REC'D IN RECORDS SECTION
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FEDERAL RESERVE press release

For immediate release

December 22, 1987

The Federal Reserve Board today issued for public comment proposed changes to its official staff commentary to Regulation Z, Truth in Lending. The proposed commentary interprets an amendment to Regulation Z that requires creditors to provide consumers with more information regarding closed-end variable-rate mortgage loans secured by the consumer's principal dwelling.

Comment is requested by January 29, 1988.

The Board's notice is attached.

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Attachment

FEDERAL RESERVE SYSTEM

12 CFR Part 226

[Reg. Z; Docket No. R-0545A]

Proposed Update to Official Staff Commentary

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed official staff interpretation.

SUMMARY: The Board is publishing for additional comment proposed changes to the official staff commentary to Regulation Z (Truth in Lending). The proposed commentary would offer guidance to creditors in complying with the provisions of an amendment to Regulation Z that is being published in final form in this issue of the *Federal Register*. The regulatory amendment requires creditors to provide more information to consumers about certain closed-end variable-rate loans than is currently required. The proposed commentary revisions include new material as well as numerous technical changes in existing material.

DATES: Comments must be received on or before January 29, 1988.

ADDRESSES: Comments should be mailed to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, Washington, D.C., 20551, or delivered to the 20th Street courtyard entrance, on 20th Street between C Street and Constitution Avenue, N.W., Washington, D.C., between 8:45 a.m. and 5:15 p.m. weekdays. Comments should include a reference to Docket No. R-0545A. Comments may be inspected in Room B-1122 between 8:45 a.m. and 5:15 p.m. weekdays.

FOR FURTHER INFORMATION: Contact Sharon T. Bowman or Thomas J. Noto, Staff Attorneys, or Michael S. Bylsma, Senior Attorney, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, Washington, D.C., 20551, (202) 452-3667. For the hearing impaired *only*, Telecommunication Device for the Deaf (TDD), contact Earnestine Hill or Dorothea Thompson at (202) 452-3544.

SUPPLEMENTARY INFORMATION: (1) ***Background.*** This proposed official staff interpretation is being published in conjunction with a final amendment to Regulation Z that is designed to provide more information to consumers about closed-end variable-rate transactions secured by a consumer's principal dwelling with a term greater than one year. The proposed commentary would apply and interpret the regulatory amendment. Proposed revisions to the commentary were originally published for public comment on November 24, 1986 (51 FR 42248), however to obtain as much input as possible on provisions that will interpret the regulatory amendment, the Board is publishing for

additional comment the proposed changes to the commentary. Following public comment, it is anticipated that commentary revisions will be adopted in final form with compliance optional until October 1, 1988.

The comment period for this proposal has been limited to 30 rather than the usual 60 days. The shorter comment period will ensure that final commentary provisions are in place as quickly as possible to assist creditors in complying with the new amendments to Regulation Z. The proposed revisions include material that was originally proposed for comment in November of 1986, with a few additions. Additional material is included, for example, regarding the definition of a variable-rate "program" and the treatment of discount features for disclosure purposes. The major revisions proposed for the commentary begin with comment 18(f)(2). Portions of existing commentary that would undergo only minor changes have been reprinted to assist commenters in understanding the proposed revisions.

(2) *Explanation of revisions*. The following is a brief description of the proposed revisions to the commentary:

SUBPART C -- CLOSED-END CREDIT

SECTION 226.17 - General Disclosure Requirements

17(a) Form of Disclosures

Paragraph 17(a)(1)

Comment 17(a)(1)-2 would be amended to clarify that the general segregation requirement in section 226.17(a) does not apply to the disclosures required under new sections 226.19(b) and 226.20(c). The information contained in the fifth bulleted paragraph under comment 17(a)(1)-5, which discusses disclosure of a variable-rate feature on other documents, would be deleted since similar information would be required under new paragraph (f)(2) of section 226.18. In addition, the ninth bulleted paragraph under comment 17(a)(1)-5, discussing negative amortization, would be revised to change the reference from section 226.18(f)(3) to new section 226.18(f)(1)(iii).

17(b) Time of Disclosures

Comment 17(b)-1 would be expanded by adding a reference to the timing requirements in new section 226.19(b) for variable-rate transactions secured by the consumer's principal dwelling with a term greater than one year. Comment 17(b)-2 would be amended by adding a reference to the timing rules for additional disclosures required upon the conversion of open-end transactions to certain closed-end variable-rate transactions.

17(c) Basis of Disclosures and Use of Estimates

Paragraph 17(c)(1)

The first bulleted paragraph in comment 17(c)(1)-2, discussing preferential employee rates, would be revised to change the reference from section 226.18(f) to section 226.19(b). This change would clarify that certain preferred-rate employee loans are variable-rate transactions subject to the disclosure requirements of new section 226.19(b). Material generally relating to the basis of disclosures for variable-rate transactions currently in the commentary to section 226.18(f) would be moved to the commentary to section 226.17(a)(1) and the material currently in the commentary to section 226.17(a)(1) would be reordered to accommodate this change. Comments 17(c)-8, -9 and -10, discussing graduated payment mortgages, Morris plans and number of transactions would be redesignated, respectively, as comments 17(c)-12, -14 and -15. Material currently contained in comments 18(f)-2 and -3, discussing the basis of disclosures and use of estimates for variable-rate transactions, would be added as comments 17(c)(1)-8 and -9. Comment 17(c)(1)-10 would incorporate material on discounted variable-rate transactions currently contained in comment 18(f)-8. Most of the material currently in comment 18(f)-6 relating to the basis of disclosure for certain variable-rate transactions would be incorporated in comment 17(c)(1)-11. Two parts of existing comment 18(f)-6 that do not relate to the basis of disclosure, namely the reference in the second bullet to the conditions for imposition of a shared-appreciation feature and the reference to the hypothetical example in the third bullet, would be deleted in the new comment 17(c)(1)-11. The material currently in comment 18(f)-7, discussing growth-equity mortgages, would be incorporated in new comment 17(c)(1)-13, although detailed discussion of the option of disclosing by analogy to variable-rate disclosures would be deleted in favor of a more general reference in the new comment 17(c)(1)-13.

17(f) Early Disclosures

As a result of the revisions to section 226.19 of the regulation, the reference in comment 17(f)-3 to section 226.19(b) would be revised to reference section 226.19(a)(2).

SECTION 226.18 - Content of Disclosures

18(f) Variable Rate

Comment 18(f)-1 would be expanded to explain whether paragraph (f)(1) or (f)(2) of section 226.18 applies to a particular variable-rate transaction. Comment 18(f)-1 would also indicate that variable-rate loans that are for a term longer than

one year and are secured by the consumer's principal dwelling are subject to the special early disclosure requirements of new section 226.19(b).

With minor changes, material relating to the basis of disclosures for variable-rate transactions would be moved to the commentary to section 226.17(c)(1). Consequently, comments 18(f)-2 and -3 and comments 18(f)-5 through -8 would be deleted. Present comment 18(f)-4 would be redesignated as comment 18(f)-2. The material currently in comments 18(f)-2 and -3 would be incorporated in comments 17(c)(1)-8 and -9, and the material currently in comments 18(f)-6, -7 and -8 would be incorporated, respectively, in comments 17(c)(1)-11, -13 and -12. The material currently in comment 18(f)-5 would be incorporated in the commentary to new section 226.19(b), which contains the new disclosure requirements. The material currently in comment 18(f)-6 would be incorporated in new comment 19(b)-4 to clarify that the designated transactions are subject to the general disclosure requirements of new section 226.19(b). The material currently in comment 18(f)-6 relating to the basis for disclosures would not be transferred to new comment 19(b)-4, since such information would be incorporated in comment 17(c)(1)-12.

The current headings referring to paragraphs 18(f)(1) through (4) would be changed to reference paragraphs 18(f)(1)(i) through (iv) to reflect the fact that current section 226.18(f) of the regulation has become section 226.18(f)(1).

Comment 18(f)(2)-1 would be added to clarify that where a variable-rate transaction is secured by the consumer's principal dwelling and has a term greater than one year, later Truth in Lending disclosures must state that the variable-rate feature exists and refer to the variable-rate disclosures provided earlier to the consumer under new section 226.19(b).

SECTION 226.19 - Certain Residential Mortgage Transactions

The title of this section of the commentary would be revised to read "Certain Residential Mortgage and Variable-Rate Transactions" to reflect the fact that section 226.19 of the regulation now incorporates disclosure provisions for variable-rate loans secured by the consumer's principal dwelling that have a term greater than one year.

19(a) Time of Disclosure

The current heading referring to 19(a) would be redesignated as 19(a)(1). Existing comments 19(a)-1 through 19(a)-5 would therefore become comments 19(a)(1)-1 through -5.

19(b) Redisclosure Required

The current heading referring to 19(b) would be redesignated as 19(a)(2). Existing comments 19(b)-1 through 19(b)-4 would therefore become comments 19(a)(2)-1 through -4.

Comment 19(b)-1 would be added to clarify that the new requirements of section 226.19(b) apply to all variable-rate transactions secured by the consumer's principal dwelling with a term greater than one year.

Comment 19(b)-2 would be added to explain the special timing rules under section 226.19(b) for cases where applications are received through an agent or broker or by telephone, as well as where open-end accounts convert, pursuant to a written agreement, to transactions subject to section 226.19(b).

Comment 19(b)-3 would incorporate material previously contained in comment 18(f)-5 to clarify that creditors may substitute information provided in accordance with the variable-rate regulations of other federal agencies for the disclosures required by section 226.19(b). The references to footnote 43 and section 226.18(f) in old comment 18(f)-5 would be revised to reference footnote 45a and section 226.19(b), respectively, in the new comment 19(b)-3.

Comment 19(b)-4 would incorporate, with some changes, material previously contained in comment 18(f)-6 to clarify that the designated transactions are subject to the general disclosure requirements of section 226.19(b). The last sentence in the first bullet under old comment 18(f)-6 referring to the disclosures that must be given for renegotiable rate mortgages would be deleted in the new comment 19(b)-4, as would the third and fourth sentences in the second bullet dealing with disclosures for shared-equity mortgages. The language in the third bullet under old comment 18(f)-6 would be revised in the new comment 19(b)-4 to take into account transactions where the initial underlying rate is fixed, and the reference to the hypothetical example in the last sentence would be deleted.

Paragraph 19(b)(1)

Comment 19(b)(1)-1 would be added to clarify what constitutes a suitable substitute for the *Consumer Handbook on Adjustable Rate Mortgages*.

Paragraph 19(b)(2)

Comment 19(b)(2)-1 would be added to explain that a creditor must provide disclosures for each of its variable-rate programs in which the consumer expresses an interest.

Comment 19(b)(2)-2 would be added to clarify what constitutes a separate loan program that would require separate program disclosures. Comment 19(b)(2)-3 would be added to clarify that the disclosures required under section 226.19(b)(2) need only be made as applicable, and comment 19(b)(2)-4 would be added to explain the circumstances under which a creditor must revise its loan program disclosures.

Comments to new section 226.19(b)(2)(i) through (xiv) would be added to clarify the requirements imposed by these paragraphs and to illustrate how a creditor may comply with the new provisions.

SECTION 226.20 - Subsequent Disclosure Requirements

20(a) Refinancings

Comment 20(a)-3 would be amended to clarify that the addition of a variable-rate feature to an obligation or an increase in the rate based on a previously undisclosed variable-rate feature are events requiring disclosures under new section 226.19(b)(2) if the variable-rate transaction is secured by the consumer's principal dwelling and has a term greater than one year. The comment explains that, in such cases, disclosures must be given at the time of the addition or increase.

20(b) Assumptions

Comment 20(b)-6 would be amended to provide that assumptions of variable-rate transactions secured by the consumer's principal dwelling with a term greater than one year may be disclosed in accordance with section 226.18(f)(2)(i) or section 226.18(f)(1).

20(c) Variable-Rate Adjustments

Comment 20(c)-1 would be added to explain what subsequent disclosures are required in cases where a rate adjustment is made in a variable-rate transaction subject to new section 226.19(b). Comment 20(c)-2 would clarify that shared-equity loans and preferred-rate employee loans with an underlying fixed rate would be exempt from the new subsequent disclosure requirements of section 226.20(c).

APPENDIX H - Closed-End Model Forms and Clauses

Commentary would be provided to interpret the new model clauses H-4(B) through H-4(D) in Appendix H of the regulation. These additions would be numbered as comments app. H-5 through -7. In addition, commentary describing new Sample H-14 would be added as comment app. H-18. Consequently, existing comments app.

H-5 through -14 would be renumbered as comments app. H-8 through -17 and existing comments app. H-16 through -20 would be renumbered as comments app. H-19 through -23.

List of Subjects in 12 CFR Part 226

Advertising; Banks; Banking; Consumer protection; Credit; Federal Reserve System; Finance; Penalties; Rate limitations; Truth in Lending.

Certain conventions have been used to highlight the proposed revisions. New language is shown inside arrows, while language that would be deleted is set off with brackets. Pursuant to authority granted in section 105 of the Truth in Lending Act (15 U.S.C. 1604 as amended), the Board proposes to amend the official staff commentary to Regulation Z (12 CFR Part 226 Supp. I) as follows:

(1) The authority citation for Part 226 continues to read: AUTHORITY: Sec. 105, Truth in Lending Act, as amended by sec. 605, Pub. L. 96-221, 94 Stat. 170 (15 U.S.C. 1604 *et seq.*); sec. 1204(c), Competitive Equality Banking Act, Pub. L. 100-86, 101 Stat. 552.

(2) *Text of proposed revisions.* The proposed revisions to the commentary (12 CFR Part 226 Supp. I) include revising comment 17(a)(1)-2; removing the information contained in the fifth bullet under comment 17(a)(1)-5 and changing the reference in the ninth bullet under this comment from section 226.18(f)(3) to section 226.18(f)(1)(iii); revising comment 17(b)-1; changing the reference in the first bullet under comment 17(c)(1)-2 from section 226.18(f) to section 226.19(b); redesignating existing comment 17(c)(1)-8 as comment 17(c)(1)-12; redesignating existing comments 17(c)(1)-9 and 17(c)(1)-10 as comments 17(c)(1)-14 and 17(c)(1)-15, respectively; adding new comments 17(c)(1)-8 through 17(c)(1)-11 and 17(c)(1)-13; changing the reference in comment 17(f)-3 from section 226.19(b) to section 226.19(a)(2); revising comment 18(f)-1; deleting comment 18(f)-2; redesignating existing comment 18(f)-4 as comment 18(f)-2; deleting comments 18(f)-3 through 18(f)-8; redesignating comments 18(f)(1)-1, 18(f)(2)-1, 18(f)(3)-1, 18(f)(4)-1 and 18(f)(4)-2 as comments 18(f)(1)(i)-1, 18(f)(1)(ii)-1, 18(f)(1)(iii)-1, 18(f)(1)(iv)-1, and 18(f)(1)(iv)-2, respectively; adding new comment 18(f)(2)-1; revising the title to the commentary to section 226.19; redesignating paragraphs 19(a) and 19(b) as paragraphs 19(a)(1) and 19(a)(2), respectively; redesignating comments 19(a)-1 through 19(a)-5 as comments 19(a)(1)-1 through 19(a)(1)-5 and comments 19(b)-1 through 19(b)-4 as 19(a)(2)-1 through 19(a)(2)-4; adding new comments 19(b)-1 through 19(b)(2)(xiv)-1; revising comment 20(a)-3; revising comment 20(b)-6 and adding comments 20(c)-1 and 20(c)-2; amending the commentary to Appendix

H by redesignating comments app. H-5 through app. H-20 as app. H-8 through H-23, adding new comments app. H-5 through app. H-7, and revising newly redesignated comment app. H-18, to read as follows:

SUPPLEMENT I -- OFFICIAL STAFF INTERPRETATION

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SECTION 226.17 -- General Disclosure Requirements

17(a) Form of Disclosures

Paragraph 17(a)(1)

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2. *Segregation of disclosures.* The disclosures may be grouped together and segregated from other information in a variety of ways. For example, the disclosures may appear on a separate sheet of paper or may be set off from other information on the contract or other documents:

- **By outlining them in a box**
- **By bold print dividing lines**
- **By a different color background**
- **By a different type style**

▸(The general segregation requirement described in this subparagraph does not apply to the disclosures required under sections 226.19(b) and 226.20(c) although the disclosures must be clear and conspicuous.)◂

* * * * *

5. *Directly related.* * * *

[• When a variable-rate feature is disclosed on other documents * * *.]

* * *

- **A brief reference to negative amortization in variable-rate transactions. For example, in the variable-rate disclosure, the creditor may include a short statement such as "Unpaid interest will be added to principal." (See the commentary to section [226.18(f)(3)] ▸226.18(f)(1)(iii)◂.)**

* * * * *

17(b) Time of Disclosures

1. *Consummation.* As a general rule, disclosures must be made before "consummation" of the transaction. The disclosures need not be given by any particular time before consummation, except in certain mortgage transactions ▸and variable-rate transactions secured by the consumer's principal dwelling with a term greater than one year◂ under section 226.19. (See the commentary to section 226.2(a)(13) regarding the definition of consummation.)

2. *Converting open-end to closed-end credit.* If an open-end credit account is converted to a closed-end transaction under a written agreement with the consumer, the creditor must provide a set of closed-end credit disclosures before consummation of the closed-end transaction. ▸(See the commentary to section 226.19(b)(2) for the timing rules for additional disclosures required upon the conversion to a variable-rate transaction secured by a consumer's principal dwelling with a term greater than one year.)◂ If consummation of the closed-end transaction occurs at the same time as the consumer enters into the open-end agreement, the closed-end credit disclosures may be given at the time of conversion. * * *

17(c) Basis of Disclosures and Use of Estimates

Paragraph 17(c)(1)

* * * * *

2. *Modification of obligation.* * * *

- If the creditor-employer offers a preferential employee rate, the disclosures should reflect the terms of the legal obligation. (See the commentary to section [226.18(f)] ▸226.19(b)◂ for an example of a preferred-rate employee transaction that is a variable-rate transaction.)

* * * * *

▸8. *Basis of disclosures in variable-rate transactions.* The disclosures for a variable-rate transaction must be given for the full term of the transaction and must be based on the terms in effect at the time of consummation. However, in a variable-rate transaction with either a seller buydown that is reflected in the credit contract or a consumer buydown, disclosures should not be based solely on the initial terms. In those transactions, the disclosed annual percentage rate should be a composite rate based on the lower rate for the buydown period and the rate that is the

basis of the variable-rate feature for the remainder of the term. (See the commentary to section 226.17(c) for a discussion of buydown transactions and the commentary to section 226.19(a)(2) for a discussion of the redisclosure of certain residential mortgage transactions with a variable-rate feature).

9. *Use of estimates in variable-rate transactions.* The variable-rate feature does not, by itself, make the disclosures estimates.

10. *Discounted variable-rate transactions.* In some variable-rate transactions, creditors may set an initial interest rate that is not determined by the index or formula used to make later interest rate adjustments. Typically, this initial rate charged to consumers is lower than the rate would be if it were calculated using the index or formula. However, in some cases the initial rate may be higher. In a discounted transaction, for example, a creditor may calculate interest rates according to a formula using the six-month Treasury bill rate plus a 2 percent margin. If the Treasury bill rate at consummation is 10 percent, the creditor may forgo the 2 percent spread and charge only 10 percent for a limited time, instead of setting an initial rate of 12 percent.

- When creditors use an initial interest rate that is not calculated using the index or formula for later rate adjustments, the disclosures should reflect a composite annual percentage rate based on the initial rate for as long as it is charged and, for the remainder of the term, the rate that would have been applied using the index or formula at the time of consummation. The rate at consummation need not be used if a contract provides for a delay in the implementation of changes in an index value. For example, if the contract specifies that rate changes are based on the index value in effect 45 days before the change date, creditors may use the index value in effect not more than 45 days before consummation in calculating a composite annual percentage rate.

- The effect of the multiple rates must also be reflected in the calculation and disclosure of the finance charge, total of payments, and payment schedule.

- If a loan contains a rate or payment cap that would prevent the initial rate or payment, at the time of the first adjustment, from changing to the rate determined by the index or formula at consummation, the effect of that rate or payment cap should be reflected in the disclosures.

- Because these transactions involve irregular payment amounts, an annual percentage rate tolerance of 1/4 of 1 percent applies, in accordance with section 226.22(a)(3) of the regulation.

- Examples of discounted variable-rate transactions include --

  - A 30-year loan for $100,000 with no prepaid finance charges and rates determined by the Treasury bill rate plus 2 percent. Rate and payment adjustments are made annually. Although the Treasury bill rate at the time of consummation is 10 percent, the creditor sets the interest rate for one year at 9 percent, instead of 12 percent according to the formula. The disclosures should reflect a composite annual percentage rate of 11.63 percent based on 9 percent for one year and 12 percent for 29 years. Reflecting those two rate levels, the payment schedule should show 12 payments of $804.62 and 348 payments of $1,025.31. The finance charge should be $266,463.32 and the total of payments $366,463.32.

  - Same loan as above, except with a 2 percent rate cap on periodic adjustments. The disclosures should reflect a composite annual percentage rate of 11.53 percent based on 9 percent for the first year, 11 percent for the second year, and 12 percent for the remaining 28 years. Reflecting those three rate levels, the payment schedule should show 12 payments of $804.62, 12 payments of $950.09, and 336 payments of $1,024.34. The finance charge should be $265,234.76, and the total of payments $365,234.76.

  - Same loan as above, except with a 7-1/2 percent cap on payment adjustments. The disclosures should reflect a composite annual percentage rate of 11.64 percent, based on 9 percent for one year and 12 percent for 29 years. Because of the payment cap, five levels of payment should be reflected. The payment schedule should show 12 payments of $804.62, 12 payments of $864.97, 12 payments of $929.86, 12 payments of $999.60, and 312 payments of $1,070.03. The finance charge should be $277,037.96, and the total of payments $377,037.96.

This paragraph does not apply to variable-rate loans in which the initial interest rate is set according to the index or formula used for later adjustments but is not set at the value of the index or formula at consummation. For example, if a creditor commits to an initial rate based on the formula on a date prior

to consummation, but the index has moved during the period between that time and consummation, a creditor should base its disclosures on the initial rate.

11. *Other variable-rate transactions.* Examples of variable-rate transactions include:

- Renegotiable rate mortgage instruments that involve a series of short-term loans secured by a long-term obligation, where the lender is obligated to renew the short-term loans at the consumer's option. At the time of renewal, the lender has the option of increasing the interest rate. Disclosures must be given for the longer term of the obligation, with all disclosures calculated on the basis of the rate in effect at the time of consummation of the transaction.

- "Shared-equity" or "shared-appreciation" mortgages that have a fixed rate of interest and an appreciation share based on the consumer's equity in the mortgaged property. The appreciation share is payable in a lump sum at a specified time. Disclosures must be based on the fixed interest rate. (As discussed in section 226.2, other types of shared-equity arrangements are not considered "credit" and are not subject to Regulation Z.)

- Preferred-rate employee loans where the terms of the legal obligation provide that the rate will increase only if the employee leaves the employ of the creditor and the note reflects the preferred rate. The disclosures are to be based on that rate.

Graduated-payment mortgages and step-rate transactions without a variable-rate feature are not considered variable-rate transactions.◄

[8.] ►12.◄ *Graduated-payment adjustable-rate mortgages.* * * *

►13. *Growth-equity mortgages.* Also referred to as payment-escalated mortgages, these mortgage plans involve scheduled payment increases to prematurely amortize the loan. The initial payment amount is determined as for a long-term loan with a fixed interest rate. Payment increases are scheduled periodically, based on changes in an index. The larger payments result in accelerated amortization of the loan. In disclosing these mortgage plans, creditors may either:

- Estimate the amount of payment increases, based on the best information reasonably available; or

- Disclose by analogy to the variable-rate disclosures in section 226.18(f)(1).

(This discussion does not apply to growth-equity mortgages in which the amount of payment increases can be accurately determined at the time of disclosure. For these mortgages, as for graduated-payment mortgages, disclosures should reflect the scheduled increases in payments.)◄

[9.] ►14.◄ *Morris Plan transactions.* * * *

[10.] ►15.◄ *Number of transactions.* * * *

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17(f) Early Disclosures

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3. *Content of new disclosures.* If redisclosure is required, the creditor has the option of either providing a complete set of new disclosures, or providing disclosures of only the terms that vary from those originally disclosed. (See the commentary to section [226.19(b)] ►226.19(a)(2)◄.)

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SECTION 226.18 -- Content of Disclosures

* * * * *

18(f) Variable Rate

1. *Coverage.* The requirements of section 226.18(f) apply to all transactions in which the terms of the legal obligation allow the creditor to increase the rate originally disclosed to the consumer. It includes not only increases in the interest rate but also increases in other components, such as the rate of required credit life insurance. The provisions, however, do not apply to increases resulting from delinquency (including late payment), default, assumption, acceleration or transfer of the collateral. ►Section 226.18(f)(1) applies to variable-rate transactions that are not secured by the consumer's principal dwelling and to those that are secured by the principal dwelling but have a term of one year or less. Section 226.18(f)(2) applies to variable-rate transactions that are secured by the consumer's principal dwelling and have a term greater than one year. Moreover, transactions subject to section 226.18(f)(2) are subject to the special early disclosure requirements of section 226.19(b). Creditors are permitted under footnote 43 to substitute in any variable-rate transaction the disclosures

required under section 226.19(b) for those disclosures ordinarily required under section 226.18(f)(1). Creditors who provide variable-rate disclosures under section 226.19(b) must comply with all of the requirements of that section, including the timing of disclosures, and must also provide the disclosures required under section 226.18(f)(2). Creditors utilizing footnote 43 may, but need not, also provide disclosures pursuant to section 226.20(c). (Substitution of disclosures under section 226.18(f)(1) in transactions subject to section 226.19(b) is not permitted under the footnote.)◄

[2. *Basis for disclosures.* * * *]

[3. *Use of estimates.* * * *]

[4.] ►2.◄ *Terms used in disclosure.* * * *

[5. *Other variable-rate regulations.* * * *]

[6. *Examples of variable-rate transactions.* * * *]

[7. *Growth equity mortgages.* * * *]

[8. *Discounted variable-rate transactions.* * * *]

Paragraph [18(f)(1)] ►*18(f)(1)(i)*◄

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Paragraph [18(f)(2)] ►*18(f)(1)(ii)*◄

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Paragraph [18(f)(3)] ►*18(f)(1)(iii)*◄

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Paragraph [18(f)(4)] ►*18(f)(1)(iv)*◄

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►*Paragraph 18(f)(2)*

1. *Disclosure required.* In a variable-rate transaction that is for a term greater than one year and is secured by the consumer's principal dwelling, the creditor must give special early disclosures under section 226.19(b) in addition to the later disclosures required under section 226.18(f)(2). The disclosures under section 226.18(f)(2) must state that the variable-rate feature exists and that variable-rate disclosures have been provided earlier.◄

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SECTION 226.19 -- Certain Residential Mortgage ▸and Variable-Rate◂ Transactions

[19(a) Time of Disclosure]

▸*19(a)(1) Time of Disclosure*◂

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[19(b) Redisclosure Required]

▸*19(a)(2) Redisclosure Required*◂

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▸19(b) Certain Variable-Rate Transactions

1. *Coverage.* Section 226.19(b) applies to all closed-end variable-rate transactions that are secured by the consumer's principal dwelling and have a term greater than one year. The requirements of this section apply not only to transactions financing the initial acquisition of the consumer's principal dwelling, but also to any other closed-end variable-rate transaction secured by the principal dwelling. Closed-end variable-rate transactions that are not secured by the principal dwelling, or are secured by the principal dwelling but have a term of one year or less are subject to the disclosure requirements of section 226.18(f)(1) rather than those of section 226.19(b).

2. *Timing.* A creditor must give the disclosures required under this section at the time an application form is provided or before the consumer pays a non-refundable fee, whichever is earlier. In cases where a creditor receives a written application through an intermediary agent or broker, however, footnote 45b provides a substitute timing rule requiring the creditor to deliver the disclosures or place them in the mail not later than three business days after the creditor receives the consumer's written application. This three-day rule also applies where the creditor takes an application over the telephone. If, however, the consumer merely requests an application over the telephone, the creditor must include the early disclosures required under this section with the application that is sent to the consumer. In cases where the creditor solicits applications through the mail, the creditor must also send the disclosures required under this section if an application form is included with the solicitation. In cases where an open-end credit account is converted to a closed-end transaction subject to this section under a written agreement with the consumer, disclosures under

this section should be given at the time of conversion. (See the commentary to section 226.20(a) for information on the timing requirements for section 226.19(b)(2) disclosures when a variable-rate feature is later added to a transaction.)

3. *Other variable-rate regulations.* Transactions in which the creditor is required to comply with and has complied with the disclosure requirements of the variable-rate regulations of other federal agencies are exempt from the requirements of section 226.19(b), by virtue of footnote 45a. Those variable-rate regulations include the regulations issued by the Federal Home Loan Bank Board and those issued by the Department of Housing and Urban Development. The exception in footnote 45a is also available to creditors that are required by state law to comply with the federal variable-rate regulations noted above and to creditors that are authorized by title VIII of the Depository Institutions Act of 1982 (12 U.S.C. § 3801 *et seq.*) to make loans in accordance with those regulations. Creditors using this exception should comply with the timing requirements of those regulations, if they differ, rather than the timing requirements of Regulation Z in making the variable-rate disclosures.

4. *Examples of variable-rate transactions.* The following transactions, if they are for a term greater than one year and are secured by the consumer's principal dwelling, constitute variable-rate transactions subject to the disclosure requirements of section 226.19(b). (If these variable-rate transactions either are not secured by the consumer's principal dwelling, or have a term of one year or less, section 226.18(f)(1) applies rather than section 226.19(b).)

- Renegotiable rate mortgage instruments that involve a series of short-term loans secured by a long-term obligation, where the lender is obligated to renew the short-term loans at the consumer's option. At the time of renewal, the lender has the option of increasing the interest rate.

- Shared-equity" or "shared-appreciation" mortgages that have a fixed rate of interest and an appreciation share based on the consumer's equity in the mortgaged property. The appreciation share is payable in a lump sum at a specified time. The requirements of section 226.19(b)(2)(iv), (v), (viii), (ix), (x), and (xii) do not apply to shared-equity mortgages, however. (As discussed in section 226.2, other types of shared-equity arrangements are not considered "credit" and are not subject to Regulation Z.)

- Preferred-rate employee loans where the terms of

legal obligation provide that the initial underlying rate is fixed, but will increase if the employee leaves the employ of the creditor, and the note reflects the preferred rate. The disclosures under section 226.19(b)(2)(v), (viii), (ix), (x), (xii), and (xiii) do not apply to such loans.

Graduated-payment mortgages and step-rate transactions without a variable-rate feature are not considered variable-rate transactions.

Paragraph 19(b)(1)

1. *Substitutes.* Creditors who wish to use publications other than the *Consumer Handbook on Adjustable Rate Mortgages* must make a good faith determination that their brochures are suitable substitutes to the *Consumer Handbook*. A substitute is suitable if it is, at a minimum, comparable to the *Consumer Handbook* in substance and comprehensiveness. Creditors are permitted to provide more detailed information than is contained in the *Consumer Handbook*.

Paragraph 19(b)(2)

1. *Disclosure for each variable-rate program.* In variable-rate transactions subject to section 226.19(b) requirements, a creditor must provide disclosures that fully describe each of the creditor's variable-rate loan programs in which the consumer expresses an interest at the time an application form is provided or before the consumer pays a non-refundable fee, whichever is earlier. Moreover, if a consumer requests disclosures for other closed-end variable-rate programs subject to section 226.19(b), a creditor must provide disclosures for as many other of its programs as the consumer requests. The creditor, of course, is permitted to give the consumer information about all of its programs subject to section 226.19(b) initially. In addition, these disclosures may be inserted in the *Consumer Handbook* (or a suitable substitute) as long as they are identified as the creditor's loan program disclosures.

2. *Variable-rate loan program defined.* If the identification, the presence or absence, or the exact value of a loan feature must be disclosed under this section, variable-rate loans that differ as to such features constitute separate loan programs. For example, separate loan program disclosures would be required based on differences in any of the following loan features:

- The index or other formula used to calculate interest rate adjustments
- The rules relating to changes in the index,

interest rate, payments, and loan balance

- The presence or absence of, and the amount of, rate or payment caps
- The presence of a balloon or a demand feature
- The possibility of negative amortization
- The possibility of interest rate carryover
- The frequency of interest rate and payment adjustments
- The presence of a discount feature

In addition, if a loan feature must be taken into account in preparing the disclosure required by section 226.19(b)(2)(ix), variable-rate loans that differ as to that feature constitute separate programs and require separate loan program disclosures under section 226.19(b)(2). If, however, a representative value may be given for a loan feature or the feature need not be disclosed under section 226.19(b)(2), variable-rate loans that differ as to such features do not constitute separate loan programs. For example, separate program disclosures would not be required based on differences in the following loan features:

- The amount of a discount
- The amount of a margin

3. *As applicable.* The disclosures required by this section need only be made as applicable. Any disclosure not relevant to a particular transaction may be eliminated. For example, if the transaction does not contain a demand feature, the disclosure required under section 226.19(b)(2)(xii) need not be given.

4. *Revisions.* A creditor must revise the disclosures required under this section once a year when the new index value becomes available. A change in the loan program, however, would require new disclosures.

Paragraph 19(b)(2)(i)

1. *Change in interest rate, payment, or term.* A creditor must disclose the fact that the terms of the legal obligation permit the creditor, after consummation of the transaction, to increase (or decrease) the interest rate, payment, or term of the loan initially disclosed to the consumer. For example, the disclosures for a variable-rate program in which the interest

rate and payment (but not loan term) can change might read, "Your interest rate and payment can change yearly."

Paragraph 19(b)(2)(ii)

1. *Identification of index or formula.* If a creditor ties interest rate changes to a particular index, this fact must be disclosed, along with a source of information about the index. For example, if a creditor uses the weekly average yield on U.S. Treasury Securities adjusted to a constant maturity as its index, the disclosure might read, "Your index is the weekly average yield on U.S. Treasury Securities adjusted to a constant maturity of one year published weekly in the *Wall Street Journal.*" If no particular index is used, the creditor must briefly describe the formula used to calculate interest rate changes.

2. *Changes at creditor's discretion.* If interest rate changes are at the creditor's discretion, this fact must be disclosed. If an index is internally defined, such as by a creditor's prime rate, the creditor should either briefly describe that index or state that interest rate changes are at the creditor's discretion.

Paragraph 19(b)(2)(iii)

1. *Determination of interest rate and payment.* This provision requires an explanation of how the creditor will determine the consumer's interest rate and payment. In cases where a creditor bases its interest rate on a specific index and adjusts the index through the addition of a margin, for example, the disclosure might read, "Your interest rate is based on the index plus a margin, and your payment will be based on the interest rate, loan balance, and remaining loan term."

Paragraph 19(b)(2)(iv)

1. *Current margin value and interest rate.* Because the disclosures can be prepared in advance, the interest rate and margin may be several months old when the disclosures are delivered. A statement, therefore, is required alerting consumers to the fact that they should inquire about the current margin value applied to the index and the current interest rate. For example, the disclosure might state, "You should ask us for our current interest rate and margin."

Paragraph 19(b)(2)(v)

1. *Discounted interest rate.* In some variable-rate transactions, creditors may set an initial interest rate that is not determined by the index or formula used to make later interest rate adjustments. Typically, this initial rate charged

to consumers is lower than the rate would be if it were calculated using the index or formula. However, in some cases the initial rate may be higher. If the initial interest rate contains a discount feature, creditors must alert the consumer to this fact. For example, if a creditor discounted a consumer's initial rate, the disclosure might state, "Your initial interest rate is not based on the index used to make later adjustments." (See the commentary to section 226.17(c)(1) for a further discussion of discounted variable-rate transactions.) In addition, the disclosure must suggest that consumers inquire about the amount that the program is currently discounted. For example, the disclosure might state, "Ask us for the amount our Adjustable Rate Mortgages are currently discounted." (See the commentary to section 226.19(b)(2)(viii) for a discussion of how to reflect the discount in the historical example.)

Paragraph 19(b)(2)(vi)

1. *Frequency.* The frequency of interest rate and payment adjustments must be disclosed. If interest rate changes will be imposed more frequently or at different intervals than payment changes, a creditor must reveal the frequency and timing of both types of changes. For example, in a variable-rate transaction where interest rate changes are made monthly, but payment changes occur on an annual basis, this fact must be disclosed.

Paragraph 19(b)(2)(vii)

1. *Rate and payment caps.* The creditor must disclose limits on changes (increases or decreases) in the interest rate or payment, although the absence of such limits need not be stated. If an initial discount is not taken into account in applying overall or periodic rate limitations, that fact must be disclosed. If separate overall or periodic limitations apply to interest rate increases resulting from other events, such as the exercise of a fixed-rate conversion option or leaving the creditor's employ, those limitations must also be stated. Limitations do not include legal limits in the nature of usury or rate ceilings under state or federal statutes or regulations. (See section 226.30 for the rule requiring that a maximum interest rate be included in certain variable-rate transactions.)

2. *Negative amortization and interest rate carryover.* A creditor must disclose, where applicable, the possibility of negative amortization. For example, the disclosure might state, "If any of your payments is not sufficient to cover the interest due, the difference will be added to your loan amount." In addition, the creditor must disclose the existence of any interest rate carryover provisions. Interest rate carryover exists when a change in the index rate that is not imposed at the time of an adjustment because, for example, it exceeds an

adjustment limitation, is carried over and incorporated into the calculation of future rate adjustments. For example, if the index rises 3 percentage points during the year, the loan contains a 2 percentage point cap on annual changes (increases or decreases) in the interest rate, and the creditor may impose the additional percentage point the following year, the creditor must disclose the fact that changes in the index will be carried over to subsequent interest rate adjustment dates. The disclosure might state, "Changes in the index not passed on as changes in the interest rate will be carried over to subsequent interest rate adjustment dates."

3. *Conversion option.* If a loan program permits consumers to convert their variable-rate loans to fixed-rate loans, the creditor must disclose that the interest rate may increase if the consumer converts the loan to a fixed-rate loan. The creditor must also disclose the rules relating to the conversion feature, such as the period during which the loan may be converted; any fee that may be charged at conversion; and how the fixed rate will be determined. The creditor should identify any index used and state the margin to be added to determine the fixed rate. (In disclosing the period during which the loan may be converted, the margin, and any fees to be charged at conversion, the creditor may use information applicable to the conversion feature during the six months preceding preparation of the disclosures. That information may be used until the program disclosures are otherwise updated.) Although the rules relating to the conversion option must be disclosed, the effect of exercising the option should not be reflected elsewhere in the disclosures, such as in the historical example or in the calculation of the initial and maximum interest rate and payments.

4. *Preferred-rate employee loans.* Section 226.19(b) applies to preferred-rate employee loans, where the rate will increase if the employee leaves the creditor's employ, whether or not the underlying rate is fixed or variable. In these transactions, the creditor must disclose that the rate may increase if the employee leaves the creditor's employ. The creditor must also disclose the rules relating to termination of the employee's preferred-rate, such as any fees that may be charged when the rate is changed and how the new rate will be determined.

Paragraph 19(b)(2)(viii)

1. *Index movement.* This section requires a creditor to provide an historical example, based on a $10,000 loan amount originating in 1977, showing how interest rate changes implemented according to the terms of the loan program would have affected payments and the loan balance at the end of each year during a 15-year period. (In all cases, the creditor need only calculate the payments and loan balance for the term of the loan. For example, in a five-

year loan, a creditor would show the payments and loan balance for the five-year term, from 1977 to 1981 with a zero loan balance reflected for 1981. For the remaining ten years, 1982-1991, the creditor need only show the remaining index values.) Pursuant to this section, the creditor must provide a history of index values for the preceding 15 years. Initially, the disclosures would give the index values from 1977 to the present. Each year thereafter, the revised program disclosures should include an additional year of index values until 15 years of values are shown. If the values for an index have not been available for 15 years, a creditor need only go back as far as the values are available in giving a history and payment example. In all cases, only one index value per year need be shown. Thus, in transactions where interest rate adjustments are implemented more frequently than once per year, a creditor may assume that the interest rate and payment resulting from the index value chosen will stay in effect for the entire year for purposes of calculating the loan balance as of the end of the year and for reflecting other loan program terms. If a creditor uses an average of index values or any other index formula, the history given should reflect those values. The creditor should select one date or, when an average of single values is used as an index, one period and should base the example on index values measured as of that same date or period for each year shown in the history. In cases where interest rate changes are at the creditor's discretion (see the commentary to section 226.19(b)(2)(ii)), the creditor must provide a history of the rates imposed for the preceding period, beginning with the initial history of rates starting in 1977. In giving this history, the creditor need only go back as far as the creditor's rates can reasonably be determined.

2. *Selection of margin.* For purposes of the disclosure required under section 226.19(b)(2)(viii), a creditor may select a margin that has been used during the six months preceding preparation of the disclosures, and should disclose that the margin is one that the creditor has used recently. The margin selected may be used until a creditor updates the disclosure form to reflect the most recent index values.

3. *Amount of discount.* For purposes of the disclosure required under section 226.19(b)(2)(viii), a creditor may select a discount (amount and term) that has been used during the six months preceding preparation of the disclosures, and should disclose that the discount is one that the creditor has used recently. The discount should be reflected in the historical example for as long as the discount is in effect. A creditor may assume that a discount has been in effect for a full year for purposes of reflecting the discount in the historical example.

Paragraph 19(b)(2)(ix)

1. *Calculation of payments.* A creditor is required to include a statement on the disclosure form that explains how a consumer may calculate his or her actual monthly payments for a loan amount other than $10,000. The example should be based upon the most recent payment shown in the historical example. The creditor, however, is not required to calculate the consumer's payments. (See the model clauses in Appendix H-4(C).)

Paragraph 19(b)(2)(x)

1. *Initial and maximum interest rate and payment.* The disclosure form must state the initial and maximum interest rates and payments for a $10,000 loan originated at the most recent interest rate (index value plus margin) shown in the historical example. In calculating the maximum payments under this paragraph, a creditor should assume that the interest rate increases as rapidly as possible under the loan program, and the maximum payment disclosed should reflect the amortization of the loan during this period. Thus, in a loan with 2 percentage point annual (and 5 percentage point overall) interest rate limitations or "caps," the maximum interest rate would be 5 percentage points higher than the most recent rate shown in the historical example. Moreover, the loan would not reach the maximum interest rate until the fourth year because of the 2 percentage point annual rate limitations, and the maximum payment disclosed would reflect the amortization of the loan during this period. If the loan program includes a discounted initial interest rate, the most recent rate shown in the historical example should be discounted by the amount of the discount reflected elsewhere in the disclosure for purposes of calculating the initial and maximum interest rates and payments. If a discount is reflected, the disclosure of the initial and maximum rates and payments should state the amount by which the most recent rate has been discounted. (See comment 19(b)(2)(viii)-3 regarding disclosure of the amount of a discount.)

Paragraph 19(b)(2)(xi)

1. *Demand feature.* If a variable-rate loan subject to section 226.19(b) requirements contains a demand feature, this fact must be disclosed. (Pursuant to section 226.18(i), creditors would also disclose the demand feature in the standard disclosures given later.)

Paragraph 19(b)(2)(xii)

1. *Adjustment notices.* A creditor must disclose to the consumer the type of information that will be contained in subsequert notices of adjustments and when such notices will be provided. (See section 226.20(c) regarding notices of adjustments.) For example, in transactions providing that payment adjustments may

accompany each interest rate adjustment, the disclosure might state, "You will be notified at least 25, but no more than 120, days before the due date of a payment at a new level. This notice will contain information about the index and interest rates, payment amount, and loan balance." In transactions where there may be interest rate adjustments without accompanying payment adjustments in a year, the disclosure might read, "You will be notified once each year during which interest rate adjustments, but no payment adjustments, have been made to your loan. This notice will contain information about the index and interest rates, payment amount, and loan balance."

Paragraph 19(b)(2)(xiii)

1. *Multiple loan programs.* A creditor that offers multiple variable-rate loan programs is required to have disclosures for each variable-rate loan program subject to section 226.19(b)(2). The creditor must inform the consumer that other closed-end variable-rate programs exist, and that disclosure forms are available for these additional loan programs. For example, the disclosure form might state, "Information on other Adjustable Rate Mortgage programs is available upon request."◄

SECTION 226.20 -- Subsequent Disclosure Requirements

20(a) Refinancings

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3. *Variable rate.* If a variable-rate feature was properly disclosed under the regulation, a rate change in accord with those disclosures is not a refinancing. For example, a renegotiable rate mortgage that was disclosed as a variable-rate transaction is not subject to new disclosure requirements when the variable-rate feature is invoked. However, even if it is not accomplished by the cancellation of the old obligation and substitution of a new one, a new transaction subject to new disclosures results if the creditor either:

- Increases the rate based on a variable-rate feature that was not previously disclosed, or
- Adds a variable-rate feature to the obligation.

►If either of these two events occurs in a variable-rate transaction secured by a principal dwelling with a term longer than one year, the disclosures required under section 226.19(b)(2) also must be given at that time.◄

* * * * *

20(b) Assumptions

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6. *Disclosures.* For transactions that are assumptions within this provision, the creditor must make disclosures based on the "remaining obligation." For example:

* * *

If a transaction involves add-on or discount finance charges, the creditor may make abbreviated disclosures, as outlined in section 226.20(b)(1) through (5). ▸Creditors providing disclosures pursuant to this section for assumptions of variable-rate transactions secured by the consumer's principal dwelling with a term longer than one year need not provide new disclosures under sections 226.18(f)(2)(ii) or 226.19(b) or periodic notices under section 226.20(c). Alternatively, a creditor may disclose the variable-rate feature of such a transaction solely in accordance with section 226.18(f)(1).◂

* * * * *

▸20(c) Variable-Rate Adjustments

1. *Timing and content of adjustment notices.* This section requires a creditor to provide certain disclosures in cases where an adjustment to the interest rate is made in a variable-rate transaction subject to section 226.19(b). There are two timing rules, depending on whether payment changes may accompany interest rate changes. In transactions where the interest rate may be adjusted more frequently than the payment, a creditor is required to send at least one notice each year during which interest rate adjustments have occurred without accompanying payment adjustments. In transactions providing for payment adjustments to accompany interest rate adjustments, a creditor must deliver or place in the mail notices to borrowers at least 25, but not more than 120, calendar days before a payment at a new level is due. In all cases, the disclosure must include, as applicable, the new payment amount, the current and prior interest and index rates and the loan balance, and must notify the consumer of the extent to which any increase in the interest rate has been foregone. The disclosure must also state the payment that would be required to fully amortize the loan if this amount is different from the payment already disclosed. (In cases where an open-end account is converted to a transaction subject to section 226.19(b), the requirements of this section do not apply until adjustments are made following conversion.)

2. *Exceptions.* Section 226.20(c) does not apply to shared-equity loans and preferred-rate employee loans with an underlying fixed rate.◄

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APPENDIX H - Closed-End Model Forms and Clauses

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4. *Model H-4►(A)◄.* * * *

5. ►*Model H-4(B).* This model clause illustrates the variable rate disclosure required under section 226.18(f)(2), which would alert consumers to the fact that the transaction contains a variable-rate feature and that earlier disclosures were provided under section 226.19(b) in cases where the variable-rate transaction is secured by the consumer's principal dwelling with a term greater than one year.◄

6. ►*Model H-4(C).* This model clause illustrates the early disclosures required generally under section 226.19(b) when the variable-rate transaction is secured by the consumer's principal dwelling and is for a term greater than one year. It includes information on how the consumer's interest rate is determined and how it can change over the term of the loan, and explains changes that may occur in the borrower's monthly payment. The model clause also contains an example of how to disclose historical changes in the index or formula values used to compute interest rates for the preceding 15 years. In addition, the model clause illustrates the disclosure of the initial and maximum interest rates and payments for a loan originated at the most recent rate shown in the historical example.◄

7. ►*Model H-4(D).* This model clause illustrates the adjustment notice required under section 226.20(c), and provides examples of payment change notices and annual notices of interest rate changes.◄

[5.] ►8.◄ *Model H-5.* * * *

[6.] ►9.◄ *Model H-6.* * * *

[7.] ►10.◄ *Model H-7.* * * *

[8.] ►11.◄ *Models H-8 and H-9.* * * *

[9.] ►12.◄ *Sample forms.* * * *

[10.] ►13.◄ *Sample H-10.* * * *

[11.] ▸14.◂ *Sample H-11.* * * *

[12.] ▸15.◂ *Sample H-12.* * * *

[13.] ▸16.◂ *Samples H-13 through H-15.* * * *

[14.] ▸17.◂ *Sample H-13.* * * *

18. ▸*Sample H-14.* This sample disclosure form illustrates the disclosures under section 226.19(b) for a variable-rate transaction secured by the consumer's principal dwelling with a term greater than one year. The sample form shows a creditor how to adapt the model clauses in Appendix H-4(C) to the creditor's own particular variable-rate program. The sample disclosure form describes the features of a specific variable-rate mortgage program and alerts the consumer to the fact that information on the creditor's other closed-end variable-rate programs is available upon request. It includes information on how the interest rate is determined and how it can change over time, and explains how the monthly payment can change based on a $10,000 loan amount, payable in 360 monthly installments, based on historical changes in the values for the weekly average yield on U.S. Treasury Securities adjusted to a constant maturity of one year. Index values are measured as of the first week ending in July for the years 1977 through 1987. This reflects the requirement that the index history be based on values for the same date or period each year beginning with index values for 1977. The index history in 1988 would contain fewer than 15 years of index values. In making these disclosures in 1992, however, a creditor would need to show a full 15-year index history. In 1993, the index history would cover the years 1978 through 1992. The sample disclosure also illustrates the requirement under section 226.19(b)(2)(x) that the initial and the maximum interest rates and payments be shown for a $10,000 loan originated at the most recent rate shown in the historical example. In the sample, the loan is assumed to have an initial interest rate of 9.71% (which was the interest rate in 1987 for the example shown) and to have 2 percentage point annual (and 5 percentage point overall) interest rate limitations or caps. Thus, the maximum amount that the interest rate could rise under this program is 5 percentage points higher than the 9.71% initial rate to 14.71%, and the monthly payment could rise from $85.62 to a maximum of $123.31. The loan would not reach the maximum interest rate until its fourth year because of the 2 percentage point annual rate limitations, and the maximum payment disclosed would reflect the amortization of the loan during that period. The sample form also illustrates how to provide consumers with a method for calculating their actual monthly payment for a loan amount other than $10,000.◂

[16.] ▸19.◂ *Sample H-15.* * * *

[17.] ▶20.◀ *HRSA-500-1 9-82.* * * *

[18.] ▶21.◀ *HRSA-500-2 9-82.* * * *

[19.] ▶22.◀ *HRSA-502-1 9-82.* * * *

[20.] ▶23.◀ *HRSA-502-2 9-82.* * * *

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Board of Governors of the Federal Reserve System, December 21, 1987.

William W. Wiles
Secretary of the Board