

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

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

Proposed Amendments Relating to Small Creditors and Rural or Underserved Areas under the Truth in Lending Act (Regulation Z)

On January 29, 2015, the Consumer Financial Protection (CFPB) [proposed](#) several changes to the mortgage rules issued in 2013 that are designed to facilitate lending by small creditors, particularly those in rural and underserved areas. As noted in the CFPB's [press release](#), there are a variety of provisions in the rules that affect small creditors, as well as small creditors that operate predominately in rural and underserved areas. In particular, the rules include:

- **Ability-to-Repay Rule (ATR Rule)** – The ATR Rule extends qualified mortgage (QM) status to loans that small creditors hold in their portfolios, even if the consumers' debt-to-income ratio exceeds 43 percent. Small creditors in rural or underserved areas can originate QMs with balloon payments even though balloon payments are otherwise not allowed with QMs.
- **Homeownership and Equity Protection Act Rule (HOEPA Rule)** – Under the HOEPA rule, small creditors that operate predominately in rural or underserved areas can originate high-cost mortgages with balloon payments.
- **Escrow Rule** – Under the Escrow Rule, small creditors that operate predominately in rural or underserved areas are not required to establish escrow accounts for higher-priced mortgages.

As a result of the CFPB's ongoing study of the market and outreach to the industry, the CFPB is proposing amendments to the mortgage rules that would, among other things:

- **Expand the Definition of Small Creditor** – The proposal would increase the origination limit for small creditor status from 500 to 2,000 first-lien mortgage loans and would exclude loans held in portfolio by the creditor and its affiliates.
- **Include Mortgage Affiliates in Calculation of Small Creditor Status** – The proposal would require the inclusion of the assets of the creditor's mortgage-originating affiliates in calculating whether the creditor meets the asset-limit for small creditor status, which is set at less than \$2 billion (adjusted annually) in total assets as of the end of the preceding calendar year.¹
- **Expand the Definition of "Rural" Areas** – The proposal would expand the definition of "rural" to include not only counties that are considered to be "rural" under the current mortgage rules but also census blocks that are not in an urban area as defined by the Census Bureau.
- **Provide Grace Period for Small Creditor and Rural or Underserved Status** – Creditors that exceeded the origination or asset-size limit in the preceding calendar year would be allowed, in certain circumstances, to operate as a small creditor with respect to mortgage transactions with applications received prior to April 1 of the current calendar year. The proposal would create a similar grace period for creditors that no longer operated predominately in rural or underserved areas during the preceding calendar year.

¹ For 2015, a creditor is a "small creditor" if it had assets of less than \$2.060 billion as of December 31, 2014.

- **Create a One-Year Qualifying Period for Rural or Underserved Creditor Status** – The proposal would adjust the time period used in determining whether a creditor is operating predominately in rural or underserved areas, from any of the three preceding calendar years to the preceding calendar year.
- **Provide Additional Implementation Time for Small Creditors** – The proposal would extend the temporary exemption for eligible small creditors to make balloon-payment QMs and balloon-payment high-cost mortgages, which is scheduled to expire on January 10, 2016. The proposal would extend that period to include balloon-payment mortgage transactions with applications received before April 1, 2016, thus giving creditors time to understand how any changes will affect their status and to adjust their business practices.

Resources

The proposed rule will be open for public comment until **March 30, 2015**. We encourage bankers to understand the changes being proposed and utilize the comment period as an opportunity to influence the final rules and help prevent unintended consequences resulting from any new rules. Those wishing to submit comments may submit them through <http://www.regulations.gov> (Docket No. CFPB-2015-0004 or RIN 3170-AA43) or by following the instructions in the [proposal](#).

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-supervision/publications/district-circular-letters/>.

For additional information, please contact:

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