

52 F.R. 48702

PROPOSED RULES

FEDERAL RESERVE SYSTEM

12 CFR Part 226

[Regulation Z; Docket No. R-0625]

Truth in Lending; Home Equity Disclosures Under Regulation Z

Thursday, December 24, 1987

**\*48702-01** AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed rule.

SUMMARY: The Board is publishing for comment a proposal to amend Regulation Z. The proposed amendment would require creditors to provide disclosures for home equity lines of credit secured by the consumer's principal dwelling at the time an application form is given to the consumer or before the consumer pays a non-refundable fee, whichever is earlier. The proposal also would require the disclosures for home equity plans to be segregated from any other information given to the consumer. Under the proposed amendment, creditors would have to provide additional information about home equity lines secured by a consumer's principal dwelling, including information about a plan's payment terms, whether a creditor can terminate or change the terms of a plan, and, for variable-rate plans, disclosures about the index, frequency of rate adjustments, and a history of changes in the index. Creditors also would be required to provide consumers with a brochure describing home equity plans.

DATES: Comments must be received on or before February 8, 1988.

ADDRESSES: Comments should be mailed to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, Washington, DC, 20551, or delivered to the 20th Street courtyard entrance on 20th Street, between C Street and Constitution Avenue NW., Washington, DC, between 8:45 a.m. and 5:15 p.m. weekdays. Comments should include a reference to Docket No. R-0625. Comments may be inspected in Room B-1122 between 8:45 a.m. and 5:15 p.m. weekdays.

FOR FURTHER INFORMATION CONTACT: Sharon Bowman or Leonard Chanin, Staff Attorneys, Division of Consumer and Community Affairs, at (202) 452-3667 or 452-2412; for the hearing impaired only, contact Earnestine Hill or Dorothea Thompson, Telecommunications Device for the Deaf, at (202) 452-3544, Board of Governors of the Federal Reserve System, Washington, DC, 20551.

SUPPLEMENTARY INFORMATION:

(1) Background

A home equity line is an open-end credit line secured by the homeowner's equity--the difference between the market value of the home and any debts secured by that home. During the past few years the number of lenders offering home equity lines of credit and the number of consumers borrowing through this form of credit have increased considerably. The increased promotion and use of home equity plans has led the Board to examine the disclosures required by the Truth in Lending Act and Regulation Z to determine if the current requirements ensure that consumers receive adequate information about these plans at a relevant stage of the credit-granting process. Financial institutions, trade associations, consumer groups, the Board's Consumer Advisory Council (CAC), and the Congress also have focused on existing disclosure requirements. Financial institutions and trade associations have asked

Board staff how information should be disclosed for these plans. Consumer groups and the CAC have expressed concern about the complexities and risks associated with these plans, and the adequacy of the disclosures consumers are receiving. In addition, bills have been introduced in the Congress that would require increased disclosures and would regulate substantive aspects of home equity lines.

Based on the Board's analysis of the current disclosure requirements under Regulation Z--and discussions with financial institutions, trade associations, consumer groups and the CAC--the Board has concluded that the current disclosure requirements do not ensure that consumers receive adequate information about home equity lines in a meaningful and timely fashion.

## (2) Current Disclosure Requirements

Currently, Regulation Z requires the same disclosures for home equity lines of credit as for other open-end credit plans. As with other open-end plans, creditors may provide consumers with disclosures at any time prior to the first transaction under the plan, and the disclosures need not be provided in a specified format. In addition the disclosures required by the regulation are rather limited--a creditor is required to disclose only how the finance charge is determined, including the periodic and annual percentage rates; other (nonfinance) charges, such as late payment fees, that may be imposed; the existence of a security interest; and the consumer's billing rights. The Board believes that the current disclosure requirements for home equity lines are insufficient in their timing, format, and content to ensure that consumers understand the terms and conditions of a particular loan program before committing to a plan.

(i) Timing of disclosures. In general, the Truth in Lending Act permits disclosures for both open-end and closed-end credit transactions to be given at a relatively late stage of the credit process--at any time before the consumer actually becomes obligated for a particular credit plan.

There are two exceptions to this rule, however. Section 128(b)(2) of the Truth in Lending Act provides that in closed-end residential mortgage transactions subject to the Real Estate Settlement Procedures Act, disclosures must be given within three business days after the creditor receives the consumer's written application. Another exception to this general rule is contained in the regulations just adopted by the Board with respect to adjustable-rate mortgages (ARMs). Those regulations require information about the variable-rate feature of certain closed-end adjustable-rate mortgages to be given to consumers either when an application form is provided or before a consumer pays a nonrefundable fee, whichever is earlier. (See this issue of the Federal Register.)

The Board believes that consumers should receive disclosures about home equity lines at an earlier time in the credit process to facilitate consumer understanding and shopping for this type of credit. The same concerns that prompted early disclosures for closed-end ARMs--credit shopping and risk to the consumer--also support requiring early disclosures for home equity lines. The risk to the consumer in the event of default, the potential loss of the home, is **\*48703** the same for both closed-end and open-end transactions secured by the home. Furthermore, because most home equity lines are variable-rate and often have large up-front fees, the Board believes consumers should receive disclosures in a timely fashion to better understand the risks and complexities of a particular plan, as well to better shop among plans. Specifically, the Board believes consumers should be provided with disclosures when an application form is provided or before the consumer pays a non-refundable fee, whichever is earlier.

(ii) Format of disclosures. Regulation Z currently does not require creditors to provide home equity disclosures in any particular format. As with other open-end plans, the disclosures can be interspersed with contract and other information, and need not be highlighted.

The Board believes that the disclosures for home equity lines should be separated from other information. The same concern that prompted segregation of disclosures

generally for closed-end transactions--that is, to ensure that the disclosures are highlighted--exists with respect to home equity lines. The purpose of the Trust in Lending disclosure is to provide consumers with clear and readily understandable information about the costs of a credit transaction. Because home equity plans involve terms and conditions that are more complicated and numerous than those in other types of open-end plans, the Board believes that the disclosures required to be provided to consumers by the regulation should be segregated from other information to enable consumers to easily identify and understand the most important terms and conditions. Such a requirement is particularly important when the consumer's home secures the transaction.

In addition to this requirement, the Board believes some information warrants special attention. The Board is proposing that three disclosures--the risk of the loss of the consumer's home in the event of default, the right of a creditor to terminate an account, and the right of a creditor to change the terms of an account--as well as the current security interest disclosure, precede all other disclosures on the form provided to the consumer. Provisions such as the creditor's ability to change a plan's terms and conditions at will or to terminate an account are common in open-end credit, including home equity lines. Consumers, however, may not be familiar with these aspects of the plans if they are more accustomed to closed-end credit where the home is being used as security. Moreover, the exercise of any one of these provisions could have an adverse effect on consumers, thus making it particularly important that consumers be alerted to them.

(iii) Content of disclosures. The Board does not believe that changing the timing and format of the disclosure requirements will be sufficient to ensure that consumers understand home equity plans. Regulation Z currently requires creditors to provide only the four items of information mentioned earlier. Therefore, certain important information about home equity lines is not required to be disclosed. The regulation, for example, does not require disclosure of whether a creditor may unilaterally change the terms and conditions of the plan, and the circumstances under which the creditor may terminate the plan and require payment of any outstanding balance. Information about the payment terms of the plan may be difficult to understand, and may not be presented in a manner that facilitates consumer awareness of such features.

The absence of such disclosures is significant since home equity lines contain unique features that may expose consumers to greater risk than the typical open-end credit plan. For example, many of the programs have characteristics of both open-end and closed-end credit. The programs often involve two phases--a phase during which the consumer may obtain advances, as with traditional open-end products, and a phase during which the consumer may not borrow additional money and simply repays what already has been borrowed. Each phase may involve its own payment terms, and, in addition, creditors may give the consumer the option to choose among several payment terms during a phase. Moreover, unlike most traditional open-end plans, many home equity programs permit payment of only interest during the draw period. While some programs provide for payment of the outstanding balance over an extended period of time, others do not; in the latter case, the consumer may be required to pay the entire outstanding balance at the end of the draw period, a fact that may not be clearly disclosed when the consumer contracts for the plan. If the plan calls for full payment of the outstanding balance at the end of the draw period, there may be no guarantee that the creditor will refinance the outstanding principal balance when it becomes due. Although other types of open-end credit, like credit cards, also can involve repayment terms that permit borrowers to make small monthly payments, the risk to consumers is greater with a home equity line given the size of the average credit line, the potential size of the balances, and the risk that consumers may lose their homes if they are unable to pay the full balance when it is due.

In the case of variable-rate home equity lines, the Board is also concerned about adequate disclosure of the variable-rate feature. For open-end variable-rate home equity lines, only a limited amount of information about the variable-rate feature is currently required. (The creditor must disclose the circumstances under which the rate may increase, any limits on the increase, and the effect of an increase.)

Requiring additional disclosures for variable-rate home equity lines secured by the consumer's principal dwelling would be consistent with the additional variable-rate disclosures just adopted by the Board for closed-end ARMs. The same concern exists in both open-end and closed-end transactions, that is, the possibility of losing the home in the event of default and the fact that the variable-rate feature could increase the risk of default in some instances. The Board believes most of the variable-rate disclosures contained in its final ARMs rule should be provided for home equity lines secured by the consumer's principal dwelling. Such disclosures, adjusted to reflect the fact that open-end transactions differ from closed-end transactions, would ensure that consumers receive substantially the same information for all variable-rate credit secured by the consumer's principal dwelling.

### (3) Current Advertising Requirements

Currently an advertisement that states an annual fee or other cost information must state additional information, such as the annual percentage rate (APR), any minimum, fixed, transaction or activity charge, and any membership or participation fee. Reference in an advertisement to certain other terms, such as a payment term, however, does not require the disclosure of the other cost information, such as the APR.

The Board believes that providing specific terms, such as the payment amount, in an advertisement without providing additional cost information gives an incomplete and potentially misleading picture of the major terms and conditions of the plan and the consumer's potential obligations under the plan. The proposed amendments to § 226.6 to require additional disclosures for home equity lines would address this concern without the need for changes to the advertising section. Under the open-end advertising rules in § 226.16, any reference to an item required to be disclosed under § 226.6 requires the disclosure of the cost information discussed above. Thus if any of the proposed disclosures in § 226.6(e) is stated in an advertisement, the cost information listed in § 226.16(b) would have to be provided.

### (4) Consumer Brochure

In addition to the need for disclosures about specific home equity programs, because home equity lines are a relatively new and nontraditional form of credit the Board believes that consumers also may need more general information about these products. Under the new closed-end regulations, creditors will provide consumers with a brochure that describes ARMs (The Consumer Handbook on Adjustable Rate Mortgages, published by the Board and the Federal Home Loan Bank Board, or a suitable substitute), along with the other disclosures. The Board is proposing that creditors be required to provide prospective borrowers with a similar brochure describing home equity lines of credit. The brochure would generally describe how home equity plans operate, define terms consumers might not be familiar with, and advise consumers how to compare home equity plans. The Board is currently working on a brochure that would meet this requirement. Under the proposal, creditors would provide this brochure, or a suitable substitute, along with the other disclosures.

### (5) Proposed Amendments to Regulation Z

(i) Coverage. The Board is proposing to amend Regulation Z to require additional disclosures for home equity lines. The disclosures would be required only for open-end credit programs secured by the consumer's principal dwelling. The new requirements would not apply to home equity lines secured by other consumer dwellings, such as vacation homes.

(ii) Timing. the initial home equity disclosure statement--containing both the existing and proposed disclosures--and the brochure would be given to the consumer when an application form is provided or before the consumer pays a nonrefundable fee, whichever is earlier. For mail and telephone applications (and those submitted through an agent or broker) disclosures would be provided within three business days of receipt of the application by the creditor. The creditor would

not be required to provide the consumer with additional initial Truth in Lending disclosures under section 226.6 at the time an account is opened. If a creditor makes a change in a home equity program after giving the initial disclosures, however, the creditor must provide consumers written notice of the changes under the existing rules in § 226.9(c), dealing with changes in the terms of a credit plan. Section 226.9(c) would require creditors to give the notice to all consumers who may be affected by the changes, for example, at the time the consumer submits a completed application. Creditors would not be required to give notices to consumers that had merely received the initial disclosures along with an application. The Board seeks comment on whether the current rules in § 226.9(c) dealing with changes in the terms of open-end credit plans are adequate to ensure that notice of changes is provided to consumers without imposing undue burdens on creditors, or whether the rules should be modified in some manner.

(iii) Format. Under the proposal, creditors would be required to segregate the disclosures from any other information provided to the consumer. Creditors would not be permitted to include the disclosures in loan contracts, or to provide additional information with the segregated disclosures. To further highlight three of the new disclosures--the risk of loss of the consumer's home in the event of default, the right of a creditor to terminate an account, and the right of a creditor to change the terms of an account--as well as the current security interest disclosure, the regulation would require that these disclosures precede all other disclosures on the form provided to the consumer. Creditors could continue to provide additional information about plans, as long as the information is not interspersed with the required disclosures.

(iv) New home equity disclosures. Under the proposal creditors would have to disclose the fact that consumers risk losing their homes in the event of default. Creditors also would be required to describe certain of their contractual rights. The circumstances under which the creditor (or consumer) may terminate the plan would be provided. For example, if a creditor retains the right to terminate the plan if a rate ceiling is reached, that fact would be noted. In addition, the disclosure would state any fees that may be imposed in the event of termination, and whether the creditor may require payment in full of any outstanding balance. If a creditor retains the right to unilaterally change the terms and conditions of the plan, that right also would be disclosed.

Creditors would disclose the period during which a consumer could obtain advances and the period during which the consumer would be allowed only to make payments. Creditors also would have to disclose how the minimum monthly payment requirements for each period are determined. Examples of the monthly payment amount for each period based on an assumed \$10,000 balance outstanding, at a recent interest rate charged under the plan, would be provided. For purposes of the examples, an interest rate would be considered recent if it had been in effect within 90 days of delivery of the disclosures. Creditors also would provide a statement if the minimum monthly or periodic payment may not or will not reduce the outstanding principal balance. The proposal would require disclosure of any minimum outstanding balance or minimum draw requirements under the plan. Disclosure also would have to be made that information about the creditor's other open-end home equity programs is available.

(v) Additional disclosures for variable-rate plans. The Board proposes to require creditors to provide additional information for variable-rate home equity lines. These disclosures would closely parallel the disclosures just adopted by the Board (and published in this issue of the Federal Register), for closed-end variable-rate transactions secured by a consumer's principal dwelling. Under the proposal creditors would provide the index or the formula used to make rate adjustments, and a source of information about the index. Creditors also would have to describe how the interest rate is determined, including, for example, whether a margin is added to the index to arrive at the interest rate. A statement also would be provided to consumers suggesting they ask about the current index, margin, and interest rate. Creditors would disclose the frequency of rate and payment adjustments, and any rules relating to changes in the index, interest rate, payment amount, and outstanding loan balance. Such information would include an explanation of

limitations on the maximum payment or rate that would be charged, interest rate carryover, and negative amortization. Creditors also would specify the information that would be provided on periodic statements concerning the rate changes.

In addition to these disclosures, creditors would have to provide a historical table that shows the values of the specific index or formula to be used in the loan program, beginning with the value for 1977. The index values would \*48705 be updated annually until a fifteen-year history is shown. Creditors would then show a "rolling history" of index values for the preceding fifteen years. The margin and interest rate for each of the years also would be provided. Unlike the closed-end ARMs rule just adopted by the Board, the monthly payment and remaining balance for the historical table would not have to be provided. The Board believes this information would be of limited value for open-end transactions since the outstanding balance can, and often does, fluctuate as the consumer makes draws and payments under the plan. Comment is requested, however, on whether the monthly payment amount and remaining balance should be required for open-end as it is for closed-end transactions. Creditors also would be required to disclose the initial interest rate shown in the historical table and the maximum interest rate and the corresponding payments for a \$10,000 loan under the plan.

The Board requests comment on one issue that relates to an existing provision in the regulation and staff commentary dealing with disclosures of the annual percentage rate in open-end variable-rate credit plans. The commentary to § 226.6(a)(2) states that a creditor in disclosing the APR in effect in a variable-rate plan may use an insert showing the current rate, may give the rate as of a specified date and update the disclosure from time to time for example, each calendar month, or may disclose an estimated rate under § 226.5(c). In light of the proposed requirement that home equity disclosures be provided earlier, the Board requests comment on whether these options for disclosing the APR provide creditors with sufficient flexibility.

Creditors also would have to provide additional variable-rate information on or with the first periodic statement sent to consumers after the rate has been adjusted. Consumers would be informed of the prior and current index values and the interest rates derived from these values. If the creditor has foregone any interest rate increase, this would be noted. Creditors also would disclose the contractual effects of any rate adjustment, including the payment due and loan balance.

A sample home equity disclosure statement that shows how the proposed and existing requirements might be met is provided in the Appendix of this notice.

(vi) Consumer brochure. The Board also proposed to require creditors to furnish consumers with a home equity brochure along with the required disclosures. Creditors would provide the brochure that the Board will publish or a suitable substitute. Any brochure that is substituted for the Board's pamphlet would have to define terms common to home equity lines, describe features that are basic to most home equity lines, give examples of how rate changes could affect monthly payments, and provide a basic checklist of items that consumers should be alerted to when they shop for home equity products.

#### (6) Related Provisions

(i) Right of rescission--material disclosures. The Board is also proposing to amend footnote 36, accompanying § 226.15(a)(3) of the regulation. Section 226.15(a)(3) states that the consumer may exercise the right of rescission until midnight of the third business day following opening of the plan, delivery of the notice of the right to rescind, or delivery of all "material disclosures," whichever occurs last. Footnote 36 of the regulation currently defines material disclosures to include the method of determining the finance charge and the balance upon which a finance charge will be imposed, the annual percentage rate, and the amount of method of determining the amount of any membership or participation fee that may be imposed as part of the plan. The Board believes all of the proposed disclosures in § 226.6(e) for home

equity lines should be treated as material disclosures in footnote 36. The proposed disclosures contain information that is essential to consumers understanding the cost, terms, and conditions of home equity transactions, and thus consumers must have the information in order to properly exercise their right of rescission.

(ii) Advertising requirements. The Board is not proposing changes to the advertising rules contained in § 226.16 of the regulation. The additional disclosures for home equity plans, if included in an advertisement, will require additional advertising disclosures, however. Under the open-end advertising rules in § 226.16, any reference to an item required to be disclosed under § 226.6 calls for the disclosure of cost information such as the APR, any membership or participation fee, and any minimum, fixed, transaction, or activity charge. Thus if any of the proposed disclosures in § 226.6(e) is stated in an advertisement, other cost information such as the APR also would have to be provided. (The commentary currently limits the terms that require additional disclosures to those items in § 226.6(a) and (b); comment 226.16(b)-1 would be revised to include a reference to § 226.6(e), if the Board adopts this proposal as a final rule.)

#### (7) Comment Period

The comment period ends on February 8, 1988. Because prompt resolution of these matters is essential and in the public interest, the expanded rulemaking procedure set forth in the Board's policy statement of January 19, 1979 (44 FR 3957) will not be followed. The Board believes an abbreviated comment period is necessary to ensure that a final rule is issued at least six months before October 1, 1988, the statutory deadline for the effective date of regulatory amendments.

#### (8) Economic impact statement

The Board's Division of Research and Statistics has prepared an economic impact statement on the proposed revisions to Regulation Z. A copy of the analysis may be obtained from Publications Services, Board of Governors of the Federal Reserve System, Washington, DC, 20551, at (202) 542-3245.

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

Advertising, Banks, banking, Consumer protection Credit, Federal Reserve System, Finance, Penalties, Truth in lending.

#### (9) Text of Proposed Revisions

Certain conventions have been used to highlight the proposed revisions. New language is shown inside bold-face arrows, while language that would be removed is set off with brackets. For the reasons set out in this notice, and pursuant to the Board's authority under section 105 of the Truth in Lending Act (15 U.S.C. 1604 et seq.), the Board proposes to amend Part 226 as follows:

#### PART 226--TRUTH IN LENDING

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

Authority: Sec. 105, Truth in Lending Act, as amended by sec. 605, Pub. L. 96-221, 945 Stat. 170 (15 USC 1604 et seq.); sec. 1204(c), Competitive Equality Banking Act., Pub. L. 100-86, 101 Stat. 552.

2. Section 226.5 is amended by adding paragraph (a)(3), redesignating (b)(2) as (b)(3) and adding a new paragraph (b)(2) to read as follows:

#### Subpart B--Open-end Credit

#### § 226.5 General disclosure requirements

- (a) Form of disclosures. \* \* \*

>(3) In a plan secured by the consumer's principal dwelling, the disclosures required by § 226.6 shall be grouped together, shall be segregated \*48706 from everything else, and shall not contain any information not directly related [FN10a] to the disclosures required under § 226.6. The disclosures required by § 226.6(c) and (e) (1)-(3) shall precede all other disclosures. [FN10b].

FN10a The disclosures may include an acknowledgement of receipt, the date of the transaction, and the consumer's name address, and account number.<< triangle>> >

FN10b The disclosures required by § 226.6(d) and (f) may be sparated from the other disclosures. Creditors also may use an insert or attachment for disclosing information that is subject to change, such as the index, interest rate, and payment example.<<triangle>>

(b) Time of disclosures. \* \* \*

>(2) Initial disclosures for plans secured by the consumer's principal dwelling. In a plan secured by the consumer's principal dwelling, the creditor shall furnish the initial disclosure statement and brochure required by section § 226.6 at the time an application form is provided or before the consumer pays a nonrefundable fee, whichever is earlier. [FN10c] The creditor may furnish the disclosures required by § 226.6(d) in accordance with § 226.5(b) (1).<

FN10c In the case of telephone or mail applications or when an application reaches the creditor through an intermediary agent or broker, disclosures may be delivered not later than three business days after the creditor receives the consumer's application.<<triangle>>

\* \* \* \* \*

3. Section 226.6 is amended by adding paragraph (e) and (f) to read as follows:

§ 226.6 Initial disclosure statement.

\* \* \* \* \*

<<triangle>>(e) Additional disclosures for plans secured by the consumer's principal dwelling. In a plan secured by the consumer's principal dwelling, the following additional disclosures:

(1) A statement that loss of the consumer's home may occur in the event of default.

(2) A statement of the circumstances under which the consumer or the creditor may terminate the plan, any fees that may be imposed upon termination, and whether the creditor may require payment of the outstanding balance in full at such time.

(3) If the creditor has the right to change the terms and conditions during the plan, a statement of that fact.

(4) The payment terms for the plan (separately stated, if applicable, for the period when advances may be obtained and the period when repayment is made without new advances).

(i) The length of the plan.

(ii) An explanation of how the minimum monthly or periodic payment will be determined, including a statement of any other payment, such as one-time payment of the outstanding balance.

(iii) An example, based on a \$10,000 amount outstanding and a recent interest rate, showing the minimum monthly or periodic payment, and any one-time payment of the outstanding balance.

(5) If the minimum monthly or periodic payment may not or will not reduce the outstanding principal balance, a statement of that fact.



(6) Any minimum outstanding balance or minimum draw requirements, stated as dollar amounts.

(7) A statement that disclosure forms are available for the creditor's other open-end programs secured by the consumer's principal dwelling.

(8) If the plan has a variable rate, the following additional disclosures:

(i) The index or formula used in making adjustments, and a source of information about the index.

(ii) An explanation of how the interest rate will be determined, including an explanation of how the index is adjusted, such as by the addition of a margin.

(iii) A statement that the consumer should ask about the current index value, margin, and interest rate.

(iv) The frequency of interest rate and payment changes.

(v) Any rules relating to changes in the index, interest rate, payment amount, and outstanding loan balance including, for example, an explanation of interest rate or payment limitations, negative amortization, and interest rate carryover.

(vi) An historical table showing how interest rates would have been affected by changes in index values over a 15-year period. The historical table would start in 1977 and be updated annually until 15 years of index, margin, and interest rate values are shown.

(vii) A statement of the most recent interest rate shown in the historical table and maximum interest rate and corresponding payments based on a \$10,000 advance.

(viii) A statement that interest rate information will be provided on or with the first periodic statement after each rate change.

(f) Brochure for plans secured by the consumer's principal dwelling. In a plan secured by the consumer's principal dwelling, the home equity brochure published by the Board, or a suitable substitute.<<triangle>>

4. Section 226.7 is amended by adding paragraph (1) to read as follows:

§ 226.7 Periodic statement.

\* \* \* \* \*

<<triangle>>(1) Additional disclosures for variable rate plans secured by the consumer's principal dwelling. On or with the first periodic statement after an interest rate adjustment of a variable-rate plan secured by the consumer's principal dwelling, notification of the rate change. The notice shall contain the following information.

(1) The current and prior interest rates.

(2) The index values upon which the current and prior interest rates are based.

(3) The extent to which the creditor has foregone any increase in the interest rate.

(4) The contractual effects of the adjustment, including the payment due after the adjustment is made.<<triangle>>

\* \* \* \* \*

5. Footnote 36 to paragraph (a) (3) of § 226.15 is revised to read as follows:

§ 226.15 Right of rescission.

(a) \* \* \*

(3) \* \* \* [FN36]

FN36 The term "material disclosures" means the information that must be provided to satisfy the requirements in § 226.6 with regard to the method of determining the finance charge and the balance upon which a finance charge will be imposed, the annual percentage rate, [and] the amount or method of determining the amount of any membership or participation fee that may be imposed as part of the plan[.]<<triangle>>, and those items set forth in § 226.6(e).<<triangle>>

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## Appendix

Editorial Note: This appendix will not appear in the Code of Federal Regulations.

### Sample Disclosure

#### Important Terms of Our Home Equity Line of Credit

**Security Interest:** You must give us a security interest in your home. You could lose your home if you do not meet the obligations in your agreement with us.

**Termination and Payment Upon Termination:** We can cancel your account and require you to pay the entire outstanding balance immediately: (1) If the interest rate that would apply to your account should exceed 18%; (2) if changes in the law either prohibit or increase our risk or burden of offering the plan; (3) if you fail to comply with the requirements in your agreement with us.

You may close your account at any time by notifying us in writing. If you close your account, we can require you to pay the entire outstanding balance immediately.

**Changes in Terms:** We can change the terms and conditions that apply to your account during the life of the plan.

**Payment Requirements:** You can obtain advances for fifteen years. During this period, your minimum monthly payment will equal the amount of interest accrued and unpaid on your account at the end of the billing period or \$10, whichever is greater. For example, if \*48707 you had an outstanding balance of \$10,000, the minimum monthly payment at an interest rate of 10.25% would be \$85.42. Outstanding balances of less than \$200 must be paid in full.

The minimum monthly payment (when it equals accrued interest) will not reduce the outstanding principal balance on your account.

At the end of fifteen years, you must pay the entire outstanding balance immediately. For example, if after fifteen years you had an outstanding balance of \$10,000, you would have to make one payment of \$10,000.

**Variable Rate Feature:** The interest rate is variable and can change quarterly. The rate will not exceed 18%.

The interest rate equals an "index" plus a "margin." The index is the average prime rate charged by banks as published in the Federal Reserve Bulletin for the first month of the preceding quarter. The margin was 2 percentage points on 10/1/87. Ask us for the current index value, margin, and interest rate.

**How the Finance Charge is Determined:** Finance charges begin to accrue on the date a transaction is posted to your account. To determine the finance charge for a billing period, we multiply the "average daily balance" on your account by the "periodic rate." The "average daily balance" equals the total of the balances outstanding at the end of each day during the billing period divided by the number

of days in the billing period. (The balance outstanding at the end of each day is determined by taking the beginning balance in your account each day, adding new advances, and subtracting any payments and credits and unpaid finance charges.) The "periodic rate" equals the interest rate (the index plus the margin) divided by the number of billing periods in a year (12).

Currently, the periodic rate is .8542% and the corresponding Annual Percentage Rate is 10.25%.

Other Finance Charges: You must pay a loan processing fee Finance Charge of \$200 when you open your account.

#### Other Charges

Application fee .....	\$150
Annual fee .....	45
Late payment fee (or 5% of the late payment, whichever, is greater) .....	5
Closing costs (estimated) .....	750
Title search/Insur .....	200
Appraisal fee .....	150
Attorney/Doc. prep .....	250
Recording fees .....	150

Minimum Draw Requirements: The minimum amount of an advance is \$500.

Effects of the Variable-Rate Feature: Increases in the interest rate will increase the amount of your minimum monthly payment. For example, if the interest rate increased from 10.25% to the 18% maximum permitted under the plan, the minimum monthly payment on a \$10,000 balance would increase from \$85.42 to \$150.

You will be notified of changes in the interest rate on the monthly periodic statement you receive following the change.

Rate History: This table shows how the interest rate would have been affected by actual changes in the index that occurred between 1977 and 1987. It does not necessarily indicate how the index will change in the future.

Year	Index (percent)	Margin (percent)	Interest rate (percent)
1977 .....	6.75	2	8.75
1978 .....	9.00	2	11.00
1979 .....	11.54	2	13.54
1980 .....	11.48	2	13.48
1981 .....	20.39	2	18.00 [FN*]
1982 .....	16.26	2	18.00 [FN*]
1983 .....	10.50	2	12.50
1984 .....	13.00	2	15.00
1985 .....	9.50	2	11.50
1986 .....	8.16	2	10.16
1987 .....	8.25	2	10.25

\* This interest rate reflects the 18% lifetime interest rate cap.

Information on our other home equity programs is available on request.

Board of Governors of the Federal Reserve System, December 21, 1987.

William W. Wiles,

Secretary of the Board.

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