Farm Credit Administration

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INFORMATIONAL MEMORANDUM

March 10, 2011

To: Chief Executive Officer
All Farm Credit System Institutions

From: Samuel R. Coleman, Director and Chief Examiner
Office of Examination

Subject: Amendments to Higher-Priced Mortgage Loan Escrow Provisions of Regulation Z (Truth in Lending)

The purpose of this Informational Memorandum is to provide information regarding a recently adopted rule amending the higher-priced mortgage loan (HPML) escrow provisions of Regulation Z (Truth in Lending). The amendments apply only to loans that are subject to the Truth in Lending Act (TILA) and will be codified in Regulation Z, at 12 CFR Part 226. All institutions should adopt appropriate procedures to ensure compliance with the amendments.

The rule implements a provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Reform Act) that increases the annual percentage rate (APR) threshold used to determine whether a mortgage lender is required to establish an escrow account for property taxes and insurance for first-lien, "jumbo" mortgage loans. Jumbo loans are loans exceeding the conforming loan-size limit for purchase by Freddie Mac, as specified in the Reform Act.

In July 2008, the Federal Reserve Board issued final rules requiring creditors to establish escrow accounts for first-lien HPMLs. A first-lien mortgage is considered a HPML if its APR is 1.5 percentage points or more above the current average prime offer rate. Under the new amendments, the escrow requirement will apply to first-lien jumbo loans only if the loan's APR is 2.5 percentage points or more above the average prime offer rate. The APR threshold for non-jumbo loans remains unchanged. Creditors may, at their option, elect to continue to use the 1.5 percent threshold for jumbo loans.

The amendments are effective for loans for which the creditor receives an application on or after April 1, 2011.

See attachment for a copy of this rule, which was published at 76 FR 11319, March 2, 2011.

If you have any questions about this Informational Memorandum, please contact Jennifer A. Cohn, Senior Counsel, Office of General Counsel, at (703) 883-4028, or by e-mail at cohnj@fca.gov; and/or David Stephens, Office of Examination, at (703) 883-4412, or by e-mail at stephensd@fca.gov.

Attachment