

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 78-138

October 3, 1978

REGULATION Z--PROPOSED OFFICIAL STAFF INTERPRETATION

Computation of Annual Percentage Rates
For HUD/FHA Section 245 Graduated Payment Mortgages

TO ALL MEMBER BANKS
AND OTHERS CONCERNED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

The Board of Governors of the Federal Reserve System has published for comment a proposed official staff interpretation approving the use of certain tables and accompanying instructions prepared by the U.S. Department of Housing and Urban Development. These tables are intended for use in computing the annual percentage rate on graduated payment mortgages under the HUD/FHA Section 245 Experimental Financing Program.

A copy of the proposed interpretation is printed on the reverse of this circular. However, we have not attached copies of the tables themselves. These tables may be found in the *Federal Register*, Volume 43, No. 182--Tuesday, September 19, 1978, pages 41995 through 42015. If you are unable to locate a *Federal Register*, copies of the tables are available through our Consumer Affairs unit.

Comments on the proposed interpretation should be addressed to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. Comments must be received on or before October 19, 1978, and should include reference to FC-0154.

Any questions on the above interpretation may be directed to our Consumer Affairs unit at Ext. 6171.

Sincerely yours,

Robert H. Boykin

First Vice President

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-492-4403 (intrastate) and 1-800-527-4970 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

FOR FURTHER INFORMATION CONTACT:

Glenn E. Loney, Section Chief, Division of Consumer Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, 202-452-3867.

SUPPLEMENTARY INFORMATION:

(1) In order to assist in the computation of annual percentage rates in graduated payment mortgages made under the HUD/FHA section 245 Experimental Financing Program, the Board staff proposes to approve use of tables and accompanying instructions prepared by the Actuarial Division of the U.S. Department of Housing and Urban Development.

The Board staff has reviewed the tables and instructions prepared by HUD and has determined that they yield accurate annual percentage rates. The staff would appreciate any comments the public might have on this matter, particularly regarding whether the instructions and tables, which are attached to the proposed official staff interpretation, are clear, understandable, and easy to use.

(2) To aid in the consideration of this matter, interested persons are invited to submit relevant data, comments or arguments. All such materials should be submitted in writing to Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, and should be received not later than October 19, 1978. Such information will be made available for inspection and copying upon request, except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information (12 CFR 261.6(a)).

(3) Pursuant to the authority granted in 15 U.S.C. 1640(f), the Board staff proposes to issue the following official staff interpretation:

Mr. CHESTER C. FOSTER,
Acting Director, Actuarial Division, Department of Housing and Urban Development, Washington, D.C.

DEAR Mr. FOSTER: This letter is in response to our recent correspondence and conversations concerning proper computation of the annual percentage rate for graduated payment mortgages made under the Department of Housing and Urban Development's FHA Section 245 Experimental Financing Program. You have requested that the Board staff review and verify that the attached tables, when used in accordance with the attached instructions, yield an accurate annual percentage rate for purposes of Regulation Z.

The staff has reviewed the attached materials and concludes that, subject to the limitations set forth below, use of the tables in accordance with the instructions which accompany them results in an accurate annual percentage rate.

It should be noted that this approach may be used only when the first payment period, i.e., the period from the date on which the finance charge begins to accrue to the date of the first payment, falls within the ranges

describe in the minor irregularities provisions of Regulation Z, § 226.5(d) and Interpretation § 226.503. This means that the first payment must be due not more than 62 days after consummation of the loan in order for use of the tables to yield an accurate annual percentage rate. Use of this method also presumes that the monthly payments have been properly calculated using HUD Handbook 4240.2, dated October 27, 1976. Finally, we note that these tables and instructions cannot be used for graduated payment plans involving private mortgage insurance premiums, unless such insurance premiums are computed in the same manner as the FHA mortgage insurance premiums involved in the Section 245 Graduated Payment Mortgage program.

This is an official staff interpretation of Regulation Z, issued in accordance with § 226.1(d)(2) of the regulation, and it is strictly limited to the situation discussed herein.

Sincerely,

NATHANIEL E. BUTLER,
Associate Director.

Board of Governors of the Federal Reserve System, September 5, 1978.

GRIFFITH L. GARWOOD,
Deputy Secretary of the Board.

Extract From
Federal Register
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Tuesday, September 19, 1978
p. 41993

[6210-01]

FEDERAL RESERVE SYSTEM

[12 CFR Part 226]

[Reg. Z; FC-0154]

COMPUTATION OF ANNUAL PERCENTAGE RATES FOR HUD/FHA SECTION 245 GRADUATED PAYMENT MORTGAGES

Proposed Official Staff Interpretation

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed official staff interpretation.

SUMMARY: The Board is publishing for comment a proposed official staff interpretation approving the use of certain tables and accompanying instructions prepared by the U.S. Department of Housing and Urban Development to be used to compute the annual percentage rate on graduated payment mortgages under the HUD/FHA section 245 Experimental Financing Program. The proposed interpretation is intended to assist in computation of the annual percentage rate in such mortgages.

DATE: Comments must be received on or before October 19, 1978.

ADDRESS: Comments including reference to FC-0154 to Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.