



FEDERAL RESERVE BANK
OF DALLAS

ROBERT D. McTEER, JR.
PRESIDENT
AND CHIEF EXECUTIVE OFFICER

March 5, 1996

DALLAS, TEXAS
75265-5906

Notice 96-26

TO: The Chief Executive Officer of each
member bank and others concerned in
the Eleventh Federal Reserve District

SUBJECT

Adjustment of Dollar Amount

DETAILS

The Board of Governors of the Federal Reserve System has published an adjustment of the dollar amount that triggers additional disclosure requirements under Truth in Lending for mortgage loans that bear fees above a certain amount.

The Home Ownership and Equity Protection Act of 1994 bars credit terms such as balloon payments and requires additional disclosures when total points and fees payable by the consumer exceeds \$400 or 8 percent of the total loan amount, whichever is larger. The Board must adjust this amount each year based on the percentage change in the Consumer Price Index as of June 1. The dollar amount has been adjusted from \$400 to \$412.

ATTACHMENT

A copy of the Board's notice as it appears on page 3177, Vol. 61, No. 21, of the *Federal Register* dated January 31, 1996, is attached.

MORE INFORMATION

For more information, please contact Eugene Coy at (214) 922-6201. For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 922-5254.

Sincerely yours,

Robert D. McTeer, Jr.

For additional copies, bankers and others are encouraged to use one of the following toll-free numbers in contacting the Federal Reserve Bank of Dallas: Dallas Office (800) 333-4460; El Paso Branch *Intrastate* (800) 592-1631, *Interstate* (800) 351-1012; Houston Branch *Intrastate* (800) 392-4162, *Interstate* (800) 221-0363; San Antonio Branch *Intrastate* (800) 292-5810.

SUPPLEMENTARY INFORMATION:**Background**

The Truth in Lending Act (TILA; 15 U.S.C. 1601—1666j) requires creditors to disclose credit terms and the cost of consumer credit as an annual percentage rate. The act requires additional disclosures for loans secured by a consumer's home, and permits consumers to cancel certain transactions that involve their principal dwelling. The TILA is implemented by the Board's Regulation Z (12 CFR part 226).

On March 24, 1995, the Board published amendments to Regulation Z implementing the Home Ownership and Equity Protection Act of 1994 (HOEPA), contained in the Riegle Community Development and Regulatory Improvement Act of 1994, Public Law 103-325, 108 Stat. 2160 (60 FR 15463). These amendments, which became effective on October 1, 1995, are contained in § 226.32 of the regulation and impose new disclosure requirements and substantive limitations on certain closed-end mortgage loans bearing rates or fees above a certain percentage or amount. Creditors are required to comply with the rules in § 226.32 if the total points and fees payable by the consumer at or before loan consummation exceed the greater of \$400 or 8 percent of the total loan amount. The TILA and § 226.32(a)(1)(ii) of Regulation Z provide that the \$400 figure shall be adjusted annually on January 1 by the annual percentage change in the Consumer Price Index (CPI) that was reported on the preceding June 1. See 15 U.S.C. 1602(aa).

The Bureau of Labor Statistics publishes consumer-based indices monthly, but does not "report" a CPI change on June 1; adjustments are reported in the middle of each month. The CPI-U is based on all urban consumers and represents approximately 80 percent of the U.S. population; the CPI-W is based on urban wage earners and clerical workers and represents about 30 percent of the population. The Board believes the index representing the broader population of U. S. consumers—the CPI-U—is the appropriate index to use in any adjustment to the \$400 dollar figure.

The adjustment to the \$400 dollar figure reflects the adjustment reported on May 15 (the rate "in effect" on June 1) which states the percentage increase from April 1994 to April 1995. During that period the CPI-U increased by 3.1 percent which would cause an adjustment of the \$400 to \$412.40. The

Board is rounding that number to whole dollars for ease of compliance.

Adjustment

Effective January 1, 1996, under § 226.32(a), a home mortgage loan is covered by § 226.32 if the total points and fees payable by the consumer at or before loan consummation exceed the greater of \$412 or 8 percent of the total loan amount. The adjustment will be codified in the official staff commentary to Regulation Z.

By order of the Board of Governors of the Federal Reserve System, January 25, 1995.

William W. Wiles,
Secretary of the Board.

[FR Doc. 96-1859 Filed 1-30-96; 8:45 am]

BILLING CODE 6210-01-P

FEDERAL RESERVE SYSTEM**12 CFR Part 226**

[Regulation Z; Docket No. R-0915]

Truth in Lending

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Notice of adjustment of dollar amount.

SUMMARY: The Board is publishing an adjustment to the dollar amount that triggers certain requirements of Regulation Z (Truth in Lending) for mortgages bearing fees above a certain amount. The Home Ownership and Equity Protection Act of 1994 sets forth rules for creditors offering home-secured loans with total points and fees payable by the consumer at or before loan consummation that exceed the greater of \$400 or 8 percent of the total loan amount. The Board is required to annually adjust the \$400 amount based on the annual percentage change in the Consumer Price Index as reported on June 1. The Board has adjusted the dollar amount from \$400 to \$412.

EFFECTIVE DATE: January 1, 1996.

FOR FURTHER INFORMATION CONTACT:

Michael Hentrel, Staff Attorney, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, at (202) 452-3667. For the users of Telecommunications Device for the Deaf only, please contact Dorothea Thompson at (202) 452-3544.