

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

January 18, 2011

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 Amending Regulation Z to Clarify Certain Disclosure Requirements of the Mortgage Disclosure Improvement Act

The Federal Reserve Board on December 22, 2010, approved an interim rule amending Regulation Z, which implements the Truth in Lending Act (TILA). The Board is issuing this interim rule to clarify certain aspects of a September 24, 2010 interim rule, in response to public comments. The September interim rule implements provisions of the Mortgage Disclosure Improvement Act (MDIA) which amended TILA to require mortgage lenders to disclose examples of how a loan's interest rate or monthly payments can change. Those statutory amendments will become effective on January 30, 2011.

The MDIA seeks to alert borrowers to the risks of payment increases before they take out mortgage loans with variable rates or payments. Under the Board's September interim rule, lenders' cost disclosures must include a payment summary in the form of a table stating the initial rate and corresponding periodic payment and, for adjustable rate loans, the maximum rate and payment that can occur during the first five years as well as a "worst case" example showing the maximum rate and payment possible over the life of the loan.

This interim rule clarifies that creditors' disclosure should reflect the first rate adjustment for a "5/1 ARM" loan because the new rate typically becomes effective within 5 years after the first regular payment due date. Today's interim rule also corrects the requirements for interest-only loans to clarify that creditors' disclosures should show the earliest date the consumer's interest rate can change rather than the due date for making the first payment under the new rate. The rule also clarifies which mortgage transactions are covered by the special disclosure requirements for loans that allow minimum payments that cause the loan balance to increase.

Creditors have the option of complying with either the Board's September 2010 interim rule as originally published or as revised by this interim rule until October 1, 2011, at which time compliance with this interim rule will become mandatory.

The interim rule has been published in the Federal Register and the Board is soliciting comments on it. All comments on the interim rule must be received by the Board on or before February 28, 2011.

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:

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Attachment: [Federal Register](#)