

Federal Reserve Bank of San Francisco
101 Market Street, San Francisco, California 94105

March 2, 2011

To State Member Banks, Bank
Holding Companies, Financial Holding
Companies, and Foreign Bank Offices
in the Twelfth Federal Reserve District

Federal Reserve Issues Final Rule and Seeks Comment on Proposed Revisions to Escrow Account Requirements for Home Mortgage Loans

The Federal Reserve Board on February 23, 2011 issued a final rule and requested public comment on a second rule under Regulation Z to revise the escrow account requirements for certain home mortgage loans. The revisions to the regulation, which implements the Truth in Lending Act (TILA), are being made pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The final rule implements a provision of the Dodd-Frank Act that increases the annual percentage rate (APR) threshold used to determine whether a mortgage lender is required to establish an escrow account for property taxes and insurance for first-lien, "jumbo" mortgage loans. Jumbo loans are loans exceeding the conforming loan-size limit for purchase by Freddie Mac, as specified by the legislation.

In July 2008, the Board issued final rules requiring creditors to establish escrow accounts for first-lien higher-priced mortgage loans. A first-lien mortgage is considered a higher-priced mortgage loan if its APR is 1.5 percentage points or more above the current average prime offer rate. Under the final rule being issued today, the escrow requirement will apply to first-lien jumbo loans only if the loan's APR is 2.5 percentage points or more above the average prime offer rate. The APR threshold for non-jumbo loans remains unchanged. The final rule is effective for covered loans for which the creditor receives an application on or after April 1, 2011.

The Board is also proposing a rule that would expand the minimum period for mandatory escrow accounts for first-lien, higher-priced mortgage loans from one to five years, and longer under certain circumstances, such as when the loan is delinquent or in default. The proposed rule would provide an exemption from the escrow requirement for certain creditors that operate in "rural or underserved" counties, as authorized by the legislation.

The proposal also would implement new disclosure requirements contained in the Dodd-Frank Act. Disclosures would be required at least three business days before consummation of a mortgage loan to explain, as applicable, how the escrow account works or the effects of not having an escrow account if one is not being established. The proposed rule also would require consumers to receive disclosures three days before an escrow account is closed. The Board is soliciting comment on the proposed rule for 60 days after publication in the *Federal Register*, which is expected shortly.

The Board's notices for the final rule and the proposed rule are attached.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's website, at <http://www.frbsf.org/banking/letters>.

For additional information, please contact:

Federal Reserve Bank of San Francisco
Banking Supervision and Regulation
(801) 322-7853

Attachment: [Proposed Rule \(448 KB PDF\)](#)

[Final Rule \(58 KB PDF\)](#)

[Summary of Findings: Design and Testing of Escrow Disclosures \(508 KB PDF\)](#)