

## TRID Coverage Test

### 1) Scenario #1

Borrower type: Limited liability company

Closed or open end credit: Closed end

Loan purpose: Send owner of LLC kids to college

Collateral: Owner of LLC's 2nd home lake house

Covered by TRID? **No**

Reason? "The exemption for transactions in which the borrower is not a natural person applies, for example, to loans to corporations, partnerships, associations, churches, unions, and fraternal organizations. The exemption applies regardless of the purpose of the credit extension..."

### 2) Scenario #2

Borrower type: Individuals "doing business as" "Widget Manufacturing"

Closed or open end credit: Closed end

Loan purpose: Send owners' kids to college

Collateral: Owners' 2nd home lake house

Covered by TRID? **Yes**

Reason? A "dba" is not a separate legal entity entitled the Reg Z "Organizational credit" exemption to coverage.

### 3) Scenario #3

Borrower type: Individuals

Closed or open end credit: Closed end

Loan purpose: Buy a houseboat to live in as their principle residence.

Collateral: Houseboat

Covered by TRID? **No**

Reason? A houseboat is not "Real estate collateral" required by TRID.

### 4) Scenario #4

Borrower type: Individuals

Closed or open end credit: Closed end

Loan purpose: Purchase vacant residential lot

Collateral: Vacant residential lot, no improvements, no intent to improve

Covered by TRID? **Yes**

Reason? A vacant residential lot is "Real estate collateral". A residential house is not necessary.

### 5) Scenario #5

Borrower type: Individuals

Closed or open end credit: Closed end

Loan purpose: Equity out to consolidate personal credit card debt.

Collateral: Manufacturing plant and real estate

Covered by TRID? **Yes**

Reason? "Manufacturing plant and real estate" is "Real estate collateral". A residential house is not necessary.

**6) Scenario #6**

Borrower type: Individuals

Closed or open end credit: Line of credit

Loan purpose: Send owners' kids to college.

Collateral: 2nd home lake house

Covered by TRID? **No**

Reason? Loan is not for "Closed end credit".

**7) Scenario #7**

Borrower type: Individuals

Closed or open end credit: HELOC

Loan purpose: Send owners' kids to college

Collateral: Owners' primary residence

Covered by TRID? **No**

Reason? Loan is not for "Closed end credit".

**8) Scenario #8**

Borrower type: Individuals

Closed or open end credit: Closed end Texas home equity loan

Loan purpose: Expand a business

Collateral: Principal residence

Covered by TRID? **No**

Reason? "Business purpose exemption" includes "Loan to expand a business, even if it is secured by the borrower's residence." Remember the "business purpose" exemption does not require the loan to be made to a corporate type entity. The "organizational credit" and "business purpose" exemptions are separate and not co-dependent on each other.

**WARNING WARNING WILL ROBINSON!!!: The above classification is compliant with Reg Z, but for salability reasons you might want document the loan as a TRID covered transaction :-)**

**9) Scenario #9**

Borrower type: Individuals

Closed or open end credit: Closed end

Loan purpose: Improve a principal residence by putting in a business office.

Collateral: Borrower's principal residence

Covered by TRID? **No**

Reason? "Business purpose exemption" includes "Loan to improve a principal residence by putting in a business office."

**10) Scenario #10**

Borrower type: Individuals

Closed or open end credit: Closed end

Loan purpose: To acquire the Collateral

Collateral: 5 unit rental property that is not owner-occupied

Covered by TRID? **No**

Reason? "Business purpose exemption" includes "Loan to acquire, improve, or maintain non owner occupied rental property (regardless of the number of housing units)."

**11) Scenario #11**

Borrower type: Individuals

Closed or open end credit: Closed end

Loan purpose: To acquire the Collateral

Collateral: Single family residence that is not owner-occupied.

Covered by TRID? **No**

Reason? "Business purpose exemption" includes "Loan to acquire, improve, or maintain non owner occupied rental property (regardless of the number of housing units)."

**12) Scenario #12**

Borrower type: Individuals

Closed or open end credit: Closed end

Loan purpose: To acquire the Collateral

Collateral: Owner occupied rental property containing 3 housing units

Covered by TRID? **No**

Reason? "Business purpose exemption" includes "Loan to acquire owner occupied rental property if it contains more than 2 housing units."

**13) Scenario #13**

Borrower type: Individuals

Closed or open end credit: Closed end

Loan purpose: To acquire the Collateral

Collateral: Owner occupied rental property containing 2 housing units

Covered by TRID? **Yes**

Reason? "Business purpose exemption" includes "Loan to acquire owner occupied rental property if it contains more than 2 housing units."

**14) Scenario #14**

Borrower type: Individuals

Closed or open end credit: Closed end

Loan purpose: To improve or maintain Collateral

Collateral: Owner occupied rental property containing 5 housing units

Covered by TRID? **No**

Reason? "Business purpose exemption" includes "Loan to improve or maintain owner occupied rental property if it contains more than 4 housing units."

**15) Scenario #15**

Borrower type: Individuals

Closed or open end credit: Closed end

Loan purpose: To improve or maintain Collateral

Collateral: Owner occupied rental property containing 4 housing units

Covered by TRID? **Yes**

Reason? "Business purpose exemption" includes "Loan to improve or maintain owner occupied rental property if it contains more than 4 housing units."

**16) Scenario #16**

Borrower type: Individuals

Closed or open end credit: Closed end

Loan purpose: Acquire hunting land

Collateral: 800 acres of hunting land with no improvements

Covered by TRID? **Yes**

Reason? "Agricultural" exemption does not include "hunting".

"An agricultural purpose includes the planting, propagating, nurturing, harvesting, catching, storing, exhibiting, marketing, transporting, processing, or manufacturing of food, beverages (including alcoholic beverages), flowers, trees, livestock, poultry, bees, wildlife, fish, or shellfish by a natural person engaged in farming, fishing, or growing crops, flowers, trees, livestock, poultry, bees, or wildlife. The exemption also applies to a transaction involving real property that includes a dwelling (for example, the purchase of a farm with a homestead) if the transaction is primarily for agricultural purposes."

**17) Scenario #17**

Borrower type: Individuals

Closed or open end credit: Closed end

Loan purpose: College tuition for kids.

Collateral: Unsecured

Covered by TRID? **No**

Reason? TRID, not Reg Z, requires: Real estate (house or residence is not required)

**18) Scenario #18**

Borrower type: Individuals

Closed or open end credit: Closed end

Loan purpose: Construct 2nd home lake house

Collateral: 2nd home lake house

Covered by TRID? **Yes**

Reason? "Construction" is not a TRID exemption.

### **19) Scenario #19**

Borrower type: Individuals

Closed or open end credit: Reverse mortgage

Loan purpose: Retirement

Collateral: Primary residence

Covered by TRID? **No**

Reason? Reverse mortgages are a TRID exemption.

### **20) Scenario #20**

Borrower type: Corporation

Closed or open end credit: Closed end

Loan purpose: Unknown

Collateral: Consumer's 2nd home and consumer's personal guaranty

Covered by TRID? **No**

Reason? "The exemption for transactions in which the borrower is not a natural person applies, for example, to loans to corporations, partnerships, associations, churches, unions, and fraternal organizations. The exemption applies regardless of the purpose of the credit extension and regardless of the fact that a natural person may guarantee or provide security for the credit."

### **3 bonus questions:**

a) If a transaction is not covered by Reg Z is it exempt from TRID?

Answer: Yes. TRID is a subsection of Reg Z. Transactions excluded from Reg Z coverage are not covered by TRID.

b) If a transaction is not covered by TRID is it exempt from Reg Z?

Answer: Not necessarily. e.g. reverse mortgages, HELOCs and chattel liens.

c) If a transaction is exempt from Reg Z is it exempt from RESPA?

Answer: Not necessarily. "Organizational credit" (loans to corporations, partnerships and other legal entities) is an exemption in Reg Z/TRID, but not under RESPA. For an example, individuals form an LLC to purchase their 2nd home lake house. The transaction is covered by RESPA, but not RegZ/TRID. The lender must provide an early GFE to the borrowers and close on a HUD1 Settlement Statement, but neither an early or final TIL disclosure is required. An "organizational credit" transaction may be exempt from RESPA for other reasons e.g. "temporary financing" if no lot purchase, "vacant land", etc.

**Executive summary for banks (not seller financiers or housing subsidy lenders). TRID coverage requirements:**

- 1) consumer purpose (not exempted by commercial, business or agricultural purpose)
- 2) loan to individual(s) or some trusts for tax or estate planning purposes and qualifying land trusts
- 3) closed end loan
- 4) real estate collateral

Thought of the Day ☺

Ok. Now you are smart enough to know that when an individual walks into the bank to get a loan for "hunting" purposes to buy several hundred acres way south of town....he is a walking talking TRID loan applicant! If your bank normally requires surveys for loans on such large tracts what survey fee will you disclose to the loan applicant on the Loan Estimate (that is due out within 3 days of loan application) for the cost of the survey? Remember survey fees may vary depending upon amount of acreage, terrain, weather conditions, turn time needed, etc.

Answer: Perhaps you don't want to collect all 6 required information items (names, income, SS#, property address, value estimate and loan amount requested) before you call a surveyor for a quote. For example don't get a value estimate and/or requested loan amount from loan applicant until the survey estimate comes back???