

Press Releases

July 16, 1998

OTS 98-50 - OTS Simplifies Rule on ARMs Disclosure

Office of Thrift Supervision

NEWS

FOR RELEASE at 10:00 a.m. EST

For further information

Thursday, July 16, 1998

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OTS 98-50

202/906-6913

OTS Simplifies Rule on ARMs Disclosure

WASHINGTON, D.C., July 16, 1998 - The Office of Thrift Supervision (OTS) has finalized a rule giving thrifts two options when disclosing potential interest payments to borrowers taking out an adjustable rate mortgage (ARM) loan.

In changing the final rule from the interim version issued Jan. 8, 1998, which essentially repeated the Federal Reserve Board's ARM disclosure provisions of Regulation Z, OTS decided instead to simply cross reference the Federal Reserve's rule and require thrifts to follow it.

Regulation Z, which was amended Dec. 1, 1997, requires thrifts either to: (1) provide a borrower with a 15-year historical example showing how interest rate changes would have affected ARM payments and loan balances on a \$10,000 loan, or (2) disclose the maximum interest rate and payment possible for a \$10,000 loan. If a thrift chooses the second option, it must also disclose the initial interest rate and payment amount and provide a statement that the periodic payment may increase or decrease substantially during the life of the loan. Under either option, the thrift must explain how the consumer may calculate interest payments on the actual loan amount. The rules apply to ARMs that have a term exceeding one year and are secured by the consumer's principal dwelling.

The OTS final regulation is effective immediately upon publication July 17, 1998, in the Federal Register, although compliance is optional until Oct. 1, 1998, the mandatory compliance date of amendments to Regulation Z. (7/17/98)

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The Office of Thrift Supervision (OTS), a bureau of the U.S. Treasury, regulates and supervises the nation's thrift industry. OTS' mission is to ensure the safety and soundness of thrift

institutions and to support their role as home mortgage lenders and providers of other community credit and financial services. For copies of news releases and other documents call PubliFax at 202/906-5660, or visit the OTS web page at www.ots.treas.gov.