



# Independent Bankers Association of Texas

## Compliance Helpline 800.749.4228

### Compliance Overview

## When is an Application an Application?

### Regulation Z (TILA)

When a “consumer” submits the following six pieces of information:

1. Name
2. Income
3. Social Security Number
4. Property Address
5. Estimated Value of Property
6. Mortgage Loan Amount sought

For the purpose of obtaining an extension of credit—the bank has an “application.” That can be done in writing **OR** in oral form. For example, a face-to-face conversation or a telephone call, backed by a written record of the conversation, is a legitimate “application.”

Receipt of those six pieces of information start the Loan Estimate disclosure “clock.” The bank must issue a Loan Estimate within three business days of “application” or, alternatively, issue an Adverse Action Notice within that same three business day window. Also, the bank must mail or deliver a notice regarding the applicant’s right to receive a copy of all written appraisals for first lien dwelling secured applications.

See the Official Interpretation to 1026.2(a)(3) Application.

#### *IN GENERAL.*

*An application means the submission of a consumer’s financial information for purposes of obtaining an extension of credit. For transactions subject to § 1026.19(e), (f), or (g) of this part, the term consists of the consumer’s name, the consumer’s income, the consumer’s social security number to obtain a credit report, the property address, an estimate of the value of the property, and the mortgage loan amount sought. This definition does not prevent a creditor from collecting whatever additional information it deems necessary in connection with the request for the extension of credit. However, once a creditor has received these six pieces of information, it has an application for purposes of the requirements of Regulation Z. A submission may be in written or electronic format and includes a written record of an oral application. The following examples for a transaction subject to § 1026.19(e), (f), or (g) are illustrative of this provision:*

Source: <http://www.consumerfinance.gov/eregulations/1026-2/2016-06834#1026-2-a-3>

### Regulation B (ECOA)

Under the definition at 1002.2(f) (and its commentary), when the lender has enough information to make a credit decision under its “procedures,” the lender has a completed “application.” The definition does not provide for the



verification of the information submitted. The 30-calendar day “clock” for action by the lender starts with receipt of a completed “application.”

See the Official Interpretation to 1002.2(f) Application.

#### GENERAL.

*A creditor has the latitude under the regulation to establish its own application process and to decide the type and amount of information it will require from credit applicants.*

#### PROCEDURES USED.

*The term “procedures” refers to the actual practices followed by a creditor for making credit decisions as well as its stated application procedures. For example, if a creditor’s stated policy is to require all applications to be in writing on the creditor’s application form, but the creditor also makes credit decisions based on oral requests, the creditor’s procedures are to accept both oral and written applications.*

#### WHEN AN INQUIRY OR PREQUALIFICATION REQUEST BECOMES AN APPLICATION.

*A creditor is encouraged to provide consumers with information about loan terms. However, if in giving information to the consumer the creditor also evaluates information about the consumer, decides to decline the request, and communicates this to the consumer, the creditor has treated the inquiry or prequalification request as an application and must then comply with the notification requirements under § 1002.9. Whether the inquiry or prequalification request becomes an application depends on how the creditor responds to the consumer, not on what the consumer says or asks. (See comment 9-5 for further discussion of prequalification requests; see comment 2(f)-5 for a discussion of preapproval requests.)*

Source: [http://www.consumerfinance.gov/eregulations/1002-2/2013-22752\\_20140118#1002-2-f](http://www.consumerfinance.gov/eregulations/1002-2/2013-22752_20140118#1002-2-f)

Incomplete Applications—see Official Interpretation at 1002.9(c)

#### NOTICE ALTERNATIVES.

*Within 30 days after receiving an application that is incomplete regarding matters that an applicant can complete, the creditor shall notify the applicant either:*

*Of action taken, in accordance with paragraph (a) of this section; or*

*Of the incompleteness, in accordance with paragraph (c)(2) of this section.*

#### OFFICIAL INTERPRETATION TO 9(c)(1) SHOW NOTICE OF INCOMPLETENESS.

*If additional information is needed from an applicant, the creditor shall send a written notice to the applicant specifying the information needed, designating a reasonable period of time for the applicant to provide the information, and informing the applicant that failure to provide the information requested will result in no further consideration being given to the application. The creditor shall have no further obligation under this section if the applicant fails to respond within the designated time period. If the applicant supplies the requested information within the designated time period, the creditor shall take action on the application and notify the applicant in accordance with paragraph (a) of this section.*

#### OFFICIAL INTERPRETATION TO 9(c)(2) SHOW ORAL REQUEST FOR INFORMATION.

*At its option, a creditor may inform the applicant orally of the need for additional information. If the application remains incomplete the creditor shall send a notice in accordance with paragraph (c)(1) of this section.*

#### OFFICIAL INTERPRETATION TO 9(c)(3) HIDE Paragraph 9(c)(3).



#### ORAL INQUIRIES FOR ADDITIONAL INFORMATION.

*If an applicant fails to provide the information in response to an oral request, a creditor must send a written notice to the applicant within the 30-day period specified in §§ 1002.9(c)(1) and (2). If the applicant provides the information, the creditor must take action on the application and notify the applicant in accordance with § 1002.9(a).*

Source: [http://www.consumerfinance.gov/eregulations/1002-9/2013-22752\\_20140118#1002-9-c](http://www.consumerfinance.gov/eregulations/1002-9/2013-22752_20140118#1002-9-c)

Withdrawn Applications—see Official Interpretation at 1002.9(e)

#### *Withdrawal of approved application.*

*When an applicant submits an application and the parties contemplate that the applicant will inquire about its status, if the creditor approves the application and the applicant has not inquired within 30 days after applying, the creditor may treat the application as withdrawn and need not comply with paragraph (a)(1) of this section.*

Source: [http://www.consumerfinance.gov/eregulations/1002-9/2013-22752\\_20140118#1002-9-d](http://www.consumerfinance.gov/eregulations/1002-9/2013-22752_20140118#1002-9-d)

### **Regulation C (HMDA)**

Under HMDA, “application” is defined at 1003.2(1).

#### *IN GENERAL.*

*Application means an oral or written request for a home purchase loan, a home improvement loan, or a refinancing that is made in accordance with procedures used by a financial institution for the type of credit requested.*

Source: <http://www.consumerfinance.gov/eregulations/1003-2/2015-32285#1003-2-p1>

Under HMDA, lenders must also deal with the issues of “Prequalifications” vs. “Preapprovals.”

#### *PREQUALIFICATION*

*A prequalification request is a request by a prospective loan applicant (other than a request for preapproval) for a preliminary determination on whether the prospective applicant would likely qualify for credit under an institution’s standards, or for a determination on the amount of credit for which the prospective applicant would likely qualify. Some institutions evaluate prequalification requests through a procedure that is separate from the institution’s normal loan application process; others use the same process. In either case, Regulation C does not require an institution to report prequalification requests on the HMDA/LAR, even though these requests may constitute applications under Regulation B for purposes of adverse action notices.*

Source: <http://www.consumerfinance.gov/eregulations/1003-2/2015-32285#1003-2-Application-2-ii>

Preapproval is also defined in the Official Commentary section of Regulation C:

#### *REQUESTS FOR PREAPPROVAL.*

*To be a covered preapproval program, the written commitment issued under the program must result from a full review of the creditworthiness of the applicant, including such verification of income, resources and other matters as is typically done by the institution as part of its normal credit evaluation program. In addition to conditions involving the identification of a suitable property and verification that no material change has occurred in the applicant’s financial condition or creditworthiness, the written commitment may be subject only to other conditions (unrelated to the financial condition or creditworthiness of the applicant) that the lender ordinarily attaches to a traditional home mortgage application approval. These conditions are limited to conditions such as requiring an acceptable title insurance binder or a certificate indicating clear termite inspection, and, in the case where the applicant plans to use the proceeds from the sale of the*



applicant's present home to purchase a new home, a settlement statement showing adequate proceeds from the sale of the present home.

Source: <http://www.consumerfinance.gov/eregulations/1003-2/2015-32285#1003-2-Application-2-ii>

For a very good informational piece entitled *Preapproval or Prequalification: What's the Difference?* by the Federal Reserve Bank of Philadelphia, click [here](#).

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