

# RESCINDED

Outdated - See OCC-2014-61

OCC BULLETIN 2010-14

Subject: Truth in Lending Act

Date: March 25, 2010

To: Chief Executive Officers and Compliance Officers of All National Banks and National Bank Operating Subsidiaries, Department and Division Heads, and All Examining Personnel

## Description: Guidance

**The guidance attached to this bulletin continues to apply to federal savings associations.**

The Board of Governors of the Federal Reserve System (FRB) published Consumer Affairs letter CA 09-12 on November 9, 2009, to provide clarity on certain amendments to Regulation Z, which implements the Truth in Lending Act. In 2008, the FRB revised Regulation Z to prohibit creditors from making higher-priced mortgage loans “based on the value of the consumer’s collateral without regard to the consumer’s repayment ability as of consummation, including the consumer’s current and reasonably expected income, employment, assets other than the collateral, current obligations, and mortgage-related obligations.”<sup>1</sup> These revisions took effect for applications received on or after October 1, 2009. Letter CA 09-12 provides guidance in the form of answers to frequently asked questions regarding Regulation Z’s repayment ability rule for higher-priced balloon mortgage loans with terms of less than seven years.

In particular, the questions and answers contained within the letter confirm that the Regulation Z amendments do not prohibit financial institutions from making short-term balloon loans that are higher-priced loans. However, financial institutions are required to use prudent underwriting standards and should determine that the value of the collateral is not the basis for repayment of the obligation. In addition to verifying a consumer’s ability to make regular monthly debt service payments, financial institutions should verify that the consumer would likely be able to satisfy the balloon payment obligation by refinancing the loan through income or assets other than collateral.

You may direct any questions to your supervisory office or OCC Compliance Division (202) 649-5470.

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<sup>1</sup>12 CFR 226.34(a)(4)

## Related Links

- [Consumer Affairs Letter](#)