

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 82-92  
August 12, 1982

REGULATION Z

Proposed Rule Change

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 proposed changes in its rules concerning the treatment of seller's points in Truth in Lending disclosures.

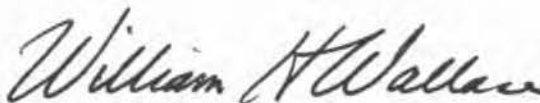
Attached is a copy of the Board's press release dated July 21, 1982. The full text of the proposed rule and proposed revisions to official staff commentary may be obtained, upon request, from this Bank's Department of Communications, Financial and Community Affairs.

Interested parties are invited to submit their comments to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C., 20551. All material submitted should refer to Docket No. R-0413, and must be received by August 27, 1982.

Questions regarding the proposed changes should be directed to Dean A. Pankonien in this Bank's Legal Department, Extension 6171.

Additional copies of this circular will be furnished upon request to the Department of Communications, Financial and Community Affairs, Extension 6289.

Sincerely yours,



William H. Wallace  
First Vice President

Attachment

---

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 21, 1982

The Federal Reserve Board today announced that it is seeking comment on possible changes in the Board's rules concerning ways to deal with seller's points -- reduced rate financing -- in Truth in Lending disclosures.

The Board requested comment by August 27, 1982.

In revising its Regulation Z (Truth in Lending) last year under the Truth in Lending Simplification and Reform Act, the Board decided, in the interests of providing simple and easily used rules, to exclude seller's points from the finance charge and annual percentage rate (APR) that must be disclosed in credit transactions.

Since then, many financing arrangements have been developed, at a time of unusually high interest rates, for offering consumers financing at rates below rates prevailing in the market. Two such plans are becoming increasingly common where lenders make direct loans to purchasers of homes or other items. One is a "seller's buydown", where a home seller pays an amount to a lender to secure for the buyer of the property a below-market financing rate for the first few years of a long-term mortgage. The other is the "zero percent mortgage rate", where the seller makes a payment to a lender to induce the lender to offer to finance a property without a stated interest rate. This generally calls for a large down payment and total payment within a relatively short time. In either case, the seller must either absorb the payment made to the lender (that is, reduce what the seller is prepared to accept for the property), or increase the price of the property.

If the cost of the property is increased to compensate the seller for the concessionary financing terms that the seller "buys" from the lender, a cost

(OVER)

of financing may occur that is not, under the present rules, reflected in the finance charge and APR disclosure. This may impair the buyer's ability to compare the actual purchase price and financing costs of different properties. Similarly, advertising of properties where such below-market financing arrangements are offered may be misleading.

The Board is therefore proposing two alternative methods for dealing with this problem under Regulation Z, and it requests comment on any other possible ways of dealing with seller's points. Both Board proposals would apply to disclosures given for loans to purchase homes or other property where reduced rate financing is involved. Both would apply to the advertising by sellers who provide reduced rate financing, when a rate of interest is advertised.

The proposed alternative changes are described in the attached portion of the Board's notice in this matter. The full notice may be obtained from the Board or from the Federal Reserve Banks.

It should be noted that the Board makes a number of specific requests for comment in the course of describing its proposals.

The Board is planning to make any change in its rules that it may adopt effective as early as feasible. However, the Board requested comment as to how much time would be necessary for creditors to change procedures and forms. The Board asked also whether a different effective date should apply to revised rules for the advertising of reduced rate financing plans.

Attachment