



FEDERAL RESERVE BANK
OF DALLAS

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

March 11, 1998

DALLAS, TEXAS
75265-5906

Notice 98-22

TO: The Chief Executive Officer of each
financial institution 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 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 home-secured loans in which 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 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 adjusted the \$400 amount to \$412 for 1996 and to \$424 for 1997. For 1998, the Board has adjusted the dollar amount from \$424 to \$435, effective January 1, 1998, through December 1998.

ATTACHMENT

A copy of the Board's notice as it appears on page 6474, Vol. 63, No. 26 of the *Federal Register* dated February 9, 1998, is attached.

MORE INFORMATION

For more information, please contact Peggy Atcher at (214) 922-6202. For additional copies of this Bank's notice, contact the Public Affairs Department at (214) 922-5254.

Sincerely yours,

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.

FEDERAL RESERVE SYSTEM**12 CFR Part 226****[Regulation Z; Docket No. R-0998]****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 home-secured loans in which 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 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 adjusted the \$400 amount to \$412 for 1996 and to \$424 for 1997. The Board has adjusted the dollar amount from \$424 to \$435 for 1998.

EFFECTIVE DATES: January 1, 1998 through December 31, 1998.**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 Diane Jenkins at (202) 452-3544.

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 additional disclosure requirements and substantive limitations on certain closed-end mortgage loans bearing rates or fees above a certain percentage or amount. As to fees, creditors are generally 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 (15 U.S.C. 1602(aa)(3)) 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.

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 Board believes the CPI-U index, which is based on all urban consumers and represents approximately 80 percent of the U.S. population, is the appropriate index to use in the adjustment to the \$400 dollar figure.

The adjustment to the \$400 dollar figure reflects the adjustment reported on May 15, 1997, the rate "in effect" on June 1, which states the percentage increase from April 1996 to April 1997. In 1995, the Board adjusted the \$400 amount to \$412 for 1996. Last year, the Board adjusted the \$400 amount from \$412 to \$424, reflecting a 2.9 percent increase in the CPI-U. During the period from April 1996 to April 1997, the CPI-U increased by 2.5 percent, bringing the adjusted amount to \$434.60. The Board is rounding that number to whole dollars for ease of compliance.

Adjustment

For the reasons set forth in the preamble, for purposes of determining whether a mortgage transaction is covered by § 226.32 (based on the total points and fees payable by the consumer at or before loan consummation), a loan is covered if the points and fees exceed the greater of \$435 or 8 percent of the total loan amount, effective January 1, 1998 through December 31, 1998.

By order of the Board of Governors of the Federal Reserve System, February 3, 1998.

William W. Wiles,*Secretary of the Board.*

[FR Doc. 98-3108 Filed 2-6-98; 8:45 am]

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