

GETTING IT RIGHT

There are only 3 categories of loans HMDA is interested in:

- 1) **Purchase** of a dwelling.
- 2) **Home Improvement** of a dwelling or the real property the dwelling is located on whether (a) secured or (b) unsecured. **EXCEPTION:** Unsecured Home Improvement Loans that are not “classified” as Home Improvement, can be exempted from the reporting requirements.
- 3) **Refinance** of a dwelling, meaning an existing dwelling-secured loan is being paid off by a new dwelling-secured loan.

The first thing you must do to help you understand HMDA is to FORGET what you know the word “refinance” means. The term “REFINANCE” has its own unique meaning under the 2004 HMDA rule changes. HMDA is a both PURPOSE and COLLATERAL driven, except when it comes to “REFINANCES” in which case the PURPOSE of the loan doesn’t matter (UNLESS the loan is a multipurpose loan – Steps 2 and 3). **The answer to 3 questions determines if you have a REFINANCE under HMDA:**

1

- 1) Is the new loan to the borrower secured by a dwelling?
- 2) Is any portion of the new loan paying off any existing debt of the same borrower?
- 3) Is any of the debt being paid off secured by a dwelling?

If the answer to all three of these questions is “**YES**”, then the loan is a REFINANCE under HMDA. **IMPORTANT:** The dwellings securing the loans don’t have to be the same dwelling, and the old and new loans don’t have to be at the same bank. If the answer is “**NO**”, you may still have a HMDA reportable loan as a Purchase or a Home Improvement, but you don’t have a REFINANCE. If the answer is “**YES**” Go to **STEP # 2**.

The next questions to ask if you have a REFINANCE are:

2

- 1) Is the purpose of the loan to refinance and also to purchase a dwelling?
- 2) Is the purpose of the loan to refinance and also to improve a dwelling?

If the answer to either of the above is “**YES**”, then you have a multipurpose loan which means the loan falls into more than one category. In these situations, you follow the rules in **STEP # 3**. If the answer is “**NO**”, you have a straight REFINANCE.

3

- ☛ If the loan is a **PURCHASE** and a **HOME IMPROVEMENT** and/or a **REFINANCE**, report it as a **PURCHASE**.
- ☛ If the loan is **NOT** a home **PURCHASE** but is a **REFINANCE** and **HOME IMPROVEMENT**, report it as a **HOME IMPROVEMENT**

One way to insure that loans are classified correctly is to always look at whether the application you’re working with is a REFINANCE first, STEP # 1 above. If you can rule that out, then you look at whether the loan is a PURCHASE or a HOME IMPROVEMENT. If you do have a REFINANCE, STEP # 1 above, then you need to follow STEP # 2 to determine if you have a multipurpose loan. If you have a multipurpose loan, then you follow STEP # 3 to determine how to code it for HMDA

The following section will provide loan scenarios and classification under HMDA

Loan Scenario	HMDA REPORTABLE – OR NOT
A borrower has no outstanding loan on his home. He wants to mortgage the home to pay off a vacation home loan.	REFINANCE. There is an old dwelling secured loan being paid off by a new dwelling secured loan. STEP 1
A borrower want to re-mortgage his primary residence to pay off a vacation home loan.	REFINANCE. There is an old dwelling secured loan being paid off by a new dwelling secured loan. STEP 1
An applicant owns his home free and clear of debt, and offers it as security for a mortgage, the proceeds of which will be used to purchase a vacant lot.	NOT REPORTABLE. The purpose, to purchase a vacant lot, isn't covered by HMDA. A vacant lot is not a dwelling.
An applicant owns a residence free and clear of debt, and wants a loan against that property to purchase another dwelling.	PURCHASE. The purpose of the loan is what matters on this application.
A customer obtained an UNSECURED Home Improvement loan from bank. He later asks to refinance that loan to make additional improvements to his property.	HOME IMPROVEMENT. This <u>can't</u> ever be a REFINANCE because the first loan was unsecured.
An applicant offers his home, which he owns free and clear of debt, as security for a loan to purchase a motorcycle.	NOT REPORTABLE. The purpose of the loan is not to purchase, refinance or improve a dwelling.
An applicants wants to re-mortgage his home for the purpose of purchasing a motorcycle	REFINANCE. There is an old dwelling secured loan being paid off by a new dwelling secured loan. This is not what HMDA is all about, but the 2004 rules make this reportable,
A customer obtained an UNSECURED Home Improvement loan from the bank. He later asks to refinance that loan to extend the term.	NOT REPORTABLE. This loan cannot be reported as a REFINANCE because the old loan was unsecured. In order for a loan to be a REFINANCE under HMDA, the old and the new loan must be secured by a dwelling.
An applicant built his home paying for it as he went along. The property was never mortgaged. He now wants to use it for security for a loan to obtain funds to make home improvements to his vacation home to update it for resale.	HOME IMPROVEMENT
An applicant has a loan on a vacation home. The loan is secured by the vacation property. The customer wants to pay off	REFINANCE. An old loan, secured by a dwelling, is being paid off by a new loan, secured by a dwelling. Under HMDA, the dwelling securing the old loan and the

<p>that vacation home loan because the interest rate is high. Rates are still high on vacation properties, so the customer decides instead to get a loan on his primary residence which he owns free and clear of debt, and the proceeds of that loan will be used to pay off the vacation home loan in full</p>	<p>dwelling securing the new loan, don't have to be the same dwelling. STEP 1</p>
<p>An applicant applies to re-mortgage his primary residence for the purpose of paying off a HELOC (Home Equity Line of Credit)</p>	<p>REFINANCE. There is an old dwelling secured loan (the first mortgage on his primary residence) being paid off by a new dwelling secured loan (another first mortgage on his primary residence). STEP 1</p>
<p>The applicant owns his home free and clear of debt. He applies for a loan offering his home as security. The purpose of the loan is to pay off a HELOC.</p>	<p>REFINANCE. The old dwelling-secured loan (the HELOC) is being paid off by a new dwelling-secured loan (the mortgage on the primary residence). STEP 1</p>
<p>A borrower applies for a HELOC and plans to use a portion of the funds to pay off the small balance on his primary residence.</p>	<p>DEPENDS on the BANK. Reporting HELOCS is optional.</p>
<p>A borrower applies for a loan to re-mortgage his home. The purpose of the loan is to purchase a vacation home and a snow machine.</p>	<p>MULTIPURPOSE LOAN. This is both a REFINANCE and a PURCHASE reported as a PURCHASE. STEPS 1, 2 and 3.</p>
<p>A borrower wants a loan to purchase business assets. The bank makes the loan and secures the business assets, but also takes a 1st mortgage on the customer's primary residence and a 2nd mortgage on the customer's vacation home.</p>	<p>NOT REPORTABLE. The loan is not being made to purchase, improve or refinance a dwelling.</p>
<p>The bank made a business loan to a customer secured by business assets, a 1st mortgage on the customer's primary residence and a 2nd mortgage on the customer's vacation home. The borrower asks the bank to rewrite the loan for the purpose of taking equity out of his primary residence to buy a <u>boat</u>. The bank refinances the loan retaining all the same security.</p>	<p>REFINANCE. The old loan, secured by a dwelling, is being paid off by a new loan, secured by a dwelling. NOTE: If the customer wanted to buy a dwelling instead of a boat with the equity, this would be a MULTIPURPOSE loan reportable as a PURCHASE. STEP 1. Under the NOTE it would be STEP 1, 2 & 3.</p>
<p>The bank made a business loan to a customer secured by business assets,</p>	<p>NOT REPORTABLE. The new loan is not secured by a dwelling, so this is not a</p>

<p>a 1st mortgage on the customer's primary residence and a 2nd mortgage on the customer vacation home. The borrower asks the bank to rewrite the loan for the purpose of taking equity out of his business assets to buy more business assets. He asks the bank to release the security interest in the two dwellings. The bank agrees.</p>	<p>REFINANCE. It is also not a Purchase or Home Improvement under HMDA</p>
<p>A commercial loan customer applies for a loan to purchase a multi-family dwelling as an investment</p>	<p>PURCHASE. The term "dwelling" under HMDA includes "multi-family" residences</p>
<p>A commercial loan customer applies for a loan to purchase a multi-family dwelling as an investment. The bank takes his vacation home as security instead of the multi-family dwelling because it is in need of major repair.</p>	<p>PURCHASE. The dwelling being purchased and the dwelling offered as security don't have to be the same dwelling to be covered by HMDA.</p>
<p>The borrower obtained an UNSECURED Home Improvement loan from the bank. He later asks to have it refinanced for a longer term and a larger amount.</p>	<p>HOME IMPROVEMENT. The first loan was unsecured, and in order to be a REFINANCE, both loans must be dwelling secured. This loan is reported as Home Improvement and the bank may report the total loan amount, not just the new money.</p>
<p>A borrower applies for a Home Equity loan. It is not a HELOC. The customer already has a HELOC and wants to have a set monthly payment on a fixed rate loan instead of the Line of Credit. The proceeds of the loan will be used to improve his home, purchase a vacation home and pay off the HELOC.</p>	<p>MULTIPURPOSE LOAN reported as a PURCHASE. This is a PURCHASE, a REFINANCE and a HOME IMPROVEMENT, which requires it to be reported as a PURCHASE. STEP 1, 2 & 3.</p>
<p>A borrower applies for a loan on his primary residence. He has a loan on that dwelling now with another bank. He wants to pay off that loan with the proceeds of the loan.</p>	<p>REFINANCE. The old loan being paid off is secured by a dwelling. The new loan is also secured by a dwelling. That meets the definition of a REFINANCE under HMDA. There is no requirement that the loans (new and old) be with the same bank. STEP 1</p>