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Key Points to Truth-in-Lending Changes Effective January 30th

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Next week, all creditors who are responsible for issuing Truth-in-Lending disclosures must comply with new rules. The Federal Reserve issued these rules to implement additional provisions of the Mortgage Disclosure Improvement Act (MDIA). For applications received on or after January 30, 2011, lenders must disclose how borrowers' mortgage payments can change over time. The new TIL disclosure includes an Interest Rate and Payment Summary table in lieu of the previously required payment schedule. Summarized below are key points regarding the mandatory requirements effective Monday, January 30th:

Coverage

- This rule includes transactions secured by real property with no dwelling, thus the enhanced disclosure requirements now apply to all mortgage-secured, closed-end, consumer credit transactions.

- Extensions of credit secured by timeshare plans are excluded from this rule.

- Although the FRB anticipates reverse mortgages will be excluded from the closed-end mortgage disclosure requirements once its proposed comprehensive disclosure requirements for reverse mortgages are finalized, for the time being reverse mortgage have only been excluded from the definition of "negative amortizing mortgage". According to the rule, the required information for reverse mortgages will be disclosed using the fixed-rate summary table.

Content of Interest Rate and Payment Summary Table

The interest rate and payment summary information must be provided in the form of a table. Model clauses are included in Appendix H of the rule. The lender's disclosures must be substantially similar to the model clauses provided. The FRB rule provides four model tables: Fixed Rate Mortgage, Adjustable-Rate Mortgage (or Step-Rate Mortgage), interest-only Mortgages and Mortgages with Negative Amortization. Described in more detail below are two of these models:

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Fixed Rate Loans*

- Interest rate at consummation
- Corresponding payment for periodic principal and interest; escrow account required (if applicable); estimate of the amount of taxes and insurance (includes mortgage insurance, if any); and the sum of the amounts disclosed labeled "total estimated monthly payment"
- If a periodic payment may increase without regard to an interest rate adjustment, the payment that corresponds to the first such increase

Adjustable Rate or Step-Rate Loans*

- Interest rate at consummation and the period of time until first interest rate adjustment may occur; maximum interest rate that may apply during the first five years after the date on which the regular periodic payment will be due and the earliest date on which that rate may apply; and the maximum interest rate that may apply during the life of the loan. Note: this paragraph incorporates the Federal Reserve Board's subsequent clarification.
- Corresponding payment for periodic principal and interest (for each rate disclosed); escrow account required (if applicable); estimate of the amount of taxes and insurance (includes mortgage insurance, if any); and the sum of the amounts disclosed labeled "total estimated monthly payment"
- If a periodic payment may increase without regard to an interest rate adjustment, the payment that corresponds to the first such increase

Additional Disclosures

The rule also requires creditors to provide an introductory rate disclosure if the borrower's interest rate at consummation is less than the fully indexed rate, as well as interest-only and balloon disclosures, if necessary. For all closed-end loans secured by real property or a dwelling, the TILA disclosure must include the following statement: "There is no guarantee to refinance the transaction to lower the interest rate or periodic payments."

*No Negative Amortization

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