



Loan Compliance Basics

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Agenda

- Equal Credit Opportunity Act (ECOA)
- Fair Credit Reporting Act (FCRA)
- Flood Disaster Protection Act (FDPA)
- Home Mortgage Disclosure Act (HMDA)
- Unfair, Deceptive, Abusive Acts and Practices (UDAAP)
- Truth in Lending Act (TILA)
- Real Estate Settlement Procedures Act (RESPA)
- TILA-RESPA Integrated Disclosure Rule (TRID)

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Regulation B – Equal Credit Opportunity Act (ECOA)



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What Is Regulation B (ECOA)?

Regulation B implements the Equal Credit Opportunity Act (ECOA) and ensures fair access to credit

Primary Purposes

- Promote the availability of credit
- Prohibit discrimination in credit transactions
- Require timely notice of credit decisions
- Ensure accurate reporting of credit history
- Establish record retention requirements
- Require collection of Government Monitoring Information (GMI)
- Require appraisal notices and copies

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Coverage – When Regulation B Applies

Regulation B applies broadly

- Applies to **all types of credit**, not just consumer credit
 - Covers:
 - Personal
 - Family
 - Household
 - Business
 - Agricultural credit
- ✓ **Unlike Regulation Z**, Reg B is **not limited** to consumer-purpose credit.

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Coverage – Entire Credit Lifecycle

Regulation B applies to **every stage of credit**:

- Pre-application
- Application & underwriting
- Servicing
- Collections
- Payoffs



Key rule:

- ➔ Do **not discriminate on a prohibited basis** at **any point** in the credit process.

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Prohibition on Discrimination

Creditors **may not discriminate** in any aspect of a credit transaction.

This includes:

- Application and underwriting
- Servicing and Collections
- Credit reporting
- Marketing and advertising
- Appraisals and valuations

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Do Not Discourage Applications

Creditors **may not discourage applicants** on a prohibited basis.

⊘ Prohibited examples:

- “You probably won’t qualify”
- “You shouldn’t bother applying”
- Targeted messaging that excludes groups
- Interview scripts that discourage certain applicants

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What Is an Application?

An application is:

- An **oral or written request**
- Made under the creditor’s **actual procedures** for that credit type

Primary dwelling loans

- Must be submitted using a **written application**
- Applies to purchase or refinance transactions secured by the dwelling

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“Completed” Application - Definition

A **completed application** exists when the creditor receives:

- All information normally required to evaluate the request, including:
 - Credit reports
 - Information requested from the applicant
 - Required third-party documents (e.g., guarantees, insurance, government approvals)
- ✦ Creditors must use **reasonable diligence** to obtain missing information.

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Prohibited Inquiries (General Rule)

Creditors **may NOT ask** about:

- Race
- Color
- Sex
- Religion
- National Origin

! **Exception applies for certain dwelling-secured loans**

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GMI Collection – Dwelling Secured Loans

For applications to **purchase or refinance a principal dwelling:**

- Occupied or to be occupied within one year
- Secured by the dwelling

Creditor must request:

- Ethnicity
- Race Sex
- Marital Status
- Age

✓ Includes:

- Closed-end loans
- HELOCs primarily used for purchase or refinance

✗ Excludes:

- Construction-only loans

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Spousal Information – When Allowed

Spousal information may be requested **only if:**

- Spouse will use the account
- Spouse is contractually liable or co-owns property
- Applicant relies on spouses' income
- Property is located in a community property state
- Applicant relies on alimony, child support, or separate maintenance

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Joint Credit – Documenting Intent

Joint credit intent must be clear **at the time of application**.

Key rules

- Must be documented separately from the debt instrument
- Cannot be inferred from signatures alone
- Typically shown by signed or initialed application language:

“We intend to apply for joint credit _____”

✓ Included on URLA / FNMA Form 1003

💡 Best practice: include on all application forms

<p>Type of Credit</p> <p><input type="radio"/> I am applying for individual credit.</p> <p><input type="radio"/> I am applying for joint credit. Total Number of Borrowers: <input type="text"/></p> <p>Each Borrower intends to apply for joint credit. Your initials: <input type="text"/></p>
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What is “Adverse Action”

Adverse Action includes

- Denial or counteroffer not accepted
- Termination or unfavorable account change (not affecting all accounts)
- Refusal to increase available credit

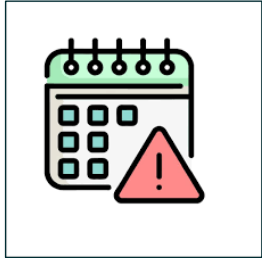
Does NOT include:

- Credit types the creditor doesn’t offer
- Changes agreed to by the applicant
- Actions related to inactivity, default, or delinquency

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Notice of Action Taken - Timing



Notice must be provided **within 30 days**:

- After action on a complete application
- After adverse action on an incomplete application
- After adverse action on an existing account

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Counteroffers & Incomplete Applications

Counteroffer

- If not accepted, notice required within **90 days**
- Adverse action notice may be included with counteroffer
- After adverse action on an **existing account**

Incomplete Application – Two options

1. Deny within 30 days and issue adverse action notice

OR


2. Send incomplete notice that:
 - Specifies missing information
 - Sets a reasonable deadline
 - Explains no further review if not received

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Appraisal Rule - Coverage

Applies to:

- Closed-end & open-end credit
- Secured by a **first-lien on a dwelling**
- Business or consumer purpose
-  Does not apply to subordinate lien transactions

Dwelling

- 1-4 unit residential structures
- Includes condos, co-ops, manufactured homes

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Appraisal Copies – Delivery Requirements

- Copies of **all appraisals and written evaluations** must be provided:
 - **Promptly upon completion**
 - Even if the loan is **denied, withdrawn, or incomplete**
- Must be delivered **at least 3 business days before closing**
- Applicant may waive timing if copies are provided **by closing**

Appraisal Notice Requirements

- Must be provided **within 3 business days of application**
- Applies even if the application is denied or withdrawn

Required Notice Language (or substantially similar):

“We may order an appraisal to determine the property’s value and charge you for it. We will promptly give you a copy of any appraisal, even if your loan does not close.”

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Top ECOA/Regulation B Violations

- ⚠️ **Adverse Action Notices** – Failing to provide written notice within 30 days of an application, missing reasons for denial, or failing to provide proper notices for incomplete applications.
- ⚠️ **Spousal Signatures** – Requiring a spouse’s signature on an individual account when the applicant is independently creditworthy, a frequent violation.
- ⚠️ **Monitoring Information Collection** – Failing to request, or improperly collecting, ethnicity, race, and sex data.
- ⚠️ **Fair Lending/Discrimination** – Disparate treatment or impact in lending, such as higher interest rates, fees, or stricter terms applied to minority borrowers or on a prohibited basis (e.g., gender identity).
- ⚠️ **Incomplete Applications** – Failing to notify applicants of missing information or failing to provide a notice of incompleteness.
- ⚠️ **Appraisal Reports** – Not provided a copy of all appraisals and valuations to applicants for first-lien, dwelling-secured loans within three business days.

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Key Takeaways

- ✅ Regulation B applies broadly and early
- ✅ Never discourage applicants
- ✅ Document joint credit intent
- ✅ Meet strict notice and timing rules
- ✅ Appraisal rules apply even if loan doesn’t close

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Fair Credit Reporting Act (FCRA)



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FCRA: Why Banks Care

- Controls how banks use consumer credit data
- Protects accuracy, privacy, and fairness
- Heavy examiner and litigation focus

Bank Roles Under FCRA

- **Users** of consumer reports
- **Furnishers** of credit data
- Subject to Identity Theft requirements

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What is a Consumer Report?

- Information from a CRA
- Used for credit decisions
- Includes credit scores

Permissible Purpose (Biggest Risk Area)

- Required before pulling a report
- Common bank purposes:
 - Loan application
 - Account review
 - Collection
- Written authorization for employment

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Business Lending & Consumer Reports

- Allowed for **individual guarantors**
- Not permitted for non-guarantor owners
- Permissible purpose still required

When is FCRA Adverse Action Required?

- Decision based on consumer report
- Denials or unfavorable terms
- Consumer **and** business credit

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FCRA vs. ECOA Notices

- **FCRA:** Notice to *all* affected individuals
- **ECOA:** Notice to *primary applicant*
- Often both apply

FCRA Adverse Action Notice Must Include

- CRA name, address, phone
- CRA did NOT make the decision
- Right to free report and dispute accuracy

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Credit Score Disclosure Requirements

- Required if a score is used
- Disclose:
 - Score and score range
 - Key factors
 - Score date and source

Risk-Based Pricing Notices

- Less favorable terms due to credit report
- Provided to **each borrower**
- Alternative: Credit Score Disclosure Exception

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Identity Theft Red Flags Rule

- Written program required
- Detect, prevent, mitigate identity theft
- Applies to covered accounts

Common Bank FCRA Findings

- No documented permissible purpose
- Missing FCRA adverse action notices
- Credit score disclosures not provided
- Business guarantor errors

Key Takeaways (Exam-Focused)

- Document permissible purpose every time
- Know when ECOA and FCRA both apply
- Ensure notices go to the right people
- Business guarantor errors

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Flood Disaster Protection Act (FDPA)



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Flood Disaster Protection Act (FDPA) - Overview

- Federal flood insurance requirements for lenders
- Designed to reduce flood-related losses
- Applies to loans secured by improved real estate



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When FDPA Applies

- Loan secured by improved real property or mobile home
- Property located in a Special Flood Hazard Area (SFHA)
- Community participates in the NFIP

Example: Commercial Loan Renewal

A bank renews a \$750,000 commercial real estate loan with **no new funds advanced**. The lender assumes flood insurance is not required because the borrower already has coverage.

✓ **Issue:** Renewal **alone** triggers FDPA requirements.

✓ **Correct Approach:**

- New flood determination
- New Notice of Special Flood Hazards
- Confirm flood insurance is still in force and in the correct amount

🔗 **Exam Focus:** Renewals are treated the same as new loans under FDPA

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Special Flood Hazard Area (SFHA)

- High-risk flood zone (A or V zones)
- Mapped by FEMA
- Determined using Standard Flood Hazard Determination Form



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Loans Covered by FDPA

- New loans, renewals, extensions, and increases
- Consumer and business purpose loans
- Applies even if loan is taken 'out of abundance of caution'

Example: "Out of an Abundance of Caution" Mortgage

A business loan is primarily secured by equipment, but the bank also records a deed of trust on the borrower's warehouse "just in case."

✓ **Issue:** FDPA applies because a **security interest in real property exists**, regardless of intent.

✓ **Correct Approach:**


- Complete flood determination
- Provide notice
- Require flood insurance if in an SFHA

🔗 **Exam Focus:** *Intent does not matter – collateral language does.*

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Mandatory Flood Insurance

- Flood insurance is **required by law**
- Must be in place **before:**
 - Loan is made
 - Loan is increased
 - Loan is renewed
 - Loan is extended
- Applies to **consumer and business loans**
-  **No waivers** permitted

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Amount of Flood Insurance Required – The Rule

Flood insurance must equal the **LESSER of:**

- **Outstanding principal balance** of the loan(s)
- **Insurable value** of the improvements
- **Maximum available under the NFIP**

NFIP maximums

- **\$250,000** – Residential (1-4 family)
- **\$500,000** – Non-residential

Key reminders

- Applies at **origination, increase, renewal, and extension**
- **Market value is not the standard**
- Applies to **consumer and business loans**

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Amount of Flood Insurance Required – Real-World Pitfalls

Where banks get it wrong

- Using **market value** instead of insurable value
- Failing to recalculate after **loan increases**
- Insurance exists – but **insufficient**
- Depreciation reduces coverage over time
- NFIP caps misunderstood

Example: A commercial building has a market value of \$1.5 million. The loan balance is \$900,000. The insurable value of the structure is \$600,000.

✓ The correct required amount is **\$500,000** – the lesser of:

- Loan balance (\$900,000)
- Insurable value (\$600,000)
- NFIP maximum (\$500,000) if non-residential, or \$250,000 if residential

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Notice of Special Flood Hazards

Written notice is required when FDPA applies

- Must be provided when a loan is:
 - **M**ade
 - **I**ncreased
 - **R**enewed
 - **E**xtended
- Applies to **consumer and business loans**
- Must be delivered **within a reasonable time before closing**
- Notice must be sent:
 - To the borrower, **and**
 - To the loan servicer (if different)

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Notice of Special Flood Hazards – Examiner Findings & Examples

Where banks get cited

- Notice delivered **at or after closing**
- No proof of borrower receipt
- Notice not reissued at renewal or extension
- Assumption that existing insurance replaces notice

Late Notice Example: A bank generates the flood notice automatically but presents it to the borrower **on the day of closing**. The borrower signs the notice.

✓ Issue: Timing.

✓ Finding: Notice was not provided **within a reasonable time before closing**, even though it was signed.

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Notice of Special Flood Hazards – Examiner Findings & Examples

Renewal Example: A loan is renewed with no new funds advanced. Flood insurance remains in place, so the bank does not reissue the notice.

✓ Issue: Renewal is a triggering event.

✓ Finding: Failure to provide a new Notice of Special Flood Hazards.

Finally, examiners routinely find missing **evidence of receipt**. Acceptable proof includes:

- Borrower signature or initials
- Electronic acknowledgment
- Certified mail receipt

From an examiner's perspective: If the notice was not timely and you cannot prove the borrower received it, the requirement was not met.

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Flood Insurance Term: Life of Loan

- Insurance must be continuous **for the life of the loan**
- Re-verify coverage at every **MIRE event** (*Made, Increased, Renewed, Extended*)
- Monitor for **lapses, reductions, or collateral changes**
- Applies to **consumer & business** loans; **all first & junior liens**
- **No waivers**; exceptions only when **FDPA doesn't apply** (e.g., *property leaves SFHA or loan paid/released*)

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Flood Insurance Term: Monitoring & Triggers That Break Coverage

- **What to monitor (daily/automated):**
 - **Policy lapse** or cancellation notices
 - **Coverage amount** after loan **increases/renewals**
 - **Deductible** and **policy form** (NFIP vs. private) compliance
 - **Structure changes** (additions/teardowns); contents if secured
 - **Map changes** (FEMA) & **escrow** where required
- **If a lapse/shortfall occurs:**
 1. Send **45-day** notice to borrower
 2. If unresolved, **force-place on day 46**
 3. Upon proof of borrower coverage, **terminate & refund** overlap **within 30 days**
 4. **Escrow:** Where required, escrow flood premiums/fees and adjust escrow analyses after loan changes.

Document everything: ticklers, system logs, insurer evidence, copies of notices

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Force-Placed Flood Insurance: When & How

- **Required** when flood insurance:
 - **Lapses, is canceled, or is insufficient**
- Triggered any time **life-of-loan monitoring** detects a shortfall
- **45-day notice** to borrower is mandatory
- If unresolved, **force-place on day 46**
- Cost may be charged to the borrower
- **If borrower provides acceptable coverage:**
 - Accept NFIP or qualifying private flood insurance
 - Terminate force-placed policy
 - Refund overlapping premiums/fees within 30 days

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Accepting Private Flood Insurance (and how it impacts force-placement)

- **Automatic acceptance** (Compliance Aid Statement on declarations page)
 - "This policy meets the definition of private flood insurance contained in 42 U.S.C. 4012a(b)(7) and the corresponding regulation."
- **Discretionary acceptance** (no Compliance Aid Statement)
 - Coverage terms are at least as broad as NFIP
 - Loss payable/Mortgage clause protects the bank
 - Cancellation/non-renewal notice to bank (generally 45 days)
 - Licensed/surplus lines insurer; policy covers loan amount/insurable value
 - Deductible and exclusions appropriate

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Flood Insurance Escrow Requirements

- Required for most residential loans
- Applies to loans made, increased, extended, or renewed
- Exceptions apply for certain lenders and loans
 - **Small Lender Exception:** The financial institution had total assets of less than \$1 billion as of December 31 of either of the two prior calendar years and, as of July 6, 2012:
 - The institution was not required by Federal or State law to escrow taxes, insurance premiums, fees, or any other charges for the term of the loan; and
 - The institution did not have a policy of uniformly and consistently escrowing the same.

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Flood Insurance Escrow Requirements

The following loans are not required to escrow flood insurance premiums:

- Subordinate liens – Loans that are subordinate to a senior lien on the same property already covered by flood insurance.
- Loans in Covered Condo/Co-op/Project Developments - *Escrow is not required when all conditions below are met:*
 - The collateral is **residential improved real estate or a mobile home** in a:
 - Condominium
 - Cooperative
 - Planned Unit Development (PUD)
 - Other project development
 - The unit is covered by a **master flood policy** that:
 - Meets mandatory flood insurance requirements
 - Is maintained by the condo/co-op/HOA or governing association
 - Has premiums paid **as a common expense** by the association
- Loans secured by residential improved real estate or mobile home **used as collateral for a commercial, business, or agricultural purpose**, even if the collateral itself is residential.
- Home Equity Lines of Credit (HELOCs) are **excluded** from mandatory flood insurance escrow requirements, regardless of lien position.
- Nonperforming loans and Loans with terms of 12 months or less

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Construction Loans

- Construction loans in SFHAs are subject to FDPA
- Coverage required even before walled/roofed (with limited deferral options)
- If deferral allowed: implement strong controls (ticklers, draw conditions)
- Coverage must be in place before disbursement when triggers are met
- Materials/supplies only insurable when in an enclosed building on/adjacent to premises.

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Contents Coverage

- Required if both the building and the contents secure the loan (*UCC/loan docs: "equipment, inventory, furniture, fixtures," etc.*)
- Applies even if contents were taken "out of an abundance of caution"
- Common misses: commercial lines, blanket collateral clauses, renewals
- No carve-out just because lender didn't "intend" to take contents.

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Common FDPA Exam Findings

- Missing or late flood notices
- Incorrect insurance amounts
- Failure to force-place
- Coverage gaps

Penalties and Liabilities

- Civil money penalties per violation
- Pattern or practice findings
- Liability remains with originating bank

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Key Takeaways

- Know when FDPA applies
- Document determinations and notices
- Monitor coverage for life of loan
- Strong controls prevent violations

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Home Mortgage Disclosure Act (HMDA)



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Purpose of HMDA

The Home Mortgage Disclosure Act (HMDA) provides public loan data used to:

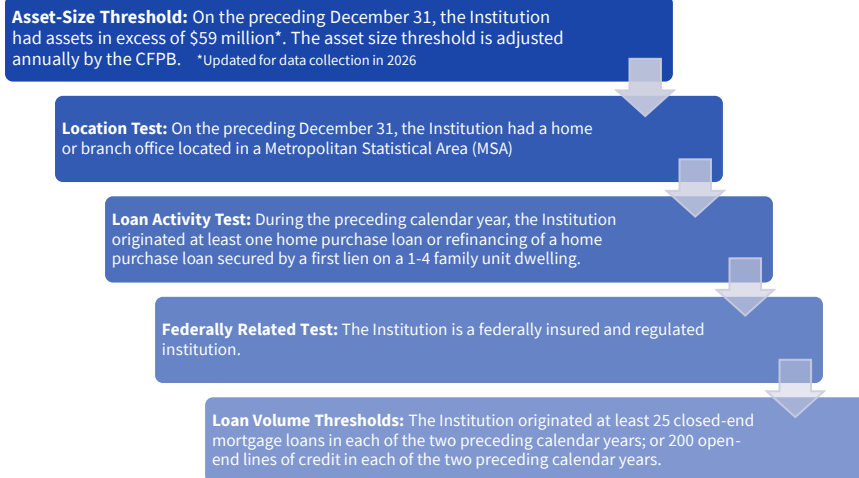
- Determine whether lenders are meeting housing needs in their communities
- Help public officials target investment in underserved areas
- Identify potential discriminatory lending patterns and support fair lending enforcement

⚠️ **HMDA does *not* promote unsafe lending or force credit allocation**

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Institutional Coverage – Who Must Report?



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What is a Reportable Transaction under HMDA?

A reportable transaction begins with **an application** (oral or written) for a dwelling-secured loan where the purpose is:

- **Home Purchase**
- **Refinancing**
- **Home Improvement**
- **Other** – Home Equity (consumer purpose)

Institutions may rely on the borrower’s stated purpose.

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Application Definition (HMDA vs ECOA)

HMDA Application

An oral or written request for credit made in accordance with the institution's procedures.

✗ Prequalification requests are not HMDA applications.

✓ HMDA generally aligns with ECOA/Reg B.

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Dwelling Definition

 **Dwelling** – A residential structure, including:

- 1-4 family homes
- Condos/Co-ops
- Manufactured homes
- Multifamily buildings (5+ units)
- Manufactured home communities (secured by community property)
- Mixed use properties (if primary use is residential)

Not limited to primary residences – includes second homes and investment properties.

✗ Not Dwellings:

- RVs, boats, campers
- Houseboats, pre-1976 mobile homes
- Hotels, dorms, hospitals
- Buildings used exclusively for commercial purposes

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Dwelling Chart

Single Family Dwellings	Multifamily Dwellings	Mixed Use Property Dwellings
<ul style="list-style-type: none"> ✓ Principal Residence ✓ Secondary Residence ✓ Vacation Homes ✓ Manufactured Home or other factory built homes ✓ Detached Homes ✓ Investment Properties ✓ Individual Condominium Units ✓ Individual Cooperative Units 	<ul style="list-style-type: none"> ✓ Apartment Buildings or Complexes ✓ Manufactured home communities (mobile home park) ✓ Condominium building or complexes ✓ Cooperative building or complexes 	<ul style="list-style-type: none"> ✓ Mixed-use property if primary use is residential ✓ Properties for long-term housing and related services or medical care, if primary use is residential. (assisted living facilities) <ul style="list-style-type: none"> ○ Medical Services + Longer Term Housing = dwelling
<p>Structures that are not considered dwellings:</p> <ul style="list-style-type: none"> ○ Boats, Campers, Travel Trailers ○ Park Model RVs ○ Recreational Vehicle Parks ○ Houseboats, Floating Homes ○ Mobile Homes constructed prior to June 15th, 1976 ○ Transitory Residences (homes converted to daycare facilities/homes converted to professional offices) ○ Hotels ○ College Dormitories ○ Mixed-Use property if primary use is <u>not</u> residential ○ Structures used originally as dwellings but used exclusively for commercial purposes ○ Properties for long-term housing and medical care if primary use is <u>not</u> residential. ○ Hospitals and Properties used to provide medical care (skilled-nursing, rehab, etc.) 		

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HMDA Loan Purpose Waterfall

When a loan serves more than one purpose, lenders use this fixed order to decide which single code to report, selecting the first applicable category from the top down.

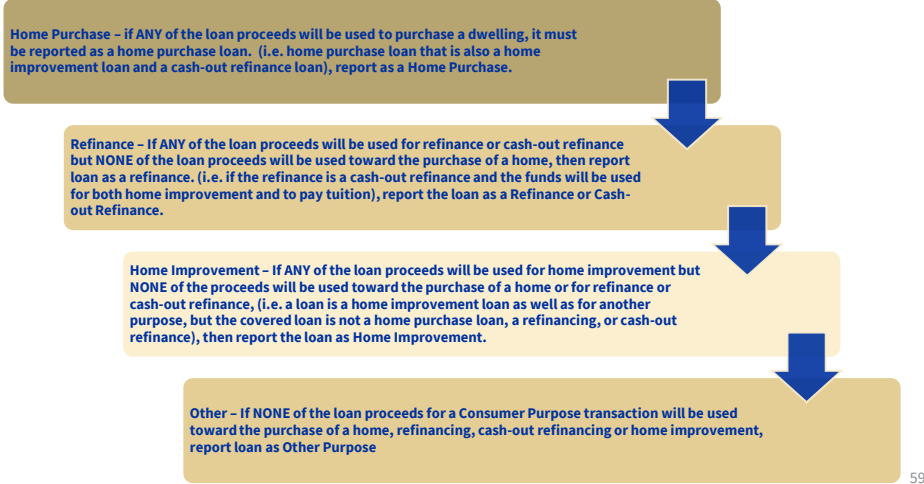
1. **Home Purchase** – If **any** proceeds buy a dwelling → Report as **Home Purchase**.
2. **Refinance/Cash-out Refinance** – If **no purchase purpose but any refinance purpose** → Report as **Refinance or Cash-out Refinance**.
3. **Home Improvement** – If **no purchase/refinance purpose buy any improvement** → Report as **Home Improvement**.
4. **Other** – Consumer-purposes dwelling-secured loans with **none of the above** purposes.

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HMDA Purpose Waterfall – Multi-purpose Loans

For multiple purpose HMDA reportable loans/lines, you will proceed down the following hierarchy known as the “Waterfall”



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Excluded Transactions

Do **not** report:

- **Loans not secured by a dwelling**
- **Modifications** (unless they meet Reg Z refinance definition)
- **Agricultural-purpose loans**
- **Bare land**, unless borrower will build or place a dwelling within 2 years
- **Loans under \$500**
- **Business-purpose home equity** unless:
 - Used for home purchase, home improvement, or is a refinance of an existing dwelling-secured obligation

Temporary Financing Exclusion

- Only applies when loan is designed to be **replaced** by permanent financing
 - Example: Bridge loan
- Short Term financing ≠ Temporary Financing
 - Example: 9-month term loan to purchase, renovate and resell before term expires and is not designed to be replaced by permanent financing, **would not be temporary financing.**

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Additional Excluded Transactions

Prequalification Requests – “No house, no HMDA”.

- A prequalification is *not* a HMDA application
- **Important:** A refinance request **is not** a prequalification.

The following transactions are *not* HMDA-reportable:

- Loans secured only by a personal guarantee
- Loans originated or purchased while acting in a fiduciary capacity
- Servicing Only Purchases
- Merger/Acquisition-related purchases of loans or lines
- Purchase of a partial interest in a loan or line
- Purchase of an interest in a loan participation pool

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Demographic Information (DI) Requirements

General Rules

- Report DI **exactly as provided** by the applicant-only applicants may select subcategories.
- One applicant may provide DI for the other, if absent.
- Applicants may select **multiple** races/ethnicities.
- If “Other” is selected with written details, report *only* what the applicant provided.
- Must report all applicants-even if one is **not a natural person** (report as N/A for that party).
- Video-based application (zoom, FaceTime, Teams): **Treat as in-person**
- No video component: **Treat as mail**

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DI Collection Based on Application Method

1. In-Person Applications

- Request DI.
- If applicant declines → You **must** collect ethnicity, race, and sex based on **visual observation or surname**.
- When using visual observation:
 - **Use only aggregate categories**, not subcategories.

2. Applications Not Taken In Person

Apply these rules:

If applicant previously indicated they do NOT wish to provide DI:

- **Do not** collect DI, even if you later meet in person

If DI was not provided and no previous refusal exists, but you meet in person before closing:

- Request DI.
- If applicant declines → Collect using visual observation/surname.

3. Mail/Telephone/Internet

- If applicant declines and confirms their choice → report **“Information not provided by applicant in mail, internet, or telephone application.”**

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HMDA Data Reporting

- The institution making the credit decision reports the HMDA Data.
- Report based on year action was taken
- Multiple property rule: report only one property containing a dwelling
 - Fields tied to same property: Construction Method, Occupancy, Address, Location, Lien Status, MH Property Type, MH Land Interest

HMDA Small Filer Exemptions

Applies to institutions that meet the following conditions:

- Originated <500 closed-end in preceding 2 years
- Originated <500 open-end in preceding 2 years
- No negative CRA exam history during each of two most recent exams

26 exempt data points covered by exemption

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HMDA Required Data Points

Even if your institution is a small filer, the following data points (and all related data fields), regardless of exemption must be reported:

- Application Date
- Loan Type
- Loan Purpose
- Preapproval
- Construction Method
- Occupancy Type
- Loan Amount
- Action Taken
- Action Taken Date
- State
- County
- Census Tract
- Ethnicity
- Race
- Sex
- Age
- Income
- Type of Purchaser
- HOEPA Status
- Lien Status
- Number of Units
- Legal Entity Identifier

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HMDA Examination Tolerances



Three (3) calendar days or less in the date the application was received or the date shown on the application form.



One thousand (1,000) dollars or less in the amount of the covered loan or the amount applied for, as applicable.



Three (3) calendar days or less in the date of the action taken by the financial institution, provided that such differences do not result in reporting data for the wrong calendar year.



Rounding errors in reporting the dollar amount, rounded to the nearest thousand of the gross annual income relied on in making the credit decision or, if a credit decision was not made, the gross annual income relied on in processing the application.

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Common HMDA Reporting Errors

Sources: [Federal Reserve Consumer Compliance Outlook First Issue 2025 and Anders Blog](#)

1. Universal Loan Identifier (ULI) – Included personally identifiable information
2. Application Date
3. Loan Purpose
4. Action Taken
5. Gross Annual Income
6. Demographic Information of Co-applicants
7. Census Tract Location

[Consumer Compliance Outlook > 2025 > First Issue 2025](#)

[Common Errors with the Home Mortgage Disclosure Act \(HMDA\) - How Banks Can Limit Violations - Brad Stumpe, September 24, 2025](#)

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Unfair, Deceptive or Abusive Acts or Practices (UDAAP)



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What is UDAAP?

UDAAP stands for Unfair, Deceptive, or Abusive Acts or Practices.

- Applies to **all consumer financial products and services**
- Enforced by:
 - **CFPB**
 - **Prudential regulators (FDIC, OCC, FRB)**
- **No private right of action**, but:
 - High enforcement risk
 - Restitution, civil money penalties, and reputation damage

Key Takeaway: UDAAP is **principles-based**, not checklist-based – meaning judgment and documentation matter.

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The Three UDAAP Standards

A. Unfair

1. Causes or is likely to cause **substantial consumer injury**
2. Injury is **not reasonably avoidable** by the consumer
3. Injury is **not outweighed by benefits** to consumers or competition

Community bank examples:

- Charging fees not disclosed or applied inconsistently
- Processing payments in a way that maximizes late fees

B. Deceptive

1. There is a **misrepresentation, omission, or misleading statement**
2. It is **likely to mislead** a reasonable consumer
3. It is **material** (affects a consumer's decision)

Important note: Intent **does not matter**.

Common risk areas:

- Marketing vs. actual product terms, Inconsistent disclosures, Verbal statements by frontline staff

C. Abusive

- Materially interferes with a consumer's ability to understand terms, **or**
- Takes unreasonable advantage of:
 - Lack of understanding
 - Inability to protect interests
 - Reasonable reliance on the bank

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Where UDAAP Risk Commonly Shows Up

Examiners expect UDAAP to be considered across **the entire product lifecycle**:

- Product design and pricing
- Marketing and advertising
- Disclosures and account opening
- Servicing and payment processing
- Collections, loss mitigation, and complaints
- Third-party vendors

High-risk areas for community banks:

- Overdraft and NSF practices
- Deposit account fees
- Loan servicing and payoff statements
- Change-in-terms notices
- Vendor-managed products

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Key 2025 UDAAP Violation Areas & Trends

- **Mobile Payment Apps & Fintech:** The CFPB took action against Cash App (Block, Inc.) in January 2025 regarding unauthorized transactions, consumer service failures, and error resolution, resulting in significant penalties.
- **"Junk Fees" & Hidden Charges:** Continued focus on fees that are not clearly disclosed or are unavoidable, including NSF practices and unexpected backend costs.
- **Deceptive Marketing & Lending:** Examples include advertising low "fixed" rates while burying high fees, as well as disguised loans, such as revenue-based financing that acts as high-interest loans.
- **Inadequate Customer Service:** Failing to handle consumer disputes properly, failing to provide timely provisional credit, and poor handling of unauthorized transfers.
- **Increased State Enforcement:** States like California, New York, Texas, and Connecticut are stepping up enforcement, including a major \$1B+ settlement by the NY Attorney General.
- **Abusive Debt Collection:** Using excessive, sequential calling and disclosing information to third parties.

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Truth in Lending Act (TILA)



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What TILA is Designed to Do

TILA promotes the **informed use of credit** by requiring:

- Clear, standardized **disclosures**
- Meaningful **comparison of credit terms**
- Protection against **inaccurate or unfair lending practices**

Implemented by **Regulation Z (12 CFR Part 1026)**

Enforced by **CFPB** and prudential regulators

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When TILA Applies

TILA applies to:

- **Consumer credit**
- Extended to a **natural person**
- For **personal, family, or household purposes**
- Credit that is **subject to a finance charge** or **payable in more than four installments**

Key exclusions:

- Business, commercial, or agricultural credit.
- Certain public utility and securities credit.
- Most transactions over **\$73,400** (as of 01/01/2026), *unless* secured by real property or a dwelling.

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Key Definitions

- **Finance Charge**
The cost of consumer credit as a dollar amount. Includes any charge:
 - Payable directly or indirectly by consumer; and
 - Imposed directly or indirectly by creditor as condition to extension of credit; and
 - Provided charge is not payable in comparable cash transaction; and
 - Subject to specific exclusions listed in Regulation Z.
- **Prepaid Finance Charge**
Any finance charge that a borrower pays upfront, either in cash or by check, before or at the time of completing a financial transaction. This charge can also be deducted from the loan proceeds at any point during the transaction. Essentially, it represents costs associated with borrowing that are settled before the loan is finalized.
- **APR (Annual Percentage Rate)**
The cost of credit expressed as a yearly rate. Often the **highest-risk calculation error**.
- **Amount Financed**
Loan amount minus prepaid finance charges
- **Total of Payments**
Amount financed + finance charge

Why this matters: Misclassifying fees = inaccurate APR = **TILA violation**

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Disclosure Requirements by Loan Type

A. Closed-End Credit (Most Community Bank Loans)

Examples:

- Installment loans
- Auto loans
- Closed-end mortgage loans

Key disclosure timing: Before consummation

Required disclosures include:

- APR
- Finance charge
- Amount financed
- Total of payments
- Payment schedule
- Late payment charges
- Security interest
- Prepayment penalties (if any)

High-risk areas:

- Incorrect fee inclusion/exclusion
- APR tolerance errors
- Last-minute loan changes without redisclosure

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Disclosure Requirements by Loan Type

B. Open-End Credit (Credit Cards, HELOCs)

Examples:

- Credit cards
- Lines of credit

Disclosure timing:

- Account-opening disclosures
- Periodic statements
- Change-in-terms notices

Key requirements:

- APRs and fees clearly disclosed
- Periodic statement accuracy
- Billing error resolution procedures

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Disclosure Requirements by Loan Type

C. Special Mortgage Provisions (Reg Z Subparts C & E)

Applies to dwelling-secured loans (including HELOCs)

Key rules community banks encounter:

- **Ability-to-Repay (ATR)**
- **Qualified Mortgage (QM)**
- Loan Estimate (LE) & Closing Disclosure (CD) under TRID
- Higher-priced mortgage loan (HPML) requirements
- Escrow requirements

Examiner focus:

- Documentation of ATR and accurate LE/CD timing

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Timing of TILA Application Disclosures

HELOC Application Disclosure and HELOC Booklet

- Must be provided at time of application (in person) or within 3 business days of application (telephone)
- Certain changes trigger **redisclosure**

Consumer TILA Disclosure (*installment loans, auto loans, personal loans*)

- Must be provided **before** consummation
- “Consummation” = when the consumer becomes **contractually** obligated under state law

Adjustable-Rate Mortgage (ARM) Program Disclosure and CHARM Booklet

- Must be provided at time of application (in person) or within 3 business days of application (telephone)



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Timing, Tolerances, and Redisclosure

Disclosure Timing Is Critical

- Disclosures must be **accurate at the time provided**
- Certain changes trigger **redisclosure**

APR Tolerances (Common Exam Findings)

Closed-end loans secured by real property:

- **± 1/8%** for regular transactions
- **± 1/4%** for irregular transactions

If APR exceeds tolerance:

- **Cure may be required**
- Potential restitution

Best practice:

Use pre-funding and post-closing quality control checks

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Right of Rescission

The right of rescission provides anyone with an ownership interest in a primary dwelling, including those who are not borrowers, the ability to cancel the transaction within three business days of closing.

Applies to:

- Certain **dwelling-secured refinances**
- Home equity loans
- Home equity lines of credit
 - *Purchase transactions – Initial purchase is not rescindable; however, subsequent draws on the line may be subject to the right of rescission.*

Key points:

- 3-business-day rescission period
- Two copies of notice to **each consumer** who has the right to rescind
- Funds cannot be disbursed until rescission period expires

Common errors:

- Incorrect dates
- Missing notices
- Early disbursement

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Real Estate Settlement Procedures Act (RESPA)



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RESPA Purpose and Scope

What RESPA Is Designed to Do

- Promote **transparency in mortgage settlement costs**
- Protect consumers from **unnecessary or abusive practices**
- Prohibit **kickbacks and unearned fees**
- Establish standards for **servicing and escrow practices**

Implemented by **Regulation X (12 CFR Part 1024)**

Enforced by **CFPB** and prudential regulators

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When RESPA Applies

RESPA applies to:

- **Federally related mortgage loans**
- Loans secured by a **first or subordinate lien** on:
 - 1–4 family residential properties
 - Including refinances, purchase loans, HELOCs, and certain reverse mortgages

Common exclusions:

- Business, commercial, or agricultural loans
- Temporary financing (construction loans under 2 years)
- Vacant land (unless used for dwelling construction)

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Kickbacks and Unearned Fees

What RESPA Prohibits

Section 8(a):

- Giving or accepting **anything of value** for the referral of settlement service business

Section 8(b):

- Splitting charges or receiving fees for services **not actually performed**

“Anything of value” includes:

- Cash
- Gifts, meals, entertainment
- Discounts
- Free services or marketing



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RESPA Servicing Requirements

1. Scope of RESPA Servicing Rules

When Servicing Rules Apply

RESPA servicing requirements apply to:

- **Federally related mortgage loans**
- Secured by a **first or subordinate lien** on a **1-4 family dwelling**
- Applies whether the bank services the loan itself or uses a **servicer**

Key point for community banks: Even if servicing is limited or transferred, the bank remains responsible for compliance.

2. Servicing Transfer Notices

Transferor Notice (Current Servicer)

- Must be provided **at least 15 days before** the effective transfer date

Transferee Notice (New Servicer)

- Must be provided **within 15 days after** the effective transfer date

Combined Notice

- Permitted if sent **at least 15 days before** the transfer date

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RESPA Servicing Requirements

Required Content

Notices must include:

- Effective date of transfer
- Contact information for both servicers
- Statement that transfer does **not affect loan terms**
- Payment instructions

60-Day Payment Protection

- No late fees or negative credit reporting
- Applies if borrower sends payment to the **old servicer** within 60 days of transfer

Common Exam Findings

- Missing notices
- Incorrect timing
- Incomplete contact information

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RESPA Servicing Requirements

3. Error Resolution

Notices of Error (NOE)

Borrowers may submit a **written notice** alleging:

- Payment application errors
- Escrow errors
- Fee or charge errors
- Foreclosure-related errors

Timing Requirements

- **Acknowledge** within **5 business days**
- **Correct or respond** within:
 - **30 business days** (general)
 - **45 business days** (certain complex issues)
- Extensions permitted with proper notice

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RESPA Servicing Requirements

4. Requests for Information (RFI)

Borrowers may request:

- Account information
- Payoff statements
- Ownership or servicing details

Timing Requirements

- **Acknowledge** within **5 business days**
- **Respond** within **30 business days**

Key Rules

- Cannot charge a fee for responding
- Must have **reasonable procedures** to identify and track NOEs and RFIs
- Applies even if borrower is in default

Common Exam Findings

- Late acknowledgments
- Failure to properly classify correspondence
- Incomplete responses

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RESPA Servicing Requirements

5. Force-Placed Insurance (Homeowners)

When Allowed

A servicer may obtain force-placed insurance **only if** it has a reasonable basis to believe:

- Borrower's hazard insurance has lapsed or is insufficient

Notice Requirements

Two notices are required before charging:

1. **Initial Notice**
2. **Reminder Notice** (at least 30 days later)

Key Restrictions

- Must terminate force-placed insurance within **15 days** of receiving evidence of coverage
- Must refund any unearned premiums

Common Exam Findings

- Charging before notice period ends
- Failure to refund premiums
- Inadequate tracking of borrower-provided insurance

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RESPA Servicing Requirements

6. Escrow Account Requirements

Initial Escrow Statement

- Must be provided within **45 days** of escrow account establishment

Annual Escrow Analysis

- Must be conducted annually
- Statement must be delivered within **30 days** of analysis

Cushion Limits

- Cannot exceed **two months** of escrow payments

Common Exam Findings

- Late or missing statements
- Incorrect cushion calculations
- Failure to adjust payments timely

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RESPA Homeownership Counseling Requirements

1. Purpose of the Requirement

The homeownership counseling provisions are intended to:

- Encourage **early consumer awareness** of counseling options
- Support **informed decision-making**, especially for first-time or higher-risk borrowers
- Provide a **standardized, neutral disclosure**
- This is a **disclosure requirement**, not a mandate that borrowers receive counseling (except where required under other rules, such as certain high-cost mortgages).

2. When the Requirement Applies

The requirement applies to:

- **Federally related mortgage loans**
- Secured by a **first lien** on a **one-to-four family dwelling**

Applies to:

- Purchase transactions
- Refinances
- Construction-to-permanent loans (when permanent financing is involved)

Does NOT apply to:

- HELOCs
- Reverse mortgages
- Loans secured by a subordinate lien
- Business-purpose loans

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RESPA Homeownership Counseling Requirements

3. What Must Be Provided

A. Homeownership Counseling Disclosure

The bank must provide:

- A **written notice** advising the applicant of the availability of homeownership counseling services

The notice must:

- Be **clear and conspicuous**
- State that counseling is available
- Encourage the consumer to seek counseling

B. List of Homeownership Counseling Organizations

The bank must also provide:

- A **list of HUD-approved homeownership counseling organizations**

The list must:

- Be based on the applicant's **location**
- Be obtained from the **CFPB-provided tool or list**
- Include:
 - Name
 - Address
 - Telephone number (where available)

Important: The bank **may not hand-select or edit** the list.

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RESPA Homeownership Counseling Requirements

4. Timing Requirements

Standard Timing Rule

The disclosure **and counseling list** must be provided:

- **Within 3 business days of application**

This timing aligns with:

- Loan Estimate (TRID)
- Other early mortgage disclosures

Business Day Definition

For this requirement:

- A **business day** is any day the bank's offices are open to the public for carrying out substantially all business functions

Method of Delivery

- In person
- Mail
- Electronic delivery (E-SIGN compliant)

The bank must be able to **demonstrate timely delivery**.

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Common Exam Findings

Examiners frequently cite:

- Failure to provide the disclosure within 3 business days
- Missing counseling list in loan file
- Use of an outdated or manually created list
- Inability to demonstrate proof of delivery
- Applying the requirements to the wrong loan types (e.g., HELOCs)

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TILA-RESPA Integrated Disclosure (TRID) Rule



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TILA-RESPA Integrated Disclosure (TRID) Rule

1. Purpose and Scope of TRID

The TRID Rule:

- Integrates **Truth in Lending Act (TILA)** and **RESPA** disclosures
- Replaced the **GFE, HUD-1, and early TIL**
- Improves **clarity, timing, and consistency** for mortgage borrowers

Key Forms:

- **Loan Estimate (LE)**
- **Closing Disclosure (CD)**

Implemented in:

- **Regulation Z (12 CFR §1026.19(e) and (f))**
- Supported by **RESPA (Regulation X)** provisions

TRID applies to:

- **Closed-end consumer credit**
- Secured by **real property or a dwelling**

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TILA-RESPA Integrated Disclosure (TRID) Rule

1. Purpose and Scope of TRID Continued

Includes:

- Purchase loans
- Refinances
- Construction Loans
- Loans secured by vacant land (if consumer purpose)

Does NOT apply to:

- HELOCs
- Reverse mortgages
- Chattel-dwelling loans
- Loans for business or agricultural purposes

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TILA-RESPA Integrated Disclosure (TRID) Rule

2. Key Definitions That Drive Compliance

“Application” (Critical for Timing)

An application exists when the lender receives **all six**:

1. Consumer’s name
2. Income
3. Social Security Number
4. Property address
5. Estimated property value
6. Mortgage loan amount sought

Once all six are received → the 3-business-day clock starts

Business Day Definitions

- **General business day:** Any day the bank is open for substantially all business
- **Specific business day (CD waiting period):** All calendar days except Sundays and federal holidays

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TILA-RESPA Integrated Disclosure (TRID) Rule

3. Loan Estimate (LE) Requirements

Timing

- Must be **delivered or mailed within 3 business days of application**
- Must obtain **consumer's intent to proceed**
- Must be provided **before**:
 - Collecting any fees (other than credit report)
 - Issuing a Closing Disclosure

Content Overview

The LE discloses:

- Loan terms (rate, payment, product type)
- Projected payments
- Estimated closing costs
- Cash to close
- Comparisons and other disclosures

Revised Loan Estimates

- Permitted **only** for valid “changed circumstances,” such as:
- Rate lock
- Consumer-requested changes
- Appraisal value changes
- Expiration of original LE (10 business days)

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TILA-RESPA Integrated Disclosure (TRID) Rule

4. Written List of Service Providers (WLSP)

- Supports the consumer's **right to shop** for certain settlement services
- Helps determine **tolerance treatment** of fees under TRID
- Promotes **transparency and competition**

*The WLSP is not just a disclosure – it directly affects **fee tolerance calculations**.*

Must be provided when:

- The loan is **subject to TRID**, and
- The lender **permits the consumer to shop** for a required settlement service

Common services that trigger a WLSP:

- Title services and lender's title insurance
- Appraisal
- Survey
- Pest inspection (if required by lender)
- Settlement/closing agent (if consumer may choose)

Timing Requirements

Must be provided:

- **At the same time as the Loan Estimate (LE)**
- **No later than 3 business days after application**

Important: *Providing the WLSP after the LE is a common exam finding.*

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TILA-RESPA Integrated Disclosure (TRID) Rule

4. Written List of Service Providers (WLSP) Continued

Content Requirements

The WLSP must:

- ✓ Be in writing
- ✓ Identify at least **one available provider** for each shoppable service

Include provider:

- ❖ Name
- ❖ Address
- ❖ Telephone number

- ✓ Clearly state that the consumer **may choose a different provider**

Additional Details for Services You Can Shop For			
To get you started with shopping, this list identifies some providers for the services you can shop for (see Section C on page 2 of your Loan Estimate).			
Service Provider List		You can select these providers or shop for your own providers.	
Service	Estimate	Provider We Identified	Contact Information
Post Inspection Fee	\$135	Post Co.	Jason Post 123 Avenue A Anytown, ST 12345 jpost@postco.com 111-222-3333
Survey Fee	\$65	Surveyor LLC	Bill Bamese 456 Avenue B Anytown, ST 12341 bill@surveyorllc.com 111-222-4444
Title - Insurance Binder	\$700	Gamma Title Co.	Joanna Campbell 789 Avenue C Anytown, ST 12333 joanna@gammatile.com 222-444-5555
Title - Lender's Title Policy	\$335		
Title - Settlement Agent Fee	\$502		
Title - Title Search	\$1,261		
Title - Lender's Title Insurance	\$1,100	Delta Title Inc.	Frank Fields 321 Avenue D Anytown, ST 12321 frank@delatitle.com 222-444-6666
Title - Other Title Services	\$1,000		
Title - Settlement Agent Fee	\$350		

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TILA-RESPA Integrated Disclosure (TRID) Rule

5. Closing Disclosure (CD) Requirements

Timing

- Must be **received by the consumer at least 3 specific business days before consummation**

Redislosure & Waiting Period Triggers

A new 3-day waiting period is required if:

- APR becomes inaccurate beyond tolerance
- Loan product changes
- Prepayment penalty is added
- All other changes may be reflected on a **corrected CD** at or before consummation.

Responsibility for CD

- Lender is ultimately responsible
- Settlement agent may prepare, but **lender must ensure accuracy**

Post-Closing Corrections

- Clerical errors: within **60 days**
- Tolerance violations: corrected and refunded within **60 days**

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TILA-RESPA Integrated Disclosure (TRID) Rule

6. Tolerance Categories & Fee Accuracy

Zero Tolerance

- Lender fees
- Transfer taxes
- Fees paid to lender's affiliate

Fees cannot increase

10% Cumulative Tolerance

- Recording fees
- Third-party services where the consumer chooses from the lender's list

No Tolerance

- Prepaid interest
- Property insurance
- Escrows
- Third-party services the consumer shops for outside the list

Examiner Focus

- Proper categorization of fees
- Accurate comparison between LE and CD
- Timely refunds

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TILA-RESPA Integrated Disclosure (TRID) Rule

7. Eight Common Violations

Source: Jim Treacy, Director – CrossCheck Compliance

1. Failing to fully document change in circumstance.
2. Including undetected reimbursable fee tolerance violations on Loan Estimates and Closing Disclosures.
3. Stating lender credits on loan disclosures improperly.
4. Failing to provide Loan Estimates when applications do not result in an originated loan.
5. Using standard and alternative format disclosures for the same transaction.
6. Failing to obtain and document the borrower's intent to proceed.
7. Failing to retain adequate evidence of timely delivery of Closing Disclosures.
8. Including an expiration date of estimated closing costs on revised Loan Estimates.

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