for Fiscal Year 1991 and up to 20 per cent of funds allocated in subsequent fiscal years to a State agency may, subject to the provisions of § 235.5 of this part, remain available for obligation and expenditure by such State agency during the following fiscal year.

* * * * *

(c) The SAE funds allocated under § 235.4(b)(2), (b)(4), and (d) shall be used exclusively for Food Distribution Program administrative expenses for the programs under Parts 210, 220, and 226 of this chapter by any distributing agency which receives such funds. SAE funds allocated under § 235.4(a)(1), (a)(2), (b)(1), (b)(3) and (f), and those funds for the Child and Adult Care Food Program under (b)(4) which are not otherwise redirected for the Food Distribution Program under § 235.4(d) may be used to assist in the administration of the Food Distribution Program for such purposes. However, no funds designated for the exclusive use of the Food Distribution Program may be transferred by any State agency for other purposes. Furthermore, for each fiscal year beginning with Fiscal Year 1993, expenditures of funds from State sources for administrative costs incurred in the distribution of USDA donated foods to schools and institutions which participate in programs governed by parts 210, 220, and/or 226 of this chapter shall not be less than the amount of such funds expended in Fiscal Year 1991.

* * * * *

(g) FCS shall allocate, for the purpose of providing grants on an annual basis to public entities and private nonprofit organizations participating in projects under section 18(c) of the National School Lunch Act, not more than $4,000,000 in each of Fiscal Years 1993 and 1994. Subject to the maximum allocation for such projects for each fiscal year, at the beginning of each of Fiscal Years 1993 and 1994, FCS shall allocate, from funds available under § 235.5(d) that have not otherwise been allocated to States, an amount equal to the estimates by FCS of the funds to be returned under paragraph (a) of this section, but not less than $1,000,000 in each fiscal year. To the extent that amounts returned to FCS are less than estimated or are insufficient to meet the needs of the projects, FCS may allocate amounts to meet the needs of the projects from funds available under this section that have not been otherwise allocated to States. FCS shall reallocate any of the excess funds above the minimum level in accordance with § 235.5(d).

**§ 235.7 [Amended]**

7. In § 235.7,

a. The second sentence of paragraph (b) is amended by removing the reference to ''§ 235.4(c) of this part'' and adding in its place the reference to ''§ 235.6(a)''.

b. The first sentence of paragraph (c) is amended by removing the words ''directed by Congress and requested'' and adding in their place the word ''authorized''. Paragraph (c) is further amended by removing the words ''FY '80'' from the last sentence.

**§ 235.11 [Amended]**

8. In § 235.11:

a. Paragraph (b)(2) is amended by removing the reference to ''§ 235.4(a)'' and adding in its place the reference to ''§ 235.4 (a)(1)''.

b. Paragraph (b)(3) is amended by removing the reference to ''§ 235.4(b)'' and addding in its place the reference to ''§ 235.4(a)(2)''.

c. Paragraph (b)(4) is amended by removing the reference to ''§ 235.4(a)'' and adding in its place the reference to '' § 235.4(a)(1)''.

d. Paragraph (b)(7) is amended by removing the reference to ''§ 235.4(e)'' and adding in its place the reference to ''§ 235.5(d)''.

Dated: March 16, 1995.

**William E. Ludwig,**

*Administrator.*

[FR Doc. 95–7310 Filed 3–23–95; 8:45 am]

**BILLING CODE 3410–30–U**

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## FEDERAL RESERVE SYSTEM

## 12 CFR Part 226

**[Regulation Z; Docket No. R–0858]**

## Truth in Lending

**AGENCY:** Board of Governors of the Federal Reserve System.

**ACTION:** Final rule.

**SUMMARY:** The Board is publishing amendments to Regulation Z (Truth in Lending). The amendments implement changes made to the Truth in Lending Act by the Riegle Community Development and Regulatory Improvement Act of 1994. The law imposes new disclosure requirements and substantive limitations on closed-end home equity mortgage loans bearing rates or fees above a certain percentage or amount. The amendments provide protection to consumers entering into these mortgages. The law also imposes new disclosure requirements to assist consumers in comparing the cost of reverse mortgage transactions, which provide periodic advances primarily to elderly homeowners and rely principally on the home's value for repayment.

**DATES:** This rule is effective March 22, 1995. Compliance is optional until October 1, 1995.

**FOR FURTHER INFORMATION CONTACT:** Jane Ahrens, Senior Attorney, or Kyung Cho-Miller, Sheilah Goodman, or Kurt Schumacher, Staff Attorneys, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, at (202) 452–3667 or 452–2412; for the hearing impaired only, Dorothea Thompson, Telecommunications Device for the Deaf, at (202) 452–3544.

**SUPPLEMENTARY INFORMATION:**

### I. Background

The purpose of the Truth in Lending Act (15 U.S.C. 1601–1666j) is to promote the informed use of consumer credit. 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. The act is implemented by the Board's Regulation Z (12 CFR part 226).

The Home Ownership and Equity Protection Act of 1994 (HOEPA), contained in the Riegle Community Development and Regulatory Improvement Act of 1994 (Community Development Act), Pub. L. 103–325, 108 Stat. 2160, amends the Truth in Lending Act (TILA). Section 152 of the HOEPA adds a new section 129 dealing with certain mortgages bearing rates or fees above a certain percentage or amount. Section 154 adds a new section 138 dealing with reverse mortgage transactions.

The HOEPA was enacted in September 1994, and directs the Board to issue final regulations within 180 days. Section 155 provides that the statutory provisions and the Board's rules shall apply on the October 1 following six months after the final regulation is issued. It also states that the final rule governs all mortgage transactions having rates or fees above a certain percentage or amount (''Section 32 mortgages,'' as found in § 226.32 of the regulation) consummated after the mandatory effective date. The Board has determined that the same compliance rule applies to reverse mortgage transactions consummated after October 1, 1995.

## II. Regulatory Provisions

In December 1994, the Board published a proposed rule amending Regulation Z, to implement the new law (59 FR 61832, December 2, 1994). The Board received about 100 comments on the proposal. About 85 percent were from creditors or other businesses potentially affected by the proposal (and their trade associations); the remainder were mainly from consumer groups and individuals. Commenters generally supported the Board's proposal, although some believe the act's provisions are detrimental to consumers seeking credit. In large measure, the regulatory amendments that the Board has adopted in the final rule follow the proposal; technical suggestions or concerns raised by commenters are addressed in the final rule. The section-by-section descriptions given below provide interpretive guidance to creditors until autumn 1995, when an update to the Official Staff Commentary to the regulation will be proposed.

## III. Section-by-Section Analysis

Section 226.2—Definitions and Rules of Construction

*2(a) Definitions*

*2(a)(17) Creditor*

Section 226.2(a)(17) n.3 implements section 152(c) of the HOEPA and defines coverage in terms of the number of Section 32 mortgage transactions that will subject a lender to the TILA. The regulation parallels the statute. A creditor includes a person originating—during any 12-month period—two or more Section 32 mortgage loans, or one or more such mortgage loans through a mortgage broker. Thus, for example, a person that originates one Section 32 mortgage during a 12-month period is not covered. A person that originates three home-secured loans, two of which are secured by Section 32 mortgages, will be required to comply with the TILA for the latter two transactions. Persons making fewer than five home-secured loans during a calendar year—that do not meet the definition of a Section 32 mortgage—are not subject to the act.

### Subpart B—Open-End Credit

Section 226.5b—Requirements for Home Equity Plans

*5b(f) Limitations on Home Equity Plans*

The TILA generally restricts creditors' ability to terminate open-end plans and demand repayment to narrowly drawn circumstances, such as when the consumer fails to make payments or takes actions that adversely affect the creditor's security. Section 154(c) of the HOEPA excludes reverse mortgage transactions from these restrictions. The legislative history states that the statutory amendment codifies the Board's existing interpretation regarding a creditor's ability to accelerate an open-end reverse mortgage loan in accordance with the credit contract, specifically, upon the consumer's death. The regulatory amendment reflects that legislative intent.

### Subpart C—Closed-End Credit

Section 226.23—Right of Rescission

*23(a) Consumer's Right to Rescind*

Section 152(b) of the HOEPA provides that Section 32 mortgage disclosures and certain practices involving these loans are ''material'' for purposes of the TILA. The amendments to footnote 48 of the regulation implement the change. Consumers are provided with the right to rescind a Section 32 mortgage if a creditor fails to furnish the disclosures under § 226.32(c) or if the loan documents include a credit term under § 226.32(d).

### Subpart D—Miscellaneous

Section 226.28—Effect on State Laws

*28(b) Equivalent Disclosure Requirements*

Section 152(e) of the HOEPA provides that the procedure for substituting substantially similar state law disclosures for federal TILA requirements does not apply to state disclosure requirements for Section 32 mortgages. The amendments reflect this limitation.

### Subpart E—Special Rules for Certain Home Mortgage Transactions

The amendments to the TILA (section 129 dealing with mortgages having rates or fees above a certain percentage or amount and section 138 dealing with reverse mortgage transactions) layer disclosure and timing requirements onto the requirements already imposed for these consumer credit transactions. The Board has implemented these provisions by adding a new subpart E to the regulation: § 226.31 addresses general requirements such as timing and format rules; § 226.32 contains rules relating to mortgages having rates or fees above a certain percentage or amount; and § 226.33 addresses reverse mortgages.

Section 226.31—General Rules

*31(a) Relation to Other Subparts*

Section 31(a) explicitly states that the requirements and limitations of Subpart E are in addition to—not in lieu of—requirements and limitations contained in other subparts of the regulation. For example, Subpart C requires creditors to provide disclosures at the time of application and prior to consummation for closed-end variable-rate loans that are secured by the consumer's principal dwelling and have a term greater than one year. If these transactions are also mortgage loans subject to § 226.32, Subpart E requires creditors to provide the special disclosures at least three business days prior to the consummation.

*31(c) Timing of Disclosures*

*31(c)(1) Disclosures for Certain Closed-end Home Mortgage Disclosures*

Implementing section 129(b) of the TILA, the regulation requires a three-day ''cooling off'' period between the time a consumer is furnished with special disclosures about a mortgage subject to § 226.32 (Section 32 mortgage) and the time the consumer becomes obligated under the loan. Some commenters suggested that the final rule should provide flexibility in the timing requirements to facilitate delivery by mail or the contemporaneous delivery of other required disclosures. The Board believes, however, that the act requires that consumers considering a Section 32 mortgage loan be given the special disclosures at least three business days before completing the transaction, regardless of the creditor's method of delivering these disclosures or the timing of other disclosures.

*31(c)(1)(i) Change in Terms*

Implementing section 129(b)(2) of the act, the regulation requires creditors to provide new Section 32 mortgage disclosures if, after giving the disclosures to the consumer and before consummation, the creditor changes any terms that make the disclosures inaccurate. New disclosures are triggered by a changed term only if it affects the APR, for example, or other disclosures set forth in § 226.32(c). Commenters requested guidance on the scope of ''terms'' for which such a change could trigger new disclosures. The Board believes the scope extends both to a change in the terms of the loan agreement, as well as to a change in any charge associated with closing the loan.

*31(c)(1)(iii) Consumer's Waiver of Waiting Period Before Consummation*

Section 129(b)(3) of the TILA authorizes the Board to permit the consumer to modify or waive the right to the three-day waiting period to meet bona fide personal financial emergencies. Sections 226.15(e) and 226.23(e) of the regulation discuss waivers of the right to rescind to meet bona fide personal financial emergencies. Comment was solicited on whether the Board should provide a similar provision for waivers of the three-day waiting period on Section 32 mortgages.

In response to comments received and upon further analysis, the Board is adding a new paragraph providing that the consumer may modify or waive the three-day waiting period between delivery of Section 32 mortgage disclosures and consummation, if the consumer determines that the extension of credit is needed to meet a bona fide personal financial emergency.

Some commenters requested that the Board identify specific circumstances that are bona fide personal financial emergencies. Generally, the facts surrounding individual situations will determine whether the standard is met and the consumer may waive the three-day waiting period before consummation. The Board believes, however, that consummating a Section 32 mortgage loan to prevent the sale of the consumer's home at foreclosure is a bona fide personal financial emergency.

For example, if the consumer's home is scheduled to be sold at foreclosure within the three-day waiting period, the consumer could waive the waiting period to consummate the Section 32 mortgage loan and forestall the foreclosure. The consumer may exercise the waiver, however, only after receiving the disclosures required by paragraph (c)(1).

*31(c)(2) Disclosures for Reverse Mortgages*

Section 138 of the TILA requires creditors to furnish additional disclosures to consumers for a reverse mortgage transaction at least three business days prior to consummation. Under the statute, timing requirements for closed-end credit are often tied to the consummation of the transaction, and the regulation parallels the statute for closed-end reverse mortgage loans. However, reverse mortgage loans may also be structured as open-end credit plans. In that case, the regulation provides that the disclosures must be given at least three business days prior to the first transaction under the open-end credit plan or before the consumer becomes obligated on the plan. (See official staff interpretations of § 226.5(b)(1) in Supplement I of this part.)

*Conforming Paragraphs*

Paragraphs (d), (e), and (f) mirror provisions in subparts B and C (§ 226.5 and § 226.17).

*31(g) Accuracy of Annual Percentage Rate*

Creditors offering mortgages subject to § 226.32 must include the APR as part of the new Section 32 mortgage disclosures. In response to comments received, the regulation clarifies that the APR shall be calculated in accordance with § 226.22, which provides guidance for calculating an APR (and provides a tolerance for minor calculation errors) for transactions covered by Subpart C (closed-end). Commenters also suggested that the regulation should provide a tolerance for errors made in calculating payment amounts for the Section 32 mortgage loan disclosure. No tolerance exists for any such calculation errors under Subpart C, and the Board has not adopted a tolerance for payment amounts in Section 32 mortgage disclosures.

**Section 226.32—Requirements for Certain Closed-End Home Mortgages**

*32(a) Coverage*

Section 103(aa) of the TILA defines the mortgages covered by new section 129 based on the rates charged and fees paid. The proposal referred to those mortgages as high-rate, high-fee mortgages. Many commenters opposed the label, stating that early versions of the legislation had been revised to delete any identification of the covered mortgages with their relative cost. The final rule follows the statutory approach.

*32(a)(1)(i)*

The statute covers mortgages that charge rates above a specified standard. The rate-based test is tied to Treasury securities having terms comparable to the loan's maturity, and several commenters asked for more guidance on how creditors may determine if a particular transaction meets that test. The proposal cited the Board's Selected Interest Rates (statistical release H–15) as an example of a readily available source that identifies Treasury securities (bills, notes, and bonds) with maturities of 1, 2, 3, 5, 7, 10, 20, and 30 years. The same figures are published in other widely available sources, such as major financial and metropolitan newspapers.

Commenters also sought guidance for selecting the proper maturity for loan maturities that do not match those of Treasury securities. The Board believes that creditors could use rounding. For example, if a creditor must compare the APR to Treasury securities with either seven-year or ten-year maturities, the APR for an eight-year loan would be compared to securities with a seven-year maturity; a nine-year loan would be compared to securities with a ten-year maturity. If the loan maturity is exactly halfway between the maturities for two published Treasury securities, the creditor would compare the APR to the yield for the lower Treasury security.

The act and regulation require creditors to compare the APR to yields as of the fifteenth day of the month immediately preceding the month in which the application for credit is received. Commenters asked the Board to clarify when an application is deemed to be received. The Board believes an application is received when it reaches the creditor in any of the ways applications are normally transmitted, even if the consumer did not provide all the information required for the creditor to make the credit decision. (See official staff interpretations of § 226.19(a)(1) in Supplement I of this part.)

*32(a)(1)(ii)*

The statute covers mortgages if the total points and fees payable by the consumer at or before loan closing exceed the greater of $400 or 8 percent of the total loan amount. The Board contemplates that any adjustment to the $400 dollar amount will be published with the proposed updates to Regulation Z's official staff commentary (in the autumn of each year). The adjustment will be based on the annual percentage change in the Consumer Price Index (as reported on June 1) and will be effective on January 1 of the following year.

Many commenters asked for further guidance to determine the ''total loan amount.'' Some suggested using the face amount of the note; others suggested using the ''amount financed'' as calculated according to § 226.18(b). The Board believes the statute requires creditors to omit from the ''total loan amount'' any additional costs that may be incurred at closing—and included in the face amount of the note if financed by the creditor—when determining whether the ratio of fees to the total loan amount exceeds 8 percentage points. Thus, the ''total loan amount'' is the amount financed, as defined in § 226.18(b), less any items that are required to be disclosed under § 226.4(c)(7) and that are not excluded as fees under paragraph (b)(1)(iii) of this section.

*32(a)(2)*

Section 103(aa) of the TILA provides that the Section 32 mortgage rules do not apply to a residential mortgage transaction, a reverse mortgage transaction, or an open-end credit plan. The regulation tracks those exceptions.

*32(b) Definitions*

*32(b)(1) Points and Fees*

Section 103(aa) of the TILA defines points and fees as all finance charges (except interest or the time-price differential), all compensation paid to mortgage brokers, and all items identified in section 106(e) (other than amounts held for future payment of taxes). A charge is excluded from the definition if the charge is reasonable, the creditor receives no direct or indirect compensation from the charge, and the charge is not paid to an affiliate of the creditor.

The Board believes the Congress intended a broad application of the term ''compensation,'' including, for example, amounts paid to brokers by creditors in addition to amounts paid by consumers. Many commenters considered this interpretation too expansive, and suggested that broker fees should only be considered ''fees'' if the broker is required by the creditor as a condition of obtaining the credit. (See official staff interpretations of § 226.4(a) in Supplement I of this part.)

RESPA requires creditors to provide consumers with estimates of closing costs—including fees paid by creditors to brokers—for certain real-estate secured loans (Regulation X, 24 CFR 3500, Appendix A, fact pattern 12). The Board believes that including in the total fee calculation all broker fees required to be disclosed under RESPA is consistent with the intent of the Congress and addresses the commenters' concerns about broker fees that are unknown to the creditor.

Section 103(aa) authorizes the Board to identify other charges that are appropriate to include in the total fee calculation. The conference report cites credit insurance premiums as an example of fees that could be included, if evidence showed that the premiums were being used to circumvent the statute. Several commenters, mostly insurance industry representatives, opposed the regulation's including premiums for credit life insurance that is purchased at the consumer's option.

Section 158 of the HOEPA requires the Board (in consultation with its Consumer Advisory Council) to conduct public hearings that examine home equity loans in the marketplace and the adequacy of federal laws (including the new rules affecting Section 32 mortgages and reverse mortgage transactions) in protecting consumers—particularly low-income consumers. The statute provides that the initial hearing must be held prior to September 1997, and the Board contemplates that the first hearing will occur sometime in 1996. The Board believes the hearings may provide an appropriate forum to explore whether any particular charges should be included in the total fee calculation. The regulation does not identify any additional fees at this time.

*32(b)(2) Affiliate*

Section 129(k) of the TILA defines ''affiliate'' for purposes of the Section 32 mortgage rules by a statutory reference to the Bank Holding Company Act of 1956 (12 U.S.C. 1841(k)). That act defines affiliate as any company that controls, is controlled by, or is under common control with another company. It also defines ''company'' and defines when one company is considered to ''control'' another (12 U.S.C. 1841(a) and (b)). The proposal defined the term by a statutory reference; to ease compliance, the final rule adds a brief narrative.

*32(c) Disclosures*

The regulation tracks the disclosure requirements of section 129(a). In response to comments, a new H–16—Mortgage Sample has been added to Appendix H. Creditors using it properly will be deemed to be in compliance with the regulation for those disclosures.

*32(c)(3) Regular Payment*

The act requires creditors to disclose the amount of the regular ''monthly'' payment. In response to comments received and upon further analysis, the final regulation clarifies that the disclosure contemplates monthly or other regularly scheduled periodic payments, such as monthly, bimonthly, or quarterly.

*32(c)(4) Variable-rate*

The law requires creditors offering variable-rate transactions to disclose a monthly payment based on an interest rate cap required for consumer contracts by a provision in the Competitive Equality Banking Act of 1987 (CEBA), which is implemented in § 226.30. The legislative history provides that in calculating the maximum payment based on the interest rate cap, creditors should assume the maximum possible increases in rates in the shortest possible timeframe. Paragraph § 226.19(b)(2)(x)—which requires a similar maximum payment disclosure for adjustable-rate mortgage transactions—provides guidance for calculating the maximum possible increases in rates in the shortest possible timeframe.

*32(d) Limitations*

Section 129 of the TILA prohibits mortgage creditors covered by § 226.32 from including several terms in their contracts. In large measure, the final regulation follows the proposal. In the proposal, the headings for and substantive limitations in paragraphs (d)(1) and (d)(2) were inadvertently reversed; the error has been corrected.

*32(d)(1)(i) Balloon Payment*

Under the act and regulation, the repayment schedule for a Section 32 mortgage loan with a term of less than five years must fully amortize the outstanding principal balance through regular periodic payments. Many commenters requested further guidance on the phrase ''regular periodic'' payments. Some were concerned that small interest-only payments with occasional payments of principal would be prohibited, and the lack of flexibility in designing a payment schedule would ultimately be detrimental to consumers. Others suggested defining a ''regular periodic payment'' as one that is not more than twice the amount of other payments. The Board has adopted this approach and believes it reflects the intent of the Congress and provides certainty in compliance.

*32(d)(1)(ii) Exception*

Section 129(l)(1) of the TILA authorizes the Board to create exemptions to the limitations set forth in paragraph (d) and paragraph (e) of this section, upon a finding that the exemption is in the interest of the borrowing public and will apply only to mortgage products or categories of products that maintain and strengthen home ownership and protect equity. The legislative history expresses the Congress's concern that the legislation might inappropriately apply to some government loans or short-term ''bridge'' construction loans. It also states that in granting the exemption authority to the Board, the Congress intended that the Board consider exemptions on a product-by-product basis.

Based on the legislative history, the comments received and upon further analysis, the Board is creating a narrowly drawn exemption from the balloon payment limitation for mortgage loans subject to § 226.32 with maturities of less than one year, if the purpose of the loan is a ''bridge'' loan connected with the acquisition or construction of a dwelling intended to become the consumer's principal dwelling. These ''bridge'' loans remain subject to all other provisions of the section.

*32(d)(2) Negative Amortization*

The act and regulation prohibit payment schedules with regular periodic payments that may result in increases to the principal balance. Technical changes to the regulation are made for clarity. The Board believes that the prohibition does not extend to increases in the principal balance unrelated to the payment schedule, such as when a consumer fails to obtain property insurance and the creditor purchases insurance and adds the premium to the consumer's principal balance.

*32(d)(4) Increased Interest Rate*

The act and regulation prohibit creditors from increasing the interest rate after default. This prohibition does not prevent a creditor offering a variable-rate loan from changing the rate, if, for example, the rate is tied to an index and the index increases after the consumer has defaulted on the obligation.

*32(d)(5) Rebates*

Section 129(d) of the TILA restricts how creditors may calculate refunds of interest when a Section 32 mortgage loan is accelerated due to a consumer's default. The regulation clarifies that the paragraph covers limitation on refunds of interest (not other charges—points, for example—that are considered finance charges under § 226.4). The calculation would include odd-days interest, whether paid at or after consummation.

*32(d)(6) Prepayment Penalties*

Section 129(c) of the TILA generally bars creditors from including a prepayment penalty in a Section 32 mortgage contract. The statute includes, as a prepayment penalty, refunds of unearned interest calculated less favorably than the actuarial method defined in section 933(d) of the Housing and Community Development Act of 1992 (HCDA).

The legislative history provides that where the actuarial method, as defined by state law, provides a refund that is greater than the refund received under the HCDA definition, creditors should apply state law to determine if a refund is a prepayment penalty for a Section 32 mortgage. The legislative history states that the reference to the HCDA is not intended to be exclusive, and that penalties based on a percentage of the outstanding balance or on the number of months of interest are also prohibited.

*32(d)(7) Prepayment Penalty Exception*

Section 129(c)(2) of the TILA allows creditors to include a prepayment penalty clause in a Section 32 mortgage loan under narrowly drawn circumstances. To include a prepayment penalty clause in the loan documents, a creditor must verify that the consumer's monthly debt-to-income ratio is 50 percent or less. The Board believes that in calculating the consumer's monthly debts and income to determine the debt-to-income ratio, creditors may rely on widely accepted underwriting standards, such as those published by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Housing Administration, or the Veteran's Administration. A creditor using one of these standards and determining that the consumer's monthly debt-to-income ration is 50 percent or less will be deemed to meet the requirements of this provision. The Board believes this safe harbor provides consistency and eases compliance.

*32(e) Prohibited Acts and Practices*

Section 129(l)(2) of the TILA authorizes the Board to prohibit acts or practices in connection with mortgage loans that the Board finds to be unfair, deceptive, or designed to evade the Section 32 mortgage rules. The Board also may prohibit acts or practices related to refinancing mortgage loans that the Board finds are associated with abusive lending practices or that are not in the borrower's interest. Neither the proposal nor the final regulation identifies any prohibited practices pursuant to this authority.

Section 157 of the HOEPA requires the Board to conduct a study and make recommendations to the Congress regarding, in part, the adequacy of federal laws protecting consumers with open-end credit plans secured by the consumer's principal dwelling. The study must be completed within eighteen months after the amendments are adopted. The Board believes the study and the hearing required by the HOEPA will assist the Board in determining whether certain acts or practices should be prohibited.

*32(e)(1) Repayment Ability*

Section 129(h) of the TILA prohibits creditors extending mortgage loans subject to § 226.32 from engaging in a pattern or practice of extending such credit to consumers based on the consumer's collateral without regard to the consumer's repayment ability, including the consumer's current and expected income, current obligations, and employment. Commenters requested that ''pattern or practice'' be defined; however, the Board believes a determination whether a creditor engages in a pattern or practice will depend on individual fact situations. Thus, the final regulation—like the proposal—does not define the phrase.

Paragraph (d)(7) permits creditors to assess a prepayment penalty if, in part, the creditor verifies that the consumer's monthly debt to income ratio is 50 percent or less. In the supplementary materials accompanying the proposal, the Board stated that creditors could rely on information provided by the consumer in connection with paragraph (d)(7) when considering a consumer's ability to repay the debt. Many commenters were concerned that the Board intended to incorporate the income verification and debt-to-income ratio requirements into paragraph (e)(1). These concerns are unfounded. There is no debt-to-income ratio requirement for paragraph (e)(1). The information provided to creditors in connection with paragraph (d)(7) may be used to demonstrate that the creditor considered the consumer's income and obligations before extending the credit. Other information—for example, information about gift income, expected retirement payments, or other unverifiable income—may also be considered. The Board believes any expected income can be considered by the creditor, other than equity income obtainable by the consumer through the foreclosure of a Section 32 mortgage with the creditor.

*32(e)(2) Home Improvement Contracts*

Section 129(i) of the TILA restricts how creditors may disburse proceeds to contractors under a home improvement contract secured by a mortgage subject to § 226.32. The regulation reflects the statutory requirement that the creditor must disburse the proceeds by an instrument payable to the consumer or jointly to the consumer and the contractor. The Board believes that if the contractor and the consumer are joint payees, the instrument must name as payees all consumers who are primarily obligated on the note.

Alternatively, the regulation provides that at the election of the consumer, the creditor can disburse the proceeds through an escrow agent in accordance with terms established in a written agreement signed by the consumer, the creditor, and the contractor prior to the disbursement. The Board solicited comment on whether further guidance was needed regarding the use of a third party escrow agent, including an agent that is an affiliate of the creditor. The Board believes that RESPA adequately protects consumers dealing with an escrow agent that is an affiliate of the creditor. RESPA prohibits creditors from requiring the use of an affiliate, and requires disclosures to be furnished if the consumer opts to use the services of an escrow agent that is in a ''controlled business arrangement'' with the creditor (Regulation X, 24 CFR 3500.15).

*32(e)(3) Notice to Assignee*

The act and regulation require persons who sell or assign mortgages covered by § 226.32 to furnish a notice of the potential liability under the TILA. In response to comments received, the notice more directly discloses an assignee's potential liability.

**Section 226.33—Requirements for Reverse Mortgages**

*33(a) Definition*

Section 154 of the HOEPA defines a ''reverse mortgage'' as a nonrecourse transaction that is secured by the consumer's principal dwelling and that ties repayment (other than upon default) to the homeowner's death or permanent move from or transfer of the home. The definition in the regulation tracks the statute.

A nonrecourse transaction limits the homeowner's liability to no more than the proceeds of the sale of the home (unless a lesser amount is provided for in the credit obligation, such as by an equity reservation or an equity conservation agreement between the consumer and creditor). Neither the statute nor the regulation defines ''nonrecourse transactions.'' Similarly, specific acts of default for purposes of the reverse mortgage rules are not defined. Neither the act nor the legislative history identifies such acts, and the Board believes that the determination of ''default'' is most appropriately left to the legal obligation between the parties and state or other law.

*33(b) Content of Disclosures*

Section 138 of the TILA establishes a new standard to measure the cost of reverse mortgage credit. The statute requires reverse mortgage creditors to disclose a good faith projection of the total cost of the credit to the consumer, by means of a table of annual interest rates. The legislative history states that the Congress contemplated a disclosure scheme modeled after the matrix disclosure currently required by section 255 of the National Housing Act and implemented by the Department of Housing and Urban Development's (HUD's) Home Equity Conversion Mortgage (HECM) program. The Board's regulation reflects that approach, except as noted below.

The regulation requires creditors to use the term ''total annual loan cost rate'' rather than ''annual interest rate'' in complying with this section. The statute uses but does not mandate the term ''annual interest rate,'' and the Board believes that a different term will avoid possible confusion with the disclosure of the ''annual percentage rate'' (APR) required by other parts of the regulation. The term ''total annual loan cost rate'' is unlikely to be confused with the APR and is a more accurate description of the percentage cost of reverse mortgages than ''annual interest rate.'' For example, the rate may reflect costs other than interest, such as annuity premiums, appraisal fees, and a percentage of any appreciation in the consumer's home.

Section 138(a)(1) of the TILA requires creditors to disclose total annual loan cost rates for not less than three projected appreciation rates and not less than three credit transaction periods, as determined by the Board. HUD's HECM matrix similarly discloses nine ''average annual percentage rates'' based on three assumed annual home appreciation rates and three assumed loan terms. As discussed below, the Board has adopted the HECM model which requires the tabular disclosure of nine total annual loan cost rates, as described below. The regulation *permits* an additional assumed loan term, as described below.

The HECM matrix is accompanied by a listing of the basic factors used in calculating the projected total cost of credit, such as the age of the borrower, the value of the consumer's home, etc., and a brief discussion of some assumptions used in calculating the rates in the matrix. The regulation requires that the matrix be accompanied by a listing of key factors used in calculating the total annual loan cost rates, along with a brief narrative that helps consumers to interpret the rates disclosed in the matrix. (See the supplementary material accompanying proposed Appendix K for further discussion of the model disclosure.)

*33(c) Projected Total Cost of Credit*

Section 138 (a) and (b) of the TILA identify factors creditors must consider when calculating the projected total cost of credit and the corresponding total annual loan cost rates. The regulation lists those requirements in paragraph (c) of this section. (The mathematical formula for determining the total annual loan cost rate is contained in Appendix K.)

*33(c)(1) Costs to Consumer*

Section 138(b)(2) of the TILA includes in the projected total cost of credit all costs and charges to the consumer, including the costs of any annuity that the consumer purchases (if any) as part of the reverse mortgage transaction. The regulation parallels the statute, except that the term ''associated'' has been deleted.

The Board believes the Congress intended a broad application of the terms ''costs and charges.'' For example, the Board believes all costs and charges connected with the reverse mortgage transaction must be included in the projected total cost of credit, whether or not the charge is deemed to be a finance charge under Subpart A of the regulation.

Some creditors require or permit consumers to purchase an annuity as part of the transaction that immediately, or at some future time, supplements or replaces the creditor's payments. The law and regulation require the amount paid by the consumer for the annuity to be included as a cost to the consumer. This is the case whether the purchase is made through the creditor or a third party, or whether the purchase is mandatory or voluntary.

The HECM program does not include disposition costs as a part of the total annual loan cost rate, and the regulation follows that approach. Few commenters addressed the issue; they were about evenly split on whether to include disposition costs as part of the total annual loan cost rate. Based on these comments and upon further analysis, the Board has retained the rule as proposed.

*33(c)(2) Advances to Consumer*

Section 138(b)(3) of the TILA requires creditors to consider in the projected total cost of credit all advances to and for the benefit of the consumer, including annuity payments received by the consumer from an annuity purchased as part of the reverse mortgage transaction. The regulation generally tracks the statute, with slight modifications for clarity.

*33(c)(3) Additional Creditor Compensation*

Section 138(b)(1) of the TILA and the regulation include, in the total cost of a reverse mortgage loan, any shared appreciation or equity that the creditor is entitled to receive pursuant to the credit contract. For example, creditors sometimes offer a reduced interest rate in exchange for a portion of the appreciation or equity that may be realized when the dwelling is sold.

*33(c)(4) Limitations on Consumer Liability*

Section 138(b)(4) of the TILA requires creditors to consider in the projected total cost of credit any limitation on the consumer's liability under the reverse mortgage loan. This includes, for example, equity conservation agreements. These agreements protect a portion of the equity in the dwelling for the consumer or the consumer's estate.

This paragraph also applies to the nonrecourse provision that is a part of any credit contract meeting the definition of a reverse mortgage transaction. (See paragraph (a) of this section.) Some reverse mortgage transactions provide that a consumer's liability will not exceed a specific percentage of the projected home value, say 75 percent. Other reverse mortgages set the consumer's maximum liability at the ''net proceeds'' available from the sale of the home. That is, if a consumer sells the home for $100,000 and brokerage commissions and other incidental selling costs were $7,000, the creditor would receive no more than $93,000—the net proceeds of the sale.

The Board believes that the purposes of the reverse mortgage disclosures are enhanced if the calculations of projected total costs for ''net proceeds'' recourse limitations are based on uniform assumptions about the costs associated with the sale of the home. Thus, if a contract does not otherwise specify a percentage for net proceeds, creditors must assume closing costs of 7 percent, which approximates the amounts paid for typical brokerage fees and other incidental costs. The Board solicited comment on this approach. Most commenters agreed both with the approach and the use of the 7 percent figure.

*33(c)(5) Assumed Annual Appreciation Rates*

Section 138(a)(1) of the TILA requires each total annual loan cost rate to be based on one of (at least) three projected appreciation rates for the consumer's dwelling. The regulation tracks the appreciation rates used in HUD's HECM program. That is, the total annual loan cost rates are based on assumed annual home appreciation rates of 0 percent, 4 percent, and 8 percent. HUD's program based the 4 percent annual appreciation rate on its assessment of long-term averages of historical housing appreciation rates. The 0 percent and 8 percent rates help consumers understand the potential costs and benefits of the loan if their dwelling does not appreciate in value at all, or if its value appreciated at a rate double the 4 percent rate.

Commenters were about equally divided on the use of these assumed appreciation rates. Those that opposed the proposed figures believed that 0 percent, 3 percent, and 6 percent would be more appropriate. Based on the comments received and upon further analysis, the Board believes that the percentages used by HUD are appropriate estimates for reverse mortgage disclosures, and are required by the final rule.

*33(c)(6) Assumed Loan Period*

Section 138(a)(1) of the TILA also requires each total annual loan cost rate to be based on one of (at least) three credit transaction periods, as determined by the Board, including a short-term reverse mortgage, a term equaling the actuarial life expectancy of the consumer, and ''such longer term as the Board deems appropriate.'' The proposed regulation tracked the assumed loan periods required under the HECM program: a period of two years, a period equal to the consumer's life expectancy, and a period equal to approximately 1.4 times the consumer's life expectancy (the creditor would use the life expectancy of the youngest consumer in transactions involving multiple borrowers).

The statute authorizes the Board to require total annual loan cost rates for more than three assumed loan periods. In the proposed rule, the Board noted that, depending on the age of the borrower, a significant time interval could exist between the shortest loan period (two years) and the consumer's life expectancy. Accordingly, the Board solicited comment on whether other assumed loan periods, such as an assumed loan period of one-half of the life expectancy figure, should be added to the regulation; and if so, whether calculations based on the additional assumed loan periods should be required or optional.

About 10 commenters addressed this point, and views were mixed. Some believed an additional assumed loan period equal to one-half of the life expectancy figure would assist consumers in better understanding the costs of the reverse mortgage transaction in the event that, for example, they move permanently from the dwelling either sooner or later than anticipated; commenters were split on whether the additional period should be mandatory or optional. Those commenters opposing an additional assumed loan period expressed concern about increased compliance burden and possible consumer confusion.

Based on the comments received and upon further analysis, the Board is permitting creditors to add a fourth assumed loan period equal to one-half of the life expectancy figure. Use of the additional period is permissive, to promote flexibility. The Board believes consumers will benefit by receiving information about the transaction's costs for a ''midpoint'' assumed loan period, given the potential of an event such as a permanent move from the home during the borrower's lifetime. The benefits to the consumer outweigh any additional compliance burden: For lenders offering reverse mortgage transactions not covered by the HECM program, the compliance burden of choosing to implement a new disclosure scheme based on four (rather than three) assumed loan periods is not significant; HECM lenders will revise their disclosures to comply with other requirements, such as the narrative required in the model form, in any event, and are not required to add the fourth loan period to their forms.

**Appendix K—Total Annual Loan Cost Rate Computations for Reverse Mortgage Transactions**

The final regulation bases the calculation of total annual loan cost rates on a commonly used computation tool, an internal rate of return formula. The formula uses the estimation or ''iteration'' procedure required to compute APRs under Appendix J of this part. However, Appendix J is written in the context of forward (not reverse) mortgages. The formulas are similar to those in Appendix J; however, to ease compliance and avoid confusion about terminology, definitions and instructions appropriate for reverse mortgages are placed in Appendix K. The final rule tracks the proposal, except as noted below.

*(b) Instructions and Equations for the Total Annual Loan Cost Rate*

*(b)(5) Number of Unit-Periods Between Two Given Dates*

The total annual loan cost rates are based on an assumption that the reverse mortgage transaction begins on the first day of the month in which consummation is estimated to occur. The total annual loan cost rates are good-faith projections based on a number of assumptions. The Board believes that using the fractional unit-periods required under Appendix J for calculating APRs is unnecessary for these disclosures, and has omitted many of the definitions relating to time intervals.

*(b)(8) Solution of General Equation by Iteration Process*

Rather than restate the iteration process required to be used in determining total annual loan cost rates under the appendix, the regulation refers lenders to Appendix J of this regulation for the procedures to be followed.

*(b)(9) Assumption for Discretionary Cash Advances*

Some reverse mortgage transactions permit the consumer to control when advances are received. The regulation requires creditors to use a special assumption for calculating the total annual loan cost rate in this case. Creditors must assume that 50 percent of the amount of the credit line is advanced when the consumer becomes obligated under the transaction (at the interest rate then in effect) and that no further advances are made during the remaining term. The Board believes this assumption is appropriate for reverse mortgage credit lines, given that the amount and timing of advances (and, thus, the estimated interest owed) are within the consumer's control. The assumption used in the final rule also is consistent with HUD'S HECM program (and with Appendix D's requirements for an estimated interest figure when the amount and timing of construction loan advances are unknown).

Creditors should follow this approach for estimating interest on open-end reverse mortgage credit lines. Once the interest figure is determined, creditors should use the general equation in section (b)(8) of this appendix to calculate the total annual loan cost rate.

*(b)(10) Assumption for Variable-Rate Reverse Mortgage Transactions*

Regulation Z provides that to calculate the APR, creditors offering variable-rate transactions must base disclosures on the initial interest rate and not assume the rate will increase. The Board proposed adopting the same convention for calculating total annual loan cost rates, and solicited comment on whether the assumption used in HUD's HECM program—the ''expected interest rate''—was more appropriate. The majority of commenters favored the use of the initial interest rate and the Board has adopted this approach in the final rule. Commenters also requested information on how to calculate the total annual loan cost rate when there is an initial discount rate. Creditors should apply the same rules for calculating the annual loan cost rate as are applied when calculating an APR for a loan with an initial discount rate (§ 226.17(c)).

*(b)(11) Assumption for Closing Costs*

The regulation requires creditors to assume all closing and other consumer costs are financed by the creditor. These costs are generally financed as a part of the transaction, and the Board believes this assumption provides uniformity.

*(c) Examples of Total Annual Loan Cost Rate Computations*

Three examples are provided to assist creditors in calculating the total annual loan cost rate. Some figures have been corrected, and interest rates have been added to the examples.

*Reverse Mortgage Model Form and Sample Form*

The regulation requires that the matrix be accompanied by a disclosure substantially similar to the model form in this paragraph. Reverse mortgages are complicated transactions, and the Board believes a uniform disclosure will enhance consumer understanding of the proposed transaction and promote informed comparison shopping.

The model form and sample form are placed in this appendix, because they apply to both open-end and closed-end reverse mortgage transactions. This avoids publishing the forms twice, in Appendix G (Open-end model forms and clauses) and Appendix H (Closed-end model forms and clauses). The sample form has technical corrections to some figures.

**Appendix L—Assumed Loan Periods for Calculation of Total Annual Loan Cost Rates**

The law requires the total annual loan cost rate disclosures for reverse mortgage transactions to be based on at least three assumed loan periods, as determined by the Board. The regulation tracks the assumed loan period requirements of HUD's HECM program (two years, a period equal to the youngest consumer's life expectancy, and a period 1.4 times that consumer's life expectancy), and adds an optional additional loan period equal to one-half of the youngest consumer's life expectancy.

The Board proposed using the U.S. Decennial Life Tables for the life expectancy figures. These tables are published by the Department of Health and Human Services and are widely available to the public. The Board solicited comment on other sources of such data. Most commenters agreed with the use of the U.S. Decennial Life Tables, and the requirement to use those tables has been adopted in the final rule. The figures in the appendix are based on data currently available, that is, on tables for 1979–1981, as rounded to the nearest whole year. The Board contemplates updating the figures as data are published periodically.

The regulation tracks the HECM program's use of female life expectancy figures for calculating total annual loan cost rates for all borrowers, as women are estimated to comprise the majority of borrowers under existing reverse mortgage programs.

**IV. Regulatory Flexibility Analysis**

The Board's Office of the Secretary has prepared an economic impact statement on the amendments to Regulation Z. A copy of the analysis may be obtained from Publications Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, at (202) 452–3245.

**V. Paperwork Reduction Act**

In accordance with section 3507 of the Paperwork Reduction Act of 1980 (44 U.S.C. 35; 5 CFR 1320.13), the amendments were reviewed by the Board under the authority delegated to the Board by the Office of Management and Budget after consideration of comments received during the public comment period.

Regulation Z requires creditors offering mortgages subject to § 226.32 and creditors offering reverse mortgage transactions to furnish to consumers at least three days prior to consummation a one-time notice disclosing costs of the loan and reminding consumers that signing an application or receiving disclosures does not require the consumer to complete the transaction. Model forms are adopted to ease compliance for creditors furnishing Section 32 and reverse mortgage disclosures.

The Board believes that the types of mortgage products that trigger these additional disclosures are not typically offered by state member banks; thus, the requirements have only a negligible impact on the paperwork burden for state member banks. Any estimates of paperwork burden for institutions other than state member banks that are affected by the amendments would be provided by the federal agency or agencies that supervise these lenders.

**List of Subjects in 12 CFR Part 226**

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

For the reasons set forth in the preamble, the Board amends 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:

**Authority:** 12 U.S.C. 3806; 15 U.S.C. 1604 and 1637(c)(5).

2. Section 226.1 is amended as follows:

a. Paragraph (b) is revised;
b. Paragraph (d)(5) is redesignated as paragraph (d)(6);
c. A new paragraph (d)(5) is added; and
d. Redesignated paragraph (d)(6) is revised.
The revisions and addition read as follows:

**§ 226.1 Authority, purpose, coverage, organization, enforcement and liability.**

* * * * *

(b) The purpose of this regulation is to promote the informed use of consumer credit by requiring disclosures about its terms and cost. The regulation gives consumers the right to cancel certain credit transactions that involve a lien on a consumer's principal dwelling, regulates certain credit card practices, and provides a means for fair and timely resolution of credit billing disputes. The regulation does not govern charges for consumer credit. The regulation requires a maximum interest rate to be stated in variable-rate contracts secured by the consumer's dwelling. It also imposes limitations on home equity plans that are subject to the requirements of § 226.5b and mortgages that are subject to the requirements of § 226.32.

* * * * *

(d) * * *

(5) Subpart E relates to mortgage transactions covered by § 226.32 and reverse mortgage transactions. It contains rules on disclosures, fees, and total annual loan cost rates.

(6) Several appendices contain information such as the procedures for determinations about state laws, state exemptions and issuance of staff interpretations, special rules for certain kinds of credit plans, a list of enforcement agencies, and the rules for computing annual percentage rates in closed-end credit transactions and total annual loan cost rates for reverse mortgage transactions.

* * * * *

3. In § 226.2, footnote 3 in paragraph (a)(17)(i) is revised to read as follows:

**§ 226.2 Definitions and rules of construction.**

(a) * * *
(17) * * *
(i) * * * [3] * * *

[3] A person regularly extends consumer credit only if it extended credit (other than credit subject to the requirements of § 226.32) more than 25 times (or more than 5 times for transactions secured by a dwelling) in the preceding calendar year. If a person did not meet these numerical standards in the preceding calendar year, the numerical standards shall be applied to the current calendar year. A person regularly extends consumer credit if, in any 12-month period, the person originates more than one credit extension that is subject to the requirements of § 226.32 or one or more such credit extensions through a mortgage broker.

* * * * *

4. In § 226.5b, paragraph (f)(2) introductory text is revised and a new paragraph (f)(4) is added to read as follows:

**§ 226.5b Requirements for home equity plans.**

* * * * *

(f) * * *

(2) Terminate a plan and demand repayment of the entire outstanding balance in advance of the original term (except for reverse mortgage transactions that are subject to paragraph (f)(4) of this section) unless:

* * * * *

(4) For reverse mortgage transactions that are subject to § 226.33, terminate a plan and demand repayment of the entire outstanding balance in advance of the original term except:

(i) In the case of default;

(ii) If the consumer transfers title to the property securing the note;

(iii) If the consumer ceases using the property securing the note as the primary dwelling; or

(iv) Upon the consumer's death.

* * * * *

5. In § 226.23, footnote 48 in paragraph (a)(3) is revised to read as follows:

**§ 226.23 Right of rescission.**

(a) * * *
(3) * * * [48] * * *

* * * * *

[48] The term ''material disclosures'' means the required disclosures of the annual percentage rate, the finance charge, the amount financed, the total payments, the payment schedule, and the disclosures and limitations referred to in § 226.32 (c) and (d).

6. In § 226.28, the first sentence of paragraph (b) is revised to read as follows:

**§ 226.28 Effect on State laws.**

* * * * *

(b) *Equivalent disclosure requirements.* If the Board determines that a disclosure required by state law (other than a requirement relating to the finance charge, annual percentage rate, or the disclosures required under § 226.32) is substantially the same in meaning as a disclosure required under the act or this regulation, creditors in that state may make the state disclosure in lieu of the federal disclosure. * * *

* * * * *

7. Part 226 is amended by adding a new Subpart E to read as follows:

**Subpart E—Special Rules for Certain Home Mortgage Transactions**



## Subpart E—Special Rules for Certain Home Mortgage Transactions

**§ 226.31 General rules.**

(a) *Relation to other subparts in this part.* The requirements and limitations of this subpart are in addition to and not in lieu of those contained in other subparts of this part.

(b) *Form of disclosures.* The creditor shall make the disclosures required by this subpart clearly and conspicuously in writing, in a form that the consumer may keep.

(c) *Timing of disclosure*—(1) *Disclosures for certain closed-end home mortgages.* The creditor shall furnish the disclosures required by § 226.32 at least three business days prior to consummation of a mortgage transaction covered by § 226.32.

(i) *Change in terms.* After complying with paragraph (c)(1) of this section and prior to consummation, if the creditor changes any term that makes the disclosures inaccurate, new disclosures shall be provided in accordance with the requirements of this subpart.

(ii) *Telephone disclosures.* A creditor may provide new disclosures by telephone if the consumer initiates the change and if, at consummation:

(A) The creditor provides new written disclosures; and

(B) The consumer and creditor sign a statement that the new disclosures were provided by telephone at least three days prior to consummation.

(iii) *Consumer's waiver of waiting period before consummation.* The consumer may, after receiving the disclosures required by paragraph (c)(1) of this section, modify or waive the three-day waiting period between delivery of those disclosures and consummation if the consumer determines that the extension of credit is needed to meet a bona fide personal financial emergency. To modify or waive the right, the consumer shall give the creditor a dated written statement that describes the emergency, specifically modifies or waives the waiting period, and bears the signature of all the consumers entitled to the waiting period. Printed forms for this purpose are prohibited, except when creditors are permitted to use printed forms pursuant to § 226.23(e)(2).

(2) *Disclosures for reverse mortgages.* The creditor shall furnish the

disclosures required by § 226.33 at least three business days prior to:

(i) Consummation of a closed-end credit transaction; or

(ii) The first transaction under an open-end credit plan.

(d) *Basis of disclosures and use of estimates.* Disclosures shall reflect the terms of the legal obligation between the parties. If any information necessary for accurate disclosure is unknown to the creditor, the creditor shall make the disclosure based on the best information reasonably available and shall state clearly that the disclosure is an estimate.

(e) *Multiple creditors; multiple consumers.* If a transaction involves more than one creditor, only one set of disclosures shall be given and the creditors shall agree among themselves which creditor must comply with the requirements that this part imposes on any or all of them. If there is more than one consumer, the disclosures may be made to any consumer who is primarily liable on the obligation. If the transaction is rescindable under § 226.15 or § 226.23, however, the disclosures shall be made to each consumer who has the right to rescind.

(f) *Effect of subsequent events.* If a disclosure becomes inaccurate because of an event that occurs after the creditor delivers the required disclosures, the inaccuracy is not a violation of Regulation Z (12 CFR part 226), although new disclosures may be required for mortgages covered by § 226.32 under paragraph (c) of this section, § 226.9(c), § 226.19, or § 226.20.

(g) *Accuracy of annual percentage rate.* For purposes of § 226.32, the annual percentage yield shall be considered accurate if it is accurate according to the requirements and within the tolerances set forth in § 226.22.

**§ 226.32 Requirements for certain closed-end home mortgages.**

(a) *Coverage.* (1) Except as provided in paragraph (a)(2) of this section, the requirements of this section apply to a consumer credit transaction that is secured by the consumer's principal dwelling, and in which either:

(i) The annual percentage rate at consummation will exceed by more than 10 percentage points the yield on Treasury securities having comparable periods of maturity to the loan maturity as of the fifteenth day of the month immediately preceding the month in which the application for the extension of credit is received by the creditor; or

(ii) The total points and fees payable by the consumer at or before loan closing will exceed the greater of 8 percent of the total loan amount, or $400; the $400 figure shall be adjusted annually on January 1 by the annual percentage change in the Consumer Price Index that was reported on the preceding June 1.

(2) This section does not apply to the following:

(i) A residential mortgage transaction.

(ii) A reverse mortgage transaction subject to § 226.33.

(iii) An open-end credit plan subject to subpart B of this part.

(b) *Definitions.* For purposes of this subpart, the following definitions apply:

(1) For purposes of paragraph (a)(1)(ii) of this section, *points and fees* mean:

(i) All items required to be disclosed under § 226.4(a) and 226.4(b), except interest or the time-price differential;

(ii) All compensation paid to mortgage brokers; and

(iii) All items required to be disclosed under § 226.4(c)(7) (other than amounts held for future payment of taxes) unless the charge is reasonable, the creditor receives no direct or indirect compensation in connection with the charge, and the charge is not paid to an affiliate of the creditor.

(2) *Affiliate* means any company that controls, is controlled by, or is under common control with another company, as set forth in the Bank Holding Company Act of 1956 (12 U.S.C. 1841 et seq.).

(c) *Disclosures.* In addition to other disclosures required by this part, in a mortgage subject to this section the creditor shall disclose the following:

(1) *Notices.* The following statement: ''You are not required to complete this agreement merely because you have received these disclosures or have signed a loan application. If you obtain this loan, the lender will have a mortgage on your home. You could lose your home, and any money you have put into it, if you do not meet your obligations under the loan.''

(2) *Annual percentage rate.* The annual percentage rate.

(3) *Regular payment.* The amount of the regular monthly (or other periodic) payment.

(4) *Variable-rate.* For variable-rate transactions, a statement that the interest rate and monthly payment may increase, and the amount of the single maximum monthly payment, based on the maximum interest rate required to be disclosed under § 226.30.

(d) *Limitations.* A mortgage transaction subject to this section may not provide for the following terms:

(1)(i) *Balloon payment.* For a loan with a term of less than five years, a payment schedule with regular periodic payments that when aggregated do not fully amortize the outstanding principal balance.

(ii) *Exception.* The limitations in paragraph (d)(1)(i) of this section do not apply to loans with maturities of less than one year, if the purpose of the loan is a ''bridge'' loan connected with the acquisition or construction of a dwelling intended to become the consumer's principal dwelling.

(2) *Negative amortization.* A payment schedule with regular periodic payments that cause the principal balance to increase.

(3) *Advance payments.* A payment schedule that consolidates more than two periodic payments and pays them in advance from the proceeds.

(4) *Increased interest rate.* An increase in the interest rate after default.

(5) *Rebates.* A refund calculated by a method less favorable than the actuarial method (as defined by section 933(d) of the Housing and Community Development Act of 1992, 15 U.S.C. 1615(d)), for rebates of interest arising from a loan acceleration due to default.

(6) *Prepayment penalties.* Except as allowed under paragraph (d)(7) of this section, a penalty for paying all or part of the principal before the date on which the principal is due. A prepayment penalty includes computing a refund of unearned interest by a method that is less favorable to the consumer than the actuarial method, as defined by section 933(d) of the Housing and Community Development Act of 1992.

(7) *Prepayment penalty exception.* A mortgage transaction subject to this section may provide for a prepayment penalty otherwise permitted by law (including a refund calculated according to the rule of 78s) if:

(i) The penalty can be exercised only for the first five years following consummation;

(ii) The source of the prepayment funds is not a refinancing by the creditor or an affiliate of the creditor; and

(iii) At consummation, the consumer's total monthly debts (including amounts owed under the mortgage) do not exceed 50 percent of the consumer's monthly gross income, as verified by the consumer's signed financial statement, a credit report, and payment records for employment income.

(e) *Prohibited acts and practices.* A creditor extending mortgage credit subject to this section may not:

(1) *Repayment ability.* Engage in a pattern or practice of extending such credit to a consumer based on the consumer's collateral if, considering the consumer's current and expected income, current obligations, and

employment status, the consumer will be unable to make the scheduled payments to repay the obligation.

(2) *Home improvement contracts.* Pay a contractor under a home improvement contract from the proceeds of a mortgage covered by this section, other than:

(i) By an instrument payable to the consumer or jointly to the consumer and the contractor; or

(ii) At the election of the consumer, through a third-party escrow agent in accordance with terms established in a written agreement signed by the consumer, the creditor, and the contractor prior to the disbursement.

(3) *Notice to assignee.* Sell or otherwise assign a mortgage subject to this section without furnishing the following statement to the purchaser or assignee: ''Notice: This is a mortgage subject to special rules under the federal Truth in Lending Act. Purchasers or assignees of this mortgage could be liable for all claims and defenses with respect to the mortgage that the borrower could assert against the creditor.''

**§ 226.33 Requirements for reverse mortgages.**

(a) *Definition.* For purposes of this subpart, *reverse mortgage transaction* means a nonrecourse consumer credit obligation in which:

(1) A mortgage, deed of trust, or equivalent consensual security interest securing one or more advances is created in the consumer's principal dwelling; and

(2) Any principal, interest, or shared appreciation or equity is due and payable (other than in the case of default) only after:

(i) The consumer dies;

(ii) The dwelling is transferred; or

(iii) The consumer ceases to occupy the dwelling as a principal dwelling.

(b) *Content of disclosures.* In addition to other disclosures required by this part, in a reverse mortgage transaction the creditor shall provide the following disclosures in a form substantially similar to the model form found in paragraph (d) of Appendix K of this part:

(1) *Notice.* A statement that the consumer is not obligated to complete the reverse mortgage transaction merely because the consumer has received the disclosures required by this section or has signed an application for a reverse mortgage loan.

(2) *Total annual loan cost rates.* A good-faith projection of the total cost of the credit, determined in accordance with paragraph (c) of this section and expressed as a table of ''total annual loan cost rates,'' using that term, in accordance with Appendix K of this part.

(3) *Itemization of pertinent information.* An itemization of loan terms, charges, the age of the youngest borrower and the appraised property value.

(4) *Explanation of table.* An explanation of the table of total annual loan cost rates as provided in the model form found in paragraph (d) of Appendix K of this part.

(c) *Projected total cost of credit.* The projected total cost of credit shall reflect the following factors, as applicable:

(1) *Costs to consumer.* All costs and charges to the consumer, including the costs of any annuity the consumer purchases as part of the reverse mortgage transaction.

(2) *Payments to consumer.* All advances to and for the benefit of the consumer, including annuity payments that the consumer will receive from an annuity that the consumer purchases as part of the reverse mortgage transaction.

(3) *Additional creditor compensation.* Any shared appreciation or equity in the dwelling that the creditor is entitled by contract to receive.

(4) *Limitations on consumer liability.* Any limitation on the consumer's liability (such as nonrecourse limits and equity conservation agreements).

(5) *Assumed annual appreciation rates.* Each of the following assumed annual appreciation rates for the dwelling:

(i) 0 percent.

(ii) 4 percent.

(iii) 8 percent.

(6) *Assumed loan period.* (i) Each of the following assumed loan periods, as provided in Appendix L of this part:

(A) Two years.

(B) The actuarial life expectancy of the consumer to become obligated on the reverse mortgage transaction (as of that consumer's most recent birthday). In the case of multiple consumers, the period shall be the actuarial life expectancy of the youngest consumer (as of that consumer's most recent birthday).

(C) The actuarial life expectancy specified by paragraph (c)(6)(i)(B) of this section, multiplied by a factor of 1.4 and rounded to the nearest full year.

(ii) At the creditor's option, the actuarial life expectancy specified by paragraph (c)(6)(i)(B) of this section, multiplied by a factor of .5 and rounded to the nearest full year.

9. In Part 226, Appendix H is amended by:

a. Revising the appendix heading;

b. Revising the table of contents at the beginning of the appendix; and

c. Adding a new H–16 Mortgage Sample in numerical order.

The revisions and additions read as follows:

**Appendix H to Part 226—Closed-End Model Forms and Clauses**



* * * * *

BILLING CODE 6210–01–P

**H-16--Mortgage Sample**

**You are not required to complete this agreement merely because you have received these disclosures or have signed a loan application. If you obtain this loan, the lender will have a mortgage on your home. You could lose your home, and any money you have put into it, if you do not meet your obligations under the loan.**

The annual percentage rate on your loan will be ______%.

Your regular __[frequency]__ payment will be $_________.

[Your interest rate may increase. Increases in the interest rate could increase your payment. The highest amount your payment could increase is to $_______.]

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* * * * *

10. In Part 226, a new Appendix K is added to read as follows:

### Appendix K to Part 226—Total Annual Loan Cost Rate Computations for Reverse Mortgage Transactions

(a) *Introduction.* Creditors are required to disclose a series of total annual loan cost rates for each reverse mortgage transaction. This appendix contains the equations creditors must use in computing the total annual loan cost rate for various transactions, as well as instructions, explanations, and examples for various transactions. This appendix is modeled after Appendix J of this part (Annual Percentage Rates Computations for Closed-end Credit Transactions); creditors should consult Appendix J of this part for additional guidance in using the formulas for reverse mortgages.

(b) *Instructions and equations for the total annual loan cost rate.*

(1) *General rule.* The total annual loan cost rate shall be the nominal total annual loan cost rate determined by multiplying the unit-period rate by the number of unit-periods in a year.

(2) *Term of the transaction.* For purposes of total annual loan cost disclosures, the term of a reverse mortgage transaction is assumed to begin on the first of the month in which consummation is expected to occur. If a loan cost or any portion of a loan cost is initially incurred beginning on a date later than consummation, the term of the transaction is assumed to begin on the first of the month in which that loan cost is incurred. For purposes of total annual loan cost disclosures, the term ends on each of the assumed loan periods specified in § 226.33(c)(6).

(3) *Definitions of time intervals.*

(i) A *period* is the interval of time between advances.

(ii) A *common period* is any period that occurs more than once in a transaction.

(iii) A *standard interval of time* is a day, week, semimonth, month, or a multiple of a week or a month up to, but not exceeding, 1 year.

(iv) All months shall be considered to have an equal number of days.

(4) *Unit-period.*

(i) In all transactions other than single-advance, single-payment transactions, the unit-period shall be that common period, not to exceed one year, that occurs most frequently in the transaction, except that:

(A) If two or more common periods occur with equal frequency, the smaller of such common periods shall be the unit-period; or

(B) If there is no common period in the transaction, the unit-period shall be that period which is the average of all periods rounded to the nearest whole standard interval of time. If the average is equally near two standard intervals of time, the lower shall be the unit-period.

(ii) In a single-advance, single-payment transaction, the unit-period shall be the term of the transaction, but shall not exceed one year.

(5) *Number of unit-periods between two given dates.*

(i) The number of days between two dates shall be the number of 24-hour intervals between any point in time on the first date to the same point in time on the second date.

(ii) If the unit-period is a month, the number of full unit-periods between two dates shall be the number of months. If the unit-period is a month, the number of unit-periods per year shall be 12.

(iii) If the unit-period is a semimonth or a multiple of a month not exceeding 11 months, the number of days between two dates shall be 30 times the number of full months. The number of full unit-periods shall be determined by dividing the number of days by 15 in the case of a semimonthly unit-period or by the appropriate multiple of 30 in the case of a multimonthly unit-period. If the unit-period is a semimonth, the number of unit-periods per year shall be 24. If the number of unit-periods is a multiple of a month, the number of unit-periods per year shall be 12 divided by the number of months per unit-period.

(iv) If the unit-period is a day, a week, or a multiple of a week, the number of full unit-periods shall be determined by dividing the number of days between the two given dates by the number of days per unit-period. If the unit-period is a day, the number of unit-periods per year shall be 365. If the unit-period is a week or a multiple of a week, the number of unit-periods per year shall be 52 divided by the number of weeks per unit-period.

(v) If the unit-period is a year, the number of full unit-periods between two dates shall be the number of full years (each equal to 12 months).

(6) *Symbols.* The symbols used to express the terms of a transaction in the equation set forth in paragraph (b)(8) of this appendix are defined as follows:

$A_j$=The amount of each periodic or lump-sum advance to the consumer under the reverse mortgage transaction.

i=Percentage rate of the total annual loan cost per unit-period, expressed as a decimal equivalent.

j=The number of unit-periods until the jth advance.

n=The number of unit-periods between consummation and repayment of the debt.

$P_n$=Min ($Bal_n$, $Val_n$). This is the maximum amount that the creditor can be repaid at the specified loan term.

$Bal_n$=Loan balance at time of repayment, including all costs and fees incurred by the consumer (including any shared appreciation or shared equity amount) compounded to time n at the creditor's contract rate of interest.

$Val_n=Val_0 (1 + \sigma)^y$, where $Val_0$ is the property value at consummation, σ is the assumed annual rate of appreciation for the dwelling, and y is the number of years in the assumed term. $Val_n$ must be reduced by the amount of any equity reserved for the consumer by agreement between the parties, or by 7 percent (or the amount or percentage specified in the credit agreement), if the amount required to be repaid is limited to the net proceeds of sale.

Σ=The summation operator.

Symbols used in the examples shown in this appendix are defined as follows:

$FV_{\overline{x}|}i$ = The future value of 1 per unit period for x unit periods, first advance due immediately (at time = 0, which is consummation).

$$= \sum_{j=0}^{x-1} (1+i)^{x-j}$$

$$= (1+i)^x + (1+i)^{x-1} + \cdots (1+i)^1 \text{; or}$$

$$= \frac{(1+i)^n - 1}{i} \times (1+i)$$

w=The number of unit-periods per year.

$I = wi \times 100$=the nominal total annual loan cost rate.

(7) *General equation.* The total annual loan cost rate for a reverse mortgage transaction must be determined by first solving the following formula, which sets forth the relationship between the advances to the consumer and the amount owed to the creditor under the terms of the reverse mortgage agreement for the loan cost rate per unit-period (the loan cost rate per unit-period is then multiplied by the number of unit-periods per year to obtain the total annual loan cost rate I; that is, I = wi):

$$\sum_{j=0}^{n-1} A_j(1+i)^{n-j} = P_n$$

(8) *Solution of general equation by iteration process.* (i) The general equation in paragraph (b)(7) of this appendix, when applied to a simple transaction for a reverse mortgage loan of equal monthly advances of $350 each, and with a total amount owed of $14,313.08 at an assumed repayment period of two years, takes the special form:

$$P_n = 350\ FV_{\overline{24|}}\ i, \text{ or}$$

$$P_n = 350 \times \left[ \frac{(1+i)^n - 1}{i} \times (1+i) \right]$$

Using the iteration procedures found in steps 1 through 4 of (b)(9)(i) of Appendix J of this part, the total annual loan cost rate, correct to two decimals, is 48.53%.

(ii) In using these iteration procedures, it is expected that calculators or computers will be programmed to carry all available decimals throughout the calculation and that enough iterations will be performed to make virtually certain that the total annual loan cost rate obtained, when rounded to two decimals, is correct. Total annual loan cost rates in the examples below were obtained by using a 10-digit programmable calculator and the iteration procedure described in Appendix J of this part.

(9) *Assumption for discretionary cash advances.* If the consumer controls the timing of advances made after consummation (such as in a credit line arrangement), the creditor must use the general formula in paragraph (b)(7) of this appendix. The total annual loan cost rate shall be based on the assumption that 50 percent of the principal loan amount is advanced at closing, or in the case of an open-end transaction, at the time the consumer becomes obligated under the plan. Creditors shall assume the advances are made at the interest rate then in effect and that no further advances are made to, or repayments made by, the consumer during the term of the transaction or plan.

(10) *Assumption for variable-rate reverse mortgage transactions.* If the interest rate for a reverse mortgage transaction may increase during the loan term and the amount or timing is not known at consummation, creditors shall base the disclosures on the initial interest rate in effect at the time the disclosures are provided.

(11) *Assumption for closing costs.* In calculating the total annual loan cost rate, creditors shall assume all closing and other consumer costs are financed by the creditor.

(c) *Examples of total annual loan cost rate computations.*

(1) *Lump-sum advance at consummation.*

Lump-sum advance to consumer at consummation: $30,000

Total of consumer's loan costs financed at consummation: $4,500

Contract interest rate: 11.60%

Estimated time of repayment (based on life expectancy of a consumer at age 78): 10 years

Appraised value of dwelling at consummation: $100,000

Assumed annual dwelling appreciation rate: 4%

$$P_{120} = \text{Min}\ (109{,}441.32, 137{,}662.72)$$

$$30{,}000(1+i)^{120-0} + \sum_{j=0}^{119} 0(1+i)^{120-j} = 109{,}441.32$$

$$i = .010843293$$

Total annual loan cost rate (100(.010843293 x 12)) = 13.01%

(2) *Monthly advance beginning at consummation.*

Monthly advance to consumer, beginning at consummation: $492.51

Total of consumer's loan costs financed at consummation: $4,500

Contract interest rate: 9.00%

Estimated time of repayment (based on life expectancy of a consumer at age 78): 10 years

Appraised value of dwelling at consummation: $100,000

Assumed annual dwelling appreciation rate: 8%

$$P_{120} = \text{Min}\ (107{,}053.63, 200{,}780.02)$$

$$492.51 \times \left[ \frac{(1+i)^{120} - 1}{i} \times (1+i) \right] = 107{,}053.63$$

$$i = .009061140$$

Total annual loan cost rate (100(.009061140 x 12))=10.87%

(3) *Lump sum advance at consummation and monthly advances thereafter.*

Lump sum advance to consumer at consummation: $10,000

Monthly advance to consumer, beginning at consummation: $725

Total of consumer's loan costs financed at consummation: $4,500

Contract rate of interest: 8.5%

Estimated time of repayment (based on life expectancy of a consumer at age 75): 12 years

Appraised value of dwelling at consummation: $100,000

Assumed annual dwelling appreciation rate: 8%

$$P_{144} = \text{Min}\,(221{,}818.30,\ 234{,}189.82)$$

$$10{,}000(1+i)^{144-0} + \sum_{j=0}^{143} 725(1+i)^{144-j} = 221{,}818.30$$

$$i = .007708844$$

Total annual loan cost rate (100(.007708844 x 12)) = 9.25%

(d) *Reverse mortgage model form and sample form.*

(1) *Model form.*

**Total Annual Loan Cost Rate**

*Loan Terms*

Age of youngest borrower:
Appraised property value:
Interest rate:
Monthly advance:
Initial draw:
Line of credit:

*Initial Loan Charges*

Closing costs:
Mortgage insurance premium:
Annuity cost:

*Monthly Loan Charges*

Servicing fee:

*Other Charges:*

Mortgage insurance:
Shared Appreciation:

*Repayment Limits*

| Assumed annual appreciation | Total annual loan cost rate | | | |
|---|---|---|---|---|
| | 2-year loan term | [ ]-year loan term] | [ ]-year loan term | [ ]-year loan term |
| 0% | | [ ] | | |
| 4% | | [ ] | | |
| 8% | | [ ] | | |

The cost of any reverse mortgage loan depends on how long you keep the loan and how much your house appreciates in value. Generally, the longer you keep a reverse mortgage, the lower the total annual loan cost rate will be.

This table shows the estimated cost of your reverse mortgage loan, expressed as an annual rate. It illustrates the cost for three [four] loan terms: 2 years, [half of life expectancy for someone your age,] that life expectancy, and 1.4 times that life expectancy. The table also shows the cost of the loan, assuming the value of your home appreciates at three different rates: 0%, 4% and 8%.

The total annual loan cost rates in this table are based on the total charges associated with this loan. These charges typically include principal, interest, closing costs, mortgage insurance premiums, annuity costs, and servicing costs (but not costs when you sell the home).

The rates in this table are estimates. Your actual cost may differ if, for example, the amount of your loan advances varies or the interest rate on your mortgage changes.

Signing an Application or Receiving These Disclosures Does Not Require You To Complete This Loan

(2) Sample Form.

**Total Annual Loan Cost Rate**

*Loan Terms*

Age of youngest borrower: 75
Appraised property value: $100,000
Interest rate: 9%
Monthly advance: $301.80
Initial draw: $1,000
Line of credit: $4,000

*Initial Loan Charges*

Closing costs: $5,000
Mortgage insurance premium: None
Annuity cost: None

*Monthly Loan Charges*

Servicing fee: None

*Other Charges*

Mortgage insurance: None
Shared Appreciation: None

*Repayment Limits*

Net proceeds estimated at 93% of projected home sale

| Assumed annual appreciation | Total annual loan cost rate | | | |
|---|---|---|---|---|
| | 2-year loan term | [6-year loan term] | 12-year loan term | 17-year loan term |
| 0% | 39.00% | [14.94%] | 9.86% | 3.87% |
| 4% | 39.00% | [14.94%] | 11.03% | 10.14% |
| 8% | 39.00% | [14.94%] | 11.03% | 10.20% |

The cost of any reverse mortgage loan depends on how long you keep the loan and how much your house appreciates in value. Generally, the longer you keep a reverse mortgage, the lower the total annual loan cost rate will be.

This table shows the estimated cost of your reverse mortgage loan, expressed as an annual rate. It illustrates the cost for three [four] loan terms: 2 years, [half of life expectancy for someone your age,] that life expectancy, and 1.4 times that life expectancy. The table also shows the cost of the loan, assuming the value of your home appreciates at three different rates: 0%,4% and 8%.

The total annual loan cost rates in this table are based on the total charges associated with this loan. These charges typically include principal, interest, closing costs, mortgage insurance premiums, annuity costs, and servicing costs (but not disposition costs—costs when you sell the home).

The rates in this table are estimates. Your actual cost may differ if, for example, the amount of your loan advances varies or the interest rate on your mortgage changes.

Signing an Application or Receiving These Disclosures Does Not Require You To Complete This Loan

11. In Part 226, a new Appendix L is added to read as follows:

**Appendix L to Part 226—Assumed Loan Periods for Computations of Total Annual Loan Cost Rates**

(a) *Required tables.* In calculating the total annual loan cost rates in accordance with Appendix K of this part, creditors shall assume three loan periods, as determined by the following table.

(b) *Loan periods.*

(1) Loan Period 1 is a two-year loan period.

(2) Loan Period 2 is the life expectancy in years of the youngest borrower to become obligated on the reverse mortgage loan, as shown in the U.S. Decennial Life Tables for 1979–1981 for females, rounded to the nearest whole year.

(3) Loan Period 3 is the life expectancy figure in Loan Period 3, multiplied by 1.4 and rounded to the nearest full year (life expectancy figures at .5 have been rounded up to 1).

(4) At the creditor's option, an additional period may be included, which is the life expectancy figure in Loan Period 2, multiplied by .5 and rounded to the nearest full year (life expectancy figures at .5 have been rounded up to 1).

| Age of youngest borrower | Loan period 1 (in years) | [Optional loan period (in years)] | Loan period 2 (life expectancy) (in years) | Loan period 3 (in years) |
|---|---|---|---|---|
| 62 | 2 | [11] | 21 | 29 |
| 63 | 2 | [10] | 20 | 28 |
| 64 | 2 | [10] | 19 | 27 |
| 65 | 2 | [9] | 18 | 25 |
| 66 | 2 | [9] | 18 | 25 |
| 67 | 2 | [9] | 17 | 24 |
| 68 | 2 | [8] | 16 | 22 |
| 69 | 2 | [8] | 16 | 22 |
| 70 | 2 | [8] | 15 | 21 |
| 71 | 2 | [7] | 14 | 20 |
| 72 | 2 | [7] | 13 | 18 |
| 73 | 2 | [7] | 13 | 18 |
| 74 | 2 | [6] | 12 | 17 |
| 75 | 2 | [6] | 12 | 17 |
| 76 | 2 | [6] | 11 | 15 |
| 77 | 2 | [5] | 10 | 14 |
| 78 | 2 | [5] | 10 | 14 |
| 79 | 2 | [5] | 9 | 13 |
| 80 | 2 | [5] | 9 | 13 |
| 81 | 2 | [4] | 8 | 11 |
| 82 | 2 | [4] | 8 | 11 |
| 83 | 2 | [4] | 7 | 10 |
| 84 | 2 | [4] | 7 | 10 |
| 85 | 2 | [3] | 6 | 8 |
| 86 | 2 | [3] | 6 | 8 |
| 87 | 2 | [3] | 6 | 8 |
| 88 | 2 | [3] | 5 | 7 |
| 89 | 2 | [3] | 5 | 7 |
| 90 | 2 | [3] | 5 | 7 |
| 91 | 2 | [2] | 4 | 6 |
| 92 | 2 | [2] | 4 | 6 |
| 93 | 2 | [2] | 4 | 6 |
| 94 | 2 | [2] | 4 | 6 |
| 95 and over | 2 | [2] | 3 | 4 |

By order of the Board of Governors of the Federal Reserve System, March 20, 1995.

**William W. Wiles,**

*Secretary of the Board.*

[FR Doc. 95–7231 Filed 3–23–95; 8:45 am]

BILLING CODE 6210–01–P

## SMALL BUSINESS ADMINISTRATION

## 13 CFR Part 121

## Small Business Size Regulations; Handicapped Workshop Participation in Small Business Set-Aside Contracts

**AGENCY:** Small Business Administration.

**ACTION:** Final rule.

**SUMMARY:** The Small Business Administration (SBA) hereby amends its size regulations to include public or private organizations for the handicapped as eligible concerns to participate in small business set-aside contracts during fiscal year 1995, in an aggregate amount not to exceed $40,000,000. Section 305 of the Small Business Administration Reauthorization and Amendments Act of 1994 expanded the eligibility of entities which may participate in small business set-aside contracts to include public or private organizations for the handicapped during fiscal year 1995. Handicapped organizations had been eligible for set-aside contracts during fiscal years 1989 through 1993.

**EFFECTIVE DATE:** This rule is effective on March 24, 1995.

**FOR FURTHER INFORMATION CONTACT:** Gary M. Jackson, Assistant Administrator for Size Standards, (202) 205–6840.

121.601. The Small Business Administration Reauthorization and Amendments Act of 1994 amended Section 15(c) of the Act, 15 U.S.C. 644(c), by expanding the eligibility of entities which may participate in small business set-aside contracts to include public or private organizations for the handicapped during fiscal year 1995. *See* Public Law 103–403, Section 305. However, this statutory revision limits the extent of participation by public or private handicapped organizations in small business set-aside awards to an aggregate amount not to exceed $40,000,000. The Act further provides that Federal agencies making awards to such organizations pursuant to provisions of this Act may use multi-year contracts, if appropriate.

This statutory provision reinstates the eligibility of public or private handicapped organizations previously authorized by Public Law 100–590 for fiscal years 1989 through 1993. Sections 121.2001 through 121.2005 of the Small Business Size Regulations prescribe regulations governing the participation of public or private handicapped organization on small business set-aside contracts. The regulations include the definition of terms, procedures for protesting the status of an offeror asserting eligibility as a handicapped organization, and procedures for filing appeals of an award to a handicapped organization on the basis of severe