

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 8890]
July 31, 1980]

TRUTH IN LENDING SIMPLIFICATION AND REFORM

Amendments to Regulation Z

*To All Banking Institutions, and Others Concerned,
in the Second Federal Reserve District:*

The Board of Governors of the Federal Reserve System has adopted an amendment, effective August 1, 1980, to its Regulation Z, "Truth in Lending," that increases the tolerance for accuracy in disclosure of the annual percentage rate in mortgage transactions involving irregular payments or advances.

The following is quoted from the text of the Board's announcement:

The amendment allows for a tolerance of one half of one percentage point above or below the actual annual percentage rate in the case of irregular mortgage transactions, through March 31, 1981.

After that date, the tolerance for accuracy reverts to the standard one eighth of one percentage point above or below the actual annual percentage rate generally allowable under Regulation Z.

The Board's action put into effect a recommendation in the legislative history of the Truth in Lending Simplification and Reform Act, under which the Board is revising Regulation Z. The congressional Conference Report on which the Act is based suggested that the Board temporarily relax the rules for accuracy in disclosure of annual percentage rates with respect to irregular mortgage transactions.

These are defined in the amendment as real property transactions involving multiple advances (made, for example, in the course of construction financing) or irregular payment schedules other than the first payment period or the first or last payment amount (for example, loans with mortgage insurance premiums that vary over the terms of the loan). Further detail is provided in the attached notice.

The Board acted in the light of comment received on a proposal made last May to permit temporarily a more generous tolerance for error in the case of irregular mortgage transactions.

The temporary relaxation is intended to give mortgage lenders time to acquire and put into use calculation tools adequate to make the complex calculations required to determine accurately the annual percentage rate for complicated mortgages.

Enclosed is a copy of the Board's official notice containing the text of the amendment. Also enclosed is a copy, in slip sheet form for those who have Regulations binders, of several earlier amendments to Regulation Z, effective May 21, 1980, the notice of which was sent to you with our Circular No. 8833, dated May 21, 1980. Questions regarding these matters may be directed to our Consumer Affairs and Bank Regulations Department (Tel. No. 212-791-5914).

ANTHONY M. SOLOMON,
President.

Board of Governors of the Federal Reserve System

TRUTH IN LENDING

Changes in Pamphlet, Dated March 1980, Containing Amendments to Regulation Z

1. Paragraph 21 (page 9) of the amendments pamphlet has been changed to read as follows:

† 21. Effective March 31, 1980, § 226.9(g)(6) and Interpretation § 226.904 are rescinded.

† The effective date of revocation has been deferred until the time the Board adopts a new open-end credit rescission provision as part of a revised Regulation Z under the Truth in Lending Simplification and Reform Act of 1980.

2. The following paragraphs (23, 24, and 25) are added to page 10 of the amendments pamphlet:

23. The effective date of the revocation of § 226.9(g)(6) and Interpretation § 226.904 has been deferred until the Board adopts a new open-end credit rescission provision as part of a revised Regulation Z under the Truth in Lending Simplification and Reform Act of 1980.

24. Effective May 21, 1980, § 226.3 (e) is amended by deleting the period at the end of the paragraph and inserting the following phrase:

“; and, at the creditor's option, any credit transaction primarily for agricultural purposes in which the amount financed does not exceed \$25,000.”

25. Effective May 21, 1980, § 226.8 is amended by deleting the catchline and text of paragraph (n), and inserting the following in its place:

“[Reserved.]”

3. The footnotes denoted by (†) on page 6 of the amendments pamphlet have been changed to read as follows:

† Will be rescinded effective at the time the Board adopts a new open-end credit rescission provision as part of a revised Regulation Z under the Truth in Lending Simplification and Reform Act of 1980.

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Board of Governors of the Federal Reserve System

TRUTH IN LENDING

AMENDMENT TO REGULATION Z

(effective August 1, 1980)

Increased Tolerance For Annual Percentage
Rates In Irregular Mortgage Transactions

[Reg. Z; Docket No. R-0295]

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board is amending Regulation Z to increase the tolerance for accuracy in disclosing the annual percentage rate in irregular mortgage transactions to one-half of one percentage point. The more generous tolerance will be available only until March 31, 1981; after that date, the annual percentage rate for those transactions would have to meet the general standard of accuracy of one-eighth of one percentage point. This amendment follows the recommendation in the Conference Report on the recent Truth in Lending Simplification and Reform Act.

EFFECTIVE DATE: August 1, 1980.

FOR FURTHER INFORMATION CONTACT: Ellen Maland, Section Chief, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (202-452-3867).

SUPPLEMENTAL INFORMATION: The Truth in Lending Simplification and Reform Act (Title VI of Pub. L. 96-221, the Depository Institutions Deregulation and Monetary Control Act of 1980) was signed into law on March 31, 1980. The Conference Report (H.R. Rep. No. 96-842, 96th Cong., 2d Sess. 81 (1980)) on the act recommends that the Board consider a temporary relaxation of the rules for accuracy of annual percentage rates in irregular mortgage transactions. Under the general standard of accuracy for annual percentage rates in Regulation Z, the disclosed rate must be within one-eighth of one percentage point above or below the actual rate. The Conference Report suggests permitting a tolerance of up to one-half of one percentage point for complex mortgage transactions. This additional tolerance is intended to give lenders the time to acquire the calculation tools needed to determine accurate annual percentage rates in complicated mortgages. The effect of the special rule would be to insulate temporarily those lenders from civil liability for errors within the expanded tolerance limits.

For Regulation Z to be complete, retain:

- 1) Regulation Z pamphlet, amended to March 23, 1977.
- 2) Technical corrections slip sheet, dated October 1978.
- 3) Amendments pamphlet, dated March 1980.
- 4) Changes in pamphlet containing amendments to Regulation Z, dated July 1980.
- 5) This slip sheet.

The Board published this proposal for comment on May 20, 1980 (45 FR 33644) and received 73 comments. The majority of the comments supported adoption of the amendment as proposed. After full consideration of all the comments, the Board is now amending the annual percentage rate provisions of Regulation Z to provide a greater tolerance for irregular mortgage transactions until March 31, 1981. The amendment permits a tolerance of one-half of one percentage point, thus allowing disclosure of an annual percentage rate for such a transaction to be considered accurate as long as it is within one-half of one percentage point above or below the actual rate. This tolerance for irregular mortgage transactions is in lieu of, not in addition to, the general one-eighth of one percentage point tolerance permitted in all transactions.

Irregular mortgage transactions are defined as those involving multiple advances or irregular payment schedules (other than an irregular first period or an irregular first or last payment amount). The annual percentage rate for this category of transactions cannot be determined by the use of Volume I of the Board's Annual Percentage Rate Tables. The category of irregular mortgage transactions includes, for example, construction financing involving multiple advances, loans with government or private mortgage insurance premiums that vary during the loan term, and graduated payment and step-rate mortgages.

The only change being made to the provision proposed in May is a clarification of the date that the provision expires. The more generous tolerance is available through March 31, 1981. Beginning on April 1, 1981, irregular mortgages transactions must meet the general standard of accuracy.

In consideration of the foregoing and pursuant to the authority granted in § 105 of the Truth in Lending Act (15 U.S.C. 1604, as amended), the Board amends § 226.5 of Regulation Z (12 CFR 226), effective August 1, 1980, by adding paragraph (d) to read as follows:

§ 226.5 Determination of annual percentage rate.

* * * * *

(d) Special rule for irregular mortgage transactions. Notwithstanding any other provision in this section, the annual percentage rate in an irregular mortgage transaction shall be considered accurate if it is not more than one-half of one percentage point above or below the annual percentage rate determined in accordance with either the actuarial method or the United States Rule method. For the purpose of this paragraph, an irregular mortgage transaction is a real property transaction involving one or more of the following features: multiple advances, irregular payment periods (other than an irregular first period, as defined in footnote 5c), and irregular payment amounts (other than irregular first and last payment amounts). This paragraph shall cease to be effective on March 31, 1981, after which date the general standard of accuracy in paragraph (b) of this section shall apply.