

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

August 27, 2010

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

Federal Reserve Issues Interim Rule Revising Disclosure Requirements for Closed-End Mortgages

The Federal Reserve Board issued an interim rule on August 16, 2010 that revises the disclosure requirements for closed-end mortgage loans under Regulation Z (Truth in Lending). The interim rule implements provisions of the Mortgage Disclosure Improvement Act (MDIA) that require lenders to disclose how borrowers' regular mortgage payments can change over time.

The MDIA, which amended the Truth in Lending Act, seeks to ensure that mortgage borrowers are alerted to the risks of payment increases before they take out mortgage loans with variable rates or payments. Accordingly, under the interim rule, lenders' cost disclosures must include a payment summary in the form of a table, stating the following:

- The initial interest rate together with the corresponding monthly payment;
- For adjustable-rate or step-rate loans, the maximum interest rate and payment that can occur during the first five years and a "worst case" example showing the maximum rate and payment possible over the life of the loan; and
- The fact that consumers might not be able to avoid increased payments by refinancing their loans.

The interim rule also requires lenders to disclose certain features, such as balloon payments, or options to make only minimum payments that will cause loan amounts to increase. All of the disclosures required in the interim rule were developed through several rounds of qualitative consumer testing, including one-on-one interviews with consumers around the country.

Lenders must comply with the interim rule for applications they receive on or after January 30, 2011, as specified in the MDIA. Lenders have the option, however, of providing disclosures that comply with the interim rule before that date. The Board is also soliciting comment on the interim rule for 60 days after publication in the *Federal Register* before considering the adoption of a permanent rule.

The Board's notice is 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: [Interim Rule Revising Disclosure Requirements for Closed-End Mortgages](#)