

Informational Memorandum



January 29, 2009

To: Chairman, Board of Directors
Chief Executive Officer
All Farm Credit System Institutions

From: Thomas G. McKenzie, Director and Chief Examiner
Office of Examination

A handwritten signature in black ink that reads "Thomas G. McKenzie". The signature is written in a cursive style and is positioned to the right of the typed name in the "From:" field.

Subject: Regulation C Amendments Revising Rules for Reporting Price Information on
Higher-Priced Mortgage Loans

On October 20, 2008, the Federal Reserve Board (FRB) approved amendments to Regulation C (12 CFR Part 203) that revise the rules for reporting price information on higher-priced mortgage loans. According to the FRB, the changes are intended to improve the accuracy and usefulness of data reported under the Home Mortgage Disclosure Act. The rules are being conformed to the definition of "higher-priced mortgage loan" adopted by the FRB under Regulation Z (Truth in Lending) in July 2008. (We informed you about this revision to Regulation Z by Informational Memorandum dated August 1, 2008).

Since 2004, Regulation C has required certain financial lenders (including Farm Credit System institutions that satisfy the definition of *financial institution* in § 203.2(e)(2)) to collect and report the spread between the annual percentage rate (APR) on a loan and the yield on Treasury securities of comparable maturity if the spread is equal to or greater than 3.0 percentage points for a first-lien loan or 5.0 percentage points for a subordinate-lien loan. Under the new rules, a lender will report the spread between the loan's APR and a survey-based estimate of APRs currently offered on prime mortgage loans of a comparable type if the spread is equal to or greater than 1.5 percentage points for a first-lien loan or 3.5 percentage points for a subordinate-lien loan. The FRB will publish average prime offer rates based on the Primary Mortgage Market Survey currently published by Freddie Mac; it will conduct its own survey if it becomes appropriate or necessary to do so.

In setting the rate spread reporting threshold, the FRB sought to cover subprime mortgages and generally avoid covering prime mortgages. The FRB believes that applying the new, market survey-based benchmarks in place of Treasury security yields should better achieve this purpose and ensure more consistent and more useful data. In addition, because the pricing threshold test is the same as the test under Regulation Z, the FRB believes the regulatory burden on mortgage lenders will be reduced.

The final rule will be effective on October 1, 2009. Compliance will be mandatory for loan applications taken on and after that date and for loans that close on and after January 1, 2010 (regardless of their application dates).

A link to the FRB's *Federal Register* notice is included at the end of the press release.

<http://www.federalreserve.gov/newsevents/press/bcreg/20081020b.htm>

If you have any questions about this Informational Memorandum, please contact Jennifer A. Cohn, Senior Attorney, 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.