Balloon Payments and HMDA

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Non-Amortizing Features

The revised HMDA rule, effective 1/1/2018, has four fields to indicate if a loan has non-amortizing features, including balloon and interest-only payments. The interesting aspect of this is that the definitions are borrowed from Regulation Z, TRID in three cases (the integrated disclosures), yet the fields apply to all types of loans including those that are not subject to TRID such as business purpose loans and is not limited to loans to individuals or loans secured by 1 to 4 family dwellings. It affects all HMDA reportable transactions, including those that do not result in an originated loan.

The four features and the definition of the items are as follows:

- Balloon payment as defined in Regulation Z, 12 CFR 1026.18(s)(5)(i);
- Interest-only payments as defined in Regulation Z, 12 CFR 1026.18(s)(7)(iv);
- Negative amortization as defined in Regulation Z, 12 CFR 1026.18(s)(7)(v);
- Other non-amortizing feature as defined in Regulation Z, 12 CFR 1026.43(b)(2) other than balloon payment, interest only payments or negative amortization.

Balloon and interest only payments are the two that are of interest for this article.

The definition for the balloon indicator is:

“1026.18(s)(5)(i) Balloon payments -... a payment that is more than two times a regular periodic payment”.

This definition will trigger reporting a balloon payment on more transactions than just those that have a final balloon payment.

The definition for interest only is:

“1026.18(s)(7)(iv) The term “interest-only” means that, under the terms of the legal obligation, one or more of the periodic payments may be applied solely to accrued interest and not to loan principal; an “interest-only loan” is a loan that permits interest-only payments.”

The transaction will be reported as interest only even if one payment is interest only.

If the transaction being reported is subject to TRID rules, and many loans and applications on a HMDA LAR are subject to TRID, this is easy reporting because they are already identifying these products features on the TRID disclosures. But for those that are not familiar with TRID, such as business product
areas, these will be new concepts. This will need to be addressed in training so that they understand these terms are not used in the way they normally think of balloon and interest only.

**Months to Maturity - The Other Balloon**

There is another field that brings in balloon payments, and that is the loan term expressed in months to maturity. In this field, you will report the scheduled (or proposed, for an application) number of months to maturity or termination. For a fully amortizing loan that will be the number of months in the amortization schedule, ending with the final payment.

For loans or applications that are not fully amortizing during the maturity term, such as balloon loan, you will report using the maturity term rather than the amortization term, even if there is a reset option to continue the loan.

- 30-year fully amortizing covered loan – report “360”
- 5 year balloon covered loan – report “60”.

This use of balloon does **NOT** use the TRID definition of balloon. This reference is to an actual maturity date, such as a 5 year balloon loan based upon a 30 year amortization, a 5/30.

Staff will need to understand that the term balloon is being used differently in these separate fields. A loan with monthly principal and interest payments that matures in 5 years with a balloon payment will be reported as having a balloon feature and 60 months to maturity – that will be easy to understand.

However, if there is a 30 year loan with a payment in month 12 that is greater than 2x a regular payment, after which payments continue on for the full amortization period (or perhaps have another “balloon payment” at a later date, the balloon feature will be flagged, and months to maturity will be 360, not 12 (the month with the balloon payment using the TRID definition). Staff accustomed to TRID will also need to understand the difference in these two fields that relate to balloons.

This is a training issue, and staff simply needs to understand the terms of the loan or application being reported.

Negative amortization does not have any unusual definition, it is simply any interest due not being paid in full under the payment schedule and added to principal. Most lenders should understand that term. The last term, other non-amortizing feature, is simply what it says – some aspect of the loan that causes it to not fully amortize over its life.

The revised HMDA rule has many tricky definitions. Get started now to allow plenty of time to read and absorb the new rules to avoid a crisis late in 2017.