

FEDERAL RESERVE BANK
OF NEW YORK

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NEW REGULATION C, ON HOME MORTGAGE DISCLOSURE

*To All Institutions That Will be Subject to the Home Mortgage Disclosure Act of 1975,
and Others Concerned, in the Second Federal Reserve District:*

Following is the text of a statement issued today by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today announced adoption of a new regulation to implement the Home Mortgage Disclosure Act of 1975.

The Act, and the new Regulation C implementing it, become effective June 28. The regulation was adopted substantially as proposed by the Board on March 29. A public hearing was held on April 22 and the Board received comments through May 3.

Regulation C requires lending institutions subject to the Act to disclose publicly where their mortgage loans are made. Depository institutions subject to the Act are those that have \$10 million or more in assets, that have offices in principal metropolitan areas (Standard Metropolitan Statistical Areas—SMSAs), that make first mortgage loans on one-to-four family residences and that are Federally insured or regulated. The Act defines depository institutions as commercial banks, savings banks, savings and loan associations, building and loan associations or homestead associations (including cooperative banks) and credit unions. Some 4,400 commercial banks, 3,000 savings and loan associations, 470 mutual savings banks and 600 credit unions will be affected.

The Home Mortgage Disclosure Act makes the Board responsible for writing a regulation to implement it. The regulation is to be enforced by the Board, the other Federal bank regulatory agencies, the Federal Home Loan Bank Board and the Administrator of the National Credit Union Administration.

The Home Mortgage Disclosure Act grew out of allegations that there are credit shortages in some parts of large urban areas. The Act, and Regulation C, specify that nothing in them is meant to encourage unsound lending practices or the allocation of credit.

The principal provisions of the proposed new regulation are:

- Designation of the mortgage loan information to be disclosed.
- A sample form, suggesting how required data may be reported.
- Establishment of procedures to be followed by State-chartered depository institutions seeking exemption from the Act.
- Requirements for reporting by geographic areas. Initial disclosure statements, for fiscal years ending before July 1, 1976, may be made by zip code. In general, loans originated or purchased after that date, on property in the areas where the lender has offices, must be reported by census tract.

The data to be disclosed are to be made available at lending institutions subject to the Act. Information to be disclosed includes the following:

- First mortgage loans to purchase residential property;
- Secured and unsecured home improvement loans.

The principal changes in the regulation from the earlier proposal as adopted, are:

- The definition of "mortgage loan" has been narrowed, to exclude junior liens (except for home improvement purposes) and first mortgages taken as additional collateral for business purposes.
- The deadline for the initial disclosures required by the regulation has been extended by one month, to September 30, to give adequate time after issuance of the regulation for lenders to prepare the required disclosure reports.
- A provision has been added to require lenders to notify their depositors as to when the mortgage disclosure statement of the institution is available, and to provide the name and address of the appropriate Federal enforcement agency.

The regulation defines a mortgage loan subject to disclosure as a "residential mortgage loan" or any "home improvement loan." A residential mortgage loan is described as a loan secured by a first mortgage on residential real property located in a State, the District of Columbia or Puerto Rico. A home improvement loan subject to disclosure under the regulation is an unsecured loan or a loan secured by collateral other than a first mortgage if the proceeds are to be used for residential repairs, rehabilitation or remodeling and is recorded on the lender's books as a home improvement loan.

As required by the Act, the regulation requires the breakdown of the disclosed mortgage loan information into two main categories and several classes under each main category.

The main categories are:

- (A) Loans made originally by the depository institution.
- (B) Loans originated by another institution but purchased by the depository institution.

Within each of these categories loan data is to be divided according to loans on property located within the SMSAs where the headquarters or branches of depository mortgage lenders are located and loans outside those SMSAs. In each case the following itemizations of information are to be made for loans on one-to-four family residences:

1. Loans insured or guaranteed by the Federal Housing Administration, the Veterans Administration and Farmers Home Administration.
2. Conventional mortgage loans.
3. Home improvement loans.

Loans on multifamily dwellings (more than four units) are to be reported separately.

When the property is located in an SMSA where the lender has offices, the lender is also required to indicate mortgage loans on one-to-four family residences made to borrowers who did not, at the time of execution of the mortgage, intend to live in the mortgaged residence.

To implement a further provision of the Act, the regulation requires, as a general rule, that mortgage loan disclosures on properties within SMSAs where the lender is headquartered or has a branch be itemized according to the census tract in which the property is located. However, in certain limited circumstances reporting by zip code is permissible. Loans on properties not located in SMSAs where the lender has an office will be reported but not itemized either by census tract or zip code.

A census tract is a small geographical territory, containing about 4,000 inhabitants into which counties in SMSAs have been divided for purposes of statistical analysis. Census tracts are laid out with the objective of achieving some uniformity of population characteristics and economic status.

On the basis of the 1970 census, the Census Bureau has issued a series entitled "1970 Census Population and Housing: Census Tracts, Final Reports/PHC(1) Series." This contains tract maps for every portion of all the SMSAs designated at that time and from some adjacent areas. Since 1970, the Office of Management and Budget of the White House has redefined many SMSAs and added others. Tract maps for the new or redefined SMSAs are readily available only to the extent they appear on the PHC(1) series of 1970.

The Board will make available, through the Board and Reserve Banks, a list of currently defined SMSAs showing portions for which census tract itemization would be required. The Board said it would inform lenders of future changes in SMSAs.

As provided by the regulation:

1. To determine if it is subject to the Act, an institution with more than \$10 million in assets should refer to currently designated SMSAs.
2. Institutions subject to the Act will determine if itemization by census tract is required by referring to the 1970 census tract series.
3. Loans in areas not included in the 1970 census tract series are to be itemized by zip code areas.

The regulation permits use of zip code itemization in *initial* disclosure statements for full fiscal years ending before July 1, 1976. In general, loans originated or purchased after that date, on property in areas where the lender has offices, must be reported by census tracts.

These provisions are intended to give institutions subject to the Act an opportunity to begin keeping a record of mortgage loans by census tract, before the loans must be reported in that way. They provide time for distribution of census tract maps and materials for converting street addresses to census tracts, and for computer programming and training personnel and are designed to reduce errors and reporting burdens.

For fiscal years ending by June 30, 1976, mortgage loan disclosure statements are due by September 30, 1976. Later year statements are due within 90 days after the end of the fiscal year. For fiscal years straddling June 30, 1976, reporting dates differ according to whether reporting is done by zip code or by census tract.

Complete mortgage loan data is to be made available at the home office of each institution subject to the Act. In addition, at least one branch office in each SMSA is required to make available mortgage loan data on properties located in that SMSA.

State chartered lenders, or a State, may apply to the Board for an exemption from Regulation C where State laws are substantially similar to Federal requirements.

As required by the Act, the Board will carry out a study to determine the feasibility and usefulness of requiring depository institutions outside SMSAs to make disclosures comparable to those under the regulation. To this end, the Board welcomes comment and data from lenders and from the public regarding the costs of compiling such information and itemization by zip code areas or census tracts; the number of requests received to inspect data or to make copies; the use made of the information by the public, and changes in lending practices that may have resulted from evaluation of the information.

The new Regulation C will be effective June 28, 1976. Copies of the pamphlet containing the text of the regulation will be sent to you shortly. Inquiries thereon may be directed to our Bank Regulations Department.

PAUL A. VOLCKER,
President.