

Regulation Z

Consumer Loans

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Closed End – General Disclosure Requirements

Section 1: Form of Disclosures

12 C.F.R. § 1026.17(a)

General Regulatory Commentary - 12 CFR § 1026.17

Regulatory Discussion

This introductory commentary excludes the following some transactions from sections 1026.17(a) and (b) requirements.

Regulatory Text

None.

Regulatory Commentary

Section 1026.17—General Disclosure Requirements

1. Rules for certain mortgage disclosures. Section 1026.17(a) and (b) does not apply to the disclosures required by §1026.19(e), (f), and (g), and §1026.20(e). For the disclosures required by §1026.19(e), (f), and (g), rules regarding the disclosures' form are found in §§1026.19(g), 1026.37(o), and 1026.38(t) and rules regarding timing are found in §1026.19(e), (f), and (g). For the disclosures required by §1026.20(e), rules regarding the disclosures' form are found in §1026.20(e)(4) and rules regarding timing are found in §1026.20(e)(5).

Form of Disclosures - 12 CFR § 1026.17(a)

Regulatory Discussion

This section describes the form of disclosure requirements for closed-end credit (except for the exclusions previously listed in the introductory commentary).

These disclosures, generally, must be in a form that:

- Are clear and conspicuous, in writing, and in a form the consumer may keep
- Maybe provided to the consumer in electronic form, subject to compliance with the consumer consent and other applicable provisions of the E-Sign Act

- Are grouped together and segregated from everything else

The disclosures may include:

- An acknowledgement of receipt, the date of the transaction, and the consumer's name, address, and account number

The terms "finance charge" and "annual percentage rate" together with the respective corresponding amount and percentage rate – when required to be disclosed – shall be more conspicuous than any other disclosure.

For private education loans, the term "annual percentage rate" and the corresponding percentage rate must be less conspicuous than the term "finance charge" and the corresponding amount, the interest rate, and the notice of the right to cancel.

The commentary provides examples of the various requirements.

Regulatory Text

(a) **Form of disclosures.** Except for the disclosures required by §1026.19(e), (f), and (g):

- (1) The creditor shall make the disclosures required by this subpart clearly and conspicuously in writing, in a form that the consumer may keep. The disclosures required by this subpart may be provided to the consumer in electronic form, subject to compliance with the consumer consent and other applicable provisions of the Electronic Signatures in Global and National Commerce Act (E-Sign Act) (15 U.S.C. 7001 *et seq.*). The disclosures required by §§1026.17(g), 1026.19(b), and 1026.24 may be provided to the consumer in electronic form without regard to the consumer consent or other provisions of the E-Sign Act in the circumstances set forth in those sections. The disclosures shall be grouped together, shall be segregated from everything else, and shall not contain any information not directly related to the disclosures required under §1026.18, §1026.20(c) and (d), or §1026.47. The disclosures required by §1026.20(d) shall be provided as a separate document from all other written materials. The disclosures may include an acknowledgment of receipt, the date of the transaction, and the consumer's name, address, and account number. The following disclosures may be made together with or separately from other required disclosures: The creditor's identity under §1026.18(a), the variable rate example under §1026.18(f)(1)(iv), insurance or debt cancellation under §1026.18(n), and certain security interest charges under §1026.18(o). The itemization of the amount financed under §1026.18(c)(1) must be separate from the other disclosures under §1026.18, except for private education loan disclosures made in compliance with §1026.47.
- (2) Except for private education loan disclosures made in compliance with §1026.47, the terms "finance charge" and "annual percentage rate," when required to be disclosed under §1026.18(d) and (e) together with a corresponding amount or percentage rate, shall be more conspicuous than any other disclosure, except the creditor's identity under §1026.18(a). For private education loan disclosures made in compliance with §1026.47, the term "annual percentage rate," and the corresponding percentage rate must be less conspicuous than the term "finance charge" and corresponding amount under §1026.18(d), the interest rate under §§1026.47(b)(1)(i) and (c)(1), and the notice of the right to cancel under §1026.47(c)(4).

Regulatory Commentary

17(a) Form of Disclosures

Paragraph 17(a)(1)

1. **Clear and conspicuous.** *This standard requires that disclosures be in a reasonably understandable form. For example, while the regulation requires no mathematical progression or format, the disclosures must be presented in a way that does not obscure the relationship of the terms to each other. In addition, although no minimum type size is mandated (except for the interest rate and payment summary for mortgage transactions required by §1026.18(s)), the disclosures must be legible, whether typewritten, handwritten, or printed by computer.*
2. **Segregation of disclosures.**
 - i. *The disclosures may be grouped together and segregated from other information in a variety of ways. For example, the disclosures may appear on a separate sheet of paper or may be set off from other information on the contract or other documents:*
 - A. *By outlining them in a box.*
 - B. *By bold print dividing lines.*
 - C. *By a different color background.*
 - D. *By a different type style.*
 - ii. *The general segregation requirement described in this subparagraph does not apply to the disclosures required under §1026.19(b) although the disclosures must be clear and conspicuous.*
3. **Location.** *The regulation imposes no specific location requirements on the segregated disclosures. For example:*
 - i. *They may appear on a disclosure statement separate from all other material.*
 - ii. *They may be placed on the same document with the credit contract or other information, so long as they are segregated from that information.*
 - iii. *They may be shown on the front or back of a document.*
 - iv. *They need not begin at the top of a page.*
 - v. *They may be continued from one page to another.*
4. **Content of segregated disclosures.** *Section 1026.17(a)(1) contains exceptions to the requirement that the disclosures under §1026.18 be segregated from material that is not directly related to those disclosures. Section 1026.17(a)(1) lists the items that may be added to the segregated disclosures, even though not directly related to those disclosures. The section also lists the items required under §1026.18 that may be deleted from the segregated disclosures and appear elsewhere. Any one or more of these additions or deletions may be combined and appear either together with or separate from the segregated disclosures. The itemization of the amount financed under §1026.18(c), however, must be separate from the*

other segregated disclosures under §1026.18, except for private education loan disclosures made in compliance with §1026.47. If a creditor chooses to include the security interest charges required to be itemized under §1026.4(e) and §1026.18(o) in the amount financed itemization, it need not list these charges elsewhere.

5. *Directly related.* *The segregated disclosures may, at the creditor's option, include any information that is directly related to those disclosures. The following is directly related information:*

- i. A description of a grace period after which a late payment charge will be imposed. For example, the disclosure given under §1026.18(l) may state that a late charge will apply to “any payment received more than 15 days after the due date.”*
- ii. A statement that the transaction is not secured. For example, the creditor may add a category labeled “unsecured” or “not secured” to the security interest disclosures given under §1026.18(m).*
- iii. The basis for any estimates used in making disclosures. For example, if the maturity date of a loan depends solely on the occurrence of a future event, the creditor may indicate that the disclosures assume that event will occur at a certain time.*
- iv. The conditions under which a demand feature may be exercised. For example, in a loan subject to demand after five years, the disclosures may state that the loan will become payable on demand in five years.*
- v. An explanation of the use of pronouns or other references to the parties to the transaction. For example, the disclosures may state, “You” refers to the customer and “we” refers to the creditor.”*
- vi. Instructions to the creditor or its employees on the use of a multiple-purpose form. For example, the disclosures may state, “Check box if applicable.”*
- vii. A statement that the borrower may pay a minimum finance charge upon prepayment in a simple-interest transaction. For example, when state law prohibits penalties, but would allow a minimum finance charge in the event of prepayment, the creditor may make the §1026.18(k)(1) disclosure by stating, “You may be charged a minimum finance charge.”*
- viii. A brief reference to negative amortization in variable-rate transactions. For example, in the variable-rate disclosure, the creditor may include a short statement such as “Unpaid interest will be added to principal.” (See the commentary to §1026.18(f)(1)(iii).)*
- ix. A brief caption identifying the disclosures. For example, the disclosures may bear a general title such as “Federal Truth in Lending Disclosures” or a descriptive title such as “Real Estate Loan Disclosures.”*
- x. A statement that a due-on-sale clause or other conditions on assumption are contained in the loan document. For example, the disclosure given under §1026.18(q) may state, “Someone buying your home may, subject to conditions in the due-on-sale clause contained in the loan document, assume the remainder of the mortgage on the original terms.”*

- xi. If a state or Federal law prohibits prepayment penalties and excludes the charging of interest after prepayment from coverage as a penalty, a statement that the borrower may have to pay interest for some period after prepayment in full. The disclosure given under §1026.18(k) may state, for example, "If you prepay your loan on other than the regular installment date, you may be assessed interest charges until the end of the month."*
- xii. More than one hypothetical example under §1026.18(f)(1)(iv) in transactions with more than one variable-rate feature. For example, in a variable-rate transaction with an option permitting consumers to convert to a fixed-rate transaction, the disclosures may include an example illustrating the effects on the payment terms of an increase resulting from conversion in addition to the example illustrating an increase resulting from changes in the index.*
- xiii. The disclosures set forth under §1026.18(f)(1) for variable-rate transactions subject to §1026.18(f)(2).*
- xiv. A statement whether or not a subsequent purchaser of the property securing an obligation may be permitted to assume the remaining obligation on its original terms.*
- xv. A late-payment fee disclosure under §1026.18(l) on a single payment loan.*
- xvi. The notice set forth in §1026.19(a)(4), in a closed-end transaction not subject to §1026.19(a)(1)(i). In a mortgage transaction subject to §1026.19(a)(1)(i), the creditor must disclose the notice contained in §1026.19(a)(4) grouped together with the disclosures made under §1026.18. See comment 19(a)(4)-1.*

6. Multiple-purpose forms. *The creditor may design a disclosure statement that can be used for more than one type of transaction, so long as the required disclosures for individual transactions are clear and conspicuous. (See the commentary to Appendices G and H for a discussion of the treatment of disclosures that do not apply to specific transactions.) Any disclosure listed in §1026.18 (except the itemization of the amount financed under §1026.18(c) for transactions other than private education loans) may be included on a standard disclosure statement even though not all of the creditor's transactions include those features. For example, the statement may include:*

- i. The variable rate disclosure under §1026.18(f).*
- ii. The demand feature disclosure under §1026.18(i).*
- iii. A reference to the possibility of a security interest arising from a spreader clause, under §1026.18(m).*
- iv. The assumption policy disclosure under §1026.18(q).*
- v. The required deposit disclosure under §1026.18(r).*

7. Balloon payment financing with leasing characteristics. *In certain credit sale or loan transactions, a consumer may reduce the dollar amount of the payments to be made during the course of the transaction by agreeing to make, at the end of the loan term, a large final payment based on the expected residual value of the property. The consumer may have a number of options with respect to the final payment, including, among other*

things, retaining the property and making the final payment, refinancing the final payment, or transferring the property to the creditor in lieu of the final payment. Such transactions may have some of the characteristics of lease transactions subject to Regulation M (12 CFR Part 1013), but are considered credit transactions where the consumer assumes the indicia of ownership, including the risks, burdens and benefits of ownership, upon consummation. These transactions are governed by the disclosure requirements of this part instead of Regulation M. Creditors should not include in the segregated Truth in Lending disclosures additional information. Thus, disclosures should show the large final payment in the payment schedule or interest rate and payment summary table under §1026.18(g) or (s), as applicable, and should not, for example, reflect the other options available to the consumer at maturity.

Paragraph 17(a)(2)

1. **When disclosures must be more conspicuous.** *The following rules apply to the requirement that the terms “annual percentage rate” (except for private education loan disclosures made in compliance with §1026.47) and “finance charge” be shown more conspicuously:*
 - i. *The terms must be more conspicuous only in relation to the other required disclosures under §1026.18. For example, when the disclosures are included on the contract document, those two terms need not be more conspicuous as compared to the heading on the contract document or information required by state law.*
 - ii. *The terms need not be more conspicuous except as part of the finance charge and annual percentage rate disclosures under §1026.18(d) and (e), although they may, at the creditor's option, be highlighted wherever used in the required disclosures. For example, the terms may, but need not, be highlighted when used in disclosing a prepayment penalty under §1026.18(k) or a required deposit under §1026.18(r).*
 - iii. *The creditor's identity under §1026.18(a) may, but need not, be more prominently displayed than the finance charge and annual percentage rate.*
 - iv. *The terms need not be more conspicuous than figures (including, for example, numbers, percentages, and dollar signs).*
2. **Making disclosures more conspicuous.** *The terms “finance charge” and (except for private education loan disclosures made in compliance with §1026.47) “annual percentage rate” may be made more conspicuous in any way that highlights them in relation to the other required disclosures. For example, they may be:*
 - i. *Capitalized when other disclosures are printed in capital and lower case.*
 - ii. *Printed in larger type, bold print or different type face.*
 - iii. *Printed in a contrasting color.*
 - iv. *Underlined.*
 - v. *Set off with asterisks.*

Section 2: Time of Disclosures

12 C.F.R. § 1026.17(b)

Time of Disclosures - 12 CFR § 1026.17(b)

Regulatory Discussion

This section describes the timing requirements of the disclosures for closed-end credit (except for the exclusions previously listed in the introductory commentary).

These disclosures, generally, must be provided:

- In writing, in a form the consumer may keep, before “consummation” of the transaction
 - When a contractual obligation on the consumer's part is created is a matter to be determined under applicable State law; Regulation Z does not make this determination
 - See commentary for discussion on providing the disclosures on the credit contracts

Exceptions exist for:

- Certain residential mortgage transactions, see §1026.19(a)
- Certain variable-rate transactions, see §§1026.19(b) and 1026.20(c) and (d)
- Private education loans, see §1026.46(d)
- Certain transactions involving mail or telephone orders or a series of sales, see paragraphs (g) and (h) of this section

Special rules exist for:

- An open-end credit account that is converted to a closed-end transaction
- Conversion to a variable-rate transaction secured by a consumer's principal dwelling with a term greater than one year
- Exception for home equity plans subject to a repayment phase

Regulatory Text

(b) **Time of disclosures.** The creditor shall make disclosures before consummation of the transaction. In certain residential mortgage transactions, special timing requirements are set forth in §1026.19(a). In certain variable-rate transactions, special timing requirements for variable-rate disclosures are set forth in §§1026.19(b) and 1026.20(c) and (d). For private education loan disclosures made in compliance with §1026.47, special timing requirements are set forth in §1026.46(d). In certain transactions involving mail or telephone orders or a series of sales, the timing of disclosures may be delayed in accordance with paragraphs (g) and (h) of this section. This paragraph (b) does not apply to the disclosures required by §§1026.19(e), (f), and (g) and 1026.20(e).

Regulatory Commentary

17(b) Time of Disclosures

1. **Consummation.** *As a general rule, disclosures must be made before “consummation” of the transaction. The disclosures need not be given by any particular time before consummation, except in certain mortgage transactions and variable-rate transactions secured by the consumer's principal dwelling with a term greater than one year under §1026.19, and in private education loan transactions disclosed in compliance with §§1026.46 and 1026.47. (See the commentary to §1026.2(a)(13) regarding the definition of consummation.)*
2. **Converting open-end to closed-end credit.** *Except for home equity plans subject to §1026.40 in which the agreement provides for a repayment phase, if an open-end credit account is converted to a closed-end transaction under a written agreement with the consumer, the creditor must provide a set of closed-end credit disclosures before consummation of the closed-end transaction. (See the commentary to §1026.19(b) for the timing rules for additional disclosures required upon the conversion to a variable-rate transaction secured by a consumer's principal dwelling with a term greater than one year.) If consummation of the closed-end transaction occurs at the same time as the consumer enters into the open-end agreement, the closed-end credit disclosures may be given at the time of conversion. If disclosures are delayed until conversion and the closed-end transaction has a variable-rate feature, disclosures should be based on the rate in effect at the time of conversion. (See the commentary to §1026.5 regarding conversion of closed-end to open-end credit.)*
3. **Disclosures provided on credit contracts.** *Creditors must give the required disclosures to the consumer in writing, in a form that the consumer may keep, before consummation of the transaction. See §1026.17(a)(1) and (b). Sometimes the disclosures are placed on the same document with the credit contract. Creditors are not required to give the consumer two separate copies of the document before consummation, one for the consumer to keep and a second copy for the consumer to execute. The disclosure requirement is satisfied if the creditor gives a copy of the document containing the unexecuted credit contract and disclosures to the consumer to read and sign; and the consumer receives a copy to keep at the time the consumer becomes obligated. It is not sufficient for the creditor merely to show the consumer the document containing the disclosures before the consumer signs and becomes obligated. The consumer must be free to take possession of and review the document in its entirety before signing.*
 - i. **Example.** *To illustrate, a creditor gives a consumer a multiple-copy form containing a credit agreement and TILA disclosures. The consumer reviews and signs the form and returns it to the creditor, who separates the copies and gives one copy to the consumer to keep. The creditor has satisfied the disclosure requirement.*

Section 3: Basis of Disclosures/Estimates

12 C.F.R. § 1026.17(c)

Basis of Disclosures/Estimates - 12 CFR § 1026.17(c)

Regulatory Discussion

This section includes six considerations associated with the basis of the disclosures and use of estimates. There is considerable commentary that provides additional direction. The six categories and associated commentary are presented as follows:

- (1) Legal obligation
 - The commentary includes discussion on: modification of obligation; third-party buydowns; consumer buydowns; split buydowns; wrap-around financing; wrap-around financing with balloon payments; basis of disclosures in variable-rate transactions; use of estimates in variable-rate transactions; discounted and premium variable-rate transactions; examples of variable-rate transactions; graduated payment adjustable rate mortgages; growth-equity mortgages; reverse mortgages; morris plan transactions; number of transactions; special rules for tax refund anticipation loans; pawn transactions; and rebates and loan premiums
 - Use of estimates
 - The commentary includes discussion on: labeling estimates; simple-interest transactions; and per-diem interest
 - Disregard of certain factors
 - The commentary includes discussion on: minor variations; and use of special rules
 - Irregularity in the first period
- (2) The commentary includes discussion on: payment schedule irregularities; measuring odd periods; use of special rules; and relation to prepaid finance charges
 - Obligations payable on demand
 - The commentary includes discussion on: future event as maturity date; demand after stated period; and balloon mortgages
 - Series of advances / multiple-advance construction of a dwelling
 - The commentary includes discussion on: residential mortgage transaction; and allocation of points

Regulatory Text

(c) Basis of disclosures and use of estimates.

- (1) The disclosures shall reflect the terms of the legal obligation between the parties.

- (2)
 - (i) If any information necessary for an accurate disclosure is unknown to the creditor, the creditor shall make the disclosure based on the best information reasonably available at the time the disclosure is provided to the consumer, and shall state clearly that the disclosure is an estimate.
 - (ii) For a transaction in which a portion of the interest is determined on a per-diem basis and collected at consummation, any disclosure affected by the per-diem interest shall be considered accurate if the disclosure is based on the information known to the creditor at the time that the disclosure documents are prepared for consummation of the transaction.
- (3) The creditor may disregard the effects of the following in making calculations and disclosures.
 - (i) That payments must be collected in whole cents.
 - (ii) That dates of scheduled payments and advances may be changed because the scheduled date is not a business day.
 - (iii) That months have different numbers of days.
 - (iv) The occurrence of leap year.
- (4) In making calculations and disclosures, the creditor may disregard any irregularity in the first period that falls within the limits described below and any payment schedule irregularity that results from the irregular first period:
 - (i) For transactions in which the term is less than 1 year, a first period not more than 6 days shorter or 13 days longer than a regular period;
 - (ii) For transactions in which the term is at least 1 year and less than 10 years, a first period not more than 11 days shorter or 21 days longer than a regular period; and
 - (iii) For transactions in which the term is at least 10 years, a first period shorter than or not more than 32 days longer than a regular period.
- (5) If an obligation is payable on demand, the creditor shall make the disclosures based on an assumed maturity of 1 year. If an alternate maturity date is stated in the legal obligation between the parties, the disclosures shall be based on that date.
- (6)
 - (i) A series of advances under an agreement to extend credit up to a certain amount may be considered as one transaction.
 - (ii) When a multiple-advance loan to finance the construction of a dwelling may be permanently financed by the same creditor, the construction phase and the permanent phase may be treated as either one transaction or more than one transaction.

Regulatory Commentary

17(c) Basis of Disclosures and Use of Estimates

Paragraph 17(c)(1)

1. **Legal obligation.** *The disclosures shall reflect the terms to which the consumer and creditor are legally bound as of the outset of the transaction. In the case of disclosures required under §1026.20(c), (d), and (e), the disclosures shall reflect the credit terms to which the consumer and creditor are legally bound when the disclosures are provided. The legal obligation is determined by applicable State law or other law. Disclosures based on the assumption that the consumer will abide by the terms of the legal obligation throughout the term of the transaction comply with §1026.17(c)(1). (Certain transactions are specifically addressed in this commentary. See, for example, the discussion of buydown transactions elsewhere in the commentary to §1026.17(c).) The fact that a term or contract may later be deemed unenforceable by a court on the basis of equity or other grounds does not, by itself, mean that disclosures based on that term or contract did not reflect the legal obligation.*
2. **Modification of obligation.** *The legal obligation normally is presumed to be contained in the note or contract that evidences the agreement between the consumer and the creditor. But this presumption is rebutted if another agreement between the consumer and creditor legally modifies that note or contract. If the consumer and creditor informally agree to a modification of the legal obligation, the modification should not be reflected in the disclosures unless it rises to the level of a change in the terms of the legal obligation. For example:*
 - i. *If the creditor offers a preferential rate, such as an employee preferred rate, the disclosures should reflect the terms of the legal obligation. (See the commentary to §1026.19(b) for an example of a preferred-rate transaction that is a variable-rate transaction.)*
 - ii. *If the contract provides for a certain monthly payment schedule but payments are made on a voluntary payroll deduction plan or an informal principal-reduction agreement, the disclosures should reflect the schedule in the contract.*
 - iii. *If the contract provides for regular monthly payments but the creditor informally permits the consumer to defer payments from time to time, for instance, to take account of holiday seasons or seasonal employment, the disclosures should reflect the regular monthly payments.*
3. **Third-party buydowns.** *In certain transactions, a seller or other third party may pay an amount, either to the creditor or to the consumer, in order to reduce the consumer's payments for all or a portion of the credit term. For example, a consumer and a bank agree to a mortgage with an interest rate of 15% and level payments over 25 years. By a separate agreement, the seller of the property agrees to subsidize the consumer's payments for the first two years of the mortgage, giving the consumer an effective rate of 12% for that period.*
 - i. *If the third-party buydown is reflected in the credit contract between the consumer and the bank, the finance charge and all other disclosures affected by it must take the buydown into account as an amendment to the contract's interest rate provision. For example, the annual percentage rate must be a composite rate that takes account of both the lower initial rate and the higher subsequent rate, and the disclosures required*

under §§1026.18(g), 1026.18(s), 1026.37(c), and 1026.38(c), as applicable, must reflect the two payment levels, except as otherwise provided in those paragraphs. However, the amount paid by the seller would not be specifically reflected in the disclosure of the finance charge and other disclosures affected by it given by the bank, since that amount constitutes seller's points and thus is not part of the finance charge. The seller-paid amount is disclosed, however, as a credit from the seller in the summaries of transactions disclosed pursuant to §1026.38(j) and (k).

- ii. If the third-party buydown is not reflected in the credit contract between the consumer and the bank and the consumer is legally bound to the 15% rate from the outset, the disclosure of the finance charge and other disclosures affected by it given by the bank must not reflect the seller buydown in any way. For example, the annual percentage rate and disclosures required under §§1026.18(g), 1026.18(s), 1026.37(c), and 1026.38(c), as applicable, would not take into account the reduction in the interest rate and payment level for the first two years resulting from the buydown. The seller-paid amount is, however, disclosed as a credit from the seller in the summaries of transactions disclosed pursuant to §1026.38(j) and (k).*

- 4. Consumer buydowns.** *In certain transactions, the consumer may pay an amount to the creditor to reduce the payments on the transaction. Consumer buydowns must be reflected as an amendment to the contract's interest rate provision in the disclosure of the finance charge and other disclosures affected by it given for that transaction. To illustrate, in a mortgage transaction, the creditor and consumer agree to a note specifying a 14 percent interest rate. However, in a separate document, the consumer agrees to pay an amount to the creditor at consummation in return for lower payments for a portion of the mortgage term. The amount paid by the consumer may be deposited in an escrow account or may be retained by the creditor. Depending upon the buydown plan, the consumer's prepayment of the obligation may or may not result in a portion of the amount being credited or refunded to the consumer. In the disclosure of the finance charge and other disclosures affected by it given for the mortgage, the creditor must reflect the terms of the buydown agreement.*

- i. For example:*

- A. The amount paid by the consumer is a prepaid finance charge (even if deposited in an escrow account).*
- B. A composite annual percentage rate must be calculated, taking into account both interest rates, as well as the effect of the prepaid finance charge.*
- C. The disclosures under §§1026.18(g) and (s), 1026.37(c), and 1026.38(c), as applicable, must reflect the multiple rate and payment levels resulting from the buydown, except as otherwise provided in those sections. Further, for example, the disclosures must reflect that the transaction is a step rate product under §§1026.37(a)(10)(B) and 1026.38(a)(5)(iii).*

- ii. The rules regarding consumer buydowns do not apply to transactions known as "lender buydowns." In lender buydowns, a creditor pays an amount (either into an account or to the party to whom the obligation is sold) to reduce the consumer's payments or interest rate for all or a portion of the credit term. Typically, these transactions are structured as a buydown of the interest rate during an initial period of the transaction with a higher than usual rate for the remainder of the term. The disclosure of the*

finance charge and other disclosures affected by it for lender buydowns should be based on the terms of the legal obligation between the consumer and the creditor. See comment 17(c)(1)-3 for the analogous rules concerning third-party buydowns.

5. **Split buydowns.** *In certain transactions, a third party (such as a seller) and a consumer both pay an amount to the creditor to reduce the interest rate. The creditor must include the portion paid by the consumer in the finance charge and disclose the corresponding multiple payment levels, except as otherwise provided in §§1026.18(s), 1026.37(c), and 1026.38(c), and composite annual percentage rate. The portion paid by the third party and the corresponding reduction in interest rate, however, should not be reflected in the disclosure of the finance charge and other disclosures affected by it unless the lower rate is reflected in the credit contract. See the discussion on third-party and consumer buydown transactions elsewhere in the commentary to §1026.17(c).*
6. **Wrap-around financing.** *Wrap-around transactions, usually loans, involve the creditor's wrapping the outstanding balance on an existing loan and advancing additional funds to the consumer. The pre-existing loan, which is wrapped, may be to the same consumer or to a different consumer. In either case, the consumer makes a single payment to the new creditor, who makes the payments on the pre-existing loan to the original creditor. Wrap-around loans or sales are considered new single-advance transactions, with an amount financed equaling the sum of the new funds advanced by the wrap creditor and the remaining principal owed to the original creditor on the pre-existing loan. In disclosing the itemization of the amount financed, the creditor may use a label such as "the amount that will be paid to creditor X" to describe the remaining principal balance on the pre-existing loan. This approach to Truth in Lending calculations has no effect on calculations required by other statutes, such as state usury laws.*
7. **Wrap-around financing with balloon payments.** *For wrap-around transactions involving a large final payment of the new funds before the maturity of the pre-existing loan, the amount financed is the sum of the new funds and the remaining principal on the pre-existing loan. The disclosures should be based on the shorter term of the wrap loan, with a large final payment of both the new funds and the total remaining principal on the pre-existing loan (although only the wrap loan will actually be paid off at that time).*
8. **Basis of disclosures in variable-rate transactions.** *Except as otherwise provided in §§1026.18(s), 1026.37 and 1026.38, as applicable, the disclosures for a variable-rate transaction must be given for the full term of the transaction and must be based on the terms in effect at the time of consummation. Creditors should base the disclosures only on the initial rate and should not assume that this rate will increase, except as otherwise provided in §§1026.18(s), 1026.37 and 1026.38. For example, in a loan with an initial rate of 10 percent and a 5-percentage points rate cap, creditors should base the disclosures on the initial rate and should not assume that this rate will increase 5 percentage points. However, in a variable-rate transaction with a seller buydown that is reflected in the credit contract, a consumer buydown, or a discounted or premium rate, disclosures should not be based solely on the initial terms. In those transactions, the disclosed annual percentage rate should be a composite rate based on the rate in effect during the initial period and the rate that is the basis of the variable-rate feature for the remainder of the term. See the commentary to §1026.17(c) for a discussion of buydown, discounted, and premium transactions and the commentary to §1026.19(a)(2), (e), and (f) for a discussion of the redisclosure in certain mortgage transactions with a variable-rate feature. See*

§§1026.37(c) and 1026.38(c) for rules regarding disclosure of variable-rate transactions in the projected payments table for transactions subject to §1026.19(e) and (f).

9. Use of estimates in variable-rate transactions. *The variable-rate feature does not, by itself, make the disclosures estimates.*

10. Discounted and premium variable-rate transactions. *In some variable-rate transactions, creditors may set an initial interest rate that is not determined by the index or formula used to make later interest rate adjustments. Typically, this initial rate charged to consumers is lower than the rate would be if it were calculated using the index or formula. However, in some cases the initial rate may be higher. In a discounted transaction, for example, a creditor may calculate interest rates according to a formula using the six-month Treasury bill rate plus a 2 percent margin. If the Treasury bill rate at consummation is 10 percent, the creditor may forgo the 2 percent spread and charge only 10 percent for a limited time, instead of setting an initial rate of 12 percent.*

i. When creditors use an initial interest rate that is not calculated using the index or formula for later rate adjustments, the disclosures should reflect a composite annual percentage rate based on the initial rate for as long as it is charged and, for the remainder of the term, the rate that would have been applied using the index or formula at the time of consummation. The rate at consummation need not be used if a contract provides for a delay in the implementation of changes in an index value. For example, if the contract specifies that rate changes are based on the index value in effect 45 days before the change date, creditors may use any index value in effect during the 45 day period before consummation in calculating a composite annual percentage rate.

ii. The effect of the multiple rates must also be reflected in the calculation and disclosure of the finance charge, total of payments, and the disclosures required under §§1026.18(g) and (s), 1026.37(c), 1026.37(l)(1) and (3), 1026.38(c), and 1026.38(o)(5), as applicable.

iii. If a loan contains a rate or payment cap that would prevent the initial rate or payment, at the time of the first adjustment, from changing to the rate determined by the index or formula at consummation, the effect of that rate or payment cap should be reflected in the disclosures.

iv. Because these transactions involve irregular payment amounts, an annual percentage rate tolerance of $\frac{1}{4}$ of 1 percent applies, in accordance with §1026.22(a)(3).

v. Examples of discounted variable-rate transactions include:

A. A 30-year loan for \$100,000 with no prepaid finance charges and rates determined by the Treasury bill rate plus two percent. Rate and payment adjustments are made annually. Although the Treasury bill rate at the time of consummation is 10 percent, the creditor sets the interest rate for one year at 9 percent, instead of 12 percent according to the formula. The disclosures should reflect a composite annual percentage rate of 11.63 percent based on 9 percent for one year and 12 percent for 29 years. Reflecting those two rate levels, the payment schedule disclosed pursuant to §1026.18(g) should show 12 payments of \$804.62 and 348 payments of \$1,025.31. Similarly, the disclosures required by §§1026.18(s), 1026.37(c), 1026.37(l)(1) and (3), 1026.38(c), and 1026.38(o)(5) should reflect the effect of this calculation. The

- finance charge should be \$266,463.32 and, for transactions subject to §1026.18, the total of payments should be \$366,463.32.*
- B. Same loan as above, except with a two-percent rate cap on periodic adjustments. The disclosures should reflect a composite annual percentage rate of 11.53 percent based on 9 percent for the first year, 11 percent for the second year, and 12 percent for the remaining 28 years. Reflecting those three rate levels, the payment schedule disclosed pursuant to §1026.18(g) should show 12 payments of \$804.62, 12 payments of \$950.09, and 336 payments of \$1,024.34. Similarly, the disclosures required by §§1026.18(s), 1026.37(c), 1026.37(l)(1) and (3), 1026.38(c), and 1026.38(o)(5) should reflect the effect of this calculation. The finance charge should be \$265,234.76 and, for transactions subject to §1026.18, the total of payments should be \$365,234.76.*
- C. Same loan as above, except with a 7½ percent cap on payment adjustments. The disclosures should reflect a composite annual percentage rate of 11.64 percent, based on 9 percent for one year and 12 percent for 29 years. Because of the payment cap, five levels of payments should be reflected. The payment schedule disclosed pursuant to §1026.18(g) should show 12 payments of \$804.62, 12 payments of \$864.97, 12 payments of \$929.84, 12 payments of \$999.58, and 312 payments of \$1,070.04. Similarly, the disclosures required by §§1026.18(s), 1026.37(c), 1026.37(l)(1) and (3), 1026.38(c), and 1026.38(o)(5) should reflect the effect of this calculation. The finance charge should be \$277,040.60, and, for transactions subject to §1026.18, the total of payments should be \$377,040.60.*
- vi. A loan in which the initial interest rate is set according to the index or formula used for later adjustments but is not set at the value of the index or formula at consummation is not a discounted variable-rate loan. For example, if a creditor commits to an initial rate based on the formula on a date prior to consummation, but the index has moved during the period between that time and consummation, a creditor should base its disclosures on the initial rate.*

11. Examples of variable-rate transactions. Variable-rate transactions include:

- i. Renewable balloon-payment instruments where the creditor is both unconditionally obligated to renew the balloon-payment loan at the consumer's option (or is obligated to renew subject to conditions within the consumer's control) and has the option of increasing the interest rate at the time of renewal. Disclosures must be based on the payment amortization (unless the specified term of the obligation with renewals is shorter) and on the rate in effect at the time of consummation of the transaction. (Examples of conditions within a consumer's control include requirements that a consumer be current in payments or continue to reside in the mortgaged property. In contrast, setting a limit on the rate at which the creditor would be obligated to renew or reserving the right to change the credit standards at the time of renewal are examples of conditions outside a consumer's control.) If, however, a creditor is not obligated to renew as described above, disclosures must be based on the term of the balloon-payment loan. Disclosures also must be based on the term of the balloon-payment loan in balloon-payment instruments in which the legal obligation provides that the loan will be renewed by a "refinancing" of the obligation, as that term is defined by §1026.20(a). If it cannot be determined from the legal obligation that the loan will be renewed by a "refinancing," disclosures must be based either on the term of the balloon-payment loan*

or on the payment amortization, depending on whether the creditor is unconditionally obligated to renew the loan as described above. (This discussion does not apply to construction loans subject to §1026.17(c)(6).)

- ii. “Shared-equity” or “shared-appreciation” mortgages that have a fixed rate of interest and an appreciation share based on the consumer's equity in the mortgaged property. The appreciation share is payable in a lump sum at a specified time. Disclosures must be based on the fixed interest rate. (As discussed in the commentary to §1026.2, other types of shared-equity arrangements are not considered “credit” and are not subject to Regulation Z.)
- iii. Preferred-rate loans where the terms of the legal obligation provide that the initial underlying rate is fixed but will increase upon the occurrence of some event, such as an employee leaving the employ of the creditor, and the note reflects the preferred rate. The disclosures are to be based on the preferred rate.
- iv. Graduated-payment mortgages and step-rate transactions without a variable-rate feature are not considered variable-rate transactions.
- v. “Price level adjusted mortgages” or other indexed mortgages that have a fixed rate of interest but provide for periodic adjustments to payments and the loan balance to reflect changes in an index measuring prices or inflation. Disclosures are to be based on the fixed interest rate, except as otherwise provided in §§1026.18(s), 1026.37, and 1026.38, as applicable.

12. Graduated payment adjustable rate mortgages. These mortgages involve both a variable interest rate and scheduled variations in payment amounts during the loan term. For example, under these plans, a series of graduated payments may be scheduled before rate adjustments affect payment amounts, or the initial scheduled payment may remain constant for a set period before rate adjustments affect the payment amount. In any case, the initial payment amount may be insufficient to cover the scheduled interest, causing negative amortization from the outset of the transaction. In these transactions, except as otherwise provided in §§1026.18(s), 1026.37(c), and 1026.38(c), the disclosures should treat these features as follows:

- i. The finance charge includes the amount of negative amortization based on the assumption that the rate in effect at consummation remains unchanged.
- ii. The amount financed does not include the amount of negative amortization.
- iii. As in any variable-rate transaction, the annual percentage rate is based on the terms in effect at consummation.
- iv. The disclosures required by §1026.18(g) and (s) reflect the amount of any scheduled initial payments followed by an adjusted level of payments based on the initial interest rate. Since some mortgage plans contain limits on the amount of the payment adjustment, the disclosures required by §1026.18(g) and (s) may require several different levels of payments, even with the assumption that the original interest rate does not increase. For transactions subject to §1026.19(e) and (f), see §1026.37(c) and its commentary for a discussion of different rules for graduated payment adjustable rate mortgages.

13. Growth-equity mortgages.

i. Also referred to as payment-escalated mortgages, these mortgage plans involve scheduled payment increases to prematurely amortize the loan. The initial payment amount is determined as for a long-term loan with a fixed interest rate. Payment increases are scheduled periodically, based on changes in an index. The larger payments result in accelerated amortization of the loan. In disclosing these mortgage plans, creditors may either:

A. Estimate the amount of payment increases, based on the best information reasonably available; or

B. Disclose by analogy to the variable-rate disclosures in 1026.18(f)(1).

ii. This discussion does not apply to growth-equity mortgages in which the amount of payment increases can be accurately determined at the time of disclosure. For these mortgages, as for graduated-payment mortgages, disclosures should reflect the scheduled increases in payments.

14. Reverse mortgages. Reverse mortgages, also known as reverse annuity or home equity conversion mortgages, typically involve the disbursement of monthly advances to the consumer for a fixed period or until the occurrence of an event such as the consumer's death. Repayment of the loan (generally a single payment of principal and accrued interest) may be required to be made at the end of the disbursements or, for example, upon the death of the consumer. In disclosing these transactions, creditors must apply the following rules, as applicable:

i. If the reverse mortgage has a specified period for disbursements but repayment is due only upon the occurrence of a future event such as the death of the consumer, the creditor must assume that disbursements will be made until they are scheduled to end. The creditor must assume repayment will occur when disbursements end (or within a period following the final disbursement which is not longer than the regular interval between disbursements). This assumption should be used even though repayment may occur before or after the disbursements are scheduled to end. In such cases, the creditor may include a statement such as "The disclosures assume that you will repay the loan at the time our payments to you end. As provided in your agreement, your repayment may be required at a different time."

ii. If the reverse mortgage has neither a specified period for disbursements nor a specified repayment date and these terms will be determined solely by reference to future events including the consumer's death, the creditor may assume that the disbursements will end upon the consumer's death (estimated by using actuarial tables, for example) and that repayment will be required at the same time (or within a period following the date of the final disbursement which is not longer than the regular interval for disbursements). Alternatively, the creditor may base the disclosures upon another future event it estimates will be most likely to occur first. (If terms will be determined by reference to future events which do not include the consumer's death, the creditor must base the disclosures upon the occurrence of the event estimated to be most likely to occur first.)

iii. In making the disclosures, the creditor must assume that all disbursements and

accrued interest will be paid by the consumer. For example, if the note has a nonrecourse provision providing that the consumer is not obligated for an amount greater than the value of the house, the creditor must nonetheless assume that the full amount to be disbursed will be repaid. In this case, however, the creditor may include a statement such as “The disclosures assume full repayment of the amount advanced plus accrued interest, although the amount you may be required to pay is limited by your agreement.”

- iv. Some reverse mortgages provide that some or all of the appreciation in the value of the property will be shared between the consumer and the creditor. Such loans are considered variable-rate mortgages, as described in comment 17(c)(1)-11, and the appreciation feature must be disclosed in accordance with §1026.18(f)(1). If the reverse mortgage has a variable interest rate, is written for a term greater than one year, and is secured by the consumer's principal dwelling, the shared appreciation feature must be described under §1026.19(b)(2)(vii).

15. Morris Plan transactions. When a deposit account is created for the sole purpose of accumulating payments and then is applied to satisfy entirely the consumer's obligation in the transaction, each deposit made into the account is considered the same as a payment on a loan for purposes of making disclosures.

16. Number of transactions. Creditors have flexibility in handling credit extensions that may be viewed as multiple transactions. For example:

- i. When a creditor finances the credit sale of a radio and a television on the same day, the creditor may disclose the sales as either 1 or 2 credit sale transactions.
- ii. When a creditor finances a loan along with a credit sale of health insurance, the creditor may disclose in one of several ways: a single credit sale transaction, a single loan transaction, or a loan and a credit sale transaction.
- iii. The separate financing of a downpayment in a credit sale transaction may, but need not, be disclosed as 2 transactions (a credit sale and a separate transaction for the financing of the downpayment).

17. Special rules for tax refund anticipation loans. Tax refund loans, also known as refund anticipation loans (RALs), are transactions in which a creditor will lend up to the amount of a consumer's expected tax refund. RAL agreements typically require repayment upon demand, but also may provide that repayment is required when the refund is made. The agreements also typically provide that if the amount of the refund is less than the payment due, the consumer must pay the difference. Repayment often is made by a preauthorized offset to a consumer's account held with the creditor when the refund has been deposited by electronic transfer. Creditors may charge fees for RALs in addition to fees for filing the consumer's tax return electronically. In RAL transactions subject to the regulation the following special rules apply:

- i. If, under the terms of the legal obligation, repayment of the loan is required when the refund is received by the consumer (such as by deposit into the consumer's account), the disclosures should be based on the creditor's estimate of the time the refund will be delivered even if the loan also contains a demand clause. The practice of a creditor to demand repayment upon delivery of refunds does not determine whether the legal

obligation requires that repayment be made at that time; this determination must be made according to applicable state or other law. (See comment 17(c)(5)-1 for the rules regarding disclosures if the loan is payable solely on demand or is payable either on demand or on an alternate maturity date.)

- ii. If the consumer is required to repay more than the amount borrowed, the difference is a finance charge unless excluded under §1026.4. In addition, to the extent that any fees charged in connection with the loan (such as for filing the tax return electronically) exceed those fees for a comparable cash transaction (that is, filing the tax return electronically without a loan), the difference must be included in the finance charge.*

18. Pawn Transactions. *When, in connection with an extension of credit, a consumer pledges or sells an item to a pawnbroker creditor in return for a sum of money and retains the right to redeem the item for a greater sum (the redemption price) within a specified period of time, disclosures are required. In addition to other disclosure requirements that may be applicable under §1026.18, for purposes of pawn transactions:*

- i. The amount financed is the initial sum paid to the consumer. The pawnbroker creditor need not provide a separate itemization of the amount financed if that entire amount is paid directly to the consumer and the disclosed description of the amount financed is “the amount of cash given directly to you” or a similar phrase.*
- ii. The finance charge is the difference between the initial sum paid to the consumer and the redemption price plus any other finance charges paid in connection with the transaction. (See §1026.4.)*
- iii. The term of the transaction, for calculating the annual percentage rate, is the period of time agreed to by the pawnbroker creditor and the consumer. The term of the transaction does not include a grace period (including any statutory grace period) after the agreed redemption date.*

19. Rebates and loan premiums. *In a loan transaction, the creditor may offer a premium in the form of cash or merchandise to prospective borrowers. Similarly, in a credit sale transaction, a seller's or manufacturer's rebate may be offered to prospective purchasers of the creditor's goods or services. Such premiums and rebates must be reflected in accordance with the terms of the legal obligation between the consumer and the creditor. Thus, if the creditor is legally obligated to provide the premium or rebate to the consumer as part of the credit transaction, the disclosures should reflect its value in the manner and at the time the creditor is obligated to provide it.*

Paragraph 17(c)(2)(i)

- 1. Basis for estimates.** *Except as otherwise provided in §§1026.19, 1026.37, and 1026.38, disclosures may be estimated when the exact information is unknown at the time disclosures are made. Information is unknown if it is not reasonably available to the creditor at the time the disclosures are made. The “reasonably available” standard requires that the creditor, acting in good faith, exercise due diligence in obtaining information. For example, the creditor must at a minimum utilize generally accepted calculation tools, but need not invest in the most sophisticated computer program to make a particular type of calculation. The creditor normally may rely on the representations of other parties in obtaining information. For example, the creditor might look to the consumer for the time*

of consummation, to insurance companies for the cost of insurance, or to realtors for taxes and escrow fees. The creditor may utilize estimates in making disclosures even though the creditor knows that more precise information will be available by the point of consummation. However, new disclosures may be required under §1026.17(f) or §1026.19. For purposes of §1026.17(c)(2)(i), creditors must provide the actual amounts of the information required to be disclosed under §§1026.37 and 1026.38, pursuant to §1026.19(e) and (f), subject to the estimation and redisclosure rules in those provisions.

2. **Labeling estimates.** Estimates must be designated as such in the segregated disclosures. For the disclosures required by §1026.19(e) and (f), use of the Loan Estimate form H-24 of appendix H to this part pursuant to §1026.37(o) or the Closing Disclosure form H-25 of appendix H to this part pursuant to §1026.38(t), respectively, satisfies the requirement that the disclosure state clearly that the disclosure is an estimate. For all other disclosures, even though they are based on the same assumption on which a specific estimated disclosure was based, the creditor has flexibility in labeling the estimates. Generally, only the particular disclosure for which the exact information is unknown is labeled as an estimate. However, when several disclosures are affected because of the unknown information, the creditor has the option of labeling either every affected disclosure or only the disclosure primarily affected. For example, when the finance charge is unknown because the date of consummation is unknown, the creditor must label the finance charge as an estimate and may also label as estimates the total of payments and the payment schedule. When many disclosures are estimates, the creditor may use a general statement, such as “all numerical disclosures except the late payment disclosure are estimates,” as a method to label those disclosures as estimates.
3. **Simple-interest transactions.** If consumers do not make timely payments in a simple-interest transaction, some of the amounts calculated for Truth in Lending disclosures will differ from amounts that consumers will actually pay over the term of the transaction. Creditors may label disclosures as estimates in these transactions, except as otherwise provided by §1026.19. For example, because the finance charge and total of payments may be larger than disclosed if consumers make late payments, creditors may label the finance charge and total of payments as estimates. On the other hand, creditors may choose not to label disclosures as estimates. In all cases, creditors comply with §1026.17(c)(2)(i) by basing disclosures on the assumption that payments will be made on time and in the amounts required by the terms of the legal obligation, disregarding any possible differences resulting from consumers' payment patterns.

Paragraph 17(c)(2)(ii)

1. **Per-diem interest.** Section 1026.17(c)(2)(ii) applies to any numerical amount (such as the finance charge, annual percentage rate, or payment amount) that is affected by the amount of the per-diem interest charge that will be collected at consummation. If the amount of per-diem interest used in preparing the disclosures for consummation is based on the information known to the creditor at the time the disclosure document is prepared, the disclosures are considered accurate under this rule, and affected disclosures are also considered accurate, even if the disclosures are not labeled as estimates. For example, if the amount of per-diem interest used to prepare disclosures is less than the amount of per-diem interest charged at consummation, and as a result the finance charge is understated by \$200, the disclosed finance charge is considered accurate even though the understatement is not within the \$100 tolerance of §1026.18(d)(1), and the finance charge

was not labeled as an estimate. In this example, if in addition to the understatement related to the per-diem interest, a \$90 fee is incorrectly omitted from the finance charge, causing it to be understated by a total of \$290, the finance charge is considered accurate because the \$90 fee is within the tolerance in §1026.18(d)(1). For purposes of transactions subject to §1026.19(e) and (f), the creditor shall disclose the actual amount of per diem interest that will be collected at consummation, subject only to the disclosure rules in those sections.

Paragraph 17(c)(3)

1. Minor variations. Section 1026.17(c)(3) allows creditors to disregard certain factors in calculating and making disclosures. For example:

- i. Creditors may ignore the effects of collecting payments in whole cents. Because payments cannot be collected in fractional cents, it is often difficult to amortize exactly an obligation with equal payments; the amount of the last payment may require adjustment to account for the rounding of the other payments to whole cents.
- ii. Creditors may base their disclosures on calculation tools that assume that all months have an equal number of days, even if their practice is to take account of the variations in months for purposes of collecting interest. For example, a creditor may use a calculation tool based on a 360-day year, when it in fact collects interest by applying a factor of $\frac{1}{365}$ of the annual rate to 365 days. This rule does not, however, authorize creditors to ignore, for disclosure purposes, the effects of applying $\frac{1}{360}$ of an annual rate to 365 days.

2. Use of special rules. A creditor may utilize the special rules in §1026.17(c)(3) for purposes of calculating and making all disclosures for a transaction or may, at its option, use the special rules for some disclosures and not others.

Paragraph 17(c)(4)

1. Payment schedule irregularities. When one or more payments in a transaction differ from the others because of a long or short first period, the variations may be ignored in disclosing the payment schedule pursuant to §1026.18(g), the disclosures required pursuant to §§1026.18(s), 1026.37(c), or 1026.38(c), or the finance charge, annual percentage rate, and other terms. For example:

- i. A 36-month auto loan might be consummated on June 8 with payments due on July 1 and the first of each succeeding month. The creditor may base its calculations on a payment schedule that assumes 36 equal intervals and 36 equal installment payments, even though a precise computation would produce slightly different amounts because of the shorter first period.
- ii. By contrast, in the same example, if the first payment were not scheduled until August 1, the irregular first period would exceed the limits in §1026.17(c)(4); the creditor could not use the special rule and could not ignore the extra days in the first period in calculating its disclosures.

2. Measuring odd periods.

- i. In determining whether a transaction may take advantage of the rule in §1026.17(c)(4), the creditor must measure the variation against a regular period. For purposes of that rule:

- A. *The first period is the period from the date on which the finance charge begins to be earned to the date of the first payment.*
 - B. *The term is the period from the date on which the finance charge begins to be earned to the date of the final payment.*
 - C. *The regular period is the most common interval between payments in the transaction.*
- ii. *In transactions involving regular periods that are monthly, semimonthly or multiples of a month, the length of the irregular and regular periods may be calculated on the basis of either the actual number of days or an assumed 30-day month. In other transactions, the length of the periods is based on the actual number of days.*
3. **Use of special rules.** *A creditor may utilize the special rules in §1026.17(c)(4) for purposes of calculating and making some disclosures but may elect not to do so for all of the disclosures. For example, the variations may be ignored in calculating and disclosing the annual percentage rate but taken into account in calculating and disclosing the finance charge and payment schedule.*
4. **Relation to prepaid finance charges.** *Prepaid finance charges, including “odd-days” or “per-diem” interest, paid prior to or at closing may not be treated as the first payment on a loan. Thus, creditors may not disregard an irregularity in disclosing such finance charges.*

Paragraph 17(c)(5)

1. **Demand disclosures.** *Disclosures for demand obligations are based on an assumed 1-year term, unless an alternate maturity date is stated in the legal obligation. Whether an alternate maturity date is stated in the legal obligation is determined by applicable law. An alternate maturity date is not inferred from an informal principal reduction agreement or a similar understanding between the parties. However, when the note itself specifies a principal reduction schedule (for example, “payable on demand or \$2,000 plus interest quarterly”), an alternate maturity is stated and the disclosures must reflect that date.*
2. **Future event as maturity date.** *An obligation whose maturity date is determined solely by a future event, as for example, a loan payable only on the sale of property, is not a demand obligation. Because no demand feature is contained in the obligation, demand disclosures under §1026.18(i) are inapplicable and demand disclosures under §1026.38(l)(2) are answered in the negative. The disclosures should be based on the creditor's estimate of the time at which the specified event will occur and, except as otherwise provided in §1026.19(e) and (f), may indicate the basis for the creditor's estimate, as noted in the commentary to §1026.17(a).*
3. **Demand after stated period.** *Most demand transactions contain a demand feature that may be exercised at any point during the term, but certain transactions convert to demand status only after a fixed period. The disclosures for a transaction that converts to demand status after a fixed period should be based upon the legally agreed-upon maturity date. Thus, for example, if a mortgage containing a call option that the creditor may exercise during the first 30 days of the eighth year after loan origination is written as a 20-year obligation, the disclosures should be based on the 20-year term, with the demand feature disclosed under §1026.18(i) or §1026.38(l)(2), as applicable.*

4. **Balloon mortgages.** *Balloon payment mortgages, with payments based on a long-term amortization schedule and a large final payment due after a shorter term, are not demand obligations unless a demand feature is specifically contained in the contract. For example, a mortgage with a term of five years and a payment schedule based on 20 years would not be treated as a mortgage with a demand feature, in the absence of any contractual demand provisions. In this type of mortgage, disclosures should be based on the five-year term. See §§1026.37(c) and 1026.38(c) and their commentary for projected payment disclosures for balloon payment mortgages.*
5. **Allocation of costs.** *When a creditor uses the special rule in § 1026.17(c)(6) to disclose credit extensions as multiple transactions, fees and charges must be allocated for purposes of calculating disclosures. In the case of a construction-permanent loan that a creditor chooses to disclose as multiple transactions, the creditor must allocate to the construction transaction finance charges under § 1026.4 and points and fees under § 1026.32(b)(1) that would not be imposed but for the construction financing. For example, inspection and handling fees for the staged disbursement of construction loan proceeds must be included in the disclosures for the construction phase and may not be included in the disclosures for the permanent phase. If a creditor charges separate amounts for finance charges under § 1026.4 and points and fees under § 1026.32(b)(1) for the construction phase and the permanent phase, such amounts must be allocated to the phase for which they are charged. If a creditor charges an origination fee for construction financing only but charges a greater origination fee for construction-permanent financing, the difference between the two fees must be allocated to the permanent phase. All other finance charges under § 1026.4 and points and fees under § 1026.32(b)(1) must be allocated to the permanent financing. Fees and charges that are not used to compute the finance charge under § 1026.4 or points and fees under § 1026.32(b)(1) may be allocated between the transactions in any manner the creditor chooses. For example, a reasonable appraisal fee paid to an independent, third-party appraiser may be allocated in any manner the creditor chooses because it would be excluded from the finance charge pursuant to § 1026.4(c)(7) and excluded from points and fees pursuant to § 1026.32(b)(1)(iii).*

Paragraph 17(c)(6)

1. **Series of advances.** *Section 1026.17(c)(6)(i) deals with a series of advances under an agreement to extend credit up to a certain amount. A creditor may treat all of the advances as a single transaction or disclose each advance as a separate transaction. If these advances are treated as 1 transaction and the timing and amounts of advances are unknown, creditors must make disclosures based on estimates, as provided in §1026.17(c)(2). If the advances are disclosed separately, disclosures must be provided before each advance occurs, with the disclosures for the first advance provided by consummation.*
2. **Construction loans.** *Section 1026.17(c)(6)(ii) provides a flexible rule for disclosure of construction loans that may be permanently financed. These transactions have 2 distinct phases, similar to 2 separate transactions. The construction loan may be for initial construction or subsequent construction, such as rehabilitation or remodeling. The construction period usually involves several disbursements of funds at times and in amounts that are unknown at the beginning of that period, with the consumer paying only accrued interest until construction is completed. Unless the obligation is paid at that time, the loan then converts to permanent financing in which the loan amount is amortized just*

as in a standard mortgage transaction. Section 1026.17(c)(6)(ii) permits the creditor to give either one combined disclosure for both the construction financing and the permanent financing, or a separate set of disclosures for the 2 phases. This rule is available whether the consumer is initially obligated to accept construction financing only or is obligated to accept both construction and permanent financing from the outset. If the consumer is obligated on both phases and the creditor chooses to give 2 sets of disclosures, both sets must be given to the consumer initially, because both transactions would be consummated at that time. (Appendix D provides a method of calculating the annual percentage rate and other disclosures for construction loans, which may be used, at the creditor's option, in disclosing construction financing.)

3. **Multiple-advance construction loans.** Section 1026.17(c)(6)(i) and (ii) are not mutually exclusive. For example, in a transaction that finances the construction of a dwelling that may be permanently financed by the same creditor, the construction phase may consist of a series of advances under an agreement to extend credit up to a certain amount. In these cases, the creditor may disclose the construction phase as either 1 or more than 1 transaction and also disclose the permanent financing as a separate transaction.
4. **Residential mortgage transaction.** See the commentary to §1026.2(a)(24) for a discussion of the effect of §1026.17(c)(6) on the definition of a residential mortgage transaction.
5. **Allocation of points.** When a creditor utilizes the special rule in §1026.17(c)(6) to disclose credit extensions as multiple transactions, buyers points or similar amounts imposed on the consumer must be allocated for purposes of calculating disclosures. While such amounts should not be taken into account more than once in making calculations, they may be allocated between the transactions in any manner the creditor chooses. For example, if a construction-permanent loan is subject to 5 points imposed on the consumer and the creditor chooses to disclose the 2 phases separately, the 5 points may be allocated entirely to the construction loan, entirely to the permanent loan, or divided in any manner between the two. However, the entire 5 points may not be applied twice, that is, to both the construction and the permanent phases.

Section 4: Multiple Creditors or Consumers

12 C.F.R. § 1026.17(d)

Multiple Creditors or Consumers - 12 CFR § 1026.17(d)

Regulatory Discussion

This section is fairly straightforward, as it describes the requirements for providing the disclosures for closed-end credit when there are either multiple creditors and/or multiple consumers.

Regulatory Text

- (d) **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 §1026.23, however, the disclosures shall be made to each consumer who has the right to rescind.

Regulatory Commentary

17(d) Multiple Creditors; Multiple Consumers

1. Multiple creditors. *If a credit transaction involves more than one creditor:*

- i. The creditors must choose which of them will make the disclosures.*
- ii. A single, complete set of disclosures must be provided, rather than partial disclosures from several creditors.*
- iii. All disclosures for the transaction must be given, even if the disclosing creditor would not otherwise have been obligated to make a particular disclosure. For example, if one of the creditors is the seller, the total sale price disclosure under §1026.18(j) must be made, even though the disclosing creditor is not the seller.*

2. Multiple consumers. *When two consumers are joint obligors with primary liability on an obligation, the disclosures may be given to either one of them. If one consumer is merely a surety or guarantor, the disclosures must be given to the principal debtor. In rescindable transactions, however, separate disclosures must be given to each consumer who has the right to rescind under §1026.23, although the disclosures required under §1026.19(b) need only be provided to the consumer who expresses an interest in a variable-rate loan program. When two consumers are joint obligors with primary liability on an obligation,*

the early disclosures required by §1026.19(a), (e), or (g), as applicable, may be provided to any one of them. In rescindable transactions, the disclosures required by §1026.19(f) must be given separately to each consumer who has the right to rescind under §1026.23. In transactions that are not rescindable, the disclosures required by §1026.19(f) may be provided to any consumer with primary liability on the obligation. See §§1026.2(a)(11), 1026.17(b), 1026.19(a), 1026.19(f), and 1026.23(b).

Section 5: Effect of Subsequent Events

12 C.F.R. § 1026.17(e)

Effect of Subsequent Events - 12 CFR § 1026.17(e)

Regulatory Discussion

This section is also fairly straightforward; it describes the effects of subsequent events that result in inaccurate disclosures. The commentary provides examples.

Regulatory Text

- (e) **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 this part, although new disclosures may be required under paragraph (f) of this section, §1026.19, §1026.20, or §1026.48(c)(4).

Regulatory Commentary

17(e) Effect of Subsequent Events

1. **Events causing inaccuracies.** *Subject to §1026.19(e) and (f), inaccuracies in disclosures are not violations if attributable to events occurring after the disclosures are made. For example, when the consumer fails to fulfill a prior commitment to keep the collateral insured and the creditor then provides the coverage and charges the consumer for it, such a change does not make the original disclosures inaccurate. The creditor may, however, be required to make new disclosures under §1026.17(f) or §1026.19 if the events occurred between disclosure and consummation, in some cases after consummation under §1026.19(f), or under §1026.20 if the events occurred after consummation. For rules regarding permissible changes to the information required to be disclosed by §1026.19(e) and (f), see §1026.19(e)(3) and (f)(2) and their commentary.*

Section 6: Early Disclosures

12 C.F.R. § 1026.17(f)

Early Disclosures - 12 CFR § 1026.17(f)

Regulatory Discussion

This section describes the requirement for redisclosure if initial disclosures were provided before consummation **and** a subsequent event makes them inaccurate. The commentary provides the following examples:

1. Change in rate or other terms
 - Transactions not secured by real property
 - Reverse mortgages
 - Mortgages other than reverse mortgages and mortgages not secured by real property
2. Variable rate
3. Content of new disclosures
4. Special rules for certain mortgage transactions
5. Irregular transactions

Exceptions exist for private education loans.

Regulatory Text

(f) **Early disclosures.** Except for private education loan disclosures made in compliance with §1026.47, if disclosures required by this subpart are given before the date of consummation of a transaction and a subsequent event makes them inaccurate, the creditor shall disclose before consummation (subject to the provisions of §1026.19(a)(2), (e), and (f)):

- (1) Any changed term unless the term was based on an estimate in accordance with §1026.17(c)(2) and was labeled an estimate;
- (2) All changed terms, if the annual percentage rate at the time of consummation varies from the annual percentage rate disclosed earlier by more than $\frac{1}{8}$ of 1 percentage point in a regular transaction, or more than $\frac{1}{4}$ of 1 percentage point in an irregular transaction, as defined in §1026.22(a).

Regulatory Commentary

17(f) Early Disclosures

1. ***Change in rate or other terms.*** Redisclosure is required for changes that occur between the time disclosures are made and consummation if the annual percentage rate in the

consummated transaction exceeds the limits prescribed in § 1026.17(f) even if the prior disclosures would be considered accurate under the tolerances in § 1026.18(d) or 1026.22(a). To illustrate:

i. Transactions not secured by real property or a cooperative unit.

A. For transactions not secured by real property or a cooperative unit, if disclosures are made in a regular transaction on July 1, the transaction is consummated on July 15, and the actual annual percentage rate varies by more than $\frac{1}{8}$ of 1 percentage point from the disclosed annual percentage rate, the creditor must either redisclose the changed terms or furnish a complete set of new disclosures before consummation. Redisclosure is required even if the disclosures made on July 1 are based on estimates and marked as such.

B. In a regular transaction not secured by real property or a cooperative unit, if early disclosures are marked as estimates and the disclosed annual percentage rate is within $\frac{1}{8}$ of 1 percentage point of the rate at consummation, the creditor need not redisclose the changed terms (including the annual percentage rate).

C. If disclosures for transactions not secured by real property or a cooperative unit are made on July 1, the transaction is consummated on July 15, and the finance charge increased by \$35 but the disclosed annual percentage rate is within the permitted tolerance, the creditor must at least redisclose the changed terms that were not marked as estimates. See § 1026.18(d)(2).

ii. **Reverse mortgages.** In a transaction subject to § 1026.19(a) and not § 1026.19(e) and (f), assume that, at the time the disclosures required by § 1026.19(a) are prepared in July, the loan closing is scheduled for July 31 and the creditor does not plan to collect per-diem interest at consummation. Assume further that consummation actually occurs on August 5, and per-diem interest for the remainder of August is collected as a prepaid finance charge. The creditor may rely on the disclosures prepared in July that were accurate when they were prepared. However, if the creditor prepares new disclosures in August that will be provided at consummation, the new disclosures must take into account the amount of the per-diem interest known to the creditor at that time.

iii. **Transactions secured by real property or a cooperative unit other than reverse mortgages.** For transactions secured by real property or a cooperative unit other than reverse mortgages, assume that, at the time the disclosures required by § 1026.19(e) are prepared in July, the loan closing is scheduled for July 31 and the creditor does not plan to collect per-diem interest at consummation. Assume further that consummation actually occurs on August 5, and per-diem interest for the remainder of August is collected as a prepaid finance charge. The creditor must make the disclosures required by § 1026.19(f) three days before consummation, and the disclosures required by § 1026.19(f) must take into account the amount of per-diem interest that will be collected at consummation.

2. **Variable rate.** The addition of a variable rate feature to the credit terms, after early disclosures are given, requires new disclosures. See § 1026.19(e) and (f) to determine when new disclosures are required for transactions secured by real property or a cooperative unit, other than reverse mortgages.

3. **Content of new disclosures.** *Except as provided by §1026.19(e) and (f), if redisclosure is required, the creditor has the option of either providing a complete set of new disclosures, or providing disclosures of only the terms that vary from those originally disclosed. See the commentary to §1026.19(a)(2).*
4. **Special rules.** *In mortgage transactions subject to §1026.19(a), the creditor must redisclose if, between the delivery of the required early disclosures and consummation, the annual percentage rate changes by more than a stated tolerance. When subsequent events occur after consummation, new disclosures are required only if there is a refinancing or an assumption within the meaning of §1026.20.*

Paragraph 17(f)(2)

1. **Irregular transactions.** *For purposes of this paragraph, a transaction is deemed to be “irregular” according to the definition in §1026.22(a)(3).*

Section 7: Mail/Telephone Orders

12 C.F.R. § 1026.17(g)

Mail/Telephone Orders - 12 CFR § 1026.17(g)

Regulatory Discussion

This section describes the process for providing disclosures when a creditor receives a purchase order or a request for an extension of credit by mail, telephone, or facsimile machine without face-to-face or direct telephone solicitation.

An exception exists for private education loans and certain mortgage disclosures.

Regulatory Text

(g) **Mail or telephone orders - delay in disclosures.** Except for private education loan disclosures made in compliance with §1026.47 and mortgage disclosures made in compliance with §1026.19(a) or (e), (f), and (g), if a creditor receives a purchase order or a request for an extension of credit by mail, telephone, or facsimile machine without face-to-face or direct telephone solicitation, the creditor may delay the disclosures until the due date of the first payment, if the following information for representative amounts or ranges of credit is made available in written form or in electronic form to the consumer or to the public before the actual purchase order or request:

- (1) The cash price or the principal loan amount.
- (2) The total sale price.
- (3) The finance charge.
- (4) The annual percentage rate, and if the rate may increase after consummation, the following disclosures:
 - (i) The circumstances under which the rate may increase.
 - (ii) Any limitations on the increase.
 - (iii) The effect of an increase.
- (5) The terms of repayment.

Regulatory Commentary

17(g) Mail or Telephone Orders - Delay in Disclosures

1. **Conditions for use.** *Except for extensions of credit subject to §1026.19(a) or (e) and (f), when the creditor receives a mail or telephone request for credit, the creditor may delay making the disclosures until the first payment is due if the following conditions are met:*
 - i. *The credit request is initiated without face-to-face or direct telephone solicitation. (Creditors may, however, use the special rule when credit requests are solicited by mail.)*
 - ii. *The creditor has supplied the specified credit information about its credit terms either to the individual consumer or to the public generally. That information may be distributed through advertisements, catalogs, brochures, special mailers, or similar means.*
2. **Insurance.** *The location requirements for the insurance disclosures under §1026.18(n) permit them to appear apart from the other disclosures. Therefore, a creditor may mail an insurance authorization to the consumer and then prepare the other disclosures to reflect whether or not the authorization is completed by the consumer. Creditors may also disclose the insurance cost on a unit-cost basis, if the transaction meets the requirements of §1026.17(g).*

Section 8: Series of Sales

12 C.F.R. § 1026.17(h)

Series of Sales - 12 CFR § 1026.17(h)

Regulatory Discussion

This section describes the process for providing disclosures when a credit sale is one of a series of sales made under an agreement. Financial institutions rarely get involved in this type of transaction. See commentary for additional information.

An exception exists for certain mortgage disclosures.

Regulatory Text

- (h) **Series of sales - delay in disclosures.** Except for mortgage disclosures made in compliance with §1026.19(a) or (e), (f), and (g), if a credit sale is one of a series made under an agreement providing that subsequent sales may be added to an outstanding balance, the creditor may delay the required disclosures until the due date of the first payment for the current sale, if the following two conditions are met:
- (1) The consumer has approved in writing the annual percentage rate or rates, the range of balances to which they apply, and the method of treating any unearned finance charge on an existing balance.
 - (2) The creditor retains no security interest in any property after the creditor has received payments equal to the cash price and any finance charge attributable to the sale of that property. For purposes of this provision, in the case of items purchased on different dates, the first purchased is deemed the first item paid for; in the case of items purchased on the same date, the lowest priced is deemed the first item paid for.

Regulatory Commentary

17(h) Series of Sales - Delay in Disclosures

1. ***Applicability.*** Except for extensions of credit covered by §1026.19(a) or (e) and (f), the creditor may delay the disclosures for individual credit sales in a series of such sales until the first payment is due on the current sale, assuming the two conditions in §1026.17(h) are met. If those conditions are not met, the general timing rules in §1026.17(b) apply.
2. ***Basis of disclosures.*** Creditors structuring disclosures for a series of sales under §1026.17(h) may compute the total sale price as either:

- i. The cash price for the sale plus that portion of the finance charge and other charges applicable to that sale; or*
- ii. The cash price for the sale, other charges applicable to the sale, and the total finance charge and outstanding principal.*

Section 9: Interim Student Credit Extensions

12 C.F.R. § 1026.17(i)

Interim Student Credit Extensions - 12 CFR § 1026.17(i)

Regulatory Discussion

This section describes the process for providing disclosures for student credit extensions for which an application was received prior to February 14, 2010 (the mandatory compliance date).

As this information is no longer relevant, we have omitted this section from this manual.

Closed End – Content of Disclosures (Non Real Estate)

Section 1: Introduction, Introductory Commentary, and Sample Form

12 C.F.R. § 1026.18

Introduction

We have elected to include minimal comments in the Regulatory Discussion information for 12 C.F.R. § 1026.18.

Unlike most other portions of this presentation, we have taken the regulation out of order, and put it in the order that it appears on the sample form.

Introductory Commentary Section 1026.18 - Content of Disclosures

Regulatory Text

None.

Regulatory Commentary

1. As applicable.

i. The disclosures required by this section need be made only as applicable. Any disclosure not relevant to a particular transaction may be eliminated entirely. For example:

A. In a loan transaction, the creditor may delete disclosure of the total sale price.

B. In a credit sale requiring disclosure of the total sale price under §1026.18(j), the creditor may delete any reference to a downpayment where no downpayment is involved.

ii. Where the amounts of several numerical disclosures are the same, the “as applicable” language also permits creditors to combine the terms, so long as it is done in a clear and conspicuous manner. For example:

A. In a transaction in which the amount financed equals the total of payments, the creditor may disclose “amount financed/total of payments,” together with descriptive language, followed by a single amount.

B. However, if the terms are separated on the disclosure statement and separate space is provided for each amount, both disclosures must be completed, even though the same amount is entered in each space.

2. Format. *See the commentary to §1026.17 and appendix H for a discussion of the format to be used in making these disclosures, as well as acceptable modifications.*

3. Scope of coverage.

i. Section 1026.18 applies to closed-end consumer credit transactions, other than transactions that are subject to §1026.19(e) and (f). Section 1026.19(e) and (f) applies to closed-end consumer credit transactions that are secured by real property, other than reverse mortgages subject to §1026.33. Accordingly, the disclosures required by §1026.18 apply only to closed-end consumer credit transactions that are:

A. Unsecured;

B. Secured by personal property that is not a dwelling;

C. Secured by personal property that is a dwelling and is not also secured by real property; or

D. Reverse mortgages subject to §1026.33.

ii. Of the foregoing transactions that are subject to §1026.18, the creditor discloses a payment schedule pursuant to §1026.18(g) for those described in paragraphs i.A and i.B of this comment. For transactions described in paragraphs i.C and i.D of this comment, the creditor discloses an interest rate and payment summary table pursuant to §1026.18(s). See also comments 18(g)-6 and 18(s)-4 for additional guidance on the applicability to different transaction types of §§1026.18(g) or (s) and 1026.19(e) and (f).

iii. Because §1026.18 does not apply to transactions secured by real property, other than reverse mortgages, references in the section and its commentary to “mortgages” refer only to transactions described in paragraphs i.C and i.D of this comment, as applicable.

Sample Form

A sample “Fed Box” appears on the next page.

Annual Percentage Rate The cost of my credit as a yearly rate <div>(1)</div> <div>%</div>	Finance Charge The dollar amount the credit will cost me <div>(2)</div> <div>\$</div>	Amount Financed The amount of credit provided to me or on my behalf <div>(3)</div> <div>\$</div>	Total of Payments The amount I will have paid when I have made all scheduled payments. <div>(4)</div> <div>\$</div>	Total Sale Price The total price of your purchase on credit, including your down payment of \$_____ <div>(5)</div> <div>\$</div>
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My Payment Schedule will be:

Number of Payments	Amount of Payments	When Payments are Due
(6)	\$ (7)	(8)
(9)	\$ (10)	(11)
(12)	\$ (13)	(14)

Variable Rate.

☐ (15) This note contains a variable rate feature. Disclosures about the variable rate feature have been provided to me earlier.

☐ (16) The annual percentage rate may increase during the term of this transaction if _____ (17). The rate may not increase more often than once _____ (18), and may not increase more than _____ (19)% each _____ (20). Any increase will take the form of _____ (21). If the rate increases by _____ (22)% in _____ (23), the _____ (24) will increase to _____ (24). The rate will not go above _____ (25)%.

Demand. ☐ (26) This note has a demand feature.

☐ (27) This note is payable on demand and all disclosures are based on an assumed maturity of one year.

Prepayment. ☐ (28) If I pay off this note early, I ☐ (29) may ☐ (30) will not have to pay a penalty.

☐ (31) If I pay off this note early, I ☐ (32) may ☐ (33) will not be entitled to a refund of part of the finance charge.

Late Charge. If a payment is late more than _____ (34) days after the due date, I will be charged _____ (35).

Security. I am giving a security interest in:

- ☐ (36) the goods or property being purchased.
- ☐ (37) collateral securing other loans with you may also secure this loan.
- ☐ (38) other collateral (brief description)_____ (39).

Filing Fees. \$ (40)	Non-filing Insurance. \$ (41)
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Required Deposit. ☐ (42) The annual percentage rate does not take into account my required deposit.

Assumption. Someone buying the property securing this obligation ☐ (43) may, subject to conditions, be allowed to ☐ (44) cannot assume the remainder of the obligation on the original terms

Contract Documents. (45) I can see my contract documents for any additional information about non-payment, default, and required repayment in full before the scheduled date, and prepayment refunds and penalties.

“e” means an estimate.

Section 2: Item 1 – Item 5

Annual Percentage Rate The cost of my credit as a yearly rate	Finance Charge The dollar amount the credit will cost me	Amount Financed The amount of credit provided to me or on my behalf	Total of Payments The amount I will have paid when I have made all scheduled payments.	Total Sale Price The total price of your purchase on credit, including your down payment of \$_____
(1)	(2)	(3)	(4)	(5)
%	\$	\$	\$	\$

Item 1 – Annual Percentage Rate – 12 CFR 1026.18(e)

Regulatory Discussion

The calculated Annual Percentage Rate disclosure must appear in the space where designated inside the Fed Box.

Regulatory Text

- (e) **Annual percentage rate.** The annual percentage rate, using that term, and a brief description such as “the cost of your credit as a yearly rate.” For any transaction involving a finance charge of \$5 or less on an amount financed of \$75 or less, or a finance charge of \$7.50 or less on an amount financed of more than \$75, the creditor need not disclose the annual percentage rate.

Regulatory Commentary

18(e) Annual Percentage Rate

1. Disclosure required. The creditor must disclose the cost of the credit as an annual rate, using the term annual percentage rate, plus a brief descriptive phrase comparable to that used in §1026.18(e). For variable rate transactions, the descriptor may be further modified with a phrase such as which is subject to change. Under §1026.17(a), the terms annual percentage rate and finance charge must be more conspicuous than the other required disclosures.

2. Exception. Section 1026.18(e) provides an exception for certain transactions in which no annual percentage rate disclosure is required.

Item 2 – Finance Charge – 12 CFR 1026.18(d)

Regulatory Discussion

The calculated finance charge disclosure must appear in the space where designated inside the Fed Box.

Regulatory Text

- (d) **Finance charge.** The finance charge, using that term, and a brief description such as “the dollar amount the credit will cost you.”
- (1) **Mortgage loans.** In a transaction secured by real property or a dwelling, the disclosed finance charge and other disclosures affected by the disclosed finance charge (including the amount financed and the annual percentage rate) shall be treated as accurate if the amount disclosed as the finance charge:
- (i) Is understated by no more than \$100; or
 - (ii) Is greater than the amount required to be disclosed.
- (2) **Other credit.** In any other transaction, the amount disclosed as the finance charge shall be treated as accurate if, in a transaction involving an amount financed of \$1,000 or less, it is not more than \$5 above or below the amount required to be disclosed; or, in a transaction involving an amount financed of more than \$1,000, it is not more than \$10 above or below the amount required to be disclosed.

Regulatory Commentary

18(d) Finance Charge

- 1. **Disclosure required.** The creditor must disclose the finance charge as a dollar amount, using the term finance charge, and must include a brief description similar to that in §1026.18(d). The creditor may, but need not, further modify the descriptor for variable rate transactions with a phrase such as which is subject to change. The finance charge must be shown on the disclosures only as a total amount; the elements of the finance charge must not be itemized in the segregated disclosures, although the regulation does not prohibit their itemization elsewhere.*

18(d)(2) Other Credit

- 1. **Tolerance.** When a finance charge error results in a misstatement of the amount financed, or some other dollar amount for which the regulation provides no specific tolerance, the misstated disclosure does not violate the Act or the regulation if the finance charge error is within the permissible tolerance under this paragraph.*

Item 3 – Amount Financed – 12 CFR 1026.18(b)

Regulatory Discussion

The calculated Amount Financed disclosure must appear in the space where designated inside the Fed Box.

Regulatory Text

- (b) **Amount financed.** The amount financed, using that term, and a brief description such as the amount of credit provided to you or on your behalf. The amount financed is calculated by:
- (1) Determining the principal loan amount or the cash price (subtracting any downpayment);
 - (2) Adding any other amounts that are financed by the creditor and are not part of the finance charge; and
 - (3) Subtracting any prepaid finance charge.

Regulatory Commentary

18(b) Amount Financed

- 1. Disclosure required.*** The net amount of credit extended must be disclosed using the term *amount financed* and a descriptive explanation similar to the phrase in the regulation.

Paragraph 18(b)(1)

- 1. Downpayments.*** A downpayment is defined in §1026.2(a)(18) to include, at the creditor's option, certain deferred downpayments or pick-up payments. A deferred downpayment that meets the criteria set forth in the definition may be treated as part of the downpayment, at the creditor's option.
- i. Deferred downpayments that are not treated as part of the downpayment (either because they do not meet the definition or because the creditor simply chooses not to treat them as downpayments) are included in the amount financed.*
 - ii. Deferred downpayments that are treated as part of the downpayment are not part of the amount financed under §1026.18(b)(1).*

Paragraph 18(b)(2)

- 1. Adding other amounts.*** Fees or other charges that are not part of the finance charge and that are financed rather than paid separately at consummation of the transaction are included in the amount financed. Typical examples are real estate settlement charges and premiums for voluntary credit life and disability insurance excluded from the finance charge under §1026.4. This paragraph does not include any amounts already accounted for under §1026.18(b)(1), such as taxes, tag and title fees, or the costs of accessories or

service policies that the creditor includes in the cash price.

Paragraph 18(b)(3)

1. Prepaid finance charges.

i. Prepaid finance charges that are paid separately in cash or by check should be deducted under §1026.18(b)(3) in calculating the amount financed. To illustrate:

A. A consumer applies for a loan of \$2,500 with a \$40 loan fee. The face amount of the note is \$2,500 and the consumer pays the loan fee separately by cash or check at closing. The principal loan amount for purposes of §1026.18(b)(1) is \$2,500 and \$40 should be deducted under §1026.18(b)(3), thereby yielding an amount financed of \$2,460.

ii. In some instances, as when loan fees are financed by the creditor, finance charges are incorporated in the face amount of the note. Creditors have the option, when the charges are not add-on or discount charges, of determining a principal loan amount under §1026.18(b)(1) that either includes or does not include the amount of the finance charges. (Thus the principal loan amount may, but need not, be determined to equal the face amount of the note.) When the finance charges are included in the principal loan amount, they should be deducted as prepaid finance charges under §1026.18(b)(3). When the finance charges are not included in the principal loan amount, they should not be deducted under §1026.18(b)(3). The following examples illustrate the application of §1026.18(b) to this type of transaction. Each example assumes a loan request of \$2,500 with a loan fee of \$40; the creditor assesses the loan fee by increasing the face amount of the note to \$2,540.

A. If the creditor determines the principal loan amount under §1026.18(b)(1) to be \$2,540, it has included the loan fee in the principal loan amount and should deduct \$40 as a prepaid finance charge under §1026.18(b)(3), thereby obtaining an amount financed of \$2,500.

B. If the creditor determines the principal loan amount under §1026.18(b)(1) to be \$2,500, it has not included the loan fee in the principal loan amount and should not deduct any amount under §1026.18(b)(3), thereby obtaining an amount financed of \$2,500.

iii. The same rules apply when the creditor does not increase the face amount of the note by the amount of the charge but collects the charge by withholding it from the amount advanced to the consumer. To illustrate, the following examples assume a loan request of \$2,500 with a loan fee of \$40; the creditor prepares a note for \$2,500 and advances \$2,460 to the consumer.

A. If the creditor determines the principal loan amount under §1026.18(b)(1) to be \$2,500, it has included the loan fee in the principal loan amount and should deduct \$40 as a prepaid finance charge under §1026.18(b)(3), thereby obtaining an amount financed of \$2,460.

B. If the creditor determines the principal loan amount under §1026.18(b)(1) to be \$2,460, it has not included the loan fee in the principal loan amount and should not deduct any amount under §1026.18(b)(3), thereby obtaining an amount

financed of \$2,460.

- iv. Thus in the examples where the creditor derives the net amount of credit by determining a principal loan amount that does not include the amount of the finance charge, no subtraction is appropriate. Creditors should note, however, that although the charges are not subtracted as prepaid finance charges in those examples, they are nonetheless finance charges and must be treated as such.*

2. Add-on or discount charges. *All finance charges must be deducted from the amount of credit in calculating the amount financed. If the principal loan amount reflects finance charges that meet the definition of a prepaid finance charge in §1026.2, those charges are included in the §1026.18(b)(1) amount and deducted under §1026.18(b)(3). However, if the principal loan amount includes finance charges that do not meet the definition of a prepaid finance charge, the §1026.18(b)(1) amount must exclude those finance charges. The following examples illustrate the application of §1026.18(b) to these types of transactions. Each example assumes a loan request of \$1000 for 1 year, subject to a 6 percent precomputed interest rate, with a \$10 loan fee paid separately at consummation.*

- i. The creditor assesses add-on interest of \$60 which is added to the \$1000 in loan proceeds for an obligation with a face amount of \$1060. The principal for purposes of §1026.18(b)(1) is \$1000, no amounts are added under §1026.18(b)(2), and the \$10 loan fee is a prepaid finance charge to be deducted under §1026.18(b)(3). The amount financed is \$990.*
- ii. The creditor assesses discount interest of \$60 and distributes \$940 to the consumer, who is liable for an obligation with a face amount of \$1000. The principal under §1026.18(b)(1) is \$940, which results in an amount financed of \$930, after deduction of the \$10 prepaid finance charge under §1026.18(b)(3).*
- iii. The creditor assesses \$60 in discount interest by increasing the face amount of the obligation to \$1060, with the consumer receiving \$1000. The principal under §1026.18(b)(1) is thus \$1000 and the amount financed \$990, after deducting the \$10 prepaid finance charge under §1026.18(b)(3).*

Item 4 – Total of Payments – 12 CFR 1026.18(h)

Regulatory Discussion

The calculated Total of Payments disclosure must appear in the space where designated inside the Fed Box.

Regulatory Text

- (h) Total of payments.** The total of payments, using that term, and a descriptive explanation such as “the amount you will have paid when you have made all scheduled payments.” In any transaction involving a single payment, the creditor need not disclose

the total of payments.

Regulatory Commentary

Paragraph 18(h) Total of Payments

- 1. **Disclosure required.** The total of payments must be disclosed using that term, along with a descriptive phrase similar to the one in the regulation. The descriptive explanation may be revised to reflect a variable rate feature with a brief phrase such as “based on the current annual percentage rate which may change.”*
- 2. **Calculation of total of payments.** The total of payments is the sum of the payments disclosed under §1026.18(g). For example, if the creditor disclosed a deferred portion of the downpayment as part of the payment schedule, that payment must be reflected in the total disclosed under this paragraph. To calculate the total of payments amount for transactions subject to §1026.18(s), creditors should use the rules in §1026.18(g) and associated commentary and, for adjustable-rate transactions, comments 17(c)(1)-8 and -10.*
- 3. **Exception.** Section 1026.18(h) permits creditors to omit disclosure of the total of payments in single-payment transactions. This exception does not apply to a transaction calling for a single payment of principal combined with periodic payments of interest.*
- 4. **Demand obligations.** In demand obligations with no alternate maturity date, the creditor may omit disclosure of payment amounts under §1026.18(g)(1). In those transactions, the creditor need not disclose the total of payments.*

Item 5 – Total Sale Price – 12 CFR 1026.18(j)

Regulatory Discussion

The Total Sales Price when required (credit sales only), must appear inside the Fed Box.

Regulatory Text

- (j) **Total sale price.** In a credit sale, the total sale price, using that term, and a descriptive explanation (including the amount of any downpayment) such as “the total price of your purchase on credit, including your downpayment of \$__.” The total sale price is the sum of the cash price, the items described in paragraph (b)(2), and the finance charge disclosed under paragraph (d) of this section.

Regulatory Commentary

Paragraph 18(j) Total Sale Price

- 1. **Disclosure required.** In a credit sale transaction, the total sale price must be disclosed using that term, along with a descriptive explanation similar to the one in the regulation.*

*For variable rate transactions, the descriptive phrase may, at the creditor's option, be modified to reflect the variable rate feature. For example, the descriptor may read: "The total cost of your purchase on credit, which is subject to change, including your downpayment of * * *." The reference to a downpayment may be eliminated in transactions calling for no downpayment.*

2. **Calculation of total sale price.** *The figure to be disclosed is the sum of the cash price, other charges added under §1026.18(b)(2), and the finance charge disclosed under §1026.18(d).*
3. **Effect of existing liens.** *When a credit sale transaction involves property that is being used as a trade-in (an automobile, for example) and that has a lien exceeding the value of the trade-in, the total sale price is affected by the amount of any cash provided. (See comment 2(a)(18)-3.) To illustrate, assume a consumer finances the purchase of an automobile with a cash price of \$20,000. Another vehicle used as a trade-in has a value of \$8,000 but has an existing lien of \$10,000, leaving a \$2,000 deficit that the consumer must finance.*
 - i. *If the consumer pays \$1,500 in cash, the creditor may apply the cash first to the lien, leaving a \$500 deficit, and reflect a downpayment of \$0. The total sale price would include the \$20,000 cash price, an additional \$500 financed under §1026.18(b)(2), and the amount of the finance charge. Alternatively, the creditor may reflect a downpayment of \$1,500 and finance the \$2,000 deficit. In that case, the total sale price would include the sum of the \$20,000 cash price, the \$2,000 lien payoff amount as an additional amount financed, and the amount of the finance charge.*
 - ii. *If the consumer pays \$3,000 in cash, the creditor may apply the cash first to extinguish the lien and reflect the remainder as a downpayment of \$1,000. The total sale price would reflect the \$20,000 cash price and the amount of the finance charge. (The cash payment extinguishes the trade-in deficit and no charges are added under §1026.18(b)(2).) Alternatively, the creditor may elect to reflect a downpayment of \$3,000 and finance the \$2,000 deficit. In that case, the total sale price would include the sum of the \$20,000 cash price, the \$2,000 lien payoff amount as an additional amount financed, and the amount of the finance charge.*

Section 3: Item 6 – Item 14

My Payment Schedule will be:		
Number of Payments	Amount of Payments	When Payments are Due
(6)	\$ (7)	(8)
(9)	\$ (10)	(11)
(12)	\$ (13)	(14)

Items 6 through 14 – Payment Schedule – 12 CFR 1026.18(g)

Regulatory Discussion

The Payment Schedule disclosure must appear inside the space where designated in the Fed Box.

Regulatory Text

(g) **Payment schedule.** Other than for a transaction that is subject to paragraph (s) of this section, the number, amounts, and timing of payments scheduled to repay the obligation.

- (1) In a demand obligation with no alternate maturity date, the creditor may comply with this paragraph by disclosing the due dates or payment periods of any scheduled interest payments for the first year.
- (2) In a transaction in which a series of payments varies because a finance charge is applied to the unpaid principal balance, the creditor may comply with this paragraph by disclosing the following information:
 - (i) The dollar amounts of the largest and smallest payments in the series.
 - (ii) A reference to the variations in the other payments in the series.

Regulatory Commentary

18(g) Payment Schedule

1. ***Amounts included in repayment schedule.*** *The repayment schedule should reflect all components of the finance charge, not merely the portion attributable to interest. A prepaid finance charge, however, should not be shown in the repayment schedule as a separate payment. The payments may include amounts beyond the amount financed and finance charge. For example, the disclosed payments may, at the creditor's option, reflect certain insurance premiums where the premiums are not part of either the amount financed or the finance charge, as well as real estate escrow amounts such as taxes added to the payment in mortgage transactions.*

- 2. Deferred downpayments.** *As discussed in the commentary to §1026.2(a)(18), deferred downpayments or pick-up payments that meet the conditions set forth in the definition of downpayment may be treated as part of the downpayment. Even if treated as a downpayment, that amount may nevertheless be disclosed as part of the payment schedule, at the creditor's option.*
- 3. Total number of payments.** *In disclosing the number of payments for transactions with more than one payment level, creditors may but need not disclose as a single figure the total number of payments for all levels. For example, in a transaction calling for 108 payments of \$350, 240 payments of \$335, and 12 payments of \$330, the creditor need not state that there will be a total of 360 payments.*
- 4. Timing of payments.**
- i. General rule.* Section 1026.18(g) requires creditors to disclose the timing of payments. To meet this requirement, creditors may list all of the payment due dates. They also have the option of specifying the “period of payments” scheduled to repay the obligation. As a general rule, creditors that choose this option must disclose the payment intervals or frequency, such as “monthly” or “bi-weekly,” and the calendar date that the beginning payment is due. For example, a creditor may disclose that payments are due “monthly beginning on July 1, 1998.” This information, when combined with the number of payments, is necessary to define the repayment period and enable a consumer to determine all of the payment due dates.
 - ii. Exception.* In a limited number of circumstances, the beginning-payment date is unknown and difficult to determine at the time disclosures are made. For example, a consumer may become obligated on a credit contract that contemplates the delayed disbursement of funds based on a contingent event, such as the completion of repairs. Disclosures may also accompany loan checks that are sent by mail, in which case the initial disbursement and repayment dates are solely within the consumer's control. In such cases, if the beginning-payment date is unknown the creditor may use an estimated date and label the disclosure as an estimate pursuant to §1026.17(c). Alternatively, the disclosure may refer to the occurrence of a particular event, for example, by disclosing that the beginning payment is due “30 days after the first loan disbursement.” This information also may be included with an estimated date to explain the basis for the creditor's estimate. See comment 17(a)(1)-5.iii.
- 5. [Reserved]**
- 6. Mortgage transactions.** Section 1026.18(g) applies to closed-end transactions, other than transactions that are subject to §1026.18(s) or §1026.19(e) and (f). Section 1026.18(s) applies to closed-end transactions secured by real property or a dwelling, unless they are subject to §1026.19(e) and (f). Section 1026.19(e) and (f) applies to closed-end transactions secured by real property, other than reverse mortgages. Thus, if a closed-end consumer credit transaction is secured by real property or a dwelling and the transaction is a reverse mortgage or the dwelling is personal property, the creditor discloses an interest rate and payment summary table in accordance with §1026.18(s). See comment 18(s)-4. If a closed-end consumer credit transaction is secured by real property and is not a reverse mortgage, the creditor discloses a projected payments table in accordance with §§1026.37(c) and 1026.38(c), as required by §1026.19(e) and (f). In all such cases, the creditor is not subject

to the requirements of §1026.18(g). On the other hand, if a closed-end consumer credit transaction is not secured by real property or a dwelling (for example, if it is unsecured or secured by an automobile), the creditor discloses a payment schedule in accordance with §1026.18(g) and is not subject to the requirements of §1026.18(s) or §§1026.37(c) and 1026.38(c).

Paragraph 18(g)(1)

1. **Demand obligations.** In demand obligations with no alternate maturity date, the creditor has the option of disclosing only the due dates or periods of scheduled interest payments in the first year (for example, “interest payable quarterly” or “interest due the first of each month”). The amounts of the interest payments need not be shown.

Paragraph 18(g)(2)

1. **Abbreviated disclosure.** The creditor may disclose an abbreviated payment schedule when the amount of each regularly scheduled payment (other than the first or last payment) includes an equal amount to be applied on principal and a finance charge computed by application of a rate to the decreasing unpaid balance. In addition, in transactions where payments vary because interest and principal are paid at different intervals, the two series of payments may be disclosed separately and the abbreviated payment schedule may be used for the interest payments. For example, in transactions with fixed quarterly principal payments and monthly interest payments based on the outstanding principal balance, the amount of the interest payments will change quarterly as principal declines. In such cases the creditor may treat the interest and principal payments as two separate series of payments, separately disclosing the number, amount, and due dates of principal payments, and, using the abbreviated payment schedule, the number, amount, and due dates of interest payments. This option may be used when interest and principal are scheduled to be paid on the same date of the month as well as on different dates of the month. The creditor using this alternative must disclose the dollar amount of the highest and lowest payments and make reference to the variation in payments.
2. **Combined payment schedule disclosures.** Creditors may combine the option in §1026.18(g)(2) with the general payment schedule requirements in transactions where only a portion of the payment schedule meets the conditions of §1026.18(g)(2). For example, in a transaction where payments rise sharply for five years and then decline over the next 25 years, the first five years would be disclosed under the general rule in §1026.18(g) and the next 25 years according to the abbreviated schedule in §1026.18(g)(2).
3. **Effect on other disclosures.** Section 1026.18(g)(2) applies only to the payment schedule disclosure. The actual amounts of payments must be taken into account in calculating and disclosing the finance charge and the annual percentage rate.

Section 4: Item 15 – Item 25

Variable Rate.

☐ (15) This note contains a variable rate feature. Disclosures about the variable rate feature have been provided to me earlier.

☐ (16) The annual percentage rate may increase during the term of this transaction if (17). The rate may not increase more often than once (18) and may not increase more than (19) % each (20). Any increase will take the form of (21). If the rate increases by (22) % in (23), the (24) will increase to (24). The rate will not go above (25) %.

Items 15 through 25 – Variable Rate – 12 CFR 1026.18(f)

Regulatory Discussion

The acknowledgement of receipt of the variable rate disclosures is still part of the sample form and regulation, but typically is only used in real estate situations. Therefore, it is seldom used now, as TRID has taken its place. If there are other rate changes, the terms of the rate changes must appear where designated inside the Fed Box.

Regulatory Text

(f) Variable rate.

- (1) Except as provided in paragraph (f)(3) of this section, if the annual percentage rate may increase after consummation in a transaction not secured by the consumer's principal dwelling or in a transaction secured by the consumer's principal dwelling with a term of one year or less, the following disclosures:
 - (i) The circumstances under which the rate may increase.
 - (ii) Any limitations on the increase.
 - (iii) The effect of an increase.
 - (iv) An example of the payment terms that would result from an increase.
- (2) If the annual percentage rate may increase after consummation in a transaction secured by the consumer's principal dwelling with a term greater than one year, the following disclosures:
 - (i) The fact that the transaction contains a variable-rate feature.
 - (ii) A statement that variable-rate disclosures have been provided earlier.
- (3) Information provided in accordance with §§1026.18(f)(2) and 1026.19(b) may be substituted for the disclosures required by paragraph (f)(1) of this section.

Regulatory Commentary

18(f) Variable Rate

1. **Coverage.** *The requirements of §1026.18(f) apply to all transactions in which the terms of the legal obligation allow the creditor to increase the rate originally disclosed to the consumer. It includes not only increases in the interest rate but also increases in other components, such as the rate of required credit life insurance. The provisions, however, do not apply to increases resulting from delinquency (including late payment), default, assumption, acceleration or transfer of the collateral. Section 1026.18(f)(1) applies to variable-rate transactions that are not secured by the consumer's principal dwelling and to those that are secured by the principal dwelling but have a term of one year or less. Section 1026.18(f)(2) applies to variable-rate transactions that are secured by the consumer's principal dwelling and have a term greater than one year. Moreover, transactions subject to §1026.18(f)(2) are subject to the special early disclosure requirements of §1026.19(b). (However, “shared-equity” or “shared-appreciation” mortgages are subject to the disclosure requirements of §1026.18(f)(1) and not to the requirements of §§1026.18(f)(2) and 1026.19(b) regardless of the general coverage of those sections.) Creditors are permitted under §1026.18(f)(1) to substitute in any variable-rate transaction the disclosures required under §1026.19(b) for those disclosures ordinarily required under §1026.18(f)(1). Creditors who provide variable-rate disclosures under §1026.19(b) must comply with all of the requirements of that section, including the timing of disclosures, and must also provide the disclosures required under §1026.18(f)(2). Creditors substituting §1026.19(b) disclosures for §1026.18(f)(1) disclosures may, but need not, also provide disclosures pursuant to §1026.20(c). (Substitution of disclosures under §1026.18(f)(1) in transactions subject to §1026.19(b) is not permitted.)*

Paragraph 18(f)(1)

1. **Terms used in disclosure.** *In describing the variable rate feature, the creditor need not use any prescribed terminology. For example, limitations and hypothetical examples may be described in terms of interest rates rather than annual percentage rates. The model forms in appendix H provide examples of ways in which the variable rate disclosures may be made.*
2. **Conversion feature.** *In variable-rate transactions with an option permitting consumers to convert to a fixed-rate transaction, the conversion option is a variable-rate feature that must be disclosed. In making disclosures under §1026.18(f)(1), creditors should disclose the fact that the rate may increase upon conversion; identify the index or formula used to set the fixed rate; and state any limitations on and effects of an increase resulting from conversion that differ from other variable-rate features. Because §1026.18(f)(1)(iv) requires only one hypothetical example (such as an example of the effect on payments resulting from changes in the index), a second hypothetical example need not be given.*

Paragraph 18(f)(1)(i)

1. **Circumstances.** *The circumstances under which the rate may increase include identification of any index to which the rate is tied, as well as any conditions or events on which the increase is contingent.*
 - i. *When no specific index is used, any identifiable factors used to determine whether to increase the rate must be disclosed.*

- ii. When the increase in the rate is purely discretionary, the fact that any increase is within the creditor's discretion must be disclosed.
- iii. When the index is internally defined (for example, by that creditor's prime rate), the creditor may comply with this requirement by either a brief description of that index or a statement that any increase is in the discretion of the creditor. An externally defined index, however, must be identified.

Paragraph 18(f)(1)(ii)

1. **Limitations.** This includes any maximum imposed on the amount of an increase in the rate at any time, as well as any maximum on the total increase over the life of the transaction. Except for private education loans disclosures, when there are no limitations, the creditor may, but need not, disclose that fact, and limitations do not include legal limits in the nature of usury or rate ceilings under state or Federal statutes or regulations. (See §1026.30 for the rule requiring that a maximum interest rate be included in certain variable-rate transactions.) For disclosures with respect to private education loan disclosures, see comment 47(b)(1)-2.

Paragraph 18(f)(1)(iii)

1. **Effects.** Disclosure of the effect of an increase refers to an increase in the number or amount of payments or an increase in the final payment. In addition, the creditor may make a brief reference to negative amortization that may result from a rate increase. (See the commentary to §1026.17(a)(1) regarding directly related information.) If the effect cannot be determined, the creditor must provide a statement of the possible effects. For example, if the exercise of the variable-rate feature may result in either more or larger payments, both possibilities must be noted.

Paragraph 18(f)(1)(iv)

1. **Hypothetical example.** The example may, at the creditor's option appear apart from the other disclosures. The creditor may provide either a standard example that illustrates the terms and conditions of that type of credit offered by that creditor or an example that directly reflects the terms and conditions of the particular transaction. In transactions with more than one variable-rate feature, only one hypothetical example need be provided. (See the commentary to §1026.17(a)(1) regarding disclosure of more than one hypothetical example as directly related information.)
2. **Hypothetical example not required.** The creditor need not provide a hypothetical example in the following transactions with a variable-rate feature:
 - i. Demand obligations with no alternate maturity date.
 - ii. Private education loans as defined in §1026.46(b)(5).
 - iii. Multiple-advance construction loans disclosed pursuant to appendix D, Part I.

Paragraph 18(f)(2)

1. **Disclosure required.** In variable-rate transactions that have a term greater than one year and are secured by the consumer's principal dwelling, the creditor must give special early disclosures under §1026.19(b) in addition to the later disclosures required under §1026.18(f)(2). The disclosures under §1026.18(f)(2) must state that the transaction has a variable-rate feature and that variable-rate disclosures have been provided earlier. (See the commentary to §1026.17(a)(1) regarding the disclosure of certain directly related information in addition to the variable-rate disclosures required under §1026.18(f)(2).)

Section 4: Item 26 – Item 35

Demand. <input type="checkbox"/> (26) This note has a demand feature. <input type="checkbox"/> (27) This note is payable on demand and all disclosures are based on an assumed maturity of one year.
Prepayment. <input type="checkbox"/> (28) If I pay off this note early, I <input type="checkbox"/> (29) may <input type="checkbox"/> (30) will not have to pay a penalty. <input type="checkbox"/> (31) If I pay off this note early, I <input type="checkbox"/> (32) may <input type="checkbox"/> (33) will not be entitled to a refund of part of the finance charge.
Late Charge. If a payment is late more than <u> (34) </u> days after the due date, I will be charged <u> (35) </u> .

Items 26 through 27 – Demand Feature – 12 CFR 1026.18(i)

Regulatory Discussion

If a demand feature is contained in the Note, it must be disclosed where designated inside the Fed Box.

Regulatory Text

- (i) **Demand feature.** If the obligation has a demand feature, that fact shall be disclosed. When the disclosures are based on an assumed maturity of 1 year as provided in §1026.17(c)(5), that fact shall also be disclosed.

Regulatory Commentary

Paragraph 18(i) Demand Feature

- 1. Disclosure requirements.** *The disclosure requirements of this provision apply not only to transactions payable on demand from the outset, but also to transactions that are not payable on demand at the time of consummation but convert to a demand status after a stated period. In demand obligations in which the disclosures are based on an assumed maturity of 1 year under §1026.17(c)(5), that fact must also be stated. Appendix H contains model clauses that may be used in making this disclosure.*
- 2. Covered demand features.** *The type of demand feature triggering the disclosures required by §1026.18(i) includes only those demand features contemplated by the parties as part of the legal obligation. For example, this provision does not apply to transactions that convert to a demand status as a result of the consumer's default. A due-on-sale clause is not*

considered a demand feature. A creditor may, but need not, treat its contractual right to demand payment of a loan made to its executive officers as a demand feature to the extent that the contractual right is required by Regulation O of the Board of Governors of the Federal Reserve System (12 CFR 215.5) or other Federal law.

3. ***Relationship to payment schedule disclosures.*** *As provided in §1026.18(g)(1), in demand obligations with no alternate maturity date, the creditor need only disclose the due dates or payment periods of any scheduled interest payments for the first year. If the demand obligation states an alternate maturity, however, the disclosed payment schedule must reflect that stated term; the special rule in §1026.18(g)(1) is not available.*

Items 28 through 33 – Prepayment – 12 CFR 1026.18(k)

Regulatory Discussion

If a prepayment penalty is contained in the Note it must be disclosed where designated inside the Fed Box.

Regulatory Text

(k) Prepayment.

- (1) When an obligation includes a finance charge computed from time to time by application of a rate to the unpaid principal balance, a statement indicating whether or not a charge may be imposed for paying all or part of a loan's principal balance before the date on which the principal is due.
- (2) When an obligation includes a finance charge other than the finance charge described in paragraph (k)(1) of this section, a statement indicating whether or not the consumer is entitled to a rebate of any finance charge if the obligation is prepaid in full or in part.

Regulatory Commentary

18(k) Prepayment

1. ***Disclosure required.*** *The creditor must give a definitive statement of whether or not a prepayment penalty will be imposed or a prepayment rebate will be given.*
 - i. *The fact that no prepayment penalty will be imposed may not simply be inferred from the absence of a prepayment penalty disclosure; the creditor must indicate that prepayment will not result in a prepayment penalty.*
 - ii. *If a prepayment penalty or prepayment rebate is possible for one type of prepayment, even though not for all, a positive disclosure is required. This applies to any type of prepayment, whether voluntary or involuntary as in the case of prepayments resulting from acceleration.*

iii. Any difference in prepayment rebate or prepayment penalty policy, depending on whether prepayment is voluntary or not, must not be disclosed with the segregated disclosures.

2. Rebate-penalty disclosure. A single transaction may involve both a precomputed finance charge and a finance charge computed by application of a rate to the unpaid balance (for example, mortgages with mortgage-guarantee insurance). In these cases, disclosures about both prepayment rebates and prepayment penalties are required. Sample form H-15 in appendix H to this part illustrates a mortgage transaction in which both rebate and penalty disclosures are necessary.

3. Prepaid finance charge. The existence of a prepaid finance charge in a transaction does not, by itself, require a disclosure under §1026.18(k). A prepaid finance charge is not considered a prepayment penalty under §1026.18(k)(1), nor does it require a disclosure under §1026.18(k)(2). At its option, however, a creditor may consider a prepaid finance charge to be under §1026.18(k)(2). If a disclosure is made under §1026.18(k)(2) with respect to a prepaid finance charge or other finance charge, the creditor may further identify that finance charge. For example, the disclosure may state that the borrower “will not be entitled to a refund of the prepaid finance charge” or some other term that describes the finance charge.

Paragraph 18(k)(1)

1. Examples of prepayment penalties. For purposes of §1026.18(k)(1), the following are examples of prepayment penalties:

i. A charge determined by treating the loan balance as outstanding for a period of time after prepayment in full and applying the interest rate to such “balance,” even if the charge results from interest accrual amortization used for other payments in the transaction under the terms of the loan contract. “Interest accrual amortization” refers to the method by which the amount of interest due for each period (e.g., month) in a transaction’s term is determined. For example, “monthly interest accrual amortization” treats each payment as made on the scheduled, monthly due date even if it is actually paid early or late (until the expiration of any grace period). Thus, under the terms of a loan contract providing for monthly interest accrual amortization, if the amount of interest due on May 1 for the preceding month of April is \$3,000, the loan contract will require payment of \$3,000 in interest for the month of April whether the payment is made on April 20, on May 1, or on May 10. In this example, if the consumer prepays the loan in full on April 20 and if the accrued interest as of that date is \$2,000, then assessment of a charge of \$3,000 constitutes a prepayment penalty of \$1,000 because the amount of interest actually earned through April 20 is only \$2,000.

ii. A fee, such as an origination or other loan closing cost, that is waived by the creditor on the condition that the consumer does not prepay the loan. However, the term prepayment penalty does not include a waived bona fide third-party charge imposed by the creditor if the consumer pays all of a covered transaction’s principal before the date on which the principal is due sooner than 36 months after consummation. For example, assume that at consummation, the creditor waives \$3,000 in closing costs to cover bona fide third-party charges but the terms of the loan agreement provide that the creditor may recoup the \$3,000 in waived charges if the consumer repays the entire loan balance sooner than 36 months after consummation. The \$3,000 charge is not a

prepayment penalty. In contrast, for example, assume that at consummation, the creditor waives \$3,000 in closing costs to cover bona fide third-party charges but the terms of the loan agreement provide that the creditor may recoup \$4,500 in part to recoup waived charges, if the consumer repays the entire loan balance sooner than 36 months after consummation. The \$3,000 that the creditor may impose to cover the waived bona fide third-party charges is not a prepayment penalty, but the additional \$1,500 charge is a prepayment penalty and must be disclosed pursuant to §1026.37(k)(1).

iii. A minimum finance charge in a simple interest transaction.

2. Fees that are not prepayment penalties. For purposes of §1026.18(k)(1), fees which are not prepayment penalties include, for example:

i. Fees imposed for preparing and providing documents when a loan is paid in full, if such fees are imposed whether or not the loan is prepaid. Examples include a loan payoff statement, a reconveyance document, or another document releasing the creditor's security interest in the dwelling that secures the loan.

ii. Loan guarantee fees.

Paragraph 18(k)(2)

1. Rebate of finance charge.

i. This applies to any finance charges that do not take account of each reduction in the principal balance of an obligation. This category includes, for example:

A. Precomputed finance charges such as add-on charges. This includes computing a refund of an unearned finance charge, such as precomputed 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, 15 U.S.C. 1615(d). For purposes of computing a refund of unearned interest, if using the actuarial method defined by applicable State law results in a refund that is greater than the refund calculated by using the method described in section 933(d) of the Housing and Community Development Act of 1992, creditors should use the State law definition in determining if a refund is a prepayment penalty.

B. Charges that take account of some but not all reductions in principal, such as mortgage guarantee insurance assessed on the basis of an annual declining balance, when the principal is reduced on a monthly basis.

ii. No description of the method of computing earned or unearned finance charges is required or permitted as part of the segregated disclosures under §1026.18(k)(2).

Items 34 through 35 – Late Charge – 12 CFR 1026.18(l)

Regulatory Discussion

If a late payment fee is contained in the Note, it must be disclosed where designated inside the Fed Box.

Regulatory Text

- (l) **Late payment.** Any dollar or percentage charge that may be imposed before maturity due to a late payment, other than a deferral or extension charge.

Regulatory Commentary

18(l) Late Payment

- 1. **Definition.** This paragraph requires a disclosure only if charges are added to individual delinquent installments by a creditor who otherwise considers the transaction ongoing on its original terms. Late payment charges do not include:*
 - i. The right of acceleration.*
 - ii. Fees imposed for actual collection costs, such as repossession charges or attorney's fees.*
 - iii. Deferral and extension charges.*
 - iv. The continued accrual of simple interest at the contract rate after the payment due date. However, an increase in the interest rate is a late payment charge to the extent of the increase.*
- 2. **Content of disclosure.** Many state laws authorize the calculation of late charges on the basis of either a percentage or a specified dollar amount, and permit imposition of the lesser or greater of the 2 charges. The disclosure made under §1026.18(l) may reflect this alternative. For example, stating that the charge in the event of a late payment is 5% of the late amount, not to exceed \$5.00, is sufficient. Many creditors also permit a grace period during which no late charge will be assessed; this fact may be disclosed as directly related information. (See the commentary to §1026.17(a).)*

Section 5: Item 36 – Item 39

Security. I am giving a security interest in:

- ☐ (36) the goods or property being purchased.
- ☐ (37) collateral securing other loans with you may also secure this loan.
- ☐ (38) other collateral (brief description) _____ (39)

Items 36 through 39 – Security Interest – 12 CFR 1026.18(m)

Regulatory Discussion

The security interest for any collateral must appear where designated inside the Fed Box.

Regulatory Text

- (m) **Security interest.** The fact that the creditor has or will acquire a security interest in the property purchased as part of the transaction, or in other property identified by item or type.

Regulatory Commentary

18(m) Security Interest

- 1. Purchase money transactions.*** When the collateral is the item purchased as part of, or with the proceeds of, the credit transaction, §1026.18(m) requires only a general identification such as “the property purchased in this transaction.” However, the creditor may identify the property by item or type instead of identifying it more generally with a phrase such as “the property purchased in this transaction.” For example, a creditor may identify collateral as “a motor vehicle,” or as “the property purchased in this transaction.” Any transaction in which the credit is being used to purchase the collateral is considered a purchase money transaction and the abbreviated identification may be used, whether the obligation is treated as a loan or a credit sale.
- 2. Nonpurchase money transactions.*** In nonpurchase money transactions, the property subject to the security interest must be identified by item or type. This disclosure is satisfied by a general disclosure of the category of property subject to the security interest, such as “motor vehicles,” “securities,” “certain household items,” or “household goods.” (Creditors

should be aware, however, that the Federal credit practices rules, as well as some state laws, prohibit certain security interests in household goods.) At the creditor's option, however, a more precise identification of the property or goods may be provided.

- 3. **Mixed collateral.** In some transactions in which the credit is used to purchase the collateral, the creditor may also take other property of the consumer as security. In those cases, a combined disclosure must be provided, consisting of an identification of the purchase money collateral consistent with comment 18(m)-1 and a specific identification of the other collateral consistent with comment 18(m)-2.*
- 4. **After-acquired property.** An after-acquired property clause is not a security interest to be disclosed under §1026.18(m).*
- 5. **Spreader clause.** The fact that collateral for pre-existing credit with the institution is being used to secure the present obligation constitutes a security interest and must be disclosed. (Such security interests may be known as “spreader” or “dragnet” clauses, or as “cross-collateralization” clauses.) A specific identification of that collateral is unnecessary but a reminder of the interest arising from the prior indebtedness is required. The disclosure may be made by using language such as “collateral securing other loans with us may also secure this loan.” At the creditor's option, a more specific description of the property involved may be given.*
- 6. **Terms used in disclosure.** No specified terminology is required in disclosing a security interest. Although the disclosure may, at the creditor's option, use the term security interest, the creditor may designate its interest by using, for example, pledge, lien, or mortgage.*
- 7. **Collateral from third party.** In certain transactions, the consumer's obligation may be secured by collateral belonging to a third party. For example, a loan to a student may be secured by an interest in the property of the student's parents. In such cases, the security interest is taken in connection with the transaction and must be disclosed, even though the property encumbered is owned by someone other than the consumer.*

Section 6: Item 40 – Item 45

Filing Fees. \$ (40)		Non-filing Insurance. \$ (41)
Required Deposit. <input type="checkbox"/> (42) The annual percentage rate does not take into account my required deposit.		
Assumption. Someone buying the property securing this obligation <input type="checkbox"/> (43) may, subject to conditions, be allowed to <input type="checkbox"/> (44) cannot assume the remainder of the obligation on the original terms		
Contract Documents. (45) I can see my contract documents for any additional information about non-payment, default, and required repayment in full before the scheduled date, and prepayment refunds and penalties.		
“e” means an estimate.		

Item 40 through 41 – Security Interest Charge – 12 CFR 1026.18(o)

Regulatory Discussion

Fees charged to perfect the security interest in the loan must appear where designated inside or outside the Fed Box.

Regulatory Text

- (o) **Certain security interest charges.** The disclosures required by §1026.4(e) in order to exclude from the finance charge certain fees prescribed by law or certain premiums for insurance in lieu of perfecting a security interest.

Regulatory Commentary

18(o) Certain Security Interest Charges

1. **Format.** No special format is required for these disclosures; under §1026.4(e), taxes and fees paid to government officials with respect to a security interest may be aggregated, or may be broken down by individual charge. For example, the disclosure could be labeled “filing fees and taxes” and all funds disbursed for such purposes may be aggregated in a single disclosure. This disclosure may appear, at the creditor's option, apart from the other required disclosures. The inclusion of this information on a statement required under the Real Estate Settlement Procedures Act is sufficient disclosure for purposes of Truth in Lending.

Item 42 – Required Deposit – 12 CFR 1026.18(r)

Regulatory Discussion

If a deposit is required, a disclosure stating that the APR does not reflect the effect of the deposit, must appear where designated inside the Fed Box. Note that there are several situations in which this disclosure is not required.

Regulatory Text

(r) **Required deposit.** If the creditor requires the consumer to maintain a deposit as a condition of the specific transaction, a statement that the annual percentage rate does not reflect the effect of the required deposit. A required deposit need not include, for example:

- (1) An escrow account for items such as taxes, insurance or repairs;
- (2) A deposit that earns not less than 5 percent per year; or
- (3) Payments under a Morris Plan.

Regulatory Commentary

18(r) Required Deposit

1. **Disclosure required.** *The creditor must inform the consumer of the existence of a required deposit. (Appendix H provides a model clause that may be used in making that disclosure.) Section 1026.18(r) describes 3 types of deposits that need not be considered required deposits. Use of the phrase “need not” permits creditors to include the disclosure even in cases where there is doubt as to whether the deposit constitutes a required deposit.*
2. **Pledged account mortgages.** *In these transactions, a consumer pledges as collateral funds that the consumer deposits in an account held by the creditor. The creditor withdraws sums from that account to supplement the consumer's periodic payments. Creditors may treat these pledged accounts as required deposits or they may treat them as consumer buydowns in accordance with the commentary to §1026.17(c)(1).*
3. **Escrow accounts.** *The escrow exception in §1026.18(r) applies, for example, to accounts for such items as maintenance fees, repairs, or improvements, whether in a realty or a nonrealty transaction. (See the commentary to §1026.17(c)(1) regarding the use of escrow accounts in consumer buydown transactions.)*
4. **Interest-bearing accounts.** *When a deposit earns at least 5 percent interest per year, no disclosure is required under §1026.18(r). This exception applies whether the deposit is held by the creditor or by a third party.*
5. **Morris Plan transactions.** *A deposit under a Morris Plan, in which a deposit account is created for the sole purpose of accumulating payments and this is applied to satisfy entirely the consumer's obligation in the transaction, is not a required deposit.*

6. Examples of amounts excluded. *The following are among the types of deposits that need not be treated as required deposits:*

- i. Requirement that a borrower be a customer or a member even if that involves a fee or a minimum balance.*
- ii. Required property insurance escrow on a mobile home transaction.*
- iii. Refund of interest when the obligation is paid in full.*
- iv. Deposits that are immediately available to the consumer.*
- v. Funds deposited with the creditor to be disbursed (for example, for construction) before the loan proceeds are advanced.*
- vi. [Reserved]*
- vii. Escrow of loan proceeds to be released when the repairs are completed.*

Items 43 through 44 – Assumption Policy – 12 CFR 1026.18(q)

Regulatory Discussion

A statement disclosing the bank's assumption policy must appear where designated inside the Fed Box. It is only required for real estate purchases, which generally means that this disclosure is mostly not required.

Regulatory Text

- (q) **Assumption policy.** In a residential mortgage transaction, a statement whether or not a subsequent purchaser of the dwelling from the consumer may be permitted to assume the remaining obligation on its original terms.

Regulatory Commentary

18(q) Assumption Policy

- 1. Policy statement.** *In many mortgages, the creditor cannot determine, at the time disclosure must be made, whether a loan may be assumable at a future date on its original terms. For example, the assumption clause commonly used in mortgages sold to the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation conditions an assumption on a variety of factors such as the creditworthiness of the subsequent borrower, the potential for impairment of the lender's security, and execution of an assumption agreement by the subsequent borrower. In cases where uncertainty exists as to the future assumability of a mortgage, the disclosure under §1026.18(q) should reflect that fact. In making disclosures in such cases, the creditor may use phrases such as "subject to conditions," "under certain circumstances," or "depending on future conditions." The*

creditor may provide a brief reference to more specific criteria such as a due-on-sale clause, although a complete explanation of all conditions is not appropriate. For example, the disclosure may state, "Someone buying your home may be allowed to assume the mortgage on its original terms, subject to certain conditions, such as payment of an assumption fee." See comment 17(a)(1)-5 for an example for a reference to a due-on-sale clause.

2. **Original terms.** *The phrase original terms for purposes of §1026.18(q) does not preclude the imposition of an assumption fee, but a modification of the basic credit agreement, such as a change in the contract interest rate, represents different terms.*

Item 45 – Contract Reference – 12 CFR 1026.18(p)

Regulatory Discussion

A statement directing the applicant to their loan contract for more details must appear, where designated inside the Fed Box.

Regulatory Text

- (p) **Contract reference.** A statement that the consumer should refer to the appropriate contract document for information about nonpayment, default, the right to accelerate the maturity of the obligation, and prepayment rebates and penalties. At the creditor's option, the statement may also include a reference to the contract for further information about security interests and, in a residential mortgage transaction, about the creditor's policy regarding assumption of the obligation.

Regulatory Commentary

Paragraph 18(p) Contract Reference

1. **Content.** *Creditors may substitute, for the phrase "appropriate contract document," a reference to specific transaction documents in which the additional information is found, such as "promissory note" or "retail installment sale contract." A creditor may, at its option, delete inapplicable items in the contract reference, as for example when the contract documents contain no information regarding the right of acceleration.*

Section 7: Other Consumer Disclosures

Creditor - 12 C.F.R § 1026.18(a)

Regulatory Discussion

The identity of the creditor can be disclosed inside or outside the Fed Box.

Regulatory Text

For each transaction other than a mortgage transaction subject to §1026.19(e) and (f), the creditor shall disclose the following information as applicable:

- (a) ***Creditor.*** The identity of the creditor making the disclosures.

Regulatory Commentary

18(a) Creditor

- 1. Identification of creditor.*** *The creditor making the disclosures must be identified. This disclosure may, at the creditor's option, appear apart from the other disclosures. Use of the creditor's name is sufficient, but the creditor may also include an address and/or telephone number. In transactions with multiple creditors, any one of them may make the disclosures; the one doing so must be identified.*

Insurance and Debt Cancellation - 12 CFR § 1026.18(n)

Regulatory Discussion

Disclosures required to exclude insurance, debt cancellation and debt suspension fees from the finance charge calculation may be disclosed inside or outside the Fed Box.

Regulatory Text

- (n) **Insurance and debt cancellation.** The items required by §1026.4(d) in order to exclude certain insurance premiums and debt cancellation fees from the finance charge.

Regulatory Commentary

18(n) Insurance and Debt Cancellation

1. **Location.** *This disclosure may, at the creditor's option, appear apart from the other disclosures. It may appear with any other information, including the amount financed itemization, any information prescribed by state law, or other supplementary material. When this information is disclosed with the other segregated disclosures, however, no additional explanatory material may be included.*
2. **Debt cancellation.** *Creditors may use the model credit insurance disclosures only if the debt cancellation coverage constitutes insurance under state law. Otherwise, they may provide a parallel disclosure that refers to debt cancellation coverage.*

Section 8: Itemization of Amount Financed

12 C.F.R. § 1026.18(c)

Itemization of Amount Financed - 12 CFR § 1026.18(c)

Regulatory Discussion

The itemization of amount financed disclosure must be outside the Fed Box, on a separate written sheet, when applicable.

Regulatory Text

(c) Itemization of amount financed.

(1) Except as provided in paragraphs (c)(2) and (c)(3) of this section, a separate written itemization of the amount financed, including:

- (i) The amount of any proceeds distributed directly to the consumer.
- (ii) The amount credited to the consumer's account with the creditor.
- (iii) Any amounts paid to other persons by the creditor on the consumer's behalf. The creditor shall identify those persons. The following payees may be described using generic or other general terms and need not be further identified: public officials or government agencies, credit reporting agencies, appraisers, and insurance companies.
- (iv) The prepaid finance charge.

(2) The creditor need not comply with paragraph (c)(1) of this section if the creditor provides a statement that the consumer has the right to receive a written itemization of the amount financed, together with a space for the consumer to indicate whether it is desired, and the consumer does not request it.

(3) Good faith estimates of settlement costs provided for transactions subject to the Real Estate Settlement Procedures Act (12 U.S.C. 2601 *et seq.*) may be substituted for the disclosures required by paragraph (c)(1) of this section.

Regulatory Commentary

18(c) Itemization of Amount Financed

1. Disclosure required.

- i. The creditor has 2 alternatives in complying with §1026.18(c):*

- A. The creditor may inform the consumer, on the segregated disclosures, that a written itemization of the amount financed will be provided on request, furnishing the itemization only if the customer in fact requests it.*
 - B. The creditor may provide an itemization as a matter of course, without notifying the consumer of the right to receive it or waiting for a request.*
 - ii. Whether given as a matter of course or only on request, the itemization must be provided at the same time as the other disclosures required by §1026.18, although separate from those disclosures.*
- 2. Additional information.** *Section 1026.18(c) establishes only a minimum standard for the material to be included in the itemization of the amount financed. Creditors have considerable flexibility in revising or supplementing the information listed in §1026.18(c) and shown in model form H-3, although no changes are required. The creditor may, for example, do one or more of the following:*
- i. Include amounts that reflect payments not part of the amount financed. For example, escrow items and certain insurance premiums may be included, as discussed in the commentary to §1026.18(g).*
 - ii. Organize the categories in any order. For example, the creditor may rearrange the terms in a mathematical progression that depicts the arithmetic relationship of the terms.*
 - iii. Add categories. For example, in a credit sale, the creditor may include the cash price and the downpayment. If the credit sale involves a trade-in of the consumer's car and an existing lien on that car exceeds the value of the trade-in amount, the creditor may disclose the consumer's trade-in value, the creditor's payoff of the existing lien, and the resulting additional amount financed.*
 - iv. Further itemize each category. For example, the amount paid directly to the consumer may be subdivided into the amount given by check and the amount credited to the consumer's savings account.*
 - v. Label categories with different language from that shown in §1026.18(c). For example, an amount paid on the consumer's account may be revised to specifically identify the account as "your auto loan with us."*
 - vi. Delete, leave blank, mark "N/A," or otherwise note inapplicable categories in the itemization. For example, in a credit sale with no prepaid finance charges or amounts paid to others, the amount financed may consist of only the cash price less downpayment. In this case, the itemization may be composed of only a single category and all other categories may be eliminated.*
- 3. Amounts appropriate to more than one category.** *When an amount may appropriately be placed in any of several categories and the creditor does not wish to revise the categories shown in §1026.18(c), the creditor has considerable flexibility in determining where to show the amount. For example, in a credit sale, the portion of the purchase price being financed by the creditor may be viewed as either an amount paid to the consumer or an amount paid on the consumer's account.*

- 4. RESPA transactions.** *The Real Estate Settlement Procedures Act (RESPA) requires creditors to provide a good faith estimate of closing costs and a settlement statement listing the amounts paid by the consumer. Reverse mortgages subject to RESPA and §1026.18 are exempt from the requirements of §1026.18(c) if the creditor complies with RESPA's requirements for a good faith estimate and settlement statement. The itemization of the amount financed need not be given, even though the content and timing of the good faith estimate and settlement statement under RESPA differ from the requirements of §§1026.18(c) and 1026.19(a)(2). If a creditor chooses to substitute RESPA's settlement statement for the itemization when redisclosure is required under §1026.19(a)(2), the statement must be delivered to the consumer at or prior to consummation. The disclosures required by §§1026.18(c) and 1026.19(a)(2) may appear on the same page or on the same document as the good faith estimate or the settlement statement, so long as the requirements of §1026.17(a) are met.*

Paragraph 18(c)(1)(i)

- 1. Amounts paid to consumer.** *This encompasses funds given to the consumer in the form of cash or a check, including joint proceeds checks, as well as funds placed in an asset account. It may include money in an interest-bearing account even if that amount is considered a required deposit under §1026.18(r). For example, in a transaction with total loan proceeds of \$500, the consumer receives a check for \$300 and \$200 is required by the creditor to be put into an interest-bearing account. Whether or not the \$200 is a required deposit, it is part of the amount financed. At the creditor's option, it may be broken out and labeled in the itemization of the amount financed.*

Paragraph 18(c)(1)(ii)

- 1. Amounts credited to consumer's account.** *The term consumer's account refers to an account in the nature of a debt with that creditor. It may include, for example, an unpaid balance on a prior loan, a credit sale balance or other amounts owing to that creditor. It does not include asset accounts of the consumer such as savings or checking accounts.*

Paragraph 18(c)(1)(iii)

- 1. Amounts paid to others.** *This includes, for example, tag and title fees; amounts paid to insurance companies for insurance premiums; security interest fees, and amounts paid to credit bureaus, appraisers or public officials. When several types of insurance premiums are financed, they may, at the creditor's option, be combined and listed in one sum, labeled "insurance" or similar term. This includes, but is not limited to, different types of insurance premiums paid to one company and different types of insurance premiums paid to different companies. Except for insurance companies and other categories noted in §1026.18(c)(1)(iii), third parties must be identified by name.*
- 2. Charges added to amounts paid to others.** *A sum is sometimes added to the amount of a fee charged to a consumer for a service provided by a third party (such as for an extended warranty or a service contract) that is payable in the same amount in comparable cash and credit transactions. In the credit transaction, the amount is retained by the creditor. Given the flexibility permitted in meeting the requirements of the amount financed itemization (see the commentary to §1026.18(c)), the creditor in such cases may reflect that the creditor has retained a portion of the amount paid to others. For example, the creditor could add to the category "amount paid to others" language such as "(we may be retaining a portion of this amount)."*

Paragraph 18(c)(1)(iv)

- 1. Prepaid finance charge.** *Prepaid finance charges that are deducted under §1026.18(b)(3) must be disclosed under this section. The prepaid finance charges must be shown as a total amount but may, at the creditor's option, also be further itemized and described. All amounts must be reflected in this total, even if portions of the prepaid finance charge are also reflected elsewhere. For example, if at consummation the creditor collects interim interest of \$30 and a credit report fee of \$10, a total prepaid finance charge of \$40 must be shown. At the creditor's option, the credit report fee paid to a third party may also be shown elsewhere as an amount included in §1026.18(c)(1)(iii). The creditor may also further describe the 2 components of the prepaid finance charge, although no itemization of this element is required by §1026.18(c)(1)(iv).*
- 2. Prepaid mortgage insurance premiums.** *Regulation X under RESPA, 12 CFR 1024.8, requires creditors to give consumers a settlement statement disclosing the costs associated with reverse mortgage loan transactions. Included on the settlement statement are mortgage insurance premiums collected at settlement, which are prepaid finance charges. In calculating the total amount of prepaid finance charges, creditors should use the amount for mortgage insurance listed on the line for mortgage insurance on the settlement statement (line 1003 on HUD-1 or HUD 1-A), without adjustment, even if the actual amount collected at settlement may vary because of RESPA's escrow accounting rules. Figures for mortgage insurance disclosed in conformance with RESPA shall be deemed to be accurate for purposes of Regulation Z.*

Section 9: Mortgage Disclosures

12 C.F.R. § 1026.18(s) and 12 C.F.R. § 1026.18(t)

Introduction

These represent the disclosures which were in use prior to the TRID disclosures. While they still might be used once in a great while, they are beyond our scope for this training session, and are included for your review only.

Mortgage Disclosures - 12 CFR § 1026.18(s)

Regulatory Text

- (s) **Interest rate and payment summary for mortgage transactions.** For a closed-end transaction secured by real property or a dwelling, other than a transaction that is subject to §1026.19(e) and (f), the creditor shall disclose the following information about the interest rate and payments:
- (1) **Form of disclosures.** The information in paragraphs (s)(2)-(4) of this section shall be in the form of a table, with no more than five columns, with headings and format substantially similar to Model Clause H-4(E), H-4(F), H-4(G), or H-4(H) in appendix H to this part. The table shall contain only the information required in paragraphs (s)(2)-(4) of this section, shall be placed in a prominent location, and shall be in a minimum 10-point font.
- (2) **Interest rates.**
- (i) **Amortizing loans.**
- (A) For a fixed-rate mortgage, the interest rate at consummation.
- (B) For an adjustable-rate or step-rate mortgage:
- (1) The interest rate at consummation and the period of time until the first interest rate adjustment may occur, labeled as the “introductory rate and monthly payment”;
- (2) The maximum interest rate that may apply during the first five years after the date on which the first regular periodic payment will be due and the earliest date on which that rate may apply, labeled as “maximum during first five years”; and
- (3) The maximum interest rate that may apply during the life of the loan and the earliest date on which that rate may apply, labeled as “maximum ever.”

- (C) If the loan provides for payment increases as described in paragraph (s)(3)(i)(B) of this section, the interest rate in effect at the time the first such payment increase is scheduled to occur and the date on which the increase will occur, labeled as “first adjustment” if the loan is an adjustable-rate mortgage or, otherwise, labeled as “first increase.”

(ii) **Negative amortization loans.** For a negative amortization loan:

- (A) The interest rate at consummation and, if it will adjust after consummation, the length of time until it will adjust, and the label “introductory” or “intro”;
- (B) The maximum interest rate that could apply when the consumer must begin making fully amortizing payments under the terms of the legal obligation;
- (C) If the minimum required payment will increase before the consumer must begin making fully amortizing payments, the maximum interest rate that could apply at the time of the first payment increase and the date the increase is scheduled to occur; and (D) If a second increase in the minimum required payment may occur before the consumer must begin making fully amortizing payments, the maximum interest rate that could apply at the time of the second payment increase and the date the increase is scheduled to occur.

(iii) **Introductory rate disclosure for amortizing adjustable-rate mortgages.**

For an amortizing adjustable-rate mortgage, if the interest rate at consummation is less than the fully-indexed rate, placed in a box directly beneath the table required by paragraph (s)(1) of this section, in a format substantially similar to Model Clause H-4(I) in appendix H to this part:

- (A) The interest rate that applies at consummation and the period of time for which it applies;
- (B) A statement that, even if market rates do not change, the interest rate will increase at the first adjustment and a designation of the place in sequence of the month or year, as applicable, of such rate adjustment; and
- (C) The fully-indexed rate.

(3) **Payments for amortizing loans.**

(i) **Principal and interest payments.** If all periodic payments will be applied to accrued interest and principal, for each interest rate disclosed under paragraph (s)(2)(i) of this section:

- (A) The corresponding periodic principal and interest payment, labeled as “principal and interest;”
- (B) If the periodic payment may increase without regard to an interest rate adjustment, the payment that corresponds to the first such increase and the earliest date on which the increase could occur;
- (C) If an escrow account will be established, an estimate of the amount of taxes and insurance, including any mortgage insurance or any functional equivalent, payable with each periodic payment; and

- (D) The sum of the amounts disclosed under paragraphs (s)(3)(i)(A) and (C) of this section or (s)(3)(i)(B) and (C) of this section, as applicable, labeled as “total estimated monthly payment.”
- (ii) **Interest-only payments.** If the loan is an interest-only loan, for each interest rate disclosed under paragraph (s)(2)(i) of this section, the corresponding periodic payment and:
 - (A) If the payment will be applied to only accrued interest, the amount applied to interest, labeled as “interest payment,” and a statement that none of the payment is being applied to principal;
 - (B) If the payment will be applied to accrued interest and principal, an itemization of the amount of the first such payment applied to accrued interest and to principal, labeled as “interest payment” and “principal payment,” respectively;
 - (C) The escrow information described in paragraph (s)(3)(i)(C) of this section; and
 - (D) The sum of all amounts required to be disclosed under paragraphs (s)(3)(ii)(A) and (C) of this section or (s)(3)(ii)(B) and (C) of this section, as applicable, labeled as “total estimated monthly payment.”
- (4) **Payments for negative amortization loans.** For negative amortization loans:
 - (i)
 - (A) The minimum periodic payment required until the first payment increase or interest rate increase, corresponding to the interest rate disclosed under paragraph (s)(2)(ii)(A) of this section;
 - (B) The minimum periodic payment that would be due at the first payment increase and the second, if any, corresponding to the interest rates described in paragraphs (s)(2)(ii)(C) and (D) of this section; and
 - (C) A statement that the minimum payment pays only some interest, does not repay any principal, and will cause the loan amount to increase;
 - (ii) The fully amortizing periodic payment amount at the earliest time when such a payment must be made, corresponding to the interest rate disclosed under paragraph (s)(2)(ii)(B) of this section; and
 - (iii) If applicable, in addition to the payments in paragraphs (s)(4)(i) and (ii) of this section, for each interest rate disclosed under paragraph (s)(2)(ii) of this section, the amount of the fully amortizing periodic payment, labeled as the “full payment option,” and a statement that these payments pay all principal and all accrued interest.
- (5) **Balloon payments.**
 - (i) Except as provided in paragraph (s)(5)(ii) of this section, if the transaction will require a balloon payment, defined as a payment that is more than two times a regular periodic payment, the balloon payment shall be disclosed separately from other periodic payments disclosed in the table under this paragraph (s), outside

- the table and in a manner substantially similar to Model Clause H-4(J) in appendix H to this part.
- (ii) If the balloon payment is scheduled to occur at the same time as another payment required to be disclosed in the table pursuant to paragraph (s)(3) or (s)(4) of this section, then the balloon payment must be disclosed in the table.
- (6) **Special disclosures for loans with negative amortization.** For a negative amortization loan, the following information, in close proximity to the table required in paragraph (s)(1) of this section, with headings, content, and format substantially similar to Model Clause H-4(G) in appendix H to this part:
- (i) The maximum interest rate, the shortest period of time in which such interest rate could be reached, the amount of estimated taxes and insurance included in each payment disclosed, and a statement that the loan offers payment options, two of which are shown.
 - (ii) The dollar amount of the increase in the loan's principal balance if the consumer makes only the minimum required payments for the maximum possible time and the earliest date on which the consumer must begin making fully amortizing payments, assuming that the maximum interest rate is reached at the earliest possible time.
- (7) **Definitions.** For purposes of this §1026.18(s):
- (i) The term “adjustable-rate mortgage” means a transaction secured by real property or a dwelling for which the annual percentage rate may increase after consummation.
 - (ii) The term “step-rate mortgage” means a transaction secured by real property or a dwelling for which the interest rate will change after consummation, and the rates that will apply and the periods for which they will apply are known at consummation.
 - (iii) The term “fixed-rate mortgage” means a transaction secured by real property or a dwelling that is not an adjustable-rate mortgage or a step-rate mortgage.
 - (iv) The term “interest-only” means that, under the terms of the legal obligation, one or more of the periodic payments may be applied solely to accrued interest and not to loan principal; an “interest-only loan” is a loan that permits interest-only payments.
 - (v) The term “amortizing loan” means a loan in which payment of the periodic payments does not result in an increase in the principal balance under the terms of the legal obligation; the term “negative amortization” means payment of periodic payments that will result in an increase in the principal balance under the terms of the legal obligation; the term “negative amortization loan” means a loan, other than a reverse mortgage subject to §1026.33, that provides for a minimum periodic payment that covers only a portion of the accrued interest, resulting in negative amortization.

- (vi) The term “fully-indexed rate” means the interest rate calculated using the index value and margin at the time of consummation.

Regulatory Commentary

18(s) Interest Rate and Payment Summary for Mortgage Transactions

1. ***In general.*** Section 1026.18(s) prescribes format and content for disclosure of interest rates and monthly (or other periodic) payments for reverse mortgages and certain transactions secured by dwellings that are personal property. The information in §1026.18(s)(2) through (4) is required to be in the form of a table, except as otherwise provided, with headings and format substantially similar to model clause H-4(E), H-4(F), H-4(G), or H-4(H) in appendix H to this part. A disclosure that does not include the shading shown in a model clause but otherwise follows the model clause's headings and format is substantially similar to that model clause. Where §1026.18(s)(2) through (4) or the applicable model clause requires that a column or row of the table be labeled using the word “monthly” but the periodic payments are not due monthly, the creditor should use the appropriate term, such as “bi-weekly” or “quarterly.” In all cases, the table should have no more than five vertical columns corresponding to applicable interest rates at various times during the loan's term; corresponding payments would be shown in horizontal rows. Certain loan types and terms are defined for purposes of §1026.18(s) in §1026.18(s)(7).
2. ***Amortizing loans.*** Loans described as amortizing in §§1026.18(s)(2)(i) and 1026.18(s)(3) include interest-only loans if they do not also permit negative amortization. (For rules relating to loans with balloon payments, see §1026.18(s)(5)). If an amortizing loan is an adjustable-rate mortgage with an introductory rate (less than the fully-indexed rate), creditors must provide a special explanation of introductory rates. See §1026.18(s)(2)(iii).
3. ***Negative amortization.*** For negative amortization loans, creditors must follow the rules in §§1026.18(s)(2)(ii) and 1026.18(s)(4) in disclosing interest rates and monthly payments. Loans with negative amortization also require special explanatory disclosures about rates and payments. See §1026.18(s)(6). Loans with negative amortization include “payment option” loans, in which the consumer is permitted to make minimum payments that will cover only some of the interest accruing each month. See also comment 17(c)(1)-12, regarding graduated-payment adjustable-rate mortgages.
4. ***Scope of coverage in relation to §1026.19(e) and (f).*** Section 1026.18(s) applies to transactions secured by real property or a dwelling, other than transactions that are subject to §1026.19(e) and (f). Those provisions apply to closed-end transactions secured by real property, other than reverse mortgages. Accordingly, §1026.18(s) governs only closed-end reverse mortgages and closed-end transactions secured by a dwelling that is personal property (such as a mobile home that is not deemed real property under State or other applicable law).

18(s)(2) Interest Rates**18(s)(2)(i) Amortizing Loans****Paragraph 18(s)(2)(i)(A)**

1. **Fixed rate loans - payment increases.** Although the interest rate will not change after consummation for a fixed-rate loan, some fixed-rate loans may have periodic payments that increase after consummation. For example, the terms of the legal obligation may permit the consumer to make interest-only payments for a specified period such as the first five years after consummation. In such cases, the creditor must include the increased payment under §1026.18(s)(3)(ii)(B) in the payment row, and must show the interest rate in the column for that payment, even though the rate has not changed since consummation. See also comment 17(c)(1)-13, regarding growth equity mortgages.

Paragraph 18(s)(2)(i)(B)

1. **Adjustable-rate mortgages and step-rate mortgages.** Creditors must disclose more than one interest rate for adjustable-rate mortgages and step-rate mortgages, in accordance with §1026.18(s)(2)(i)(B). Creditors must assume that an adjustable-rate mortgage's interest rate will increase after consummation as rapidly as possible, taking into account the terms of the legal obligation.
2. **Maximum interest rate during first five years - adjustable-rate mortgages and step-rate mortgages.** The creditor must disclose the maximum rate that could apply during the first five years after consummation. If there are no interest rate caps other than the maximum rate required under §1026.30, then the creditor should disclose only the rate at consummation and the maximum rate. Such a table would have only two columns.
 - i. For an adjustable-rate mortgage, the creditor must take into account any interest rate caps when disclosing the maximum interest rate during the first five years. The creditor must also disclose the earliest date on which that adjustment may occur.
 - ii. If the transaction is a step-rate mortgage, the creditor should disclose the rate that will apply after consummation. For example, the legal obligation may provide that the rate is 6 percent for the first two years following consummation, and then increases to 7 percent for at least the next three years. The creditor should disclose the maximum rate during the first five years as 7 percent and the date on which the rate is scheduled to increase to 7 percent.
3. **Maximum interest rate at any time.** The creditor must disclose the maximum rate that could apply at any time during the term of the loan and the earliest date on which the maximum rate could apply.
 - i. For an adjustable-rate mortgage, the creditor must take into account any interest rate caps in disclosing the maximum interest rate. For example, if the legal obligation provides that at each annual adjustment the rate may increase by no more than 2 percentage points, the creditor must take this limit into account in determining the earliest date on which the maximum possible rate may be reached.

- ii. *For a step-rate mortgage, the creditor should disclose the highest rate that could apply under the terms of the legal obligation and the date on which that rate will first apply.*

Paragraph 18(s)(2)(i)(C)

1. **Payment increases.** *For some loans, the payment may increase following consummation for reasons unrelated to an interest rate adjustment. For example, an adjustable-rate mortgage may have an introductory fixed rate for the first five years following consummation and permit the borrower to make interest-only payments for the first three years. The disclosure requirement of §1026.18(s)(2)(i)(C) applies to all amortizing loans, including interest-only loans, if the consumer's payment can increase in the manner described in §1026.18(s)(3)(i)(B), even if it is not the type of loan covered by §1026.18(s)(3)(i). Thus, §1026.18(s)(2)(i)(C) requires that the creditor disclose the interest rate that corresponds to the first payment that includes principal as well as interest, even though the interest rate will not adjust at that time. In such cases, if the loan is an interest-only loan, the creditor also must disclose the corresponding periodic payment pursuant to §1026.18(s)(3)(ii). The table would show, from left to right: The interest rate and payment at consummation with the payment itemized to show that the payment is being applied to interest only; the interest rate and payment when the interest-only option ends; the maximum interest rate and payment during the first five years; and the maximum possible interest rate and payment. The disclosure requirements of §1026.18(s)(2)(i)(C) do not apply to minor payment variations resulting solely from the fact that months have different numbers of days.*

18(s)(2)(ii) Negative Amortization Loans

1. **Rate at consummation.** *In all cases the interest rate in effect at consummation must be disclosed, even if it will apply only for a short period such as one month.*
2. **Rates for adjustable-rate mortgages.** *The creditor must assume that interest rates rise as quickly as possible after consummation, in accordance with any interest rate caps under the legal obligation. For adjustable-rate mortgages with no rate caps except a lifetime maximum, creditors must assume that interest rate reaches the maximum at the first adjustment. For example, assume that the legal obligation provides for an interest rate at consummation of 1.5 percent. One month after consummation, the interest rate adjusts and will adjust monthly thereafter, according to changes in the index. The consumer may make payments that cover only part of the interest accrued each month, until the date the principal balance reaches 115 percent of its original balance, or until the end of the fifth year after consummation, whichever comes first. The maximum possible rate is 10.5 percent. No other limits on interest rates apply. The minimum required payment adjusts each year, and may increase by no more than 7.5 percent over the previous year's payment. The creditor should disclose the following rates and the dates when they are scheduled to occur: A rate of 1.5 percent for the first month following consummation and the minimum payment; a rate of 10.5 percent, and the corresponding minimum payment taking into account the 7.5 percent limit on payment increases, at the beginning of the second year; and a rate of 10.5 percent and the corresponding minimum payment taking into account the 7.5 percent payment increase limit, at the beginning of the third year. The creditor also must disclose the rate of 10.5 percent, the fully amortizing payment, and the date on which the consumer must first make such a payment under the terms of the legal obligation.*

18(s)(2)(iii) Introductory Rate Disclosure for Amortizing Adjustable-Rate Mortgage

1. **Introductory rate.** *In some adjustable-rate mortgages, creditors may set an initial interest rate that is lower than the fully indexed rate at consummation. For amortizing loans with an introductory rate, creditors must disclose the information required in §1026.18(s)(2)(iii) directly below the table.*

Paragraph 18(s)(2)(iii)(B)

1. **Place in sequence.** *“Designation of the place in sequence” refers to identifying the month or year, as applicable, of the change in the rate resulting from the expiration of an introductory rate by its place in the sequence of months or years, as applicable, of the transaction's term. For example, if a transaction has a discounted rate for the first three years, §1026.18(s)(2)(iii)(B) requires a statement such as, “In the fourth year, even if market rates do not change, this rate will increase to __%.”*

Paragraph 18(s)(2)(iii)(C)

1. **Fully indexed rate.** *The fully indexed rate is defined in §1026.18(s)(7) as the index plus the margin at consummation. For purposes of §1026.18(s)(2)(iii)(C), “at consummation” refers to disclosures delivered at consummation, or three business days before consummation pursuant to §1026.19(a)(2)(ii); for early disclosures delivered within three business days after receipt of a consumer's application pursuant to §1026.19(a)(1), the fully indexed rate disclosed under §1026.18(s)(2)(iii)(C) may be based on the index in effect at the time the disclosures are provided. The index in effect at consummation (or at the time of early disclosures) need not be used if a contract provides for a delay in the implementation of changes in an index value. For example, if the contract specifies that rate changes are based on the index value in effect 45 days before the change date, creditors may use any index value in effect during the 45 days before consummation (or any earlier date of disclosure) in calculating the fully indexed rate to be disclosed.*

18(s)(3) Payments for Amortizing Loans

1. **Payments corresponding to interest rates.** *Creditors must disclose the periodic payment that corresponds to each interest rate disclosed under §1026.18(s)(2)(i)(A)-(C). The corresponding periodic payment is the regular payment for each such interest rate, without regard to any final payment that differs from others because of the rounding of periodic payments to account for payment amounts including fractions of cents. Balloon payments, however, must be disclosed as provided in §1026.18(s)(5).*

2. Principal and interest payment amounts; examples.

- i. *For fixed-rate interest-only transactions, §1026.18(s)(3)(ii)(B) requires scheduled increases in the regular periodic payment amounts to be disclosed along with the date of the increase. For example, in a fixed-rate interest-only loan, a scheduled increase in the payment amount from an interest-only payment to a fully amortizing payment must be disclosed. Similarly, in a fixed-rate balloon loan, the balloon payment must be disclosed in accordance with §1026.18(s)(5).*

- ii. *For adjustable-rate mortgage transactions, §1026.18(s)(3)(i)(A) requires that for each interest rate required to be disclosed under §1026.18(s)(2)(i) (the interest rate at consummation, the maximum rate during the first five years, and the maximum possible rate) a corresponding payment amount must be disclosed.*
- iii. *The format of the payment disclosure varies depending on whether all regular periodic payment amounts will include principal and interest, and whether there will be an escrow account for taxes and insurance.*

Paragraph 18(s)(3)(i)(C)

1. **Taxes and insurance.** *An estimated payment amount for taxes and insurance must be disclosed if the creditor will establish an escrow account for such amounts. If the escrow account will include amounts for items other than taxes and insurance, such as homeowners association dues, the creditor may but is not required to include such items in the estimate. When such estimated escrow payments must be disclosed in multiple columns of the table, such as for adjustable- and step-rate transactions, each column should use the same estimate for taxes and insurance except that the estimate should reflect changes in periodic mortgage insurance premiums or any functionally equivalent fee that are known to the creditor at the time the disclosure is made. The estimated amounts of mortgage insurance premiums or any functionally equivalent fee should be based on the declining principal balance that will occur as a result of changes to the interest rate that are assumed for purposes of disclosing those rates under §1026.18(s)(2) and accompanying commentary. The payment amount must include estimated amounts for property taxes and premiums for mortgage-related insurance required by the creditor, such as insurance against loss of or damage to property, or against liability arising out of the ownership or use of the property, or insurance protecting the creditor against the consumer's default or other credit loss. Premiums for credit insurance, debt suspension and debt cancellation agreements, however, should not be included. Except for periodic mortgage insurance premiums or any functionally equivalent fee included in the escrow payment under §1026.18(s)(3)(i)(C), amounts included in the escrow payment disclosure such as property taxes and homeowner's insurance generally are not finance charges under §1026.4 and, therefore, do not affect other disclosures, including the finance charge and annual percentage rate.*
2. **Mortgage insurance or any functional equivalent.** *For purposes of §1026.18(s), "mortgage insurance or any functional equivalent" means the amounts identified in §1026.4(b)(5). "Mortgage guarantees" (such as a United States Department of Veterans Affairs or United States Department of Agriculture guarantee) provide coverage similar to mortgage insurance, even if not technically considered insurance under State or other applicable law. For purposes of §1026.18(s), "mortgage insurance or any functional equivalent" includes any mortgage guarantee. Payment amounts under §1026.18(s)(3)(i) should reflect the consumer's mortgage insurance payments or any functionally equivalent fee until the date on which the creditor must automatically terminate coverage under applicable law, even though the consumer may have a right to request that the insurance be cancelled earlier. The payment amount must reflect the terms of the legal obligation, as determined by applicable State or other law. For example, assume that under applicable law, mortgage insurance must terminate after the 130th scheduled monthly payment, and*

the creditor collects at closing and places in escrow two months of premiums. If, under the legal obligation, the creditor will include mortgage insurance premiums in 130 payments and refund the escrowed payments when the insurance is terminated, payment amounts disclosed through the 130th payment should reflect premium payments. If, under the legal obligation, the creditor will apply the amount escrowed to the two final insurance payments, payments disclosed through the 128th payment should reflect premium payments. The escrow amount reflected on the disclosure should include mortgage insurance premiums even if they are not escrowed and even if there is no escrow account established for the transaction.

Paragraph 18(s)(3)(i)(D)

1. **Total monthly payment.** *For amortizing loans, each column should add up to a total estimated payment. The total estimated payment amount should be labeled. If periodic payments are not due monthly, the creditor should use the appropriate term such as “quarterly” or “annually.”*

18(s)(3)(ii) Interest-Only Payments

1. **Interest-only loans that are also negative amortization loans.** *The rules in §1026.18(s)(3)(ii) for disclosing payments on interest-only loans apply only if the loan is not also a negative amortization loan. If the loan is a negative amortization loan, even if it also has an interest-only feature, payments are disclosed under the rules in §1026.18(s)(4).*

Paragraph 18(s)(3)(ii)(C)

1. **Escrows.** *See the commentary under §1026.18(s)(3)(i)(C) for guidance on escrows for purposes of §1026.18(s)(3)(ii)(C).*

18(s)(4) Payments for Negative Amortization Loans

1. **Table.** *Section 1026.18(s)(1) provides that tables shall include only the information required in §1026.18(s)(2)-(4). Thus, a table for a negative amortization loan must contain no more than two horizontal rows of payments and no more than five vertical columns of interest rates.*
2. **Payment amounts.** *The payment amounts disclosed under §1026.18(s)(4) are the minimum or fully amortizing periodic payments, as applicable, corresponding to the interest rates disclosed under §1026.18(s)(2)(ii). The corresponding periodic payment is the regular payment for each such interest rate, without regard to any final payment that differs from the rest because of the rounding of periodic payments to account for payment amounts including fractions of cents.*

Paragraph 18(s)(4)(i)

1. **Minimum required payments.** *In one row of the table, the creditor must disclose the minimum required payment in each column of the table, corresponding to each interest*

rate or adjustment required in §1026.18(s)(2)(ii). The payments in this row must be calculated based on an assumption that the consumer makes the minimum required payment for as long as possible under the terms of the legal obligation. This row should be identified as the minimum payment option, and the statement required by §1026.18(s)(4)(i)(C) should be included in the heading for the row.

Paragraph 18(s)(4)(iii)

1. **Fully amortizing payments.** In one row of the table, the creditor must disclose the fully amortizing payment in each column of the table, corresponding to each interest rate required in §1026.18(s)(2)(ii). The creditor must assume, for purposes of calculating the amounts in this row that the consumer makes only fully amortizing payments starting with the first scheduled payment.

18(s)(5) Balloon Payments

1. **General.** A balloon payment is one that is more than two times the regular periodic payment. In a reverse mortgage transaction, the single payment is not considered a balloon payment. A balloon payment must be disclosed outside and below the table, unless the balloon payment coincides with an interest rate adjustment or a scheduled payment increase. In those cases, the balloon payment must be disclosed in the table.

18(s)(6) Special Disclosures for Loans With Negative Amortization

1. **Escrows.** See the commentary under §1026.18(s)(3)(i)(C) for guidance on escrows for purposes of §1026.18(s)(6). Under that guidance, because mortgage insurance payments and functionally equivalent fees decline over a loan's term, the payment amounts shown in the table should reflect the mortgage insurance payment and functionally equivalent fees that will be applicable at the time each disclosed periodic payment will be in effect. Accordingly, the disclosed mortgage insurance payment or functionally equivalent fee will be zero if it corresponds to a periodic payment that will occur after the creditor will be legally required to terminate mortgage insurance or any functional equivalent. On the other hand, because only one escrow amount is disclosed under §1026.18(s)(6) for negative amortization loans and escrows that are not itemized in the payment amounts, the single escrow amount disclosed should reflect the mortgage insurance amount or any functionally equivalent fee that will be collected at the outset of the loan's term, even though that amount will decline in the future and ultimately will be discontinued pursuant to the terms of the mortgage insurance policy.

18(s)(7) Definitions

1. **Negative amortization loans.** Under §1026.18(s)(7)(v), a negative amortization loan is one that requires only a minimum periodic payment that covers only a portion of the accrued interest, resulting in negative amortization. For such a loan, §1026.18(s)(4)(iii) requires creditors to disclose the fully amortizing periodic payment for each interest rate disclosed under §1026.18(s)(2)(ii), in addition to the minimum periodic payment, regardless of whether the legal obligation explicitly recites that the consumer may make the fully amortizing payment. Some loan types that result in negative amortization do not meet the definition of negative amortization loan for purposes of §1026.18(s). These

include, for example, loans requiring level, amortizing payments but having a payment schedule containing gaps during which interest accrues and is added to the principal balance before regular, amortizing payments begin (or resume). For example, “seasonal income” loans may provide for amortizing payments during nine months of the year and no payments for the other three months; the required minimum payments (when made) are amortizing payments, thus such loans are not negative amortization loans under §1026.18(s)(7)(v). An adjustable-rate loan that has fixed periodic payments that do not adjust when the interest rate adjusts also would not be disclosed as a negative amortization loan under §1026.18(s). For example, assume the initial rate is 4%, for which the fully amortizing payment is \$1500. Under the terms of the legal obligation, the consumer will make \$1500 monthly payments even if the interest rate increases, and the additional interest is capitalized. The possibility (but not certainty) of negative amortization occurring after consummation does not make this transaction a negative amortization loan for purposes of §1026.18(s). Loans that do not meet the definition of negative amortization loan, even if they may have negative amortization, are amortizing loans and are disclosed under §§1026.18(s)(2)(i) and 1026.18(s)(3).

No Guarantee to Refinance - 12 CFR § 1026.18(t)

Regulatory Discussion

A disclosure stating that there is no guarantee a consumer can refinance the transaction, must be given before consummation on a document that the applicant can keep. It is only required if the collateral is real property or a dwelling.

Regulatory Text

(t) “No-guarantee-to-refinance” statement

- (1) **Disclosure.** For a closed-end transaction secured by real property or a dwelling, other than a transaction that is subject to §1026.19(e) and (f), the creditor shall disclose a statement that there is no guarantee the consumer can refinance the transaction to lower the interest rate or periodic payments.
- (2) **Format.** The statement required by paragraph (t)(1) of this section must be in a form substantially similar to Model Clause H-4(K) in appendix H to this part.

Regulatory Commentary

None.

Closed End Disclosure Requirements Regarding Post- Consummation Events

Section 1: Comments on Subsequent Events

12 C.F.R § 1026.20

Regulatory Discussion

It is possible that you may modify or otherwise change a consumer loan. This section includes the disclosure requirements (or lack of disclosure requirements) for these situations. Rather than reprint all 26 pages here, you will find the text in the Mortgage Manual for this information.

We will cover the requirements of this section during our mortgage discussion.

Treatment of Credit Balances

Section 1: Treatment of Credit Balances

12 C.F.R. § 1026.21

Treatment of Credit Balances - 12 C.F.R. § 1026.21

Regulatory Discussion

A credit balance exists whenever funds in the account exceed the total balance a consumer owes on their account. If the credit balance is greater than \$1, the creditor has three options to return the excess funds:

1. Credit the amount to the consumer's account
2. Refund any part of the credit balance upon written request of the consumer
3. Return to the consumer any credit balance that has remained in the account for over six months.

Regulatory Text

When a credit balance in excess of \$1 is created in connection with a transaction (through transmittal of funds to a creditor in excess of the total balance due on an account, through rebates of unearned finance charges or insurance premiums, or through amounts otherwise owed to or held for the benefit of a consumer), the creditor shall:

- (a) Credit the amount of the credit balance to the consumer's account;
- (b) Refund any part of the remaining credit balance, upon the written request of the consumer; and
- (c) Make a good faith effort to refund to the consumer by cash, check, or money order, or credit to a deposit account of the consumer, any part of the credit balance remaining in the account for more than 6 months, except that no further action is required if the consumer's current location is not known to the creditor and cannot be traced through the consumer's last known address or telephone number.

Regulatory Commentary

Section 1026.21—Treatment of Credit Balances

Paragraph 21(a)

1. ***Credit balance.*** A credit balance arises whenever the creditor receives or holds funds in an account in excess of the total balance due from the consumer on that account. A balance might result, for example, from the debtor's paying off a loan by transmitting funds in excess of the total balance owed on the account, or from the early payoff of a loan entitling the consumer to a rebate of insurance premiums and finance charges. However, §1026.21

does not determine whether the creditor in fact owes or holds sums for the consumer. For example, if a creditor has no obligation to rebate any portion of precomputed finance charges on prepayment, the consumer's early payoff would not create a credit balance with respect to those charges. Similarly, nothing in this provision interferes with any rights the creditor may have under the contract or under state law with respect to set-off, cross collateralization, or similar provisions.

- 2. Total balance due.** *The phrase total balance due refers to the total outstanding balance. Thus, this provision does not apply where the consumer has simply paid an amount in excess of the payment due for a given period.*
- 3. Timing of refund.** *The creditor may also fulfill its obligation under this section by:*
 - i. Refunding any credit balance to the consumer immediately.*
 - ii. Refunding any credit balance prior to a written request from the consumer.*
 - iii. Making a good faith effort to refund any credit balance before 6 months have passed. If that attempt is unsuccessful, the creditor need not try again to refund the credit balance at the end of the 6-month period.*

Paragraph 21(b)

- 1. Written requests - standing orders.** *The creditor is not required to honor standing orders requesting refunds of any credit balance that may be created on the consumer's account.*

Paragraph 21(c)

- 1. Good faith effort to refund.** *The creditor must take positive steps to return any credit balance that has remained in the account for over 6 months. This includes, if necessary, attempts to trace the consumer through the consumer's last known address or telephone number, or both.*
- 2. Good faith effort unsuccessful.** *Section 1026.21 imposes no further duties on the creditor if a good faith effort to return the balance is unsuccessful. The ultimate disposition of the credit balance (or any credit balance of \$1 or less) is to be determined under other applicable law.*

Closed End Determination of Annual Percentage Rate

Section 1: Accuracy of APR

12 C.F.R. § 1026.22(a)

Accuracy of APR - 12 C.F.R § 1026.22(a)

Regulatory Discussion

The accuracy of the APR generally depends on the type of transaction, described as follows:

- In a ***regular transaction***, the disclosed APR is considered accurate if it is not more than 1/8 of 1 percentage point above or below the actual APR. For example, when the actual APR is 10 1/8%, a disclosed APR between 10% and 10 1/4%, or the decimal equivalent, is considered accurate.
- In an ***irregular transaction***, the disclosed APR is considered accurate if it is not more than 1/4 of 1 percentage point above or below the actual APR. This tolerance is intended for more complex transactions; for example, in a construction loan where advances are made as construction progresses, or in a transaction where payments vary to reflect the consumer's seasonal income. See the commentary for exclusions to this type of transaction.

Note, however, there are additional rules for mortgage loans that include consideration of the disclosed finance charge. The commentary provides examples in this regard.

The APR may be calculated using either the *actuarial* or the *US Rule* methodologies. Both methods yield the same APR when payment intervals are equal; they differ in their treatment of unpaid accrued interest. Note the commentary discussion on the *basis for calculations* in transactions with “*step rates*” or “*split rates*” — meaning different rates applied at different times or to different portions of the principal balance.

Finally, if a creditor discovers an error in their particular APR (or finance charge) calculation tool, it will not be considered a violation of this section if:

- The calculation tool was used in good faith (see commentary for further discussion); **and**
- Upon discovery of the error, the creditor discontinues use of that tool and notifies the CFPB, in writing, of the error.

Regulatory Text

(a) Accuracy of annual percentage rate.

- (1) The annual percentage rate is a measure of the cost of credit, expressed as a yearly

rate, that relates the amount and timing of value received by the consumer to the amount and timing of payments made. The annual percentage rate shall be determined in accordance with either the actuarial method or the United States Rule method. Explanations, equations and instructions for determining the annual percentage rate in accordance with the actuarial method are set forth in appendix J to this part. An error in disclosure of the annual percentage rate or finance charge shall not, in itself, be considered a violation of this part if:

- (i) The error resulted from a corresponding error in a calculation tool used in good faith by the creditor; and
 - (ii) Upon discovery of the error, the creditor promptly discontinues use of that calculation tool for disclosure purposes and notifies the Bureau in writing of the error in the calculation tool.
- (2) As a general rule, the annual percentage rate shall be considered accurate if it is not more than $\frac{1}{8}$ of 1 percentage point above or below the annual percentage rate determined in accordance with paragraph (a)(1) of this section.
- (3) In an irregular transaction, the annual percentage rate shall be considered accurate if it is not more than $\frac{1}{4}$ of 1 percentage point above or below the annual percentage rate determined in accordance with paragraph (a)(1) of this section. For purposes of this paragraph (a)(3), an irregular transaction is one that includes one or more of the following features: multiple advances, irregular payment periods, or irregular payment amounts (other than an irregular first period or an irregular first or final payment).
- (4) **Mortgage loans.** If the annual percentage rate disclosed in a transaction secured by real property or a dwelling varies from the actual rate determined in accordance with paragraph (a)(1) of this section, in addition to the tolerances applicable under paragraphs (a)(2) and (3) of this section, the disclosed annual percentage rate shall also be considered accurate if:
- (i) The rate results from the disclosed finance charge; and
 - (ii)
 - (A) The disclosed finance charge would be considered accurate under §1026.18(d)(1) or §1026.38(o)(2), as applicable; or
 - (B) For purposes of rescission, if the disclosed finance charge would be considered accurate under §1026.23(g) or (h), whichever applies.
- (5) **Additional tolerance for mortgage loans.** In a transaction secured by real property or a dwelling, in addition to the tolerances applicable under paragraphs (a)(2) and (3) of this section, if the disclosed finance charge is calculated incorrectly but is considered accurate under §1026.18(d)(1) or §1026.38(o)(2), as applicable, or §1026.23(g) or (h), the disclosed annual percentage rate shall be considered accurate:
- (i) If the disclosed finance charge is understated, and the disclosed annual percentage rate is also understated but it is closer to the actual annual percentage rate than the rate that would be considered accurate under paragraph (a)(4) of this section;

- (ii) If the disclosed finance charge is overstated, and the disclosed annual percentage rate is also overstated but it is closer to the actual annual percentage rate than the rate that would be considered accurate under paragraph (a)(4) of this section.

Regulatory Commentary

Paragraph 22(a)(1)

1. **Calculation method.** *The regulation recognizes both the actuarial method and the United States Rule Method (U.S. Rule) as measures of an exact annual percentage rate. Both methods yield the same annual percentage rate when payment intervals are equal. They differ in their treatment of unpaid accrued interest.*
2. **Actuarial method.** *When no payment is made, or when the payment is insufficient to pay the accumulated finance charge, the actuarial method requires that the unpaid finance charge be added to the amount financed and thereby capitalized. Interest is computed on interest since in succeeding periods the interest rate is applied to the unpaid balance including the unpaid finance charge. Appendix J provides instructions and examples for calculating the annual percentage rate using the actuarial method.*
3. **U.S. Rule.** *The U.S. Rule produces no compounding of interest in that any unpaid accrued interest is accumulated separately and is not added to principal. In addition, under the U.S. Rule, no interest calculation is made until a payment is received.*
4. **Basis for calculations.** *When a transaction involves “step rates” or “split rates”—that is, different rates applied at different times or to different portions of the principal balance—a single composite annual percentage rate must be calculated and disclosed for the entire transaction. Assume, for example, a step-rate transaction in which a \$10,000 loan is repayable in 5 years at 10 percent interest for the first 2 years, 12 percent for years 3 and 4, and 14 percent for year 5. The monthly payments are \$210.71 during the first 2 years of the term, \$220.25 for years 3 and 4, and \$222.59 for year 5. The composite annual percentage rate, using a calculator with a “discounted cash flow analysis” or “internal rate of return” function, is 10.75 percent.*
5. **Good faith reliance on faulty calculation tools.** *Section 1026.22(a)(1) absolves a creditor of liability for an error in the annual percentage rate or finance charge that resulted from a corresponding error in a calculation tool used in good faith by the creditor. Whether or not the creditor's use of the tool was in good faith must be determined on a case-by-case basis, but the creditor must in any case have taken reasonable steps to verify the accuracy of the tool, including any instructions, before using it. Generally, the creditor is not liable only for errors directly attributable to the calculation tool itself, including software programs; §1026.22(a)(1) is not intended to absolve a creditor of liability for its own errors, or for errors arising from improper use of the tool, from incorrect data entry, or from misapplication of the law.*

Paragraph 22(a)(2)

1. **Regular transactions.** *The annual percentage rate for a regular transaction is considered accurate if it varies in either direction by not more than $\frac{1}{8}$ of 1 percentage point from the actual annual percentage rate. For example, when the exact annual percentage rate is determined to be 10 $\frac{1}{8}$ %, a disclosed annual percentage rate from 10% to 10 $\frac{1}{4}$ %, or the decimal equivalent, is deemed to comply with the regulation.*

Paragraph 22(a)(3)

1. **Irregular transactions.** *The annual percentage rate for an irregular transaction is considered accurate if it varies in either direction by not more than $\frac{1}{4}$ of 1 percentage point from the actual annual percentage rate. This tolerance is intended for more complex transactions that do not call for a single advance and a regular series of equal payments at equal intervals. The $\frac{1}{4}$ of 1 percentage point tolerance may be used, for example, in a construction loan where advances are made as construction progresses, or in a transaction where payments vary to reflect the consumer's seasonal income. It may also be used in transactions with graduated payment schedules where the contract commits the consumer to several series of payments in different amounts. It does not apply, however, to loans with variable rate features where the initial disclosures are based on a regular amortization schedule over the life of the loan, even though payments may later change because of the variable rate feature.*

22(a)(4) Mortgage Loans

1. **Example.** *If a creditor improperly omits a \$75 fee from the finance charge on a regular transaction, the understated finance charge is considered accurate under §1026.18(d)(1) or §1026.38(o)(2), as applicable, and the annual percentage rate corresponding to that understated finance charge also is considered accurate even if it falls outside the tolerance of $\frac{1}{8}$ of 1 percentage point provided under §1026.22(a)(2). Because a \$75 error was made, an annual percentage rate corresponding to a \$100 understatement of the finance charge would not be considered accurate.*

22(a)(5) Additional Tolerance for Mortgage Loans

1. **Example.** *This paragraph contains an additional tolerance for a disclosed annual percentage rate that is incorrect but is closer to the actual annual percentage rate than the rate that would be considered accurate under the tolerance in §1026.22(a)(4). To illustrate: in an irregular transaction subject to a $\frac{1}{4}$ of 1 percentage point tolerance, if the actual annual percentage rate is 9.00 percent and a \$75 omission from the finance charge corresponds to a rate of 8.50 percent that is considered accurate under §1026.22(a)(4), a disclosed APR of 8.65 percent is within the tolerance in §1026.22(a)(5). In this example of an understated finance charge, a disclosed annual percentage rate below 8.50 or above 9.25 percent will not be considered accurate.*

Section 2: Computation Tools

12 C.F.R. § 1026.22(b)

Computation Tools - 12 C.F.R § 1026.22(b)

Regulatory Discussion

This section discusses the use of the APR tables produced by the CFPB.

Regulatory Text

(b) Computation tools.

- (1) The Regulation Z Annual Percentage Rate Tables produced by the Bureau may be used to determine the annual percentage rate, and any rate determined from those tables in accordance with the accompanying instructions complies with the requirements of this section. Volume I of the tables applies to single advance transactions involving up to 480 monthly payments or 104 weekly payments. It may be used for regular transactions and for transactions with any of the following irregularities: an irregular first period, an irregular first payment, and an irregular final payment. Volume II of the tables applies to transactions involving multiple advances and any type of payment or period irregularity.
- (2) Creditors may use any other computation tool in determining the annual percentage rate if the rate so determined equals the rate determined in accordance with appendix J to this part, within the degree of accuracy set forth in paragraph (a) of this section.

Regulatory Commentary

22(b) Computation Tools

Paragraph 22(b)(1)

1. **Bureau tables.** *Volumes I and II of the Bureau's Annual Percentage Rate Tables provide a means of calculating annual percentage rates for regular and irregular transactions, respectively. An annual percentage rate computed in accordance with the instructions in the tables is deemed to comply with the regulation, even where use of the tables produces a rate that falls outside the general standard of accuracy. To illustrate: Volume I may be used for single advance transactions with completely regular payment schedules or with payment schedules that are regular except for an odd first payment, odd first period or odd final payment. When used for a transaction with a large final balloon payment, Volume I may produce a rate that is considerably higher than the exact rate produced using a computer program based directly on appendix J. However, the Volume I rate—produced using certain adjustments in that volume—is considered to be in compliance.*

Paragraph 22(b)(2)

1. **Other calculation tools.** Creditors need not use the Bureau tables in calculating the annual percentage rates. Any computation tools may be used, so long as they produce annual percentage rates within $\frac{1}{8}$ or $\frac{1}{4}$ of 1 percentage point, as applicable, of the precise actuarial or U.S. Rule annual percentage rate.

Section 3: Single Add-On Rate Transactions

12 C.F.R. § 1026.22(c)

Single Add-On Rate Transactions - 12 C.F.R § 1026.22(c)

Regulatory Discussion

This section requires that the APR disclosed on single add-on rate transactions (rule of 78s) must be the highest APR that occurs at various maturities within 60 months. As most banks do not use rule of 78s, this is included for you reference.

Regulatory Text

- (c) **Single add-on rate transactions.** If a single add-on rate is applied to all transactions with maturities up to 60 months and if all payments are equal in amount and period, a single annual percentage rate may be disclosed for all those transactions, so long as it is the highest annual percentage rate for any such transaction.

Regulatory Commentary

22(c) Single Add-On Rate Transactions

1. **General rule.** *Creditors applying a single add-on rate to all transactions up to 60 months in length may disclose the same annual percentage rate for all those transactions, although the actual annual percentage rate varies according to the length of the transaction. Creditors utilizing this provision must show the highest of those rates. For example, an add-on rate of 10 percent converted to an annual percentage rate produces the following actual annual percentage rates at various maturities: At 3 months, 14.94 percent; at 21 months, 18.18 percent; and at 60 months, 17.27 percent. The creditor must disclose an annual percentage rate of 18.18 percent (the highest annual percentage rate) for any transaction up to 5 years, even though that rate is precise only for a transaction of 21 months.*

Section 4: Range of Balances

12 C.F.R. § 1026.22(d)

Range of Balances - 12 C.F.R § 1026.22(d)

Regulatory Discussion

This section provides direction for disclosing the APR in two specific instances. For reference, the following information is provided:

- §1026.17(g)(4) (Mail or telephone orders—delay in disclosures): if a creditor receives a purchase order or a request for an extension of credit by mail, telephone, or facsimile machine without face-to-face or direct telephone solicitation, the creditor may delay the disclosures until the due date of the first payment, if the [annual percentage rate] for representative amounts or ranges of credit is made available in written form or in electronic form to the consumer or to the public before the actual purchase order or request.
- §1026.17 (h) (Series of sales - delay in disclosures): if a credit sale is one of a series made under an agreement providing that subsequent sales may be added to an outstanding balance, the creditor may delay the required disclosures until the due date of the first payment for the current sale, if the [the consumer has approved in writing the annual percentage rate or rates, the range of balances to which they apply, and the method of treating any unearned finance charge on an existing balance, and the creditor retains no security interest in any property after the creditor has received payments equal to the cash price and any finance charge attributable to the sale of the that property.]

Regulatory Text

- (d) **Certain transactions involving ranges of balances.** For purposes of disclosing the annual percentage rate referred to in §1026.17(g)(4) (Mail or telephone orders—delay in disclosures) and (h) (Series of sales—delay in disclosures), if the same finance charge is imposed on all balances within a specified range of balances, the annual percentage rate computed for the median balance may be disclosed for all the balances. However, if the annual percentage rate computed for the median balance understates the annual percentage rate computed for the lowest balance by more than 8 percent of the latter rate, the annual percentage rate shall be computed on whatever lower balance will produce an annual percentage rate that does not result in an understatement of more than 8 percent of the rate determined on the lowest balance.

Regulatory Commentary

22(d) Certain Transactions Involving Ranges of Balances

- 1. General rule.*** Creditors applying a fixed dollar finance charge to all balances within a specified range of balances may understate the annual percentage rate by up to 8 percent of that rate, by disclosing for all those balances the annual percentage rate computed on the median balance within that range. For example: If a finance charge of \$9 applies to all balances between \$91 and \$100, an annual percentage rate of 10 percent (the rate on the median balance) may be disclosed as the annual percentage rate for all balances, even though a \$9 finance charge applied to the lowest balance (\$91) would actually produce an annual percentage rate of 10.7 percent.