

FEDERAL RESERVE SYSTEM

Consumer Handbook on Adjustable Rate Mortgages

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Notice of Availability of Handbook on Adjustable Rate Mortgages.

SUMMARY: This notice announces the availability of the revised Consumer Handbook on Adjustable Rate Mortgages by the Board of Governors of the Federal Reserve System (the Board) and the Office of Thrift Supervision (the OTS). The Consumer Handbook on Adjustable Rate Mortgages (the CHARM booklet) provides information to consumers about the features and risks of adjustable rate mortgage loans. Under Regulation Z (which implements the Truth in Lending Act), creditors must provide a copy of the CHARM booklet published by the Board and the OTS, or a suitable substitute, to consumers with every application for an adjustable rate mortgage loan. The CHARM booklet published by the Board and the OTS today replaces the CHARM booklet published in 1987 and most recently reprinted May 2005.

DATES: Creditors may immediately begin using the revised CHARM booklet (or a suitable substitute) to fulfill the requirement in Regulation Z. Beginning on October 1, 2007, creditors must use the CHARM booklet published today or a suitable substitute to comply with Regulation Z.

FOR FURTHER INFORMATION CONTACT: Kathleen C. Ryan, Counsel, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, Washington, DC 20551, at (202) 452-2412 or (202) 452-3667. For users of Telecommunications Device for the Deaf (TDD) only, contact (202) 263-4869.

How to Obtain Copies: The CHARM booklet is available on the Internet at http://www.federalreserve.gov/pubs/arms/arms_english.htm. Single copies of the brochure are available free of charge by mailing a request to: Publications, Mail Stop 127, Federal Reserve Board, 20th and C Streets, N.W., Washington, DC 20551, or by calling 202-452-3245.

Supplementary Information

The Board and the OTS (the agencies) developed the CHARM booklet in 1987 to educate consumers about the features and risks associated with adjustable rate mortgages. Since 1987, adjustable rate mortgage products have changed, and recently “interest only” and “payment option” features have increasingly been added to adjustable rate mortgage products. Interest only and payment option ARMs—often referred to as “nontraditional mortgage products”—allow borrowers to defer payment of principal and, sometimes, interest. To try to ensure that consumers understand the risks for such nontraditional ARMs, the agencies have substantially revised the CHARM booklet to include

discussions of the features and risks of these newer products. Key changes to the CHARM booklet include new information about interest only ARMs, payment option ARMs, and “hybrid” ARMs that include an initial fixed rate period with a longer adjustable rate period. The shopping worksheet has been expanded to allow consumers to compare the terms of more products. Examples throughout the booklet have been updated to reflect current interest rates and mortgage amounts. The booklet also now briefly explains what is involved in a “stated income” or “low doc” loan. To help consumers navigate through the booklet, the agencies have added a summary of “core messages” at the beginning of the booklet.

Creditors may at their option immediately begin using the revised CHARM booklet or suitable substitute to comply with the requirements in 12 CFR § 226.19(b)(1). The agencies understand, however, that some creditors may wish to use their existing stock of CHARM booklets. Therefore, creditors may continue to use their existing stock of CHARM booklets until October 1, 2007; beginning on October 1, 2007, creditors must use the revised CHARM booklet or suitable substitute to comply with Regulation Z.

By order of the Board of Governors of the Federal Reserve System, December 22, 2006.

Jennifer J. Johnson (signed)
Jennifer J. Johnson
Secretary of the Board