



FEDERAL RESERVE BANK *of* KANSAS CITY

November 24, 2009

FREQUENTLY ASKED QUESTIONS REGARDING HIGHER-PRICED MORTGAGE LOANS

- Attention:** Chief Executive Officer of Each Tenth District State Member Bank
- In Brief:** The Board of Governors of the Federal Reserve System has issued a list of Frequently Asked Questions to help banks comply with Regulation Z's repayment ability requirements for higher-priced mortgage loans that contain balloon features. The Federal Reserve has issued this guidance under Consumer Affairs (CA) Letter 09-12.
- Highlights:** Regulation Z amendments, effective October 1, 2009, require creditors who originate higher-priced mortgage loans containing a balloon feature to consider the repayment ability of the borrower. A creditor has a presumption of compliance with the repayment ability rule if it follows certain procedures, including verifying the borrower's income. Creditors extending balloon loans with terms of 7 years or more can have a presumption of compliance if the procedures are followed and in these cases, the creditor need not consider the borrower's ability to repay the balloon payment. However, for some products, a creditor cannot have a presumption of compliance even if it follows the specified procedures—these products include balloon loans with terms of less than 7 years ("short-term balloon loans"). Exclusion of short-term balloon loans from the presumption of compliance has led creditors to ask how they can make these loans and comply with the repayment ability rule. The list of Frequently Asked Questions was developed in response to these questions from creditors and should help creditors maintain compliance with Regulation Z's provisions.
- Attachment:** CA 09-12
- Contact:** Questions may be directed to the Consumer Affairs Department at one of the numbers below:
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| <u>Kansas City Office</u> | <u>Denver Office</u> |
| (800) 333-1010, ext. 12488 | (800) 333-1020, ext. 22605 |
- Internet:** A copy of CA 09-12 may be found at:
<http://www.federalreserve.gov/boarddocs/caletters/2009/0912/caltr0912.htm>