

Sec 226.32 Requirements for Certain Closed-End Home Mortgages

- (a) Coverage.
- (1) Except as provided in paragraph (a)(2) of this section, the requirements of this section apply to a consumer credit transaction that is secured by the consumer's principal dwelling, and in which either:
- (i) The annual percentage rate at consummation will exceed by more than 10 percentage points the yield on Treasury securities having comparable periods of maturity to the loan maturity as of the fifteenth day of the month immediately preceding the month in which the application for the extension of credit is received by the creditor; or
 - (ii) The total points and fees payable by the consumer at or before loan closing will exceed the greater of 8 percent of the total loan amount, or \$400; the \$400 figure shall be adjusted annually on January 1 by the annual percentage change in the Consumer Price Index that was reported on the preceding June 1.
- (2) This section does not apply to the following:
- (i) A residential mortgage transaction.
 - (ii) A reverse mortgage transaction subject to sec 226.33.
 - (iii) An open-end credit plan subject to subpart B of this part.
- (b) Definitions. For purposes of this subpart, the following definitions apply:
- (1) For purposes of paragraph (a)(1)(ii) of this section, points and fees mean:
- (i) All items required to be disclosed under sec 226.4(a) and 226.4(b), except interest or the time-price differential;
 - (ii) All compensation paid to mortgage brokers; and
 - (iii) All items required to be disclosed under sec 226.4(c)(7) (other than amounts held for future payment of taxes) unless the charge is reasonable, the creditor receives no direct or indirect compensation in connection with the charge, and the charge is not paid to an affiliate of the creditor.
- (2) Affiliate means any company that controls, is controlled by, or is under common control with another company, as set forth in the Bank Holding Company Act of 1956 (12 U.S.C. 1841 et seq.).
- (c) Disclosures. In addition to other disclosures required by this part, in a mortgage subject to this section the creditor shall disclose the following:
- (1) Notices. The following statement:
- You are not required to complete this agreement merely because you have received these disclosures or have signed a loan application. If you obtain this loan, the lender will have a mortgage on your home. You could lose your home, and any money you have put into it, if you do not meet your obligations under the loan.
- (2) Annual percentage rate. The annual percentage rate.

- (3) Regular Payment. The amount of the regular monthly (or other periodic) payment.
 - (4) Variable rate. For variable-rate transactions, a statement that the interest rate and monthly payment may increase, and the amount of the single maximum monthly payment, based on the maximum interest rate required to be disclosed under sec 226.30.
- (d) Limitations. A mortgage transaction subject to this section may not provide for the following terms:
- (1)
 - (i) Balloon payment. For a loan with a term of less than five years, a payment schedule with regular periodic payments that when aggregated do not fully amortize the outstanding principal balance.
 - (ii) Exception. The limitations in paragraph (d)(1)(i) of this section do not apply to loans with maturities of less than one year, if the purpose of the loan is a "bridge" loan connected with the acquisition or construction of a dwelling intended to become the consumer's principal dwelling.
 - (2) Negative amortization. A payment schedule with regular periodic payments that cause the principal balance to increase.
 - (3) Advance payments. A payment schedule that consolidates more than two periodic payments and pays them in advance from the proceeds.
 - (4) Increased interest rate. An increase in the interest rate after default.
 - (5) Rebates. A refund calculated by a method less favorable than the actuarial method (as defined by section 933(d) of the Housing and Community Development Act of 1992 (15 U.S.C. 1615(d)), for rebates of interest arising from a loan acceleration due to default.
 - (6) Prepayment penalties. Except as allowed under paragraph (d)(7) of this section, a penalty for paying all or part of the principal before the date on which the principal is due. A prepayment penalty includes computing a refund of unearned interest by a method that is less favorable to the consumer than the actuarial method, as defined by section 933(d) of the Housing and Community Development Act of 1992.
 - (7) Prepayment penalty exception. A mortgage transaction subject to this section may provide for a prepayment penalty otherwise permitted by law (including a refund calculated according to the rule of 78s) if:
 - (i) The penalty can be exercised only for the first five years following consummation;
 - (ii) The source of the prepayment funds is not a refinancing by the creditor or an affiliate of the creditor; and
 - (iii) At consummation, the consumer's total monthly debts (including amounts owed under the mortgage) do not exceed 50 percent of the consumer's monthly gross income, as verified by the consumer's signed financial statement, a credit report, and payment records for employment income.
- (e) Prohibited acts and practices. A creditor extending mortgage credit subject to this section may not:
- (1) Repayment ability. Engage in a pattern or practice of extending such credit to a consumer based on the consumer's collateral if, considering the consumer's current and expected income, current obligations, and employment status, the consumer will be unable to make the scheduled payments to repay the obligation.
 - (2) Home improvement contracts. Pay a contractor under a home improvement contract from the proceeds of a mortgage covered by this section, other than:

- (i) By an instrument payable to the consumer or jointly to the consumer and the contractor; or
 - (ii) At the election of the consumer, through a third-party escrow agent in accordance with terms established in a written agreement signed by the consumer, the creditor, and the contractor prior to the disbursement.
- (3) Notice to assignee. Sell or otherwise assign a mortgage subject to this section without furnishing the following statement to the purchaser or assignee:

Notice: This is a mortgage subject to special rules under the Federal Truth in Lending Act. Purchasers or assignees of this mortgage could be liable for all claims and defenses with respect to the mortgage that the borrower could assert against the creditor.