Gross Annual Income

by kblanchard@keycomplianceservices.com - Thursday, June 23, 2016

http://www.kaybeescomplianceinsights.com/gross-annual-income/

There are changes in reporting of gross annual income under the revised HMDA rules effective 1/1/2018. The gross annual reporting requirement is at 1003.4(a)(10)(iii) of Regulation C and its Commentary. Examples in the Commentary provide clarity to common situations and to the revised sections. You must review both the rule and Commentary closely to fully understand the reporting requirements.

In general, report the gross annual income relied on in making the credit decision.

**Reporting NA for Gross Annual Income**

Report NA in the following situations:

- Entity as applicant: If applicant or co-applicant is a non-natural person (an entity)
- Income not relied on such as not required by policy or product, such as a streamlined refinance that does not consider income. This does not mean that you didn’t get that far in underwriting or income did not affect decision
- Secured by multifamily dwelling
- Employee application or loan (the revised Commentary simply states to comply for employee applications by reporting NA)
- Purchased loans: can report NA if you do not choose to report income.
- Sole reliance on assets from annuitization or asset depletion (no income other than asset reliance)

**Detail on Specific Gross Annual Income Situations**

**Credit Decision Made**

Report the gross annual income relied on in making the decision when a credit decision was made by the financial institution.

Example 1: Lender relies on an applicant's salary to compute a debt-to-income ratio, but also relies on the applicant's annual bonus to evaluate creditworthiness. Report the salary and the bonus to the extent relied upon.

Example 2: An applicant's commission income has been earned for less than 12 months. Policy does not permit considering fewer than 12 months of commission income. Report only the portion of income considered. Do not include the applicant's commission income in the income reported.

Example 3: Lender relies on the applicant’s verified gross income in making the credit decision. Report the verified gross income.
No Credit Decision Was Made – Application Was Withdrawn Or Closed For Incompleteness

If an application is withdrawn or closed for incompleteness prior to a credit decision having been made, report the gross annual income relied on in processing the application at the time that the application was withdrawn or the file was closed for incompleteness.

Example: An application included the applicant's self-reported income, but the application was withdrawn before a credit decision that would have considered income was made. Report the self-reported income.

No Income Considered in the Credit Decision

When a policy or a product’s guidelines do not consider income in making the credit decision or in processing the application, report NA for gross annual income. This is different from situations where an application was withdrawn or closed for incompleteness prior to a credit decision being made and you report the income that was in file at that time.

Example: A lender offers a streamlined refinance program. Product guidelines specify that income is not taken into account in making the credit decision. Report NA even if the applicant provided income information.

Amounts Derived from Annuitization or Depletion of Assets

Do not include other assets in reported income even if they are considered in addition to income when making a credit decision.

Example: Assets such as amounts derived from annuitization or depletion of an applicant's remaining assets may be considered in processing an application or making a credit decision. However, do not add them into income for HMDA reporting.

If there is no income other than from asset annuitization or depletion, the correct response would be NA, because amounts from such assets is not considered reportable income.

Employee Loans

The current Commentary states the following for employee loan reporting: “Income data--loan to employee. An institution may report “NA” in the income field for loans to its employees to protect their privacy, even though the institution relied on their income in making its credit decisions.”

The revised Commentary for employee loans states: “Income data—loan to employee. A financial institution complies with § 1003.4(a)(10)(iii) by reporting that the requirement is not applicable for a covered loan to, or an application from, its employee to protect the employee's privacy, even though the institution relied on the employee's income in making the credit decision.” That change places employee loans in the category where the correct response is NA, such as loans to entities.
Co-applicant Income

Report only the income actually considered in making the credit decision.

Example: Two persons jointly apply for a covered loan and both list income on the application. However, the lender relies on the income of only one applicant in evaluating creditworthiness. Report only the income relied on.

Co-signer Income

If the lender relies on the income of a cosigner to evaluate creditworthiness, include the cosigner's income but only to the extent relied on.

Guarantors

Do not include the income of a guarantor who is only secondarily liable. If for some reason, the guarantor also signed the note individually, you would report their income as a borrower. This comes up from time to time, but is actually a misuse of a guarantee. There is no need to obtain a guarantee from anyone who individually signs the note. You would obtain a guarantee from someone who, for example, signed as an officer of a corporate borrower if a guarantee was required.

Conclusion

A careful reading of the Commentary is necessary in order to fully understand how and when to report gross annual income. You cannot just read the regulation and ignore the Commentary; that will lead to many errors.

If you want help in understanding and implementing this major revision, consider The HMDA Academy for assistance, answers to questions, and ongoing training and support.