

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 80-148
July 30, 1980

AMENDMENT TO REGULATION Z

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

The Board of Governors of the Federal Reserve System has amended, effective August 1, 1980, its Regulation Z, "Truth in Lending", to increase the tolerance for accuracy in disclosure of the annual percentage rate in mortgage transactions involving irregular payments or advances.

The amendment allows for a tolerance on one half of one percentage point above or below the actual annual percentage rate in the case of irregular mortgage transactions, through March 31, 1981. After that date, the tolerance for accuracy reverts to the standard one eighth of one percentage point above or below the actual annual percentage rate generally allowable under Regulation Z. The additional tolerance is intended to give lenders the time to acquire the calculation tools needed to determine accurate annual percentage rates in complicated mortgages. The effect of the special rule would be to insulate temporarily those lenders from civil liability for errors within the expanded tolerance limits. An irregular mortgage transaction is one in which the annual percentage rate cannot be computed using Volume I of the Board of Governors' rate tables.

The amendment is more fully explained in the press release and Federal Register document enclosed. Any questions concerning Regulation Z should be directed to the Consumer Affairs Section of our Bank Supervision and Regulations Department, Ext. 6171.

Sincerely yours,

Robert H. Boykin

First Vice President

Enclosure (1)

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-442-7140 (intrastate) and 1-800-527-9200 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

FEDERAL RESERVE press release



For immediate release

July 24, 1980

The Federal Reserve Board today approved an amendment to Regulation Z -- Truth in Lending -- that increases the tolerance for accuracy in disclosure of the annual percentage rate in mortgage transactions involving irregular payments or advances.

The amendment is effective August 1.

The amendment allows for a tolerance of one half of one percentage point above or below the actual annual percentage rate in the case of irregular mortgage transactions, through March 31, 1981.

After that date, the tolerance for accuracy reverts to the standard one eighth of one percentage point above or below the actual annual percentage rate generally allowable under Regulation Z.

The Board's action put into effect a recommendation in the legislative history of the Truth in Lending Simplification and Reform Act, under which the Board is revising Regulation Z. The congressional Conference Report on which the Act is based suggested that the Board temporarily relax the rules for accuracy in disclosure of annual percentage rates with respect to irregular mortgage transactions.

These are defined in the amendment as real property transactions involving multiple advances (made, for example, in the course of construction financing) or irregular payment schedules other than the first payment period or the first or last payment amount (for example, loans

with mortgage insurance premiums that vary over the terms of the loan).
Further detail is provided in the attached notice.

The Board acted in the light of comment received on a proposal made last May to permit temporarily a more generous tolerance for error in the case of irregular mortgage transactions.

The temporary relaxation is intended to give mortgage lenders time to acquire and put into use calculation tools adequate to make the complex calculations required to determine accurately the annual percentage rate for complicated mortgages

The Board's notice in this matter is attached.

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FEDERAL RESERVE SYSTEM

12 CFR Part 226

[Reg. Z; Docket No. R-0295]

TRUTH IN LENDING

Increased Tolerance For Annual Percentage
Rates In Irregular Mortgage Transactions

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board is amending Regulation Z to increase the tolerance for accuracy in disclosing the annual percentage rate in irregular mortgage transactions to one-half of one percentage point. The more generous tolerance will be available only until March 31, 1981; after that date, the annual percentage rate for those transactions would have to meet the general standard of accuracy of one-eighth of one percentage point. This amendment follows the recommendation in the Conference Report on the recent Truth in Lending Simplification and Reform Act.

EFFECTIVE DATE: August 1, 1980.

FOR FURTHER INFORMATION CONTACT: Ellen Maland, Section Chief, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (202-452-3867).

SUPPLEMENTAL INFORMATION: The Truth in Lending Simplification and Reform Act (Title VI of Pub. L. 96-221, the Depository Institutions Deregulation and Monetary Control Act of 1980) was signed into law on March 31, 1980. The Conference Report (H.R. Rep. No. 96-842, 96th Cong., 2d Sess. 81 (1980)) on the act recommends that the Board consider a temporary relaxation of the rules for accuracy of annual percentage rates in irregular mortgage transactions. Under the general standard of accuracy for annual percentage rates in Regulation Z, the disclosed rate must be within one-eighth of one percentage point above or below the actual rate. The Conference Report suggests permitting a tolerance of up to one-half of one percentage point for complex mortgage transactions. This additional tolerance is intended to give lenders the time to acquire the calculation tools needed to determine accurate annual percentage rates in complicated mortgages. The effect of the special rule would be to insulate temporarily those lenders from civil liability for errors within the expanded tolerance limits.

The Board published this proposal for comment on May 20, 1980 (45 FR 33644) and received 73 comments. The majority of the comments supported adoption of the amendment as proposed. After full consideration of all the comments, the Board is now amending the annual percentage rate

provisions of Regulation Z to provide a greater tolerance for irregular mortgage transactions until March 31, 1981. The amendment permits a tolerance of one-half of one percentage point, thus allowing disclosure of an annual percentage rate for such a transaction to be considered accurate as long as it is within one-half of one percentage point above or below the actual rate. This tolerance for irregular mortgage transactions is in lieu of, not in addition to, the general one-eighth of one percentage point tolerance permitted in all transactions.

Irregular mortgage transactions are defined as those involving multiple advances or irregular payment schedules (other than an irregular first period or an irregular first or last payment amount). The annual percentage rate for this category of transactions cannot be determined by the use of Volume I of the Board's Annual Percentage Rate Tables. The category of irregular mortgage transactions includes, for example, construction financing involving multiple advances, loans with government or private mortgage insurance premiums that vary during the loan term, and graduated payment and step-rate mortgages.

The only change being made to the provision proposed in May is a clarification of the date that the provision expires. The more generous tolerance is available through March 31, 1981. Beginning on April 1, 1981, irregular mortgages transactions must meet the general standard of accuracy.

In consideration of the foregoing and pursuant to the authority granted in § 105 of the Truth in Lending Act (15 U.S.C. 1604, as amended), the Board amends § 226.5 of Regulation Z (12 CFR 226), effective August 1, 1980, by adding paragraph (d) to read as follows:

§ 226.5 Determination of annual percentage rate.

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(d) Special rule for irregular mortgage transactions. Notwithstanding any other provision in this section, the annual percentage rate in an irregular mortgage transaction shall be considered accurate if it is not more than one-half of one percentage point above or below the annual percentage rate determined in accordance with either the actuarial method or the United States Rule method. For the purpose of this paragraph, an irregular mortgage transaction is a real property transaction involving one or more of the following features: multiple advances, irregular payment periods (other than an irregular first period, as defined in footnote 5c), and irregular payment amounts (other than irregular first and last payment amounts). This paragraph shall cease to be effective on March 31, 1981, after which date the general standard of accuracy in paragraph (b) of this section shall apply.

By order of the Board of Governors, July 23, 1980.

Griffith L. Garwood
Deputy Secretary of the Board