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Federal Reserve Issues Interim TILA (Regulation Z) Rule Revising Previous Interim Rule

On December 22, the Board of Governors of the Federal Reserve System approved an interim rule amending Regulation Z, which implements the Truth in Lending Act (TILA). The Board issued the interim rule "to clarify certain aspects of a September 24, 2010 interim rule," in response to public comments.

The September 2010 interim rule requires creditors who extend consumer credit secured by real property or a dwelling to disclose summary information about interest rates and payment changes in a tabular format. (The 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.)

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 five years after the first regular payment due date. The 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 Board is soliciting comment on the interim rule for 60 days after publication in the *Federal Register*.

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