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

SUBJECT

Amendments to the Official Staff Commentary on Regulation Z (Truth in Lending)

DETAILS

The Board of Governors of the Federal Reserve System has published a final rule amending the staff commentary that interprets the requirements of Regulation Z (Truth in Lending). The Board is required to annually adjust the dollar amount that triggers requirements for certain mortgages bearing fees above a certain amount. The Home Ownership and Equity Protection Act of 1994 (HOEPA) 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.

In keeping with the statute, the Board has annually adjusted the $400 amount based on the annual percentage change reflected in the Consumer Price Index that is in effect on June 1. Effective January 1, 2003, the amount will be adjusted to $488.

ATTACHMENT

A copy of the Board’s notice as it appears on page 61769, Vol. 67, No. 191 of the Federal Register dated October 2, 2002, is attached.

MORE INFORMATION

For more information, please contact Eugene Coy, Banking Supervision Department, (214) 922-6201. Paper copies of this notice or previous Federal Reserve Bank notices can be printed from our web site at http://www.dallasfed.org/banking/notices/index.html.
FEDERAL RESERVE SYSTEM

12 CFR Part 226
[Regulation Z; Docket No. R–1130]

Truth in Lending

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule; staff commentary.

SUMMARY: The Board is publishing a final rule amending the staff commentary that interprets the requirements of Regulation Z (Truth in Lending). The Board is required to adjust annually the dollar amount that triggers requirements for certain mortgages bearing fees above a certain amount. The Home Ownership and Equity Protection Act of 1994 (HOEPA) 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. TILA and 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. (15 U.S.C. 1602(aa)(3) and 12 CFR 226.32(a)(1)(ii)). The Board adjusted the $400 amount to $480 for the year 2002.

As enacted, the statute requires creditors to comply with the HOEPA rules 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. TILA and 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. (15 U.S.C. 1602(aa)(3) and 12 CFR 226.32(a)(1)(ii)). The Board adjusted the $400 amount to $480 for the year 2002.

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 uses the CPI–U index, which is based on all urban consumers and represents approximately 80 percent of the U.S. population, as the index for adjusting the $400 dollar figure. The adjustment to the CPI–U index reported by the Bureau of Labor Statistics on May 15, 2002, was the CPI–U index “in effect” on June 1, and reflects the percentage increase from April 2001 to April 2002. The adjustment to the $400 figure below reflects a 1.64 percent increase in the CPI–U index for this period and is rounded to whole dollars for ease of compliance.

II. Adjustment and Commentary Revision

For the reasons set forth in the preamble, for purposes of determining whether a mortgage transaction is covered by 12 CFR 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 $480 or 8 percent of the total loan amount, effective January 1, 2003. Comment 32(a)(1)(ii)–2, which lists the adjustments for each year, is amended to reflect the dollar adjustment for 2003. Because the timing and method of the adjustment is set by statute, the Board finds that notice and public comment on the change are unnecessary.

III. Regulatory Flexibility Analysis

The Board certifies that this amendment will not have a substantial effect on regulated entities because the only change is to raise the threshold for transactions requiring HOEPA disclosures.

List of Subjects in 12 CFR Part 226

Advertising, Federal Reserve System, Mortgages, Reporting and recordkeeping requirements, Truth in lending.

For the reasons set forth in the preamble, the Board amends Regulation Z, 12 CFR part 226, as set forth below:

PART 226—TRUTH IN LENDING

(REGULATION Z)

1. The authority citation for part 226 continues to read as follows:


2. In Supplement I to part 226, under § 226.32 Requirements for certain closed-end home mortgages, under Paragraph 32(a)(1)(ii), paragraph 2.viii is added as follows:

SUPPLEMENT I TO PART 226—
OFFICIAL STAFF INTERPRETATIONS

* * * * *

Subpart E—Special Rules for Certain Home Mortgage Transactions

* * * * *

§ 226.32 Requirements for certain closed-end home mortgages.

32(a) Coverage

* * * * *

Paragraph 32(a)(1)(ii)

* * * * *

2. Annual adjustment of $400 amount.

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viii. For 2003, $488, reflecting a 1.64 percent increase in the CPI–U from June 2001 to June 2002, rounded to the nearest whole dollar.

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By order of the Board of Governors of the Federal Reserve System, acting through the Director of the Division of Consumer and Community Affairs under delegated authority, September 26, 2002.

Jennifer J. Johnson,
Secretary of the Board.

[FR Doc. 02–25037 Filed 10–1–02; 8:45 am]

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