Proposed Rules

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This section of the FEDERAL REGISTER contains notices to the public of the proposed issuance of rules and regulations. The purpose of these notices is to give interested persons an opportunity to participate in the rule making prior to the adoption of the final rules.

FEDERAL RESERVE SYSTEM

12 CFR Part 226

[Regulation Z; Docket No. R-0903]

Truth in Lending

AGENCY: Board of Governors of the

Federal Reserve System.

ACTION: Proposed rule; official staff interpretation.

SUMMARY: The Board is publishing for comment proposed revisions to the official staff commentary to Regulation Z (Truth in Lending). The commentary applies and interprets the requirements of Regulation Z. The proposed update provides guidance mainly on issues relating to reverse mortgages and mortgages bearing rates above a certain percentage or fees above a certain amount. It also addresses issues of general interest, such as the treatment of debt cancellation contracts and a card issuer's responsibilities when a cardholder asserts a claim or defense relating to a merchant dispute.

DATES: Comments must be received on or before February 2, 1996.

ADDRESSES: Comments should refer to Docket No. R-0903, and may be mailed to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, DC 20551. Comments also may be delivered to Room B-2222 of the Eccles Building between 8:45 a.m. and 5:15 p.m. weekdays, or to the guard station in the Eccles Building courtyard on 20th Street, N.W. (between Constitution Avenue and C Street) at any time. Comments may be inspected in Room MP-500 of the Martin Building between 9:00 a.m. and 5:00 p.m. weekdays, except as provided in 12 CFR 261.8 of the Board's rules regarding the availability of information.

FOR FURTHER INFORMATION CONTACT: For Subparts A and B (open-end credit), Jane Jensen Gell or Obrea O. Poindexter, Staff Attorneys; for Subparts A, C and E (closed-end credit, reverse mortgages,

and mortgages bearing rates or fees above a certain percentage or amount), Jane Ahrens, Senior Attorney, or Kyung Cho-Miller, Kurt Schumacher, or Manley Williams, Staff Attorneys, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, at (202) 452–3667 or 452–2412. For users of Telecommunications Device for the Deaf (TDD) only, please contact Dorthea Thompson, at (202) 452–3544.

SUPPLEMENTARY INFORMATION:

I. Background

The purpose of the Truth in Lending Act (TILA; 15 U.S.C. 1601 et seq.) is to promote the informed use of consumer credit by requiring disclosures about its terms and cost. The act requires creditors to disclose credit terms and the cost of credit as an annual percentage rate (APR). 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. It also imposes limitations on some credit transactions secured by a consumer's principal dwelling. The act is implemented by the Board's Regulation Z (12 CFR part 226). The Board also has an official staff commentary (12 CFR part 226 (Supp. I)) that interprets the regulation, and provides guidance to creditors in applying the regulation to specific transactions. It is updated periodically to address significant questions that arise, and is a substitute for individual staff interpretations. The Board expects to adopt amendments in final form in March 1996 with compliance optional until October 1, 1996, the effective date for mandatory compliance.

On March 24, 1995, the Board published amendments to Regulation Z implementing the Home Ownership and Equity Protection Act of 1994, 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, impose new disclosure requirements and substantive limitations on certain closed-end mortgage loans bearing rates or fees above a certain percentage or amount. The amendments also impose new disclosure requirements for reverse mortgage transactions, which provide advances primarily to elderly

homeowners and rely principally on the home's value for repayment. In large measure, the proposed commentary incorporates the supplementary information accompanying that rulemaking, and addresses other issues that have arisen since the publication of the final rule.

The Congress recently amended TILA provisions concerning finance charge disclosures for home mortgage loans. The Truth in Lending Act Amendments of 1995 ("1995 Act," Public Law 104-29, 109 Stat. 271) clarify the treatment of several fees typically associated with real estate-related lending, and revise tolerances for finance charge calculations for loans secured by real estate or dwellings. The statutory amendments, which were enacted in response to a number of lawsuits, also address consumer remedies for creditors' past and future disclosure violations. The 1995 Act became effective immediately for provisions relating to tolerances, past and future liability, and the exclusion of certain closing costs from the finance charge calculation. The statutory amendments that exclude certain real estate related closing costs from the finance charge generally codify interpretations previously issued by the Board, and no further revisions to the commentary are contemplated at this time.

Another statutory provision categorizes all brokers fees paid by the consumer to the broker (or to the creditor for delivery to the broker) as finance charges; this provision will become effective 60 days after the Board issues a final rule or no later than 12 months after enactment of the amendments to the act. It is anticipated that the Board will issue a proposed amendment to Regulation Z addressing brokers fees during the first quarter of 1996, and will make any changes to the commentary relating to the treatment of brokers fees as part of that rulemaking.

II. Proposed Commentary

Subpart A—General

Section 226.4—Finance Charge

4(a) Definition

Proposed comment 4(a)—8 addresses the treatment of fees charged in connection with debt cancellation agreements. In the case of motor vehicle loans, debt cancellation agreements (sometimes referred to as "gap"