Improvement Loan and other</td>
<td>Home Improvement Loan</td>
</tr>
</tbody>
</table>

Chart is available in the CFPB’s Home Mortgage Disclosure (Regulation C) Small Business Entity Compliance Guide.
Additional Modified Data Fields:

• Occupancy Type (Principal, Second or Investment): Occupancy depends on applicant. If the borrower does not or will not occupy the property it will need to be considered Investment.

• Preapproval (Preapproval requested, preapproval not requested): Need to report for approved not accepted applications.

• Construction Method (site-built or manufactured home): This takes the place of property type

• Loan Amount (Unrounded, including cents)
  • Example: $100,500.24 should be reported as 110500.24

• Property Location (county and census tract, only if the property is located in a MSA where the bank has a branch)

• HOEPA Status (High Cost Mortgage, Not a High Cost Mortgage, Not Applicable)
Additional Modified Data Fields:

• Lien Status (first lien, second lien): No longer report loans not secured by a dwelling.

• Reason for denial (added reason - not applicable): The reason not applicable must be reported for any application that was not denied.

• Type of purchaser (Split Code ‘7’ into two separate selections (71/72))

• Rate Spread: Record, as a percentage, to at least three decimal places the difference between the covered APR and APOR. There no longer is a threshold to only report a rate spread that is above 1.5% or 3.5%.
  - Must now be reported on approved not accepted applications.
Modified Government Monitoring Information (Ethnicity, Race and Sex)

For ethnicity, race and sex the institution must indicate whether the information was collected on a basis of visual observation or surname.

The filing instructions state that the applicant may select both male and female and should be reflected as such on the LAR.
The customer may only fill out the expanded government monitoring information. If the Loan Officer has to fill out the information based on visual observation or surname, they are to only use the current reporting standards.
New Data Fields:

• Property address: Report the address securing the loan or line of credit.

• Age: Report in full years (do not report on guarantors)

• Credit Score: Must report the credit score(s) used in making the credit decision. (7777-credit score is not a number, 8888-not applicable, 9999-no co-applicant)

• Credit Scoring Model (Equifax Beacon 5.0, Experian Fair Isaac, etc.)

• Total Loan Costs (TRID CD Page #2, Section D)

• Origination Charges (TRID CD Page #2, Section A)
New Data Fields, continued:

- Total Points and Fees: Only have to report if the loan is NOT subject to TRID, but is subject to ATR. (Cannot think of a scenario this would be applicable, so should report NA)

- Discount Points (TRID CD Page #2, Section A)

- Lender Credits (TRID CD Page #2, Section J)

- Interest Rate (interest rate at loan closing or account opening)

- Prepayment Penalty Term (in months)
  - NA for non-consumer transaction or for transactions without a prepayment penalty.

- DTI: Report DTI relied on in making the latest credit decision.
  - Exemptions: DTI not relied on, no credit decision, non-natural person, multi-family dwellings
New Data Fields, continued:

- CLTV: Report combined loan to value relied on in making the latest credit decision.
  - Exemptions: CLTV not relied on or no credit decision was made.

- Loan Term (in months)

- Introductory rate period (in months)

- Balloon payment

- Interest Only Payments

- Negative Amortization

- Other Non-amortizing features

- Property Value: Relied on in making the credit decision
New Data Fields, continued:

- Manufactured Home Secured Property Type
- Manufactured Home Land Property Interest
- Total units: If there are five individual units, enter 5
- Multifamily Affordable Units: Enter 0 if none of the units are income restricted
- Submission of Application (Submitted directly to institution, or not)
- Initially Payable to Your Institution (Initially payable, or not)
- Mortgage Loan Originator NMLSR Identifier
- Automated Underwriting System (Desktop Underwriter, etc.)
New Data Fields, continued:

• Automated Underwriting System Result (Approve/Eligible, etc.)

• Reverse Mortgage (Reverse mortgage, not a reverse mortgage)

• Open-End Line of Credit (Open-end line of credit, not an open-end line of credit)

• Business or Commercial Purpose (Primarily for a business or commercial purpose, not primarily for a business or commercial purpose)
Now what?
Our Game plan:

• Set meetings up with all lending business lines to determine if vendors are prepared for collecting the expanded information.

• Try to automate as much information as possible! We are going from 39 lines to 110!

• Set up training for all lending staff: Mortgage Division, commercial lenders, consumer lenders, underwriters, etc.

• Ensuring all systems will go live in October, including the updated URLA and government monitoring information.

• Ensuring that we have a dedicated team to collect and verify information to ensure accuracy on the LAR.
What are the risks?

- The rule applies to any application that has an action taken date of 2018. So, for any loans that start in 2017 but are denied, withdrawn or originated in 2018, will need to report based off the 2018 standards.

- When using automated systems, you could potentially see more omissions, or collect data that is erroneous, like credit scores, that weren’t used in making the credit decision.

- Ensuring government monitoring information is collected in a compliant manner.
Questions?

Questions are guaranteed in life; Answers aren't.