

Consumer Compliance Handbook

Division of Consumer and Community Affairs



Inquiries or comments relating to the contents of this manual should be addressed to:

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About this Handbook

Since the late 1960s, Congress has enacted a number of consumer protection and civil rights laws directly related to the activities of financial institutions. Most transactions involving consumers and financial institutions are covered by these laws. In 2010, Congress enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which established a new regulator, the Consumer Financial Protection Bureau (CFPB). Under the Dodd-Frank Act, the CFPB has authority to examine insured depository institutions and insured credit unions with consolidated assets of more than \$10 billion and their affiliates, to assess compliance with the requirements of 18 enumerated federal consumer financial laws, and to assess risks to consumers and financial markets from consumer financial products and services.

The Federal Reserve retains supervisory responsibility for: 1) state member banks with consolidated assets of more than \$10 billion for their compliance with consumer protection laws not specifically transferred to the CFPB, and 2) state member banks with consolidated assets of \$10 billion or less for their compliance with all consumer protection laws. The Federal Reserve also retains responsibility for conducting Community Reinvestment Act (CRA) examinations for state member banks, regardless of asset size. In addition, the Federal Reserve remains the consolidated supervisor for all bank holding companies and has taken on additional supervisory responsibility as the dedicated supervisor for savings and loan holding companies.

Oversight is assigned to the Board's Division of Consumer and Community Affairs (DCCA); direct supervision of institutions is largely the responsibility of the Federal Reserve Banks, operating under delegated authority. Specially trained consumer compliance examination staff help carry out the Board's consumer compliance supervision program.

Intended Use

This *Consumer Compliance Handbook* provides Federal Reserve examiners (and other System compliance personnel) with background on the consumer compliance regulations and statutes covered by the Board's consumer compliance supervision program and guidelines for conducting consumer compliance examinations. Others in the compliance profession may also find it useful.

The *Handbook* describes each regulation (or, if no regulation exists, the statute) and, for most of the regulations, provides examination objectives, examination procedures, and a detailed examination checklist. Although most of the regulations are discussed in some detail, the discussions are not intended as a substitute for the regulation (or the statute). For complete information, examiners should refer to the regulation itself, as well as the statute, official interpretations, and any related CA Letters issued by the Division of Consumer and Community Affairs.

The *Handbook* primarily concerns examinations of state member banks, but it also covers supervisory activities related to foreign banking offices. For simplicity, most discussions refer to "state member banks" (or just "banks"), even when they may apply to foreign banking offices.

Contents

The first part of the *Handbook* covers aspects of the examination process in general; the remaining parts focus on individual regulations (or, in some cases, individual statutes):

- I. Risk-focused consumer compliance supervision
- II. Deposit-related regulations and statutes
- III. Credit-related regulations and statutes
- IV. Other regulations, rules, policies, and statutes
- V. Federal fair lending regulations and statutes
- VI. Community Reinvestment Act

Relationship to FFIEC-Issued Material

The *Handbook* has been prepared specifically for Federal Reserve examiners. Some of the chapters concerning regulations or statutes for which the FFIEC has issued supervisory materials are adapted from FFIEC documents. The differences between the *Handbook* and FFIEC materials are not substantive and primarily involve formatting or other minor changes to increase consistency among individual *Handbook* chapters.

Updates

Informal updates will be provided to System staff through CA Letters, conference calls, and other means of internal communication, as circum-

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stances dictate. Formal updates will be distributed at least annually.

Questions

Questions and comments about this *Handbook* should be directed to the Manager, Reserve Bank

Oversight, Division of Consumer and Community Affairs.

An electronic version of this printed handbook is available on the Board's web site, at www.federalreserve.gov/boarddocs/SupManual/default.htm.

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Federal Reserve Community Bank Risk-Focused Consumer Compliance Supervision Program

Executive Summary

The Community Bank Risk-Focused Consumer Compliance Supervision Program (“Program”) promotes strong compliance risk management practices and consumer protection within state member banks with assets of \$10 billion or less and their subsidiaries. The Program provides a framework that allows examiners to evaluate whether a financial institution is effectively controlling compliance risk. This framework is founded on the following principles of successful supervision:

- **Risk-Focused.** Evaluates a financial institution’s compliance culture and processes for identifying, measuring, monitoring, and controlling risks and practices regarding the treatment of consumers, the potential for consumer harm, and compliance with consumer protection laws and regulations.
- **Proactive and Scalable.** Balances the nature and breadth of supervision with the level of risk to consumers and financial institutions.
- **Efficient.** Incorporates procedures and processes to ensure good stewardship of examiner resources.
- **Clear.** Provides guidance, policies, procedures, and examination findings clearly.
- **Collaborative.** Engages other disciplines and supervisory agencies, as appropriate, to ensure a coordinated supervisory approach.

Understanding the Institution

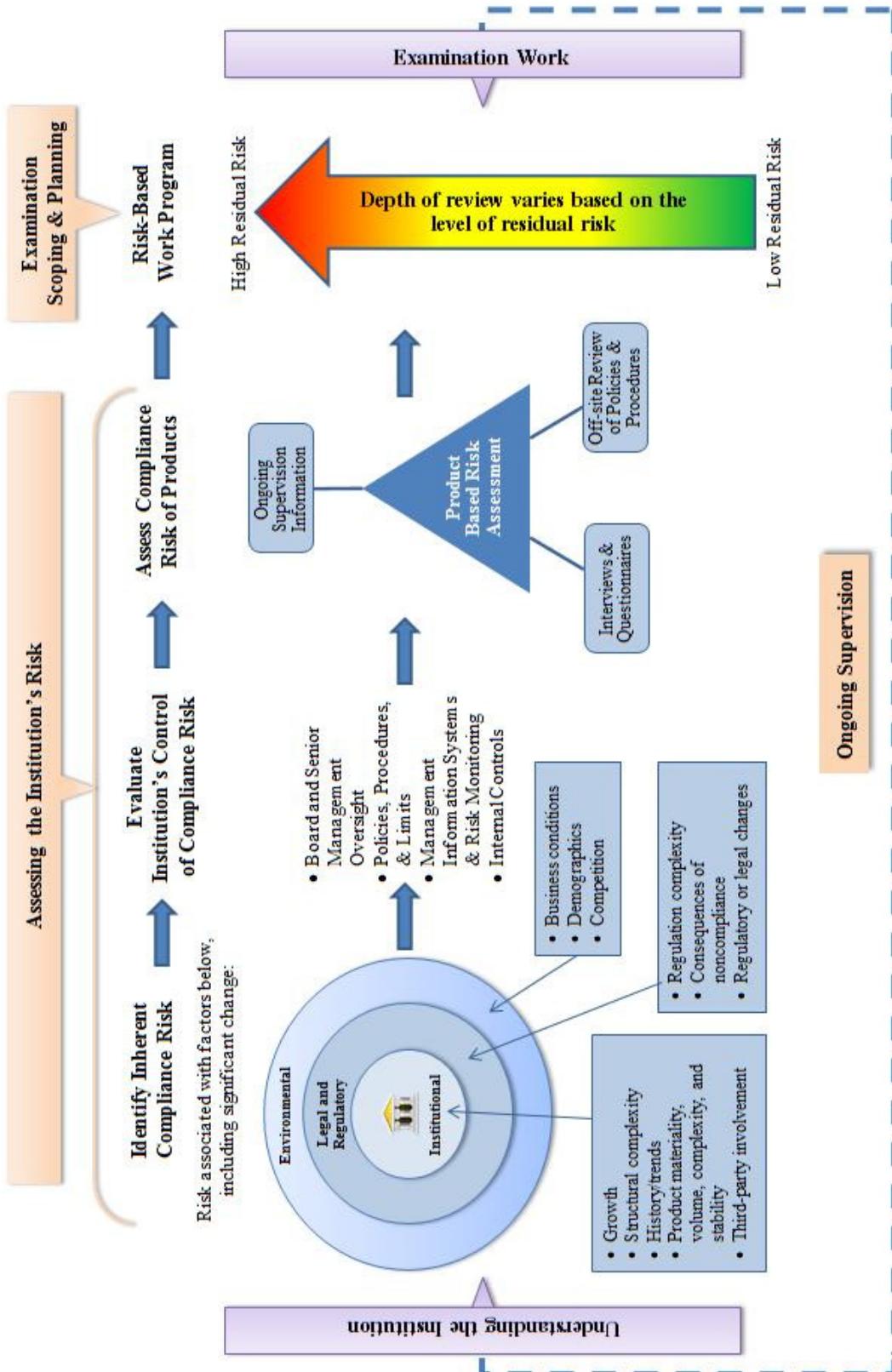
The starting point for risk-focused supervision is developing an understanding of the institution,

taking into account environmental factors and the legal and regulatory landscape in which it operates. Information on a financial institution’s business model and strategy, major business activities, and risk tolerance serves as the foundation for assessing its associated risks and supports the examiner’s observations captured in an institutional profile. The consumer compliance examiner will develop an institutional profile to provide a concise portrait of an organization’s structure and business activities and allow the examiner to understand the scope of activities that give rise to potential consumer harm and consumer compliance risk.

Examiners will contact bank management to develop and maintain an understanding of the institution and the market(s) in which it operates. Such contact typically involves a specific information request that provides the opportunity to learn about any changes that would affect the profile. These changes might include changes in management personnel, organizational structure, or the institution’s strategic direction, including any new products, markets, or delivery channels the institution has introduced or entered or is considering introducing or entering.

The Program discusses in detail the processes depicted in the diagram on the following page.

Risk-Focused Supervision for Community Banks



Assessing the Institution's Risk

The institutional profile serves as the primary source of information for developing the risk assessment, a vital part of the supervisory process. The risk assessment presents a comprehensive view of the financial institution, delineating the areas of supervisory concern, and serves as a platform for the supervisory plan. While the risk assessment process evaluates a financial institution's compliance management program as a whole, the process also evaluates the effectiveness of the institution's compliance risk controls for individual products, services, and business activities.

Inherent risk considers the likelihood and impact of noncompliance with consumer laws and regulations prior to considering any mitigating effects of risk management processes. Risk management and controls are evaluated in the context of their likely effectiveness in achieving compliance with laws and regulations. Residual risk is determined by balancing the overall level of inherent risk of an activity (product or service) with the overall strength of risk controls for that activity.

The goal of the risk assessment is to allow supervisory staff to establish reasonable assurance that material residual consumer compliance risks are identified. The risk assessment can then be relied upon as the determinant of the scope of examination activities. As a result, examination resources will be focused on areas of elevated residual risk and not on those areas where inherent risk is well controlled and residual risk is limited or low.

The risk assessment process requires the examiner to determine: (1) products, services, and activities that are considered material to the organization; (2) the level of inherent risk associated with these products, services, and activities; (3) the adequacy of management systems used to measure, monitor, and control associated risks; and (4) the residual consumer compliance risk associated with each material product, service, and activity, as well as for the institution overall, based on the level of inherent risk and the adequacy of risk controls. The examiner will aggregate the residual risk determined for each of the financial institution's material products to capture the residual risk for the institution as a whole.

Fair lending (the Fair Housing Act, the Equal Credit Opportunity Act, and Regulation B) and

unfair or deceptive acts or practices (UDAP) (Section 5 of the Federal Trade Commission Act and Sections 1031 and 1036 of the Dodd–Frank Wall Street Reform and Consumer Protection Act) are two of the most significant risk areas for financial institutions. Violations in these areas often cause significant consumer harm as well as legal, financial, and reputational risk to the institution. Therefore, fair lending and UDAP will always be addressed during the risk assessment process. For fair lending, as with the examiner's evaluation of the overall compliance management program, the level of examination intensity for a particular product will generally be commensurate with the level of residual risk identified in the risk assessment process. However, in circumstances where inherent risk is high, examiners generally will test the risk controls before concluding that they effectively mitigate the high inherent risk.

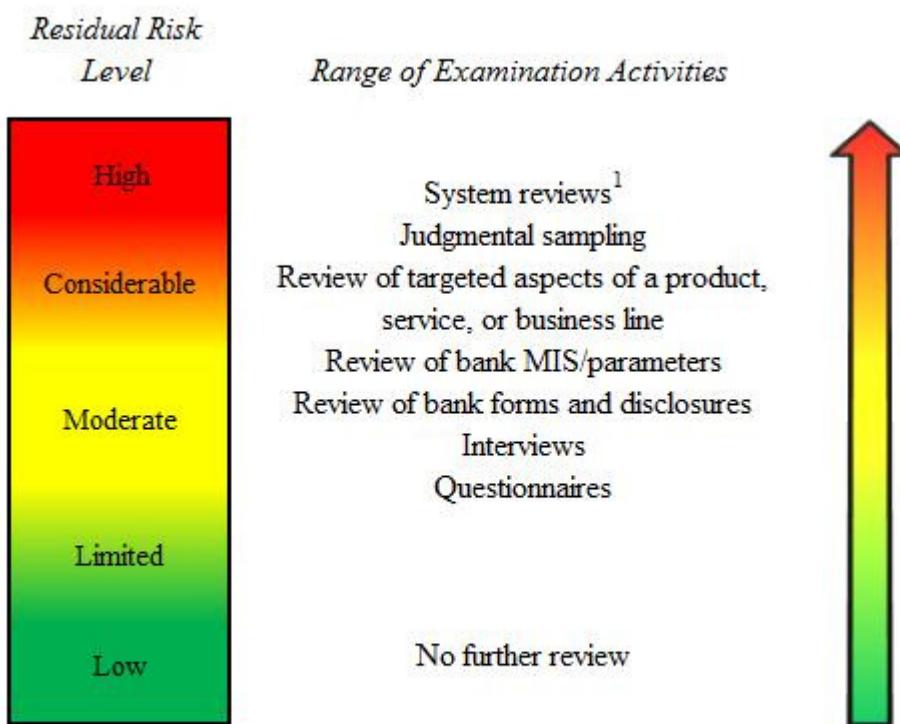
Examination Scoping and Planning

Establishing a thorough knowledge of a financial institution's inherent risk and an understanding of an institution's compliance management program, including the risk controls used to mitigate inherent risk, is a critical part of examination scoping and planning. Ultimately, the risk assessment should drive the scope of activities that will be carried out during the examination.

The scoping process provides an opportunity to customize examination activities so that they are consistent with the size, complexity, and risk profile of the financial institution. In this way, it is expected that a broad range of examination activities will be considered for products, services, and business lines targeted for additional review. Moreover, it is expected that planned activities involve varying levels of intensity and be carried out in a way that helps the examination team draw reasonable conclusions about the adequacy of an institution's compliance management program.

The examination work program and procedures used to assess the risk management practices of a financial institution with respect to a particular product or service or across business lines will be commensurate with the level of residual risk identified in the risk assessment process. Thus, the examination work program may include a range of examination activities, as depicted in the diagram on the following page.

Risk-Focused Examination Work Program



¹From time to time, specific work programs may be developed to assess consumer compliance in certain higher risk areas. These System reviews may be precipitated by concerns about a particular product, service, business practice, or regulatory requirement.

After assessing the financial institution's risk and identifying the areas targeted for additional review, the examiner will develop a tailored, risk-focused work program for each product, service, or business line selected. In many cases, examination objectives for material products or for the overall institution may have been largely met as part of the risk assessment process. When the quality of compliance management systems is assessed as being at least satisfactory or there is a reasonable basis for reliance on the institution's controls, and residual risk is not elevated, examiners may need to conduct no additional work or only limited follow-up work during the examination.

Management and policy-related examination analysis performed during the risk assessment process may result in the identification of procedural weaknesses or other risks that cannot be addressed simply through limited follow-up. In such cases, the examiner should document the need for transaction testing in the examination

scope memorandum detailing the overall examination strategy.

The risk assessment and scoping processes will result in communication to the institution's management of a request for any additional information to be sent to the Reserve Bank or made available on site upon examiners' arrival. To the extent possible, information requests will avoid asking for information already available.

Examination Work

The examiner in charge will meet with the financial institution's senior management and the compliance officer to discuss the nature and scope of the examination. Because the issues identified in the scoping process and the suggested levels of review may differ from the previous examination, the examiner will provide bank management with an understanding of the risk-focused examination process and how it will be applied to the institution.

The examiner in charge will inform bank management of the examination's progress and issues that may have arisen that could result or have resulted in a change to the scope of the examination. Bank management will be given an opportunity to respond to issues and resolve them if possible, as early in the examination process as is practical.

Formal final discussions are held to communicate examination findings and obtain, when necessary, management's commitment for corrective action. The board of directors has the ultimate responsibility for operating the financial institution in compliance with the law and for ensuring that appropriate corrective action is taken. A meeting with the board of directors may be appropriate in certain circumstances, such as if the program weaknesses or legal violations involve the potential for significant administrative and civil liability or if the Reserve Bank is contemplating issuing a supervisory action.

Supervisory findings are communicated in writing through formal reports and letters summarizing the results of reviews. These communications,

including the Consumer Affairs Report of Examination for community banks, constitute the official record of the examination and are the primary tool for conveying examination findings to the institution's board of directors and senior management.

Ongoing Supervision

Ongoing supervision of a financial institution between examinations, typically a supervisory contact close to the mid-cycle between consumer compliance examinations, is critical in identifying significant changes or deteriorating trends in a timely manner. Proactive monitoring also confirms whether the institution's board and senior management have appropriately addressed previous examination findings and allows for identification of new product lines, business activities, or other organizational changes. In some cases when the institution's risk profile is high or it changes materially as a result of the addition of more complex or higher-risk strategies, more frequent contacts may be appropriate.

Community Bank Risk-Focused Consumer Compliance Supervision Program

I. INTRODUCTION

Overview of the Risk-Focused Framework

The consumer compliance risk-focused supervision program is designed to promote strong compliance risk management practices and consumer protection by ensuring that Federal Reserve-supervised state member community banks comply with consumer protection laws and regulations.¹ The program achieves this goal through processes designed to evaluate whether an organization's consumer compliance risk management program (compliance management program) effectively manages its inherent compliance risk, which includes risks to the institution and its customers. The products and services reviewed during a risk-focused consumer compliance examination will vary based on the inherent compliance risk present in the institution's business lines, products, and services and the effectiveness of the institution's compliance management program.

The purpose of the risk-focused supervision program detailed in this document is to provide a framework that allows examiners to evaluate whether an institution is effectively controlling compliance risk. To accomplish this objective, the program

- incorporates guidelines for evaluating compliance management programs in the context of inherent risk to the organization (including the bank, affiliates, and subsidiaries) as well as to consumers
- requires development of a supervisory strategy that recognizes the risk of noncompliance for business activities at an institution and across institutions
- allows Reserve Banks to tailor supervisory activities to the structure, complexity, and risk of the organization and to adjust these activities over time, thus deploying Federal Reserve resources efficiently and effectively.
- acknowledges the value of timely communication regarding consumer compliance regulatory and supervisory matters by supplementing point-in-time supervisory work with ongoing supervision
- requires coordination with other supervisory disciplines and other regulators, as warranted, to

ensure a full understanding of an organization's risk profile and a proper supervisory approach

The framework is

- **Risk-focused.** Evaluates a financial institution's compliance culture and processes for identifying, measuring, monitoring, and controlling risks and its practices regarding the treatment of consumers, the potential for consumer harm, and compliance with consumer protection laws and regulations.
- **Proactive and scalable.** Balances the nature and breadth of supervision with the level of risk to consumers and financial institutions.
- **Efficient.** Incorporates procedures and processes to ensure good stewardship of examiner resources.
- **Clear.** Provides guidance, policies, procedures, and examination findings clearly.
- **Collaborative.** Engages other disciplines and supervisory agencies, as appropriate, to ensure a coordinated supervisory approach.

The risk-focused supervision program outlines standard processes to ensure consistent and effective supervision of Federal Reserve-supervised institutions. This document discusses in detail the following processes depicted in the diagram on page 5:

- Understanding the Institution
- Assessing the Institution's Risk
- Examination Scoping and Planning
- Examination Work
- Ongoing Supervision

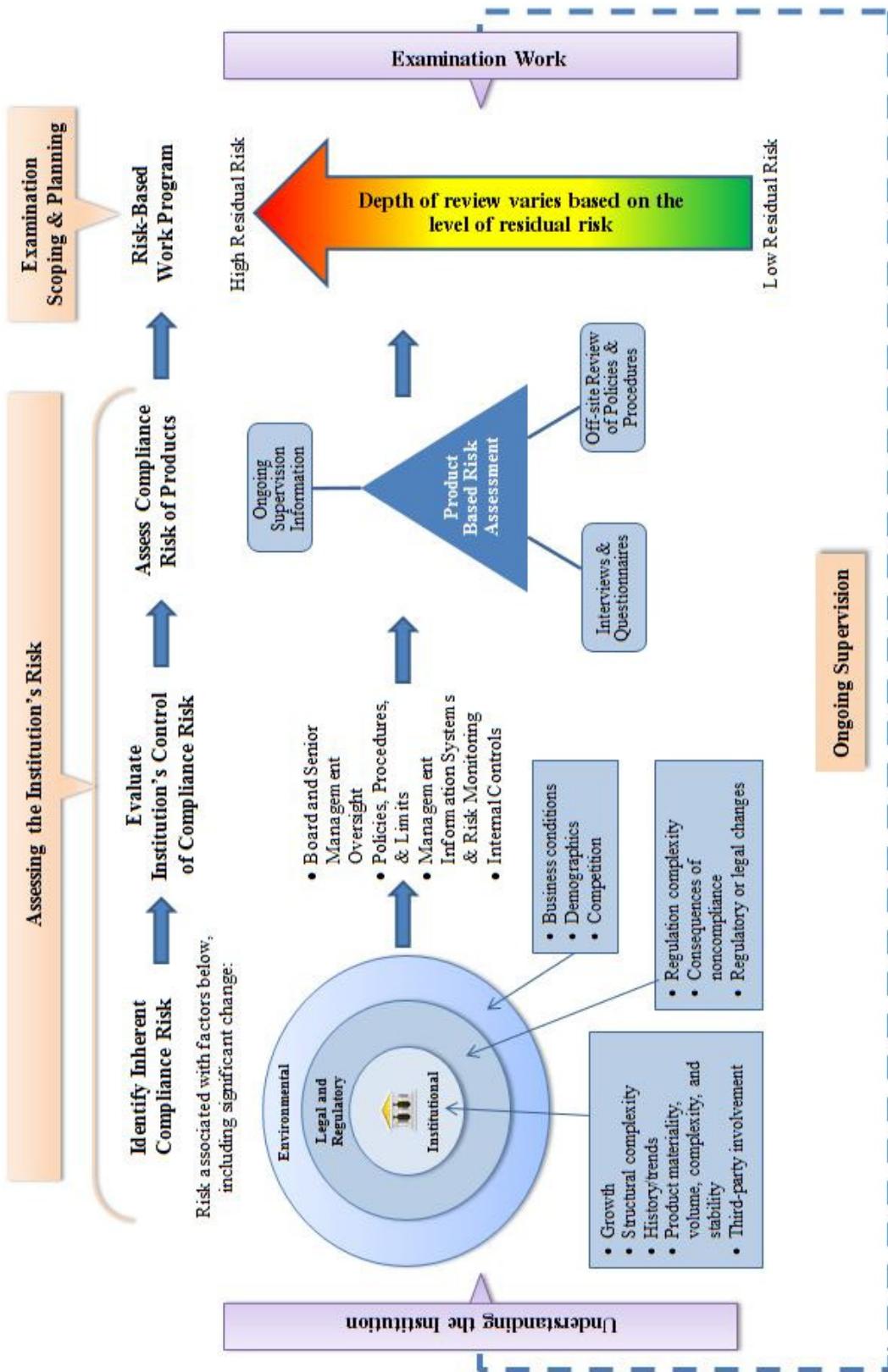
II. UNDERSTANDING THE INSTITUTION

Overview

The starting point for risk-focused supervision is developing an understanding of the institution, taking into account environmental factors and the legal and regulatory landscape in which it operates. To understand an organization's compliance risks, examiners must understand the types of business it conducts within the institution, its affiliates, and subsidiaries. Examiners must also understand the structure of the organization, including the institution's compliance management program and key personnel in senior management

1. A community bank is a bank with assets of \$10 billion or less.

Risk-Focused Supervision for Community Banks



and compliance roles. This step is critical to tailoring the supervisory plan (including examinations, monitoring, and outreach) to align with the risk profile of the organization. The technological, regulatory, and market developments in the financial sector and the speed with which an institution's risk profile can change make it critical for supervisors to keep abreast of material events and changes in strategy that affect the institution's risk profile. Accordingly, consumer compliance examiners should review institution-specific information on an ongoing basis, in accordance with ongoing supervision expectations or in response to material events or changes. Examiners should also stay up to date on environmental and statutory/regulatory changes in order to maintain consumer compliance-specific information for the institutional profile that will communicate the examiners' understanding of that institution and the market(s) in which it operates.

Information about an institution's business model and strategy, major business activities, and associated risk tolerance serves as the foundation for assessing the associated risks and should be captured in the institutional profile. The profile should document the internal changes driven by management decisions or external events that may alter an institution's risk profile.

Preparing the profile begins with gathering and reviewing available information, including examination reports, direct observations gained through monitoring activities, correspondence files, financial databases, information from consumer groups, news outlets, and other information generated by the Federal Reserve and other supervisory agencies. Reviewing this information helps examiners identify both the strengths and the vulnerabilities of the institution.

The following are some documents and sources that are helpful in understanding the institution:

Information about the Institution

- the institution's strategic plan
- board packets or any other information that may be provided by the organization to the Reserve Bank's central point of contact (CPC)
- minutes of board, loan, compliance, Community Reinvestment Act (CRA), audit, risk, or other relevant committees
- organizational chart and compliance management program structure
- policies and procedures
- product offerings by business line
- internal management information system (MIS)

reports and compliance and fair lending risk assessments

- compliance testing reports and internal or external audit reports, including the status of corrective actions
- consumer complaint information
- training reports and attendance records
- public filings and annual reports, if applicable
- consumer protection-related litigation and/or investigations by other governmental or regulatory agencies
- information from news outlets and consumer groups
- the institution's website, along with social media

Other Institution Data

- Uniform Bank and Performance Reports (UBPR) and Consolidated Reports of Condition and Income (Call Report)
- market and community demographic data
- Home Mortgage Disclosure Act (HMDA) and CRA data
- electronic loan data

Reserve Bank or Federal Reserve System Information

- current institutional profile, if applicable
- information obtained during ongoing supervision activities or through direct observations, questionnaires, interviews, meetings with management, and/or Reserve Bank correspondence
- supervisory plan and institutional overview developed by Safety & Soundness
- examination reports from other disciplines and/or other agencies
- previous compliance examinations and target reviews, including work papers
- CRA Performance Evaluations
- prior corrective action information, institution responses, and resolution or status information
- applicable risk screening information, including any fair lending screening results
- complaint and correspondence files
- applications and enforcement information
- regulatory and examination procedure updates

Examiners need to contact institution management to develop and maintain an understanding of the institution and the market(s) in which it operates.

Such contact typically involves a specific information request that provides the opportunity to learn about any changes that would affect the profile. These changes might include changes in management personnel, organizational structure, or the institution's strategic direction, including any new products, markets, or delivery channels the institution has introduced or entered or is considering introducing or entering.

Simply stated, the institutional profile provides a concise portrait of an institution's structure and business activities that should allow examiners to understand the scope of activities that give rise to potential consumer harm and consumer compliance risk. The profile must draw sufficient attention to key areas and/or changes that contribute to the institution's current and prospective level of consumer compliance risk.

Preparation of the Institutional Profile

The purpose of the institutional profile is to convey an understanding of the institution's present condition and its current and prospective risks, as well as to highlight key issues and supervisory findings. The profile must be updated as part of the risk assessment and scoping process of an examination, again at the conclusion of an examination, and later through ongoing supervision to capture matters of supervisory significance that occur during the supervisory cycle.

The institutional profile must reflect the material events, products, and services and the regulatory environment that affect management decisions. For instance, when introducing a new product or service, senior management should

- conduct proper due diligence
- assess implications of the product's target markets
- evaluate prospective product growth
- consider the product's regulatory implications
- ensure the institution has sufficient staff expertise and capacity to support and deliver the product or service

Institutional Factors

• Organizational Structure

- *Ownership.* Whether the institution is owned by a bank holding company, and any functions that are centralized at or supported by the holding company.
- *Operations.* The degree of operational centralization or decentralization.
- *Affiliates and subsidiaries.* Identification of

affiliate structure and/or subsidiaries with activities relevant to the institution's consumer compliance risk.

- *Structural changes.* Any significant structural changes since the previous examination, or planned changes, such as mergers, acquisitions, divestitures, and pending applications, that would affect the institution's consumer activities.

• Business Model and Strategies

- *Risk tolerance.* A summary of the scope and complexity of the institution's business model based on consideration of key attributes discussed below, especially in light of the implementation of decisions that change strategy.

- *Key business lines.* Identification of key business activities along with the stability of the offerings. The identification of key business lines should include an evaluation of management's description of key business areas in comparison to the institution's stated strategy, balance sheet composition, and other publicly available information.

- *Delivery channels.* Identification of primary delivery channels for the institution's products and services and any nontraditional or complex channels. Consideration should be given to the use of the Internet, mobile applications, social media, brokers, referral sources, and expansion into new or extended channels, especially those that have changed since the previous examination.

- *Product mix.* A discussion of loan and deposit product mix, as well as the types of products and services offered, considering the level of complexity present in the offerings and the potential for consumer harm associated with the product. Consideration should be given to concerns about consumer protection risk that have been raised by legislative bodies, regulatory/law enforcement agencies, or consumer advocacy groups. To the degree that products or services differ based on targeted customers or geographies, the discussion should identify the variations.

- *Product and service changes.* Identification of any new or modified products or services, particularly any add-on products or other products with complex features that would increase inherent risk or raise potential for consumer harm, and the level of management expertise and familiarity with the new or modified product or service.

- *Marketing.* A discussion of marketing strategies, including desired outcomes and an evaluation of targeted products, media outlets,

- and targeted geographies or customers.
- *Product volatility.* A discussion of material changes in the institution's asset size, markets, and volume associated with specific products or services. Examiners should pay attention to instances in which volume has significantly increased, which may reflect a change in business strategy or increased risk. Product volume that remains constant may suggest a stable environment, while reductions in volume may point to lower levels of risk. Examiners should select appropriate time intervals for measuring change.
 - *Systems.* A discussion of the capacity of delivery systems as well as consideration of the degree of change due to conversions to new systems or enhancements, including identification of the use of third-party providers or vendors.
 - Compliance Management Structure and Personnel
 - *Organizational chart.* A discussion of the compliance function, risk function, and business lines, as applicable. Consideration should be given to the level of independence of functions responsible for compliance oversight and the sufficiency of staffing, including the expertise in relation to the products and services offered.
 - *Committees.* Discussions about board and management committees responsible for compliance risk management.
 - *Hiring, turnover, and succession planning.* A discussion of changes in management (including the board and senior management), compliance, or business line levels that could affect the institution's ability to manage consumer compliance risk.
 - *New product development.* A discussion of any procedures, marketing reviews, and change control processes associated with new product development, including vendor management and the level of involvement of staff who have compliance expertise.
 - *Compliance testing and audit.* A discussion of the coverage and frequency of reviews; the qualifications of staff, whether internal or external; the process for reporting on issues and their resolution; and whether or not there have been any internal review or audit findings of consumer compliance violations or concerns, and if so, a description of the findings and management's response.
 - Supervisory Information
 - *Supervisory history.* A description of the recent supervisory history of the institution.
 - *Corrective action.* The status of corrective action for any significant regulatory issues such as Matters Requiring Immediate Attention (MRIA), Matters Requiring Attention (MRA), reimbursements, previously identified consumer risk issues, and any supervisory orders involving civil money penalties.
 - *Areas of concern.* Significant consumer compliance or CRA supervisory issues or concerns and other important supervisory issues.
 - *Enforcement actions.* Identification of any formal or informal actions and the potential impact on consumer compliance risk.
 - *Financial condition.* A discussion of the institution's financial condition, considering its impact on management decisions that would affect the institution's compliance risk tolerance. A discussion of whether the institution is changing or considering changing its products and services based upon the institution's financial condition, including the effect of these changes on compliance controls. Consideration should also be given to the institution's expansion or contraction of markets and geographies.
 - *Other supervisory ratings.* A summary of management and risk management ratings for all supervisory functions that could affect consumer compliance risk.
 - *Complaints.* Any pertinent consumer complaint activity, including a discussion about the quantity and types of complaints and how the institution has resolved them.
 - *Litigation.* Any substantive litigation or other legal concerns, specific to the institution, related to consumer compliance issues, including investigations by other governmental agencies.

Legal and Regulatory Factors

- *Applicability and coverage.* Identification of the level of regulatory complexity, key legal or regulatory developments, and changes that are material and affect the institution, given the institution's product offerings and operations.
- *Litigation.* Consumer compliance-related substantive litigation, other legal concerns, or regulatory scrutiny in the industry that would potentially relate to the institution's products, services, or practices.

Environmental Factors

- *Market/trade area.* A description of geographic

areas or markets served by the institution. The description should include the institution's delineated CRA assessment area and how it compares with its market/trade area, if they are different. The description should also include the identification of areas served and not served, considering minority composition, distressed or underserved areas, and low- and moderate-income individuals and areas.

- *Offices and facilities.* A discussion of the institution's branches, automated teller machines (ATM), and loan production offices (LPO), as applicable, in relation to consumer compliance risk, such as demographic differences across areas served and the degree to which products or services vary by location.
- *Interstate/intrastate structure.* A statement as to whether the institution is an interstate bank, and a listing of the states, metropolitan areas, and Federal Reserve Districts in which it operates.
- *Business conditions.* A discussion of the demand for loans and other products or services in light of employment conditions, housing data, business demographics, local economic conditions, and other demographic considerations.
- *Competition.* A discussion of competition based on market share, including deposit market share, HMDA-reportable activity, and other relevant data sources. The discussion should reflect an evaluation of the level of competition from local and national financial institutions as well as nonbank competitors. The discussion should be adjusted to capture the degree to which competition varies by product or geography.

III. ASSESSING THE INSTITUTION'S RISK

Overview

The institutional profile provides information about the institution's strategy and business activities and the environment in which it operates. The profile also documents the institution's processes for controlling associated risks. Thus, the profile serves as the primary source of information for developing the risk assessment, a vital part of the supervisory process.

The risk assessment presents a comprehensive view of the institution, delineating the areas of supervisory concern, and serves as a platform for the supervisory plan. Inherent risk considers the likelihood and impact of noncompliance with consumer laws and regulations prior to considering any mitigating effects of risk management processes. Risk management and controls are eval-

uated in the context of their likely effectiveness in achieving compliance with laws and regulations. Residual risk is determined by balancing the overall level of inherent risk of an activity (product or service) with the overall strength of risk controls for that activity.

The risk assessment considers the effectiveness of an institution's overall compliance management program, including four essential elements:

1. board and senior management oversight
2. policies, procedures, and limits
3. risk monitoring and management information systems
4. internal controls

While the risk assessment process evaluates an institution's compliance management program as a whole, the process also evaluates the effectiveness of the institution's compliance risk controls for individual products, services, and business activities. In particular, the levels of inherent consumer compliance risk present in the institution's products, services, and business activities affect the types of risk controls necessary to ensure satisfactory compliance with consumer protection laws and regulations.

Objectives of the Risk Assessment

The goal of the risk assessment is to allow supervisory staff to establish reasonable, but not absolute, assurance that material residual consumer compliance risks are identified. The risk assessment can then be relied upon as the determinant of the scope of examination activities. As a result, examination resources will be focused on areas of elevated residual risk and not on those areas where inherent risk is well controlled and residual risk is limited or low.

Risk Assessment Process

The risk assessment process requires examiners to determine: (1) products, services, and activities that are considered material to the organization; (2) the level of inherent risk associated with these products, services, and activities; (3) the adequacy of management systems used to measure, monitor, and control associated risks; and (4) the residual consumer compliance risk associated with each material product, service, and activity, as well as for the institution overall, based on the level of inherent risk and the adequacy of risk controls.

Instructions for completing the risk assessment process, including documenting conclusions about inherent risk, controls, and residual risk, are provided in section F of this chapter, Documenting the Consumer Compliance Risk Assessment.

A. Product Management and Materiality

Overview

Product management relates to the institution's ability to identify, measure, monitor, and manage the compliance risk inherent in a particular product. These four essential elements of risk management serve as the foundation for assessing the management of product risk and should be evaluated in the context of the inherent risks associated with specific products or services. Essential factors to consider when evaluating the management of products and services include: (1) knowledge and expertise of the product management team; (2) adequacy of policies and procedures and effectiveness of internal controls; (3) adequacy of resources (for example, staffing, MIS); (4) quality of compliance training; (5) frequency and scope of compliance reviews; (6) recent compliance history (for example, violations noted at prior examinations and recent audit findings); (7) record of responding appropriately to consumer complaints; (8) effectiveness of audit coverage and management's responsiveness to audit findings; and (9) change management (for example, response to changes in laws, regulations, systems, and products).

Product Definition

A product may consist of a group of related products or services that

- share similar features and structure, with differences that are relatively minor (such as different maturities)
- are broadly subject to the same regulations (even if there is a range of risk profiles among the related products)
- are delivered in substantially the same way (for instance, retail loan originations may be treated as a different product than wholesale originations)
- are subject to the same control environment (for example, similar products offered through different legal entities, but having the same control environment, could be considered a single product)

As an example, assume that an institution extends retail mortgages, from simple fixed-rate mortgages to more complex adjustable-rate mortgages, and all retail mortgages share a common consumer compliance control environment. Notwithstanding the range of complexity of the related products, the residual risk of all mortgage loans could be evaluated as a single product; the residual risk would balance the range of inherent risks across all

of the related products and the effectiveness of risk controls in the context of the identified inherent risks.

Materiality

Product materiality reflects the relative importance of a product offered by the institution. A product may be material compared to other products; it may also be material based solely on its own significant activity level. Accordingly, a product with low volume (measured by number, dollar volume, or both) compared to other products would likely be considered immaterial, and a product with relatively high volume would be considered material. Nonetheless, a product could be material based solely on its own substantial activity level even if that activity level is comparatively lower than other products' activity levels.

Examination intensity and resources should be commensurate with the consumer compliance risks associated with the institution's material products. Thus, if an institution's material products do not involve significant potential consumer compliance risk, the institution would warrant relatively fewer examination resources, compared to an institution where the products offered pose significant consumer risk. In other words, the absolute risk associated with a product should be considered as well as the risk of a product relative to the other products offered. For example, if an institution is primarily a commercial lender, examiners should not shift increased scrutiny and resources to the review of immaterial consumer products or consumer products that have low residual risk simply because these may have higher consumer risk compared to commercial loans.

An institution's board of directors and management must demonstrate both the willingness and the capacity to comply with all applicable consumer compliance laws and regulations, even in the case of immaterial products. Evidence of willingness and capacity can typically be established by reviewing meeting minutes and policies and procedures and through interviews. Without such evidence, the examination should focus on the assessment of weaknesses in the compliance management program and the changes necessary to ensure and sustain compliance.

Materiality is also a factor to consider when grouping products. In particular,

- when a related product is both complex and material on a stand-alone basis, examiners should consider²

2. A related product would be a single product or service under a more broadly defined product category. For instance, reverse mortgages would be a related product under the broader category of mortgage loans.

- keeping the same product grouping but focusing on the complex and material products when making scoping decisions, taking into consideration the strength of risk controls
- segregating these related products, but only when there are questions regarding the quality or capacity of the control environment for such a related product
- add-on or ancillary products or services, when material, may present unique risks or be subject to a different control environment and warrant treatment as a separate product. For example, loan servicing, especially servicing of third-party loans, may be treated as a separate and distinct product.

B. Inherent Consumer Compliance Risk

Overview

Inherent consumer compliance risk is the risk associated with product and service offerings, practices, or other activities that could result in significant consumer harm or contribute to an institution's noncompliance with consumer protection laws and regulations. It is the risk these activities pose absent controls or other mitigating factors. Such risk may be associated with the characteristics of the institution itself, the laws and regulations that apply to its activities, or the environment and market(s) in which it operates. It is important for an institution to effectively identify, measure, monitor, and control its compliance risks to limit any potential adverse consequences of noncompliance.

Consumer compliance risk, in general, is the risk of legal or regulatory sanctions, financial loss, consumer harm, or damage to reputation and franchise value caused by a failure to comply with or adhere to

- consumer protection laws, regulations, or standards
- the organization's own policies, procedures, codes of conduct, and ethical standards
- principles of integrity and fair dealing applicable to the organization's business activities and functions³

An institution's failure to manage compliance risk effectively can elevate the risk level or manifest itself as other types of key risks:

- *Legal risk.* Arises from the potential that unenforceable contracts, lawsuits, or adverse judg-

ments can disrupt or otherwise negatively affect the operations or condition of a banking organization. For example, failing to follow the terms of consumer loan agreements or to meet strict residential mortgage regulatory requirements will likely increase an institution's legal risk.

- *Reputational risk.* Arises from the potential that negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or lower revenue. Any serious consumer compliance issue discussed publicly, such as a public enforcement action related to a fair lending issue, will increase reputational risk.
- *Operational risk.* Arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses. Operational lapses, such as failing to keep confidential customer data secure, could result in losses for both the institution and its customers.

More specifically, noncompliance may expose the organization to fines; civil money penalties; legal damages; voided or unenforceable contracts; reduced franchise value; or rejected expansionary activities, mergers, and acquisitions.

Risk Tolerance

An institution's tolerance for consumer compliance risk is reflected in the choices it makes regarding the scope and complexity of its business activities, including market service areas and the delivery channels for products and services. Institutions that engage in riskier activities demonstrate a higher tolerance for risk and are expected to have a compliance management program commensurate with their risk profile. A higher risk tolerance may be reflected in product offerings that pose greater compliance risk, such as higher-cost products or products targeted to vulnerable or less financially sophisticated consumers. In general, the more willing an institution is to assume inherent compliance risk in its operations, the stronger the controls must be to manage these risks effectively.

Inherent Risk Components and Drivers

A number of factors serve as potential indicators of inherent compliance risk in an institution. All of these factors can also increase legal, reputational, and operational risk, especially when not managed effectively. In general, inherent compliance risk factors can be grouped into three primary categories: institutional, legal and regulatory, and environmental.

3. Business activities are business lines, functions, legal entities, operations in legal jurisdictions, or other business operations.

Institutional Factors

Institutional factors contribute significantly to an institution's overall inherent compliance risk level. Some risk factors derive from the institution's strategic and business decisions; others relate more specifically to the products the institution offers and the risks inherent in these products.

These institutional factors, when considered in conjunction with the extent to which the institution's operations are subject to consumer laws and regulations, will be a significant driver of conclusions about the level of inherent risk. Complex products, decentralized operations, products targeted to vulnerable or less financially sophisticated consumers, failure to serve certain consumer or geographic segments of the market, introduction of substantively new products (rather than slight variations of existing products), multiple delivery channels, and third-party relationships all tend to elevate the level of consumer compliance risk.

Strategic/Business Factors

- *Growth.* Any substantive increase in asset size, change in business focus, or expanded market or geographic presence (resulting from branching, merger, or acquisition activity) may increase compliance risk given the need to manage risk across a larger operation, including additional office locations. Growth may increase risk because an organization may need to respond by changing processes, staffing, or systems. These types of changes often require expanded compliance oversight and knowledge, and may increase compliance risk if not effectively managed.
- *Structural complexity.* The overall complexity of a banking organization's operations, including its branch operations and subsidiary and affiliated relationships, affects compliance risk.

An institution with an extensive branch network, multiple or nontraditional delivery channels, or a number of subsidiary retail business operations may have more compliance risk to manage than an institution with limited offices or one primary business operation.

The degree to which an organization, including its related entities, has centralized operations also affects compliance risk. Centralized activities may help limit risk by consolidating knowledge and processes in fewer locations. When centralized operations are handled effectively, the opportunity for error may decrease as a result.

In general, increased structural complexity and decentralization within an institution tend to increase compliance risk, primarily because the institution has more facilities, staff, products, and overall operations to manage, thus introducing

challenges associated with span of control.

- *History/trends.* Whether an institution has effectively managed its compliance risk in the past is a risk factor to consider. Institutions that historically have supported and maintained strong compliance management programs will generally have less risk than institutions that have not exhibited such performance. The significance of this prior performance varies depending on the amount and type of change in an institution's compliance management program and changes to its overall inherent compliance risk profile due to other factors, such as product or regulatory changes, since the previous examination.

Product Characteristics

- *Product volume.* The absolute level of product activity or materiality affects compliance risk. When an institution does not comply with requirements on a high-volume product or service, this error affects more consumers and thus creates more compliance risk for the institution. As with other inherent risk factors, the significance of risk associated with high-volume products depends on the consequences that may result from noncompliance.
- *Product complexity.* As with the institution itself, complexity within products or groups of products significantly affects compliance risk. Several factors affect the complexity of a product, such as
 - the complexity of the product's features, such as numerous conditional requirements, options, or variations
 - over the life cycle of the product, changes are permitted or required that necessitate additional disclosures and/or actions by the institution to comply with legal or regulatory requirements
 - the product targets only certain consumer segments, such as those with certain demographic or credit characteristics (for instance, subprime borrowers), rather than all consumers
 - the complexity of processes surrounding the sale of products, including marketing of specific product features, use of wholesale and retail delivery channels, and the sale of ancillary products or offering of rewards programs

Generally, as the complexity of the product increases, compliance risk may increase because of the need for additional oversight and expertise to manage this increased complexity effectively. Complying with even comparatively noncomplex legal or regulatory requirements may be more challenging when the product itself has inherent operational complexity. Increased complexity can also be

associated with products targeted to a particular segment of the consumer market. Inherent compliance risk may be elevated if marketing efforts, disclosures, and delivery channels do not appropriately consider the sophistication and reasonable expectations of the target audience.

- *Product stability.* Substantial change related to product or service offerings, including changes to existing products and services, is a significant driver of inherent compliance risk. Factors to consider in assessing the compliance risk associated with a product's stability include

- the length of time the institution has offered the product
- what, if any, significant product terms have changed
- whether product volume has grown significantly
- any significant changes related to product operations, including system changes that would affect product handling or management

Product-related changes may increase compliance risk, primarily because an institution must evaluate these changes to determine whether other corresponding processes or practices need to change to ensure ongoing compliance. A more stable product (one with limited changes and a history of compliance) has a higher likelihood of continued compliance. It should be noted that some changes could lower compliance risk—for example, when an institution eliminates a higher-risk feature.

- *Third-party involvement.* An institution's reliance on third-party providers or vendors may either increase or decrease compliance risk. In all cases, the use of third-party providers requires sufficient controls to manage the relationships. When properly chosen and managed, third-party providers can provide an institution with valuable expertise and service that the institution may find difficult to provide on its own. For example, using a third party to generate loan documents may facilitate consistent delivery of compliant disclosures. Nonetheless, relying on a third party to (1) provide bank-related products or services, such as a loan processing system; (2) generate fee income, such as offering add-on products; (3) assist with compliance management-related services, such as conducting compliance audits; or (4) provide other compliance-related services may increase risk because the institution no longer has direct control over these activities. Accordingly, the institution must have knowledgeable staff and effective processes to oversee these providers to ensure they meet expectations and contractual obligations and comply with legal and regulatory requirements.

Legal and Regulatory Factors

Another primary consideration for determining an institution's inherent compliance risk relates to the types of legal and regulatory requirements that apply to the institution's products and services. Institutions should also evaluate concerns raised by others, including legislative bodies, regulatory or law enforcement agencies, or consumer advocacy groups. The extent of inherent compliance risk related to legal and regulatory requirements is driven primarily by the complexity of the requirements themselves, the level and likelihood of potential consumer harm or other penalties that could result from failing to comply with them, and the extent to which these requirements have changed.

- *Regulation complexity.* The complexity of regulatory and legal requirements relates to the extent of judgment, knowledge, technical skills, or processes needed to understand and effectively implement those requirements. As with product complexity, the increased skill and knowledge needed to comply with more complex regulatory requirements increases inherent compliance risk. Simply put, as regulatory complexity increases, so does the risk that the institution will fail to comply with the requirements.

- *Consequences of noncompliance.* Failure to comply with certain legal and regulatory requirements may have serious consequences for consumers and the financial institution. It is important to consider whether and to what extent failing to comply with the requirement would result in financial, legal, or other harm to consumers. For the institution, failing to comply with regulatory requirements can lead to regulatory sanctions, financial losses, and reputational damage. In general, the severity of the consequence, whether harm to consumers or to the institution, and the level of inherent compliance risk associated with noncompliance are directly related.

- *Regulatory or legal changes.* Inherent compliance risk may increase when a new or modified legal or regulatory requirement applies to a financial institution's activities. The effect of any change on inherent risk depends on several factors, which may include

- the nature and type of the regulatory change
- the significance of the change relative to the institution's product offerings, processes, or procedures, including
 - the number of products affected
 - whether the change needs to be implemented organizationwide or just in particular business lines
 - whether the change has serious conse-

- quences for failure to implement and comply effectively
- whether the organization has the expertise to understand and implement the change effectively

When regulations and laws change, an institution may not fully understand the change and hence may fail to implement effective policies, procedures and controls in response, increasing the risk of noncompliance with the new requirement. As discussed, the level of inherent risk posed by any regulatory change depends on the nature of the change and its effect on consumers and the institution.

Environmental Factors

The environment in which the institution operates can affect the level of inherent compliance risk at the institution level and at the product level. Business conditions, the demographic composition of its assessment area(s), and the competition in the institution's markets affect compliance risk.

- *Business conditions.* Market conditions, such as the demand for loans, availability of talent and expertise, unemployment rates, and housing needs, may affect decisions that the institution makes concerning the types and nature of products it offers as well as its capacity to adequately support these products. Consequently, changing business conditions may require an institution to reevaluate its current assumptions and practices. The capacity of an institution's new product approval processes, its change management practices, the robustness of its strategic planning, and the flexibility of its service capacity should be evaluated in the context of the institution's response to changing business conditions. For example, deteriorating business conditions can simultaneously lead to tightening of underwriting standards and a higher default rate on existing loans. Compliance risk potentially increases in both cases, as consistency in underwriting and service levels associated with loss mitigation must be maintained.

Business conditions may also drive changes to existing products, or the introduction of new products, designed to generate revenue. Institutions operating in communities experiencing economic challenges may have higher inherent risk because of the effect of these challenges on the institution's existing activities or because of actions the institution may take in response to these challenges.

- *Demographics.* The demographics of the institution's market area can also affect inherent compliance risk. Serving a more diverse population requires heightened awareness and respon-

siveness to ensure that the institution is meeting a potentially broader spectrum of customer needs through its product offerings, marketing efforts, and overall level of service. Without a legitimate business justification, ignoring the needs of certain segments of the population or excluding geographic areas or populations based on demographic composition will likely have adverse consequences for an institution.

- *Competition.* The competitive environment in which an institution operates can affect compliance risk. An institution operating in a highly competitive environment may choose to make frequent product, marketing, or other changes to retain or expand its market share. Competitive factors could also lead an institution to consider offering complex products that fall outside the institution's normal operations or its strategic focus. As with the risks associated with external business conditions, the capacity of an institution's new product approval processes, its change management practices, and the robustness of its strategic planning must be commensurate with the degree or rapidity of change associated with competitive demands. Institutions that operate in a highly competitive environment, particularly smaller institutions, may have greater inherent risk simply because they do not have the capacity to respond effectively to competitive forces.

Assessing Inherent Risk

A variety of factors affect the level of inherent compliance risk in an institution. Effectively identifying and assessing this risk is an important part of the risk-focused examination process.

The institutional profile discusses information about the institution and its community(ies) that is needed to determine the impact of institutional, legal, and environmental factors on the institution's consumer compliance risk level. Considering these factors, examiners will form conclusions about the level of inherent risk for each material product relative to the consumer laws and regulations applicable to such products, as is discussed in more detail later. Taking into account these product assessments, examiners will assign an aggregate inherent risk rating for the institution.

Appendix 2, Guidance for Assessing Inherent Consumer Compliance Risk, is a matrix that should be used when assessing inherent consumer compliance risk. The matrix identifies specific risk components for each of the three broad sources of risk discussed previously (institutional, laws and regulations, and environmental). While an overall inherent risk rating must be documented only for each material product, the matrix allows for analyz-

ing the potential level of risk associated with each source of risk as well as each of the subsidiary risk components that are detailed in the matrix. Examiners may find that for certain institutions or activities, it makes sense to assign ratings to individual subsidiary risk components first and then work to develop the overall ratings. This level of detail is likely necessary only for larger or more complex organizations and should be reflected in supporting documentation maintained separately from the assessment itself.

Inherent risk should be rated using a five-point rating system.

Inherent Risk Rating
Low (1)
Limited (2)
Moderate (3)
Considerable (4)
High (5)

The following definitions apply to inherent consumer compliance risk.

- *Low likelihood of significant negative impact* (1) indicates that consumer compliance risk, prior to considering any mitigating effects of risk management processes, is highly unlikely to have a significant negative impact on the institution or consumers. Expected sanctions, losses, or damage to reputation due to consumer compliance risk would have little negative impact on the institution.
- *Limited likelihood of significant negative impact* (2) indicates a limited likelihood that consumer compliance risk, prior to considering any mitigating effects of risk management processes, will have a significant negative impact on the institution or consumers. Expected sanctions, losses, or damage to reputation due to consumer compliance risk are modest and could be absorbed by the institution in the normal course of business.
- *Moderate likelihood of significant negative impact* (3) indicates a moderate likelihood that consumer compliance risk, prior to considering any mitigating effects of risk management processes, will have a significant negative impact on the institution or consumers. Expected sanctions, losses, or damage to reputation due to consumer compliance risk could adversely affect the institution.
- *Considerable likelihood of significant negative impact* (4) indicates a considerable likelihood that consumer compliance risk, prior to considering any mitigating effects of risk management processes, will have a significant negative impact on the institution or consumers. Ex-

pected sanctions, losses, or damage to reputation due to consumer compliance risk could seriously affect the institution.

- *High likelihood of significant negative impact* (5) indicates a high likelihood that consumer compliance risk, prior to considering any mitigating effects of risk management processes, will have a significant negative impact on the institution or consumers. Expected sanctions, losses, or damage to reputation due to consumer compliance risk will require significant changes to the management routines and ongoing operations of the institution.

C. Consumer Compliance Risk Management

Overview

Taking and managing risks are fundamental to the business of banking. Accordingly, the Federal Reserve has increasingly emphasized the importance of sound risk-control processes when evaluating the activities of the institutions it supervises. Properly managing risks is critical to ensuring compliance with consumer protection laws and regulations. Effective risk management has become even more important as new technologies, product innovation, and the size and speed of financial transactions have changed the nature of financial services markets. Therefore, it is essential that examiners give significant weight to how effectively the institution's compliance management program manages the inherent risks associated with its consumer-related activities.

An institution's failure to establish a consumer compliance management structure that adequately identifies, measures, monitors, and controls the inherent risks involved in its various products, services, and lines of business is considered unsafe and unsound conduct. Principles of sound risk management should apply to the entire spectrum of compliance-related risks facing a banking organization including, but not limited to, legal, reputational, and operational risk.

A primary goal of the supervision process is to assess the effectiveness of an institution's compliance management program. Identified violations of consumer protection laws and regulations usually indicate weaknesses in this program. The seriousness of the weaknesses, however, depends on the consequences that result from noncompliance. For example, a substantive violation of a fair lending law or regulation has serious consequences for consumers and the institution and thus would likely indicate a serious compliance management weakness.

When an error resulting in a violation is identified, the significance of the error must be evaluated not simply by the number of such errors or the percentage of error but in the context of the root cause of the error and actual harm to consumers. The root cause of an error must always be evaluated to determine whether such errors are the result of a systemic control weakness. When systemic issues are identified, the underlying root cause must be addressed. Also, correction of the root cause of an isolated error should be considered if the likelihood of avoiding repeat errors can reasonably be accomplished through modification of business processes and/or by strengthening elements of the compliance management program.

Elements of Risk Management

Elements of a sound risk management system include

- active board and senior management oversight
- adequate policies, procedures, and limits
- adequate risk monitoring and management information systems
- comprehensive internal controls

Each of these elements is described more fully below, along with a list of factors relevant to assessing the adequacy of that element.

Examiners should recognize that the factors specified in these guidelines are intended only to assist in the evaluation of risk management practices and are not intended as a checklist or exhaustive list of requirements for each institution. A carefully devised, implemented, and monitored program provides the foundation for ensuring compliance with consumer banking laws and regulations. All institutions, regardless of size, should maintain an effective compliance management program. The sophistication and formality of the program will typically increase in direct proportion to the complexity of an organization's operations. Examiners should evaluate the adequacy of the compliance management program in the context of inherent risk associated with the institution's complexity, business strategy, activities, and organizational structure. The duties, responsibilities, authority, and independence of compliance personnel will depend on the nature, scope, and complexity of operations.

For smaller institutions that engage solely in traditional banking activities and whose senior managers and directors are actively involved in day-to-day operations, relatively basic risk management systems may be adequate. In such institutions, these systems may consist of an informal compliance program that includes both written and

unwritten policies addressing material areas of operations such as lending, basic internal control systems, on-the-job training, and a limited set of management and board reports.

A larger, more complex institution would likely require a more formal and comprehensive program to maintain a satisfactory level of compliance and to provide senior managers and directors with the information they need to monitor and direct day-to-day activities. Because of the diversity of activities and/or the broad geographic dispersion of operations, the compliance risk management processes of more complex banking organizations would typically include

- dedicated compliance staff with specific responsibilities and authority
- detailed policies that set specific prudential limits on acceptable activities and/or the risks associated with specific activities
- sophisticated management reporting to allow senior management to better evaluate and mitigate risks

These reporting systems, in turn, should provide an array of reports that offer sufficient risk-exposure information that is relevant to the duties and responsibilities of individual managers and directors.

For more complex institutions, these reporting systems will naturally require frequent monitoring and testing by independent control areas and internal auditors to ensure the integrity of the information used by senior officials in overseeing compliance with consumer protection laws and regulations. The risk management systems or units of such institutions must also be sufficiently independent of the business lines, in order to ensure adequate separation of duties and avoid conflicts of interest.

Regardless of the size of the institution, an effective process must be in place to manage change. Sometimes change occurs because of an external event, for example, a new compliance regulation. Sometimes change is internal, such as the introduction of a new product, or revision to existing products. Change management should be a structured and disciplined process that is repeatable since change can always be expected. An effective change management process

- requires management and staff from all affected functions—potentially including compliance, accounting, risk, internal audit, and line management—to review and recommend a response or change proposal for senior management or board approval that clearly articulates expected results. The entire life cycle of a product or service affected by the change must

be considered, whether it involves the introduction of a new product or service or a change affecting existing bank operations.

- incorporates appropriate approval processes associated with implementation.
- requires that operating policies and procedures are updated to provide clear guidance to staff on how to comply with all legal or regulatory requirements
- requires that staff be properly trained regarding the change
- incorporates monitoring of the deployment of the new or revised process, product, or service
- requires a post-implementation review to determine whether the actions taken have achieved the expected results

Also, it is important to recognize that while management can appropriately decide to outsource some or all of the operational aspects of a product or service, it cannot outsource the responsibility for complying with laws and regulations. Oversight of vendor actions is particularly important when such actions involve changes to core processing, automated disclosure software, and similar systems, because violations may occur from such changes if not monitored properly. A robust third-party vendor management and oversight process will evaluate all applicable risks, including those related to information security, privacy, and compliance with all applicable laws and regulations.

Board and Senior Management Oversight

Boards of directors have ultimate responsibility for the level of risk assumed by their institutions. Accordingly, the board should approve the institution's overall business strategies and significant policies, including those related to managing and taking risks. The board should also ensure that senior management is fully capable of managing the institution's activities. While all boards of directors are responsible for understanding the nature of the risks significant to their organizations and for ensuring that management is taking the steps necessary to control these risks, the level of technical knowledge required of directors may vary depending on the particular circumstances at the institution.

For institutions with a broad range of technically complex activities, directors must have a clear understanding of the types of risks to which the institution is exposed, even though the board has delegated day-to-day compliance management responsibility to bank officers and staff. For example, the directors of complex institutions should

receive reports that identify the size and significance of the risks in terms that are meaningful to them. In fulfilling its risk oversight responsibility, the board of directors should take steps to develop an appropriate understanding of the risks the institution faces—for example, through briefings from auditors and experts external to the organization. Using this knowledge and information, the board of directors should provide clear guidance regarding the level of risk acceptable to the institution and should ensure that senior management implements the procedures and controls necessary to comply with the policies that have been adopted.

Directors of institutions that offer more traditional and less complex products may be more involved with the institution's day-to-day activities and decisionmaking than counterparts at larger organizations. Each director should then have a level of knowledge commensurate with the nature of his or her role in managing the institution's affairs. Nonetheless, senior management is responsible for implementing a program to manage the consumer compliance risks associated with the institution's business model, including ensuring compliance with laws and regulations on both a long-term and a day-to-day basis. Accordingly, management should be fully involved in its institution's activities and possess sufficient knowledge of all major products to ensure that appropriate risk controls are in place and that accountability and lines of authority are clearly delineated. Senior management also is responsible for establishing and communicating a strong awareness of, and need for, effective risk controls and high ethical standards.

In assessing the quality of board of directors and senior management oversight, examiners should consider whether the institution follows policies and practices such as those described below.

- The board and senior management have identified and have established a clear understanding of the types of risks inherent in the institution's activities and make appropriate efforts to stay informed about these risks as financial markets, risk management practices, and the institution's activities evolve.
- The board has reviewed and approved appropriate policies to limit risks inherent in the institution's significant business lines, activities, or products, including ensuring effective oversight of any third-party providers that provide products and services for the institution.
- The board and senior management are sufficiently familiar with and are using adequate record keeping and reporting systems to measure and monitor the major sources of risk to the institution.

- The board periodically reviews and approves risk exposure limits to conform to any changes in the institution's strategies, addresses new products, and responds to changes in market conditions.
- The board and senior management ensure that businesses lines are managed and staffed by personnel with knowledge, experience, and expertise consistent with the nature and scope of the banking organization's activities.
- The board and senior management ensure that the depth of staff resources is sufficient to operate and manage the institution's activities soundly and that employees have the integrity, ethical values, and competence that are consistent with a prudent management philosophy and operating style.
- The board and senior management at all levels provide adequate supervision of the day-to-day activities of officers and employees, including management supervision of senior officers or heads of business lines.
- The board and management anticipate and respond to risks that may arise from changes in the institution's competitive environment and innovations in its markets and to risks associated with new or changing regulatory or legal requirements.
- Before embarking on new activities or introducing products new to the institution, management identifies and reviews all risks associated with the activity or product and ensures that the infrastructure and internal controls necessary to manage the related risks are in place.

Policies, Procedures, and Limits

Comprehensive and fully implemented policies help to communicate management's commitment and expectations related to compliance. Procedures should provide personnel with guidance that enables them to complete transactions or other processes in accordance with applicable laws and regulations. Such information may include appropriate regulatory references and definitions, sample forms, instructions, and where appropriate, directions for routing, reviewing, and retaining transaction documents. The effectiveness of the procedures in meeting compliance requirements is more important than the degree of formality. However, larger, more complex entities with many employees and products, serving multiple geographic markets, have a greater need for written policies and procedures to ensure compliance with consumer protection laws and regulations.

An institution's directors and senior management should tailor risk management policies and proce-

dures to the types of risks that arise from the institution's activities. Once the risks are properly identified, the institution's policies and its more fully articulated procedures provide detailed guidance for the day-to-day implementation of broad business strategies and generally include limits designed to shield the organization from excessive and imprudent risks. All banking organizations should have policies and procedures that address significant activities and risks; however, the scope and depth of such policies will vary among institutions. A smaller, less complex institution that has effective management heavily involved in day-to-day operations may have less formal policies to address significant areas of operations, but nonetheless, have well-established embedded practices that have proven effective over time for managing consumer compliance risk. In a larger institution, where senior managers rely on large staffs to implement strategies in business lines of varying complexity, much more detailed policies and related procedures would generally be expected. In either case, however, management is expected to ensure that policies and procedures, written or unwritten, address an institution's material areas of risk and that staff modifies these procedures when necessary in order to respond to significant changes in the banking organization's activities or business conditions.

Limits are mechanisms designed to prevent an institution from taking unnecessary risks that increase the likelihood of consumer harm, and they should be present and enforced in an institution. An example of a limit is an explicit statement about products or services that the institution deems to be harmful to consumers or contrary to the institution's mission and that the institution chooses not to offer. On a narrower scale, an institution may specifically limit the ability of lending personnel to deviate from established loan pricing guidelines without appropriate approval.

Ongoing education of personnel is essential to maintaining a sound compliance program. The organization should make all personnel aware of consumer protection laws and regulations pertinent to their areas of responsibility and should provide training regarding policies and procedures for those areas.

An institution's training program should be commensurate with the entity's organizational structure and the activities in which it engages. A more formal training program would be expected at an organization that offers complex products or services or operates in multiple or large markets. For organizations with limited staff turnover and non-complex product offerings, a less formal training program would likely be sufficient.

The following guidelines should assist examiners

in evaluating the adequacy of an institution's policies, procedures, and limits:

- The institution's policies, procedures, and limits provide for adequate identification, measurement, monitoring, and control of the risks posed by its activities.
- The policies, procedures, and limits are consistent with the institution's stated goals and objectives.
- Policies clearly delineate accountability and lines of authority across the institution's activities.
- Policies provide for the review of activities new to the financial institution to ensure that the infrastructures necessary to identify, measure, monitor, and control risks associated with an activity are in place before the activity is initiated.
- The institution provides comprehensive, regular training designed to ensure that staff is fully knowledgeable about relevant laws, regulations, policies, and procedures, and that the institution monitors staff's completion of training.

Risk Monitoring and Management Information Systems

Effective risk monitoring requires institutions to identify and manage all significant risk exposures, including compliance risk. Identifying such risk throughout its operations is important to ensure that the institution modifies its compliance management program as needed to respond to any internal or external changes that affect the institution. Risk-monitoring activities must be supported by appropriate MIS that provides senior managers and directors with timely information on the compliance risk exposure of the institution, as well as with regular and sufficient information for line managers engaged in the day-to-day management of the institution's activities.

Banking organizations use MIS to organize and report data to senior management. Compliance issues should be included in the MIS of the organization. Examiners should ascertain whether the MIS is helping ensure that relevant information gets escalated from the business unit level to the compliance function and then on to senior management.

The sophistication of an institution's compliance risk monitoring and MIS should be commensurate with the complexity and diversity of the institution's operations. Accordingly, smaller and less complicated institutions may require only a limited set of management and board reports to support risk

monitoring activities. These reports could include results and trends from compliance reviews and consumer complaints, details of lending patterns and approval/denial rates for key lending activities, details of new products or activities and their resultant risk exposure, and similar information. In situations in which there is limited formal reporting for compliance risk monitoring and limited MIS, examiners should have discussions with management to understand the institution's approach and methodology for identifying risk. Management should be able to articulate its understanding of compliance risk in the institution, especially when formal reporting of these risks may be limited. Larger, more complex institutions, however, should have much more comprehensive reporting and monitoring systems that allow for more frequent reporting, tighter monitoring of complex compliance activities, and the aggregation of risks on a fully consolidated basis across all business lines and activities.

A critical element of a strong compliance management program is cultivating a corporate culture that is committed to reevaluating risks on a regular, ongoing basis. The program should ensure that policies and limits are supported by risk monitoring procedures, reports, and MIS that provide management and the board with the information and analyses that are necessary to make timely and appropriate decisions related to compliance controls in response to changing conditions and changes to the institution's operations.

In assessing the adequacy of an institution's measurement and monitoring of risk and its management reports and information systems, examiners should consider whether these conditions exist:

- The institution's risk monitoring practices and reports address all of its material risks.
- Key assumptions, data sources, and systems used in measuring and monitoring risk are appropriate and adequately documented and tested for reliability on an ongoing basis.
- Reports and other forms of communication generated from MIS and other monitoring are consistent with the institution's activities, are structured to monitor exposures and compliance with established limits, goals, or objectives, and as appropriate, compare actual versus expected performance.
- Reports to management or to the institution's directors are accurate and timely and contain sufficient information for decision makers to identify any adverse trends and to evaluate adequately the level of risk faced by the institution.
- Management responds timely and effectively with process or other modifications when

warranted by changes in the institution's compliance risks, including risks resulting from changed regulatory or legal requirements or the introduction of new products.

Internal Controls

An institution's internal control structure is critical to the effectiveness of its risk management system. A system of internal controls should include the procedures necessary to ensure timely detection of failure of accountability, and such procedures should be performed by competent persons who have no incompatible duties. Establishing and maintaining an effective system of controls, including the enforcement of official lines of authority and the appropriate separation of duties, is one of management's more important responsibilities. Effective internal controls are the foundation for the safe, sound, and compliant operation of a financial institution. An institution's board of directors and senior management are responsible for ensuring that the system of internal controls is effective. Their responsibility cannot be delegated to others within or outside the organization. The audit function or other means of compliance testing is an important component of an institution's internal controls. Serious lapses or deficiencies in internal controls may warrant supervisory action, including formal enforcement action.

Audit and internal controls are interrelated, and therefore, frequently confused. In short, internal controls are related to the effectiveness of the overall business process. Appropriate controls assure that the process is effective and are the foundation for the safe and sound operation of the organization. Audit is a method used by management to assure that the operational controls it has designed are effective. As such, audit is a monitoring mechanism and is part, but not all, of a well-designed internal control system. When properly structured, a system of internal controls promotes effective operations and reliable financial and regulatory reporting, safeguards assets, and helps to ensure compliance with applicable laws, regulations, and institutional policies.

At complex organizations, internal controls are tested by an independent internal auditor who reports directly to the institution's board of directors or to its designated committee, which is typically the audit committee. Smaller institutions, whose size and complexity do not warrant a full-scale internal audit function, may rely instead on regular reviews of essential internal controls and compliance testing conducted by bank personnel or by third parties. Ideally, personnel performing these reviews should be independent of the function they are assigned to review. In smaller institutions, this may prove to be a challenge but may be accom-

plished by having operational staff from one functional area review the work of another functional area. Given the importance of appropriate internal controls to banking organizations of all sizes and risk profiles, the results of audits or compliance testing reviews (whether conducted by an internal auditor or by operational personnel) should be adequately documented, as should management's responses to them. In addition, communication channels should exist that allow negative or sensitive findings to be reported directly to the board of directors or to the relevant board committee.

In evaluating the adequacy of a financial institution's internal controls and audit procedures, examiners should consider whether the following conditions are met.

- The system of internal controls is appropriate for the type and level of risks posed by the nature and scope of the institution's activities.
- The institution's organizational structure establishes clear lines of authority and responsibility for monitoring adherence to policies, procedures, and limits.
- Reporting lines provide sufficient independence of the control areas from the business lines and adequate separation of duties throughout the organization.
- Official organizational structures reflect actual operating practices.
- Financial, operational, and regulatory reports are reliable, accurate, and timely; any exceptions are noted and promptly investigated.
- Internal audit or other control review practices provide for independence and objectivity.
- Internal controls and information systems are adequately tested and reviewed on a periodic basis commensurate with risk.
- The coverage, procedures, findings, and responses to audits and review tests are adequately documented.
- Identified material weaknesses are given appropriate and timely high-level attention.
- Management's actions to address material weaknesses are objectively verified and reviewed.
- The institution's audit committee or board of directors regularly reviews the effectiveness of internal audits and other control review activities.
- The institution's change control mechanisms are appropriate for the size and complexity of the institution and reflect sound compliance risk management practices.

- Adequate controls exist to review all facets of vendor management that affect consumer compliance risk.

Vendor management is an increasingly important internal control given the unique challenges presented by third-party relationships. Reliance on vendors has grown as financial institutions seek to gain operational efficiencies by contracting with third parties. Financial institutions use vendors in a variety of ways, often as a way to deliver products and services for which the institution has limited expertise. However, vendors may also perform compliance-related internal control or audit functions. Vendor management is essential because the institution remains responsible for the products and services provided by vendors, but at the same time, is less able to exercise direct control over the delivery or performance of a product or service. Sound vendor management practices require that an institution

- conduct effective due diligence in hiring and overseeing vendors to ensure they have qualified staff, effective processes and controls, a solid reputation in the industry, and sufficient expertise to meet the institution's needs and requirements
- establish contracts with vendors that clearly outline expectations and standards
- identify and understand the products and services provided by vendors for the organization and evaluate the compliance risks associated with offering these products and services
- monitor the vendor's adherence to contractual requirements, including those related to ensuring compliance with consumer protection laws and regulations.

Examiners should refer to the guidance in Appendix 6, Internal Control and Internal Audit Function, Oversight, and Outsourcing. It contains additional information related to the internal control and internal audit functions in general as well as a discussion of outsourcing the internal audit function.

Assessing Effectiveness of Compliance Risk Management

Appendix 2, Guidance for Assessing Consumer Compliance Risk Management, is a matrix that examiners will use as a tool to help assess the quality of compliance risk management. The matrix incorporates the System's standard elements of risk management:

1. board and senior management oversight
2. policies, procedures, and limits

3. risk monitoring and MIS
4. internal controls

The matrix also incorporates a number of subcomponents that examiners should consider, as appropriate, when reaching conclusions about risk management.

For each of the risk management elements, the matrix identifies a number of associated components that provide a more granular analysis of risk management practices. The extent to which these subcomponents are present and must be documented as part of the analysis will vary depending on the sophistication and complexity of each individual institution. Examiners will observe and evaluate many more components at a complex institution that has products or services with higher inherent risk than they will at a less complex institution that has products or services with lower inherent risk and has more informal control processes.

As in the case of inherent risk, examiners may find that for certain institutions or products, it makes sense to assign ratings to individual subsidiary risk components in order to arrive at the overall ratings for inherent risk or risk management. This level of detail and support should be necessary only for larger or more complex organizations, and documentation of this work should be maintained separately from the assessment itself.

In addition, examiners should be particularly aware that the risk-focused supervision program seeks to more effectively utilize organizational risk assessments and the results of audit and internal compliance reviews. These organizational products can be reviewed and used to enhance the consumer compliance risk assessment process. Appendix 6 includes guidance for achieving this objective.

A five-point rating system is used to assess compliance risk management as follows:

Risk Control Ratings
Strong (1)
Satisfactory (2)
Fair (3)
Marginal (4)
Unsatisfactory (5)

The following definitions apply to consumer compliance risk management and should be considered in the context of the inherent risk of the business line, product, or service being evaluated.

- *Strong (1) consumer compliance risk management* exists when management effectively identifies and controls all major consumer compliance risks posed by the institution's activities. Management is fully prepared to address risks

emanating from new products and changing market conditions. The board and senior management are forward-looking and active participants in managing risk. Management ensures that appropriate policies and limits exist and are understood, reviewed, and approved by the board. Policies and limits are supported by risk-monitoring procedures, reports, and MIS that provide management and the board with the information and analysis that is necessary to make timely and appropriate decisions in response to changing conditions. Risk management practices and the organization's infrastructure are flexible and highly responsive to changing industry practices and current regulatory guidance. Staff has sufficient experience, expertise, and depth to manage the risks assumed by the institution. Internal controls and audit procedures are sufficiently comprehensive and are appropriate to the size and activities of the institution. There are few noted exceptions to the institution's established policies and procedures, and none is material. Management effectively and accurately monitors the condition of the institution, consistent with the standards for compliance and in accordance with internal and supervisory policies and practices. Consumer compliance risk management processes are fully effective in identifying, measuring, monitoring, and controlling the risks to the institution.

- *Satisfactory (2) consumer compliance risk management* exists when the institution's management of risk is largely effective but is lacking to a modest degree. Management demonstrates responsiveness and an ability to cope successfully with existing and foreseeable risks that may arise in carrying out the institution's business plan. While the institution may have some minor risk management weaknesses, these problems have been recognized and are in the process of being resolved. Overall, board and senior management oversight, policies and limits, risk-monitoring procedures, reports, and MIS are considered satisfactory and effective in maintaining a culture of compliance. Risks are controlled in a manner that does not require more than normal supervisory attention. The institution's risk management practices and infrastructure are satisfactory and generally are adjusted appropriately in response to changing industry practices and current regulatory guidance. Staff experience, expertise, and depth are generally appropriate to manage the risks assumed by the institution. Internal controls may display modest weaknesses or deficiencies, but they are correctable in the normal course of business. Examiners may have recommendations for

improvement, but the weaknesses noted should not have a significant effect on the compliance position of the institution.

- *Fair (3) consumer compliance risk management* exists when practices are lacking in some important ways and therefore are a cause for more than normal supervisory attention. One or more of the four elements of sound risk management (active board and senior management oversight; adequate policies, procedures, and limits; adequate risk monitoring and MIS; comprehensive internal controls) is considered less than acceptable and has prevented the institution from fully addressing one or more significant risks to its operations. Certain risk management practices need improvement to ensure that management and the board are able to identify, measure, monitor, and control all significant risks to the institution. Also, the risk management structure may need to be improved in areas of significant business activity (product or service), or staff expertise may not be commensurate with the scope and complexity of business activities. In addition, management's response to changing industry practices and regulatory guidance may need to improve. The internal control system may be lacking in some important aspects, particularly as indicated by continued control exceptions or by a failure to adhere to written policies and procedures. Consumer compliance risk management weaknesses could have adverse effects on the overall compliance position of the institution and result in sanctions, losses, or damage to reputation if management does not take corrective action.
- *Marginal (4) consumer compliance risk management* exists when practices fail to identify, measure, monitor, and control significant risk exposures in many material respects. Generally, such a situation reflects a lack of adequate guidance and supervision by the board and senior management. One or more of the four elements of sound risk management is deficient and requires immediate and concerted corrective action by the board and senior management. The institution may have serious identified weaknesses, such as a lack of independence or conflicting lines of authority, that require substantial improvement in internal controls or improved adherence to supervisory standards or requirements. Consumer compliance risk management deficiencies warrant a high degree of supervisory attention because, unless properly addressed, they could result in serious sanctions, losses, or damage to the reputation of the institution.
- *Unsatisfactory (5) consumer compliance risk*

management exists when there is a critical absence of effective risk management practices with respect to the identification, measurement, monitoring, or control of significant risk exposures. One or more of the four elements of sound risk management is considered wholly deficient, and the board and senior management have not demonstrated the capability to address these deficiencies. Internal controls are critically weak and therefore could seriously jeopardize the continued viability of the institution. There is an immediate concern about the reliability of records and regulatory reports and the potential for sanctions or losses if corrective measures are not taken immediately. Deficiencies in the institution's consumer compliance risk management procedures and internal controls require immediate and close supervisory attention.

D. Residual Risk

Residual product risk considers the impact (inherent risk) and probability (risk management) of noncompliance. Residual risk is the risk that remains after determining the level of inherent risk and reaching a conclusion about the effectiveness of risk controls associated with the institution's material products. The residual risk determined for each of the institution's material products should be aggregated to capture the residual risk for the institution as a whole.

After the quality of risk management is factored in, the resulting residual risk rating may be lower or higher than the inherent risk rating. Both inherent risk and risk controls are rated on a five-point scale. Consider these examples:

- The existence of high (5) inherent risk and strong (1) risk management may warrant a considerable (4) or moderate (3) residual risk rating.
- Conversely, where inherent risk is low (1) and risk management is unsatisfactory (5), a limited (2) or moderate (3) residual risk rating could be appropriate.

However, the second scenario (risk management practices are so flawed that they actually increase inherent risk) probably would occur infrequently, such as in cases of willful noncompliance, negligence, or gross negligence. As a general rule, satisfactory risk controls should result in a residual risk rating that is no higher than the inherent risk rating. Finally, when inherent risk is high and risk management appears strong but has not been previously tested, it is generally advisable to test the risk controls to substantiate that they effectively mitigate the high inherent risk. For example, if an institution offers a new product with high inherent

risk, examiners generally would be expected to review the product during the current examination to validate the efficacy of the controls. Once the controls have been validated, it may be appropriate at future examinations, in the absence of significant changes, to conclude that the controls effectively mitigate inherent risk.

E. Fair Lending and Unfair or Deceptive Acts or Practices (UDAP)

Additional Guidance Regarding Fair Lending and UDAP

Fair lending (the Fair Housing Act, the Equal Credit Opportunity Act, and Regulation B) and UDAP (Section 5 of the Federal Trade Commission Act and Sections 1031 and 1036 of the Dodd-Frank Act) are two of the most significant risk areas for institutions. Violations in these areas often cause significant consumer harm as well as legal, financial, and reputational risk to the institution. In addition, both areas may involve complex and fact-specific analysis. As industry practices change over time, fair lending and UDAP risks will also change because institutions can violate fair lending and UDAP laws in many ways. Accordingly, the Board of Governors of the Federal Reserve (Board) established the Fair Lending Enforcement Section to support examiners and ensure that fair lending and UDAP laws are enforced rigorously and consistently across the Federal Reserve System.

Assessing Fair Lending and UDAP Risk

Fair lending and UDAP should always be addressed during the risk assessment and discussed separately in risk assessment documentation. Examiners should identify fair lending and UDAP inherent risks and assess the effectiveness of the institution's risk controls in mitigating these risks, building upon their understanding of the institution, including its credit markets, decision centers, demographics, product lines, loan application and origination volume, credit operations structure, and historical performance. In evaluating fair lending risk, examiners should consider the risk factors included in the Interagency Fair Lending Examination Procedures and supplemented by applicable Federal Reserve guidance. In addition, examiners should consider any HMDA data screening results distributed by the Fair Lending Enforcement Section. In evaluating UDAP compliance, examiners should pay special attention to products and practices that target vulnerable consumers or pose potential risk to consumers that may not be apparent. In addition, the Board, in conjunction with the Reserve Banks, may periodically provide guidance for Federal Reserve System reviews or

emerging risks that should be incorporated into the risk assessment.

In applying a risk-focused approach, examiners should focus on product and service areas that are considered material to the institution's risk profile. If an institution has several material products and services that exhibit moderate or high residual risk, examiners are expected to focus on the products or services that pose the highest risk of consumer harm.

Another factor to consider when assessing both inherent risk and risk controls is whether the institution has received fair lending or UDAP complaints regarding a product, including

- complaints to the Federal Reserve or to the institution
- concerns raised by community contacts during the CRA examination
- complaints to other federal or state agencies
- lawsuits by any party (private or government)
- inquiries or investigations by other federal or state agencies
- complaints generated through Internet websites and/or social media
- press articles raising concerns about the institution's practices

Complaints can be an indicator of areas of potentially heightened inherent risk or they may suggest the need for additional focus on specific risk controls. The role complaints will play in the assessment of risk and development of the examination scope and work plan, however, will depend on the particular issue(s) raised in the complaint(s), viewed in the context of all other examination-related information.

Fair Lending and UDAP Examination Intensity

For UDAP, examiners can determine the appropriate examination intensity using the procedures described in other parts of this document.

For fair lending, as with examiners' evaluation of the overall compliance management program, the level of examination intensity for a particular product should generally be commensurate with the level of residual risk identified in the risk assessment process. However, in circumstances where inherent risk is high, it is advisable to test the risk controls before concluding that they effectively mitigate the high inherent risk. That is, if an institution offers a product with high inherent fair lending risk, examiners generally would be expected to conduct a high intensity review during the examination to test the efficacy of the controls.

Once the controls have been tested, it would be appropriate at future examinations, barring significant changes, to conclude that the controls effectively mitigate inherent risk. Finally, even when residual risk is low or moderate, it may nonetheless be appropriate for examiners to provide institutions with guidance on how to mitigate identified risk factors more effectively.

In some instances, determining the fair lending risk of the institution may be quite straightforward. In other instances, the risk assessment may require a balancing of factors. Reserve Banks may contact the Fair Lending Enforcement Section if there are questions about the appropriate level of examination intensity. As with other areas of review, after examiners have determined the work plan, new information may come to light that requires additional examination work. For example, an institution's fair lending risk may initially be deemed moderate risk, with only follow-up interviews planned. The interviews, however, may reveal information that alters the risk assessment and results in the need for further analysis, such as more intensive loan file reviews or more in-depth statistical analysis.

Low Intensity Review

In some instances, examiners may conclude that residual fair lending risk is low and that no additional work beyond the risk assessment is needed. Illustrative examples include the following:

- No fair lending risk factors are present. For example, for pricing, the policies and procedures are clear, with limited or no discretion; loan originator compensation is not based on the terms and conditions of the loans; and there are no disparities for any target group.⁴ As another example, for redlining, the institution has an appropriate CRA assessment area that does not reflect illegal discrimination; the branching and marketing do not avoid majority minority areas; and there are no large and/or statistically significant disparities in the majority minority areas in the institution's market area.
- Fair lending risk factors are present, but at a previous examination, the examiners tested the institution's risk controls and found that they effectively mitigated the specific risk factors. The risk factors and controls were tested at the previous examination in accordance with the current Federal Reserve System guidance on fair lending risk. In addition, the institution's risk assessment has not changed. Therefore, no

4. Disparities include "gross disparities," which are differences in pricing between the target group and the control group without controlling for legitimate pricing factors, or "adjusted disparities," which take into account legitimate pricing factors.

further evaluation is called for during the current examination. However, examiners should ensure that they test controls periodically going forward.

Moderate Intensity Review

In some instances, additional analysis beyond the risk assessment may be needed to fully evaluate the fair lending risk. This analysis may include interviewing bank personnel, conducting additional statistical analysis, or obtaining additional information from the institution. Illustrative examples include the following:

- Fair lending risk factors are present, but other analysis performed as part of the risk assessment supports a conclusion that fair lending risk is moderate. For example, bank employees have significant pricing discretion, but no disparities in the annual percentage rate (APR), interest rates, or fees are present. In this instance, the presence of risk factors may affect examiners' view of the adequacy of fair lending policies. Examiners may conduct interviews regarding the institution's pricing policies and controls, and supervisory guidance may be appropriate.
- Examiners identify a practice that raises a concern regarding disparate impact, but consultation with the Fair Lending Enforcement Section and additional information from the institution resolve the concern. For example, after identifying a potential disparate impact issue, the examiners inform the Fair Lending Enforcement Section, and additional information is requested from the institution to better understand the purpose of the practice. Based on the additional analysis, examiners determine that the institution's practice is based on an appropriate business justification and no further analysis is needed.

High Intensity Review

If residual fair lending risk is high, in-depth analysis is appropriate. Illustrative examples include the following:

- Fair lending risk factors are present and have not been resolved through pre-examination statistical analysis. For example, the institution has discretionary pricing for indirect auto loans, and there are disparities in dealer markups. Accordingly, an in-depth analysis with interviews and additional statistical analysis is appropriate.
- Fair lending risk factors are present, and although controls appear satisfactory, they were not tested at a previous examination. For

example, the pre-examination statistical analysis shows disparities in interest rates for unsecured consumer loans. The institution has controls in the form of rate sheets and documentation of exceptions, but examiners did not test these controls at the previous examination. Accordingly, an in-depth analysis with interviews, file reviews, and additional statistical analysis is appropriate.

F. Documenting the Consumer Compliance Risk Assessment

When completing the risk assessment of a state member bank, examiners must use the Consumer Compliance Risk Assessment Summary Matrix on page 37 to document and summarize consumer compliance risk.

In the Summary Matrix, for each material product, service, or business line, a rating must be assigned for each inherent risk component, and then a composite inherent risk rating must be assigned. In addition, an aggregate inherent risk rating should be assigned to reflect the overall inherent risk of the institution's product offerings. For these same products, services, or business lines, the Summary Matrix should also document ratings for each of the four risk management elements as well as an aggregate risk-control rating. Based on the balance of inherent risk and the effect of risk controls, a residual risk rating must be assigned for each product, service, or business line and in the aggregate.

The analysis supporting key risk conclusions should be summarized and documented in the risk assessment. Evaluative information reflected in the summary should be provided to support the assessment of the level of inherent risk, the adequacy of risk controls, and conclusions about residual risk. Examiners will include the following:

Executive Summary

The executive summary highlights the key inherent risks and highest-priority risk management weaknesses (if any) and also identifies risk controls (if any) that are not commensurate with the levels of risk. The executive summary also discusses the primary recommendations for the supervisory plan that were derived from the risk assessment.

Summary of Inherent Risk

Examiners are to provide an overall rating of inherent risk at the institution that is supported, as necessary, by the ratings on the matrices and reflects an appropriate weighting of products, business lines, or services. In the discussion of the key inherent risks, examiners will identify any

relationships between different risks that drive the overall assessment. This summary highlights any areas of heightened inherent risk.

Summary of Risk Management and Controls

This summary discusses the effectiveness of controls, highlights which areas pose the greatest control issues, and provides a high-level summary of the issues or concerns. Examiners also should identify any control-related concerns associated with specific products as well as themes that cut across products, business lines, or services. As part of this discussion, examiners should evaluate the adequacy of management's response to any significant internal review or audit findings that involved consumer compliance matters.

Summary of Residual Risk Assessment

Examiners should summarize conclusions about the overall level of residual risk, with an emphasis on the range of risks across products, business lines, and services, along with an explanation of their weighting of the residual risk associated with each activity. As a general rule, weighting will be consistent with examiner conclusions about the relative materiality of activities and will consider both the number and the dollar volume of each activity.

Recommendations for Supervisory Plan/Strategy

This section is derived from the risk assessment to provide the supporting foundation for development of the supervisory plan and to describe the supervisory planning process, including key priorities. The supervisory plan details all activities that will be necessary to address the risks identified and may include formal examination activities, targeted on- or off-site reviews, outreach, or even recommendations for informal or formal supervisory action.

Consumer Compliance Risk Assessment Summary Matrix

Guidance for assessing inherent risk and risk controls is located in appendixes 2 and 3. Examiners should use the inherent risk and risk-control assessment matrices together when assigning risk ratings for the primary inherent and risk-control components that must be documented in this Consumer Compliance Risk Assessment Summary Matrix or some similar form.

- Inherent Risk—Low, Limited, Moderate, Considerable, or High
- Risk Control Assessment—Strong, Satisfactory, Fair, Marginal, or Unsatisfactory
- Residual Risk—Low, Limited, Moderate, Considerable, or High

Product	Inherent Risk			Risk Controls				Residual Risk
	Institutional Factors	Legal and Regulatory Factors	Environmental Factors	Board and Management Oversight	Policies, Procedures and Limits	Risk Monitoring and MIS	Internal Controls	
Material Business Line, Product, or Service								
Material Business Line, Product, or Service								
Material Business Line, Product, or Service								
Aggregate Risk and Risk Control Assessments								

Updating the Risk Assessment

Pre-examination. Prior to an examination, examiners are required to make a determination as to whether material changes have occurred in the institution's inherent risk and/or in its compliance management program since the most recent risk assessment. This analysis will require examiners to gather information necessary to update the institutional profile. For guidance, refer to the Understanding the Institution section of this document. Significant changes related to the institution's operations and its management of consumer compliance risk should be shown in an updated institutional profile. Relying on the updated profile, examiners will determine whether any changes are material and should be captured in an update to the risk assessment. The goal of the risk assessment is to develop a perspective on risk that can be relied upon to drive supervisory decisionmaking.

Post-examination. The risk assessment must be updated at the conclusion of a consumer compliance examination. Any updates to the risk assessment will reflect changes to the assessment of inherent risk or the effectiveness of controls, consistent with examination findings.

Ongoing supervision. The risk assessment must be updated in conjunction with any mandated ongoing supervision activities. In the case of ongoing supervision, even if no material changes have occurred, examiners are required to affirmatively document completion of the required supervisory event.

Significant risk-profile changes. Finally, the risk assessment must be updated whenever new information indicates a significant change in the organization's risk profile, such as changes in the organization's activities, structure, or financial profile, or in the risk-control environment.

IV. EXAMINATION SCOPING AND PLANNING

Key Role of the Risk Assessment

Consumer compliance examinations evaluate the effectiveness of an institution's consumer compliance risk management program and assess its level of compliance with applicable consumer protection laws and regulations. Establishing a thorough knowledge of an institution's inherent risk and an understanding of an institution's compliance management program, including the risk controls used to mitigate inherent risk, is a critical part of examination scoping and planning. Ultimately, the risk assessment should drive the scope of activities that will be carried out during the examination.

Objectives of the Scoping Process

Examiners should exercise sound judgment in ensuring that planned examination activities are meaningful, an efficient use of resources, and effective in helping gain reasonable assurance that the institution's compliance management program enables the organization to maintain a satisfactory level of compliance with applicable consumer protection laws and regulations.

The scoping process provides an opportunity to customize examination activities so that they are consistent with the size, complexity, and risk profile of the institution. In this way, it is expected that a broad range of examination activities will be considered for products, services, and business lines targeted for additional review. Moreover, it is expected that planned activities will involve varying levels of intensity and will be carried out in a way that helps the examination team draw reasonable conclusions about the adequacy of an institution's compliance management program.

Scoping and Planning Considerations

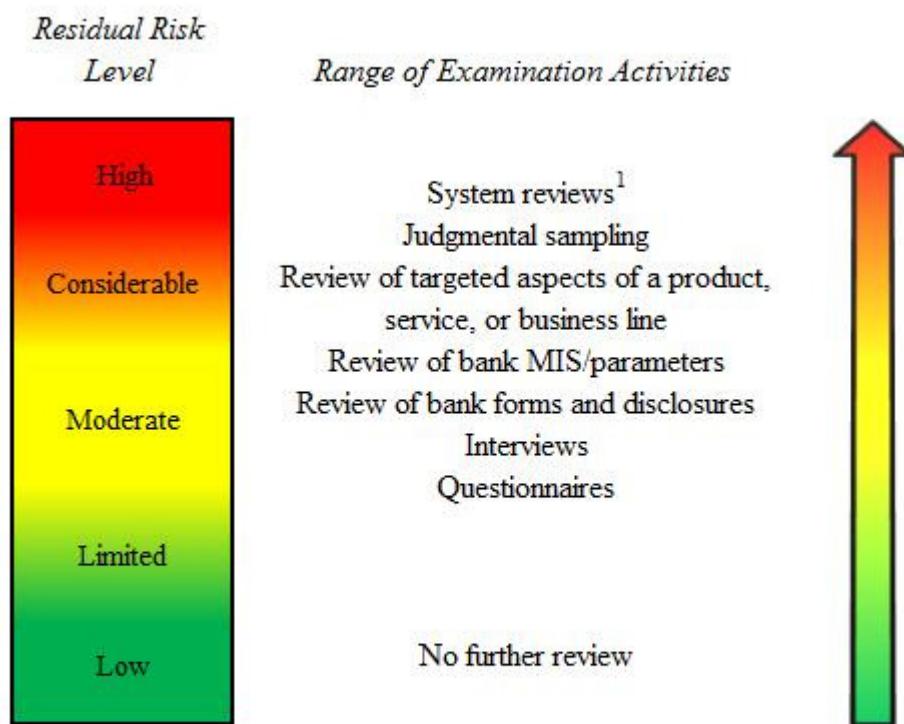
A thorough understanding of the inherent risk and the risk controls for the various products, services, and business lines is the foundation that supports broad conclusions about the institution's overall compliance management program. It is through review of individual products, services, and business lines, particularly those that are material and represent the most significant risk to the organization, that the examination team is better able to assess the effectiveness of the institution's compliance management program.

The examination work program and procedures used to assess the risk management practices of an institution with respect to a particular product or service or across business lines should be commensurate with the level of residual risk identified in the risk assessment process. Thus, the examination work program may include a range of examination activities, as depicted in the diagram on the following page.

Applying a Risk-Focused Approach

The risk-based methodology is flexible regarding the nature and scope of examination activities that may be conducted in a particular product, service, or business line area. Generally, areas deemed to represent the lowest risk should receive lower-intensity reviews or perhaps receive no further review beyond the activities conducted during the risk assessment process. As residual risk increases, however, it is expected that examination coverage and the level of intensity will increase commensurately; nevertheless, the level of review

Risk-Focused Examination Work Program



¹From time to time, specific work programs may be developed to assess consumer compliance in certain higher risk areas. These System reviews may be precipitated by concerns about a particular product, service, business practice, or regulatory requirement.

is not prescriptive. Examiners should make prudent decisions regarding the level of review needed, choosing examination procedures that will most effectively accomplish the stated objective.

For example, inherent risk related to a product area may be considered limited based on associated regulatory requirements, marginal growth, low staff turnover, and a relatively small volume of transactions. If examiners can ascertain that the institution employs strong risk controls, such that residual risk is reduced and deemed low, then no further testing would be required; the examination objectives have already been achieved through the risk assessment process.

In this same scenario, if the institution's limited inherent risk was not effectively mitigated by satisfactory risk controls, examiners might elect to conduct further review of that product. At a minimum, examiners might choose to conduct additional interviews with bank personnel to help assess staff knowledge and understanding of applicable regulations, adherence to internal policies and procedures, the degree of reliance on bank systems, the efficacy of those systems, and the adequacy of the institution's internal control

processes. In lieu of or complementing the interviews conducted, examiners may consider reviewing the institution's MIS, computer parameter reports, internal forms, product disclosures, or other documentation. All are permissible options and would help examiners develop a more complete assessment of the institution's risk management processes and their effectiveness. These activities might reveal that the institution's risk controls are indeed adequate for the associated risk. Alternatively, these activities might confirm or reveal significant deficiencies in one or more risk-control areas and indicate a need to increase the depth of review.

At the outset, examiners should be selective when planning examination activities, choosing those that best align with the level of residual risk present in a product, service, or business line. Examiners are not expected to conduct extensive reviews of every business area in order to affirm or refute a working hypothesis regarding the institution's risk management practices. Similarly, it will not be necessary in most cases to test every possible variation of a major product category or business line, especially when such variations are

subject to the same control environment. For example, if all time deposit initial disclosures are generated from the same software, it is not expected that every maturity will need to be tested. Instead, testing might include the most popular maturity or the maturity subject to the most complex disclosure rules.

In addition, it may not be necessary to test every transaction for every regulatory requirement to the same degree. More complex regulatory requirements should receive greater scrutiny than other provisions. Further, the need for a baseline evaluation should not prevent examiners from establishing compliance with some regulatory provisions without testing individual transactions if compliance can reasonably be determined by a review of highly automated processes or through interviews and/or the review of forms, disclosures, policies, and procedures. For example, some regulatory and legal requirements, such as APR computations, although typically automated, require manual input for each transaction and thus will require testing of individual transactions, or rather, testing of a particular aspect of the transaction or process. Other business activities, for example, preparing disclosure forms, typically use certain highly automated processes with limited manual input for individual transactions. For these processes, compliance may be established through other means, such as a review of system parameters.

In contrast to the more targeted reviews discussed so far, it is expected that higher-risk areas will be reviewed in greater depth. Although the focus of the examination is on the institution's processes, an appropriate level of transaction testing may be necessary to verify the effectiveness of policies and procedures and the integrity of internal systems. Most commonly, testing may include a judgmentally selected sample of transactions that is used to evaluate various aspects of the institution's products, services, or business lines. Judgmental samples may be larger when overall transaction volume is higher. In certain instances, testing may occur during the scoping and planning stage in order to evaluate the need for additional file reviews on site.

Even in higher-risk areas, examiners may not need to conduct extensive transaction testing. Instead, examiners may begin by reviewing related product forms, agreements, and disclosures or by conducting an in-depth interview regarding institutional processes such as a product life-cycle analysis. Interviews with bank staff and management may prove highly effective in documenting the institution's processes related to the various stages of a product's life cycle, including, for example, its design, marketing, initial interface with the customer, origination/consummation, usage,

servicing, or termination. These reviews and discussions alone may satisfy the examination objective or may indicate a need to target a specific process for transaction testing.

Finally, in applying a risk-focused approach, examiners should use sampling methods appropriate for the type of review being conducted. For example, examiners may use judgmental sampling when testing internal controls and statistical sampling when testing the validity of data pursuant to separate Consumer Affairs (CA) Letter guidance.⁵ Examiners should refer to applicable sampling guidelines contained in CA Letters.

Risk-Focused Examination Work Program

After assessing the institution's risk and identifying the areas targeted for additional review, examiners should develop a tailored, risk-focused work program for each product, service, or business line selected, using examination procedures in CA Letters, the Consumer Compliance Handbook, and other Board guidance.

Interagency examination procedures provide examiners with guidance on determining an institution's compliance with applicable consumer protection laws and regulations. Generally, these procedures anticipate two stages to the examination process, captured in management and policy-related examination procedures and transaction-related examination procedures. Examination objectives require examiners to (1) assess the quality of the financial institution's compliance management systems and its policies and procedures, and (2) determine the reliability of the financial institution's internal controls for monitoring the financial institution's compliance.

In many cases, examination objectives for material products or for the overall institution may have been largely met as part of the risk assessment process. For example, if there is a reasonable basis for reliance on the institution's controls, procedures, and monitoring practices and residual risk is limited, examiners may not need to conduct additional work or may conduct only limited follow-up work (such as interviews) during the examination to complete the management and policy-related examination procedures. The level of required work under such circumstances should be clearly conveyed in the scope memorandum.

Management and policy-related examination procedures performed during the risk assessment process may result in the identification of proce-

5. CA Letters address significant policy and procedural matters related to the Federal Reserve System's consumer compliance supervisory responsibilities.

dural weaknesses or other risks that cannot be addressed effectively through limited follow-up. In such cases, examiners should document the need for transaction testing using the applicable transaction-related examination procedures. As previously discussed, decisions about the scope of testing for any particular product should be driven by the residual risk associated with that product. This decision would include not only a determination about sample sizes but also the extent to which specific features, processes, or regulatory requirements associated with a particular product warrant testing. Examiners should use their judgment in deciding the size of each sample and the scope of testing. The requirement for any testing should be clearly documented in the scope memorandum, limiting testing to what is required by the residual risk associated with the products subject to testing.

Preparing the Examination Plan and Scope Memorandum

Examination scoping and planning should culminate in the preparation of the scope memorandum. The scope memorandum should include an updated institutional profile, risk assessment, and examination plan. The examination plan should detail the overall examination strategy and should also consider and document the following information:

- central objectives of the present examination and anticipated areas of focus
- planned examination activities, including
 - a list of products, services, and business line activities subject to further review
 - the “risk-focused examination work program,” which includes the nature and extent of any interviews, documentation reviews, and transaction testing to be conducted, including whether activities will be conducted on site or off site and the level of review as well as the rationale and key drivers behind examiners’ decisions
 - the sample size, including the number of transactions that will be tested, as well as the estimated universe of transactions or time period involved, if known
- examiner staffing levels, assignments, and expectations
- examination logistics
- attachments providing additional information, as needed

Completing the scope memorandum sufficiently in advance of the examination start date will assist in identifying staffing needs, assigning staff with the

appropriate expertise, and preparing for other examination work. To ensure consistency in the scoping process, Reserve Bank management must implement an approval process that includes a review of the final scope memorandum. This review and approval should be documented. The scoping process should result in communicating to bank management any request for information to be sent to the Reserve Bank or made available on site upon examiners’ arrival.

Further, an addendum to the scope memorandum should be prepared to document any material changes in the original scope that occur during the examination, but it is not necessary to update the scope memorandum with the examination conclusions. These conclusions should be documented elsewhere in the work papers.

V. EXAMINATION WORK

Examination work begins with updating the institutional profile and risk assessment, continues through the scoping process to the execution of the examination work program, and concludes with the issuance of the consumer compliance rating and the examination report. Supervisory follow-up and ongoing supervision complement examination work.

Examination work may take place at the Reserve Bank or at the state member bank. Examination work that involves information that can be accessed and reviewed at a Reserve Bank may be conducted off site. Transaction testing involving loan and deposit products has typically taken place at the state member bank, although transaction testing may take place at a Reserve Bank if the information is easily accessed and reviewed from the Reserve Bank. In addition, in-person interviews and conversations with business line staff and bank management may be more effective for gathering and exchanging information about higher-risk areas than e-mail communications or telephone conversations.

The following sections set forth general examination expectations regarding examination preparation, communication with Board staff, use of examination procedures, work papers, and communication of examination findings.

Preparing for the Examination

Communication with members of the institution’s board of directors (such as a member of the audit committee or compliance committee) and management of the institution in advance of an examination is important in order to

- provide bank management with an understanding of the risk-focused examination process

and how it will be applied to the institution

- help examiners gain an understanding of the institution, the level of inherent compliance risk present in products and services offered, and the institution's compliance risk management program and practices

Communications may take the form of telephone conversations, in-person interviews and conversations, e-mails, questionnaires, letters, and examination reports.

Communication and requests for information are likely needed when updating the institution's risk assessment before an examination or when developing the risk-based examination work program. To the extent possible, information requests should avoid asking for information already available, whether it is in the public domain or has already been provided to another area in the Reserve Bank. Further, bank management must be given adequate time to respond to information requests.

Letters written to provide information about a planned examination and request information not available at the Reserve Bank should be tailored to fit the character and profile of the institution being examined and the needs of the Reserve Bank. When examiners are deciding what information should be forwarded to the Reserve Bank for off-site review versus information that should be provided to examiners upon arrival at the institution, the goal should be to maximize the efficiency of the examination process while considering the burden placed on the financial institution. Specific information requests should be in writing to promote a clear understanding of expectations and to provide an examination record.

Communication with Board Staff

Collaboration between Reserve Bank and Board staff is encouraged. Reserve Bank staff may contact Board staff at any time with questions about potential examination issues. In situations involving potential fair lending violations or UDAP, early contact, including during the risk assessment and scoping phase, can result in more efficient supervision. In other situations, Board staff may be notified when follow-up supervisory action is required after examiners make a determination. Board staff are also available when examiners or Reserve Bank management have questions about legal and regulatory requirements or how to interpret them.

Communication with Bank Management during the Examination

At the beginning of the examination, the examiner

in charge should meet with the institution's senior management and the compliance officer to discuss the nature and scope of the examination. Because the issues identified in the scoping process and the suggested levels of review may differ from the previous examination, it is important to provide bank management with an understanding of the risk-focused examination process and how it will be applied to the institution. The examination overview should include the assessment of the compliance management program, the type of review for particular loan or deposit products, and specific areas of the institution to be evaluated. Examiners also should discuss the fair lending portion of the examination, including the areas being reviewed. Finally, management should be informed that the scope of the examination may be adjusted based on examination findings.

Throughout the examination, the examiner in charge should inform bank management of the examination's progress and issues that may have arisen that could result or have resulted in a change to the scope of the examination. The examiner in charge should explain any implications of such a change, especially any need for additional information or access to bank resources, and any extension of the planned time frame for completing the examination. Bank management should be given an opportunity to respond to issues and resolve them if possible, as early in the examination process as is practical.

Use of Examination Procedures

The examination should be conducted consistent with the documented examination scope. In some cases, no additional work, or only limited follow-up, will be required for areas in which residual risk is not elevated. This level of examination work corresponds with the management and policy-related portion of examination procedures, most of which will have been completed during risk assessment and scoping.

Findings during an examination, however, may warrant revision to the planned scope. While performing any on-site management and policy-related examination procedures identified in the scope memorandum, examiners may uncover procedural weaknesses or other risks that require review through testing. As with the scoping and planning phase, examiners should consult with the examiner in charge to determine the appropriate level of transaction testing to be performed. This change in scope must be appropriately documented.

For any specific product, the scope memorandum should specify when the use of transaction testing procedures is necessary and the extent of

any testing—including sample sizes, specific features, processes, or regulatory requirements associated with a particular product. Such testing would typically be associated with elevated residual risk and should be conducted consistent with the transaction-related examination procedures.

In some cases, when transaction testing is required in the examination scope, examiners may identify violations or risks related to a product that the risk assessment did not address. In such cases, examiners should consider expanding the scope of transaction testing. The expanded sampling should, in all cases, consider relevant information discerned from the review of files or gathered through interviews, review of policies and procedures, or from other sources that might suggest the underlying root cause of the identified problem. Such information could suggest over- or under-weighting of transactions with certain shared attributes. For example, if an examiner reviewing real estate files identified, among other things, rescission violations, the expanded sample might include more loans subject to rescission compared to other types of loans. Determination of the extent of additional testing should always be made in consultation with the examiner in charge.

Examination Work Papers

It is critical to have well-documented work papers. Supporting documentation is necessary to ensure that consumer compliance examination work papers provide complete information and support examiners' findings and conclusions. Therefore, the final work papers should not contain any unresolved issues or questions.

Examination work papers also provide reference information for use during interim supervisory activities and subsequent examinations or enforcement proceedings.

Minimum Work Paper Guidelines

Work papers should support the examination findings and should be supplemented with copies of specific bank documents as necessary. In addition to the scope memorandum, work papers must include documentation of the work program performed during a supervisory event, including both off-site and on-site activities. Work program documentation must identify the examination procedures conducted, meetings held with management, major risks identified, a summary of findings with conclusions and support for those conclusions, as well as follow-up actions needed, whether MRIs or MRAs. The written documentation included in the work papers is the basis for preparing the examination report.

Work Paper Standards

At a minimum, the compliance examination work papers must

- identify the examiner responsible for preparing the work papers
- identify the bank personnel responsible for providing information or documents to the examination team
- include a copy of the institutional profile, risk assessment, scope memorandum, and any documentation that identifies risks or otherwise documents: (1) the work performed, (2) the scope of examination activities, and (3) the examination procedures used, by business line and/or products
- document the depth of the review and the level of intensity and the activities undertaken to achieve this level of review, including questionnaires and pertinent information about interviews, sample sizes, accounts sampled, and other information as appropriate
- document findings. Violations and other weaknesses should be supported by analyses with copies of disclosures, calculations, or interviews that led to conclusions
- identify the examiner responsible for the initial review of the work papers
- be organized so that each element of the examination can be understood

All examination work papers must comply with the secure handling of confidential supervisory material requirements set forth by the Board and the respective Reserve Bank.

Communicating Examination Findings

Final Discussions and Meetings with the Board of Directors

Formal final discussions are held to communicate examination findings and obtain, when necessary, management's commitment for corrective action. The examiner in charge should discuss the findings of the examination with management and, to the extent appropriate, the personnel involved in consumer compliance activities.⁶ The final discussion should focus on the overall condition of the institution's consumer compliance and CRA programs (if applicable), any substantive violations of law, required corrective action, and recommendations. In addition to outlining strengths and weaknesses in the compliance management program, examiners should provide management with a list

6. Reserve Bank management should be apprised of these findings prior to the final meeting with the bank.

of all identified regulatory violations, including isolated violations. To the extent possible, during this discussion examiners should ask management to explain specific steps that will be taken to correct weaknesses in the compliance management program and to eliminate practices that violate consumer protection laws and regulations, so that the intended corrective action measures can be included in the report of examination.

The board of directors has the ultimate responsibility for operating the institution in compliance with the law and for ensuring that appropriate corrective action is taken. A meeting with the board of directors may be appropriate in certain circumstances, such as if the program weaknesses or legal violations involve the potential for significant administrative and civil liability or if the Reserve Bank is contemplating issuing a formal supervisory action, such as a Written Agreement or a Cease and Desist Order. Typically, a member of Reserve Bank management should attend an examination-related meeting involving the institution's board of directors.

Report of Examination

Supervisory findings are communicated in writing through formal reports and letters summarizing the results of target reviews. These communications, including the Consumer Affairs Report of Examination for community banks, constitute the official record of the examination and are the primary tool for conveying examination findings to the institution's board of directors and senior management.

The consumer compliance examination evaluates the effectiveness of an institution's compliance risk management program in controlling the inherent risk associated with product and service offerings. The report communicates the effectiveness of the institution's compliance risk management framework, including the risk controls employed to mitigate the inherent risk. It focuses on evaluation of the procedures and processes an institution has in place to identify, measure, monitor, and control its compliance risk.

Conclusions regarding the institution's compliance risk and the quality of its compliance management program should reflect a thorough analysis. While the primary focus is the evaluation of procedures and processes used by the institution to ensure compliance, significant regulatory violations also are important. Explanations of weaknesses noted in the compliance program and violations found during the examination should include a discussion of the cause and severity of the weaknesses or violations found. In the case of violations, the discussion should include the requirements of the regulation or statute.

The report will communicate examination ratings, material findings, significant supervisory issues, and any needed corrective action. MRIs and MRAs should be discussed in the Executive Summary and Examination Ratings section of the report. To be effective, the communication of supervisory findings must be: (1) written in clear and concise language, (2) prioritized based on degree of importance, and (3) focused on any significant matters that require attention. Information included in the report should enable the institution's board of directors and senior management to understand the substance and status of outstanding MRIs or MRAs and to focus on the most critical and time-sensitive issues.

Other detailed guidance regarding reporting examination findings, consumer compliance ratings, and enforcement actions is in the appendixes to this document.

VI. ONGOING SUPERVISION

Overview

The objective of the ongoing supervision program is to identify significant changes that have occurred in the compliance management program or in the level of consumer compliance risk in the institution since the previous supervisory activity. Significant changes are changes that immediately heighten the sense of supervisory concern or elevate the level of residual compliance risk of a material product or of the institution as a whole. Understanding key changes to the institution's compliance management program and associated risks will enable examiners to tailor bank examination risk assessments and work programs more effectively and efficiently. The ongoing supervision program also provides an opportunity, if needed, to follow up on supervisory risks or concerns noted at the previous community bank examination.

Supervision between Examinations

Ongoing supervision of an institution between examinations is critical in identifying significant changes or deteriorating trends in a timely manner. Proactive monitoring also confirms whether the institution's board and senior management have appropriately addressed previous examination findings and allows for identification of new product lines, business activities, or other organizational changes.

Ongoing supervision complements the supervision program for state member banks with assets of \$10 billion or less and consumer compliance ratings of two or better and CRA ratings of satisfactory or better. For these institutions, an

off-site supervisory contact with the institution must occur close to mid-cycle between consumer compliance examinations to identify significant changes to the compliance management program or compliance risks. Key areas that should be considered include the following:⁷

- changes in compliance management structure or staff
- changes in the frequency or scope of audits or internal reviews
- financial condition
- examination ratings (especially risk management ratings)
- new product offerings or changes to existing products
- progress made toward planning and implementing regulatory changes
- geographic expansion/contraction, especially changes in assessment areas
- significant changes in business strategies
- a significant increase or decrease in assets, loans, or deposits.
- changes in the loan portfolio mix.
- changes in indirect or wholesale lending activity
- consumer protection-related litigation and/or investigations by other governmental or regulatory agencies
- complaints

In some cases when the institution's risk profile is high or it changes materially as a result of the addition of more complex or higher-risk strategies, more frequent contacts may be appropriate.

The Ongoing Supervision Questionnaire (appendix 1)

7. From time to time, Board staff and the Reserve Banks may ask that specific information requests be incorporated into the ongoing supervisory process to collect information across banks. These information requests may be precipitated by concerns about a particular product, service, business practice, or regulatory requirement.

dix 1, following this section) must be used to guide and capture discussions with management that are designed to ascertain key changes. Because institution size, complexity, and markets vary, additional questions may be appropriate for inclusion in the questionnaire. Other System examination tools may also be helpful in identifying relevant key changes.

When information obtained from questionnaire responses, from other interactions with bankers, and from review of relevant internal information indicates no significant changes at the institution, further supervisory action will not be necessary. For example, identification of a new product during an ongoing supervision review does not automatically necessitate additional supervisory work. Examiners should determine on a case-by-case basis if the level of residual risk appears elevated, based on responses to clarifying questions asked when gathering answers to the Ongoing Supervision Questionnaire.

When the level of risk is heightened as a result of an identified significant change, a Reserve Bank may choose from a range of options consistent with the type and level of risk identified. Such options could include off-site/on-site targeted product or service reviews, discovery reviews, on-site advisory visitations, or additional in-depth off-site interviews. In rare cases, it may be appropriate to accelerate the timing of the next examination to fully assess and address the areas of concern.

Significant changes occurring at the institution relating to the key areas outlined above that affect the institutional profile or perceived risk in the institution must be documented in the institutional profile and risk assessment as well as in the corresponding risk controls and ratings in the Compliance Risk Matrix. Changes to the supervisory plan should also be documented in the risk assessment. If there have been no significant changes since the last supervisory activity, it is sufficient to document in the risk assessment the date of the discussion and the individual with whom the information was confirmed.

APPENDIX 1. ONGOING SUPERVISION QUESTIONNAIRE

These are questions that generally can be answered during an interview or discussion with the institution.

Management and Control Environment

- 1) Explain any changes in the compliance management structure or staff (for example, compliance officer, compliance support staff, senior management, directors).
- 2) Describe changes in the organization's structure, including the number of bank subsidiaries, locations, lending subsidiaries, and ATMs.
- 3) Describe changes in the institution's internal control environment (for example, frequency or scope of reviews, internal/external audits, deposit or loan software systems).

Product Mix and Trade Area

- 4) Has the institution made any changes to, introduced, or discontinued any of the following:

a) deposit product or service	Yes	No
b) loan product or service	Yes	No
c) guaranty loan program	Yes	No
d) indirect or wholesale lending activity	Yes	No

If Yes to any of the above, please describe:

- 5) Has the institution had any geographic expansion/contraction or made any changes to its

a) CRA assessment area(s)	Yes	No
b) trade area or markets	Yes	No
c) business strategy, key business lines, or growth areas	Yes	No
d) marketing emphasis or delivery systems	Yes	No

If Yes to any of the above, please describe:

For these questions, using other System examination tools may be helpful in identifying relevant key changes. Additional follow-up may be appropriate to assess any changes identified.

Financial Condition

- 6) Review the institution's financial condition. Has the institution triggered any flags on the surveillance reports or on the risk-screening results? If Yes, please describe and discuss the effect of these issues on the institution's compliance risk management program.
- 7) Review the institution's Call Report information. Have there been any significant changes to the institution's loan portfolio mix? If Yes, please describe and discuss the effect of these issues on the institution's compliance risk management program.
- 8) Describe significant trends in the institution's portfolio composition, including increases or decreases in assets, loans, or deposits.
- 9) Review the most recent Safety and Soundness information. Have there been any significant changes in the CAMELS components that could affect the institution's compliance risk management program? If Yes, please describe and discuss the effect of these issues on the institution's compliance risk management program.

Risk Management

- | | | |
|--|-----|----|
| 10) Has the institution had any changes to its Safety & Soundness management and/or risk-management ratings? | Yes | No |
| 11) Does the institution have an effective change management process for implementing new products and services? | Yes | No |
| 12) Is the institution a party to any pending consumer-related litigation or the subject of consumer-related inquiries from other agencies (state or federal), or has the institution received consumer compliance-related complaints? | Yes | No |

Supervisory Plan

- 13) Request the status of examination follow-up on any pending supervisory issues, if applicable.
- 14) Discuss and document the institution's efforts and progress in areas where significant violations occurred.

Conclusion

- | | | |
|--|-----|----|
| 15) Based on the information gathered, has the institution's consumer compliance risk profile changed materially, such that a change to the supervisory strategy for the institution is warranted? | Yes | No |
|--|-----|----|

APPENDIX 2. GUIDANCE FOR ASSESSING INHERENT CONSUMER COMPLIANCE RISK

Component	Low	Limited	Moderate	Considerable	High
INSTITUTIONAL FACTORS					
<i>Risks associated with the institution's strategic decisions, structure, business lines, products or services, and previous history</i>					
Strategic/Business Factors					
Growth					
Refers to substantive growth in market share or asset size through branching, merger, acquisition, change in business focus, or geographic expansion.	The institution has had no or minimal growth in market share, asset size, or change in business focus.	The institution has not been involved in any merger or acquisition activity but has experienced modest organic growth. Branch expansion is minimal, with little impact on product volumes or asset size.	The institution has been involved in merger or acquisition activity that has resulted in the institution's market expanding and above-average growth, or the institution has experienced above-average organic growth through branching activities.	The institution has been involved in a major merger or acquisition or has experienced significant organic growth, including significantly expanding its branching network.	There has been significant growth due to merger or acquisition activity, and product volume growth has been strong. As a result of growth or market expansion, the institution's business focus may have changed.
Structural complexity					
Refers to the overall complexity of the institution's operations, including its subsidiary structure, branch networks, and degree of centralization of activities.	The banking organization's operations structure, including its branch operations and subsidiary and affiliated relationships, is noncomplex. The organization has no operating subsidiaries and limited branching activity. Operations are highly centralized.	The banking organization's operations structure, including its branch operations and subsidiary and affiliated relationships, is noncomplex, although the number of branches may be high. The organization has no operating subsidiaries and no shared activities with affiliated entities. Operations may evidence some degree of decentralization.	The banking organization's operations structure, including its branch operations and subsidiary and affiliated relationships, is moderately complex. The institution may conduct consumer business through one or more subsidiaries or divisions and may have a complex branch structure. Businesses may operate with a fair degree of independence from one another.	The banking organization's operations structure, including its branch operations and subsidiary and affiliated relationships, is complex. The institution conducts consumer business through one or more subsidiaries or divisions and may have a very complex branch structure, including substantial interstate operations. Businesses may operate with a substantial degree of independence from one another.	The banking organization's operations structure, including its branch operations and subsidiary and affiliated relationships, is very complex. The institution conducts consumer business through multiple subsidiaries or divisions in a large geographical area. Businesses may operate independently from one another.

Component	Low	Limited	Moderate	Considerable	High
History/trends					
Refers to the extent to which the institution has effectively managed its compliance risk in the past.	The institution has historically managed its compliance risk highly effectively. The compliance management program has historically been adjusted in anticipation of the changing level of compliance risk.	The institution has historically managed its compliance risk effectively. Minor compliance issues may have developed but were not allowed to persist. The compliance management program has typically been adjusted to be commensurate with the level of compliance risk. Nonetheless, minor defects in the program may have persisted for brief periods.	The institution has historically allowed gaps in its management of compliance risk to develop. Some significant compliance weaknesses have developed and have persisted for some time. The institution may be under an informal enforcement action. Timely adjustment of the compliance management program in response to changes in the level of risk has not been routine. Defects in the program may have persisted for long periods.	The institution has gaps in its management of compliance risk that have persisted over time. The institution may be under a formal enforcement action. A number of significant compliance weaknesses have resulted and may currently exist. Correction of weaknesses in the compliance management program generally occurs only after the institution has been cited for noncompliance.	The institution has serious gaps in its management of compliance risk that have persisted over time. The compliance program is ineffective, and the institution is under a formal enforcement action.

Component	Low	Limited	Moderate	Considerable	High
PRODUCT/SERVICE CHARACTERISTICS					
Product volume					
Refers to the level of product activity and the number of consumers potentially negatively affected if the institution fails to comply with regulatory requirements.	Although not immaterial, the product has low activity. Only a small number of customers have the product.	The product has limited activity, and few customers have the product.	The product has moderate activity. The institution is actively opening new accounts and/or maintains and services a fair number of existing accounts.	The product has significant activity throughout the organization. It is one of the institution's primary products.	The product has very significant activity throughout the organization. It is considered a major product line for the organization.
Product complexity					
Refers to the intricacies of a product related to: (1) the complexity of the product's characteristics, (2) whether the product targets specific consumer segments, and (3) processes concerning the institution's products, including delivery channels and marketing, account opening, loan origination, servicing, and loss mitigation practices or processes.	The institution has a narrow product line, offering basic consumer banking products. It delivers the products through traditional methods.	The institution has a more expansive product line, but consumer banking products are basic. Systems for managing products are not complex. The institution delivers the products through traditional methods.	The institution offers a variety of products, some of which are complex. The institution does not target products to particular consumer segments. Systems for managing products are somewhat complex.	The institution offers an extensive variety of products, many of which are complex. It delivers the products through many different delivery channels and targets some products to particular consumer segments. Its systems for managing these products are complex.	The institution offers almost all types of consumer banking products through all available delivery methods. The product mix includes many products targeted to particular consumer segments. Systems for managing these products are extremely complex.
Product stability					
Refers to recent changes in products or services, either new product or service offerings or modifications to existing products or services, including system changes that would affect product handling or management.	The institution has had no major changes in products and services.	The institution has made minor changes to the features of existing products and services, but no new complex products or services have been introduced.	The institution has expanded its products or services to include more complex products or has made modest changes to systems related to product handling. Additional expertise is necessary to manage the expanded products and services.	The institution has made major modifications to existing products or services or the systems that manage the products. The product or system changes require new staff to manage them.	The institution has introduced a new high-risk line of business (such as subprime mortgage loans or indirect or brokered loans) or made considerable changes to existing business lines. System changes related to the new business line are extensive.

Component	Low	Limited	Moderate	Considerable	High
Third-party involvement					
Refers to the use of third-party vendors to provide bank-related products or services, including assistance with compliance management-related functions.	Reliance on outsourcing arrangements/ third-party vendors is minimal. Vendors are well-respected industry leaders. The institution has a large, heterogeneous mix of strong vendors that have good industry reputations.	There is moderate reliance on outsourcing arrangements/ third-party vendors for standard, noncomplex services.	The institution has an average number of, and dependency on, third-party vendors. Vendors are a relatively good mix of industry-recognized leaders. Some vendors may be new but show good understanding of the industry and are well run. The institution may rely on vendors that have had previous problems.	The institution relies substantially on outsourcing arrangements/ third-party vendors. Vendors may be new or smaller untested firms for which there is limited financial history.	The institution is entirely dependent on outsourcing arrangements/ third-party vendors for critical services or systems. The institution has a high number of or concentration of work with vendors. Key vendors are largely unseasoned.

Component	Low	Limited	Moderate	Considerable	High
LEGAL AND REGULATORY FACTORS					
<i>Legal, reputational, and financial harm that may result from noncompliance</i>					
Regulation complexity					
Refers to the amount of judgment, regulatory knowledge, technical skill, or processes required to understand and comply with a law or regulation.	The products and services offered by the institution and the laws and regulations with which it must comply require only a basic level of understanding, judgment, and skill to ensure compliance.	The institution's business lines and the laws and regulations with which it must comply require an enhanced level of judgment, skills, and processes to ensure compliance.	The institution's business lines and the laws and regulations with which it must comply require an intermediate level of judgment, skills, and processes to ensure compliance. The institution offers products within one state only.	The complexity of some of the institution's business lines and some of the laws and regulations with which it must comply require an advanced level of judgment, skills, and processes to ensure compliance. Also, the organization may serve multiple states and therefore must have an understanding of applicable state laws and regulations.	The complexity of the institution's business lines and the various laws and regulations with which it must comply require an expert level of judgment, skills, and processes to ensure compliance. Because it serves multiple states, the organization must have expertise in all applicable state laws and regulations.
Consequences of noncompliance (consumer harm, penalties)					
Refers to the extent to which the institution's failure to comply with legal or regulatory requirements will result in actual or potential financial or legal harm to a consumer or other serious consequences, such as bank penalties or sanctions.	The consequences of noncompliance are minimal.	The consequences of noncompliance may not involve significant monetary costs but may involve damage to reputation.	The consequences of noncompliance may involve some monetary costs, legal or regulatory sanctions, damage to reputation, or delay in expansion plans.	The consequences of noncompliance involve significant monetary costs, legal or regulatory sanctions, damage to reputation, or delay in expansion plans.	The consequences of noncompliance involve substantial monetary costs, legal or regulatory sanctions, damage to reputation, or delay in expansion plans.
Regulatory or legal changes					
Refers to new laws, regulations, or amendments or modifications to existing laws or regulations.	The institution does not engage in activities that have been subject to any regulatory changes.	The institution has been subject to some minor regulatory changes as part of the normal course of business.	The institution has been subject to regulatory changes, some of which may have been significant.	The institution engages in a number of activities that are subject to regulatory changes, some of which may have been significant and involve multiple sources of change such as multiple state or local ordinances, court rulings, and federal agencies.	The institution's primary business lines involve activities that are continuously subject to regulatory changes, many of which may be significant and involve multiple sources of change such as multiple state or local ordinances, court rulings, and federal agencies.

Component	Low	Limited	Moderate	Considerable	High
ENVIRONMENTAL FACTORS					
<i>External factors that may affect an institution's ability to effectively manage its compliance risk</i>					
Business conditions					
<p>Refers to the business environment in which the institution operates, including factors such as overall market conditions, loan demand, employment rates, and housing needs.</p> <p>Business conditions are good or stable. Operational changes are not being driven by changes in business conditions, and operational capacity is more than adequate for maintaining a strong compliance position.</p> <p>Business conditions may show some weakness, but the effect on bank operations is limited or the institution has adequate operational capacity for responding effectively to the changing conditions.</p> <p>Business conditions are deteriorating, and bank operations have been affected. The institution's capacity to respond to changing conditions is constrained by existing personnel, inadequate processes, and/or the inability to hire or train the personnel necessary to respond to changing conditions.</p> <p>Business conditions are deteriorating, and bank operations have been significantly affected. The institution's capacity to respond to changing conditions is greatly constrained by existing personnel, inadequate processes, and/or the inability to hire or train the personnel necessary to respond to changing conditions. Compliance resources may be reallocated to address other areas of weakness.</p> <p>Business conditions are weak, and bank operations have been seriously affected. The institution is not able to respond effectively to changing conditions due to inadequate resources, failing processes, and the inability to hire or train the personnel necessary to respond to changing conditions. Compliance resources have been reallocated to address other areas of weakness.</p>					
Demographics					
Refers to the demographic characteristics of the markets in which the institution operates.	The institution serves markets with little demographic diversity. The area is likely predominantly rural. There are few, if any, low- or moderate-income census tracts. The minority population is very low.	The institution serves markets with some amount of demographic diversity. The area is likely still predominantly rural. There are few low- or moderate-income census tracts, but there may be distressed or underserved census tracts. The minority population is limited and there are few, if any, majority-minority census tracts.	The institution serves markets with a moderate amount of demographic diversity. The area is likely mostly urban. There are a number of low- or moderate-income census tracts. The minority population is significant, and there may be some majority-minority census tracts.	The institution serves markets with demographic diversity. The area is likely mostly urban. There are a significant number of low- or moderate-income census tracts. The minority population is substantial, and there are a number of majority-minority census tracts.	The institution serves markets with substantial demographic diversity. The area is likely highly urban. There are a large number of low- or moderate-income census tracts. The minority population is substantial, and there are a significant number of majority-minority census tracts.

Component	Low	Limited	Moderate	Considerable	High
Competition					
Refers to the level of competition in the institution's market(s) and the nature of activities engaged in by the institution's competitors.	The institution has not made, nor does it plan to make in the near future, any significant changes in response to competitive pressures. New product development and change management processes are deemed adequate given the institution's risk profile.	Competitive factors have had a limited effect on bank operations. While the institution is attuned to its competition, it has not made significant changes to its product offerings, product terms, or marketing; however, it has the operational capacity to respond in the normal course of business.	Competitive factors have had a moderate effect on bank operations. The institution has made some significant changes to product offerings, product terms, or marketing. In making these changes, operational capacity has been strained and some compliance missteps may have occurred.	Competitive factors have had a significant effect on bank operations. The institution has made some substantial changes to product offerings, product terms, or marketing. These changes involve greater complexity and/or the expansion into new products or markets. In making these changes, operational breakdowns have occurred because of inadequate planning, development, and review processes. These breakdowns may have resulted in serious compliance failures.	Competitive factors have had a material effect on bank operations. The institution has made substantial changes to its product offerings, product terms, or marketing. These changes involve substantially greater complexity and/or the expansion into new products or markets without sufficient consideration of whether the changes align with the institution's long-term strategic direction. In making these changes, operational breakdowns have occurred because of inadequate planning, development, and review processes. These breakdowns have resulted in serious compliance failures.

APPENDIX 3. GUIDANCE FOR ASSESSING CONSUMER COMPLIANCE RISK MANAGEMENT

Board and Senior Management Oversight

This element is an evaluation of the adequacy and effectiveness of the board and senior management's understanding and management of risk inherent in the institution's activities, as well as the general capabilities of management. It also includes consideration of management's ability to identify, understand, and control the risks undertaken by the institution, to hire competent staff, and to respond to changes in the institution's risk profile or innovations in the banking sector.

Component	Strong	Satisfactory	Fair	Marginal	Unsatisfactory
Overall assessment	The board and senior management clearly understand the types of compliance risks inherent in the institution's activities and actively participate in managing those risks and pursuing industry best practices.	The board and senior management have an adequate understanding of the organization's compliance risk profile and provide largely effective oversight of risk management practices.	The board and senior management have a limited understanding of the organization's compliance risk profile, and oversight of risk management practices may be lacking in some important way.	The board and senior management have an inadequate understanding of the organization's compliance risk profile, and oversight of risk management practices reflects a lack of guidance and supervision.	There is a critical absence of effective board and/or senior management oversight.
COMPOSITION					
Board responsibilities	The board fully understands and has approved overall business strategies and significant policies and ensures that senior management is fully capable of managing the activities.	The board generally understands and has approved overall business strategies and significant policies and ensures that senior management is capable of managing the activities.	Weaknesses in one or more aspects of board oversight have prevented the institution from fully understanding or addressing one or more significant legal and compliance risks to the institution.	Ongoing weaknesses in one or more aspects of board oversight have prevented the institution from fully addressing one or more significant legal and compliance risks to the institution.	Critical weaknesses in one or more aspects of board oversight have caused the institution to have significant legal, regulatory and/or compliance issues that have had a major negative effect or consequence.

Component	Strong	Satisfactory	Fair	Marginal	Unsatisfactory
Management expertise	<p>Management hires staff who possess experience and expertise consistent with the scope and complexity of the organization's business activities.</p> <p>Staffing levels are sufficient to fully and effectively manage the institution's operations and related compliance risks.</p> <p>Management is generally recognized as having considerable expertise in compliance risk management.</p>	<p>Management generally hires staff who possess experience and expertise consistent with the scope and complexity of the organization's business activities.</p> <p>Minor weaknesses may exist in the staffing, infrastructure, or consumer compliance risk management expertise for individual business lines or products.</p>	<p>Management has hired staff who may not be adequate or may not possess experience or expertise consistent with the scope and complexity of the organization's business activities.</p> <p>Identified weaknesses exist in the staffing, infrastructure, or consumer compliance risk management expertise for individual business lines or products.</p>	<p>Management has hired staff who are not adequate or do not possess the experience or expertise needed for the scope and complexity of the organization's business activities. The day-to-day supervision of officer and staff activities, including the management of senior officers or heads of business lines, may be considerably lacking.</p>	<p>Management has not hired staff capable of managing the institution's compliance program. Substantial weakness exists in compliance management expertise for individual business lines or products.</p>
CULTURE					
Ethical values	The board and senior management effectively ensure that employees will exhibit a high level of integrity and ethical values that are consistent with a prudent management philosophy and culture.	The board and senior management communicate an expectation that employees will exhibit a high level of integrity and ethical values that are consistent with a prudent management philosophy and culture.	The board and senior management informally communicate an expectation that employees will exhibit integrity and ethical values that are consistent with a prudent management philosophy and culture.	The board and senior management have failed to communicate an expectation that employees will exhibit integrity and ethical values that are consistent with a prudent management philosophy and culture.	Integrity, ethical values, and competence are not consistent with a prudent management philosophy and culture.
Risk appetite/risk tolerance	Risk appetite and tolerance levels are fully and clearly identified, communicated, and understood, from board and senior management levels throughout the organization.	Risk appetite and tolerance levels are generally identified, communicated, and understood throughout the organization.	Risk appetite and tolerance levels may not be clearly identified, communicated, or understood throughout the organization.	Risk appetite and tolerance levels are not clearly identified, communicated, or understood throughout the organization, or the level of risk is not considered prudent.	Risk appetite and tolerance levels are not identified, communicated, or understood throughout the organization, and/or the level of risk jeopardizes the ongoing viability of the organization.

Component	Strong	Satisfactory	Fair	Marginal	Unsatisfactory
EFFECTIVENESS					
Management involvement	<p>The board and senior management are fully informed about compliance matters and provide fully effective supervision of day-to-day activities throughout the organization.</p> <p>Compliance risks are always fully considered in the development of the organization's overall business strategy.</p>	<p>The board and senior management are generally informed about compliance matters. The day-to-day supervision of officers and staff at all levels is generally effective.</p> <p>Compliance risks are generally considered in the organization's overall business strategy.</p>	<p>The board and senior management are inconsistently informed about compliance matters. The day-to-day supervision of officers and staff, including the management of senior officers or heads of business lines or control functions, may be lacking.</p> <p>Compliance risks are occasionally considered in the organization's overall business strategy.</p>	<p>The board and senior management are rarely informed about compliance matters. The day-to-day supervision of officers and staff, including the management of senior officers or heads of business lines or control functions, is lacking.</p> <p>Compliance risks are rarely considered in the organization's overall business strategy.</p>	<p>The board and senior management are not informed about compliance matters, and there is no evidence of day-to-day supervision of officers and staff, including the management of senior officers or heads of business lines and control functions.</p> <p>Compliance risks are not considered in the organization's overall business strategy.</p>
Management responsiveness	<p>The board and senior management respond quickly to changes in the marketplace; proactively identify all compliance risks associated with proposed new activities, services or products offered; and ensure that the appropriate infrastructure and internal controls are established and effective in all business lines before the activities or products are initiated.</p>	<p>The board and senior management ensure that risk management practices are appropriately adjusted in accordance with new activities or enhancements to industry practices and regulatory guidance or expectations.</p>	<p>The board and senior management may adjust risk management practices in accordance with new activities or enhancements to industry practices and regulatory guidance or expectations, although these practices may be lacking in some degree.</p>	<p>The board and senior management rarely adjust risk management practices in accordance with new activities or enhancements to industry practices and regulatory guidance or expectations. Current practices are significantly lacking in varying degrees.</p>	<p>The board and senior management do not adjust risk management practices in accordance with new activities or enhancements to industry practices and regulatory guidance or expectations. Current practices are very ineffective.</p>

Policies, Procedures, and Limits

This element is an evaluation of the adequacy of an institution's policies and procedures, given the risks inherent in the activities of the consolidated organization and the organization's stated goals and objectives. This component includes an assessment of the institution's training programs to determine if they are comprehensive and appropriate for the size and activities of the organization.

Component	Strong	Satisfactory	Fair	Marginal	Unsatisfactory
Overall assessment	Compliance policies, procedures, and training are comprehensive and consistent with the institution's business goals and objectives.	Compliance policies, procedures, and training are generally consistent with the institution's business goals and objectives.	Compliance policies, procedures, and training may be somewhat inconsistent with the institution's business goals and objectives.	Compliance policies, procedures, and training do not address significant compliance risks to the institution.	There is a critical absence of effective compliance policies, procedures, and training.
POLICIES AND PROCEDURES					
Formality and approval practices	Policies are appropriate, comprehensive, understood, and regularly reviewed and updated.	Policies are generally appropriate and understood and are regularly reviewed and updated.	Some policies may not be appropriate or understood and are not always regularly reviewed and updated.	Policies may be outdated and inappropriate for current business activities.	Policies are nonexistent or wholly inadequate.
Applicability, depth, and coverage of policies	Compliance policies provide for effective identification, measurement, monitoring, and control of the compliance risks posed by all activities. The policies clearly delineate accountability and lines of authority across the institution's activities and between lines of business and associated control or support functions.	Compliance policies cover all significant activities and are adequate. The policies generally provide a clear delineation of accountability and lines of authority across the institution's activities.	Compliance policies cover most activities but may be lacking in specificity. The policies may not provide a clear delineation of accountability and lines of authority across the institution's activities.	Compliance policies are largely ineffective. The policies do not provide a clear delineation of accountability and lines of authority across the institution's activities.	Policies are nonexistent or wholly inadequate.

Component	Strong	Satisfactory	Fair	Marginal	Unsatisfactory
Sufficiency of procedures	Procedures provide operating personnel with clear and specific guidance in fulfilling their compliance responsibilities.	Procedures provide operating personnel with adequate guidance in fulfilling their compliance responsibilities.	Procedures may not provide operating personnel with sufficient guidance to fulfill their compliance responsibilities.	Procedures do not provide operating personnel with sufficient guidance to fulfill their compliance responsibilities.	Procedures are nonexistent or wholly inadequate.
New activities	A comprehensive review of new activities and products is performed to ensure that the infrastructure necessary to identify, monitor, and control compliance risks is in place and fully effective before the activities or products are initiated.	Policies and procedures provide for adequate due diligence before engaging in new activities or products.	Policies may not consistently provide for adequate due diligence before engaging in new activities or products.	Policies and procedures do not provide for effective due diligence before engaging in new activities or products.	Due diligence processes are nonexistent or wholly inadequate.
TRAINING					
Coverage and frequency	All managers and staff have been formally trained on and are fully knowledgeable about the relevant laws, regulations, policies, and procedures. Training occurs at appropriate frequencies.	All appropriate managers and staff have been formally trained on and are generally knowledgeable about the key relevant laws, regulations, policies, and procedures. Training occurs at appropriate frequencies.	Some of the appropriate managers and staff have been formally trained on the key relevant laws, regulations, policies, and procedures, although a wider audience, area of coverage, or increased frequency may be needed.	Few managers and staff have been trained on relevant laws, regulations, policies, and procedures. Training is informal, not conducted in a meaningful way, or not delivered at appropriate frequencies.	Compliance training does not exist in any meaningful way. Critical knowledge gaps exist among management and staff.

Component	Strong	Satisfactory	Fair	Marginal	Unsatisfactory
Formality and applicability	Compliance training programs are fully comprehensive and innovative, and results are fully documented.	Training programs are generally effective, and results are sufficiently documented.	Training programs are lacking in some fashion, and results are minimally documented.	Training programs are ineffective or not documented.	Compliance training does not exist in any meaningful way.
Effectiveness	Training is formally tracked, and results are monitored through robust management information systems (MIS).	Training is tracked through some MIS, although areas may need modest improvement.	Training is tracked through only high-level MIS, making it not meaningful.	Training is not tracked through MIS in any meaningful way.	Training is not tracked through MIS.
Accountability	Compensation and performance evaluations consider training attendance and achievement as a significant part of overall performance.	Compensation and performance evaluations may consider training attendance and achievement as a lesser part of overall performance.	Compensation and performance evaluations do not consider training attendance and achievement in any substantive way.	Compensation and performance evaluations do not consider training attendance and achievement in any way.	Compensation and performance evaluations do not consider training records in any way.

Risk Monitoring and Management Information Systems

This element is an evaluation of the adequacy of an institution's risk measurement and monitoring and the adequacy of its management reports and information systems. This analysis will include a review of the assumptions, data, and procedures used to measure risk and the consistency of these tools with the level of complexity of the organization's activities.

Component	Strong	Satisfactory	Fair	Marginal	Unsatisfactory
Overall assessment	Risk monitoring practices and MIS are comprehensive, timely, and address all material compliance and legal risks.	Risk-monitoring practices and MIS cover major risks and business areas, although they may be lacking in some modest degree.	Weaknesses exist in the institution's risk-monitoring practices or MIS that may involve a broad range of activities.	Inadequate risk-monitoring practices or MIS reports exist that involve a substantial number of business lines or activities.	A critical absence of risk-monitoring and MIS exists.
BOARD AND SENIOR MANAGEMENT LEVEL REPORTING					
Sufficiency and timeliness	MIS reports provided to the board and senior management are accurate and timely and contain all the information necessary to identify adverse trends and adequately evaluate the level of compliance risks facing the institution.	MIS reports provided to the board and senior management are accurate and timely and broadly identify adverse trends and the level of compliance risks facing the institution, although there may be room for improvement.	MIS reports provided to the board and senior management may not be distributed to appropriate decisionmakers, may not contain significant risks or properly identify adverse trends and compliance risks facing the institution, or may not be distributed in a timely manner.	MIS reports provided to the board and senior management are not distributed to appropriate decisionmakers, do not identify significant adverse trends and compliance risks facing the institution, and are frequently not distributed in a timely manner.	MIS reports provided to the board and senior management are wholly deficient due to inappropriate information, incorrect data, and/or poor documentation.
Effectiveness	MIS reports provided to the board and senior management and other forms of communication are fully efficient, comprehensive, and consistent with all activities.	MIS reports provided to the board and senior management and other forms of communication are generally consistent with the key activities.	MIS reports provided to the board and senior management and other forms of communication may be lacking in some significant way.	MIS reports provided to the board and senior management and other forms of communication are limited and ineffective.	MIS reports provided to the board and senior management are wholly deficient due to inappropriate information, incorrect data, and/or poor documentation.
MONITORING PRACTICES					
Monitoring practices	Strong legal, regulatory, and compliance risk-monitoring programs and associated methodologies are in place.	Satisfactory legal, regulatory, and compliance risk-monitoring programs are in place, but modest improvement is needed.	Weaknesses may contribute to ineffective legal, regulatory, and compliance risk identification or monitoring.	A number of significant legal, regulatory, and/or compliance risks are not adequately monitored or reported.	Legal, regulatory and/or compliance risk-monitoring processes are inadequate.

Internal Controls

This element is an evaluation of the adequacy of an institution's internal controls and audit procedures, including the strength and influence of the internal audit team within the organization. This analysis will also determine whether control functions are independent of management and verify that the scope of the internal audit is commensurate with the organization's complexity.

Component	Strong	Satisfactory	Fair	Marginal	Unsatisfactory
Overall assessment	The system of internal controls is considered strong for the type and level of compliance risk posed by the nature and scope of the organization's activities.	The system of internal controls adequately covers all major compliance risks and business areas.	Weaknesses exist in the system of internal controls that require more than normal supervisory attention and that affect a broad range of activities or may be material to a major business line or activity.	The institution has a weak internal control system that does not adequately address significant compliance risk to the institution and that may result in inadequate, untimely, or nonexistent compliance risk coverage and/or verification practices.	There is a critical absence of an effective internal control system, which results in completely inadequate or untimely compliance risk coverage and/or verification practices.

REPORTING LINES

Reporting lines	The organizational structure establishes clear lines of authority and efficient communication regarding responsibility for adherence to legal and compliance policies and procedures. Reporting lines provide clear independence of the control functions from the business lines and separation of duties throughout the organization.	The organizational structure generally establishes clear lines of authority and responsibility for adherence to compliance policies and procedures. In general, the control functions are independent from the business lines and there is appropriate separation of duties, but some minor areas of weakness may be noted, although they are correctable in the normal course of business.	Unclear or conflicting lines of authority and responsibility exist. There is a lack of independence between control functions and business activities or ineffective separation of duties.	The institution has conflicting lines of authority and responsibility. There is a lack of independence between control areas and business activities and/or no separation of duties in critical areas.	The institution has completely conflicting lines of authority and responsibility, with no distinction between control areas and business activities or no separation of duties.
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Component	Strong	Satisfactory	Fair	Marginal	Unsatisfactory
AUDIT					
Independence	Audit or other control review practices provide for clear independence and objectivity.	In general, audit or other control review practices provide for independence and objectivity.	Audit or other control review practices are lacking some independence and objectivity.	Audit or other control review practices lack independence.	Audit or other control review practices completely lack independence, and the audit or control practices are so ineffective that examiners cannot rely on them.
Scope and frequency	A robust risk methodology is in place that appropriately identifies high-risk areas and activities and properly sets review frequency and coverage. The bank fully adheres to its review schedule.	The risk methodology, frequency, and coverage are generally sufficient, although some modest weaknesses may be noted.	The risk methodology, frequency, and coverage do not properly address some key compliance risk areas.	The risk methodology, frequency, and coverage do not properly address the compliance risk areas in a substantive and meaningful way.	The risk methodology, frequency, and coverage are highly flawed and do not properly address the compliance risk areas.
Documentation	Coverage, procedures, findings, and responses to audits and review tests are all well documented.	Coverage, procedures, findings, and responses to audits and review tests are all generally well documented, although some areas for improvement may exist.	Documentation for work performed in some areas is lacking.	Documentation for work performed in numerous areas is lacking.	Documentation for work performed is completely absent.
Follow-up and reporting	When exceptions or material weaknesses are noted, they are promptly investigated and corrected. Management's actions to address material weaknesses are objectively reviewed and verified.	In most cases, exceptions and identified material weaknesses are given appropriate and timely attention. Any weaknesses or deficiencies that have been identified are modest in nature and are in the process of being addressed. Management's actions to address material weaknesses are reviewed and verified.	In some cases, exceptions and identified material weaknesses are not given appropriate and timely attention. Management's actions to address material weaknesses are not always reviewed and verified or are not reviewed and verified in a timely manner.	In most cases, exceptions and identified material weaknesses are not given appropriate and timely attention. Management's actions to address material weaknesses, when identified, are not verified or are not reviewed in a timely manner.	No management review exists to ensure the correction of exceptions or identified weaknesses.

Component	Strong	Satisfactory	Fair	Marginal	Unsatisfactory
Oversight	The board or its audit committee regularly reviews the results of material audits and findings, as well as the effectiveness of audits and other control review activities.	The board or its audit committee routinely reviews the results of some audits and the overall effectiveness of the audit program and other control review activities, although some recommendations for improvement may exist.	Oversight of audit and other control mechanisms by the board or its audit committee is generally insufficient.	Oversight of audit and other control mechanisms by the board or its audit committee is lacking in material and substantive ways.	The board or its audit committee has no oversight of audit and other control mechanisms.
SYSTEMS AND AUTOMATION					
Sufficiency and testing	Systems and automation are thoroughly tested and reviewed. They are effectively aligned with policies and procedures. Updates and changes are reviewed by compliance, audit, or legal staff as appropriate.	Systems and automation are adequately tested and reviewed. They are generally aligned with policies and procedures. Updates and changes are generally reviewed by compliance, audit, or legal staff as appropriate.	Systems and automation are not regularly tested and reviewed. They do not completely align with policies and procedures. Updates and changes are reviewed only by the business line.	Systems and automation are not tested or reviewed once established. They do not align with policies and procedures in significant areas. Controls over system updates and changes are lacking in some meaningful way.	Systems and automation have not been tested or reviewed. They do not align with policies and procedures. No monitoring of system updates and changes exists.
Accuracy and level of interfacing/controls	Bank systems effectively interface. Management ensures that financial, operational, legal, compliance, and regulatory reports are reliable, accurate, and timely.	Bank systems generally interface, although a modest degree of operational adjustment is needed. Generally, management ensures that financial, operational, legal, compliance, and regulatory reports are reliable, accurate, and timely.	Bank systems generally interface, but weaknesses exist. Management does not ensure that financial, operational, legal, compliance, and regulatory reports are reliable, accurate, and timely. Some records may be inaccurate.	Bank systems do not interface. Inaccurate records or financial, operational, or legal, compliance, or regulatory reporting exist.	Bank systems conflict. Records or legal, compliance, or regulatory reporting are completely inaccurate or nonexistent.

Component	Strong	Satisfactory	Fair	Marginal	Unsatisfactory
COMPLIANCE REVIEW AND TESTING					
Scope and depth of compliance review and testing programs	<p>The institution has in place a fully robust compliance review and testing program.</p> <p>Fully documented risk assessments are in place that identify and rate all applicable laws and regulations based on risk.</p>	<p>The institution has in place a compliance review and testing program.</p> <p>Risk assessments are in place that generally identify and rate applicable laws and regulations based on risk.</p>	<p>The compliance review program is lacking in ways that make it not fully effective.</p> <p>Risk assessments may not be in place or may not identify and rate applicable laws and regulations based on risk.</p>	<p>The compliance review program is lacking in substantive ways, and it is not considered effective.</p> <p>Risk assessments are not in place or do not identify and rate applicable laws and regulations based on risk.</p>	<p>The compliance review program is wholly lacking or completely ineffective.</p> <p>Risk assessments do not exist.</p>
Documentation and follow-up practices	<p>Results of compliance reviews and testing programs are fully documented, and robust MIS is created and appropriately distributed.</p> <p>The institution takes quick corrective actions to fully address any identified issues or exceptions.</p>	<p>Results of compliance reviews and testing programs are adequately documented, although some minor areas may need improvement or MIS may be in place but is lacking in some minor way.</p> <p>The institution generally takes corrective actions in a timely manner to address major issues or exceptions.</p>	<p>Results of compliance reviews and testing are not always adequately documented and need improvement.</p> <p>The institution may not take corrective actions in a timely manner, or the actions may not address major issues or exceptions.</p>	<p>Results of compliance reviews and testing are poorly documented.</p> <p>The institution does not take corrective actions, or its actions are ineffective.</p>	<p>Results of compliance reviews and testing are not documented.</p> <p>The institution does not take corrective actions, or its actions are wholly ineffective.</p>
OPERATIONAL CONTROLS					
Scope and depth of controls	A robust system of operational controls to mitigate compliance risk is an integral part of daily operations of business lines or activities.	An adequate system of operational controls to mitigate compliance risk is an integral part of daily operations of business lines or activities.	The institution's system of operational controls is not fully effective or does not address all key areas of compliance risk in daily operations of business lines or activities.	The institution's system of operational controls is inconsistent and yields ineffective results.	The institution has no system of operational controls, or the system is wholly ineffective.
Follow-up practices	Identified errors or issues are immediately corrected, and processes are adjusted to prevent future errors.	Identified errors or issues are corrected in a timely manner, but preventive measures are not always taken.	If errors are identified, they may or may not be corrected, and no preventive measures are taken.	Errors are not consistently identified or corrected, and no preventive measures are taken.	Errors are rarely identified or corrected, and no preventive measures are taken.

APPENDIX 4. REPORT OF EXAMINATION

The report should convey information to the bank about the conduct of the examination, examiner findings and conclusions (including conclusions about CRA performance, as applicable), and the bank's rating.

Report Format

The report consists of an open section provided to the institution and a confidential section used by the Federal Reserve. Reserve Banks are free to modify the report to reflect unique situations or to adapt the format to reflect their own programs.

All report-related documents must conform to the Board's Information Security Manual (ISM) classification requirements. Report-related documents will be classified as Restricted FR.

Timely transmittal of examination-related documents is an important part of the examination process. The Consumer Affairs Report of Examination and CRA Performance Evaluation (where applicable) will be transmitted to state member banks and the Board no later than 60 calendar days following the close of an examination. As part of this process, the Reserve Bank will transmit copies of the following to the Board, as applicable:

- transmittal letter
- report of examination
- CRA performance evaluation
- scope memoranda and scope addendum, as applicable
- institutional profile and (post-examination) risk assessment
- pertinent correspondence for institutions rated 3, 4, or 5

Relevant information will be entered into national exam data (NED) within three business days of transmitting the examination report and CRA Performance Evaluation to the Board and the institution. A copy of the report also should be forwarded to the appropriate state banking department. The Reserve Bank will retain a copy of the examination report, along with any relevant correspondence.

Open Section

Table of Contents

If necessary, Reserve Banks may modify the table of contents to reflect unique situations or adapt the format to reflect their own program. At a minimum, however, the table of contents will include the following sections and their corresponding page

numbers in the report:

- executive summary and examination ratings
- scope of the examination
- evaluation of the consumer compliance risk management program
- evaluation of the fair lending program
- violations of laws and regulations (if applicable)⁸
- CRA assessment (if applicable)

Executive Summary and Examination Ratings

The executive summary provides a brief overview of the examination report findings. The effectiveness of this page depends on the accuracy, brevity, and clarity of the discussion. When complex issues or other matters are included, the summary should discuss the general nature of these matters in a few sentences, prioritized by the significance of the issues, and should refer the reader to the appropriate section of the report for a more detailed discussion.

This section of the report contains the institution's name and date of examination, a list of Reserve Bank and state member bank officers and staff who attended the exit meeting, and a discussion of the following matters:

- examiners' conclusions regarding the institution's compliance and CRA programs and applicable ratings
- a discussion of significant issues and required corrective action (Matters Requiring Immediate Attention (MRI) and Matters Requiring Attention (MRA))

Each of these areas is discussed in more detail below.

1. Examiners' conclusions regarding the bank's compliance and CRA programs and applicable ratings. This section includes both the compliance and the CRA ratings, along with their accompanying standardized descriptions from the Uniform Interagency Consumer Compliance Rating System. This section also includes a brief description of the effectiveness of the institution's compliance program

8. It is not necessary to include in the table of contents an exhaustive list of all consumer banking statutes and regulations reviewed during the examination. To focus attention on the most important examination findings, only those laws and regulations with substantive violations should be listed under the violations of laws and regulations section in the table of contents. For example, if an institution was not subject to Regulation M, then that regulation would not be listed in the table of contents. Likewise, if the bank was subject to Regulation M, but no violations related to that regulation were included in the report, Regulation M would not appear in the table of contents.

- and the primary factors that contributed to the assigned compliance and CRA ratings.
2. A discussion of significant issues and required corrective action. This section discusses significant issues identified during the examination that require corrective action. Both MRIs and MRAs will be discussed in the section, along with a time frame within which the banking organization must complete the corrective actions. In many circumstances, it may be appropriate to require the banking organization to submit an action plan that identifies remedial actions to be completed within specified time frames.

Scope of Examination

The scope of examination section contains the following information:

- compliance areas reviewed, by business line or product, as identified through the risk assessment and scoping processes (examination activities utilized, extent of transaction testing, as applicable, and reliance on compliance management program)
- CRA examination method (small bank, intermediate small bank, large bank, etc.)
- statement that CRA community contacts were conducted (do not include names).

While the name of the institution and the date of the examination may also be included, this information is not necessary if it is included in the Executive Summary.

Evaluation of the Compliance Risk Management Program

The evaluation focuses on the effectiveness and comprehensiveness of the institution's compliance management program as it relates to the institution's consumer-related activities. The discussion should support examiners' conclusions regarding the compliance rating assigned to the institution. Comments in this section are to be evaluative rather than descriptive. In addition, this section will discuss any significant changes in the institution's level of compliance since the last examination. Examiners should factor in the causes of violations into the overall assessment of the compliance management program.

Examiners will evaluate the institution's compliance management program, including assessing how the program manages and controls fair lending and UDAP risk, in the context of the elements of risk management, including: board and senior management oversight, policies, procedures, and limits; risk-monitoring and management

information systems; and internal controls.

Evaluation of the Fair Lending Program

This section includes a summary of the fair lending risk assessment, including a discussion of the presence of any fair lending risk factors, an evaluation of the fair lending program, and conclusions regarding fair lending risk. If examiners identified and evaluated a fair lending focal point (s), the discussion should also summarize the examination work by describing the following:

- type of analysis (for example, pricing or redlining)
- time period reviewed
- product(s) reviewed
- market(s) reviewed
- decision center(s) reviewed
- target group(s) reviewed
- sample sizes used
- conclusion(s)

This section will also include a description of any violations of the anti-discriminatory provisions of the Equal Credit Opportunity Act/Regulation B and the Fair Housing Act (FHA) and should contain any advisory comments deemed necessary.

Violations involving other provisions of Regulation B and the FHA usually involve technical aspects of these regulations and should be discussed in the Violations of Laws and Regulations section of the examination report. Likewise, violations of HMDA and the Fair Credit Reporting Act should be presented in the Violations of Laws and Regulations section and not in the Fair Lending section of the examination report.

Violations of Laws and Regulations (if applicable)

While all regulatory violations are important, the examination report must direct management's attention to those violations that represent the highest degree of risk to the institution or its customers and to those that require immediate corrective action. Violations included in the report of examination are often characterized by one or more systemic or procedural weaknesses. Such violations usually or potentially affect a large number of transactions or customers. Violations that represent repeat deficiencies or a condition or practice that, when combined with other regulatory violations, reflects unfavorably on the effectiveness of an institution's compliance management program should also be included in the report of examination. Moreover, violations that have signifi-

cant consequences to consumers, such as violations resulting in restitution, or to institutions, such as violations of the flood insurance rules, are generally included in the report of examination.

Examiner judgment and a thorough understanding of the circumstances surrounding the violations are critical in determining whether they should be included in the report. Other than for fair lending and UDAP, isolated violations that are inadvertent errors or other errors not indicative of bank practice are not generally included in the report of examination. A large number of isolated violations, however, may indicate weaknesses in an institution's compliance management program and, when considered together, could elevate the violations to a more serious level. In those cases, the violations would likely be discussed in the examination report.

All violations, regardless of whether or not they are included in the report of examination, must be discussed with bank management, thoroughly documented in the examination work papers, and entered in the Federal Reserve's examination database.

1. Organization of violations. This section of the report may be organized by regulation or statute, or by function (loan or deposit type), branch, or in any other logical order. Whatever method is used, the aspects of the institution's activities with the most significant violations should be listed first. For example, if the violations of Regulation Z were the most important, then those violations should be listed first. Likewise, if the findings were organized by function, and credit card violations were the most significant, this area should be listed first.
2. Description of violations. The scope of the review for a particular regulation or statute should be discussed before the violations for that regulation or law are presented. This discussion may include a listing of what the examination reviewed (e.g., policies, procedures, disclosures, or other matters), the number of loans sampled, and a short summary of examiners' findings. Comparisons to the last examination may also be included here.

To draw attention to the violations, a citation to the relevant law or regulation will be highlighted. This may be done by placing the cite in the margin, at the beginning of the discussion, or on a line above the discussion. It is not necessary to begin a new page for each regulation or statute. The discussion of a violation must include

- a description of the problem, the extent of the problem, and how the institution's situation

differs from the law's requirement or prohibition

- the cause of the problem, if it can be determined
- required corrective action, recommendations, and the institution's response (if available)

It is not necessary to specify corrective action for a particular violation if corrective action is implicit in the description of the violation. Appropriate recommendations should address changes to the institution's internal controls, procedures, or other elements of the compliance management program that are needed to prevent similar violations from occurring. It may also be appropriate to give broad recommendations in the executive summary rather than in the discussion of individual violations.

CRA Assessment (if applicable)

This section of the report is limited to information related to the institution's CRA performance that is not suitable for the CRA Performance Evaluation. This section should not reiterate the information contained in the performance evaluation and should not be included in the report if there is no relevant information to be discussed.

This section should begin with the following statement: "The discussion of the institution's CRA performance in this examination report supplements the public performance evaluation. To obtain an understanding of an institution's overall CRA performance, the CRA examination summary report must be read in conjunction with the public performance evaluation."

Information in this section may include, but is not limited to, lending restrictions, supervisory actions that have not been made public, or comments regarding Reserve Bank follow-up activities.

Confidential Section

The primary purpose of the confidential section of the examination report is to provide Reserve Bank and Board staff with confidential or administrative information. This information is not shared with management of the institution. As a result, the confidential pages of the examination report are not included in the report transmitted to the institution.

The confidential section must include

- the current compliance rating and CRA rating, including date(s)
- the previous compliance rating and CRA rating, including date(s)
- the name of the examiner in charge
- a list of other examiners participating on the examination

- if fair lending violations are identified, a discussion of any pertinent information not included in the open section of the report.
- a listing of community contacts made as part of the CRA examination

In addition, where such information may shed additional light on the current examination or inform future examinations, the examiner may consider also including

- material deemed unsuitable for the open section of the report because of privacy issues
- information, such as tentative institution plans or strategies, that may affect the scope or conduct of the next compliance examination or other issues to be targeted or considered for review during scoping, monitoring, or other future supervisory events
- CRA-related information deemed unsuitable for the open section of the report, such as tentative institution plans or strategies that may affect the scope or conduct of the next CRA examination

With respect to information necessary for monitoring, scoping, or other future supervisory events, examiners will include comments on outstanding or recommended enforcement actions, recommended Reserve Bank follow-up activities, a target date for the next examination or supervisory event, recommended interim advisory visits, and suggestions for the focus of future examinations.

The confidential section will also include a discussion of issues that affect the institution's overall compliance level or position. Examples might include anticipated changes in certain management positions, ownership of the institution, or the effect of potential reimbursements on the institution's capital. If appropriate, comments on this page could also include the names of individuals or other sources responsible for substantive violations. Finally, information on pending consumer litigation that might affect the institution's compliance management program may also be included here.

Transmittal Letter

While Reserve Banks may exercise some discretion with the format, the following may provide

useful advice in drafting portions of the transmittal letter.

The letter transmitting the examination report must draw attention to the most significant issues identified in the report's Executive Summary. To this end, the letter will include the compliance and CRA ratings, as applicable. The transmittal letter must be sent to the institution's board of directors or to the institution's president with a requirement that it be shared and discussed with the board and must include a statement that it is considered confidential supervisory information.

The letter must also require the board to respond formally to any significant findings noted in the examination report, including the specific actions that will be taken to address the weaknesses. If corrective action is required as a result of an examination, the transmittal letter should identify a specific time frame or due date by which the institution must detail and forward to the Reserve Bank an explanation of the actions it has taken or plans to take and should include any request for supporting documents, when warranted. If appropriate, an action plan that identifies remedial actions to be completed within specified time frames may be requested. Action plans with intermediate- and long-term time frames that span more than a 12-month period should include interim progress targets. The board should be allowed sufficient time to respond to the examination findings.

Requiring a response to the examination report, however, is not always necessary. For example, if the examiners identify a few minor violations during the examination but no major issues that need to be addressed, no response from the institution would be necessary. If the institution takes corrective action on the violations identified during an examination before the conclusion of the examination, and if examiners confirm the corrective action and note it in the report, a formal response to that aspect of the report would not be necessary.

The transmittal letter will also include information concerning the timing and availability of the institution's CRA performance evaluation, as applicable, and explaining the institution's option to include in its public file any comments it may have regarding the performance evaluation.

APPENDIX 5. RATINGS AND ENFORCEMENT

Ratings

The primary purpose of the rating system is to draw conclusions about the effectiveness of an institution's consumer compliance risk management program. In assigning a consumer compliance rating, examiners must evaluate all relevant factors related to the effectiveness of an institution's compliance management program. The rating descriptions below provide basic guidance for reaching conclusions about the effectiveness of an institution's compliance risk management practices. This should not be interpreted to mean that in order to attain a specific rating an institution needs to demonstrate all of the factors listed in the definition. In addition, the levels of sophistication and formality of the compliance management program should be viewed in the context of the scope and the complexity of the organization.

The Uniform Interagency Consumer Compliance Rating System is based upon a scale of 1 through 5 in increasing order of supervisory concern. Thus 1 represents the highest rating and consequently the lowest level of supervisory concern, and 5 represents the lowest, most critically deficient level of performance and therefore the highest degree of supervisory concern. Each of the five ratings is described below.

Rating 1

An institution in this category is in a strong compliance position. Management is capable of and staff is sufficient for effectuating compliance. An effective compliance program, including an efficient system of internal procedures and controls, has been established. Changes in consumer statutes and regulations are promptly reflected in the institution's policies, procedures, and compliance training. The institution provides adequate training for its employees. If any violations are noted, they relate to relatively minor deficiencies in forms or practices that are easily corrected. There is no evidence of discriminatory acts or practices, reimbursable violations, or practices resulting in repeat violations. Violations and deficiencies are promptly corrected by management. As a result, the institution gives no cause for supervisory concern.

Rating 2

An institution in this category is in a generally strong compliance position. Management is capable of administering an effective compliance

program. Although a system of internal operating procedures and controls has been established to ensure compliance, violations have nonetheless occurred. These violations, however, involve technical aspects of the law or result from oversight on the part of operating personnel. Modification in the institution's compliance program and/or the establishment of additional review/audit procedures may eliminate many of the violations. Compliance training is satisfactory. There is no evidence of discriminatory acts or practices, reimbursable violations, or practices resulting in repeat violations.

Rating 3

Generally, an institution in this category is in a less than satisfactory compliance position. It is cause for supervisory concern and requires more than normal supervision to remedy deficiencies. Violations may be numerous. In addition, previously identified practices resulting in violations may remain uncorrected. Overcharges, if present, involve few consumers and are minimal in amount. There is no evidence of discriminatory acts or practices. Although management may have the ability to effectuate compliance, increased efforts are necessary. The numerous violations discovered are an indication that management has not devoted sufficient time and attention to consumer compliance. Operating procedures and controls have not proven effective and require strengthening. This may be accomplished by, among other things, designating a compliance officer and developing and implementing a comprehensive and effective compliance program. By identifying an institution with marginal compliance early, additional supervisory measures may be employed to eliminate violations and prevent further deterioration in the institution's less than satisfactory compliance position.

Rating 4

An institution in this category requires close supervisory attention and monitoring to promptly correct the serious compliance problems disclosed. Numerous violations are present. Overcharges, if any, affect a significant number of consumers and involve a substantial amount of money. Often, practices resulting in violations and cited at previous examinations remain uncorrected. Discriminatory acts or practices may be in evidence. Clearly, management has not exerted sufficient effort to ensure compliance. Its attitude may indicate a lack of interest in administering an effective compliance program, which may have contributed to the seriousness of the institution's compliance problems. Internal procedures and controls have not proven effective and are seriously

deficient. Prompt action on the part of the supervisory agency may enable the institution to correct its deficiencies and improve its compliance position.

Rating 5

An institution in this category is in need of the strongest supervisory attention and monitoring. It is substantially in noncompliance with the consumer statutes and regulations. Management has demonstrated its unwillingness or inability to operate within the scope of consumer statutes and regulations. Previous efforts on the part of the regulatory authority to obtain voluntary compliance have been unproductive. Discrimination, substantial overcharges, or practices resulting in serious repeat violations are present.

Adverse Ratings and Enforcement Actions

Institutions with consumer compliance ratings of 3, 4, or 5 are considered to need more than normal supervisory attention. CA Letter 81-5 contains specific actions that are required for institutions in these rating categories, as detailed below.

Fair Rating—3

A rating of 3 indicates an institution whose compliance position is borderline between being acceptable and unacceptable. Weaknesses exist that require prompt management attention. The prompt use of effective remedial measures can arrest deterioration in the institution's compliance position. A primary advantage of the 3 classification is that supervisory resources are focused on problems and deficiencies before they have seriously undermined an institution's compliance efforts.

While institutions with consumer compliance ratings of 3 require corrective action, a distinction should be made between those 3-rated institutions that show a deteriorating or stagnant situation and those institutions exhibiting a positive trend in consumer compliance. While both situations require ongoing management and Reserve Bank attention, the supervisory response will, to some degree, depend on the trend of the institution under review.

An improving 3-rated institution may require nothing more than time and continued management vigilance. A deteriorating or stagnant 3-rated institution should receive closer attention from the Reserve Bank, since this situation often indicates the absence of an adequate management response in correcting the institution's weaknesses. In order to facilitate adequate management attention, it is essential to clearly define all the weak-

nesses and properly fashion the corrective programs. This should normally be achieved by executing a Memorandum of Understanding (MOU) between the state member bank's board of directors or management and the Reserve Bank. Reserve Banks should execute an MOU as part of the examination follow-up procedures for each 3-rated institution, unless the institution's consumer compliance position is improving or unless other individual circumstances rule out the appropriateness or feasibility of using this supervisory tool. For institutions whose 3 rating reflects an improving trend, it may be sufficient to keep the institution's management apprised of problem areas through explicit transmittal letters, follow-up examinations, telephone contacts, and/or follow-up educational/advisory visits or discussions.

The MOU is not a formal written agreement as contemplated by the Financial Banks Supervisory Act of 1966 (such as those discussed with respect to institutions rated 4). It represents, instead, a good faith understanding between the state member bank and the Reserve Bank concerning the institution's principal problems and the proposed remedial plans for correcting those problems. The MOU should be prepared and executed by the Reserve Bank and the institution under examination. Board approval is not generally required, although the Board's staff is available for consultation on any matters relating to implementing this procedure. A copy of any such MOU, however, must be entered into the Federal Reserve's supervisory document repository, the Central Document and Text Repository (CDTR).

While the MOU is meant to be a flexible supervisory tool, it should, at a minimum, include the following:

- a brief listing and summary of the principal problems and deficiencies
- a brief outline of management's and/or the directors' plans for remedial action, including any audits, training, or procedural changes
- a provision for periodic progress reports to be sent to the Reserve Bank
- the signatures of the directors, indicating their review, agreement, and approval of the terms
- the signature of the relevant Reserve Bank official, indicating only that the remedial program appears reasonable in light of the institution's compliance problems

Remedial plans, as set out in the MOU, should be realistic and specific enough to gauge the institution's progress. If possible, they should be designed after consultation with the institution, since bank directors and management have the ultimate responsibility for designing and implementing a

program of corrective action. Appropriate Reserve Bank personnel should visit the institution to develop and present an MOU whenever feasible.

Even though penalties cannot be imposed for bank management's failure to make a good faith effort to implement the provisions of the MOU, its failure to do so might constitute future grounds for considering a formal supervisory action (Written Agreement or Cease and Desist Order). The use of MOUs will not preclude the use of Written Agreements or Cease and Desist Orders for certain 3-rated institutions when very serious compliance program deficiencies or violations of law have been identified or when management has failed to undertake necessary corrective action. Reserve Bank staff should undertake appropriate follow-up action to ensure that bank management takes necessary corrective action in a timely manner.

In the event that the policy outlined in this statement is believed to be inappropriate or not feasible with respect to a 3-rated institution, a detailed explanation should be incorporated into the confidential section of the report of examination or in a separate letter or memorandum to the Oversight Section of the Division of Consumer and Community Affairs (DCCA). However, consideration should be given to other types of informal enforcement action that include the following:

- *Board resolutions* generally represent a number of formal commitments made by the institution's full board of directors and are incorporated into the institution's corporate minutes. The Reserve Bank will draft the board resolution and may request in the examination transmittal letter that the institution provide it with a signed copy of the corporate resolution. Alternatively, Reserve Bank management may deliver the board resolution to the institution's directors and direct its adoption.
- *Commitment letters* are generally used to correct minor problems or to request periodic reports addressing certain aspects of an institution's operations. Commitment letters may be used when there are no significant violations of law or unsafe or unsound practices and when the institution and its officers and directors are expected to cooperate and comply. Commitments are generally obtained by the Reserve Bank sending a letter to the institution outlining the request and asking for a response and an indication that the commitments are accepted.

Marginal Rating—4

A 4 rating indicates that the institution's management and directors may lack the interest or ability to produce and maintain an effective consumer

compliance program. Internal routines and controls are either ineffective or nonexistent. Repeat violations, discriminatory practices, and overcharges may all be present.

Formal supervisory action, in most cases a formal Written Agreement, should be pursued for 4-rated institutions. The Written Agreement should require that management put in place a comprehensive remedial program dealing with each of the institution's principal problem areas. In addition, requirements such as an internal audit program, training programs, forms review, hiring a qualified compliance officer, and development of a written lending policy should be considered. An analysis of the relevant facts and recommendations regarding the provisions that should be included in the Written Agreement should be sent to the Board's staff to prepare the necessary documentation. In addition, the Reserve Bank is expected to submit the examination report in draft to Board staff, as appropriate, when formal enforcement action against an institution is expected.

Note that Written Agreements and Cease and Desist Orders concerning violations of law cannot be issued under delegated authority and can only be issued by the Board. The primary consideration in choosing between a Cease and Desist Order and a formal Written Agreement lies in the severity of the violations and bank management's willingness or ability to correct them. Appropriate Reserve Bank officials should attend the meeting of the institution's board of directors at which the Written Agreement or Cease and Desist Order is presented, in order to underscore the seriousness of the matter and to elicit full support for the terms of the agreement. In appropriate cases, Board personnel will attend the meeting.

The seriousness of the problems of an institution rated 4 for consumer compliance cannot be overstated. In light of the seriousness of the problems of 4-rated institutions, the Reserve Bank should make sure that follow-up examinations are conducted in accordance with current policy. Reports of examination for follow-up examinations, any other correspondence with the subject institution, and internal memoranda describing meetings with the institution's management or board of directors must be posted to CDTR.

If the Reserve Bank believes that a departure from the policy outlined in this statement regarding an institution rated 4 for consumer compliance is warranted, it should explain the need for the departure in detail and submit recommendations for alternative action in a letter to the director of DCCA. With the division director's concurrence, the Reserve Bank may undertake alternative approaches to the institution's problems not prescribed by this policy statement.

Unsatisfactory Rating—5

An institution in this condition has demonstrated its unwillingness or inability to comply with the law. Generally, previous efforts to obtain compliance by such an institution have been unsuccessful. Discrimination and/or substantial overcharges may exist. Such an institution requires a strong supervisory response and continual close monitoring.

Formal supervisory action, in most cases the imposition of a Cease and Desist Order, is warranted. The Cease and Desist Order should require that management put in place a comprehensive remedial program dealing with each of the institution's principal problem areas. In addition, requirements such as an internal audit program, training programs, forms review, hiring a qualified compliance officer, and development of a written lending policy should be considered.

An analysis of the relevant facts and recommendations regarding the provisions that should be included in the Cease and Desist Order should be sent to the Board's staff for preparation of the necessary documentation. As is the case with Written Agreements, Cease and Desist Orders concerning violations of law cannot be issued under delegated authority and can only be issued by the Board. For consent to Cease and Desist Order proceedings, appropriate Reserve Bank

officials should, whenever possible, attend the meeting of the institution's board of directors at which the order is presented. The goal is to indicate to the institution that this is a very serious matter to the Reserve Bank and to encourage a strong commitment by the board of directors to see that the terms of the order are met. In appropriate cases, Board personnel will also attend the meeting.

In light of the seriousness of the problems of institutions with a 5 rating for consumer compliance, the Reserve Bank should make sure that follow-up examinations are conducted in accordance with current policy. Reports of examination for follow-up examinations, any other correspondence with the subject institution, and internal memoranda describing meetings with the institution's management or board of directors must be posted to CDTR.

If the Reserve Bank believes that a departure from the policy outlined in this statement with respect to an institution rated 5 for consumer compliance is warranted, it should explain the need for the departure in detail and submit recommendations for alternative action in a letter to the Director of DCCA. With the division director's concurrence, the Reserve Bank may undertake alternative approaches to the institution's problems not prescribed by this policy statement.

APPENDIX 6. INTERNAL CONTROL AND INTERNAL AUDIT FUNCTIONS, OVERSIGHT, AND OUTSOURCING

The information in this appendix is intended to assist examiners' understanding of internal control and internal audit, and the differences between the two. The appendix also provides specific guidance on how to assess internal control and internal audit and how to leverage internal audit in the scoping process. Tools for assessing outsourced internal audit arrangements are included in the discussion of internal audit.

The information in this appendix draws heavily on the following three sources:

1. *Commercial Bank Examination Manual*, Section 1010.1, Internal Control and Audit Function, Oversight, and Outsourcing
2. *Commercial Bank Examination Manual*, Section A.1010.1, Internal Control: Supplement on Internal Auditing
3. Supervision and Regulation (SR) Letter 03-5, Amended Interagency Guidance on the Internal Audit Function and its Outsourcing

Examiners are encouraged to review each of these source documents for additional information and guidance related to internal controls and auditing.

Overview

This section sets forth the principal aspects of effective internal controls and internal audit. It assists examiners in understanding and evaluating the objectives of and the work performed by internal auditors. It also sets forth the general criteria examiners should consider when determining whether the work of internal auditors may be relied on as part of the examination. To the extent that audit records may be relied on, they should be used to determine the appropriate scope of the examination. In situations where audit records may not be relied upon, additional supervisory activities such as interviews or limited transaction testing may be appropriate, depending on the residual risk of the product or service.

Effective internal controls are the foundation for the safe, sound, and compliant operation of a financial institution. The board of directors and senior management are responsible for ensuring that the system of internal controls is effective. Their responsibility cannot be delegated to others within or outside the organization. An internal audit function is an important element of an effective system of internal control. When properly structured and conducted, internal audit provides directors and senior management with vital infor-

mation about the condition of the system of internal control, and it identifies weaknesses so that management can take prompt remedial action. Examiners should review an institution's internal audit function as it relates to consumer compliance and recommend improvements, if needed.

In summary, internal controls are designed to provide reasonable assurance that the institution will achieve the following objectives: efficient and effective operations, including safeguarding of assets, reliable financial reporting, and *compliance with applicable laws and regulations*. Internal controls consist of five primary components: the control environment, risk assessments, control activities, information and communication, and monitoring activities. The effective functioning of these components, which is brought about by an institution's board of directors, management, and other personnel, is essential to achieving the internal controls objectives. This description of internal controls is consistent with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 1992 report, *Internal Control—Integrated Framework*.⁹

Community banks should adopt a recognized internal control framework that is appropriate for their needs and for safe and sound operations. COSO's framework is an example of one such method that many banks have found to be useful. Although this framework is used by multi-billion-dollar financial institutions, it is flexible enough to work effectively at a bank with only \$25 million in total assets as well.

As noted, internal audit and internal controls are interrelated and therefore are frequently confused. In short, internal control is related to the effectiveness of the overall business process. Appropriate controls assure that the process is effective and is the foundation for the safe and sound operation of the organization. Audit is used by management to assure that the operational controls it has designed are effective. Thus, audit is a *monitoring* mechanism and part of a well-designed internal control system.

Objectives of Internal Control

The three objectives of internal control relate to operations, reporting, and compliance. In order to achieve these objectives, a system of internal control should include those procedures necessary to ensure timely detection of failure of accountability, and such procedures should be performed by competent persons who have no incompatible

⁹ In May 2013, COSO issued an updated version of its internal control framework. The original 1992 framework will remain available during the transition period but will be superseded effective December 15, 2014.

duties. The following standards are encompassed within the description of internal control:

Existence of Procedures

Existence of prescribed internal control procedures is necessary but not sufficient for effective internal controls. Prescribed procedures that are not actually performed do nothing to establish control. Consequently, examiners must give thoughtful attention not only to the prescribed set of procedures but also to the practices actually followed. This attention can take the form of inquiry, observation, testing, or a combination of these approaches.

Competent Performance

For internal controls to be effective, competent persons must perform the required procedures. Evaluation of competence undoubtedly requires some degree of subjective judgment because attributes such as intelligence, knowledge, and attitude are relevant. Thus, examiners should be alert for indications of employees who have not performed their duties effectively and should ask questions about their abilities.

Independent Performance

If employees who have access to assets also have access to the related accounting records or perform related review operations (or immediately supervise the activities of other employees who maintain the records or perform the review operations), they may be able to both perpetrate and conceal defalcations. Therefore, duties concerned with the custody of assets are incompatible with recordkeeping duties for those assets, and duties concerned with the performance of activities are incompatible with the authorization or review of those activities.

Understanding Internal Controls

In order to understand internal controls, it is important to start with a focus on the business process or the distribution of the product or service. This understanding is the basis for assessing the potential failures in the process, which could result in negative outcomes. As mentioned above, the COSO framework may be used to systematically analyze how the business process is controlled. The COSO framework focuses attention on five components: control environment, risk assessment, control activities, information and communication, and monitoring activities.

The *control environment* component includes an assessment of the culture of control in the organi-

zation. It deals with questions about the degree of concern that the organization has for assuring that operations will meet financial and operational goals and also result in compliance with applicable laws and regulations.

Risk assessment describes the process that the board and senior management goes through to consider risk. It also involves determining the organization's risk tolerance and establishing appropriate risk-measurement practices.

Control activities are the actions and procedures built into the business process to assure that an organization gets the business outcomes it desires. These control activities often are erroneously viewed as being all that constitutes a system of internal control. Common control activities include such specific processes as: having employees bonded and insured; having appropriate authorizations to initiate transactions; having pre-numbered documents to assure completeness of records; separation of critical duties such as custody, authorization, and recordkeeping; and incorporating mechanical and software controls into processes.

Information and communication are the ways in which the organization organizes and reports information about risks and their control to decision-makers. These are important elements of a control system, and the degree to which they are incorporated into an organization's business process will determine the outcomes of the business.

Monitoring activities test the quality of information or the effectiveness of controls. Monitoring activities may be part of the normal business process, such as managers reviewing daily work, or they may be special activities like internal or external audits that assess controls.

Examiners should review the adequacy of the internal control system for each business line or process under review. This assessment can be accomplished through reviews of established procedures or compliance audit/review work papers, through discussions with line management, or by testing actual transactions. Examiners' review should determine whether the organization's internal controls are working properly.

Assessing the Adequacy of Internal Control

The COSO framework provides broad guidance on the components that should be considered in assessing a system of internal control. Since the controls are designed to assure that a business process is meeting its objectives to provide reliable financial information, compliance with relevant laws and regulations, and effective and efficient opera-

tions, it is useful to consider internal control in light of business processes affected by consumer regulations.

In order to adequately assess the effectiveness of the internal control structure in an institution's lending and deposit operations, examiners first need to understand the institution's structure, business lines, and products offered. Specifically, this includes understanding the entire loan or deposit account origination process, from the initial application to consummation. Examiners must also be aware of events that occur throughout the life of the product, which may trigger additional consumer rules or subsequent disclosure requirements. By understanding ("mapping") the entire product process from beginning to end, examiners will become more familiar with the internal control checkpoints, which are crucial to ensuring that compliance-related disclosures are accurate and delivered to the consumer in a timely manner. When violations are identified, often the root cause of the violation can be traced back to a breakdown in or lack of controls at one or more of these checkpoints. Understanding the root cause and the full scope of the errors will help examiners determine whether or not the violations noted represent a pattern or practice. The following internal controls are present at many of the control checkpoints:

- policies and procedures
- use of automated systems
- use of checklists
- segregation of duties
- periodic testing by the compliance officer or compliance staff

Policies and Procedures

Policies provide a framework for more detailed operating procedures that may be used as a reference source or as training material for bank personnel. Comprehensive and fully implemented policies help to communicate the board of directors' and senior management's commitment to and expectations for compliance. Procedures should provide personnel with specific guidance that helps them complete transactions in accordance with applicable laws, regulations, and supervisory guidance. Such information may include appropriate regulatory citations and definitions, sample forms, instructions, and where appropriate, directions for routing, reviewing, and retaining transaction documents.

The degree to which compliance policies and procedures are formalized is not as important as their effectiveness and the consistency with which they are performed. This distinction is especially true in smaller institutions, where established

compliance practices may not be in writing but are nonetheless effective if fully communicated to the staff, performed on a regular basis, and periodically monitored. Conversely, at larger, more complex institutions that have many employees and multiple locations, the need for more formalized written policies and procedures will be greater.

Use of Automated Systems

This control is software that is programmed to automate aspects of both the lending and deposit functions by creating, among other things, compliance-related disclosures based on information input from a customer's application and other related sources. Institutions usually purchase these programs from third-party vendors that warrant the disclosures will be correct if the software is used in accordance with instructions. In addition, institutions rely on the third-party vendor to provide software updates when changes to any laws or regulations occur. If used properly and validated when changes occur, automated software programs help to achieve compliance consistency on an ongoing basis.

However, overreliance on vendors can lead to complacency on the part of staff responsible for compliance. A strong vendor management program, as discussed throughout this supervision program, is a key control for ensuring that automated tools serve as an effective control mechanism.

Use of Checklists

Checklists are very good tools to help ensure that all procedures to originate a loan or set up a deposit account are performed. These are no more than the organization's policies and procedures condensed into a summary document. Checklists not only prompt employees to complete all necessary steps for a given transaction but also are used by the organization to document its compliance with a law or regulation.

Segregation of Duties

Segregation of duties occurs when an employee not involved with the particular transaction at hand verifies the work of another employee. The classic example is having one employee enter information from an application into an automated system and a second employee review the accuracy of the input by comparing information on an application to a report (for example, the new loan report) generated from the automated system.

Periodic Testing by the Compliance Officer or Compliance Staff

Sometimes referred to as compliance reviews, these tests are performed periodically on key, or high-risk, areas to ensure ongoing compliance. This testing can be accomplished by having the compliance officer judgmentally select loan or deposit accounts and test, for example, the accuracy of the finance charge and annual percentage rate. Periodic testing can also be an effective means of monitoring new products to ensure compliance with laws, regulations, and supervisory guidance as well as the institution's own policies and procedures.

The Role of Internal Audit

Internal auditing is an independent assessment function established within an institution to examine and evaluate its system of internal controls and the efficiency with which the various units of the institution carry out their assigned tasks. The objective of internal auditing is to assist the board and senior management in discharging their responsibilities effectively. To this end, internal auditing furnishes management with analyses, evaluations, recommendations, counsel, and information concerning the activities reviewed.

Accordingly, an institution's internal audit function provides essential independent validation of its compliance risk management framework. Internal audit has a unique responsibility to the board of directors and senior management regarding the compliance culture and sound operational practices. The function is enterprise-wide in nature, and its products provide a basis for understanding risks, transactions, operations, and the internal control environment.

An Institution's Board or a Committee of the Board Should Actively Oversee the Audit Function

While monitoring of operational risks can be delegated to others in the institution and the internal audit function may be completely or partially outsourced, ultimate responsibility cannot be delegated. According to the Federal Deposit Insurance Corporation Improvement Act, each institution with total assets of \$1 billion or more, as of the beginning of the fiscal year, is required to have an audit committee, the members of which must be outside directors who are independent of the institution's management.¹⁰ Institutions with total assets of at least \$500 million but less than \$1 billion, as of the beginning of the fiscal year, must have an audit committee, the members of

which are outside directors and the majority of whom must be independent of the institution's management. For publicly traded companies, all audit committee members must be independent. The committee must have at least three members, with at least one qualifying as an "Audit Committee Financial Expert." For insured institutions with total assets of more than \$3 billion, the audit committee must (1) have members with banking or related financial management expertise, (2) have access to outside legal counsel, and (3) not include any large customers of the institution.

Smaller, less complex institutions often do not have an audit committee, and the audit function is supervised by the full board. In addition, these institutions may have only one board member experienced in preparing or analyzing financial information.

Active boards or audit committees have clearly identified responsibilities, members with appropriate skills and interests, active meeting attendance, and robust discussions about risk and risk management. In addition, the board or audit committee should have the opportunity to meet with the head of the audit function without members of management present. Audit also should have the authority and funding to engage consultants or legal experts as necessary to meet its responsibilities. Finally, information packages should provide the board or the audit committee with sufficient information to monitor the effectiveness of the audit function. This information should include the results of audits completed since the last meeting, the status of unresolved exceptions, and status reports on the audit plan.

The Audit Function Should Be Independent and Adequately Staffed

The audit function should demonstrate an independent, skeptical approach and be free of undue influence from management. Functionally, audit should report to the board or audit committee and, ideally, should report administratively to an executive officer who can influence behavior throughout the institution. In addition, staff performing audit functions should not have management or operational responsibilities that could interfere with their independence, including direct involvement in an institution's compliance risk management process. The audit function should not be restricted from receiving information from any area of the institution. Finally, staff performing audit functions should have the necessary competence and access to ongoing training.

Larger, more complex institutions typically have an audit department with a full-time director. Job descriptions for all levels of audit staff include

10. FDICIA, 12 C.F.R. Part 363.

minimum qualifications, including education and certification. Specialized skills (such as knowledge about mortgage banking or fair lending analyses) are developed internally or outsourced to competent third-party providers to ensure adequate coverage of more complex business lines and processes.

Smaller institutions may not have an internal audit department but should have an audit function appropriate for their size and the nature and scope of their activities. At a minimum they should implement a comprehensive set of independent reviews of significant internal controls. The audit function may be assigned to an officer with other nonaudit responsibilities who nevertheless can maintain independence from the areas being audited. This individual may have no formal audit credentials but should have significant operational experience and knowledge of internal controls. Audit activities at smaller institutions can be performed by individuals from various operational areas who have limited audit duties but are independent of the areas being audited.

The Audit Function Should Identify and Assess Risks

The risk identification and assessment process is one of the most critical elements in an effective internal audit function. A flawed methodology can negatively affect every other audit activity, including planning, execution, and reporting. The highest risk to the audit function itself is failure to identify a risk or to properly assess the severity and priority of a given risk. Risk assessment results provide the board, senior management, and the audit department with an opportunity to view risks and risk management from both a departmental and an enterprise-wide perspective.

Risk identification and assessment should be a dynamic process that includes line management, senior management, and internal audit. Ongoing risk-identification and assessment processes should include a continuous evaluation of inherent risks and the controls to mitigate those risks. Risk assessments should be updated to reflect changes in business lines, products, processes, people, systems, and structures and should include external as well as internal factors.

In larger, more complex institutions, audit risk assessment is typically an enterprise-wide process that involves senior management, line management, and internal audit. The risk assessment process has a defined methodology and criteria for assigning risk ratings that have been reviewed and approved by the board or the audit committee. Risk ratings may be assigned judgmentally, by the use of statistical methods, or by a combination of the

two. Assessment results are provided to the audit committee. In smaller institutions, the risk assessment process is generally less formal and less extensively documented and generally may be performed annually rather than on an ongoing basis.

Banks Should Conduct Comprehensive Audit Planning

Audit plans help the audit committee and senior management determine whether the function is meeting its stated goals. An audit plan that does not include adequate or timely review of issues can negatively affect the audit function's ability to identify and report compliance and internal control weaknesses. Audit planning should be risk focused, and the areas chosen for coverage and the audit frequency should be based on the level of risk identified in the risk assessment. The plan should consider all auditable entities, business lines, and processes within the institution, including potential acquisitions and planned new products and services. It should also include areas for which audit work is expected to be outsourced and should include provisions to monitor and follow up on any audit work conducted by third parties. It should be used for budgeting and resource allocation. Finally, the audit plan should be approved by the board and provide a mechanism for reporting deviations from the plan to the board and senior management.

At larger, more complex institutions, formal audit plans are approved by the audit committee. The audit committee approves deviations from plan and has the authority to request additional audits or follow-up audits. It is notified of any request for special internal audit projects that would affect the department's ability to meet its audit plan. At smaller institutions, risk assessments and audit plans may be less formal, but board members should have a good understanding of the relationship between the institution's risks and the audit processes being performed.

Audit Programs Should Have Relevant Content and Should Be Consistently Executed

Audit program content should keep pace with changes in the institution's processes, products, people, and systems. Audit procedures should focus on validating the effectiveness of internal controls, identifying control weaknesses, and testing compliance with applicable laws and regulations. They should consider exceptions from prior audits, concerns of management, issues identified in regulatory examinations, and comments from the external auditor's management letter. Consistency in execution and the overall effectiveness of the

audit program can be enhanced by having audit procedure and work paper standards, as well as by having independent reviews of work papers (by a quality assurance function or external audit).

Audit Findings Should Be Effectively Reported

Effective communication of audit findings enhances management's ability to respond to and correct exceptions. Audit policies should establish clear reporting standards, including timelines, consistent terminology for ratings and opinions, and reporting procedures. For each area audited, reports should clearly identify the scope, findings, any necessary corrective action to be taken by management, and an overall rating or opinion. There should be a system for classifying findings by severity (for example, low/moderate/high or recommended vs. required actions). In addition, repeat exceptions should be clearly identified, with ratings adjusted to reflect the existence of unresolved or recurring exceptions. Finally, reports should be distributed to all management affected by the noted exceptions. At larger, more complex institutions, the audit policy may establish formal timelines for the reporting process. The timeline may include the time established to complete fieldwork, issue the report, and receive management's response, as well as a time frame for presenting the report to the audit committee. Smaller institutions may have less formal guidelines for issuing audit reports.

Audit Exceptions Should Be Promptly Resolved

Business lines or departments should track exceptions and corrective action measures until the internal audit function has validated the effectiveness of corrective action. Procedures should include provisions for escalating unresolved exceptions to higher levels in the institution. Management's response to exceptions should include the date the exception will be corrected and the person responsible for correcting the exception. In addition, internal audit should follow up on high-risk exceptions shortly after the planned correction date. Finally, information on open audit items should be reported to the board or audit committee.

Audit Outsourcing Arrangements

Management may choose to outsource its compliance audit program. The principles outlined in SR Letter 03-5 are helpful in evaluating the outsourced relationship. A summary of these concepts is discussed below.

As with any vendor relationship, outsourced audit may be effective if managed properly. Moreover, it can potentially reduce compliance risk by providing a higher-quality audit program. Senior management is responsible for ensuring that the institution's system of internal controls operates effectively. One way to meet this responsibility is by contracting with outside third parties to perform audit procedures on behalf of management.

However, while the audit work can be delegated to outside parties, managing the relationship and any identified findings is the ultimate responsibility of the board of directors and senior management. This responsibility cannot be delegated to others. Furthermore, it is important that communication between the audit function, the audit committee, and senior management not diminish because the institution engages an outside vendor. Senior management also should ensure it has a contingency plan for addressing any vendor performance issues.

Examples of Internal Audit Outsourcing Arrangements

An outsourcing arrangement is a contract between an institution and a vendor to provide internal audit services. Outsourcing arrangements take many forms and are used by institutions of all sizes. Some institutions consider entering into these arrangements to enhance the quality of their control environment by obtaining the services of a vendor with the knowledge and skills to critically assess their internal control systems and recommend improvements. The contracted internal audit services can be limited to helping internal audit staff members with assignments for which they lack expertise. Such an arrangement is typically under the control of the institution's manager of internal audit, and the outsourcing vendor reports to him or her. Institutions often use outsourcing vendors for audits of areas requiring more technical expertise, such as mortgage banking or fair lending analyses. Such uses are often referred to as "internal audit assistance" or "audit co-sourcing."

Some outsourcing arrangements may require an outsourcing vendor to perform virtually all the procedures or tests of the internal control system. Under such an arrangement, a designated manager of internal audit oversees the activities of the outsourcing vendor and typically is supported by internal audit staff. The outsourcing vendor may assist the audit staff in determining risks to be reviewed and may recommend testing procedures, but the internal audit manager is responsible for approving the audit scope, plan, and procedures to be performed. Furthermore, the internal audit manager is responsible for the results of the outsourced audit work, including findings, conclu-

sions, and recommendations. The outsourcing vendor may report these results to the audit committee jointly with the internal audit manager.

Additional Considerations for Internal Audit Outsourcing Arrangements

Even when outsourcing vendors provide internal audit services, the board of directors and senior management are responsible for ensuring that both the system of internal control and the internal audit function operate effectively. In any outsourced internal audit arrangement, the institution's board of directors and senior management must maintain ownership of the internal audit function and provide active oversight of outsourced activities. When negotiating an arrangement with an outsourcing vendor, an institution should carefully consider its current and anticipated business risks in setting each party's internal audit responsibilities. The outsourcing arrangement should not increase the risk that a breakdown in internal controls will go undetected.

To clearly distinguish its duties from those of the outsourcing vendor, the institution should have a written contract, often taking the form of an engagement letter. Contracts between the institution and the vendor typically include provisions that

- define the expectations and responsibilities under the contract for both parties
- set the scope and frequency of, and the fees to be paid for, the work to be performed by the vendor
- set the responsibilities for providing and receiving information, such as the type and frequency of reporting to senior management and directors about the status of contract work
- establish the process for changing the terms of the service contract, especially for expansion of audit work if significant issues are found, and stipulations for default and termination of the contract
- state that internal audit reports are the property of the institution, that the institution will be provided with any copies of the related work papers it deems necessary, and that employees authorized by the institution will have reasonable and timely access to the work papers prepared by the outsourcing vendor
- specify the locations of internal audit reports and the related work papers
- specify the period of time (for example, seven years) that vendors must maintain the work papers¹¹

11. If the work papers are in electronic format, contracts often call for the vendor to maintain proprietary software that enables

- state that outsourced internal audit services provided by the vendor are subject to regulatory review and that examiners will be granted full and timely access to the internal audit reports and related work papers prepared by the outsourcing vendor
- prescribe a process (arbitration, mediation, or other means) for resolving disputes and for determining who bears the cost of consequential damages arising from errors, omissions, and negligence
- state that the outsourcing vendor will not perform management functions, make management decisions, or act or appear to act in a capacity equivalent to that of a member of management or an employee

Vendor Competence

Before entering into an outsourcing arrangement, the institution should perform due diligence to satisfy itself that the outsourcing vendor has sufficient staff who are qualified to perform the contracted work. The staff's qualifications may be demonstrated, for example, through prior experience with financial institutions in the compliance function, or certifications such as being a former commissioned federal bank examiner with a consumer compliance specialty, Certified Regulatory Compliance Manager (CRCM), Certified Risk Professional (CRP), Chartered Bank Auditor (CBA), or Certified Financial Services Auditor (CFSA). Because the outsourcing arrangement is a personal-services contract, the institution's internal audit manager should have confidence in the competence of the vendor's staff and receive timely notice of key staffing changes. Throughout the outsourcing arrangement, management should ensure that the outsourcing vendor maintains sufficient expertise to effectively perform its contractual obligations.

Management of the Outsourced Internal Audit Function

Directors and senior management should ensure that the outsourced internal audit function is competently managed. For example, larger institutions should employ enough competent staff members in the internal audit department to assist the manager of internal audit in overseeing the outsourcing vendor. Small institutions that do not employ a full-time audit manager should appoint a competent employee, who ideally has no managerial responsibility for the areas being audited, to oversee the outsourcing vendor's performance

the institution and examiners to access the electronic work papers for a specified period of time.

under the contract. This person should report directly to the audit committee for purposes of communicating internal audit issues.

Communication When an Outsourced Internal Audit Function Exists

Communication between the internal audit function and the audit committee and senior management should not diminish because the institution engages an outsourcing vendor. All work by the outsourcing vendor should be well documented, and all findings of control weaknesses should be promptly reported to the institution's manager of internal audit. Decisions not to report certain findings of the outsourcing vendor to directors and senior management should be the mutual decision of the internal audit manager and the outsourcing vendor. In deciding what issues should be brought to the board's attention, the concept of "materiality," as the term is used in financial statement audits, is generally not a good indicator of which control weakness to report. For example, when evaluating an institution's compliance with laws and regulations, any exception may be important.

Contingency Planning to Ensure Continuity of Outsourced Audit Coverage

An institution may increase its operational risk when it enters into an outsourcing arrangement or significantly changes the mix of internal and external resources used by internal audit. Because an outsourced arrangement may be terminated suddenly, the institution should have a contingency plan to mitigate any significant disruption in audit coverage, particularly for high-risk areas.

Using Audit in the Supervisory Process

Audits and internal control reviews are designed to test whether the institution has adopted a business process that is operating as it should be and that complies with applicable consumer protection laws and regulations.¹² An examiner's goal in reviewing audits is to draw conclusions about the ability of an organization to identify, monitor, and resolve compliance problems with its business process at an early stage and thereby reduce the risk that such problems could pose to the institution. Examiners evaluate the audit program and determine the degree to which the audit function's assessment of the quality of internal controls can be considered as evidence of the effectiveness and consistency

of the compliance management program. In that regard, examiners should ensure that management implements preventive controls and that the audit or compliance review programs test the controls. Management should not rely on the detective audit or compliance reviews in place of its ongoing preventive controls. To the extent the audit function is deemed reliable, the compliance audits should be used to help set the scope of the examination.

Conducting the Review of Audit

Examiners should have complete and timely access to an institution's internal audit resources, including personnel, work papers, risk assessments, work plans, programs, reports, and budgets. A delay may require examiners to widen the scope of their examination work and may subject the institution to follow-up supervisory actions. Examiners should assess the quality and scope of an institution's internal audit function, regardless of whether it is performed by the institution's employees or by an outsourcing vendor. Specifically, examiners should consider

- *Quality of board of directors' audit oversight.* Does the board
 - ensure it has open communication with and receive periodic reports from audit?
 - provide adequate resources to the audit function?
 - review and approve audit risk assessments?
 - assure compliance weaknesses are fully corrected in a timely fashion?
 - review the audit program periodically to ensure it remains comprehensive and effective?
 - review the effectiveness of the compliance management program periodically to ensure it is effective and properly positioned within the organization and that the compliance officer has sufficient authority within the organization?
- *Independence from management and business functions and adequacy of staffing to meet current and anticipated audit needs.* Is the audit function
 - independent of management?
 - impartial and not influenced by managers of day-to-day operations? Any internal staff used for audits or internal reviews should be independent of the area being reviewed.
 - located in the organizational structure so it does not report to the management of any areas for which it has audit or review responsibilities?

12. In this context, the term "reviews" refers to internal reviews that are conducted independent of the business line. For example, they may include reviews of specific business lines conducted by the independent compliance function. The term does not include reviews of a business line conducted by compliance staff located in the particular business line.

- adequately staffed with qualified and experienced individuals who exhibit knowledge of applicable compliance regulations, are forward looking, and are engaged in continuous quality improvement?
- able to absorb reasonable turnover and provide training of less experienced audit staff?
- *Identification and assessment of risks.* Does the audit function employ a risk-focused methodology that includes a risk assessment process commensurate with the institution's size and complexity?

In considering the quality of audit and the part it plays in assuring the integrity of the compliance function, examiners should review the nature of the institution's approach to risk-based or risk-focused auditing. Internal audit functions often use a risk-focused approach that focuses on high-risk areas and reduces the resources devoted to low-risk areas. With a risk-focused audit program, the institution should ensure it periodically assesses low-risk areas because these areas may be frequently excluded from internal audit's testing work.

In these circumstances, the examiners should review internal audit's methodology for confirming the risk assessment for all areas. The risk assessment process should incorporate periodic reviews of low-risk areas and include a process to reconfirm risk levels previously identified. In addition, the methods used should consider factors such as regulation risk, the effect of noncompliance, the control environment, and institutional and product complexity.

Finally, examiners should be aware that a risk-focused approach taken by audit or review staff may result in the need for enhanced levels of monitoring and testing by other control functions (such as business lines or the compliance function).

- *Comprehensiveness of audit planning and coverage.* Are the audit scope, coverage, and frequency comprehensive and based on the risk assessment?

Do the scope and coverage

- give appropriate consideration to all areas based on the nature, complexity, and risk of the institution's activities?
- devote resources to the highest-risk areas?
- respond to changes in identified risks?
- give appropriate consideration to lower-risk areas?
- appropriately consider whether large num-

bers of customers would be affected if errors were noted, there is a high transaction volume, or there are noted violations or weaknesses?

Is audit frequency

- commensurate with risk and periodically reassessed?
- In considering the adequacy of audit frequency, some rules of thumb may be helpful. For example, there are regulations, which, regardless of the specific characteristics of the institution, presumptively pose a higher degree of compliance risk. Products or business lines subject to these regulations in general should be tested more frequently.
- Conversely, there are instances in which frequent testing would not be necessary given a product's materiality, an established record of management competence, and product stability. Examiners also should consider risk factors that might change the appropriate frequency, such as regulatory changes, prior problems identified in an institution's systems or procedures, or changes in products that require new platform enhancements or new management skills and procedures.

Does the sampling methodology

- give appropriate consideration to the size and nature of the operation, previous problems, volume of activity and regulatory risk, to name a few?
- ensure that statistical sampling is employed when appropriate for high-risk areas or when problems are identified within a smaller judgmental sample?

Are contingency plans

- in place in the event that the audit schedule cannot be completed as planned?

- *Reporting of auditing findings and resolution of exceptions.*

- Are audit reports and work products sufficiently documented, with conclusions clearly stated and supported by work papers?
- Is management responsive to findings, taking prompt corrective action?

Review of Audit Work Papers

Unless otherwise prohibited, the examiners' internal audit evaluation should include a review of work papers created in the course of an audit or internal review, when appropriate.¹³

13. The report or results of the self-test that a creditor

If the work papers appropriately support the audit or review findings, examiners may be able to leverage the findings and perform minimal or no additional transaction testing during the examination. However, if the work paper review reveals weaknesses in the quality of the audits or reviews performed, these weaknesses increase the institution's compliance risk and should be factored into examination scoping decisions.

Examination Concerns about the Effectiveness of the Internal Audit Function

If examiners conclude that the institution's internal audit function, whether or not it is outsourced, does not sufficiently meet the institution's internal audit needs or is otherwise ineffective, they should determine whether the scope of the examination should be adjusted. Examiners also should discuss these concerns with the internal audit manager or other person responsible for reviewing the system of internal controls. If these discussions do not resolve the examiners' concerns, the matters should be brought to the attention of senior management and the board of directors or audit committee. If examiners find material weaknesses in the internal audit function or the internal control system, they should discuss them with Reserve Bank management to determine the appropriate actions to take to ensure that the institution corrects

voluntarily conducts (or authorizes) are privileged as defined under section 202.15 of Regulation B. The privilege under this section applies to the report or results of the self-test, data or factual information created by the self-test, and any analysis, opinions, and conclusions pertaining to the self-test report or results. The privilege covers work papers or draft documents as well as final documents.

the deficiencies. These actions may include formal and informal enforcement actions.

The institution's rating should reflect examiners' conclusions regarding the institution's internal audit function. The report of examination should contain comments concerning the effectiveness of this function, significant issues or concerns, and recommended corrective actions.

Scoping Determinations

Once examiners have reviewed the broad components of the internal audit program, which may include the audit work papers, and have drawn conclusions regarding the effectiveness of the internal audit function, a determination must be made as to how the audits should affect the scope of the examination.¹⁴ In general, the level of transaction testing should be based on the residual risk associated with each specific product. Audit is only one of many factors to consider when establishing the level of residual risk; examiners should follow the risk assessment and scoping process outlined in this program. The matrix on the following page can assist examiners with how to consider the audit program in making judgments about residual risk.

14. When evaluating risk controls and setting the examination scope, examiners may make an initial determination of the extent to which audit may be relied upon, based on interviews, audit procedures, audit reports, and follow-up responses by management. Audit work papers may then be reviewed on site, if deemed necessary, to confirm that audits were conducted consistent with the initial determination. In the absence of significant changes to critical components of the audit program, examiners may be able to rely on a prior determination regarding the effectiveness of audit but should consider reviewing work papers when regulatory requirements have changed.

AUDIT EVALUATION MATRIX		
<i>Quality of testing</i>		
	<i>Low</i>	<i>High</i>
<i>Weak</i>	<ul style="list-style-type: none"> Auditors did not test, or tests were ineffective; the audit function is not considered effective. Risk is low or limited. Conclusion: The examiner should consider the effectiveness of other control mechanisms to establish whether residual risk remains low or limited. 	<ul style="list-style-type: none"> Auditors did not test, or tests were ineffective; the audit function is not considered effective. Risk is moderate, considerable, or high. Conclusion: Residual risk may remain elevated unless adequately mitigated through other control mechanisms.
<i>Strong</i>	<ul style="list-style-type: none"> Auditors did test, and tests were effective; the audit function is considered effective. Risk is low or limited. Conclusion: In the absence of weakness in other controls, residual risk will be low or limited. 	<ul style="list-style-type: none"> Auditors did test, and tests were effective; the audit function is considered effective. Risk is moderate, considerable, or high. Conclusion: An effective audit program should result in a lower residual risk rating.

Regulation E

Electronic Fund Transfer Act

The Electronic Fund Transfer Act (EFTA) (15 U.S.C. 1693 *et seq.*) of 1978 is intended to protect individual consumers engaging in electronic fund transfers (EFTs) and remittance transfers. These services include

- transfers through automated teller machines (ATMs);
- point-of-sale (POS) terminals;
- automated clearinghouse (ACH) systems;
- telephone bill-payment plans in which periodic or recurring transfers are contemplated;
- remote banking programs; and
- remittance transfers.

The EFTA is implemented through Regulation E, which includes official interpretations.

In 2009, the Federal Reserve Board (Board) amended Regulation E to prohibit institutions from charging overdraft fees for ATM and one-time debit card transactions, unless the consumer opts in or affirmatively consents to the institution's overdraft services (74 Fed. Reg. 59033 (Nov. 17, 2009) and 75 Fed. Reg. 31665 (June 4, 2010)). The Board also amended Regulation E to restrict fees and expiration dates on gift cards and to require that gift card terms be stated clearly (75 Fed. Reg. 16580 (April 1, 2010)).¹

The Dodd–Frank Wall Street Reform and Consumer Protection Act (Dodd–Frank Act) transferred rulemaking authority under the EFTA from the Board of Governors of the Federal Reserve System to the Consumer Financial Protection Bureau (CFPB).^{2, 3} The Dodd–Frank Act also amended the EFTA and created a new system of consumer protections for remittance transfers sent by consumers in the United States to individuals and businesses in foreign countries. In December

1. The Board also implemented a legislative extension of time for complying with the gift card disclosure requirements until January 31, 2011. 75 Fed. Reg. 50683 (August 17, 2010).

2. Dodd–Frank Act §§1002(12)(C), 1024(b)(c), and 1025(b)(c); 12 U.S.C. §§5481(12)(C), 5514(b)(c), and 5515(b)(c). Section 1029 of the Dodd–Frank Act generally excludes from this transfer of authority, subject to certain exceptions, any rulemaking authority over a motor vehicle dealer that is predominantly engaged in the sale and servicing of motor vehicles, the leasing and servicing of motor vehicles, or both. The transfer of authority also did not include section 920 of EFTA, which concerns debit card interchange fees charged to merchants. Section 920 of EFTA is implemented by Board regulations at 12 CFR Part 235. Section 920 is not addressed here or in the accompanying examination procedures and checklist.

3. The agency responsible for supervising and enforcing compliance with Regulation E will depend on the person subject to the EFTA (e.g., for financial institutions, jurisdiction will depend on the size and charter of the institution).

2011, the CFPB restated the Board's implementing Regulation E at 12 CFR Part 1005 (76 Fed. Reg. 81020) (December 27, 2011). In February 2012, the CFPB added subpart B (Requirements for Remittance Transfers) to Regulation E to implement the new remittance protections set forth in the Dodd–Frank Act (77 Fed. Reg. 6194) (February 7, 2012), effective on February 7, 2013.⁴ In July 2012, the CFPB amended the February 2012 rule to effect certain technical corrections primarily related to formatting of the model forms in the rule. In August 2012, the CFPB again amended the February 2012 rule to modify the definition of "remittance transfer provider." The August amendment also revised several aspects of the rule regarding remittance transfers that are scheduled before the date of transfer, including preauthorized remittance transfers (77 Fed. Reg. 50244) (August 20, 2012). In January 2013, the rule's February 21, 2013, effective date was delayed pending finalization of a proposal to address three specific issues in the rule. In May 2013, the CFPB finalized the proposal, which modified the disclosure requirements for certain fees and foreign taxes, revised some aspects of the error resolution requirements, and established a new effective date of October 28, 2013 (78 Fed. Reg. 30661) (May 22, 2013).

Information in this narrative is provided for subpart A and subpart B in the order listed below. Note that the order, particularly as it relates to subpart A, does not strictly follow the order of the regulatory text. For ease of use by the examiner, however, the examination procedures and checklist follow the order of the regulation.

Subpart A

- I. Scope and Key Definitions (12 CFR 1005.2, 1005.3, 1005.17, 1005.20)
- II. Disclosures (12 CFR 1005.4, 1005.7, 1005.8, 1005.16, 1005.17, 1005.20)
- III. Electronic Transaction Overdraft Service Opt In (12 CFR 1005.17)
- IV. Issuance of Access Devices (12 CFR 1005.5, 1005.18)
- V. Consumer Liability and Error Resolution (12 CFR 1005.6, 1005.11)
- VI. Receipts and Periodic Statements (12 CFR 1005.9, 1005.18)
- VII. Gift Cards (12 CFR 1005.20)

4. The amendment designated 12 CFR 1005.1 through 1005.20 as subpart A.

VIII. Other Requirements (12 CFR 1005.10, 1005.14, 1005.15)

IX. Relation to Other Laws (12 CFR 1005.12)

Subpart B

Requirements for remittance transfers

X. Remittance Transfer Definitions (12 CFR 1005.30)

XI. Disclosures (12 CFR 1005.31)

XII. Estimates (12 CFR 1005.32)

XIII. Procedures for Resolving Errors (12 CFR 1005.33)

XIV. Procedures for Cancellation and Refund of Remittance Transfers (12 CFR 1005.34)

XV. Acts of Agents (12 CFR 1005.35)

XVI. Transfers Scheduled Before the Date of Transfer (12 CFR 1005.36)

Sections Applicable to Both Subpart A and Subpart B

XVII. Preemption

XVIII. Administrative Enforcement and Record Retention (12 CFR 1005.13)

XIX. Miscellaneous (EFTA provisions not reflected in Regulation E)

SUBPART A

I. Scope

Key Definitions—12 CFR 1005.2

Access device is a card, code, or other means of access to a consumer's account or a combination of these used by the consumer to initiate EFTs. Access devices include debit cards, personal identification numbers (PINs), telephone transfer and telephone bill payment codes, and other means to initiate an EFT to or from a consumer account (12 CFR 1005.2(a)(1) and 12 CFR Part 1005, Supp. I, Comment 2(a)-1).

Access devices do not include either of the following:

- magnetic tape or other devices used internally by a financial institution to initiate electronic transfers
- a check or draft used to capture the MICR (Magnetic Ink Character Recognition) encoding or routing, account, and serial numbers to initiate a one-time ACH debit (Comments 2(a)-1 and 2(a)-2)

Accepted access device is an access device that a consumer

- requests and receives, signs, or uses (or authorizes another to use) to transfer money between accounts or to obtain money, property, or services
- requests to be validated even if it was issued on an unsolicited basis
- receives as a renewal or substitute for an accepted access device from either the financial institution that initially issued the device or a successor (12 CFR 1005.2(a)(2))

Account includes the following:

- checking, savings, or other consumer asset accounts held by a financial institution (directly or indirectly), including certain club accounts, established primarily for personal, family, or household purposes
- *payroll card account*, established through an employer (directly or indirectly), to which EFTs of the consumer's wages, salary, or other employee compensation (such as commissions), are made on a recurring basis. The payroll card account can be operated or managed by the employer, a third-party processor, a depository institution, or any other person. All transactions involving the transfer of funds to or from a payroll card account are covered by the regulation (12 CFR 1005.2(b)(2) and Comment 2(b)-2).

An account does not include:

- an account held by a financial institution under a bona fide trust agreement
- an occasional or incidental credit balance in a credit plan
- profit-sharing and pension accounts established under a bona fide trust agreement
- escrow accounts such as for payments of real estate taxes, insurance premiums, or completion of repairs
- accounts for purchasing U.S. savings bonds (12 CFR 1005.2(b)(3) and Comment 2(b)-3)

A *payroll card account* does not include a card used

- solely to disburse incentive-based payments (other than commissions when they represent the primary means through which a consumer is paid) that are unlikely to be a consumer's primary source of salary or other compensation;
- solely to make disbursements unrelated to compensation, such as petty cash reimbursements or travel per diem payments; or
- in isolated instances to which an employer typically does not make recurring payments

(Comment 2(b)-2).

Activity means any action that results in an increase or decrease of the funds underlying a certificate or card, other than the imposition of a fee, or an adjustment due to an error or a reversal of a prior transaction (12 CFR 1005.20(a)(7)).

ATM operator is any person that operates an ATM at which a consumer initiates an EFT or a balance inquiry and that does not hold the account to or from which the transfer is made or about which the inquiry is made (12 CFR 1005.16(a)).

Dormancy fee and inactivity fee mean a fee for non-use of or inactivity on a gift certificate, store gift card, or general-use prepaid card (12 CFR 1005.20 (a)(5)).

Electronic check conversion (ECK) transactions are transactions where a check, draft, or similar paper instrument is used as a source of information to initiate a one-time electronic fund transfer from a consumer's account. The consumer must authorize the transfer (12 CFR 1005.3(b)(2))

Electronic fund transfer (EFT) is a transfer of funds initiated through an electronic terminal, telephone, computer (including online banking) or magnetic tape for the purpose of ordering, instructing, or authorizing a financial institution to debit or credit a consumer's account. EFTs include, but are not limited to, point-of-sale (POS) transfers; automated teller machine (ATM) transfers; direct deposits or withdrawals of funds; transfers initiated by telephone; and transfers resulting from debit card transactions, whether or not initiated through an electronic terminal (12 CFR 1005.3(b)).

Electronic terminal is an electronic device, other than a telephone call by a consumer, through which a consumer may initiate an EFT. The term includes, but is not limited to, point-of-sale terminals, automated teller machines, and cash-dispensing machines (12 CFR 1005.2(h)).

Exclusions from gift card definition. The following cards, codes, or other devices are excluded and not subject to the substantive restrictions on imposing dormancy, inactivity, or service fees, or on expiration dates if they are (12 CFR 1005.20(b))

- usable solely for telephone services;
- reloadable and not marketed or labeled as a gift card or gift certificate. For purposes of this exception, the term "reloadable" includes a temporary non-reloadable card issued solely in connection with a reloadable card, code, or other device;
- a loyalty, award, or promotional gift card (except that these must disclose on the card or device itself, information such as the date the funds expire, fee information and a toll-free number) (12

CFR 1005.20(a)(4) and (c)(4));

- not marketed to the general public;
- issued in paper form only; or
- redeemable solely for admission to events or venues at a particular location or group of affiliated locations, or to obtain goods or services in conjunction with admission to such events or venues, at the event or venue or at specific locations affiliated with and in geographic proximity to the event or venue.

General-use prepaid card is a card, code, or other device

- issued on a prepaid basis primarily for personal, family, or household purposes to a consumer in a specified amount, whether or not that amount may be increased or reloaded, in exchange for payment; and
- that is redeemable upon presentation at multiple, unaffiliated merchants for goods or services, or that may be usable at automated teller machines (12 CFR 1005.20(a)(3)). See "*Exclusions from gift card definition.*"

Gift certificate is a card, code, or other device issued on a prepaid basis primarily for personal, family, or household purposes to a consumer in a specified amount that may not be increased or reloaded in exchange for payment and redeemable upon presentation at a single merchant or an affiliated group of merchants for goods or services (12 CFR 1005.20(a)(1)). See "*Exclusions from gift card definition.*"

Loyalty, award, or promotional gift card is a card, code, or other device (1) issued on a prepaid basis primarily for personal, family, or household purposes to a consumer in connection with a loyalty, award, or promotional program; (2) that is redeemable upon presentation at one or more merchants for goods or services, or usable at automated teller machines; and (3) that sets forth certain disclosures, including a statement indicating that the card, code, or other device is issued for loyalty, award, or promotional purposes (12 CFR 1005.20 (a)(4)). See "*Exclusions from gift card definition.*"

Overdraft services. A financial institution provides an overdraft service if it assesses a fee or charge for paying a transaction (including a check or other item) when the consumer has insufficient or unavailable funds in the account to pay the transaction. However, an overdraft service does not include payments made from the following:

- a line of credit subject to Regulation Z, such as a credit card account, a home equity line of credit, or an overdraft line of credit;
- funds transferred from another account held individually or jointly by the consumer; or

- a line of credit or other transaction from a securities or commodities account held by a broker-dealer registered with the Securities and Exchange Commission (SEC) or the Commodity Futures Trading Commission (CFTC). (12 CFR 1005.17(a)).

Praeauthorized electronic fund transfer is an EFT authorized in advance to recur at substantially regular intervals (12 CFR 1005.2(k)).

Service fee means a periodic fee for holding or use of a gift certificate, store gift card, or general-use prepaid card. A periodic fee includes any fee that may be imposed on a gift certificate, store gift card, or general-use prepaid card from time to time for holding or using the certificate or card (12 CFR 1005.20(a)(6)). For example, a service fee may include a monthly maintenance fee, a transaction fee, an ATM fee, a reload fee, a foreign currency transaction fee, or a balance inquiry fee, whether or not the fee is waived for a certain period of time or is only imposed after a certain period of time. However, a service fee does not include a one-time fee or a fee that is unlikely to be imposed more than once while the underlying funds are still valid, such as an initial issuance fee, a cash-out fee, a supplemental card fee, or a lost or stolen certificate or card replacement fee (Comment 20(a)(6)-1).

State means any state, territory, or possession of the United States; the District of Columbia; the Commonwealth of Puerto Rico; or any of their political subdivisions (12 CFR 1005.2(l)).

Store gift card is a card, code, or other device issued on a prepaid basis primarily for personal, family, or household purposes to a consumer in a specified amount, whether or not that amount may be increased or reloaded, in exchange for payment, and redeemable upon presentation at a single merchant or an affiliated group of merchants for goods or services (12 CFR 1005.20(a)(2)). See “*Exclusions from gift card definition*.”

Unauthorized electronic fund transfer is an EFT from a consumer's account initiated by a person other than the consumer without authority to initiate the transfer and from which the consumer receives no benefit. This does not include an EFT initiated in any of the following ways:

- by a person who was furnished the access device to the consumer's account by the consumer, unless the consumer has notified the financial institution that transfers by that person are no longer authorized;
- with fraudulent intent by the consumer or any person acting in concert with the consumer; or
- by the financial institution or its employee (12 CFR 1005.2(m)).

Coverage—12 CFR 1005.3

Subpart A of Regulation E applies to any electronic fund transfer (EFT) that authorizes a financial institution to debit or credit a consumer's account. The requirements of subpart A of Regulation E apply only to accounts for which there is an agreement for EFT services to or from the account between (i) the consumer and the financial institution or (ii) the consumer and a third party, when the account-holding financial institution has received notice of the agreement and the fund transfers have begun (Comment 3(a)-1).

Regulation E applies to all persons, including offices of foreign financial institutions in the United States, that offer EFT services to residents of any state, and it covers any account located in the United States through which EFTs are offered to a resident of a state, no matter where a particular transfer occurs or where the financial institution is chartered (Comment 3(a)-3). Regulation E does not apply to a foreign branch of a U.S. financial institution unless the EFT services are offered in connection with an account in a state, as defined in 12 CFR 1005.2(l) (Comment 3(a)-3).

Exclusions from Coverage

12 CFR 1005.3(c) describes transfers that are not EFTs and are therefore not covered by the EFTA and Regulation E:

- transfers of funds originated by check, draft, or similar paper instrument;
- check guarantee or authorization services that do not directly result in a debit or credit to a consumer's account;
- any transfer of funds for a consumer within a system that is used primarily to transfer funds between financial institutions or businesses, e.g., Fedwire or other similar network;
- any transfer of funds that has as its primary purpose the purchase or sale of securities or commodities regulated by the SEC or the CFTC, purchased or sold through a broker-dealer regulated by the SEC or through a futures commission merchant regulated by the CFTC, or held in book-entry form by a Federal Reserve Bank or federal agency;
- intra-institutional automatic transfers under an agreement between a consumer and a financial institution;
- transfers initiated by telephone between a consumer and a financial institution provided the transfer is not a function of a written plan contemplating periodic or recurring transfers. A written statement available to the public, such as

a brochure, that describes a service allowing a consumer to initiate transfers by telephone constitutes a written plan; or

- preauthorized transfers to or from accounts at financial institutions with assets of less than \$100 million on the preceding December 31. Such preauthorized transfers, however, remain subject to the compulsory use prohibition under Section 913 of the EFTA and 12 CFR 1005.10(e), as well as the civil and criminal liability provisions of Sections 915 and 916 of the EFTA. A small financial institution that provides EFT services besides preauthorized transfers must comply with the requirements of subpart A for those *other* services (Comment 3(c)(7)-1). For example, a small financial institution that offers ATM services must comply with subpart A in regard to the issuance of debit cards, terminal receipts, periodic statements, and other requirements.

Electronic Check Conversion (ECK) and Collection of Returned-Item Fees

Subpart A covers electronic check conversion (ECK) transactions. In an ECK transaction, a consumer provides a check to a payee and information from the check is used to initiate a one-time EFT from the consumer's account. Although transfers originated by checks are not covered by subpart A, an ECK is treated as an EFT and not a payment originated by check. Payees must obtain the consumer's authorization for each ECK transaction. A consumer authorizes a one-time EFT for an ECK transaction when the consumer receives notice that the transaction will or may be processed as an EFT and goes forward with the underlying transaction⁵ (12 CFR 1005.3(b)(2)(i) and (ii) and Comment 3(b)(2)-3).

If a payee re-presents electronically a check that has been returned unpaid, the transaction is not an EFT, and subpart A does not apply because the transaction originated by check (Comment 3(c)(1)-1).

However, subpart A applies to a fee collected electronically from a consumer's account for a check or EFT returned unpaid. A consumer authorizes a one-time EFT from the consumer's account to pay the fee for the returned item or transfer if the person collecting the fee provides notice to the consumer stating the amount of the fee and that the person may electronically collect the fee, and the consumer goes forward with the underlying transaction⁶ (12 CFR 1005.3(b)(3)). These authorization

5. For POS transactions, the notice must be posted in a prominent and conspicuous location and a copy of the notice must be provided to the consumer at the time of the transaction (12 CFR 1005.3(b)(2)(i) and (ii) and Comment 3(b)(2)-3).

6. For POS transactions, the notice must be posted in a prominent and conspicuous location and a copy of the notice

requirements do not apply to fees imposed by the account-holding financial institution for returning the check or EFT or paying the amount of an overdraft (Comment 3(b)(3)-1).

II. Disclosures

Disclosures Generally—12 CFR 1005.4

Required disclosures must be clear and readily understandable, in writing, and in a form the consumer may keep. The required disclosures may be provided to the consumer in electronic form, if the consumer affirmatively consents after receiving a notice that complies with the E-Sign Act (12 CFR 1005.4(a)(1)).

Disclosures may be made in a language other than English, if the disclosures are made available in English upon the consumer's request (12 CFR 1005.4(a)(2)).

A financial institution has the option of disclosing additional information and combining disclosures required by other laws (for example, Truth in Lending disclosures) with Regulation E disclosures (12 CFR 1005.4(b)).

A financial institution may combine required disclosures into a single statement if a consumer holds two or more accounts at the financial institution. Thus, a single periodic statement or error resolution notice is sufficient for multiple accounts. In addition, it is only necessary for a financial institution to provide one set of disclosures for a joint account (12 CFR 1005.4(c)(1) and (2)).

Two or more financial institutions that jointly provide EFT services may contract among themselves to meet the requirements that the regulation imposes on any or all of them. When making initial disclosures (see 12 CFR 1005.7) and disclosures of a change in terms or an error resolution notice (see 12 CFR 1005.8), a financial institution in a shared system only needs to make disclosures that are within its knowledge and apply to its relationship with the consumer for whom it holds an account (12 CFR 1005.4(d)).

Initial Disclosure of Terms and Conditions—12 CFR 1005.7

Financial institutions must provide initial disclosures of the terms and conditions of EFT services before the first EFT is made or at the time the consumer contracts for an EFT service. They must give a summary of various consumer rights under the regulation, including the consumer's liability for unauthorized EFTs, the types of EFTs the consumer

must either be provided to the consumer at the time of the transaction or mailed to the consumer's address as soon as reasonably practicable after the person initiates the EFT to collect the fee (12 CFR 1005.3(b)(3)).

may make, limits on the frequency or dollar amount, fees charged by the financial institution, and the error-resolution procedures. Appendix A to Part 1005 provides model clauses that financial institutions may use to provide the disclosures.

Timing of disclosures. Financial institutions must make the required disclosures at the time a consumer contracts for an electronic fund transfer service or before the first electronic fund transfer is made involving the consumer's account (12 CFR 1005.7(a)).

Disclosures given by a financial institution earlier than the regulation requires (for example, when the consumer opens a checking account) need not be repeated when the consumer later authorizes an electronic check conversion or agrees with a third party to initiate preauthorized transfers to or from the consumer's account, unless the terms and conditions differ from the previously disclosed term. This interpretation also applies to any notice provided about one-time EFTs from a consumer's account initiated using information from the consumer's check. On the other hand, if an agreement for EFT services to be provided by an account-holding financial institution is directly between the consumer and the account-holding financial institution, disclosures must be given in close proximity to the event requiring disclosure, for example, when the consumer contracts for a new service (Comment 7(a)-1).

Where a consumer authorizes a third party to debit or credit the consumer's account, an account-holding financial institution that has not received advance notice of the transfer or transfers must provide the required disclosures as soon as reasonably possible after the first debit or credit is made, unless the financial institution has previously given the disclosures (Comment 7(a)-2).

If a consumer opens a new account permitting EFTs at a financial institution, and the consumer has already received subpart A disclosures for another account at that financial institution, the financial institution need only disclose terms and conditions that differ from those previously given (Comment 7(a)-3).

If a financial institution joins an interchange or shared network system (which provides access to terminals operated by other financial institutions), disclosures are required for additional EFT services not previously available to consumers if the terms and conditions differ from those previously disclosed (Comment 7(a)-4).

A financial institution may provide disclosures covering all EFT services that it offers, even if some consumers have not arranged to use all services (Comment 7(a)-5).

Addition of EFT services. A financial institution must make disclosures for any new EFT service added to a consumer's account if the terms and conditions are different from those described in the initial disclosures. ECK transactions may be a new type of transfer requiring new disclosures (See Appendix A-2 and Comment 7(c)-1).

Content of disclosures. 12 CFR 1005.7(b) requires a financial institution to provide the following disclosures as they apply:

- **Liability of consumers for unauthorized electronic fund transfers.** The financial institution must include a summary of the consumer's liability (under 12 CFR 1005.6, state law, or other applicable law or agreement) for unauthorized transfers (12 CFR 1005.7(b)(1)). A financial institution does not need to provide the liability disclosures if it imposes no liability. If it later decides to impose liability, it must first provide the disclosures (Comment 7(b)(1)-1). The financial institution can choose to include advice on promptly reporting unauthorized transfers or the loss or theft of the access device (Comment 7(b)(1)-3).
- **Telephone number and address.** A financial institution must provide a specific telephone number and address, on or with the disclosure statement, for reporting a lost or stolen access device or a possible unauthorized transfer (Comment 7(b)(2)-2). Except for the telephone number and address for reporting a lost or stolen access device or a possible unauthorized transfer, the disclosure may insert a reference to a telephone number that is readily available to the consumer, such as "Call your branch office. The number is shown on your periodic statement" (Comment 7(b)(2)-2).
- **Business days.** The financial institution's business days (12 CFR 1005.7(b)(3)).
- **Types of transfers; limitations on frequency or dollar amount.** Limitations on the frequency and dollar amount of transfers generally must be disclosed in detail (12 CFR 1005.7(b)(4)). If the confidentiality of certain details is essential to the security of an account or system, these details may be withheld (but the fact that limitations exist must still be disclosed).⁷ A limitation on account activity that restricts the consumer's ability to make EFTs must be disclosed even if the restriction also applies to transfers made by

7. For example, if a financial institution limits cash ATM withdrawals to \$100 per day, the financial institution may disclose that daily withdrawal limitations apply and need not disclose that the limitations may not always be in force (such as during periods when its ATMs are off-line) (Comment 7(b)(4)-1).

non-electronic means.⁸ Financial institutions are not required to list preauthorized transfers among the types of transfers that a consumer can make (Comment 7(b)(4)-3). Financial institutions must disclose the fact that one-time EFTs initiated using information from a consumer's check are among the types of transfers that a consumer can make (See Appendix A-2 and Comment 7(b)(4)-4).

- **Fees.** A financial institution must disclose all fees for EFTs or for the right to make EFTs (12 CFR 1005.7(b)(5)). Other fees, for example, minimum-balance fees, stop-payment fees, account over-drafts, or ATM inquiry fees, may, but need not, be disclosed under Regulation E (see Regulation DD, 12 CFR Part 1030) and (Comment 7(b)(5)-1). A per-item fee for EFTs must be disclosed even if the same fee is imposed on non-electronic transfers. If a per-item fee is imposed only under certain conditions, such as when the transactions in the cycle exceed a certain number, those conditions must be disclosed. Itemization of the various fees may be on the disclosure statement or on an accompanying document referenced in the statement (Comment 7(b)(5)-2).

A financial institution must disclose that networks used to complete the EFT as well as an ATM operator, may charge a fee for an EFT or for balance inquiries (12 CFR 1005.7(b)(11)).

- **Documentation.** A summary of the consumer's right to receipts and periodic statements, as provided in 12 CFR 1005.9, and notices regarding preauthorized transfers as provided in 12 CFR 1005.10(a) and 1005.10(d) (12 CFR 1005.7(b)(6)).
- **Stop payment.** A summary of the consumer's right to stop payment of a preauthorized electronic fund transfer and the procedure for placing a stop-payment order, as provided in 12 CFR 1005.10(c) and 12 CFR 1005.7(b)(7).
- **Liability of institution.** A summary of the financial institution's liability to the consumer under Section 910 of the EFTA for failure to make or to stop certain transfers (12 CFR 1005.7(b)(8)).
- **Confidentiality.** The circumstances under which, in the ordinary course of business, the financial institution may provide information concerning the consumer's account to third parties (12 CFR 1005.7(b)(9)). A financial institution must describe the circumstances under which any information relating to an account to or from which EFTs are permitted will be made available to third

8. For example, Regulation D (12 CFR 1004) restricts the number of payments to third parties that may be made from a money market deposit account; a financial institution that does not execute fund transfers in excess of those limits must disclose the restriction as a limitation on the frequency of EFTs (Comment 7(b)(4)-2).

parties, not just information concerning those EFTs. Third parties include other subsidiaries of the same holding company (Comment 7(b)(9)-1).

- **Error resolution.** The error-resolution notice must be substantially similar to Model Form A-3 in Appendix A of Part 1005. A financial institution may use different wording so long as the substance of the notice remains the same, may delete inapplicable provisions (for example, the requirement for written confirmation of an oral notification), and may substitute substantive state law requirements affording greater consumer protection than Regulation E (Comment 7(b)(10)-1). To take advantage of the longer time periods for resolving errors under 12 CFR 1005.11(c)(3) (for new accounts as defined in Regulation CC, transfers initiated outside the United States, or transfers resulting from POS debit card transactions), a financial institution must have disclosed these longer time periods. Similarly, a financial institution relying on the exception from provisional crediting in 12 CFR 1005.11(c)(2) for accounts relating to extensions of credit by securities brokers and dealers (Regulation T, 12 CFR Part 220) must disclose accordingly (Comment 7(b)(10)-2).
- **ATM fees.** A notice that a fee may be imposed by an automated teller machine operator as defined in §1005.16(a), when the consumer initiates an electronic fund transfer or makes a balance inquiry, and by any network used to complete the transaction.

Change in Terms; Error Resolution Notice—12 CFR 1005.8

If a financial institution contemplates a change in terms, it must mail or deliver a written or electronic notice to the consumer at least 21 days before the effective date of any change in a term or condition required to be disclosed under 12 CFR 1005.7(b) if the change would result in any of the following:

- increased fees or charges;
- increased liability for the consumer;
- fewer types of available EFTs; or
- stricter limitations on the frequency or dollar amounts of transfers (12 CFR 1005.8(a)(1)).

If an immediate change in terms or conditions is necessary to maintain or restore the security of an EFT system or account, the financial institution does not need to give prior notice. However, if the change is to be permanent, the financial institution must provide notice in writing of the change to the consumer on or with the next regularly scheduled periodic statement or within 30 days, unless disclosures would jeopardize the security of the

system or account (12 CFR 1005.8(a)(2)).

For accounts to or from which EFTs can be made, the financial institution must mail, deliver, or provide electronically to the consumer at least once each calendar year, the error resolution notice in 12 CFR 1005 Appendix A—Model Form A-3, or one substantially similar. Alternatively, the financial institution may include an abbreviated error resolution notice substantially similar to the notice set out in Appendix A (Model Form A-3) with each periodic statement (12 CFR 1005.8(b)).

Disclosures at Automated Teller Machines—12 CFR 1005.16

An ATM operator that charges a fee is required to provide notice that a fee will be imposed and disclose the amount of the fee. The notice must be provided either by showing it on the screen of the automated teller machine or on paper before the consumer is committed to paying a fee (12 CFR 1005.16(b) and (c)).

The “clear and readily understandable standard” under 12 CFR 1005.4(a) applies to the content of the notice. The requirement that the notice be in a retainable format only applies to printed notices (not those on the ATM screen).

The fee may be imposed by the ATM operator only if: (1) the consumer is provided the required notice, and (2) the consumer elects to continue the transaction or inquiry after receiving such notice (12 CFR 1005.16(d)).

These fee disclosures are not required where a network owner is not charging a fee directly to the consumer (i.e., some network owners charge an interchange fee to financial institutions whose customers use the network) (Comment 7(b)(5)-3). If the network practices change such that the network charges the consumer directly, these fee disclosure requirements would apply to the network (12 CFR 1005.7(c)).

Overdraft Service Disclosures—12 CFR 1005.17

Disclosure requirements for overdraft services are addressed in Section III of this document.

Gift Card Disclosures—12 CFR 1005.20(c)

Disclosures must be clear and conspicuous and generally in a written or electronic form (except for certain pre-purchase disclosures, which may be given orally) that the consumer may retain. The fees and terms and conditions of expiration that are required to be disclosed prior to purchase may not

be changed after purchase.

A number of disclosures must be made on the actual card. Making such disclosures in an accompanying terms and conditions document, on packaging surrounding a certificate or card, or on a sticker or other label affixed to the certificate or card does not constitute a disclosure on the certificate or card. Those disclosures include the following:

- the existence, amount, and frequency of any dormancy, inactivity, or service fee;
- the expiration date for the underlying funds (or the fact that the funds do not expire);
- a toll-free telephone number and (if any) a website that the consumer may use to obtain a replacement certificate or card if the certificate or card expires while underlying funds are still available;
- a statement that the certificate or card expires, but the underlying funds do not expire or expire later than the certificate or card, as well as a statement that the consumer may contact the issuer for a replacement card;⁹ and
- a toll-free telephone number and (if any) a website that the consumer may use to obtain information about fees.

Additional disclosure requirements regarding fees. In addition to the disclosure requirements related to dormancy, inactivity, or service fees, all other fees must be disclosed as well. These disclosures must be provided on or with the certificate or card and disclosed prior to purchase. The certificate or card must also disclose a toll-free telephone number and website, if one is maintained, that a consumer may use to obtain fee information or replacement certificates or cards (12 CFR 1005.20(f)).

Disclosure requirements for loyalty, award, or promotional gift cards (12 CFR 1005.20(a)(4)). To qualify for the exclusion for loyalty, award, or promotional gift cards, the following must be disclosed:

- a statement indicating that the card, code, or other device is issued for loyalty, award, or promotional purposes, which must be included on the front of the card, code, or other device;
- the expiration date for the underlying funds, which must be included on the front of the card, code, or other device;
- the amount of any fees that may be imposed in connection with the card, code, or other device, and the conditions under which they may be

⁹. This requirement does not apply to non-reloadable certificates or cards that expire seven years or more after the date of manufacture.

- imposed, which must be provided on or with the card, code, or other device; and
- a toll-free telephone number and, if one is maintained, a website, that a consumer may use to obtain fee information, which must be included on the card, code, or other device.

Amendments to Regulation E were issued on August 11, 2010. The amendments implemented legislation that modified the effective date of certain disclosure and card expiration requirements in the gift card provisions of the Credit Card Accountability Responsibility and Disclosure Act of 2009 for cards produced prior to April 1, 2010.

The disclosures and card expiration requirements are

1. disclosures required to be made prior to purchase (see 12 CFR 1005.20(c)(3));
2. disclosures that must be stated on the certificate or card regarding the fees and expiration dates (see 12 CFR 1005.20(d)(2), (e)(1) & (e)(3)); and
3. disclosures that may be provided on or with the certificate or card (see 12 CFR 1005.20(f)).

Gift cards must comply with all other provisions of the gift card rule.

Issuers must make the following disclosures on in-store signs, messages during customer service calls, websites, and general advertising:

- the funds underlying the gift card do not expire;
- consumers have the right to receive a free replacement card, along with the packaging and materials that typically accompany the gift card; and
- the issuer will charge dormancy, inactivity, or service fees only if the fee is permitted by the gift card rule.

The issuer was required to make the disclosures via customer service call center and website until January 31, 2013. See 12 CFR 1005.20(h).

III. Electronic Transaction Overdraft Services Opt-In—12 CFR 1005.17

In recent years overdraft protection services have been extended to cover overdrafts resulting from non-check transactions, including ATM withdrawals, debit card transactions at point of sale, online transactions, preauthorized transfers, and ACH transactions. Generally, institutions charge a flat fee each time an overdraft is paid, although some institutions have a tiered fee structure and charge higher fees based on the amount of the negative balance at the end of the day or as the number of overdrafts increases. Institutions commonly charge the same amount for paying check and ACH overdrafts as they would if they returned the item

unpaid. Some institutions also impose a fee for each day the account remains overdrawn. For debit card overdrafts, the [a0] dollar amount of the fee and multiple assessments can exceed the dollar amount of the overdrafts.

In 2005, the agencies¹⁰ issued guidance concerning the marketing, disclosure, and implementation of overdraft programs. The guidance also covers safety and soundness considerations, and establishes a number of best practices financial institutions should incorporate into their overdraft programs. The 2009 revisions to Regulation E supersede portions of the guidance related to ATM and one-time debit card overdraft transactions. However, in addition to the revised Regulation E requirements, institutions should incorporate their agency's overdraft guidance into their overdraft protection programs.

12 CFR 1005.17 was added in the 2009 revision to Regulation E.¹¹ It provides consumers with a choice to opt into their institution's overdraft protection program and be charged a fee for overdrafts for ATM and one-time debit card transactions. It also requires disclosure of the fees and terms associated with the institution's overdraft service. Before an institution may assess overdraft fees, the consumer must opt in, or affirmatively consent, to the overdraft service for ATM and one-time debit card transactions, and the consumer has an ongoing right to revoke consent. Institutions may not require an opt in for ATM and one-time debit transactions as a condition to the payment of overdrafts for checks and other transactions. The account terms, conditions and features must be the same for consumers who opt in and for those who do not.

Opt-in requirement for overdraft services. The financial institution may assess a fee for paying an ATM or one-time debit card transaction pursuant to an overdraft service only if it has met the following requirements:

- the financial institution has provided the consumer with a written (or, if the consumer agrees, electronic) notice, segregated from all other information, describing the overdraft service;
- the financial institution has provided a reasonable opportunity for the consumer to affirmatively consent (opt in) to the overdraft service for ATM

10. The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the National Credit Union Administration, collectively issued joint guidance concerning a service offered by insured depository institutions commonly referred to as "bounced-check protection" or "overdraft protection." This credit service is sometimes offered on both consumer and small business transaction accounts as an alternative to traditional means of covering overdrafts. Joint Guidance on Overdraft Protection Programs (February 18, 2005).

11. 74 Fed. Reg. 59033, Nov. 17, 2009; 75 Fed. Reg. 31665, June 4, 2010.

- and one-time debit card transactions;
- the financial institution has obtained the consumer's affirmative consent (opt in) for ATM and one-time debit card transactions; and
 - the financial institution has mailed or delivered written (or, if the consumer agrees, electronic) confirmation of the consent, including a statement informing the consumer of the right to revoke consent. An institution complies if it adopts reasonable procedures to ensure that it assesses overdraft fees only for transactions paid after mailing or delivering the confirmation to the consumer (12 CFR 1005.17(b)(1); Comment 17(b)-7).

Fee prohibitions. As a general rule, an institution may not charge overdraft fees for paying an ATM or one-time debit card transaction unless the consumer has opted in. The fee prohibition also applies to an institution that has a policy and practice of not paying an ATM or one-time debit card overdraft when it reasonably believes at the time of the authorization request that the consumer does not have sufficient funds available to pay the transaction, although the institution does not have to comply with the notice and opt-in requirements (Comment 17(b)-1(iv)).

Lack of consent does not prohibit the financial institution from paying ATM or one-time debit card overdrafts. However, the financial institution may charge a fee only if the consumer has consented to the institution's overdraft service for ATM and one-time debit card transactions (Comment 17(b)-2). Conversely, the financial institution is not required to pay an ATM or one-time debit card overdraft even if the consumer has consented to pay a fee (Comment 17(b)-3).

For a consumer who has not opted in, if a fee or charge is based on the amount of the outstanding negative balance, an institution may not charge a fee for a negative balance that is solely attributable to an ATM or one-time debit card transaction. However, an institution may assess a fee if the negative balance is attributable in whole or in part to a check, ACH transaction or other type of transaction not subject to the prohibition on assessing overdraft fees (Comment 17(b)-8).

For a consumer who has not opted in, the institution may not assess daily or sustained negative balance, overdraft, or similar fees for a negative balance, based solely on ATM or one-time debit card transactions. However, if the negative balance is attributable in part to a check, ACH transaction, or other type of transaction not subject to the prohibition on assessing overdraft fees, the institution may charge a daily or sustained overdraft or similar fee, even if the consumer has not opted in. The date the fee may be charged is

based on the date on which the check, ACH, or other type of transaction is paid into overdraft (Comment 17(b)-9).

Contents and format of notice. The notice describing the overdraft service must be substantially similar to Model Form A-9. The notice must include all of the following items and may not contain any other information not expressly specified or otherwise permitted:

- a brief description of the overdraft service and the types of transactions for which the financial institution may charge a fee;
- the dollar amount of any fee that may be charged for an ATM or one-time debit card transaction, including any daily or other overdraft fees;¹²
- the maximum number of fees that may be charged per day, or, if applicable, that there is no limit;
- an explanation of the right to affirmatively consent to the overdraft service, including the methods by which the consumer may consent;¹³ and
- the availability of a line of credit or a service that transfers funds from another account to cover overdrafts, if the financial institution offers those alternatives¹⁴ (12 CFR 1005.17(d)(1) through (d)(5)).

The financial institution also may (but is not required to) include the following information, to the extent applicable:

- disclosure of the right to opt into, or out of, the payment of overdrafts for other types of transactions (e.g., checks, ACH transactions, or automatic bill payments) and a means for the consumer to exercise such choices;
- disclosure of the financial institution's returned item fee, as well as the fact that merchants may charge additional fees; and
- disclosure of the right to revoke consent (12 CFR 1005.17(d)(6)).

Reasonable opportunity to consent. The financial

12. If the amount of the fee may vary based on the number of times the consumer has overdrawn the account, the amount of the overdraft, or other factors, the financial institution must disclose the maximum fee.

13. Institutions may tailor the response portion of Model Form A-9 to the methods offered. For example, a tear-off portion of Model Form A-9 is not necessary if consumers may only opt in by telephone or electronically (Comment 17(d)-3).

14. If the institution offers both a line of credit subject to Regulation Z (12 CFR Part 1026) and a service that transfers funds from another account of the consumer held at the institution to cover overdrafts, the institution must state in its opt-in notice that both alternative plans are offered. If the institution offers one, but not the other, it must state in its opt-in notice the alternative plan that it offers. If the institution does not offer either plan, it should omit the reference to the alternative plans (Comment 17(d)-5). If the financial institution offers additional alternatives for paying overdrafts, it may (but is not required to) disclose those alternatives (12 CFR 1005.17(d)(5)).

institution must provide a reasonable opportunity to consent. Reasonable methods of consent include mail, if the financial institution provides a form for the consumer to fill out and mail; telephone, if the financial institution provides a readily available telephone line that the consumer may call; electronic means, if the financial institution provides a form that can be accessed and processed at its website, where the consumer may click on a box to consent and click on a button to affirm consent; or in person, if the financial institution provides a form for the consumer to complete and present at a branch or office (Comment 17(b)-4). The financial institution may provide the opportunity to consent and require the consumer to make a choice as a step to opening an account (Comment 17(b)-5).

Affirmative consent is necessary. An important feature of the opt in is that the consumer's affirmative consent is necessary before the institution may charge overdraft fees for paying an ATM or one-time debit card transaction (12 CFR 1005.17 (b)(iii)). The consent must be separate from other consents or acknowledgments (including a consent to receive disclosures electronically). Check boxes are allowed, but the check box and the consumer's signature may only apply to the consumer's consent to opt in. Preprinted disclosures about the overdraft service provided with a signature card or contract do not constitute affirmative consent (Comment 17(b)-6).

Confirmation and consumer's right to revoke. Not only must the consumer affirmatively consent, but the institution must mail or deliver to the consumer a written confirmation (or electronic, if the consumer agrees) that the consumer has consented, along with a statement informing the consumer of the right to revoke the consent at any time (12 CFR 1005.17(b)(iv) and Comment 17(b)-7). An institution complies with the confirmation requirement if it has adopted reasonable procedures to ensure that overdraft fees are assessed only on transactions paid after the confirmation is mailed or delivered to the consumer (Comment 17(b)-7).

Assessing fees. For consumers who have not opted in, institutions are prohibited from charging overdraft fees for paying those transactions. This prohibition applies to daily or sustained overdraft, negative balance, or similar fees. However, the rule does not prohibit an institution from assessing these fees if the negative balance is attributable, in whole or part, to a check, ACH or other transaction not subject to the fee prohibition. However, if the negative balance is attributable in part to an ATM transaction, for example, and in part to a check, a fee may be assessed based on the date when the check is paid into overdraft, not the date of the ATM or one-time debit transaction.

Conditioning payment of other overdrafts. The

financial institution may not condition the payment of other types of overdraft transactions on the consumer's affirmative consent, and the financial institution may not decline to pay other types of overdraft transactions because the consumer has not affirmatively consented to the payment of ATM and one-time debit card overdrafts (12 CFR 1005.17(b)(2)). In other words, the financial institution may not use different criteria for paying other types of overdraft transactions for consumers who have consented and for consumers who have not consented (Comment 17(b)(2)-1).

Same account terms, conditions, and features. In addition, the financial institution must provide to consumers who do not affirmatively consent the same account terms, conditions, and features (except the payment of ATM and one-time debit overdrafts) that are available to consumers who do affirmatively consent (12 CFR 1005.17(b)(3)). That requirement includes, but is not limited to

- interest rates paid;
- fees assessed;
- the type of ATM or debit card provided to the depositor;¹⁵
- minimum balance requirements; and
- online bill payment services (Comment 17(b)(3)-1).

Joint accounts. Any one account holder may consent, or revoke consent, for payment of ATM or one-time debit card transactions from a joint account (12 CFR 1005.17(e)).

Continuing right to consent or revoke. A consumer may consent to the payment of ATM and one-time debit card overdrafts at any time. A consumer may also revoke consent at any time. The financial institution must implement a revocation as soon as reasonably practicable (12 CFR 1005.17(f)). The financial institution need not waive overdraft fees assessed before it implements the consumer's revocation (Comment 17(f)-1).

Duration of consent. Consent remains effective until the consumer revokes it, unless the financial institution terminates the overdraft service (12 CFR 1005.17(g)). The financial institution may terminate the overdraft service, for example, if the consumer makes excessive use of the service (Comment 17(g)-1).

Effective date. The overdraft services rule became effective on January 19, 2010, and compliance became mandatory on July 1, 2010. For accounts opened on or after July 1, 2010, the

15. For example, the financial institution may not provide a PIN-only debit card to consumers who do not opt in and a debit card with both PIN and signature-debit features to consumers who do opt in.

financial institution must obtain consent before charging a fee for payment of any ATM or one-time debit overdraft. However, for accounts opened before July 1, 2010, the financial institution may not charge a fee for paying any ATM or one-time debit overdraft on or after August 15, 2010, unless it has obtained consent (See 12 CFR 1005.17(c)).

IV. Issuance of Access Devices— 12 CFR 1005.5 and 1005.18

In general, a financial institution may issue an access device to a consumer only in the following cases:

- the consumer requested it in writing or orally.¹⁶
- it is a renewal of, or a substitute for, an accepted access device (as defined in 12 CFR 1005.2(a)). See 12 CFR 1005.5(a).

Only one renewal or substitute device may replace a previously issued device. A financial institution may provide additional devices at the time it issues the renewal or substitute access device provided the institution complies with the requirements for issuing unsolicited access devices for the additional devices (Comments 5(a)(2)-1 and 5(b)-5).

A financial institution may issue an unsolicited access device only if the access device meets all of the following criteria. The access device is

- not validated—that is, it cannot be used to initiate an EFT.
- accompanied by the explanation that it is not validated and how the consumer may dispose of it if the consumer does not wish to validate it.
- accompanied by a complete disclosure, in accordance with 12 CFR 1005.7, of the consumer's rights and liabilities that will apply if the access device is validated.
- validated only upon oral or written request from the consumer and after a verification of the consumer's identity by some reasonable means (12 CFR 1005.5(b)).

The financial institution may use any reasonable means of verifying the consumer's identity, but the consumer is not liable for any unauthorized transfers if an imposter succeeds in validating the access device (Comment 5(b)-4).

Payroll card access devices. Consistent with 12 CFR 1005.5(a), a financial institution may issue a payroll card access device only in response to an oral or written request for the device or as a renewal or substitute for an accepted access device. A

16. For a joint account, a financial institution may issue an access device to each account holder for whom the requesting holder specifically requests an access device (Comment 5(a)(1)-1).

consumer is deemed to request an access device for a payroll account when the consumer chooses to receive salary or other compensation through a payroll card account (Comment 18(a)-1).

EFT added to credit card. The EFTA and Regulation E apply when the capability to initiate EFTs is added to an accepted credit card (as defined under Regulation Z). The EFTA and Regulation E also apply to the issuance of an access device that permits credit extensions under a preexisting agreement between the consumer and a financial institution to extend credit only to cover overdrafts (or to maintain a specified minimum balance). The Truth in Lending Act and Regulation Z govern the addition of a credit feature to an accepted access device, and except as discussed above, the issuance of a credit card that is also an access device. For information on the relationship of Regulation E to other laws, including Truth in Lending, see 12 CFR 1005.12.

V. Consumer Liability and Error Resolution

Liability of Consumers for Unauthorized Transfers—12 CFR 1005.6

A consumer may be liable for an unauthorized EFT (defined in 12 CFR 1005.2(m)) depending on when the consumer notifies the financial institution and whether an access device was used to conduct the transaction. Under the EFTA, there is no bright-line time limit within which consumers must report unauthorized EFTs (71 Fed. Reg. 1638, 1653 (Jan. 10, 2006)).

The extent of the consumer's liability is determined solely by the consumer's promptness in notifying the financial institution (Comment 6(b)-3). Other factors *may not* be used as a basis to hold consumers liable. 12 CFR 1005.6 expressly prohibits the following factors as the basis for imposing greater liability than is permissible: the consumer was negligent (e.g., wrote a PIN on an ATM card), an agreement between the consumer and the financial institution provides for greater liability, or the consumer is liable for a greater amount under state law (Comment 6(b)-2 and 6(b)-3).

A consumer may only be held liable for an unauthorized transaction, within the limitations set forth in 12 CFR 1005.6(b), if

- the financial institution has provided all of the following written disclosures to the consumer:
 - a summary of the consumer's liability for unauthorized EFTs
 - the telephone number and address for reporting that an unauthorized EFT has been or may be made

- the financial institution's business days
 - any access device used to affect the EFT was an accepted access device (as defined in 12 CFR 1005.2(a)).
 - the financial institution has provided a means to identify the consumer to whom the access device was issued (12 CFR 1005.6(a)).
- 12 CFR 1005.6 allows, but does not require, the financial institution to provide a separate means to

identify each consumer of a multiple-user account (Comment 6(a)-2).

The limitations on the amount of consumer liability for unauthorized EFTs, the time limits within which consumers must report unauthorized EFTs, and the liability for failing to adhere to those time limits, are listed in the chart below. The financial institution may impose less consumer liability than is provided by 12 CFR 1005.6 based on state law or the deposit agreement (12 CFR 1005.6(b)(6)).

Consumer Liability for Unauthorized Transfers

Event	Timing of Consumer Notice to Financial Institution	Maximum Liability
Loss or theft of access device ¹	Within two business days after learning of loss or theft	Lesser of \$50 or total amount of unauthorized transfers
Loss or theft of access device	More than two business days after learning of loss or theft up to 60 calendar days after transmittal of statement showing first unauthorized transfer made with access device	Lesser of \$500 or the sum of: (a) \$50 or the total amount of unauthorized transfers occurring in the first two business days, whichever is less, and (b) The amount of unauthorized transfers occurring after two business days and before notice to the financial institution. ²
Loss or theft of access device	More than 60 calendar days after transmittal of statement showing first unauthorized transfer made with access device	For transfers occurring within the 60-day period, the lesser of \$500 or the sum of (a) Lesser of \$50 or the amount of unauthorized transfers in first two business days, and (b) The amount of unauthorized transfers occurring after two business days. For transfers occurring after the 60-day period, unlimited liability (until the financial institution is notified). ³
Unauthorized transfer(s) not involving loss or theft of an access device	Within 60 calendar days after transmittal of the periodic statement on which the unauthorized transfer first appears	No liability.
Unauthorized transfer(s) not involving loss or theft of an access device	More than 60 calendar days after transmittal of the periodic statement on which the unauthorized transfer first appears	Unlimited liability for unauthorized transfers occurring 60 calendar days after the periodic statement and before notice to the financial institution.

1. Includes a personal identification number (PIN) if used without a card in a telephone transaction, for example.

2. Provided the financial institution demonstrates that these transfers would not have occurred had notice been given within the two-business-day period.

3. Provided the financial institution demonstrates that these transfers would not have occurred had notice been given within the 60-day period.

Knowledge of loss or theft. The fact that a consumer has received a periodic statement reflecting an unauthorized transaction is a factor, but not conclusive evidence, in determining whether the consumer had knowledge of a loss or theft of the access device (Comment 6(b)(1)-2).

Timing of notice. If a consumer's delay in notifying a financial institution was due to extenuating circumstances, such as extended travel or hospitalization, the time periods for notification specified above must be extended to a reasonable time (12 CFR 1005.6(b)(4); Comment 6(b)(4)-1).

Notice to the financial institution. A consumer gives notice to a financial institution about unauthorized use when the consumer takes reasonable steps to provide the financial institution with the pertinent information, whether or not a particular employee actually receives the information (12 CFR 1005.6(b)(5)(i)). Even if the consumer is unable to provide the account number or the card number, the notice effectively limits the consumer's liability if the consumer sufficiently identifies the account in question, for example, by giving the name on the account and the type of account (Comment 6(b)(5)-3). At the consumer's option, notice may be given in person, by telephone, or in writing (12 CFR 1005.6(b)(5)(ii)). Notice in writing is considered given at the time the consumer mails the notice or delivers the notice for transmission by any other usual means to the financial institution. Notice may also be considered given when the financial institution becomes aware of circumstances leading to the reasonable belief that an unauthorized transfer has been or may be made (12 CFR 1005.6(b)(5)(iii)).

Relation of error resolution to Truth in Lending. The liability and error resolution provisions in 12 CFR 1005.6 and 1005.11 apply to an extension of credit that occurs under an agreement between the consumer and a financial institution to extend credit when the consumer's account is overdrawn, to maintain a specified minimum balance in the consumer's account, or under an overdraft service (12 CFR 1005.12(a)(1)(ii)). As provided in 12 CFR 1005.12 and related commentary, for transactions involving access devices that also function as credit cards, the liability and error resolution provisions in 12 CFR 1005.6 and 1005.11 or Regulation Z will apply depending on the nature of the transaction:

- If the unauthorized use of a combined access device–credit card solely involves an extension of credit, other than an extension of credit described under 12 CFR 1005.12(a)(1)(iii), and does not involve an EFT, for example, when the card is used to draw cash advances directly from a credit line, only the error resolution provisions of Regulation Z will apply.

- If the unauthorized use of a combined access device–credit card involves only an EFT, for example, debit card purchases or cash withdrawals at an ATM from a checking account, only the error resolution provisions of 12 CFR 1005.6 and 1005.11 will apply.

- If a combined access device–credit card is stolen and unauthorized transactions are made by using the card as both a debit card and a credit card, 12 CFR 1005.6 and 1005.11 will apply to the unauthorized transactions in which the card was used as a debit card, and Regulation Z will apply to the unauthorized transactions in which the card was used as a credit card.

Procedures for Resolving Errors— 12 CFR 1005.11

This section defines the term *error* and describes the steps the consumer must take when asserting an error in order to receive the protection of the EFTA and 12 CFR 1005.11, and the procedures that a financial institution must follow to resolve an alleged error under this section.

An *error* includes any of the following:

- an unauthorized EFT
- an incorrect EFT to or from the consumer's account
- the omission from a periodic statement of an EFT to or from the consumer's account that should have been included
- a computational or bookkeeping error made by the financial institution relating to an EFT
- the consumer's receipt of an incorrect amount of money from an electronic terminal
- an EFT not identified in accordance with the requirements of 12 CFR 1005.9 or 1005.10(a)
- a consumer's request for any documentation required by 12 CFR 1005.9 or 1005.10(a) or for additional information or clarification concerning an EFT (12 CFR 1005.11(a)(1))

The term *error* does not include:

- a routine inquiry about the balance in the consumer's account or a request for duplicate copies of documentation or other information that is made only for tax or other record-keeping purposes (12 CFR 1005.11(a)(2)(i), (ii), and (iii))
- the fact that a financial institution does not make a terminal receipt available for a transfer of \$15 or less in accordance with 12 CFR 1005.9(e) (Comment 11(a)-6)

A financial institution must comply with the error resolution procedures in 12 CFR 1005.11 with respect to any oral or written notice of error from the

consumer that

- the financial institution receives not later than 60 days after sending a periodic statement or other documentation first reflecting the alleged error (see 12 CFR 1005.14 and 1005.18)
- enables the financial institution to identify the consumer's name and account number
- indicates why the consumer believes the error exists and, to the extent possible, the type, date, and amount of the error (12 CFR 1005.11(b)(1))

A financial institution may require a consumer to give written confirmation of an error within 10 business days of giving oral notice. The financial institution must provide the address where confirmation must be sent (12 CFR 1005.11(b)(2)).

Error resolution procedures. After receiving a notice of error, the financial institution must do all of the following:

- promptly investigate the oral or written allegation of error;
- complete its investigation within 10 business days (12 CFR 1005.11(c)(1));
- report the results of its investigation within three business days after completing its investigation;
- correct the error within one business day after determining that an error has occurred.

The financial institution may take up to 45 calendar days (12 CFR 1005.11(c)(2)) to complete its investigation provided it

- provisionally credits the funds (including interest, where applicable) to the consumer's account within the 10 business-day period
- advises the consumer within two business days of the provisional crediting
- gives the consumer full use of the funds during the investigation

A financial institution need not provisionally credit the account to take up to 45 calendar days to complete its investigation if the consumer fails to provide the required written confirmation of an oral notice of error, or if the notice of error involves an account subject to the margin requirements or other aspects of Regulation T (Securities Credit by Brokers and Dealers, 12 CFR Part 220) (12 CFR 1005.11(c)(2)(i)(B)).

However, where an error involves an unauthorized EFT, the financial institution must comply with the requirements of the provisions relating to unauthorized EFTs before holding the consumer liable, even if the consumer does not provide a notice of error within the time limits in 12 CFR 1005.11(b) (Comment 11(b)(1)-7).

When investigating a claim of error, the financial

institution need only review its own records if the alleged error concerns a transfer to or from a third party, and there is no agreement between the financial institution and the third party for the type of EFT involved (12 CFR 1005.11(c)(4)). However, the financial institution may not limit its investigation solely to the payment instructions where other information within the financial institution's records pertaining to a particular account may help to resolve a consumer's claim (Comment 11(c)(4)-5).

If, after investigating the alleged error, the financial institution determines that an error has occurred, it must promptly (within one business day after such determination) correct the error, including the crediting of interest if applicable. The financial institution must provide within three business days of the completed investigation an oral or written report of the correction to the consumer and, as applicable, notify the consumer that the provisional credit has been made final (12 CFR 1005.11(c)(2)(iii) and (iv)).

If the financial institution determines that no error occurred or that an error occurred in a different manner or amount from that described by the consumer, the financial institution must mail or deliver a written explanation of its findings within three business days after concluding its investigation. The explanation must include a notice of the consumer's rights to request the documents upon which the financial institution relied in making its determination (12 CFR 1005.11(d)).

Upon debiting a provisionally credited amount, the financial institution must notify the consumer of the date and amount of the debit and of the fact that the financial institution will honor (without charge) checks, drafts, or similar paper instruments payable to third parties and preauthorized debits for five business days after transmittal of the notice. The financial institution need honor only items that it would have paid if the provisionally credited funds had not been debited. Upon request from the consumer, the financial institution must promptly mail or deliver to the consumer copies of documents upon which it relied in making its determination (12 CFR 1005.11(d)(2)).

If a notice involves an error that occurred within 30 days after the first deposit to the account was made, the time periods are extended from 10 and 45 days, to 20 and 90 days, respectively. If the notice of error involves a transaction that was not initiated in a state or resulted from a point-of-sale debit card transaction, the 45-day period is extended to 90 days (12 CFR 1005.11(c)(3)).

If a financial institution has fully complied with the investigation requirements, it generally does not need to reinvestigate if a consumer later reasserts the same error. However, it must investigate a claim

of error asserted by a consumer following receipt of information provided pursuant to 12 CFR 1005.11(a)(1)(vii) and 12 CFR 1005.11(e).

VI. Receipts and Periodic Statements

Documentation of Transfers—12 CFR 1005.9

Electronic terminal receipts. Receipts must be made available at the time a consumer initiates an EFT at an electronic terminal (12 CFR 1005.9(a)). Financial institutions may provide receipts only to consumers who request one (Comment 9(a)-1). The receipt must include, as applicable:

- *Amount of the transfer*—a charge for making the transfer may be included in the amount, provided the charge is disclosed on the receipt and on a sign posted on or at the terminal.
- *Date*—the date the consumer initiates the transfer.
- *Type of transfer and type of account*—descriptions such as “withdrawal from checking” or “transfer from savings to checking” are appropriate. This is true even if the accounts are only similar in function to a checking account (such as a share draft or NOW account) or a savings account (such as a share account). If the access device used can only access one account, the type of account may be omitted (Comments 9(a)(3)-1; 9(3)-2; 9(3)-4; and 9(3)-5).
- *Number or code identifying the consumer's account(s) or the access device used to initiate the transfer*—the number and code need not exceed four digits or letters.
- *Location of the terminal*—The location of the terminal where the transfer is initiated or an identification, such as a code or terminal number. If the location is disclosed, except in limited circumstances where all terminals are located in the same city or state, the receipt must include the city and state or foreign country and one of the following:
 - street address of the terminal;
 - generally accepted name for the location of the terminal (such as an airport, shopping center, or branch of a financial institution); or
 - name of the entity (if other than the financial institution providing the statement) at whose place of business the terminal is located, such as a store, and the city, state, or foreign country (12 CFR 1005.9(a)(5)).
- *Third party*—Name of any third party to or from whom funds are transferred—a code may be used to identify the party if the code is explained on the receipt. This requirement does not apply if

the name of the party is provided by the consumer in a manner the terminal cannot duplicate on the receipt, such as on a payment stub (12 CFR 1005.9(a)(6) and Comment 9(a)(6)-1).

Receipts are not required for EFTs of \$15 or less (12 CFR 1005.9(e)).

Periodic statements. Periodic statements must be sent for each monthly cycle in which an EFT has occurred, and at least quarterly if no EFT has occurred (12 CFR 1005.9(b)). For each EFT made during the cycle, the statement must include, as applicable:

- amount of the transfer—if a charge was imposed at an electronic terminal by the owner or operator of the terminal, that charge may be included in the amount
- date the transfer was posted to the account
- type of transfer(s) and type of account(s) to or from which funds were transferred
- for each transfer (except deposits of cash, or a check, draft or similar paper instrument to the consumer's account) initiated at an electronic terminal, the terminal location as required for the receipt under 12 CFR 1005.9(a)(5)
- name of any third-party payee or payor
- account number(s)
- total amount of any fees and charges, other than a finance charge as defined by Regulation Z, assessed during the period for making EFTs, the right to make EFTs, or for account maintenance
- balance in the account at the beginning and close of the statement period
- address and telephone number to be used by the consumer for inquiries or notice of errors. If the financial institution has elected to send the abbreviated error notice with every periodic statement, the address and telephone number may appear on that document.
- if the financial institution has provided a telephone number which the consumer can use to find out whether or not a preauthorized transfer has taken place, that telephone number

Exceptions to the periodic statement requirement for certain accounts

- *Passbook accounts.* Where a consumer's passbook may not be accessed by an EFT other than preauthorized transfers to the account, a periodic statement need not be sent, provided that the financial institution updates the consumer's passbook or provides the required information on a separate document at the consumer's request. To update the passbook, the amount and date of

each EFT made since the passbook was last presented must be listed (12 CFR 1005.9(c)(1) (i)). For other accounts that may be accessed only by preauthorized transfers to the account, the financial institution must send a periodic statement at least quarterly (12 CFR 1005.9(c)(1) (ii)).

- *Transfers between accounts.* If a transfer occurs between two accounts of the consumer at the same financial institution, the transfer need only be documented for one of the two accounts (12 CFR 1005.9(c)(2)). A preauthorized transfer between two accounts of the consumer at the same financial institution is subject to the 12 CFR 1005.9(c)(1) rule on preauthorized transfers and not the 12 CFR 1005.9(c)(2) rule on intra-institutional transfers (12 CFR 1005.9(c)(3)).
- *Documentation for foreign-initiated transfers.* If an EFT is initiated outside the United States, the financial institution need not provide a receipt or a periodic statement reflecting the transfer if it treats an inquiry for clarification or documentation as a notice of error (12 CFR 1005.9(d)).

Alternatives to Periodic Statements for Financial Institutions Offering Payroll Card Accounts—12 CFR 1005.18

This section provides an alternative to providing periodic statements for payroll card accounts if financial institutions make the account information available to consumers by specific means. In addition, this section clarifies how financial institutions that do not provide periodic statements for payroll card accounts can comply with the subpart A requirements relating to initial disclosures, the annual error resolution notice, liability limits, and the error resolution procedures.

Typically, employers and third-party service providers do not meet the definition of a “financial institution” subject to the regulation because they neither (i) hold payroll card accounts nor (ii) issue payroll cards and agree with consumers to provide EFT services in connection with payroll card accounts. However, to the extent an employer or a service provider undertakes either of these functions, it would be deemed a financial institution under the regulation (Comment 18(a)-2).

Alternative to Periodic Statements. A financial institution does not need to furnish periodic statements required by 12 CFR 1005.9(b) if the financial institution makes available to the consumer the following:

- the account balance, through a readily available telephone line
- an electronic history of account transactions covering at least 60 days preceding the date the

consumer electronically accesses the account

- a written history of the account transactions provided promptly in response to an oral or written request and covering at least 60 days preceding the date the financial institution receives the consumer’s request (12 CFR 1005.18 (b)(1))

The history of account transactions must include the same type of information required on periodic statements under 12 CFR 1005.9(b) (12 CFR 1005.18(b)(2)).

Requirements to comply with Regulation E. If a financial institution provides an alternative to periodic statements under 12 CFR 1005.18(b), it must comply with the following:

- Modify the initial disclosures under 12 CFR 1005.7(b) by disclosing:
 - a telephone number that the consumer may call to obtain the account balance; the means by which the consumer can obtain an electronic account history, such as the address of an Internet website; and a summary of the consumer’s right to receive a written account history upon request (in place of the summary of the right to receive a periodic statement required by 12 CFR 1005.7(b)(6)), including a telephone number to call to request a history. The disclosure required by 12 CFR 1005.18(c) (1)(i) may be made by providing a notice substantially similar to the notice contained in paragraph A-7(a) in Appendix A of Part 1005.
 - a notice concerning error resolution that is substantially similar to the notice contained in paragraph A-7(b) in Appendix A, in place of the notice required by 12 CFR 1005.7(b)(10)
- Provide an annual error resolution notice that is substantially similar to the notice contained in paragraph (b) to A-7—Model Clauses for Financial Institutions Offering Payroll Card Accounts in Appendix A of Part 1005, in place of the notice required by 12 CFR 1005.8(b). Alternatively, a financial institution may include on or with each electronic and written history provided in accordance with 12 CFR 1005.18(b)(1), a notice substantially similar to the abbreviated notice for periodic statements contained in paragraph A-3(b) in Appendix A, modified as necessary to reflect the error-resolution provisions set forth in this section.
- Limits on consumer liability.
 - For purposes of 12 CFR 1005.6(b)(3), the 60-day period for reporting any unauthorized transfer begins on the earlier of:
 - the date the consumer electronically accesses the consumer’s account under 12

CFR 1005.18(b)(1)(ii), provided that the electronic history made available to the consumer reflects the transfer; or

- the date the financial institution sends a written history of the consumer's account transactions requested by the consumer under 12 CFR 1005.18(b)(1)(iii) in which the unauthorized transfer is first reflected.
- A financial institution may limit the consumer's liability for an unauthorized transfer as provided under 12 CFR 1005.6(b)(3) for transfers reported by the consumer within 120 days after the transfer was credited or debited to the consumer's account.
- Comply with error resolution requirements.
 - An error notice is considered timely, and the financial institution must comply with the requirements of 12 CFR 1005.11, if the financial institution receives notice from the consumer no later than the earlier of:
 - 60 days after the date the consumer electronically accesses the consumer's account under 12 CFR 1005.18(b)(1)(ii), provided that the electronic history made available to the consumer reflects the alleged error; or
 - 60 days after the date the financial institution sends a written history of the consumer's account transactions requested by the consumer under 12 CFR 1005.18(b)(1)(iii) in which the alleged error is first reflected.
 - Alternatively, a financial institution complies with the error resolution requirements in 12 CFR 1005.11 if it investigates any oral or written notice of an error from the consumer that is received by the financial institution within 120 days after the transfer allegedly in error was credited or debited to the consumer's account.

VII. Gift Cards—12 CFR 1005.20

A gift card is a type of prepaid card that is designed to be purchased by one consumer and given to another consumer as a present or expression of appreciation or recognition. When provided in the form of a plastic card, a user of a gift card is able to access and spend the value associated with the device by swiping the card at a POS terminal, much as a person would use a debit card.

Scope of the gift card rule. The rule is generally limited to gift certificates, store gift cards, or general-use prepaid cards sold or issued to consumers primarily for personal, family, or household purposes. It generally does not apply to cards, codes, or other devices that are reloadable and not marketed or labeled as a gift card or gift certificate and loyalty, award, and promotional gift cards. See

also the exclusions from the gift card definitions, described above.

Restrictions on dormancy, inactivity, or service fees—12 CFR 1005.20(d). No person may impose a dormancy, inactivity, or service fee with respect to a gift certificate, store gift card, or general-use prepaid card, unless three conditions are satisfied:

1. There has been no activity with respect to the certificate or card within the one-year period prior to the imposition of the fee;
2. Only one such fee is assessed in a given calendar month; and
3. Disclosures regarding dormancy, inactivity, or service fees are clearly and conspicuously stated on the certificate or card, and the person issuing or selling the certificate or card has provided these disclosures to the purchaser before the certificate or card is purchased. See the disclosure section, above, for additional information.

Expiration date restrictions—12 CFR 1005.20(e).

A gift certificate, store gift card, or general-use prepaid card may not be sold or issued unless the expiration date of the funds underlying the certificate or card is no less than five years after the date of issuance (in the case of a gift certificate) or five years after the date of last load of funds (in the case of a store gift card or general-use prepaid card). In addition, information regarding whether funds underlying a certificate or card may expire must be clearly and conspicuously stated on the certificate or card and disclosed prior to purchase.

No person may sell or issue a certificate or card with an expiration date unless the person has established policies and procedures to provide consumers with a reasonable opportunity to purchase a certificate or card that has an expiration date that is at least five years from the date of purchase. A person who has established policies and procedures to prevent the sale of a certificate or card with less than five years from the date of purchase satisfies this requirement.

A certificate or card generally must include a disclosure alerting consumers to the difference between the certificate or card expiration date and the funds expiration date, if any, and that the consumer may contact the issuer for a replacement card. This disclosure must be stated with equal prominence and in close proximity to the certificate or card expiration date. Non-reloadable certificates or cards that bear an expiration date on the certificate or card that is at least seven years from the date of manufacture need not include this disclosure. See the disclosure section, above, for additional information.

To ensure that consumers are able to access the

underlying funds for the full five-year period, fees may not be imposed for replacing an expired certificate or card if the underlying funds remain valid (unless the card has been lost or stolen). In lieu of sending a replacement certificate or card, issuers may remit, without charge, the remaining balance of funds to the consumer.

VIII. Other Requirements

Prauthorized Transfers—12 CFR 1005.10

A preauthorized transfer may be either a credit to, or a debit from, an account.

Prauthorized transfers to a consumer's account. When an account is scheduled to be credited by a preauthorized EFT from the same payor at least once every 60 days, the financial institution must provide some form of notice to the consumer so that the consumer can find out whether or not the transfer occurred (12 CFR 1005.10(a)). The notice requirement will be satisfied if the payor provides notice to the consumer that the transfer has been initiated. If the payor does not provide notice, the financial institution must adopt one of three alternative procedures for giving notice:

1. The financial institution may give the consumer oral or written notice within two business days after a preauthorized transfer occurs.
2. The financial institution may give the consumer oral or written notice, within two business days after the preauthorized transfer was scheduled to occur, that the transfer did not occur.
3. The financial institution may establish a readily available telephone line¹⁷ that the consumer may call to find out whether a preauthorized transfer has occurred. If the financial institution selects this option, the telephone number must be disclosed on the initial disclosures and on each periodic statement.

The financial institution need not use any specific language to give notice but may not simply provide the current account balance (Comment 10(a)(1)-1). The financial institution may use different methods of notice for different types of preauthorized transfers and need not offer consumers a choice of notice methods (Comment 10(a)(1)-2).

The financial institution that receives a preauthorized transfer must credit the consumer's account

17. The telephone line must be "readily available" so that consumers calling to inquire about transfers are able to have their calls answered reasonably promptly during normal business hours. During the initial call in most cases and within two business days after the initial call in all cases, the financial institution should be able to verify whether the transfer was received (Comment 10(a)(1)-5). Within its primary service area, a financial institution must provide a local or toll-free telephone number (Comment 10(a)(1)-7).

as of the day the funds are received (12 CFR 1005.10(a)(3)).

Prauthorized transfers from a customer's account. Prauthorized transfers from a consumer's account may only be authorized by the consumer in writing and signed or similarly authenticated by the consumer (12 CFR 1005.10(b)). Signed, written authorizations may be provided electronically, subject to the E-Sign Act (Comment 10(b)-5). In all cases, the party that obtains the authorization from the consumer must provide a copy to the consumer. If a third-party payee fails to obtain an authorization in writing or fails to provide a copy to the consumer, the third-party payee and not the financial institution has violated subpart A (Comment 10(b)-2).

Stop payments. Consumers have the right to stop payment of preauthorized transfers from accounts. The consumer must notify the financial institution orally or in writing at any time up to three business days before the scheduled date of the transfer (12 CFR 1005.10(c)(1)). If the debit item is resubmitted, the institution must continue to honor the stop-payment order. (Comment 10(c)-1) The financial institution may require written confirmation of an oral stop payment order to be made within 14 days of the consumer's oral notification. If the financial institution requires a written confirmation, it must inform the consumer at the time of the oral stop payment order that written confirmation is required and provide the address to which the confirmation should be sent. If the consumer fails to provide written confirmation, the oral stop payment order ceases to be binding after 14 days (12 CFR 1005.10(c)(2)).

Notice of transfers varying in amount. If a preauthorized transfer from a consumer's account varies in amount from the previous transfer under the same authorization or the preauthorized amount, either the financial institution or the designated payee must send to the consumer a written notice, at least 10 days before the scheduled transfer date, of the amount and scheduled date of the transfer (12 CFR 1005.10(d)(1)). The consumer may elect to receive notice only when the amount varies by more than an agreed amount or falls outside a specified range (12 CFR 1005.10(d)(2)). The range must be an acceptable range that the consumer could reasonably anticipate (Comment 10(d)(2)-1). The financial institution does not violate Regulation E if the payee fails to provide sufficient notice (Comment 10(d)-1).

Compulsory use. The financial institution may not make it a condition for an extension of credit that repayment will be by means of preauthorized EFT, except for credit extended under an overdraft credit plan or extended to maintain a specified minimum balance in the consumer's account (12

CFR 1005.10(e)(1)). The financial institution may offer a reduced APR or other cost-related incentive for an automatic payment feature as long as the creditor offers other loan programs for the type of credit involved (Comment 10(e)(1)-1).¹⁸

Services Offered by Provider Not Holding consumer's Account—12 CFR 1005.14

A person who provides EFT services to a consumer but does not hold the consumer's account is a service provider subject to 12 CFR 1005.14 if the person issues an access device that the consumer can use to access the account and no agreement exists between the person and the account-holding financial institution. Transfers initiated by a service provider are often cleared through an automated clearinghouse (ACH).

The responsibilities of the service provider are set forth in 12 CFR 1005.14(b)(1) and (2). The duties of the account-holding financial institution with respect to the service provider are found in 12 CFR 1005.14(c)(1) and (2).

Electronic Fund Transfer of Government Benefits—12 CFR 1005.15

12 CFR 1005.15 contains the rules that apply to electronic benefit transfer (EBT) programs. It provides that government agencies must comply with modified rules on the issuance of access devices, periodic statements, initial disclosures, liability for unauthorized use, and error resolution notices.

IX. Relation to Other Laws—12 CFR 1005.12

This section describes the relationship between the EFTA and the Truth in Lending Act (TILA). The section also provides procedures for states to apply for exemptions from the requirements of the EFTA or Regulation E for any class of EFTs within the state.

The EFTA governs the following:

- the issuance of debit cards and other access devices with EFT capabilities;
- the addition of EFT features to credit cards; and
- the issuance of access devices whose only credit feature is a pre-existing agreement to extend

18. This section also prohibits anyone from requiring the establishment of an account for receipt of EFTs with a particular financial institution either as a condition of employment or the receipt of a government benefit (12 CFR 1005.10(e)(2)). However, the employer may require direct deposit of salary, as long as the employee may choose the financial institution that will accept the direct deposit, or limit direct deposits to one financial institution as long as the employee may choose to receive salary by other means (e.g., check or cash) (Comment 10(e)(2)-1).

credit to cover account overdrafts or to maintain a minimum account balance, or is an overdraft service.

The TILA governs all of the following:

- the issuance of credit cards as defined in Regulation Z;
- the addition of a credit feature to a debit card or other access device, other than an overdraft service; and
- the issuance of dual debit/credit cards, except for access devices whose only credit feature is a pre-existing agreement to cover account overdrafts or to maintain a minimum account balance, or is an overdraft service.

SUBPART B—REQUIREMENTS FOR REMITTANCE TRANSFERS

Subpart B provides new disclosures, error resolution, and cancellation and refund rights to consumers who send remittance transfers to be received by other consumers or businesses in a foreign country.

X. Remittance Transfer Definitions—12 CFR 1005.30

The definitions in subpart A (12 CFR 1005.2) also apply to subpart B unless specifically modified or limited by subpart B. The definitions in subpart B (12 CFR 1005.30) are applicable only to subpart B.

Agent is an agent, authorized delegate, or person affiliated with a remittance transfer provider, as defined under state or other applicable law, when that person acts for a remittance transfer provider. A person is not deemed a remittance transfer provider when it performs activities as an agent on behalf of a remittance transfer provider (Comment 30(f)-1).

A business day is any day that the offices of a remittance transfer provider are open to the public for carrying on “substantially all business functions.”

Preauthorized remittance transfer is a remittance transfer authorized in advance to recur at substantially regular intervals.

Remittance transfer is an electronic transfer of funds requested by a consumer in a state to a designated recipient that is sent by a remittance transfer provider. The term applies whether or not the consumer holds an account and whether or not the transfer is an electronic fund transfer.

An electronic transfer of funds occurs when

- a. a provider makes an electronic book entry between different settlement accounts to make

- the remittance transfer.
- b. a payment is made under a bill-payment service available to a consumer via computer or other electronic means, except in certain circumstances where a check, draft, or similar paper instrument drawn on a consumer's account under the bill-payment service is mailed abroad.

An electronic transfer of funds does not occur where a sender mails funds directly to a recipient, or funds are provided to a courier for delivery to a foreign country (Comment 30(e)-1).

Transactions of \$15 or less and certain transactions in connection with securities and commodities transfers that are excluded from the definition of an EFT are not remittance transfers (12 CFR 1005.30 (e)(2) and 12 CFR 1005.3(c)(4)).

Remittance transfers include

- a. transfers in cash or by another method conducted through a money transmitter or a financial institution;
- b. consumer wire transfers conducted by a financial institution upon a sender's request to wire money from the sender's account to a designated recipient;
- c. an addition of funds to a prepaid card by a participant in a prepaid card program, such as a prepaid card issuer or its agent, that is directly engaged with the sender to add these funds, where the prepaid card is sent or was previously sent by a participant in the prepaid card program to a person in a foreign country, even if a sender retains the ability to withdraw such funds;
- d. international ACH transactions sent by the sender's financial institution at the sender's request;
- e. online bill payments and other electronic transfers that a sender schedules in advance, including preauthorized remittance transfers, made by the sender's financial institution at the sender's request to a designated recipient (Comment 30(e)-3).

Sender is a consumer in a state, who requests a remittance transfer primarily for personal, family, or household purposes. For account-based transfers, the location of the consumer's account will determine whether the consumer is located in a state. For transfers not made from an account that are requested by telephone or electronically, the remittance transfer provider may make the determination of whether a consumer is located in a state based on information provided by the consumer and any records associated with the consumer (Comment 30(g)-1).

A designated recipient is any person identified by the name provided by a sender to receive a remittance transfer at a location in a foreign country. A designated recipient can be either a natural person or an organization such as a corporation (Comment 30(c)-1). Similar to the definition of "sender," for transfers to a designated recipient's account, where funds are to be received depends on where the recipient's account is located.

"Remittance transfer provider" or "provider" is any person that provides remittance transfers for a consumer in the normal course of its business, regardless of whether the consumer holds an account with such person (12 CFR 1005.30(f)(1)).

Whether a person provides remittance transfers in the "normal course of business" depends on the facts and circumstances, including the total number and frequency of remittance transfers sent by the provider. The rule also provides a safe harbor for a person that provided 100 or fewer remittance transfers in the previous calendar year and provides 100 or fewer remittance transfers in the current calendar year (a total via all channels). Such a person is deemed not to be providing remittance transfers in the normal course of its business and is therefore not subject to the rule's requirements. In determining whether a person qualifies for the safe harbor, any transfers that are excluded from the definition of "remittance transfer" such as small value transactions or certain securities and commodities transfers are excluded. If a person exceeds the safe harbor criteria and is providing remittance transfers for consumers in the normal course of its business, that person has a reasonable period of time, not to exceed six months, to begin complying with subpart B (12 CFR 1005.30(f)(2) and Comment 30(f)-2).

"Covered third-party fees" means any fees that are imposed on the remittance transfer by a person other than the remittance transfer provider that are not non-covered third-party fees. Fees imposed on the remittance transfer include only those fees that are charged to the designated recipient and are specifically related to the remittance transfer (Comment 30(h)-1). Examples include fees imposed on a remittance transfer by intermediary institutions in connection with a wire transfer (sometimes referred to as "lifting fees") and fees imposed on a remittance transfer by an agent of the provider at pick-up for receiving the transfer (Comment 30(h)-2).

"Non-covered third-party fees" means any fees imposed by the designated recipient's institution for receiving a remittance transfer into an account except if the institution acts as an agent of the remittance transfer provider. For example, a fee imposed by the designated recipient's institution

for receiving an incoming transfer into an account is a non-covered third-party fee if the institution is not acting as the agent of the remittance transfer provider. A designated recipient's account does not include a credit card, prepaid card, or a virtual account held by an Internet-based or mobile telephone company that is not a bank, savings association, credit union, or equivalent institution (Comment 30(h)-3).

XI. Disclosures—12 CFR 1005.31

Providers must give senders disclosures at certain stages of the remittance transfer process. The rule requires providers to give senders a prepayment disclosure when a transfer request is made, but prior to payment for the transfer. Providers must also provide a receipt when payment is made for the transfer. Model disclosure forms are provided in Appendix A.

General Form of Disclosures—12 CFR 1005.31(a)

Required disclosures or disclosures permitted by 12 CFR 1005.31(b)(1)(vii) or 12 CFR 1005.33(h)(3) must be clear and conspicuous and generally be provided to the sender in writing. Disclosures may contain commonly accepted or readily understandable abbreviations or symbols. Disclosures are clear and conspicuous if they are readily understandable and, in the case of written and electronic disclosures, the location and type size are readily noticeable to senders. Oral disclosures are clear and conspicuous when they are given at a volume and speed sufficient for a sender to hear and comprehend them (12 CFR 1005.31(a); Comments 31(a)(1)-1 and 31(a)(2)-2).

Prepayment disclosures may be provided electronically without E-SIGN consent, if the sender electronically requests the provider to send the transfer. However, the receipt for the transaction may be provided electronically only with E-SIGN consent (12 CFR 1005.31(a)(2); Comment 31(a)(2)-1).

Written and electronic disclosures generally must be made in a retainable form. Prepayment disclosures provided via mobile application or text message (to the extent permitted by the rule) need not be retainable. In some cases, disclosures may be disclosed orally. For example, prepayment disclosures may be disclosed orally if the transaction is conducted orally and entirely by telephone and the remittance transfer provider complies with certain other disclosure requirements (12 CFR 1005.31(a)(2) and (a)(3)).

Additional requirements apply for certain transfers scheduled at least three days before the date of transfer that are conducted orally over the

telephone or by mobile application or text messaging (12 CFR 1005.31(a)(3)(iv) and (a)(5)(iv)).

Disclosure Requirements—12 CFR 1005.31(b)

Disclosures provided as applicable. The required disclosures need to be provided only to the extent applicable. A remittance transfer provider may choose to omit an item of information if it is inapplicable to a particular transaction. Alternatively, a provider may disclose a term and state that an amount or item is "not applicable," "N/A," or "None" (Comment 31(b)-1).

Substantially similar terms, language, and notices. Certain disclosures must be described using the terms set forth in 12 CFR 1005.31(b) or substantially similar terms. Terms may be more specific than those provided. For example, a remittance transfer provider sending funds may describe fees imposed by an agent at pick-up as "Pick-up Fees" in lieu of describing them as "Other Fees." Foreign language disclosures must contain accurate translations of the required terms, language, and notices as well as the disclosures permitted by 12 CFR 1005.31(b)(1)(viii) and 1005.33(h)(3) (Comment 31(b)-2).

Prepayment disclosures—12 CFR 1005.31(b)(1)

A remittance transfer provider must provide the prepayment disclosure when the sender requests the remittance transfer but prior to payment for the transfer. The provider must disclose:

- a. the amount to be transferred (transfer amount),
- b. front-end fees imposed by the provider and any taxes collected on the remittance transfer by the provider (transfer fees and transfer taxes),
- c. total amount of the transaction (the sum of the transfer amount and front-end fees and taxes),
- d. the exchange rate,
- e. any covered third-party fees (other fees),
- f. the total amount to be received by the designated recipient (total amount of the transaction minus covered third-party fees), and
- g. a statement that non-covered third-party fees or taxes collected on the remittance transfer by a third person may apply to the remittance transfer and result in the designated recipient receiving less than the amount disclosed. In this statement, a provider also may, but is not required, to disclose in the currency in which the funds will be received, any applicable non-covered third-party fees or taxes collected by a person other than the provider.

Transfer amount. Two transfer amount disclosures are required in the prepayment disclosures.

1. The transfer amount in the currency in which the sender funds the remittance transfer to show the calculation of the total amount of the transaction.
2. The transfer amount in the currency in which the funds will be made available to the designated recipient. This second transfer amount need not be disclosed if covered third-party fees are not imposed on the remittance transfer. The terms used to describe each transfer amount should be the same (Comment 31(b)(1)-2).

Fees and taxes. Fees imposed and taxes collected on the remittance transfer by a provider must be disclosed in the currency in which the transaction is funded, as applicable. Taxes collected on the remittance transfer by the provider include taxes imposed on the remittance transfer by a state or other governmental body (Comment 31(b)(1)-1(i)).

The fees and taxes required to be disclosed by 12 CFR 1005.31(b)(1)(ii) include all fees imposed and all taxes collected on the remittance transfer by the provider and include only those that are specifically related to the remittance transfer. For example, a provider must disclose any service fees imposed by an agent at the time of the transfer and any state taxes collected on the remittance transfer (Comment 31(b)(1)-1(ii)).

Applicable exchange rate. If the designated recipient will receive funds in a currency other than the currency in which the remittance transfer is funded, a remittance transfer provider must disclose the exchange rate to be used by the provider for the remittance transfer (Comment 31(b)(1)(iv)-1).

Rounding. The exchange rate disclosed for the remittance transfer is required to be rounded on the disclosure. The provider may round to two, three, or four decimal places, at its option, but this must be done consistently for each currency. (Comment 31(b)(1)(iv)-2). However, the exchange rate used to calculate: (a) the transfer amount, (b) the fees and taxes imposed on the remittance transfer by a person other than the provider, and (c) the amount received by the designated recipient, is prior to any rounding. If an exchange rate need not be rounded, a provider must use that exchange rate to calculate these disclosures (Comment 31(b)(1)-3).

Exchange rate used. The exchange rate used by the provider for the remittance transfer need not have been set by the provider. For example, an exchange rate set by an intermediary institution and applied to the remittance transfer would be the exchange rate used for the remittance transfer and must be disclosed by the provider (Comment 31(b)(1)(iv)-3).

Disclosure of covered third-party fees. Covered third-party fees must be disclosed in the currency in which the funds will be received by the designated recipient, using the applicable exchange rate, or an estimated exchange rate to the extent permitted, prior to any rounding of the exchange rate. If a provider does not have specific knowledge regarding the currency in which the funds will be received, the provider may rely on a sender's representation as to the currency in which funds will be received. If a sender does not know the currency in which funds will be received, the provider may assume that the currency in which funds will be received is the currency in which the remittance transfer is funded (Comment 31(b)(1)(vi)-1).

Amount received. The remittance transfer provider is required to disclose the amount that will be received by the designated recipient in the currency in which the funds will be received. The amount received must reflect the exchange rate, all fees imposed and all taxes collected on the remittance transfer by the remittance transfer provider, as well as any covered third-party fees required to be disclosed. The disclosed amount received must be reduced by the amount of any fees or taxes (except non-covered third-party fees or taxes collected on the remittance transfer by a person other than the provider) imposed on the remittance transfer that affect the amount received even if that amount is imposed or itemized separately from the transaction amount. (Comment 31(b)(1)(vii)-1).

Required disclaimer when non-covered third-party fees and taxes collected by a person other than the provider may apply. The provider is required to include a disclaimer that non-covered third-party fees or taxes may apply to the remittance transfer if such taxes and fees apply to a particular transfer or the provider does not know whether they apply. This disclosure may only be provided to the extent applicable. For example, if the designated recipient's institution is an agent of the provider and thus non-covered third-party fees cannot apply to the transfer, the provider must disclose all fees imposed on the remittance transfer and may not provide the disclaimer regarding non-covered third-party fees (Comment 31(b)(1)(viii)-1).

Optional disclosure of non-covered third-party fees and taxes collected by a person other than the provider. The provider is permitted to disclose any non-covered third-party fees or taxes collected on the remittance transfer by a person other than the provider that will apply to a particular transaction if it knows the amount of such fees and taxes. Additionally, the provider is permitted to disclose an estimate of such fees and taxes, provided any

estimates are based on reasonable source of information (Comment 31(b)(1)(viii)-2; 12 CFR 1005.32(b)(3) and Comment 32(b)(3)-1).

Receipt—12 CFR 1005.31(b)(2)

When payment is made, a remittance transfer provider must provide a receipt to a sender disclosing all applicable information required in the prepayment disclosure. The receipt must also disclose, as applicable:

- a. the date of availability of the funds (date available);
- b. the name and, if provided by the sender, the telephone number and/or address of the designated recipient (recipient);
- c. a statement about the sender's error resolution and cancellation;
- d. specified contact information for the remittance transfer provider; and
- e. the transfer date for remittance transfers scheduled at least three business days in advance, or the first transfer in a series of preauthorized transfers.

The provider must also provide a statement that the sender can contact the state agency that licenses or charters the remittance transfer provider with respect to the particular transfer (if applicable), and the Consumer Financial Protection Bureau (CFPB) for questions or complaints about the remittance transfer provider. The statement must include the name of the agency(ies), telephone number(s), and website address(es).

Date funds will be available. The provider must disclose the date in the foreign country on which the funds will be available to the designated recipient, using the term "Date Available" or a substantially similar term. If a provider does not know the exact date on which funds will be available, the provider may disclose the latest date on which the funds will be available. The provider may also disclose that funds "may be available sooner" or use a substantially similar term to inform senders that funds may be available to the designated recipient on a date earlier than the date disclosed (Comment 31(b)(2)-1).

Agencies required to be disclosed. The provider must disclose information about a state agency that licenses or charters the provider with respect to the particular remittance transfer. If a financial institution is solely regulated by a federal agency, the institution does not need to disclose information about a state agency. However, information about the CFPB must be provided whether or not the CFPB is the provider's primary federal regulator. (Comment 31(b)(2)-2). If a provider is licensed in

multiple states, and the state agency that licenses the provider with respect to the remittance transfer is determined by the sender's location, a provider may make the determination of the sender's state based on information provided by the sender and on any records associated with the sender. A state-chartered bank must disclose information about the state agency that granted its charter, regardless of the location of the sender (Comment 31(b)(2)-3).

Date of transfer on receipt. For remittance transfers scheduled at least three business days in advance, or the first transfer in a series of preauthorized transfers, the date of transfer for the remittance transfer must be disclosed on the receipt. Additional disclosures apply to subsequent preauthorized remittance transfers, as described below regarding 12 CFR 1005.36(d) (Comment 31(b)(2)-4).

Cancellation disclosure. The provider may provide the three-business-day right-to-cancel notice (for transfers scheduled three or more business days before the transfer date) and the 30-minute right-to-cancel notice (for transfers scheduled fewer than three business days in advance), on the same disclosure, with a checkbox or other method to clearly designate the applicable cancellation period. For transfers scheduled three or more business days before the transfer date, the cancellation disclosure should be phrased and formatted in such a way that it is clear to the sender which cancellation period is applicable to the date of transfer disclosed on the receipt (Comment 31(b)(2)-6).

Combined disclosure—12 CFR 1005.31(b)(3)

As an alternative to providing separate prepayment and receipt disclosures, a remittance transfer provider may provide the information in the receipt in a single disclosure when the sender requests the remittance transfer, but prior to payment for the transfer. If this combined disclosure is provided and the sender completes the transfer, the remittance transfer provider must provide the sender with proof of payment when payment is made for the remittance transfer. For one-time transfers scheduled at least five business days in advance, or for the first in a series of preauthorized transfers, the provider may provide confirmation that the transaction has been scheduled in lieu of the proof of payment if payment is not processed at the time the remittance transfer is scheduled. No further proof of payment is required when payment is later processed.

Proof of payment/confirmation of scheduling. The proof of payment or confirmation of scheduling

must be clear and conspicuous, provided in writing or electronically, and provided in a retainable form. The proof of payment for the transaction may be provided on the same piece of paper as the combined disclosure or on a separate piece of paper. A provider may also provide this additional information to a sender on a separate piece of paper when payment is made (12 CFR 1005.31(b)(3)(ii) and Comment 31(b)(3)-1).

Long-form error resolution and cancellation notice—12 CFR 1005.31(b)(4)

At the sender's request, a remittance transfer provider is required promptly to provide a notice describing the sender's error resolution and cancellation rights, using language set forth in Model Form A-36 of Appendix A or substantially similar language. For any remittance transfer scheduled by the sender at least three business days before the date of the transfer, the description of the rights of the sender regarding cancellation must instead reflect the requirements of 12 CFR 1005.36(c).

Specific Format of Disclosures—12 CFR 1005.31(c)

Grouping of disclosed information. Disclosures related to transfer amount, transfer fees and taxes imposed by the provider, and the total amount of the transaction generally must be grouped together. Similarly, disclosures related to the transfer amount in the currency to be made available to the designated recipient, covered third-party fees, taxes collected on the remittance by the provider, the total amount to be received by the designated recipient, and the disclaimer statement generally must be grouped together. Information is grouped together if multiple disclosures are in close proximity to one another and a sender can reasonably calculate the total amount of the transaction and the amount that will be received by the designated recipient (12 CFR 1005.31(c)(1) and Comment 31(c)(1)-1).

Proximity of disclosed information. The exchange rate used for the remittance transfer generally must be disclosed in close proximity to the other information required in the prepayment disclosure. Disclosures on error resolution and cancellation rights must generally be disclosed in close proximity to the other disclosures required on the receipt (12 CFR 1005.31(c)(2)).

Prominence and size of disclosures. Disclosures required by subpart B or permitted by 12 CFR 1005.31(b)(1)(viii) that are provided in writing or electronically, other than disclosures permitted to be provided via mobile application or text message, must be in a minimum of eight-point font and

in equal prominence to each other. They must be provided on the front of the page on which the disclosures are printed (12 CFR 1005.31(c)(3)).

Segregation of disclosures from other information. Disclosures that are provided in writing or electronically, other than disclosures permitted to be provided via mobile application or text message, must be segregated from everything else and must contain only information that is "directly related" to the disclosures (12 CFR 1005.31(c)(4)).

The following is "directly related" information:

- a. the date and time of the transaction;
- b. the sender's name and contact information;
- c. the location at which the designated recipient may pick up the funds;
- d. the confirmation or other identification code;
- e. a company name and logo;
- f. an indication that a disclosure is or is not a receipt or other indicia of proof of payment;
- g. a designated area for signatures or initials;
- h. a statement that funds may be available sooner;
- i. instructions regarding the retrieval of funds, such as the number of days the funds will be available to the recipient before they are returned to the sender;
- j. a statement that the provider makes money from foreign currency exchange; and
- k. disclosure of any non-covered third-party fees and any taxes collected by a person other than the provider (Comment 31(c)(4)-2).

Terms used in the case of estimated disclosures. A remittance transfer provider may provide estimates of the amounts required to be disclosed in the prepayment disclosure, receipt, and combined disclosure to the extent permitted by 12 CFR 1005.32. An estimate must be described using the term "Estimated" or a substantially similar term in close proximity to the estimated term or terms. For example, a remittance transfer provider could describe an estimated disclosure as "Estimated Transfer Amount," "Other Estimated Fees and Taxes," or "Total to Recipient (Est.)" (12 CFR 1005.31(d) and Comment 31(d)-1).

Request to send a remittance transfer. Determining whether a consumer has requested a remittance transfer depends on the facts and circumstances. A sender who asks a provider to send a remittance transfer, and provides transaction-specific information to the provider in order to send funds to a designated recipient, has requested a remittance transfer. However, a consumer who solely inquires about that day's rates and fees to send to a particular country has not requested the

provider to send a remittance transfer (Comment 31(e)-1).

When payment is made. Payment is made when a sender provides cash to the remittance transfer provider or when payment is authorized (Comment 31(e)-2).

Disclosures related to mobile application and text message transactions. If a transaction is conducted entirely by telephone via mobile application or text message, a receipt may be mailed or delivered to the sender pursuant to the timing requirements for transfers conducted entirely by telephone (Comment 31(e)-4).

Accuracy of disclosures—when payment is made. Disclosures required by subpart B or permitted by 12 CFR 1005.31(b)(1)(viii) must be accurate when a sender makes payment for the remittance transfer, except to the extent estimates are permitted. A remittance transfer provider is not required to guarantee the terms of the remittance transfer in the prepayment disclosures for any specific period of time. However, if any of these disclosures are not accurate when a sender makes payment for the remittance transfer, the provider must give new disclosures before accepting payment (12 CFR 1005.31(f) and Comment 31(f)-1).

Foreign language disclosures

Written and electronic disclosures required by subpart B or permitted by 12 CFR 1005.31(b)(1)(viii) generally must be provided in English and in each foreign language principally used to advertise, solicit, or market remittance transfer services at the office in which a sender conducts a transaction or asserts an error. Alternatively, written and electronic disclosures can be provided in English and in the foreign language primarily used by the sender with the remittance transfer provider, provided such foreign language is principally used to advertise, solicit, or market remittance transfers at the office in which a sender conducts a transaction or asserts an error. For transfers requested orally, by text message, or mobile application, the disclosures must be in the language primarily used by the sender to communicate with the transfer provider (12 CFR 1005.31(g)).

Number of foreign languages used in written disclosure. There is no limit to the number of languages that may be used on a single document, but such disclosures must be clear and conspicuous. If the remittance transfer provider chooses to provide written and electronic disclosures in English and in the foreign language primarily used by the sender with the remittance transfer provider, it may provide disclosures in a single document with both languages or in two separate documents with

one document in English and the other document in the applicable foreign language (Comment 31(g)-1).

Language “primarily used.” The language primarily used by the sender with the remittance transfer provider to conduct the transaction is the primary language used by the sender with the remittance transfer provider to convey the information necessary to complete the transaction. Similarly, the language primarily used by the sender with the remittance transfer provider to assert the error is the primary language used by the sender with the remittance transfer provider to provide the information required to assert an error (Comment 31(g)-2).

Language “principally” used. Whether a foreign language is principally used by the remittance transfer provider to advertise, solicit, or market is determined from all relevant facts and circumstances, including

- a. the frequency with which the foreign language is used in advertising, soliciting, or marketing of remittance transfer services at that office;
- b. the prominence of the advertising, soliciting, or marketing of remittance transfer services in that foreign language at that office; and
- c. the specific foreign language terms used in the advertising soliciting, or marketing of remittance transfer services at that office (Comment 31(g)(1)-1(i)).

Language used to advertise, solicit, or market. Any commercial message in a foreign language, appearing in any medium, that promotes directly or indirectly the availability of remittance transfer services constitutes advertising, soliciting, or marketing in such foreign language (Comment 31(g)(1)-2).

Office. An office includes any physical location, telephone number, or website of a remittance transfer provider where a sender may conduct a remittance transfer or assert an error for a remittance transfer (Comment 31(g)(1)-3).

At the office. Any advertisement, solicitation, or marketing is considered to be made at the office in which a sender conducts a transaction or asserts an error if it is posted, provided, or made: at a physical office, on a website of a remittance transfer provider that may be used by senders to conduct remittance transfers or assert errors, during a telephone call with a remittance transfer provider that may be used by senders to conduct remittance transfers or assert errors, or via mobile application or text message if the mobile application or text message may be used by senders to conduct remittance transfers or assert errors (Com-

ment 31(g)(1)-4).

XII. Estimates—12 CFR 1005.32

Disclosures for which estimates may be used. Estimates may be used in certain circumstances for certain information required in prepayment disclosures, receipts, and combined disclosures.

Temporary Exception for Insured Institutions—12 CFR 1005.32(a)

Estimates may be provided for certain amounts required to be disclosed in the prepayment disclosures, receipts and combined disclosures if

- a. the remittance transfer provider cannot determine the exact amounts for reasons beyond its control;
- b. the remittance transfer provider is an insured institution; and
- c. the remittance transfer is sent from the sender's account with the institution.

An insured institution means an insured depository institution (including an uninsured U.S branch and agency of a foreign depository institution) and an insured credit union (12 CFR 1005.32(a)(3)).

Control. An insured institution cannot determine exact amounts “for reasons beyond its control” when a person other than the insured institution or with which the insured institution has no correspondent relationship sets the exchange rate or imposes a covered third-party fee required to be disclosed. For example, if an insured institution has a correspondent relationship with an intermediary financial institution in another country and that intermediary institution sets the exchange rate or imposes a fee for remittance transfers sent from the insured institution to the intermediary institution, then this exception is not applicable and the insured institution must determine exact amounts for the disclosures because the determination of those amounts are not beyond the insured institution’s control (Comment 32(a)(1)-1).

Covered third-party fees. An insured institution cannot determine the exact covered third-party fees to disclose if, for example, an intermediary institution with which the insured institution does not have a correspondent relationship imposes a transfer or conversion fee. However, an insured institution can determine the exact covered third-party fees required to be disclosed if it has agreed upon the specific fees with an intermediary correspondent institution, and this correspondent institution is the only institution in the transmittal route to the designated recipient’s institution (Comments 32(a)(1)-2(ii) and -3(ii)).

The temporary exception is available for insured institutions until July 21, 2015.

Permanent Exception for Transfers to Certain Countries—12 CFR 1005.32(b)(1)

Estimates may be provided in prepayment disclosures, receipts, or combined disclosures for transfers to certain countries if a remittance transfer provider cannot determine the exact amounts at the time the disclosure is required either because

- a. the laws of the recipient country do not permit such a determination, or
- b. the method by which transactions are made in the recipient country does not permit such determination.

Laws of the recipient country. The laws of the recipient country do not permit a remittance transfer provider to determine exact amounts required to be disclosed when a law or regulation of the recipient country (e.g., currency exchange or certain privacy laws) do not allow the person making funds directly available to the designated recipient to determine the exact amounts at the time the disclosure is required. A typical example is where the law requires an exchange rate to be either

- a. set by the government of the recipient country after the remittance transfer provider sends the remittance transfer; or
- b. set when the designated recipient receives the funds (Comment 32(b)(1)-1).

Method by which transactions are made in the recipient country. The method by which transactions are made in the recipient country does not permit a remittance transfer provider to determine exact amounts required to be disclosed when transactions are sent via international ACH on terms negotiated between the United States government and the recipient country’s government, under which the exchange rate is a rate set by the recipient country’s central bank or other governmental authority after the provider sends the remittance transfer (Comment 32(b)(1)-3).

Safe harbor list. The remittance transfer provider may rely on a list of countries published by the CFPB to determine whether estimates may be provided for the exchange rate, the transfer amounts, covered third-party fees, and total amount to the recipient. If a country is on the CFPB’s list, the provider may give estimates under this section, unless it has information that a country on the list legally permits the provider to determine exact disclosure amounts. If a country does not appear on the CFPB’s list, the provider may provide estimates if it determines that the recipient country does not legally permit or the method by which transactions are conducted in that country does not permit the provider to determine exact disclosure

amounts (Comments 32(b)(1)-5 and 32(b)(1)-6).

Change in laws of recipient country. If the laws of a recipient country change such that a remittance transfer provider can determine exact amounts, the remittance transfer provider must begin providing exact amounts for the required disclosures as soon as reasonably practicable. If the laws of a recipient country change such that the provider cannot determine exact disclosure amounts, the provider may provide estimates even if that country does not appear on the list published by the CFPB (Comment 32(b)(1)-7).

Permanent Exception for Transfers Scheduled before the Date of Transfer—12 CFR 1005.32(b)(2)

For remittance transfers scheduled five or more business days before the date of the transfer, estimates may be provided for the exchange rate, transfer amount, covered third-party fees (where the exchange rate is also estimated and affects such fees), and the total amount to recipient, if at the time the sender schedules such a transfer, the provider agrees to a sender's request to fix the amount to be transferred in the currency in which the remittance transfer will be received and not the currency in which it is funded. For example, if a sender schedules a wire transfer to be sent from the sender's bank account denominated in U.S. dollars but to be paid to the recipient in euro transfer, the provider is allowed to estimate the transfer amount, front-end fees or taxes collected by the provider (if based on the amount transferred), and the total amount of the transaction. The provider is also allowed to estimate any covered third-party fees if the exchange rate is also estimated and the estimated exchange rate affects the amount of fees. (12 CFR 1005.32(b)(2) and Comment 32(b)(2)-1).

Permanent Exception for Optional Disclosure of Non-covered Third-Party Fees and Taxes Collected on the Remittance Transfer by a Person Other Than the Provider—12 CFR 1005.32(b)(3)

The remittance transfer provider may provide estimates (as part of the required disclaimer statement) for applicable non-covered third-party fees and taxes collected on the remittance transfer by a person other than the provider, if such estimates are based on reasonable sources of information. Reasonable sources of information may include, for example: information obtained from recent transfers to the same institution or the same country or region; fee schedules from the recipient institution; fee schedules from the recipient institution's competitors; surveys of recipient

institution fees in the same country or region as the recipient institution; information provided or surveys of recipient institutions' regulators or taxing authorities; commercially or publicly available databases, services or sources; and information or resources developed by international nongovernmental organizations or intergovernmental organizations (Comment 32(b)(3)-1).

Bases for Estimates—12 CFR 1005.32(c) and (d)

If a remittance transfer provider qualifies for either the temporary or permanent exception, the rule allows two bases for estimating information in the disclosures:

1. The estimates must generally be based on any of the approaches listed in the rule (12 CFR 1005.32(c)(1)).
2. Alternatively, the estimates may be based on an approach that is not listed, provided that the designated recipient receives the same, or greater, amount of funds than the remittance transfer provider disclosed.

For remittance transfers scheduled five or more business days before the date of the transfer, estimates must be based on the exchange rate or, where applicable, the estimated exchange rate that the provider would have used or did use that day to provide disclosures to a sender requesting such a remittance transfer to be made on the same day.

Approaches listed in the rule

Estimates of the exchange rate. For remittance transfers sent via international ACH, the estimate must be based on the most recent exchange rate set by the recipient country's central bank or other governmental authority and reported by a Federal Reserve Bank. For any remittance transfers for which estimates are permitted, the exchange rate may be estimated based on the most recent publicly available wholesale exchange rate and any applicable spread that the remittance transfer provider or its correspondent typically applies for remittance transfers for that currency or the most recent exchange rate offered or used by the person making funds available directly to the designated recipient or by the person setting the exchange rate (12 CFR 1005.32(c)(1)).

Where the exchange rate for a remittance transfer sent via international ACH that qualifies for the permanent exception is set the following business day, the most recent exchange rate available for a transfer is the exchange rate set for the day that the disclosure is provided, i.e. the current business day's exchange rate (Comment 32(c)(1)-1).

Publicly available. Examples of publicly available sources of information containing the most recent wholesale exchange rate for a currency include U.S. news services, such as Bloomberg, the Wall Street Journal, and the New York Times; a recipient country's national news services, and a recipient country's central bank or other government agency (Comment 32(c)(1)-2).

Spread applied to the wholesale exchange rate. An estimate for disclosing the exchange rate based on the most recent publicly available wholesale exchange rate must also reflect any spread the remittance transfer provider typically applies to the wholesale exchange rate for remittance transfers for a particular currency (Comment 32(c)(1)-3).

Most recent exchange rate. If the exchange rate with respect to a particular currency is published or provided multiple times throughout the day because the exchange rate fluctuates throughout the day, a remittance transfer provider may use any exchange rate available on that day to determine the most recent exchange rate (Comment 32(c)(1)-4).

Estimates of the transfer amount and covered third-party fees in the currency in which funds will be received by the designated recipient. Estimates of the transfer amount in the currency in which the funds will be received by the designated recipient as well as covered third-party fees imposed as a percentage of the amount transferred must be based on the estimated exchange rate, prior to any rounding (12 CFR 1005.32(c)(2) and (3)(i)).

Estimates of the fees imposed by intermediary or final institution. Estimates for covered third-party fees imposed by intermediary or final institutions that act as intermediaries or by the designated recipient's institution must be based on the remittance transfer provider's most recent remittance transfer to the designated recipient's institution or a representative transmittal route identified by the remittance transfer provider (12 CFR 1005.32(c)(3)(ii)).

Estimates of the amount of currency that will be received by the designated recipient. Estimates for the amount of currency that will be received by the designated recipient must be based on the estimates provided in accordance with 12 CFR 1005.31(c)(1) through (3) as applicable for the transaction (12 CFR 1005.32(c)(4)).

XIII. Procedures for Resolving Errors—12 CFR 1005.33

Definition of Error—12 CFR 1005.33(a)

In connection with an error asserted under 12 CFR 1005.33, the term error means

- a. generally, an incorrect amount paid by a sender

- in connection with a remittance transfer;
- b. a computational or bookkeeping error made by the remittance transfer provider relating to the remittance transfer;
- c. the failure, generally, to make available to a designated recipient the amount of currency required to be disclosed under 12 CFR 1005.31 (b)(vii) and stated in the disclosure provided to the sender unless the disclosure stated an estimate of the amount paid and the difference results from application of the actual exchange rate, fees, and taxes, rather than any estimated amount;
- d. the failure, generally, to make funds available to a designated recipient by the date of availability stated in the disclosure provided to the sender; or
- e. the sender's request for documentation required by 12 CFR 1005.31 or for additional information or clarification concerning a remittance transfer, including a request a sender makes to determine whether an error exists. (See more detailed discussion of errors and exceptions below.)

Error due to incorrect amount of currency paid by sender. This type of error covers circumstances in which a sender pays an amount that differs from the total amount of the transaction, including fees imposed in connection with the transfer stated in the receipt or combined disclosure provided. However, there is no error if the disclosure appropriately stated an estimate of the amount paid by the sender and the difference results from application of the actual exchange rate, fees, and taxes rather than any estimated amounts (12 CFR 1005.33(a)(1)(i) and Comment 33(a)-1).

Error due to incorrect amount of currency received. This type of error covers circumstances in which the designated recipient receives an amount of currency that differs from the amount of currency identified on the disclosures provided to the sender. It also covers circumstances in which the remittance transfer provider transmits an amount that differs from the amount requested by the sender. There are three general exceptions to this. There is no error if

- a. the disclosure appropriately, under one of the two exceptions under 12 CFR 1005.32, stated an estimate of the amount of currency to be received and the difference results from application of the actual exchange rate, fees, and taxes rather than any estimated amounts, or
- b. the failure was caused by extraordinary circumstances outside the remittance transfer provider's control; or
- c. the difference results from the application of

non-covered third-party fees or taxes collected on the remittance transfer by a person other than the provider and the provider provided the required disclaimer.

A designated recipient may receive an amount of currency that differs from the amount of currency disclosed and an error has occurred if for example

- a. an exchange rate other than the disclosed rate is applied to the remittance transfer, or
- b. the provider provides the sender a receipt stating an amount of currency that will be received by the designated recipient, which does not reflect additional covered third-party fees that are imposed by the receiving agent in the destination country. However, if the designated recipient will receive less than the amount of currency disclosed on the receipt due solely to the additional foreign taxes that the provider was not required to disclose, no error has occurred (Comment 33(a)-3(ii)).

Exception for extraordinary circumstances outside the remittance transfer provider's control. If the provider fails to make the amount of currency disclosed available to the designated recipient, such an occurrence is not an error if such failure was caused by extraordinary circumstances outside the remittance transfer provider's control that could not have been reasonably anticipated. Examples of extraordinary circumstances outside the remittance transfer provider's control that could not have been reasonably anticipated include war or civil unrest, natural disaster, garnishment or attachment of some of the funds after the transfer is sent, and government actions or restrictions that could not have been reasonably anticipated by the remittance transfer provider, such as the imposition of foreign currency controls or foreign taxes unknown at the time the receipt or combined disclosure is provided (Comment 33(a)-4). Note that foreign taxes are not required to be disclosed. However, if a provider, believing that there is no applicable foreign tax, elects not to provide a disclaimer pursuant to 1005.31(b)(1)(viii), no error has occurred if a new tax is imposed that could not have been reasonably anticipated at the time the receipt or combined disclosure was required to be given.

Error due to failure to make funds available by disclosed date of availability. This error generally covers disputes about the failure to make remittance transfer funds available to a designated recipient by the disclosed date of availability. Examples of errors for failure to make funds available by the disclosed date of availability include, late or non-delivery of a remittance transfer, delivery of funds to the wrong account, the fraudulent pick-up of a remittance transfer in a

foreign country by a person other than the designated recipient, and the recipient agent or institution's retention of the remittance transfer, instead of making the funds available to the designated recipient.

There is no error if funds were not made available by the disclosed date due to:

- a. extraordinary circumstances outside the remittance transfer provider's control that could not have been reasonably anticipated;
- b. delays related to the remittance transfer provider's fraud screening procedures or in accordance with the Bank Secrecy Act, Office of Foreign Assets Control requirements, or similar laws or requirements; or
- c. the remittance transfer was made with fraudulent intent by the sender or any person acting in concert with the sender (i.e., friendly fraud); or
- d. the sender provided the remittance transfer provider an incorrect account number or recipient institution identifier for the designated recipient's account or institution, and the remittance transfer provider
 - i. can demonstrate that the sender provided an incorrect account number or recipient institution identifier to the provider in connection with the remittance transfer;
 - ii. prior to or when sending the transfer, used reasonably available means to verify (for recipient institution identifier errors only) that the recipient institution identifier provided by the sender corresponded to the recipient institution name provided by the sender;
 - iii. provided notice to the sender (prior to payment for the remittance transfer) that, in the event the sender provided an incorrect account number or recipient institution identifier, the sender could lose the transfer amount.
 - iv. the incorrect account number or recipient institution identifier resulted in the deposit of the remittance transfer into a customer's account that is not the designated recipient's account; and
 - v. promptly used reasonable efforts to recover the amount that was to be received by the designated recipient.

Account number or recipient institution identifier. Account number and recipient institution identifier refer to alphanumerical account or institution identifiers other than names or addresses, such as account numbers, routing numbers, Canadian transit numbers, International Bank Account Numbers, Business Identifier Codes, and other similar

account or institution identifiers used to route a transaction. Designated recipient's account refers to an asset account but does not include a credit card, prepaid card, or a virtual account held by an Internet-based or mobile telephone company that is not a bank, savings association, credit union, or equivalent institution (Comment 33(a)-8).

Reasonable methods of verification. Reasonably available means may include accessing a directory of Business Identifier Codes and verifying that the code provided by the sender matches the provided institution name, and, if possible, the specific branch or location provided by the sender. A provider may also rely on other commercially available databases or directories to check other recipient institution identifiers. The requirement to verify would be met if no reasonably available means exist to verify the accuracy of the recipient institution identifier if the other conditions are satisfied (Comment 33(h)-1).

Reasonable efforts. Whether a provider has used reasonable efforts does not depend on whether the provider is ultimately successful in recovering the amount that was to be received by the designated recipient. If the remittance transfer provider is requested to provide documentation or other supporting information in order for the pertinent institution or authority to obtain the proper authorization for the return of the incorrectly credited amount, reasonable efforts to recover the amount include timely provision of any such documentation to the extent that it is available and permissible under law (Comment 33(h)-2).

Promptness of reasonable efforts. Whether a provider acts promptly to use reasonable efforts depends on the facts and circumstances. For example, if, before the disclosed date of availability the sender informs the provider that the sender provided a wrong account number, the provider will have acted promptly if it attempts to contact the recipient's institution before the date of availability (Comment 33(h)-3).

Failure to make funds available by disclosed date of availability due to circumstances outside the remittance transfer provider's control. A remittance transfer provider's failure to deliver or transmit a remittance transfer by the disclosed date of availability is not an error if such failure was caused by extraordinary circumstances outside the remittance transfer provider's control that could not have been reasonably anticipated. Examples of such circumstances include war or civil unrest, natural disaster, garnishment or attachment of funds after the transfer is sent, and government actions or restrictions that could not have been reasonably anticipated by the remittance transfer provider, such as the imposition of foreign currency controls (Comment 33(a)-6).

Issues that are not considered errors under subpart B

The following are not errors:

- a. an inquiry about the status of a remittance transfer except where the funds from the transfer were not made available to a designated recipient by the disclosed date of availability;
- b. a request for information for tax or other record-keeping purposes;
- c. a change requested by the designated recipient that the remittance transfer provider or others involved in the remittance transfer decide to accommodate; or
- d. a change in the amount or type of currency received by the designated recipient from the amount or type of currency stated in the disclosure provided to the sender if the remittance transfer provider relied on information provided by the sender (12 CFR 1005.33(a)(2) and Comment 33(a)-10).

Notice of Error from Sender—12 CFR 1005.33(b)

Person asserting or discovering error. The error resolution procedures apply only when a notice of error is received from the sender (Comment 33(b)-1).

Timing of error notice. The notice of error must be received by the remittance transfer provider within 180 days of the disclosed date of availability of the remittance transfer (12 CFR 1005.33(b)(1)). But if the notice of error is based on documentation, additional information, or clarification provided by the remittance transfer provider, then notice is timely if it is received by the remittance transfer provider the later of

- a. 180 days after the disclosed date of availability of the remittance transfer, or
- b. 60 days after the provider sent the documentation, information, or clarification that had been requested (12 CFR 1005.33(b)(2)).

Content of error notice. Errors may be reported orally or in writing. The notice of error is effective so long as the remittance transfer provider is able to identify

- a. the sender's name and telephone number or address (or e-mail address);
- b. the recipient's name and, if known, telephone number and address;
- c. the remittance transfer to which the notice of error applies; and
- d. why the sender believes an error exists and, if

possible, the type, date, and amount of the error, except for errors involving requests for documentation, additional information, or clarification.

For example, the sender could provide the confirmation number or code that would be used by the designated recipient to pick up the transfer, or other identification number or code supplied by the remittance transfer provider in connection with the transfer, if the number or code is sufficient for the remittance transfer provider to identify the sender (and contact information), designated recipient, and the transfer in question (Comment 33(b)-2 and 3).

Effect of late notice. A remittance transfer provider is not required to comply with the error resolution requirements for any notice of error from a sender that is received more than 180 days from the disclosed date of availability of the remittance transfer or, if applicable, more than 60 days after a provider sent documentation, additional information, or clarification requested by the sender (Comment 33(b)-4).

Notice of error provided to agent. A notice of error provided by a sender to an agent of the remittance transfer provider is deemed to be received by the provider when the agent receives it (Comment 33(b)-5).

Consumer notice of error resolution rights. In addition to the requirement to provide an abbreviated notice of the consumer's error resolution rights on the receipt or combined notice, the remittance transfer provider must make available to a sender, upon request, a notice providing a full description of the sender's error resolution rights, using language set forth in Appendix A (Model Form A-36) or substantially similar language (Comment 33(b)-6).

Time Limits and Extent of Investigation—12 CFR 1005.33(c)

A remittance transfer provider must investigate promptly and determine whether an error occurred within 90 days of receiving a notice of error. The remittance transfer provider must report the results to the sender within three business days after completing its investigation and include notice of any remedies available for correcting any error that the provider determines has occurred. If the remittance transfer provider determines during its investigation that an error occurred as described by the sender, the remittance provider may inform the sender of its findings either orally or in writing. However, if the provider determines that no error or a different error occurred, the provider must provide a written explanation of the findings, and note the sender's right to request the documents on

which the provider relied in making its determination (Comment 33(c)-1).

Remedies

If the remittance transfer provider determines an error (as defined in subpart B) occurred and the error relates to

- a. an incorrect amount paid by the sender,
- b. a computational or bookkeeping error made by the remittance transfer provider, or
- c. failure to make the amount of currency stated in the disclosures available to the designated recipient.

the provider must either

- a. refund the amount of funds provided by the sender in connection with a remittance transfer which was not properly transmitted or the amount appropriate to resolve the error, or
- b. make available to the designated recipient, the amount appropriate to resolve the error without additional cost to the sender or the designated recipient (12 CFR 1005.33(c)(2)(i)).

If the error relates to a sender's request for documentation or additional information or clarification to determine whether an error exists, the remittance transfer provider must provide the requested information (12 CFR 1005.33(c)(2)(iv)).

Remedy in the case of failure to make funds available by the disclosed date of availability.

- a. Where failure to make funds available by the disclosed date of availability occurred due to incorrect or insufficient information provided by the sender:

The remittance transfer provider is required to refund to the sender the amount of funds that was not properly transmitted, or the amount appropriate to resolve the error, within three business days of providing the written explanation of findings. However, the provider may agree to the sender's request, upon receiving the results of the error investigation, to apply the funds toward a new remittance transfer, rather than be refunded, if the provider has not yet processed a refund.

In such an instance, the provider may deduct from the amount refunded or applied toward a new transfer any fees actually imposed by a person other than the provider (except those that will ultimately be refunded to the provider) on or, to the extent not prohibited by law, taxes actually collected on the remittance transfer as part of the first unsuccessful remittance transfer

attempt and inform the sender of the deduction and reason. The agreement to apply the funds toward a new transfer is treated as a new remittance transfer, and the provider must provide new disclosures in accordance with 12 CFR 1005.31 and all other applicable provisions of subpart B (12 CFR 1005.33(c)(2)(iii)) and Comments 33(c)-11 and -12).

- b. All other instances of failure to make funds available by the disclosed date of availability: As applicable, the remittance transfer provider must either

- i. refund to the sender, the amount of funds which was not properly transmitted or the amount appropriate to resolve the error; or
- ii. make available to the designated recipient the amount appropriate to resolve the error without additional cost to the sender or to the designated recipient; and

refund to the sender any fees imposed and, to the extent not prohibited by law, taxes collected on the remittance transfer (12 CFR 1005.33(c)(2)(ii)).

Designation of requested remedy. The provider may request that the sender indicate the preferred remedy when providing the notice of the error. If the provider does so, it should indicate that a resend remedy may be unavailable if the error occurred because the sender provided incorrect or insufficient information. If the sender does not indicate the desired remedy at the time of providing notice of error, the remittance transfer provider must notify the sender of any available remedies in the written explanation of findings (Comment 33(c)-3).

Default remedy (except where the sender provided incorrect or insufficient information). The provider may set a default remedy that the remittance transfer provider will use if the sender does not designate a remedy within a reasonable time after receiving the written explanation of findings. If a default remedy is provided, the remittance transfer provider must correct the error within one business day or as soon as reasonably practicable, after the reasonable time for the sender to designate the remedy has passed. For purposes of designating a remedy, 10 days is deemed a reasonable time (Comment 33(c)-4).

Amount appropriate to resolve the error. The amount appropriate to resolve the error is the specific amount of transferred funds that should have been received if the remittance transfer had taken place without error. It does not include consequential damages (Comment 33(c)-5).

Form of refund. Where a refund may be issued, a remittance transfer provider may generally, at its discretion, issue a refund either in cash or in the

same form of payment that was initially provided by the sender for the remittance transfer (Comment 33(c)-6).

Remedies for incorrect amount paid. If an error relates to the payment of an incorrect amount, the sender may request a refund of the amount necessary to resolve the error or request that the remittance transfer provider make the amount necessary to resolve the error available to the designated recipient at no additional cost (Comment 33(c)-7).

Correction of an error if funds were not available by disclosed date. If the remittance transfer provider determines an error related to failure to make funds available by the disclosed date occurred, it must correct the error and refund any fees imposed by the provider or a third party involved in sending the transfer, such as an intermediary bank involved in sending a wire transfer or the institution from which the funds are picked up (unless the sender provided incorrect or insufficient information to the remittance transfer provider in connection with the remittance transfer) (Comment 33(c)-8).

Charges for error resolution. If an error occurred, whether as alleged or in a different amount or manner, the remittance transfer provider may not impose a charge related to any aspect of the error resolution process (including charges for documentation or investigation) (Comment 33(c)-9).

Correction without investigation. A remittance transfer provider may correct an error, without investigation, in the amount or manner alleged by the sender, or otherwise determined, to be in error, but must comply with all other applicable requirements (Comment 33(c)-10).

Procedures if Remittance Transfer Provider Determines No Error or Different Error Occurred—12 CFR 1005.33(d)

If the remittance transfer provider determines that no error occurred or that an error occurred in a manner or amount different from that described by the sender, its report of the results of the investigation must include a written explanation of the provider's findings and shall note the sender's right to request the documents on which it relied in making its determination. The explanation should also address the specific complaint of the sender. Upon the sender's request, the remittance transfer provider must also promptly provide copies of the documents on which it relied to make its error determination (12 CFR 1005.33(d)).

Error different from that alleged. If a remittance transfer provider determines that an error occurred

in a manner or amount different from that described by the sender, it must comply with the requirements of both 12 CFR 1005.33(c) (concerning the investigation) and (d) (procedures if remittance transfer provider determines no error or different error occurred), as applicable. The provider may give the notice of correction and the explanation separately or in a combined form (Comment 33(d)-1).

Reassertion of Error—12 CFR 1005.33(e)

A remittance transfer provider that has fully complied with the error resolution requirements of this section generally has no further responsibilities should the sender later reassert the same error, except in the case of an error asserted by the sender following receipt of additional information requested from the provider (12 CFR 1005.33(e)).

Withdrawal of error; right to reassert. The remittance transfer provider has no further error resolution responsibilities if the sender voluntarily withdraws the notice alleging an error. A sender who has withdrawn an allegation of error has the right to reassert the allegation unless the remittance transfer provider had already complied with all of the error resolution requirements before the allegation was withdrawn. The sender must do so, however, within the original 180-day period from the disclosed date of availability or, if applicable, the 60-day period for a notice of error based on documentation or clarification that the sender previously requested (Comment 33(e)-1).

Relation to Other Laws—12 CFR 1005.33(f)

Relation to Regulation E for incorrect EFTs from a sender's account (12 CFR 1005.11). If an alleged error involves an incorrect electronic fund transfer from a sender's account in connection with a remittance transfer, and the sender provides a notice of error to the account-holding institution, the requirements of 12 CFR 1005.11 governing error resolution apply if the account-holding institution is not also the remittance transfer provider. However, if the remittance transfer provider is also the account holding institution, then the error-resolution provisions of 12 CFR 1005.33 apply when the sender provides such notice of error (12 CFR 1005.33(f)(1)).

Concurrent error obligations. A remittance transfer provider that holds the sender's account may have error obligations under both 12 CFR 1005.11 and 1005.33, depending on the relationship with the sender and the nature of the error. For example, if a sender asserts an error under 12 CFR 1005.11 with a remittance transfer provider that holds the

sender's account, and the error is not also an error under 12 CFR 1005.33 (such as the omission of an EFT on a periodic statement), then the error-resolution provisions of 12 CFR 1005.11 exclusively apply to the error. However, if a sender asserts an error under 12 CFR 1005.33 with a remittance transfer provider that holds the sender's account, and the error is also an error under 12 CFR 1005.11 (such as when the amount the sender requested to be deducted from the sender's account and sent for the remittance transfer differs from the amount that was actually deducted from the account and sent), then the error-resolution provisions of 12 CFR 1005.33 exclusively apply to the error (Comment 33(f)-1).

Relation to Truth in Lending Act and Regulation Z. If an alleged error involves an incorrect extension of credit in connection with a remittance transfer, an incorrect amount received by the designated recipient that is an extension of credit for property or services not delivered as agreed, or the failure to make funds available by the disclosed date of availability that is an extension of credit for property or services not delivered as agreed, and the sender provides a notice of error to the creditor extending the credit, the error resolution provisions of Regulation Z, 12 CFR 1026.13 apply to the creditor, rather than the requirements of 12 CFR 1005.33, even if the creditor is the remittance transfer provider. However, if the creditor is the remittance transfer provider, the error resolution requirements of 12 CFR 1005.33(b) will apply instead of 12 CFR 1026.13(b). If the sender instead provides a notice of error to the remittance transfer provider that is not also the creditor, then the error-resolution provisions of 12 CFR 1005.33 apply to the remittance transfer provider (12 CFR 1005.33(f)(2)).

Unauthorized remittance transfers. If an alleged error involves an unauthorized electronic fund transfer for payment in connection with a remittance transfer, 12 CFR 1005.6 and 1005.11 apply with respect to the account-holding institution. If an alleged error involves an unauthorized use of a credit account for payment in connection with a remittance transfer, the provisions of Regulation Z, 12 CFR 1026.12(b), if applicable, and 12 CFR 1026.13, apply with respect to the creditor (12 CFR 1005.33(f)(3)).

Holder in due course. The error resolution provisions in subpart B do not affect a sender's rights to assert claims and defenses against a card issuer concerning property or services purchased with a credit card under Regulation Z, 12 CFR 1026.12(c)(1), as applicable (Comment 33(f)-2).

Assertion of the same error with multiple parties. If a sender receives credit to correct an error of an incorrect amount paid in connection with a remit-

tance transfer from either the remittance transfer provider or account-holding institution (or creditor), and subsequently asserts the same error with another party, that party has no further responsibilities to investigate the error if the error has been corrected. In addition, nothing prevents an account-holding institution or creditor from reversing amounts it has previously credited to correct an error if a sender receives more than one credit to correct the same error (Comment 33(f)-3).

Error Resolution Standards and Recordkeeping Requirements—12 CFR 1005.33(g)

Compliance program. A remittance transfer provider must develop and maintain written policies and procedures that are designed to ensure compliance with the error resolution requirements applicable to remittance transfers.

Policies and procedures must address the retention of records related to error investigations (12 CFR 1005.33(g)(1) and (2)).

Record retention requirements. Remittance transfer providers are subject to the record retention requirements under subpart A (12 CFR 1005.13 and Comment 33(g)-1). See also section XVIII below.

XIV. Procedures for Cancellation and Refund of Remittance Transfers— 12 CFR 1005.34

Sender's right of cancellation and refund

Except for certain remittance transfers scheduled in advance subject to 12 CFR 1005.36(c), a remittance transfer provider generally must comply with any oral or written request to cancel a remittance transfer from the sender that is received by the provider no later than 30 minutes after the sender makes payment in connection with the remittance transfer if

- a. the request to cancel enables the provider to identify the sender's name and address or telephone number and the particular transfer to be cancelled; and
- b. the transferred funds have not been picked up by the designated recipient or deposited into an account of the designated recipient (12 CFR 1005.34(a)).

Content of cancellation request. A request to cancel a remittance transfer is valid so long as the remittance transfer provider is able to identify the remittance transfer in question (Comment 34(a)-1).

Notice of cancellation right. A remittance transfer

provider is required to include an abbreviated notice of the sender's right to cancel a remittance transfer on the receipt or combined disclosure provided to the sender. In addition, the remittance transfer provider must make available to a sender upon request, a notice providing a full description of the right to cancel a remittance transfer (Comment 34(a)-2). See also Model Form 36 in Appendix A.

Thirty-minute cancellation right. Except for certain remittance transfers scheduled in advance subject to 12 CFR 1005.36(c), a remittance transfer provider must comply with the cancellation and refund requirements if the cancellation request is received no later than 30 minutes after the sender makes payment (Comment 34(a)-3).

Cancellation request provided to agent. A cancellation request provided by a sender to an agent of the remittance transfer provider is deemed to be received by the provider when received by the agent (Comment 34(a)-4).

Time limits and refund requirements. If a sender provides a timely request to cancel a remittance transfer, a remittance transfer provider must, within three business days of receiving the request, refund all funds provided by the sender in connection with the remittance transfer, including any fees and, to the extent not prohibited by law, taxes that have been imposed for the transfer, whether the fee or tax was assessed by the provider or a third party, such as an intermediary institution, the agent or bank in the recipient country, or a state or other governmental body (12 CFR 1005.34(b) and Comment 34(b)-2).

Form of refund. A remittance transfer provider generally may issue a refund either in cash or in the same form of payment that was initially provided by the sender for the remittance transfer (Comment 34(b)-1).

XV. Acts of Agents—12 CFR 1005.35

A remittance transfer provider is strictly liable for a violation by an agent, when such agent acts on its behalf. Remittance transfer providers must comply with the requirements of subpart B, even if an agent or other person performs functions for the remittance transfer provider and regardless of whether the provider has an agreement with a third party that transfers or otherwise makes funds available to a designated recipient (12 CFR 1005.35 and Comment 35-1).

Agencies responsible for enforcing the requirements of EFTA section 919 and subpart B of Regulation E may consider, in any action or other proceeding against a remittance transfer provider, the extent to which the provider had established and maintained policies or procedures for compli-

ance, including policies, procedures, or other appropriate oversight measures designed to assure compliance by an agent or authorized delegate acting for such provider (EFTA section 919(f)(2)).

XVI. Transfers Scheduled before the Date of Transfer—12 CFR 1005.36

Applicability of subpart B. The requirements set forth in subpart B apply to remittance transfers scheduled before the transfer date, unless modified by 12 CFR 1005.36. For example, the foreign language disclosure requirements apply to disclosures provided in connection with transfers scheduled in advance (Comment 36-1).

Timing—12 CFR 1005.36(a)

For one-time transfers scheduled five or more business days in advance or for the first in a series of transfers authorized in advance to recur at substantially regular intervals (preauthorized remittance transfers), the remittance transfer provider must provide either a prepayment disclosure and a receipt or a combined disclosure at the time the sender requests the transfer but prior to payment. If any of the disclosures provided contain estimates, the provider must mail or deliver an additional receipt no later than one business day after the date of the transfer. If the transfer involves the transfer of funds from the sender's account held by the provider, this additional receipt may be provided on or with the next periodic statement for that account or within 30 days after the date of the transfer if a periodic statement is not provided.

Subsequent preauthorized remittance transfers. For each subsequent preauthorized remittance transfer, the provider must provide an updated receipt if any of the information (other than temporal disclosures) on the most recent receipt is no longer accurate for reasons other than as permitted in the estimates provisions of 12 CFR 1005.32. The receipt must clearly and conspicuously indicate that it contains updated disclosures and must be mailed or delivered to the sender within a reasonable time prior to the scheduled date of the next subsequent preauthorized remittance transfer. If the disclosure is mailed no later than 10 business days or delivered by hand or electronically no later than 5 business days before the scheduled date of the transfer, the provider is deemed to have provided the disclosure within a reasonable time (12 CFR 1005.36(a)(2)(i) and Comments 36(a)(2)-1, -2, and -3).

For each subsequent preauthorized transfer, the remittance transfer provider must mail or deliver to the sender a receipt no later than one business day after the date of the transfer. This is not required in

situations where an updated receipt that contained no estimates was provided prior to the scheduled date of the next subsequent preauthorized remittance transfer. If the remittance transfer involves the transfer of funds from the sender's account held by the provider, the receipt may be provided on or with the next periodic statement for that account, or within 30 days after the date of the transfer if a periodic statement is not provided (12 CFR 1005.36(a)(2)(ii)).

Accuracy—12 CFR 1005.36(b)

For a one-time transfer scheduled five or more business days in advance or for the first in a series of preauthorized remittance transfers, disclosures provided must be accurate when a sender makes payment except to the extent estimates are permitted. Unless estimates are permitted, for each subsequent preauthorized remittance transfer, the most recent receipt provided must generally be accurate as of when such transfer is made except to the extent estimates are permitted. Temporal elements in the disclosures like the date of availability and the transfer date must only be accurate if the transfer is the first transfer after the disclosure was provided (12 CFR 1005.36(b)).

Cancellation—12 CFR 1005.36(c)

Cancellation of transfers scheduled at least three days in advance. A remittance transfer provider must comply with any oral or written request to cancel any remittance transfer scheduled by the sender at least three business days before the date of the remittance transfer if the request to cancel

- a. enables the provider to identify the sender's name and address or telephone number and the particular transfer to be cancelled, and
- b. is received by the provider at least three business days before the scheduled date of the remittance transfer (12 CFR 1005.36(c)).

The right of cancellation applies when a remittance transfer is scheduled by the sender at least three business days before the date of the transfer, regardless of whether the sender schedules a preauthorized remittance transfer or a one-time transfer. For transfers scheduled less than three business days before the date of transfer the 30 minute cancellation deadline in 12 CFR 1005.34 applies (Comment 36(c)-1).

Cancelled preauthorized remittance transfers. For preauthorized remittance transfers, the provider must assume the request to cancel applies to all future preauthorized remittance transfers, unless the sender specifically indicates that it should apply only to the next scheduled transfer (Comment 36(c)-2).

Concurrent cancellation obligations. A financial institution that is also a remittance transfer provider may have both stop payment obligations under 12 CFR 1005.10 and cancellation obligations under 12 CFR 1005.36. If a sender cancels a remittance transfer under 12 CFR 1005.36 with a remittance transfer provider that holds the sender's account, and the transfer is a preauthorized transfer, 12 CFR 1005.36 applies exclusively (Comment 36(c)-3).

Additional Requirements for Subsequent Preauthorized Remittance Transfers— 12 CFR 1005.36(d)

Disclosure requirement. For any subsequent transfer in a series of preauthorized remittance transfers, the remittance transfer provider must disclose

- a. the date of the subsequent transfer using the term "Future Transfer Date" or a substantially similar term;
- b. a statement of the sender's cancellation rights, and
- c. the name, telephone number(s), and website of the remittance transfer provider (12 CFR 1005.36(d)(1)).

The disclosures must be provided no more than 12 months, and no less than 5 business days prior to, the date of the subsequent preauthorized remittance transfer. For any subsequent preauthorized remittance transfer for which the date of transfer is 4 or fewer business days after the date payment is made, the disclosure must generally be provided on or with the receipt for the initial transfer in that series (12 CFR 1005.36(d)(2)).

A remittance transfer provider has some flexibility in determining how and when the disclosures required by 12 CFR 1005.36(d)(1) may be provided to senders. They may be provided as a separate disclosure, or on or with any other disclosure required by subpart B related to the same series of preauthorized remittance transfers, provided that the disclosure and timing requirements in 12 CFR 1005.36(d)(2) and other applicable provisions in subpart B are satisfied (Comment 36(d)-1).

If any of the information provided in these disclosures change, the provider must provide an updated disclosure with the revised information that is accurate as of when the transfer is made (12 CFR 1005.36(d)(1) and (4) and Comments 36(d)-2, -3 and -4).

For any subsequent preauthorized remittance transfer, the future date of transfer must be provided on any receipt provided for the initial transfer in that series of preauthorized remittance transfers. If the provider discloses the dates of subsequent preauthorized remittance transfers and

the applicable cancellation period on either the receipt provided when payment is made or on a second receipt, the disclosure must be phrased and formatted in such a way that it is clear to the sender which cancellation period is applicable to any date of transfer on the receipt (Comments 31(b)(2)-4 and -5).

THE FOLLOWING SECTIONS ARE APPLICABLE TO BOTH SUBPART A AND SUBPART B.

XVII. Preemption

The EFTA and Regulation E preempt inconsistent state laws but only to the extent of the inconsistency. The CFPB is given the authority to determine whether or not a state law is inconsistent. An entity, state, or other interested party may request the CFPB to make such a determination. A state law will not be deemed inconsistent if it is more protective of the consumer than the EFTA or Regulation E. Upon application, the CFPB has the authority to exempt any state from the requirements of the EFTA or the regulation for any class of EFTs within a state, with the exception of the civil liability provision (EFTA section 922 and 12 CFR 1005.12(b) and (c)).

XVIII. Administrative Enforcement and Record Retention—12 CFR 1005.13

Section 918 of the EFTA sets forth the federal agencies responsible for enforcing compliance with the provisions of the law and its implementing regulation.

Record retention. Any person subject to the EFTA and Regulation E must maintain evidence of compliance with the EFTA and Regulation E for at least two years from the date the disclosures are required to be made or action is required to be taken. The agency supervising the person may extend this period. The period may also be extended if the person is subject to an action filed under Sections 910, 915, or 916(a) of the EFTA, which generally apply to the person's liability under the EFTA and Regulation E. Persons subject to the EFTA who have actual notice that they are being investigated or subject to an enforcement proceeding must retain records until disposition of the proceeding (12 CFR 1005.13 and 1005.33(g)).

Records may be stored on microfiche, microfilm, magnetic tape, or in any other manner capable of accurately retaining and reproducing the information.

XIX. Miscellaneous

The EFTA contains several additional provisions that are not directly reflected in the language of Regulation E. Most significantly, 15 U.S.C. 1693l provides that the consumer may not waive by agreement any right conferred, or cause of action created, by the EFTA. However, the consumer and another person may provide by agreement greater consumer protections or additional rights or remedies than those provided by the EFTA. In addition, the consumer may sign a waiver in settlement of a dispute.

If a third-party payee has agreed to accept payment by EFT, the consumer's obligation to pay is suspended during any period in which a system malfunction prevents an EFT from occurring (15 U.S.C. 1693j). However, the payee may avoid that suspension by making a written request for payment by means other than EFT.

Failure to comply with the requirements of the EFTA can result in civil and criminal liability, as outlined in 15 U.S.C. 1693m and 15 U.S.C. 1693n. Financial institutions may also be liable for damages under 15 U.S.C. 1693h due to failure to complete an EFT or failure to stop a preauthorized transfer when instructed to do so.

Appendix A—Model Disclosure Clauses and Forms—12 CFR 1005

Appendix A of Regulation E contains model clauses and forms that entities may use to comply with the requirement disclosure requirements of Regulation E. Use of the model forms is optional and an entity may make certain changes to the language or format of the model forms without losing the protection from civil and criminal liability under Sections 915 and 916 of the EFTA. The model forms are

For subpart A:

- A-1 Model Clauses for Unsolicited Issuance (12 CFR 1005.5(b)(2))
- A-2 Model Clauses for Initial Disclosures (12 CFR 1005.7(b))
- A-3 Model Forms for Error Resolution Notice (12 CFR 1005.7(b)(10) and 1005.8(b))
- A-4 Model Form for Service-Providing Institutions (12 CFR 1005.14(b)(1)(ii))
- A-5 Model Forms for Government Agencies (12 CFR 1005.15(d)(1) and (2))
- A-6 Model Clauses for Authorizing One-Time Electronic Fund Transfers Using Information from a Check (12 CFR 1005.3(b)(2))

A-7 Model Clauses for Financial Institutions Offering Payroll Card Accounts (12 CFR 1005.18 (c))

A-8 Model Clause for Electronic Collection of Returned Item Fees (12 CFR 1005.3(b)(3))

A-9 Model Consent Form for Overdraft Services (12 CFR 1005.17)

For subpart B:

A-30(a) Model Form for Prepayment Disclosures for Remittance Transfers Exchanged into Local Currency, including a disclaimer where non-covered third-party fees and foreign taxes may apply (12 CFR 1005.31 (b)(1))

A-30(b) Model Form for Prepayment Disclosures for Remittance Transfers Exchanged into Local Currency, including a disclaimer with estimate for non-covered third-party fees (12 CFR 1005.31(b)(1) and 12 CFR 1005.32(b)(3))

A-30(c) Model Form for Prepayment Disclosures for Remittance Transfers Exchanged into Local Currency, including a disclaimer with estimate for foreign taxes (12 CFR 1005.31(b)(1) and 12 CFR 1005.32(b)(3))

A-30(d) Model Form for Prepayment Disclosures for Remittance Transfers Exchanged into Local Currency, including a disclaimer with estimates for non-covered third-party fees and foreign taxes (12 CFR 1005.31 (b)(1) and 12 CFR 1005.32(b)(3))

A-31 Model Form for Receipts for Remittance Transfers Exchanged into Local Currency (12 CFR 1005.31(b)(2))

A-32 Model Form for Combined Disclosures for Remittance Transfers Exchanged into Local Currency (12 CFR 1005.31(b)(3))

A-33 Model Form for Prepayment Disclosures for Dollar-to-Dollar Remittance Transfers (12 CFR 1005.31(b)(1))

A-34 Model Form for Receipts for Dollar-to-Dollar Remittance Transfers (12 CFR 1005.31(b)(2))

A-35 Model Form for Combined Disclosures for Dollar-to-Dollar Remittance Transfers (12 CFR 1005.31(b)(3))

A-36 Model Form for Error Resolution and Cancellation Disclosures (Long) (12 CFR 1005.31(b) (4))

A-37 Model Form for Error Resolution and Cancellation Disclosures (Short) (12 CFR 1005.31(b) (2)(iv) and (b)(2)(vi))

- A-38 Model Form for Prepayment Disclosures for Remittance Transfers Exchanged into Local Currency—Spanish (12 CFR 1005.31(b)(1))
- A-39 Model Form for Receipts for Remittance Transfers Exchanged into Local Currency—Spanish (12 CFR 1005.31(b)(2))
- A-40 Model Form for Combined Disclosures for Remittance Transfers Exchanged into Local Currency—Spanish (12 CFR 1005.31(b)(3))
- A-41 Model Form for Error Resolution and Cancellation Disclosures (Long)—Spanish (12 CFR 1005.31(b)(4))

References

Laws

15 U.S.C. 1693 et seq., Electronic Fund Transfer Act

15 U.S.C. 7001 et seq., Electronic Signatures in Global and National Commerce

Regulations

*Consumer Financial Protection Bureau
Regulations (12 CFR)*

Part 1005 Electronic Fund Transfers (Regulation E)

Electronic Fund Transfer Act Examination Procedures

These examination procedures are divided into three sections:

- Section I covers management and policy related procedures for both financial institutions and other entities that may be remittance transfer providers (referred to herein as “entity”).
- Section II covers electronic fund transfers conducted by financial institutions.
- Section III applies to remittance transfer providers (including financial institutions).

Each examination should be risk-based and may not require an examiner to complete all three sections. In addition, each agency may have its own supervisory strategy that will dictate which sections of these examination procedures are required to be completed.

EXAMINATION OBJECTIVES

In general, a Regulation E examination is conducted to

- A. determine the entity's compliance with Regulation E
- B. assess the quality of the entity's compliance risk management systems and its policies and procedures for implementing Regulation E
- C. determine the level of reliance that can be placed on the entity's internal controls and procedures for monitoring the entity's compliance with Regulation E
- D. as appropriate, direct corrective action when violations of law are identified or when the entity's policies or internal controls are deficient

EXAMINATION PROCEDURES

Section I—Management and policy-related examination procedures

1. Through a review of all available information (e.g., board minutes, management reports, monitoring reports, etc.) and discussions with management, determine that the board and management have set clear expectations about compliance with Regulation E, not only within the entity but also concerning key business partners, including agents, correspondent banks, and software providers, to the extent relevant.
2. Through a review of all available information

(e.g., written policies and procedures, management's self-assessments, customer complaints, prior examination reports) and any compliance audit material, including work papers and reports, determine whether

- a. there are any weaknesses or other risks in the business model
 - b. the scope of the audit addresses all provisions of Regulation E as applicable
 - c. the scope of the audit addresses all key business processes and functions, including those carried out by third-party service providers or key business partners, as appropriate
 - d. management has taken corrective actions to follow up on previously identified deficiencies
 - e. as applicable, testing includes risk-based samples covering product types and decision centers
 - f. there is an audit trail that supports the findings and conclusions of the work performed
 - g. significant deficiencies and their causes are included in reports to management and/or to the board of directors or principal(s)
 - h. the frequency of review is appropriate
3. Through discussions with management and review of available information, determine whether the entity's internal controls are adequate to ensure compliance with respect to the Regulation E area under review. Consider among other things
 - a. organizational charts;
 - b. process flowcharts;
 - c. policies and procedures;
 - d. account (if applicable) and transaction documentation;
 - e. checklists; and
 - f. computer program documentation.
 4. Through a review of the entity's training materials and discussions with management, determine whether:
 - a. the entity provides appropriate training to employees and other persons responsible for Regulation E compliance and operational procedures
 - b. the training is comprehensive and covers the

sections of Regulation E that apply to the individual entity's product offerings and operations including, to the extent appropriate, those functions carried out by third-party service providers or other business partners, such as agents and correspondent banks

customer liability. The deposit agreement may not impose greater liability than Regulation E provides but may provide for less consumer liability (12 CFR 1005.6).

- f. preauthorized debits and credits comply with the regulation (12 CFR 1005.10)

Section II—Subpart A

Based on the materials reviewed within Section I, and as applicable, complete Section II to determine the financial institution's compliance with Regulation E.

Transaction-related examination procedures

Conduct transaction testing, using the following examination procedures:

1. Obtain and review copies of the following:
 - a. disclosure forms;
 - b. advertising and scripts for overdraft opt-ins;
 - c. account agreements;
 - d. procedural manuals and written policies;
 - e. merchant agreements;
 - f. automated teller machine receipts and periodic statements;
 - g. error resolution statements/files;
 - h. form letters used in case of errors or questions concerning an account;
 - i. any agreements with third parties allocating compliance responsibilities; and
 - j. consumer complaint files.

Policies and procedures

2. Determine the extent and adequacy of the financial institution's policies, procedures, and practices for ensuring compliance with the regulation. In particular, verify that
 - a. access devices are issued in compliance with the regulation (12 CFR 1005.5(b))
 - b. required disclosures are given at time the account is opened or prior to the first electronic funds transfer ("EFT") (12 CFR 1005.4 and 1005.7(c))
 - c. unauthorized transfer claims are processed in compliance with the regulation (12 CFR 1005.6 and 1005.11)
 - d. liability for unauthorized transfer claims is assessed in compliance with the regulation (12 CFR 1005.6)
 - e. negligence is not a factor in determining

Disclosures, notices, receipts, periodic statements, and preauthorized transfers

3. If the financial institution has changed the terms or conditions of initial disclosures for EFT services since the last examination that required a written notice to the customer, determine that the institution provided the proper notice in a timely manner (12 CFR 1005.8(a)).
4. Review a sample of periodic statements for each type of account in which electronic fund transfers occur to determine that they contain sufficient information for the consumer to identify transactions adequately and that they otherwise comply with regulatory requirements (12 CFR 1005.9).
5. Verify that the financial institution does not require compulsory use of EFTs, except as authorized (12 CFR 1005.10(e)).
6. For unauthorized transfers, lost or stolen ATM cards, and EFT consumer complaints, and their respective periodic statements, determine whether:
 - a. the financial institution is incompliance with its error resolution procedures to isolate any apparent deficiencies in the financial institution's operations to ensure that the institution follows its policies for unauthorized transfers (12 CFR 1005.6 and 1005.11)
 - b. the financial institution investigates alleged errors and notifies consumers of the results within allotted time frames and, when appropriate, provisionally re-credits the account (12 CFR 1005.11(c))
 - c. the financial institution follows regulatory procedures after it completes its investigation and determines either that an error occurred (12 CFR 1005.11(c)(1)) or that no error occurred (12 CFR 1005.11(d))
7. Review ATM and point-of-sale transfer receipts to determine whether they provide a clear description of the transaction (12 CFR 1005.9 (a)).
8. Determine that the financial institution is maintaining records of compliance for a period of not less than two years from the date disclosures are required to be made or action is

required to be taken (12 CFR 1005.13(b)).

Payroll cards and ATMs

9. If the financial institution maintains payroll card accounts and does not provide periodic statements under 12 CFR 1005.9(b) for these accounts, verify that the institution makes available the account balance by telephone, an electronic history of account transactions, and (upon request) a written history of account transactions (12 CFR 1005.18(b)).
10. If the financial institution maintains payroll card accounts, verify that the financial institution complies with the modified requirements with respect to the required initial disclosures, error resolution notices, limitations on liability, and error resolution procedures (12 CFR 1005.18(c)).
11. If the financial institution operates one or more ATMs for which it charges a fee for use, determine that the financial institution provides notice of the fee and the amount of the fee on the screen of the ATM or on paper before the consumer is committed to paying the fee (12 CFR 1005.16).

Overdrafts

12. Determine that the financial institution holding a consumer's account does not assess a fee or charge on a consumer's account for paying an ATM or one-time debit card transaction pursuant to the institution's overdraft service,¹⁹ unless the institution (12 CFR 1005.17(b)(1))
 - a. provides the consumer with a notice in writing (or if the consumer agrees, electronically), that is segregated from all other information and describes the institution's overdraft service;
 - b. provides a reasonable opportunity for the consumer to affirmatively consent, or opt in, to the service for ATM and one-time debit card transactions;
 - c. obtains the consumer's affirmative consent, or opt-in, to the institution's payment of ATM or one-time debit card transactions; and
 - d. provides the consumer with confirmation of the consumer's consent in writing (or if the consumer agrees, electronically), which includes a statement informing the con-

19. The term "overdraft service" means a service under which a financial institution assesses a fee or charge on a consumer's account held by the financial institution for paying a transaction (including a check or other item) when the consumer has insufficient or unavailable funds in the account (12 CFR 1005.17 (a)). "Overdraft service" does not include a service that transfers funds from another account held by a consumer or a line of credit.

sumer of the right to revoke such consent.

NOTE: An institution does not have to meet the notice requirements described above if it has a policy and practice of declining to authorize and pay any ATM or one-time debit card transactions when it has a reasonable belief at the time of the authorization request that the consumer does not have sufficient funds available to cover the transaction. However, it is still prohibited from charging fees for paying an ATM or one-time debit transaction overdraft (12 CFR 1005, and Comment 1005.17 (b)-1(iv)).

13. Determine that in assessing overdraft fees for consumers who have not opted in, the institution charges fees only for negative balances, daily, or sustained overdraft, or similar fees, when the negative balance is attributable in whole or in part to checks, automated clearing house (ACH) or other transactions not subject to the fee prohibition, and that the fee is assessed based on the date when the check is paid into overdraft, not the date of the ATM or one-time debit transaction (Comment 1005.17 (b)-9).
14. Determine that the financial institution does not (12 CFR 1005.17(b)(2))
 - a. condition the payment of any overdrafts for checks, ACH transactions, and other types of transactions on the consumer affirmatively consenting to the institution's payment of ATM and one-time debit card transactions pursuant to the institution's overdraft service; or
 - b. decline to pay checks, ACH transactions, and other types of transactions that overdraw the consumer's account because the consumer has not affirmatively consented to the institution's overdraft service for ATM and one-time debit card transactions.
15. Determine that the financial institution provides to consumers who do not affirmatively consent to the institution's overdraft service for ATM and one-time debit card transactions the same account terms, conditions, and features that it provides to consumers who affirmatively consent, except for the overdraft service for ATM and one-time debit card transactions (12 CFR 1005.17(b)(3)).
16. Ensure that the notice required by 12 CFR 1005.17(b)(1)(i) is substantially similar to Model Form A-9 (Model Consent Form for Overdraft Services), includes all applicable items in the following list, and does not contain any additional information (12 CFR 1005.17(d) and Comments 1005.17(d)-1 through 1005.17(d)-5):
 - a. *Overdraft service.* A brief description of the

financial institution's overdraft service and the types of transactions for which a fee or charge for paying an overdraft may be imposed, including ATM and one-time debit card transactions.

- b. *Fees imposed.* The dollar amount of any fees or charges assessed by the financial institution for paying an ATM or one-time debit card transaction pursuant to the institution's overdraft service, including any daily or other overdraft fees. If the amount of the fee is determined on the basis of the number of times the consumer has overdrawn the account, the amount of the overdraft, or other factors, the institution must disclose the maximum fee that may be imposed.
- c. *Limits on fees charged.* The maximum number of overdraft fees or charges that may be assessed per day, or, if applicable, that there is no limit.
- d. *Disclosure of opt-in right.* An explanation of the consumer's right to affirmatively consent to the financial institution's payment of overdrafts for ATM and one-time debit card transactions pursuant to the financial institution's overdraft service, including the methods by which the consumer may consent to the service; and
- e. *Alternative plans for covering overdrafts.* If the institution offers both a line of credit subject to Regulation Z (12 CFR Part 1026) and a service that transfers funds from another account of the consumer held at the institution to cover overdrafts, the institution must state in its opt-in notice that both alternative plans are offered. If the institution offers one, but not the other, it must state in its opt-in notice the alternative plan that it offers. If the institution does not offer either plan, it should omit the reference to the alternative plans. If the financial institution offers additional alternatives for paying overdrafts, it may (but is not required to) disclose those alternatives.

NOTE: Permitted modifications and additional content. If applicable, the institution may modify the content required by 12 CFR 1005.17(d) to indicate that the consumer has the right to opt into, or opt out of, the payment of overdrafts under the institution's overdraft service for other types of transactions, such as checks, ACH transactions, or automatic bill payments; to provide a means for the consumer to exercise this choice; and to disclose the associated returned-item fee and that additional merchant fees may apply. The institution may also disclose the consumer's right to revoke

consent. The response portion of Model Form A-9 may be tailored to the methods offered for opting in and may include reasonable methods to identify the account, such as a bar code.

17. Determine that, when two or more consumers jointly hold an account, the financial institution treats the affirmative consent of any of the joint consumers as affirmative consent for that account and treats a revocation of affirmative consent by any of the joint consumers as revocation of consent for that account (12 CFR 1005.17(e)).
18. Ensure that a consumer may affirmatively consent to the financial institution's overdraft service at any time in the manner described in the institution's (12 CFR 1005.17(b)(1)(i)) notice, and that a consumer may also revoke consent at any time in the manner made available to the consumer for providing consent (12 CFR 1005.17(f)).
19. Determine that the financial institution implements a consumer's revocation of consent as soon as reasonably practicable (12 CFR 1005.17(f)).
20. Determine that a consumer's affirmative consent to the institution's overdraft service is effective until revoked by the consumer or until the financial institution terminates the service (12 CFR 1005.17(g)).
21. Determine that the financial institution's overdraft protection program incorporates your agency's guidance as applicable.

Gift card disclosures

22. Determine that the disclosures required by the sections listed below are made on the certificate or card, or in the case of a loyalty, award, or promotional gift card, on the card, code, or other device:
 - a. 12 CFR 1005.20(a)(4)(iii) (loyalty, award, or promotional gift card);
 - b. 12 CFR 1005.20(d)(2) (dormancy, inactivity, or service fees);
 - c. 12 CFR 1005.20(e)(3) (expiration date or phone and web regarding replacement); and
 - d. 12 CFR 1005.20(f)(2) (phone and web regarding fees).

NOTE: A disclosure made in an accompanying terms and conditions document, on packaging surrounding a certificate or card, or on a sticker or other label affixed to the certificate or card does not constitute a disclosure on the certificate or card.

If the certificate or card is electronic, determine

that disclosures are provided electronically on the certificate or card provided to the consumer.

If an issuer provides a code or confirmation to a consumer orally, determine that the issuer provides to the consumer a written or electronic copy of the code or confirmation promptly and the applicable disclosures are provided on the written copy of the code or confirmation (12 CFR 1005.20(c)(4)).

23. Determine that the following are stated, as applicable, clearly and conspicuously on the gift certificate, store gift card, or general-use prepaid card:

- a. the amount of any dormancy, inactivity, or service fee that may be charged;
- b. how often such fee may be assessed; and
- c. that such fee may be assessed for inactivity (12 CFR 1005.20(d)(2)).

24. Determine that the following disclosures and information are provided in connection with a gift certificate, store gift card, or general-use prepaid card as applicable. For each type of fee that may be imposed in connection with the certificate or card (other than a dormancy, inactivity, or service fee, which are discussed above) the following information must be provided on or with the certificate or card:

- a. the type of fee;
- b. the amount of the fee (or an explanation of how the fee will be determined);
- c. the conditions under which the fee may be imposed; and
- d. a toll free number, and if one is maintained, a website that a consumer may use to obtain information about the fees described in paragraphs 12 CFR 1005.20(d)(2) and 12 CFR 1005.20(f)(1) (described immediately above) of this section must be disclosed on the certificate or card (12 CFR 1005.20(f)).

25. If an expiration date applies to a certificate or card, determine that the following disclosures are provided on the certificate or card, as applicable:

- a. the expiration date for the underlying funds or, if the underlying funds do not expire, that fact;
- b. a toll-free telephone number and, if one is maintained, a website that a consumer may use to obtain a replacement certificate or card after the certificate or card expires if the underlying funds may be available; and
- c. except where a non-reloadable certificate or card bears an expiration date that is at least seven years from the date of manufacture, a statement, disclosed with equal

prominence and in close proximity to the certificate or card expiration date, that:

i. the certificate or card expires, but the underlying funds either do not expire or expire later than the certificate or card, and

ii. the consumer may contact the issuer for a replacement card (12 CFR 1005.20 (e)(3)).

26. Determine that a loyalty, award, or promotional gift card sold or issued by the examined institution sets forth the following disclosures, as applicable: (12 CFR 1005.20(a)(4)(iii))

- a. a statement on the front of the card, code, or other device, indicating that the card, code, or other device is issued for loyalty, award, or promotional purposes;
- b. the expiration date for the underlying funds on the front of the card, code, or other device;
- c. the amount of any fees that may be imposed in connection with the card, code, or other device, and the conditions under which they may be imposed. This disclosure must be provided on or with the card, code, or other device; and
- d. a toll-free telephone number and, if one is maintained, a website that a consumer may use to obtain fee information on the card, code, or other device.

27. Determine that a person (examined institution) that issues or sells a gift certificate, store gift card, or general-use prepaid card discloses to the consumer, prior to purchase, the information required by 12 CFR 1005.20(d)(2) (dormancy, inactivity, or service fees), 12 CFR 1005.20(e)(3) (expiration date or phone and web regarding replacement), and 12 CFR 1005.20(f)(1) (other fees). (12 CFR 1005.20(c)(3))

28. Determine that the fees, terms, and conditions of expiration that are required to be disclosed prior to purchase are not changed after purchase. (12 CFR 1005.20(c)(3))

29. Determine that no person (examined institution) imposes a dormancy, inactivity, or service fee with respect to a gift certificate, store gift card, or general-use prepaid card, unless (12 CFR 1005.20(d))

- a. there has been no activity with respect to the certificate or card, in the one year period ending on the date on which the fee is imposed;
- b. required disclosures are provided; and

- c. not more than one dormancy, inactivity, or service fee is imposed in any given calendar month.
30. Determine that the person (examined institution) does not sell or issue a gift certificate, store gift card, or general-use prepaid card with an expiration date unless (12 CFR 1005.20 (e))
- a. required expiration date disclosures are provided on the certificate or card, as applicable;
 - b. it has established policies and procedures to provide consumers with a reasonable opportunity to purchase a certificate or card with at least five years remaining until the certificate or card expiration date;
 - c. the expiration date for the underlying funds is at least the later of
 - i. five years after the date the gift certificate was initially issued, or the date on which funds were last loaded to a store gift card or general-use prepaid card; or
 - ii. the certificate or card expiration date, if any; and
 - d. no fee or charge is imposed on the cardholder for replacing the gift certificate, store gift card, or general-use prepaid card or for providing the certificate or card holder with the remaining balance in some other manner prior to the funds expiration date, unless such certificate or card has been lost or stolen.

Section III—Subpart B: Requirements for remittance transfers

If an entity provides remittance transfers in its “normal course of business,” it is a remittance transfer provider subject to the rule and should be examined based on the following procedures.²⁰

Transaction-related examination procedures

As applicable, conduct transaction testing using the following examination procedures.

Obtain and review all available information as it

20. Subpart B does provide for a 100-transfer “safe harbor.” For an entity to qualify for this “safe harbor,” it must have provided 100 or fewer remittance transfers in the current calendar year and the previous calendar year. If an entity crosses the 100-transfer threshold either in the previous calendar year or the current calendar year, it is deemed to be providing remittance transfers in its “normal course of business” and it must begin complying with the rule within a reasonable period of time (not to exceed six months) unless, under the facts and circumstances, it would not be deemed a provider.

relates to the provider’s remittance program.

Examples of this include but are not limited to:

- a. list of divisions or departments involved in offering or providing remittance transfers (e.g. retail, high net worth, prepaid cards, bill payment, online or mobile banking, foreign exchange and/or treasury departments);
- b. remittance transfer products offered;
- c. disclosure forms in all languages (as applicable);
- d. list of foreign countries to which the provider sends remittance transfers;
- e. list of all foreign currencies in which remittance transfers sent by the provider may be received where there are limitations on such currencies, and identification of the currencies in which the provider controls the exchange rate;
- f. list of all third-party service providers or business partners involved in remittance transfers, including correspondent banks, payment networks, payment processors, software providers, foreign currency providers, agents in the United States or abroad, or similar entities;
- g. locations of U.S. and foreign agents;
- h. applicable documentation related to remittance transfer operations (e.g., transaction logs, agent/ correspondent agreements, advertising and marketing material including any done in foreign languages, and documentation regarding calculation or estimates of fees, taxes, exchange rates, and dates included on disclosures);
- i. procedural manuals and written policies;
- j. error resolution files;
- k. form letters used in case of errors or questions concerning a remittance transfer (including any provided in foreign languages);
- l. any agreements with third parties allocating compliance responsibilities; and
- m. consumer complaint files.

General form of disclosures—12 CFR 1005.31

1. Obtain and review a sample of the provider’s disclosure forms for the provider’s various remittance transfer products. Include disclosures as provided for various products and through various channels (e.g., in-person, through a website, by telephone, through a mobile phone application, text message). From your review, verify that:
 - a. disclosures are in the appropriate form and

- are clear and conspicuous;
- b. written and electronic disclosures are in a retainable form (except where expressly permitted not to be retainable);
 - c. the provider's policy for providing oral disclosures is appropriate for the related transactions;
 - d. copies of scripts used for oral disclosures comply with the regulation;
 - e. disclosures comply with the format requirements regarding grouping of like items, proximity, prominence and size, and segregation from other information; and
 - f. disclosure of amounts required to be disclosed under 12 CFR 1005.31(b) (1), (2), and (3), use the appropriate terms (e.g., transfer amount, transfer taxes, currency) or substantially similar terms.
2. If applicable, determine whether the provider complies with the foreign language disclosure requirements as outlined under 12 CFR 1005.31(g).

Prepayment disclosures—12 CFR 1005.31(b)(1)

3. Based on a review of the provider's policies and if appropriate, sampled transactions, determine that it appropriately categorizes third-party fees as covered or non-covered.
4. Based on a review of the provider's policies on prepayment disclosures and if appropriate, sampled prepayment disclosures and related documentation, determine whether the provider appropriately calculates and discloses
 - a. in the currency in which the remittance transfer is funded:
 - i. the amount that will be transferred to the designated recipient, using the term "Transfer Amount" or a substantially similar term;
 - ii. fees imposed and taxes collected on the remittance transfer by the provider, using the terms "Transfer Fees" and "Transfer Taxes" or substantially similar terms; and
 - iii. the total amount of the transaction using the term "Total" or a substantially similar term;
 - b. the exchange rate used by the provider for the remittance transfer using the term "Exchange Rate" or a substantially similar term;
 - c. in the currency in which the funds will be

- received by the designated recipient:
- i. the transfer amount in the currency but only if covered third-party fees are imposed using the term "Transfer Amount" or a substantially similar term;
 - ii. any covered third-party fees imposed on the remittance transfer using the term, "Other Fees" or a substantially similar term;
 - iii. the amount that will be received by the designated recipient (total amount of the transaction minus covered third-party fees) using the term "Total to Recipient" or a substantially similar term; and
 - iv. if applicable, a statement that non-covered third-party fees or taxes collected on the remittance transfer by a third person may apply to the remittance transfer and result in the designated recipient receiving less than the amount disclosed.
- d. If the provider includes in the statement under (c)(iii) above, the optional estimated disclosure of applicable non-covered third-party fees or taxes, determine if the estimates are based on reasonable sources.

NOTE: The exchange rate used to calculate the amounts under (c) is prior to any rounding.

Receipt disclosures—12 CFR 1005.31(b)(2)

5. Review policies on receipt disclosures, sample receipts, and related documentation to determine whether the provider appropriately calculates and discloses:
 - a. information disclosed in the prepayment disclosure;
 - b. the date in the foreign country on which funds will be available to the designated recipient, using the term "Date Available" or a substantially similar term;
 - c. the name and, if provided by the sender, the telephone number and/or address of the designated recipient, using the term "Recipient" or a substantially similar term;
 - d. a statement about the rights of the sender regarding the resolution of errors and cancellation;
 - e. the name, telephone number(s), and website of the remittance transfer provider; and
 - f. a statement that the sender can contact the Consumer Financial Protection Bureau

(CFPB) and if applicable, the state agency that licenses or charters the remittance transfer provider with respect to the remittance transfer and for questions or complaints about the remittance transfer provider, as well as their telephone number(s) and website addresses.

NOTE: For any remittance transfer scheduled by the sender at least three business days before the date of the transfer, the statement about the rights of the sender regarding cancellation must state that the sender must request the cancellation, at least three business days before the next scheduled transfer. The statement must also note that the request must enable the provider to identify the sender's contact information and the particular transfer to be cancelled.

Combined disclosures—12 CFR 1005.31(b)(3)

NOTE: Complete this section only if the provider provides combined disclosures as an alternative to the prepayment and receipt disclosures.

6. Review policies on combined disclosures, sample disclosures and related documentation to
 - a. determine that they contain all the information required for the prepayment disclosure and receipt disclosure as described above;
 - b. determine that the provider provides a proof of payment after payment is made for each transaction; and
 - c. determine that the proof of payment is clear and conspicuous, provided in writing or electronically, and provided in a retainable form.

Accuracy and timing—12 CFR 1005.31(e) and (f)

7. Review, as appropriate, all available information including transactions or investigation/trace logs/records or similar documents to verify (subject to the disclaimer statement with respect to non-covered third-party fees and third-party taxes) the accuracy of disclosures provided to consumers.
 - a. In instances in which prepayment disclosures and receipts are provided that do not contain estimates, confirm with respect to any transaction for which payment was made, that the information on the most recent prepayment disclosure for that transaction and the information on the receipt for that transaction are the same.

- b. For amounts that are not estimates, confirm that the disclosed amounts were accurate at the time that payment was made.
 - c. For amounts that are estimates, determine whether the estimates were calculated correctly, in accordance with the applicable bases outlined in 12 CFR 1005.32.
 - d. In the case of estimates pursuant to 1005.32 (a), (b)(1), and (b)(2) that are based on an approach that is not one of the listed bases in 1005.32(c), determine that the recipient received the same, or greater, amount of funds than what was disclosed.
8. Review processes and procedures or records, as appropriate, to determine whether the required disclosures are provided in accordance with the timing requirements in 12 CFR 1005.31(e).
 - a. Determine whether prepayment disclosures are provided when the sender requests the remittance transfer, but prior to payment.
 - b. Determine whether receipts are provided when payment is made, or in accordance with 1005.31(e)(2) for transactions conducted by telephone.

Long-form error resolution and cancellation notice—12 CFR 1005.31(b)(4)

9. Determine the provider's policy for providing long-form error resolution and cancellation notices to senders upon request.
10. Review the provider's records of senders' requests and determine that a long-form error resolution and cancellation notice is promptly provided in response to each request.
11. Review sample notices to determine that they use language set forth in Model Form A-36 (Model Form for Error Resolution and Cancellation Disclosures (Long) of Appendix A to subpart B) or substantially similar language.

Estimates—12 CFR 1005.32

Temporary exception for insured institutions—12 CFR 1005.32(a)

12. Determine that the remittance transfer provider is an insured institution within the definition of the rule. If it is, review the appropriate information including transaction log/records, etc., to identify remittance transfer transactions that were sent from the sender's account with the institution. From the list, identify transactions for which estimates were used.

NOTE: An insured institution acting as an agent on behalf of another in connection with a remittance transfer is not a remittance transfer provider.

13. Review transactions for which estimates were used, as well as related disclosures, and any other relevant procedures, processes, and documentation of information included in disclosures, as appropriate, to
 - a. assess the adequacy of the provider's policy and procedures for determining that a provider could not determine exact amounts for reasons beyond its control;
 - b. determine that estimates were used only in cases when the provider could not determine the exact amounts for reasons beyond its control;
 - c. determine the bases used for the estimates under 12 CFR 1005.32(c) and consider their appropriateness, and
 - i. if estimates were provided in accordance with one of the bases listed in Regulation E (12 CFR 1005.32(c)), review documentation to confirm that inputs to estimates are appropriate;
 - ii. if estimates are based on an approach that is not one of the listed bases, determine as appropriate, that the designated recipient received the same, or greater, amount of funds than the remittance transfer provider disclosed.
 - d. determine that the estimated amounts are appropriately labeled with the term "Estimated" or a substantially similar term, placed in close proximity to the term described; and
 - e. determine that related calculations were performed appropriately.

NOTE: Unless extended by the CFPB, this exception will not apply after July 21, 2015.

Permanent exception for transfers to certain countries—12 CFR 1005.32(b)(1)

14. Review and assess the adequacy of the provider's policy for determining that
 - a. the laws of the recipient country do not permit a determination of the exact amount; or
 - b. the methods by which transactions are made in the recipient country do not permit such determination.
15. Review the provider's transaction log/records to identify remittance transactions that were sent to countries on the list provided by the CFPB for which estimates may be provided on

remittance transfer-related disclosures to determine if the provider relied on the list in making estimates.

16. Determine whether the provider gave estimates for transactions to a country that is not on the list provided by the CFPB. Review related documentation to confirm that the recipient country does not legally permit, or the method by which transactions are conducted in that country does not permit determination of exact amounts.
17. Review records to determine
 - a. the bases used for the estimates under 12 CFR 1005.32 (c) and their appropriateness:
 - i. If estimates were provided in accordance with one of the bases listed in 12 CFR 1005.32(c), review documentation to confirm that inputs to estimates are appropriate; or
 - ii. If estimates are based on an approach that is not one of the listed bases, determine as appropriate, that the designated recipient received the same, or greater, amount of funds than the remittance transfer provider disclosed.
 - b. that the estimated amounts are appropriately labeled with the term "Estimated" or a substantially similar term, placed in close proximity to the term described.

Permanent exception for transfers scheduled before the date of transfer—12 CFR 1005.32(b)(2)

18. Review and assess the adequacy of the provider's policy and procedures for using estimates in the case of transfers scheduled five or more business days before the date of transfer.
19. Review and assess transactions for which estimates were used as well as related disclosures (required by 12 CFR 1005.36(a)) and any other relevant documentation, as appropriate, to determine compliance with 12 CFR 1005.32 (b)(2).

Procedures for resolving errors—12 CFR 1005.33

20. Review the provider's policies and procedures on error resolution.
21. Review relevant error resolution statements/files, consumer complaints, form letters, etc., used in addressing errors or questions concerning remittance transfer transactions.
22. Assess the provider's compliance program to

determine whether it has developed and maintains adequate written policies and procedures designed to ensure compliance with the error resolution requirements applicable to remittance transfers.

Consider:

- a. the procedures for receiving complaints of error from branches, agents, or other locations where a consumer may lodge a complaint;
 - b. the procedures for identifying complaints alleging "errors" as identified in 12 CFR 1005.33(a); and
 - c. the procedures for investigating, responding to, and resolving complaints.
23. Determine the extent of the provider's compliance with its policies and procedures on error resolution.
24. Determine the provider's compliance with the regulatory requirements regarding investigation of alleged errors and notification of consumers within the allotted time frames.
25. Determine the timeliness and adequacy of remedies the provider provides to address identified errors.
- a. For errors *other than* those that occurred because the sender provided incorrect or insufficient information, consider
 - i. if the provider provided the sender notice regarding the error investigation;
 - ii. if the sender requested a remedy, determine whether the provider provides the remedy selected by the sender. If a default remedy is provided, determine whether the sender had a reasonable time to designate a remedy after receiving a report of the error.
 - iii. if the remedy is delivery of the amount appropriate to correct the error, determine whether the provider corrects the error within one business day, or as soon as reasonably practicable, applying the same exchange rate, fees, and taxes stated in the disclosure provided in connection with the remittance transfer with respect to which the error was made;
 - iv. if the remedy is a refund, determine whether the provider refunds the appropriate amount within one business day or as soon as reasonably practicable thereafter.
 - b. If the provider determines that an error occurred that relates to
 - i. an incorrect amount paid by the sender;
 - ii. a computational or bookkeeping error made by the remittance transfer provider; or
 - iii. failure to make the amount of currency stated in the disclosures available to the designated recipient.
26. Determine whether the provider either
- a. refunds the amount of funds provided by the sender (in case of a transaction that was not properly transmitted) or the amount appropriate to resolve the error; or
 - b. makes available to the designated recipient the amount appropriate to resolve the error without additional cost to the sender or the designated recipient.
 - c. If the error relates to the failure to make funds available to the designated recipient by the disclosed date of availability (other than an error resulting from incorrect or insufficient information provided by the sender), determine whether the provider
 - i. either:
 1. refunds the amount of funds that was not properly transmitted or the amount appropriate to resolve the error to the sender; or
 2. makes available to the designated recipient the amount appropriate to resolve the error; and
 - ii. refunds to the sender any fees and, to the extent not prohibited by law, taxes collected on the remittance transfer.
 - d. In the case of errors involving incorrect or insufficient information provided by the sender for the transfer
 - i. determine whether the provider refunds to the sender the amount of funds that was not properly transmitted, or the amount appropriate to resolve the error, within three business days of providing the written explanation of findings;
 - ii. alternatively, if the provider has not yet processed a refund and agrees to the sender's request to apply the funds toward a new remittance transfer, instead of a refund, determine whether the provider treats the request as a new remittance transfer, provides the appropriate disclosures, and appropriately deducts those fees and taxes actually collected for the original unsuccessful transaction.
27. Determine that the provider is maintaining

records of compliance for a period of not less than two years from the date a notice of error was submitted to the provider or action was required to be taken by the provider.

Procedures for cancellation and refund of remittance transfers—12 CFR 1005.34 and 12 CFR 1005.36(c)

28. Review and assess the provider's policies and procedures regarding cancellation and refund of remittance transfer transactions, including:
 - a. the procedures for receiving requests of cancellation from branches, agents, or other locations where a consumer may request cancellation
 - b. the procedures for identifying which transactions are eligible for cancellation
 - c. the procedures for issuing refunds
29. Determine the extent of the provider's compliance with its own policies and procedures on cancellation and refund.
30. Determine the provider's compliance with the regulatory requirements regarding senders' request for cancellation and refund.
31. Determine whether the provider complies with any oral or written request to cancel any remittance transfer scheduled by the sender at least three business days before the date of the remittance transfer.

Acts of agents—12 CFR 1005.35

NOTE: Complete this section if the provider uses agent(s) to conduct any element of remittance transfer transactions.

32. Review the provider's agreements with agents used for remittance transfers to determine whether they are appropriate for the activities delegated.
33. Determine whether the provider has established appropriate internal controls and review procedures in relation to the work done by agents on its behalf to ensure compliance with the regulatory requirements. Consider
 - a. the extent to which the provider has established and maintained policies or procedures for compliance, including policies, procedures, or other appropriate oversight measures designed to assure compliance by an agent or authorized delegate acting for such provider including:
 - i. the degree of control the agent exercises over the remittance transfer activities performed on the provider's behalf;

ii. the quality and frequency of training provided to ensure that agents are aware of the regulatory requirements and the provider's internal policy guidelines; and

iii. the adequacy of the provider's oversight of agents' activities.

34. Select a sample of agents used by the provider and review their records in addition to relevant records held by the provider directly to determine that the activities performed by the agent on the provider's behalf are in compliance with the regulatory requirements.

Transfers scheduled before the date of transfer—12 CFR 1005.36

35. Review and assess the adequacy of the provider's policies and procedures regarding transfers scheduled before the date of transfer.
36. As appropriate, select a sample of records of transfers scheduled in advance to determine whether the provider complies with the timing of disclosures, accuracy of disclosures (and estimates pursuant to 1005.32(b)(2)), and the sender's request for cancellation. Use the same methods identified in the sections above, regarding other disclosures. Consider the following:
 - a. For one-time transfers scheduled five or more business days in advance or for the first in a series of preauthorized remittance transfers, determine whether the provider provides either a prepayment disclosure and a receipt or a combined disclosure at the time the sender requests the transfer but prior to payment.

(NOTE: If any of the disclosures provided contain estimates as permitted by 12 CFR 1005.32(b)(2), the provider must mail or deliver an additional receipt no later than one business day after the date of the transfer. If the transfer involves the transfer of funds from the sender's account held by the provider, this additional receipt may be provided on or with the next periodic statement for that account or within 30 days after the date of the transfer if a periodic statement is not provided).

- b. For each subsequent preauthorized remittance transfer, determine whether the provider provides an updated receipt if any of the information (other than temporal disclosures or disclosures that are permitted to be estimated) on the most recent receipt is no longer accurate.

(NOTE: The receipt must clearly and conspicuously indicate that it contains updated disclosures and

must be mailed or delivered to the sender within a reasonable time prior to the scheduled date of the next subsequent preauthorized remittance transfer. A disclosure that is mailed no later than 10 business days or hand or electronically delivered no later than 5 business days is deemed to have been provided within a reasonable time).

- c. If there is no updated information and the remittance transfer does not involve the transfer of funds from the sender's account held by the provider, determine whether the provider mails or delivers a receipt to the sender no later than one business day after the date of the transfer for each subsequent preauthorized transfer.
- d. If there is no updated information and the remittance transfer involves the transfer of funds from the sender's account held by the provider, determine whether the receipt is provided on or with the next periodic statement for that account, or within 30 days after the date of the transfer if a periodic statement is not provided.
- e. For any subsequent transfer in a series of preauthorized remittance transfers, determine whether the provider discloses the information required by 12 CFR 1005.36 (d)(1) no more than 12 months, and no less than 5 business days, prior to the date of the subsequent preauthorized remittance transfer.

(NOTE: While the rule generally provides flexibility as to when and where future transfer dates may be disclosed, for any subsequent preauthorized remittance transfer for which the date of transfer is four or fewer business days after the date payment is made, the disclosure must generally be provided on or with the receipt for the initial transfer in that series).

Examiner's Summary, Recommendations, and Comments

Electronic Fund Transfer Act (Regulation E) Examination Checklist

This questionnaire can be used to review audit workpapers, to evaluate financial institution policies, to perform transaction testing, and to train as appropriate. Complete only those aspects of the checklist that specifically relate to the issue being reviewed, evaluated, or tested, and retain those completed sections in the workpapers.

When reviewing audits, evaluating financial institution policies, or performing transaction testing, a "No" answer indicates a possible exception/deficiency, and you should explain it in the workpapers. If a line item is not applicable within the area you are reviewing, indicate by using "NA."

Subpart A

Issuance of Access Devices—12 CFR 1005.5

1. Do the financial institution's policies, practices, and procedures allow that validated access devices are issued only:
 - In response to oral or written requests (12 CFR 1005.5(a)(1))
or
Yes No NA
 - As a renewal or substitution for an accepted access device? (12 CFR 1005.5(a)(2))
Yes No NA
2. Do the financial institution's policies, practices, and procedures allow that unsolicited access devices are issued only when the devices are:
 - Not validated? (12 CFR 1005.5(b)(1))
Yes No NA
 - Accompanied by a clear explanation that they are not validated and how they may be disposed of if validation is not desired? (12 CFR 1005.5(b)(2))
Yes No NA
 - Accompanied by the initial disclosures required by 12 CFR 1005.7? (12 CFR 1005.5(b)(3))
Yes No NA
 - Validated only in response to a consumer's request and after the financial institution has verified the consumer's identity by reasonable means (e.g., photograph, fingerprint, personal visit, and signature)? (12 CFR 1005.5(b)(4) and Staff Commentary)
Yes No NA

Consumer Liability for Unauthorized Electronic Fund Transfers (EFTs)—12 CFR 1005.6

3. Does the financial institution impose liability on the consumer for unauthorized transfers only if: (12 CFR 1005.6(a))
 - Any access device that was used was an accepted access device?
Yes No NA
 - The institution has provided a means to identify the consumer to whom it was issued?
Yes No NA
 - The institution has provided the disclosures required by 12 CFR 1005.7(b)(1), (2), and (3)?
Yes No NA
4. Does the financial institution not rely on consumer negligence or the deposit agreement to impose greater consumer liability for unauthorized EFTs than is permitted under Regulation E? (12 CFR Part 1005, Supp. 1, Comments 1005.6(b)-1 and -2)
Yes No NA
5. If a consumer notifies the financial institution within two business days after learning of the loss or theft of an access device, does the financial institution limit the consumer's liability for unauthorized EFTs to the lesser of \$50 or actual loss? (12 CFR 1005.6(b)(1))
Yes No NA

6. If a consumer does not notify the financial institution within two business days after learning of the loss or theft of an access device, does the institution limit the consumer's liability for unauthorized EFTs to the lesser of \$500 or the sum of (12 CFR 1005.6(b)(2)):			
• \$50 or the amount of unauthorized EFTs that occurred within the two business days, whichever is less;	Yes	No	NA
<i>Plus</i>			
• The amount of unauthorized EFTs that occurred after the close of two business days and before notice to the financial institution (provided the financial institution establishes that these transfers would not have occurred had the consumer notified the financial institution within that two-day period)?	Yes	No	NA
7. If a consumer notifies the financial institution of an unauthorized EFT within 60 calendar days of transmittal of the periodic statement upon which the unauthorized EFT appears, does the financial institution not hold the consumer liable for the unauthorized transfers that occur after the 60-day period? (12 CFR 1005.6(b)(3))	Yes	No	NA
8. If a consumer does not notify the financial institution of an unauthorized EFT within 60 calendar days of transmittal of the periodic statement upon which the unauthorized EFT appears, does the financial institution ensure that the consumer's liability does not exceed the amount of the unauthorized transfers that occur after the close of the 60 days and before notice to the financial institution, if the financial institution establishes that the transfers would not have occurred had timely notice been given? (12 CFR 1005.6(b)(3))	Yes	No	NA
9. If a consumer notifies the financial institution of an unauthorized EFT within the time frames discussed in questions 7 or 8 and the consumer's access device is involved in the unauthorized transfer, does the financial institution hold the consumer liable for amounts as set forth in 12 CFR 1005.6(b)(1) or (2) (discussed in questions 5 and 6)? (12 CFR 1005.6(b)(3))	Yes	No	NA
NOTE: The first two tiers of liability (as set forth in 12 CFR 1005.6(b)(1) and (2) and discussed in questions 5 and 6) do not apply to unauthorized transfers from a consumer's account made without an access device. (Comment 1005.6(b)(3)-2)			
10. Does the financial institution extend the 60-day time period by a reasonable amount if the consumer's delay in notification was due to an extenuating circumstance? (12 CFR 1005.6(b)(4))	Yes	No	NA
11. Does the financial institution consider notice to be made when the consumer takes steps reasonably necessary to provide the institution with pertinent information, whether or not a particular employee or agent of the institution actually received the information? (12 CFR 1005.6(b)(5)(i))	Yes	No	NA
12. Does the financial institution allow the consumer to provide notice in person, by telephone, or in writing? (12 CFR 1005.6(b)(5)(ii))	Yes	No	NA
13. Does the financial institution consider written notice to be given at the time the consumer mails or delivers the notice for transmission to the institution by any other usual means? (12 CFR 1005.6(b)(5)(iii))	Yes	No	NA
14. Does the financial institution consider notice given when it becomes aware of circumstances leading to the reasonable belief that an unauthorized transfer to or from the consumer's account has been or may be made? (12 CFR 1005.6(b)(5)(iii))	Yes	No	NA
15. Does the financial institution limit the consumer's liability to a lesser amount than provided by 12 CFR 1005.6, when state law or an agreement between the consumer and the financial institution provide for such an amount? (12 CFR 1005.6(b)(6))	Yes	No	NA

Initial Disclosures—12 CFR 1005.7

16. Does the financial institution provide the initial disclosures at the time a consumer contracts for an EFT service or before the first EFT is made involving the consumer's account? (12 CFR 1005.7(a))	Yes	No	NA
17. Do the financial institution's initial disclosures provide the following information, as applicable:			
• A summary of the consumer's liability for unauthorized transfers under 12 CFR 1005.6 or under state or other applicable law or agreement? (12 CFR 1005.7(b)(1))	Yes	No	NA
• The telephone number and address of the person or office to be notified when the consumer believes that an unauthorized EFT has been or may be made? (12 CFR 1005.7(b)(2))	Yes	No	NA
• The financial institution's business days? (12 CFR 1005.7(b)(3))	Yes	No	NA
• The type of EFTs the consumer may make and any limits on the frequency and dollar amount of transfers? (If details on the limits on frequency and dollar amount are essential to maintain the security of the system, they need not be disclosed.) (12 CFR 1005.7(b)(4))	Yes	No	NA
• Any fees imposed by the financial institution for EFTs or for the right to make transfers? (12 CFR 1005.7(b)(5))	Yes	No	NA
• A summary of the consumer's right to receive receipts and periodic statements, as provided in 12 CFR 1005.9, and notices regarding preauthorized transfers as provided in 12 CFR 1005.10(a) and 1005.10(d)? (12 CFR 1005.7(b)(6))	Yes	No	NA
• A summary of the consumer's right to stop payment of a preauthorized EFT and the procedure for placing a stop payment order, as provided in 12 CFR 1005.10(c)? (12 CFR 1005.7(b)(7))	Yes	No	NA
• A summary of the financial institution's liability to the consumer for its failure to make or to stop certain transfers under the Electronic Fund Transfer Act? (12 CFR 1005.7(b)(8))	Yes	No	NA
• The circumstances under which the financial institution, in the ordinary course of business, may disclose information to third parties concerning the consumer's account? (12 CFR 1005.7(b)(9))	Yes	No	NA
• An error resolution notice that is substantially similar to Model Form A-3 in Appendix A? (12 CFR 1005.7(b)(10))	Yes	No	NA
• A notice that a fee may be imposed by an ATM operator (as defined in 12 CFR 1005.16(a)) when the consumer initiates an EFT or makes a balance inquiry and by any network used to complete the transaction? (12 CFR 1005.7(b)(11))	Yes	No	NA
18. Does the financial institution provide disclosures at the time a new EFT service is added, if the terms and conditions of the service are different than those initially disclosed? (12 CFR 1005.7(c))	Yes	No	NA

Change-in-Terms Notice; Error Resolution Notice—12 CFR 1005.8

19. If the financial institution made any changes in terms or conditions required to be disclosed under 12 CFR 1005.7(b) that would result in increased fees, increased liability, fewer types of available EFTs, or stricter limits on the frequency or dollar amount of transfers, did the financial institution provide a written notice to consumers at least 21 days prior to the effective date of such change? (12 CFR 1005.8(a))	Yes	No	NA
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20. Does the financial institution provide either the long-form error resolution notice at least once every calendar year or the short-form error resolution notice on each periodic statement? (12 CFR 1005.8(b)) Yes No NA

Receipts at Electronic Terminals; Periodic Statements—12 CFR 1005.9

21. Does the financial institution make receipts available to the consumer at the time the consumer initiates an EFT at an electronic terminal? The financial institution is exempt from this requirement for EFTs of \$15 or less. (12 CFR 1005.9(a) and (e)) Yes No NA
22. Do the receipts contain the following information, as applicable:
- The amount of the transfer? (12 CFR 1005.9(a)(1)) Yes No NA
 - The date the transfer was initiated? (12 CFR 1005.9(a)(2)) Yes No NA
 - The type of transfer and the type of account to or from which funds were transferred? (12 CFR 1005.9(a)(3)) Yes No NA
 - A number or code that identifies the consumer's account or the access device used to initiate the transfer? (12 CFR 1005.9(a)(4)) Yes No NA
 - The terminal location where the transfer is initiated? (12 CFR 1005.9(a)(5)) Yes No NA
 - The name or other identifying information of any third party to or from whom funds are transferred? (12 CFR 1005.9(a)(6)) Yes No NA
23. Does the financial institution send a periodic statement for each monthly cycle in which an EFT has occurred? If no EFT occurred, does the financial institution send a periodic statement at least quarterly? (12 CFR 1005.9(b)) Yes No NA
24. Does the periodic statement contain the following information, as applicable:
- Transaction information for each EFT occurring during the cycle, including the amount of transfer, date of transfer, type of transfer, terminal location, and name of any third-party transferor or transferee? (12 CFR 1005.9(b)(1)) Yes No NA
 - Account number? (12 CFR 1005.9(b)(2)) Yes No NA
 - Fees? (12 CFR 1005.9(b)(3)) Yes No NA
 - Account balances? (12 CFR 1005.9(b)(4)) Yes No NA
 - Address and telephone number for inquiries? (12 CFR 1005.9(b)(5)) Yes No NA
 - Telephone number to ascertain preauthorized transfers, if the financial institution provides telephone notice under 12 CFR 1005.10(a)(1)(iii)? (12 CFR 1005.9(b)(6)) Yes No NA

Preauthorized Transfers—12 CFR 1005.10

25. If a consumer's account is to be credited by a preauthorized EFT from the same payor at least once every 60 days (and the payor does not already provide notice to the consumer that the transfer has been initiated) (12 CFR 1005.10(a)(2)), does the financial institution do one of the following:
- Provide oral or written notice, within two business days, after the transfer occurs? (12 CFR 1005.10(a)(1)(i)) Yes No NA
 - Provide oral or written notice, within two business days after the transfer was scheduled to occur, that the transfer did or did not occur? (12 CFR 1005.10(a)(1)(ii)) Yes No NA
 - Provide a readily available telephone line that the consumer can call to determine if the transfer occurred and that telephone number is disclosed on the initial disclosure of account terms and on each periodic statement? (12 CFR 1005.10(a)(1)(iii)) Yes No NA

26. Does the financial institution credit the amount of a preauthorized transfer as of the date the funds for the transfer are received? (12 CFR 1005.10(a)(3))	Yes	No	NA
27. Does the financial institution ensure that an authorization is obtained for preauthorized transfers from a consumer's account by a written, signed or similarly authenticated authorization, and is a copy of the authorization provided to the consumer? (12 CFR 1005.10(b))	Yes	No	NA
28. Does the financial institution allow the consumer to stop payment on a preauthorized EFT by oral or written notice at least three business days before the scheduled date of the transfer? (12 CFR 1005.10(c)(1))	Yes	No	NA
29. If the financial institution requires that the consumer give written confirmation of an oral stop-payment order within 14 days, does the financial institution inform the consumer, at the time they give oral notification, of the requirement and provide the address where they must send the written confirmation?	Yes	No	NA
NOTE: An oral stop-payment order ceases to be binding after 14 days if the consumer fails to provide the required written confirmation. (12 CFR 1005.10(c)(2))			
30. Does the financial institution inform, or ensure that third-party payees inform, the consumer of the right to receive notice of all varying transfers?	Yes	No	NA
or			
Does the financial institution give the consumer the option of receiving notice only when a transfer falls outside a specified range of amounts or differs from the most recent transfer by an agreed-upon amount? (12 CFR 1005.10(d)(2))	Yes	No	NA
31. If the financial institution or third-party payee is obligated to send the consumer written notice of the EFT of a varying amount, does the financial institution ensure that:			
• The notice contains the amount and date of transfer?	Yes	No	NA
• The notice is sent at least 10 days before the scheduled date of transfer? (12 CFR 1005.10(d)(1))	Yes	No	NA
32. Does the financial institution not condition an extension of credit to a consumer on the repayment of loans by preauthorized EFT, except for credit extended under an overdraft credit plan or extended to maintain a specified minimum balance in the consumer's account? (12 CFR 1005.10(e)(1))	Yes	No	NA
33. Does the financial institution not require a consumer to establish an account for EFTs with a particular institution as a condition of employment or receipt of government benefits? (12 CFR 1005.10(e)(2))	Yes	No	NA

Procedures for Resolving Errors—12 CFR 1005.11

34. Does the financial institution have procedures to investigate and resolve all oral or written notices of error received no later than 60 days after the institution sends the periodic statement or provides passbook documentation? (12 CFR 1005.11(b)(2))	Yes	No	NA
35. If the financial institution requires written confirmation of an error within 10 business days of an oral notice, does the financial institution inform the consumer of this requirement and provide the address where the written confirmation must be sent? (12 CFR 1005.11(b)(2))	Yes	No	NA
36. Does the financial institution have procedures to investigate and resolve alleged errors within 10 business days, except as otherwise provided in 12 CFR 1005.11(c)? (12 CFR 1005.11(c)(1))	Yes	No	NA
NOTE: The time period is extended in certain circumstances. (12 CFR 1005.11(c)(3))			

37. Does the financial institution report investigation results to the consumer within three business days after completing its investigation and correct any error within one business day after determining that an error occurred? (12 CFR 1005.11(c)(1))	Yes	No	NA
38. If the financial institution is unable to complete its investigation within 10 business days, does the financial institution have procedures to investigate and resolve alleged errors within 45 calendar days of receipt of a notice of error; and:			
• Does the financial institution provisionally credit the consumer's account in the amount of the alleged error (including interest, if applicable) within 10 business days of receiving the error notice (however, if the financial institution requires, but does not receive, written confirmation within 10 business days, the financial institution is not required to provisionally credit the consumer's account)?	Yes	No	NA
• Within two business days after granting any provisional credit, does the financial institution inform the consumer of the amount and date of the provisional credit and gives the consumer full use of the funds during the investigation?	Yes	No	NA
• Within one business day after determining that an error occurred, does the financial institution correct the error?	Yes	No	NA
• Does the financial institution report the results to the consumer within three business days after completing its investigation including, if applicable, notice that provisional credit has been made final? (12 CFR 1005.11(c))	Yes	No	NA
NOTE: The time period is extended in certain circumstances. (12 CFR 1005.11(c)(3))			
39. If a billing error occurred, does the financial institution not impose a charge related to any aspect of the error-resolution process? (Comment 1005.11(c)-3)	Yes	No	NA
40. If the financial institution determines that no error occurred (or that an error occurred in a manner or amount different from that described by the consumer), does the financial institution send a written explanation of its findings to the consumer and note the consumer's right to request the documents the financial institution used in making its determination? (12 CFR 1005.11(d)(1))	Yes	No	NA
41. When the financial institution determines that no error (or a different error) occurred, does the financial institution notify the consumer of the date and amount of the debiting of the provisionally credited amount and the fact that the financial institution will continue to honor checks and drafts to third parties and preauthorized transfers for five business days (to the extent that they would have been paid if the provisionally credited funds had not been debited)? (12 CFR 1005.11(d)(2))	Yes	No	NA

Record Retention—12 CFR 1005.13

42. Does the financial institution maintain evidence of compliance with the requirements of the Electronic Fund Transfer Act and Regulation E for a period of two years? (12 CFR 1005.13(b))	Yes	No	NA
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Disclosures at Automated Teller Machines (ATM)—12 CFR 1005.16

43. If the financial institution operates an ATM and imposes a fee on a consumer for initiating an EFT or balance inquiry, does the financial institution provide notice that a fee will be imposed and disclose the amount of the fee? (12 CFR 1005.16(b))	Yes	No	NA
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44. Does the financial institution provide the notice required by 12 CFR 1005.16(b) either by showing it on the ATM screen or by providing it on paper before the consumer is committed to paying a fee? (12 CFR 1005.16(c))	Yes	No	NA
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Requirements for Overdraft Services—12 CFR 1005.17

45. Does the financial institution's Overdraft Protection Program incorporate any guidance issued by its federal regulator, as applicable?	Yes	No	NA
46. Does the financial institution's Overdraft Protection Program provide "overdraft services," i.e., charge fees for paying ATM and one-time debit overdrafts? (12 CFR 1005.17(a)) <u>If no, do not complete this section.</u>	Yes	No	NA
47. If the financial institution assesses a fee or charge (NOTE: fees or charges may generally be assessed only on transactions paid after the confirmation has been mailed or delivered) on the consumer's account for paying an ATM or one-time debit card transaction pursuant to the financial institutions overdraft service, does the financial institution first (12 CFR 1005.17(b)(1)):			
• Provide the consumer with a notice in writing, or if the consumer agrees, electronically, that is segregated from all other information and describes the institution's overdraft service (12 CFR 1005.17(b)(1)(i));	Yes	No	NA
• Provide a reasonable opportunity for the consumer to affirmatively consent, or opt-in, to the institution's payment of ATM and one-time debit card transactions (12 CFR 1005.17(b)(1)(ii));	Yes	No	NA
• Obtain the consumer's affirmative consent, or opt-in, to the institution's payment of ATM or one-time debit card transactions (12 CFR 1005.17(b)(1)(iii)); and	Yes	No	NA
• Provide the consumer with confirmation of the consumer's consent in writing, or if the consumer agrees, electronically, which includes a statement informing the consumer of the right to revoke such consent? (12 CFR 1005.17(b)(1)(iv))	Yes	No	NA
48. Does the financial institution ensure that it does not condition the payment of any overdrafts for checks, ACH transactions, and other types of transactions on the consumer affirmatively consenting to the institution's payment of ATM and one-time debit card transactions pursuant to the institution's "overdraft services"? (12 CFR 1005.17(b)(2)(i))	Yes	No	NA
49. Does the financial institution pay checks, ACH transactions, and other types of transactions that overdraw the consumer's account regardless of whether the consumer has affirmatively consented to the institution's overdraft protection service for ATM and one-time debit card transactions? (12 CFR 1005.17(b)(2)(ii))	Yes	No	NA
50. For consumers who have not opted in, and if an overdraft fee or charge is based on the amount of the outstanding negative balance, does the institution only assess fees where the negative balance is attributable in whole or in part to a check, ACH, or other type of transaction not subject to the prohibition on assessment of overdraft fees?	Yes	No	NA
For consumers who have not opted in, does the financial institution only assess daily or sustained overdraft, negative balance, or similar fees or charges where the negative balance is attributable in whole or in part to a check, ACH, or other type of transaction not subject to the prohibition on assessment of overdraft fees?	Yes	No	NA
Does the institution base the date on which such a daily or sustained overdraft, negative balance, or similar fee or charge is assessed on the date on which the check, ACH, or other type of transaction was paid into overdraft? (Comment 1005.17(b)-9)	Yes	No	NA

51. Does the financial institution provide consumers who do not affirmatively consent to the institution's overdraft service for ATM and one-time debit card transactions the same account terms, conditions, and features that it provides to consumers who affirmatively consent, except for the overdraft service for ATM and one-time debit card transactions? (12 CFR 1005.17(b)(3))	Yes	No	NA
52. Is the notice required by (12 CFR 1005.17(b)(1)(i)) substantially similar to Model Form A-9 set forth in Appendix A of (12 CFR 1005.17), including applicable items from the list below, and does it not contain any additional information? (12 CFR 1005.17(d))	Yes	No	NA
• Overdraft service—Does the notice provide a brief description of the overdraft service and the types of transactions for which a fee or charge for paying an overdraft may be imposed, including ATM and one-time debit card transactions? (12 CFR 1005.17(d)(1))	Yes	No	NA
• Fees imposed—Does the notice contain the dollar amount of any fees or charges assessed by the financial institution for paying an ATM or one-time debit card transaction pursuant to the financial institution's overdraft service, including any daily or other overdraft fees?	Yes	No	NA
NOTE: If the amount of the fee is determined on the basis of the number of times the consumer has overdrawn the account, the amount of the overdraft, or other factors, the institution must disclose the maximum fee that may be imposed. (12 CFR 1005.17(d)(2))			
• Limits on fees charged—Does the notice disclose the maximum number of overdraft fees or charges that may be assessed per day or, if applicable, that there is no limit? (12 CFR 1005.17(d)(3))	Yes	No	NA
• Disclosure of opt-in right—Does the notice explain the consumer's right to affirmatively consent to the financial institution's payment of overdrafts for ATM and one-time debit card transactions pursuant to the institution's overdraft service, including the methods by which the consumer may consent to the service? (12 CFR 1005.17(d)(4))	Yes	No	NA
• Alternative plans for covering overdrafts—As applicable, does the institution's opt-in notice appropriately address the alternative methods for covering overdrafts?	Yes	No	NA
• If the institution offers both a line of credit subject to Regulation Z (12 CFR Part 1026) and a service that transfers funds from another account of the consumer held at the institution to cover overdrafts, does the notice state that both alternative plans are offered?	Yes	No	NA
• If the institution offers one alternative plan, but not the other, does the notice state which alternative plan it offers? If the institution does not offer either a line of credit subject to Regulation Z (12 CFR Part 1026) or a service that transfers funds from another account of the consumer held at the institution to cover overdrafts plan, does the notice exclude information regarding either of these plans?	Yes	No	NA
• If the financial institution offers additional alternatives for paying overdrafts, at its option the institution may (but is not required to) disclose those alternatives. Does its notice describe those alternatives?	Yes	No	NA
• Permitted modifications and additional content—if the institution modifies the notice, are the modifications permitted: to indicate that the consumer has the right to opt into, or out of, the payment of overdrafts under the institution's overdraft service for other types of transactions, such as checks, ACH transactions, or automatic bill payments; to provide a means for the consumer to exercise this choice; and to disclose the associated returned item fee and that additional merchant fees may apply?	Yes	No	NA

NOTE: The institution may also disclose the consumer's right to revoke consent. The response portion of Model Form A-9 may be tailored to the methods offered for opting in and may include reasonable methods to identify the account, such as a bar code. (12 CFR 1005.17(d)(6) and Comments 1005.17(d)-1 through -5))

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| <p>53. Joint accounts—When two or more consumers jointly hold an account, does the financial institution treat the affirmative consent of any of the joint consumers as affirmative consent for that account, and treat the revocation of affirmative consent by any of the joint consumers as revocation of consent for that account? (12 CFR 1005.17(e))</p> <p>54. Continuing right to opt-in or to revoke opt-in—Does the financial institution allow the consumer to affirmatively consent to the financial institution's overdraft service at any time in the manner described in the notice required under (12 CFR 1005.17(b)(1)(i)) and allow a consumer to revoke consent at any time in the manner made available to the consumer for providing consent? (12 CFR 1005.17(f))</p> <p>55. Does the financial institution implement a consumer's revocation of consent as soon as reasonably practicable? (12 CFR 1005.17(f))</p> <p>56. Is the consumer's affirmative consent to the overdraft service effective until revoked by the consumer, or unless the financial institution terminates the service? (12 CFR 1005.17(g))</p> | Yes No NA

Yes No NA

Yes No NA

Yes No NA |
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Payroll Card Accounts—12 CFR 1005.18

- | | |
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| <p>57. If the financial institution offers payroll card accounts, does the financial institution <i>either</i> provide periodic statements as required by 12 CFR 1005.9(b) <i>or</i> make available to the consumer:</p> <ul style="list-style-type: none"> • The account balance, through a readily available telephone line, <i>and</i> • An electronic history of the consumer's account transactions, such as through an Internet website, that covers at least 60 days preceding the date the consumer electronically accesses the account, <i>and</i> • A written history of the consumer's account transactions that is provided promptly in response to an oral or written request and that covers at least 60 days preceding the date the financial institution receives the consumer's request? (12 CFR 1005.18(b)) <p>NOTE: The history of account transactions must include the information set forth in 12 CFR 1005.9(b).</p> <p>58. Does the financial institution provide initial disclosures that include, at a minimum:</p> <ul style="list-style-type: none"> • A telephone number that the consumer may call to obtain the account balance, the means by which the consumer can obtain an electronic account history, such as the address of a website, and a summary of the consumer's right to receive a written account history upon request, including a telephone number to call to request a history, <i>and</i> • A notice concerning error resolution? (12 CFR 1005.18(c)(1)) <p>59. Does the financial institution provide an annual notice concerning error resolution or, alternatively, an abbreviated notice with each electronic and written history? (12 CFR 1005.18(c)(2))</p> | Yes No NA

Yes No NA

Yes No NA

Yes No NA

Yes No NA

Yes No NA |
|--|--|

60. Does the financial institution begin the 60-day period for reporting any unauthorized transfer under 12 CFR 1005.6(b)(3) on the earlier of the date the consumer electronically accesses the consumer's account after the electronic history made available to the consumer reflects the transfer, or the date the financial institution sends a written history of the consumer's account transactions requested by the consumer in which the unauthorized transfer is first reflected? (12 CFR 1005.18(c)(3))

Yes No NA

NOTE: A financial institution may comply with the provision above by limiting the consumer's liability for an unauthorized transfer as provided under 12 CFR 1005.6(b)(3) for any transfer reported by the consumer within 120 days after the transfer was credited or debited to the consumer's account.

61. Does the financial institution comply with the error resolution requirements in response to an oral or written notice of an error from the consumer that is received by the earlier of 60 days after the date the consumer electronically accesses the consumer's account after the electronic history made available to the consumer reflects the alleged error, or 60 days after the date the financial institution sends a written history of the consumer's account transactions requested by the consumer in which the alleged error is first reflected? (12 CFR 1005.18(c)(4))

Yes No NA

NOTE: The financial institution may comply with the requirements for resolving errors by investigating any oral or written notice of an error from the consumer that is received by the institution within 120 days after the transfer allegedly in error was credited or debited to the consumer's account.

Requirements for Gift Cards and Gift Certificates—12 CFR 1005.20

62. Does the institution offer gift certificates, store gift cards, general-use prepaid cards, loyalty, award, or promotional gift cards? If no, do not complete this section.

Yes No NA

63. Determine if the institution offers consumers, primarily for personal, family, or household purposes, in a specified amount, a card, code, or other device on a prepaid basis, the following:

- Gift certificates—which may not be increased or reloaded in exchange for payment; and are redeemable upon presentation at a single merchant or an affiliated group of merchants for goods and services? (12 CFR 1005.20(a)(1))

Yes No NA

- Store gift cards—which may be increased or reloaded, in exchange for payment; and are redeemable upon presentation at a single merchant or an affiliated group of merchants for goods and services? (12 CFR 1005.20(a)(2))

Yes No NA

- General-use prepaid cards—which may be increased or reloaded, in exchange for payment; and are redeemable upon presentation at multiple, unaffiliated merchants for goods or services, or usable at automated teller machines? (12 CFR 1005.20(a)(3))

Yes No NA

64. Do loyalty, award, or promotional gift cards as defined by (12 CFR 1005.20(a)(4)) contain the following disclosures as applicable?

- A statement indicating that the card, code, or other device is issued for loyalty, award, or promotional purposes, which must be included on the front of the card, code, or other device (12 CFR 1005.20(a)(4)(iii)(A));

Yes No NA

- The expiration date for the underlying funds, which must be included on the front of the card, code, or other device (12 CFR 1005.20(a)(4)(iii)(B));

Yes No NA

	• The amount of fees that may be imposed in connection with the card, code, or other device, and the conditions under which they may be imposed, which must be provided with the card, code, or other device (12 CFR 1005.20(a)(4)(iii)(C)); and	Yes	No	NA
	• A toll-free telephone number and, if one is maintained, a website, that a consumer may use to obtain fee information, which must be included on or with the card, code, or other device (12 CFR 1005.20(a)(4)(iii)(D))?	Yes	No	NA
65.	If the terms of the gift certificate, store gift card, or general-use prepaid card impose a dormancy, inactivity, or service fee as defined under (12 CFR 1005.20(a)), please answer the following:			
	• Has there been activity with respect to the certificate or card, in the one-year period ending on the date on which the fee was imposed (12 CFR 1005.20(d)(1));	Yes	No	NA
	• As applicable, are the following, clearly and conspicuously stated on the gift certificate, store gift card, or general-use prepaid card	Yes	No	NA
	– The amount of any dormancy, inactivity, or service fee that may be charged (12 CFR 1005.20(d)(2)(i));	Yes	No	NA
	– How often such a fee may be assessed (12 CFR 1005.20(d)(2)(ii)); and	Yes	No	NA
	– That such fee may be assessed for inactivity (12 CFR 1005.20(d)(2)(iii))?	Yes	No	NA
	• Is the dormancy, inactivity, or service fee imposed limited to one in any given calendar month (12 CFR 1005.20(d)(3))?	Yes	No	NA
66.	If the financial institution sells or issues a gift certificate, store gift card, or general-use prepaid card with an expiration date, please answer the following:			
	• Has the financial institution established policies and procedures to provide consumers with a reasonable opportunity to purchase a certificate or card with at least five years remaining until the certificate or card expiration date (12 CFR 1005.20(e)(1))?	Yes	No	NA
	• The expiration date for the underlying funds is at least the later of five years after the date the gift certificate was initially issued, or the date on which funds were last loaded to a store gift card or general-use prepaid card; or the certificate or card expiration date, if any (12 CFR 1005.20(e)(2))?	Yes	No	NA
67.	If the financial institution sells or issues a gift certificate, store gift card, or general-use prepaid card with an expiration date, then are the following disclosures provided on the certificate or card, as applicable:			
	• The expiration date for the underlying funds, or if the underlying funds do not expire, the fact that the funds do not expire (12 CFR 1005.20(e)(3)(i));	Yes	No	NA
	• A toll-free number and, if one is maintained, a website that a consumer may use to obtain a replacement certificate or card after the certificate or card expires if the underlying funds may be available (12 CFR 1005.20(e)(3)(ii)); and	Yes	No	NA
	• Except where a non-reloadable certificate or card bears an expiration date that is at least seven years from the date of manufacture, a statement, disclosed with equal prominence and in close proximity to the certificate or card expiration date, that:	Yes	No	NA
	– The certificate or card expires, but the underlying funds either do not expire or expire later than the certificate or card (12 CFR 1005.20(e)(3)(iii)(A));	Yes	No	NA
	– The consumer may contact the issuer for a replacement card (12 CFR 1005.20(e)(3)(iii)(B)); and	Yes	No	NA

<ul style="list-style-type: none"> – No fee or charge is imposed on the cardholder for replacing the gift certificate, store gift card, or general-use prepaid card or for providing the certificate or card holder with the remaining balance in some manner prior to the funds expiration date unless such certificate or card has been lost or stolen. (12 CFR 1005.20(e)(4)). <p>68. Are the following disclosures provided in connection with a gift certificate, store gift card, or general-use prepaid card, as applicable:</p> <ul style="list-style-type: none"> • For each type of fee that may be imposed in connection with the gift certificate or card (other than a dormancy, inactivity, or service fee subject to the disclosure requirements under (12 CFR 1005.20(d)(2)), the following information must be provided on or with the certificate or card: <ul style="list-style-type: none"> – The type of fee (12 CFR 1005.20(f)(1)(i)); – The amount of the fee (or an explanation of how the fee will be determined) (12 CFR 1005.20(f)(1)(ii)); and – The conditions under which the fee may be imposed (12 CFR 1005.20(f)(1)(iii)). • A toll-free telephone number and, if one is maintained, a website, that a consumer may use to obtain information about dormancy, inactivity, service, or each type of fee that may be imposed in connection with the certificate or card (12 CFR 1005.20(f)(2)). 	Yes	No	NA
	Yes	No	NA

Subpart B—Requirements for Remittance Transfers

<p>1. Does the provider offer remittance transfers in the normal course of business?</p> <p>If the provider deems itself to not offer remittance transfers in the normal course of business as a result of the 100-transfer safe harbor, are the provider's method for counting transactions appropriate?</p>	Yes	No	NA
	Yes	No	NA

Disclosures—12 CFR 1005.31

(Unless otherwise indicated, the disclosure requirements apply to all remittance transfer transactions, including those scheduled before the date of transfer.)

<p>5. Does the provider provide prepayment disclosures and receipts or combined disclosures to its remittance transfer customers (12 CFR 1005.31(b)(1), (2), and (3))?</p> <p>NOTE: Specific content of disclosures are addressed below.</p> <p>6. Are written disclosures:</p> <ul style="list-style-type: none"> • in the appropriate form (12 CFR 1005.31(c)) • clear and conspicuous (12 CFR 1005.31(a)(1)) • in retainable form (12 CFR 1005.31(a)(2))? 	Yes	No	NA
	Yes	No	NA
	Yes	No	NA
	Yes	No	NA

7. Are written and electronic disclosures provided in compliance with the foreign language requirements of 12 CFR 1005.31(g)?	Yes	No	NA
8. If the provider uses scripts to provide oral disclosures for remittance transfer transactions and error resolution procedures conducted over the telephone, do the contents of the scripts comply with the requirements of 12 CFR 1005.31(a)(3) and (a)(4)?	Yes	No	NA
9. Do disclosures related to telephone, mobile application, or text message transactions comply with the disclosure requirements with respect to foreign languages and notice of cancellation rights? (12 CFR 1005.31(g)(2) and 12 CFR 1005.31(b)(2)(iv))	Yes	No	NA
10. Does information in written or electronic disclosures comply with the grouping requirements of 12 CFR 1005.31(c)(1)?	Yes	No	NA
11. Is the exchange rate used for the remittance transfer generally disclosed in close proximity to the other information in the prepayment disclosures? (12 CFR 1005.31(c)(2))	Yes	No	NA
12. In case of a disclosure that includes the disclaimer statement under 12 CFR 1005.31(b)(1)(viii), is the disclaimer in close proximity to the Total to Recipient? (12 CFR 1005.31(c)(2))	Yes	No	NA
13. Are disclosures on error resolution and cancellation rights generally disclosed in close proximity to the other disclosures on the receipt? (12 CFR 1005.31(c)(2))	Yes	No	NA
14. Are disclosures that are provided in writing or electronically provided in a minimum of eight-point font, in equal prominence to each other, and on the front of the page on which the disclosures are printed? (12 CFR 1005.31(c)(3))	Yes	No	NA
15. For disclosures that are provided in writing or electronically: <ul style="list-style-type: none"> • do they contain only information directly related to the disclosures, and • are they segregated from everything else? (12 CFR 1005.31(c)(4)) 	Yes	No	NA
16. Are estimated amounts in the disclosures appropriately described using the term “estimated” or a substantially similar term in close proximity to the term described? (12 CFR 1005.31(d))	Yes	No	NA
17. Are disclosures provided in compliance with the timing requirements of 12 CFR 1005.31(e)?	Yes	No	NA
18. Do disclosures comply with the accuracy requirements of 12 CFR 1005.31(f)? NOTE: For a one-time transfer scheduled five or more business days in advance or for the first in a series of preauthorized remittance transfers, disclosures must be accurate when a sender makes payment except to the extent estimates are permitted. For any subsequent transfer in a series of preauthorized remittance transfers, disclosures must be accurate as of the date the preauthorized remittance transfer to which it pertains is made. (12 CFR 1005.36(b).)	Yes	No	NA

Prepayment disclosures—12 CFR 1005.31(b)(1)

19. Does the provider appropriately distinguish between covered and non-covered third-party fees?	Yes	No	NA
20. Do the provider's prepayment disclosures appropriately disclose to the recipient the following information as applicable, using the terms in quotes (or substantially similar terms) listed below: <ul style="list-style-type: none"> • “Transfer Amount” both in the currency in which transaction is funded and in the currency in which the funds will be made available to the recipient; 	Yes	No	NA

• “Transfer Fees” and “Transfer Taxes”;	Yes	No	NA
• “Other Fees”;	Yes	No	NA
• “Exchange Rate”;	Yes	No	NA
• “Total to Recipient”; and	Yes	No	NA
• If applicable, a disclaimer statement that non-covered third-party fees or taxes collected on the remittance transfer by a third person may apply, resulting in the designated recipient receiving less than the amount disclosed? (12 CFR 1005.31(b)(1))	Yes	No	NA

Receipt—12 CFR 1005.31(b)(2)

21. Do the provider's receipts appropriately calculate and disclose to the recipient the following information as applicable, using the terms in quotes (or substantially similar terms) listed below, as applicable:

- all the information required to be provided in the prepayment disclosure; Yes No NA
- “Date Available”; Yes No NA
- “Recipient”; Yes No NA

- a statement about the sender's error resolution and cancellation rights, using language set forth in Model Form A-37 of Appendix A or substantially similar language;

NOTE: If the transfer is scheduled at least three business days before the date of the transfer, the statement about the sender's cancellation rights should reflect the requirements of 12 CFR 1005.36(c).

- name, telephone number(s), and website of the provider; Yes No NA
- a statement that the sender can contact the state agency that licenses or charters the remittance transfer provider with respect to the particular transfer (if applicable) and the Consumer Financial Protection Bureau (CFPB), for questions or complaints about the remittance transfer provider using language set forth in Model Form A-37 of Appendix A or substantially similar language; and Yes No NA

NOTE: The statement must include the name, telephone number(s), and website of the state agency and the name, toll-free telephone number(s), and website of the CFPB.

- the transfer date (only for transfers scheduled at least three business days in advance, or the first transfer in a series of preauthorized remittance transfers)? Yes No NA

Combined disclosure—12 CFR 1005.31(b)(3)

Complete this section if the provider provides combined disclosures as an alternative to prepayment disclosures and receipts.

22. Does the combined disclosure contain all the information required to be provided on the receipt?

Yes No NA

23. Does the provider provide the combined disclosure when the sender requests the remittance transfer, but prior to payment for the transfer; and provide a proof of payment when payment is made for the transfer?

Yes No NA

NOTE:

1. The proof of payment must be clear and conspicuous, provided in writing or electronically, and provided in a retainable form.
2. For one-time transfers scheduled five or more business days in advance or for the first in a series of preauthorized transfers, the provider may provide confirmation that the transaction has been scheduled in lieu of the proof of payment if payment is not processed at the time the remittance transfer is scheduled. No further proof of payment is required when payment is later processed.

Long-form error resolution and cancellation notice—12 CFR 1005.31(b)(4)

24. Does the provider promptly provide, at the sender's request, a notice describing the sender's error resolution and cancellation rights, using language set forth in Model Form A-36 of Appendix A or substantially similar language? (12 CFR 1005.31(b)(4))
- | | | | |
|--|-----|----|----|
| | Yes | No | NA |
|--|-----|----|----|

NOTE: For a remittance transfer scheduled at least three business days before the date of the transfer, the description of the rights of the sender regarding cancellation must instead reflect the requirements of 12 CFR 1005.36(c).

Estimates—12 CFR 1005.32*Temporary exception for insured institutions—12 CFR 1005.32(a)*

25. If the remittance transfer provider is an insured institution (as defined by 12 CFR 1005.32(a)(3)), does the institution use estimates in its disclosures for transactions sent from the sender's account with the institution?
- | | | | |
|--|-----|----|----|
| | Yes | No | NA |
|--|-----|----|----|
26. If so, can the financial institution not determine the exact amounts for reasons beyond its control because a person other than the institution or with which the institution has no correspondent relationship sets the exchange rate required to be disclosed or imposes a fee required to be disclosed? (12 CFR 1005.32(a) and Comment 32(a)(1)-1)
- | | | | |
|--|-----|----|----|
| | Yes | No | NA |
|--|-----|----|----|

Permanent exception for transfers to certain countries—12 CFR 1005.32(b)(1)

27. Does the provider appropriately rely on the list provided by the CFPB when using estimates under the permanent exception set forth under 12 CFR 1005.32(b)(1) for transactions to those countries?
- | | | | |
|--|-----|----|----|
| | Yes | No | NA |
|--|-----|----|----|
28. If the provider provides estimates for transactions in a country which does not appear on the safe harbor list published by the CFPB, does the entity appropriately determine that the laws of or the method by which transactions are conducted in the recipient country do not permit the determination of exact amounts? (12 CFR 1005.32(b)(1)(ii) and Comment 32(b)-5)
- | | | | |
|--|-----|----|----|
| | Yes | No | NA |
|--|-----|----|----|

NOTE: A provider cannot rely on the CFPB list if it has information that the laws of a country on the list permit exact disclosures.

Permanent exception for transfers scheduled before the date of transfer—12 CFR 1005.32(b)(2)

29. For transfers scheduled five or more business days before the date of the transfer for which estimates may be provided, does the provider comply with the requirements of 12 CFR 1005.32(b)(2)?
- | | | | |
|--|-----|----|----|
| | Yes | No | NA |
|--|-----|----|----|

Permanent exception for optional disclosure of non-covered third-party fees and taxes collected by a third party—12 CFR 1005.32(b)(3)

30. If the provider includes in the disclaimer statement required by 12 CFR 1005.31(b)(1)(viii), an optional estimated disclosure of applicable non-covered third-party fees or taxes, are the estimates based on reasonable sources? (12 CFR 1005.32(b)(3)?

Yes No NA

Bases for Estimates—12 CFR 1005.32(c)

31. Are the bases used to derive the estimates under 12 CFR 1005.32(a), (b)(1), and (b)(2) in compliance with the method for disclosing estimates set forth in 12 CFR 1005.32(c)?

Yes No NA

NOTE: For transfers scheduled five or more business days before the date of the transfer for which estimates may be provided, the requirements of 12 CFR 1005.32(d) apply.

32. Does the provider use the approaches listed in the rule to estimate:

- exchange rate;
- transfer amount in which funds will be received;
- covered third-party fees; and
- the amount of currency that will be received by the designated recipient?

Yes No NA

Yes No NA

Yes No NA

Yes No NA

33. If estimates are based on an approach that is not one of the listed bases, does the designated recipient receive the same, or greater, amount of funds than the remittance transfer provider disclosed?

Yes No NA

Procedures for Resolving Errors—12 CFR 1005.33

34. Does the provider have adequate policies and procedures to address the error resolution requirements applicable to remittance transfers (12 CFR 1005.33(g))?

Yes No NA

35. Do the policies and procedures adequately state what constitutes an error and what does not as defined in 12 CFR 1005.33(a)?

Yes No NA

36. Do the policies and procedures specifically address:

- timing and content of the sender's notice of error (12 CFR 1005.33(b)(1));
- provider's request for additional information or clarification (12 CFR 1005.33(b)(2));
- time limits for investigation, reporting results, and correcting an error (12 CFR 1005.33(c));
- sender's request for documentation that the provider relied on to make a decision (12 CFR 1005.33(d)); and
- the retention of records related to error investigations (12 CFR 1005.33(g)(2) and (12 CFR 1005.13))?

Yes No NA

37. Does the provider complete its investigation of alleged errors and determine whether an error occurred within 90 days of receiving notice of the error (12 CFR 1005.33(c))?

Yes No NA

38. Does the provider report investigation results to the sender within three business days after completing its investigation and include notice of any remedies available for correcting any error determined to have occurred and provide remedy within one business day (12 CFR 1005.33(c))?

Yes No NA

<p>NOTE: The provider can ask the sender to designate a preferred remedy at the time the sender provides notice of the error but must indicate that a resend remedy may be unavailable if the error occurred because the sender provided incorrect or insufficient information.</p>		
39. If the sender provided an incorrect account number or recipient institution identifier, does the provider comply with the requirements of 12 CFR 1005.33(h) in determining that no error occurred?	Yes	No NA
40. If the provider determines that no error or a different error occurred, does it provide a written explanation of the findings, and note the sender's right to request the documents upon which the provider relied in making its determination (12 CFR 1005.33(d))?	Yes	No NA
41. If the provider provides a default remedy, does it correct the error within one business day or as soon as reasonably practicable, after the reasonable time (deemed to be 10 business days) or the sender to designate the remedy has passed?	Yes	No NA
<p>NOTE: A default remedy is not applicable where the sender provided incorrect or insufficient information.</p>		
42. If the sender requests a refund (for errors other than those related to failure to deliver by the disclosed date where the sender provided incorrect or insufficient information), does the provider refund within one business day or as soon as reasonably practicable thereafter (12 CFR 1005.33(c)(2)(A))?	Yes	No NA
<p>NOTE: The provider may generally, at its discretion, issue a refund either in cash or in the same form of payment that was initially provided by the sender for the remittance transfer.</p>		
43. If the sender requests delivery of the amount appropriate to correct the error and the error did not occur because the sender provided incorrect or insufficient information, does the provider correct the error within one business day, or as soon as reasonably practicable, applying the same exchange rate, fees, and taxes stated in the disclosure provided in connection with the unsuccessful remittance transfer attempt (Comment 33(c)-3)?	Yes	No NA
44. In the case of errors involving incorrect or insufficient information provided by the sender for the transfer, does the provider comply with the requirements of 12 CFR 1005.33(c)(2)(iii)?	Yes	No NA
45. If the provider determines that an error occurred that relates to: <ul style="list-style-type: none"> • an incorrect amount paid by the sender; • a computational or bookkeeping error made by the remittance transfer provider; or • failure to make the amount of currency stated in the disclosures available to the designated recipient, does the provider either: <ul style="list-style-type: none"> • refund the amount of funds provided by the sender (in case of a transaction that was not properly transmitted); • refund the amount appropriate to resolve the error; or • make available to the designated recipient, the amount appropriate to resolve the error without additional cost to the sender or the designated recipient (12 CFR 1005.33(c)(2)(i))? 	Yes	No NA
46. If the error relates to the failure to make funds available to the designated recipient by the disclosed date of availability (except in cases where the sender provided incorrect or insufficient information), does the provider	Yes	No NA

- either (i) refund the amount of funds that was not properly transmitted, or the amount appropriate to resolve the error to the sender; or (ii) make available to the designated recipient the amount appropriate to resolve the error;
- and
- refund to the sender any fees and, to the extent not prohibited by law, taxes imposed for the remittance transfer? (12 CFR 1005.33(c)(2)(ii))
47. If an error occurred, does the provider impose a charge related to any aspect of the error resolution process (including charges for documentation or investigation)? (Comment 33(c)-9) If so, is the provider in violation of 12 CFR 1005.33(c)? Yes No NA
48. Does the provider retain policies and procedures and documentation, including those related to error investigations, for a period of not less than two years from the date a notice of error was submitted to the provider or action was required to be taken by the provider (12 CFR 1005.33(g) and 1005.13)? Yes No NA

Procedures for Cancellation and Refund of Remittance Transfers—12 CFR 1005.34

49. Does the provider comply with any oral or written request to cancel a remittance transfer (except for transfers scheduled three or more business days before the date of transfer) from the sender that is received no later than 30 minutes after the sender makes payment in connection with the remittance transfer? (12 CFR 1005.34(a)) Yes No NA
- NOTE: The request to cancel must enable the provider to identify the sender's name and address or telephone number and the particular transfer to be cancelled; and the transferred funds must not have been picked up by the designated recipient or deposited into an account of the designated recipient. (12 CFR 1005.34(a)(1) and (2))
50. If a sender provides a timely request to cancel a remittance transfer, does the provider refund all funds provided by the sender in connection with the remittance transfer at no additional cost to the sender, within three business days of receiving the request? (12 CFR 1005.34(b)) Yes No NA
- NOTE: The funds to be refunded include any fees and, to the extent not prohibited by law, taxes that have been imposed for the transfer, whether the fee or tax was assessed by the provider or a third party, such as an intermediary institution, the agent or bank in the recipient country, or a state or other governmental body (12 CFR 1005.34(b)).

Acts of Agents—12 CFR 1005.35

51. Has the provider established and maintained policies or procedures, including policies, procedures for compliance, or other appropriate oversight measures designed to assure compliance by an agent or authorized delegate acting for such provider? Yes No NA
- Consider:
- the degree of control the agent exercises over the remittance transfer activities performed on the provider's behalf; Yes No NA
 - the quality and frequency of training provided to ensure that agents are aware of the regulatory requirements and the provider's internal policy guidelines; and Yes No NA
 - the adequacy of the provider's oversight of agents' activities. Yes No NA

Transfers Scheduled before the Date of Transfer—12 CFR 1005.36

52. For one-time transfers scheduled five or more business days in advance or for the first in a series of preauthorized remittance transfers, does the provider provide either a prepayment disclosure and a receipt or a combined disclosure at the time the sender requests the transfer but prior to payment? (12 CFR 1005.36(a)(1)(i))
- Yes No NA
- NOTE: If any of the disclosures provided contain estimates, the provider must mail or deliver an additional receipt no later than one business day after the date of the transfer. If the transfer involves the transfer of funds from the sender's account held by the provider, this additional receipt may be provided on or with the next periodic statement for that account or within 30 days after the date of the transfer if a periodic statement is not provided. (12 CFR 1005.36(a)(1)(ii))
53. For each subsequent preauthorized remittance transfer, does the provider provide an updated receipt if any of the information (other than temporal disclosures or disclosures that are permitted to be estimated) on the most recent receipt is no longer accurate? (12 CFR 1005.36(a)(2)(i))
- Yes No NA
- NOTE: The receipt must clearly and conspicuously indicate that it contains updated disclosures and must be mailed or delivered to the sender within a reasonable time prior to the scheduled date of the next subsequent preauthorized remittance transfer. A disclosure that is mailed no later than 10 business days or hand or electronically delivered no later than 5 business days is deemed to have been provided within a reasonable time. (12 CFR 1005.36(a)(2)(i) and Comment 36(a)(2)-3)
54. If there is no updated information and the remittance transfer does not involve the transfer of funds from the sender's account held by the provider, does the provider mail or deliver to the sender a receipt no later than one business day after the date of the transfer for each subsequent preauthorized transfer? (12 CFR 1005.36(a)(2)(ii))
- Yes No NA
55. If there is no updated information and the remittance transfer involves the transfer of funds from the sender's account held by the provider, is the receipt provided on or with the next periodic statement for that account, or within 30 days after the date of the transfer if a periodic statement is not provided? (12 CFR 1005.36(a)(2)(ii))
- Yes No NA
56. For any subsequent transfer in a series of preauthorized remittance transfers, does the provider disclose the date of the subsequent transfer using the term "Future Transfer Date" or a substantially similar term, a statement of the sender's cancellation rights, and the name, telephone number(s), and website of the remittance transfer provider no more than 12 months, and no less than 5 business days prior to, the date of the subsequent preauthorized remittance transfer? (12 CFR 1005.36(d))
- Yes No NA
- NOTE: While the rule generally provides flexibility as to when and where future transfer dates may be disclosed, for any subsequent preauthorized remittance transfer for which the date of transfer is four or fewer business days after the date payment is made, the disclosure must generally be provided on or with the receipt for the initial transfer in that series. (12 CFR 1005.36(d)(2)(ii))
57. Does the provider comply with any oral or written request to cancel any remittance transfer scheduled by the sender at least three business days before the date of the remittance transfer? (12 CFR 1005.36(c))
- Yes No NA
- NOTE: The request to cancel must
- enable the provider to identify the sender's name and address or telephone number and the particular transfer to be cancelled; and

- be received by the provider at least three business days before the scheduled date of the remittance transfer. (12 CFR 1005.36(c))

Comments

Regulation D¹

Reserve Requirements

Background

Regulation D imposes reserve requirements on certain deposits and other liabilities of depository institutions² solely for the purpose of implementing monetary policy. It specifies how depository institutions must classify different types of deposit accounts for reserve requirements purposes.

Types of Deposits Covered

Regulation D imposes reserve requirements on “transaction accounts,” “nonpersonal time deposits,” and “Eurocurrency liabilities.”³ However, “nonpersonal time deposits” and “Eurocurrency liabilities” have been subject to a zero percent reserve requirement since the early 1990s. Accordingly, “transaction accounts” are the only category of deposit that is currently subject to a positive reserve requirement under Regulation D. Depository institutions are still required to classify their liabilities according to the Regulation D definitions of “transaction accounts,” “savings deposits,” “time deposits,” or “Eurocurrency liabilities” in connection with filing mandatory FR 2900 deposit reports.⁴

Transaction Accounts

A *transaction account* is an account from which the depositor or account holder is permitted to “make transfers or withdrawals by negotiable or transferable instrument, payment order of withdrawal, telephone transfer, or other similar device for the purpose of making payments or transfers to third persons or others or from which the depositor may make third-party payments at an automated teller machine or a remote service unit, or other elec-

1. This section previously described the requirements of Regulation Q, which prohibited the payment of interest by member banks on demand deposits. However, Section 627 of the Dodd-Frank Act repealed Section 19(i) of the Federal Reserve Act (12 USC 371 a), the statutory prohibition against payment of interest on demand deposits, effective July 21, 2011. Accordingly, Regulation Q was repealed effective as of that date. See 76 Fed. Reg. 42015 (July 18, 2011).

2. All depository institutions, including commercial banks, savings banks, savings and loan associations, credit unions, and agencies and branches of foreign banks located in the United States, are subject to reserve requirements. Institutions must satisfy reserve requirements by holding cash in their vaults or, if vault cash is insufficient, as a balance in account at a Federal Reserve Bank (either an account of the institution or an account of the institution's pass-through correspondent under section 204.5(d)).

3. 12 CFR 204.4(f) (reserve requirement ratios for transaction accounts, nonpersonal time deposits, and Eurocurrency liabilities).

4. See generally 12 CFR 204.2 (definitions).

tronic device, including by debit card . . .”⁵ The following types of accounts are “transaction accounts” under Regulation D:

- Demand deposit accounts
- NOW accounts

Savings deposit accounts are specifically excluded from the definition of transaction account, even though they permit third-party transfers, provided that the depository institution complies with the transfer and withdrawal limitations applicable to “savings deposits” under Regulation D.⁶

Transaction accounts have the following characteristics:

- limited to demand, NOW, and ATS accounts
- permit a depositor or account holder to make unlimited transfers or payments to third parties
- permit a depositor to make unlimited transfers between accounts of the same depositor at the same institution

Demand Deposit Accounts

Demand deposit accounts are payable on demand, or a deposit issued with an original maturity or required notice period of less than seven days, or a deposit representing funds for which the depository institution does not reserve the right to require at least seven days' written notice of an intended withdrawal. There are no eligibility restrictions on this type of account.

Demand deposits may also include deposits that were incorrectly classified as another type of deposit—for example, savings deposits for which the transfer or withdrawal limitations have been exceeded—and matured time deposits.

Demand deposit accounts have the following characteristics:

- no maturity period (or an original maturity of less than seven days)
- payable on demand (or on less than seven days' notice)
- may be interest-bearing

5. 12 CFR 204.2(e) (definition of “transaction account”).

6. Regulation D requires that an account, to be classified as a “savings deposit,” must not permit more than six convenient transfers or withdrawals per month from the account. Transfers and withdrawals that are considered “convenient” for this purpose are those made by preauthorized, automatic, telephonic agreement, order or instruction, or by check, debit card, or similar order made by the depositor and payable to third parties. 12 CFR 204.2(d)(2).

- no limit on the number of withdrawals or transfers an account holder may make
- no eligibility requirements

NOW Accounts

NOW (negotiable order of withdrawal) accounts allow an unlimited number of third-party payment and other transactions and are classified as transaction accounts under Regulation D. Like "savings deposits," the depository institution must reserve the right at any time to require seven days' written notice of an intended withdrawal in order to classify the account as a "NOW account" under Regulation D (in practice, this right is rarely, if ever, exercised). Unlike "savings deposits," however, NOW accounts are available only to individuals; governmental units; and corporations, partnerships, associations, and organizations that are operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not for profit.

A depositor may access funds in a NOW account in the same manner as a depositor may access funds in a demand deposit account. For example, NOW account holders may use negotiable instruments (checks), drafts, telephonic or electronic orders or instructions, or other similar devices to make payments or transfers to third persons or to others. A NOW account holder may make an unlimited number of transfers to another of his or her accounts at the same institution.

NOW accounts have the following characteristics:

- have no maturity date
- institution must reserve the right at any time to require at least seven days' prior written notice of an intended withdrawal
- permit unlimited transactions (transfers and withdrawals)
- may be accessed by check, draft, telephonic or electronic order or instruction, or other similar instrument to
 - pay third parties or others
 - transfer funds to another of the depositor's accounts at the same institution
- may be held only by individuals, governmental units, and nonprofit organizations
- are classified as transaction accounts under Regulation D

Nontransaction Accounts

Time Deposits

Time deposits are accounts that have a maturity of at least seven days from the date of deposit. They may be payable on a specified date not less than seven days after the date of deposit, or after the expiration of a specified period of time not less than seven days after the date of deposit (for example, thirty days after the date of deposit). Time deposits may also be payable upon receipt of written notice from the depositor (required in the contract) not less than seven days prior to withdrawal. If funds are withdrawn from a time deposit account within six days of the date of deposit or within six days of the most recent partial withdrawal, the specified early withdrawal penalty must be imposed (see "Early Withdrawal Penalties" below). There are no restrictions on who may hold a time deposit.

Time deposits may be negotiable or non-negotiable, transferable or nontransferable. They may be represented by a certificate, instrument, pass-book, statement, book-entry notation, or otherwise. If the deposit is automatically renewable, that fact should be indicated on the certificate or other representation, along with the terms of renewal.

Time deposit accounts have the following characteristics:

- must have a maturity of at least seven days from the date of deposit
- may require at least seven days' prior written notice of intent to withdraw funds
- must be subject to early withdrawal penalties if funds are withdrawn within six days of the date of deposit or within six days of the date of the immediately preceding partial withdrawal
- may be interest-bearing
- may be evidenced by a negotiable or non-negotiable, transferable or nontransferable certificate, instrument, passbook, book entry, or other similar instrument
- include club accounts (such as Christmas club or vacation club accounts)
- no eligibility requirements

Early Withdrawal Penalties. The presence (or absence) of an early withdrawal penalty differentiates time deposit on the one hand from other kinds of accounts on the other hand. The early withdrawal penalty must be at least seven days' simple interest

on amounts withdrawn within the first six days after deposit (or within six days after the most recent partial withdrawal). If funds are withdrawn more than six days after the date of deposit or more than six days after the most recent partial withdrawal, no interest penalty is required under Regulation D.

Penalties listed under Regulation D are the minimum federal penalties required by Regulation D and the Federal Reserve Act. Banks are free to impose greater penalties by contract with the depositor.

If a bank fails to impose early withdrawal penalties when they are required by Regulation D, the account may not be classified as a time deposit. If the account meets all the necessary requirements for a savings deposit account, the bank may reclassify it as such. Otherwise, the account must be reclassified as a transaction account.

The early withdrawal penalties applicable to time deposits must be part of the institution's deposit agreement with the depositor. During the compliance examination, examiners should check that the bank has early withdrawal penalties in place that are at least equal to those required by Regulation D. As part of the examination, examiners should also verify the accuracy of the interest penalties assessed on a sample of time deposits from which early withdrawals were permitted.

Savings Deposits

Savings deposits generally have no specified maturity period. They may be interest-bearing, with interest computed or paid daily, weekly, quarterly, or on any other basis.

The two most significant features of savings deposits are the "reservation of right" requirement and the restrictions on the number of "convenient" transfers or withdrawals that may be made per month (or per statement cycle of at least four weeks) from the account. In order to classify an account as a "savings deposit," the institution must in its account agreement with the customer reserve the right at any time to require seven days' advance written notice of an intended withdrawal. In practice, this right is never exercised, but the institution must nevertheless reserve that right in the account agreement. In addition, for an account to be classified as a "savings deposit," the depositor may make no more than six "convenient" transfers or withdrawals per month from the account. "Convenient" transfers and withdrawals, for purposes of this limit, include preauthorized, automatic transfers (including but not limited to transfers from the savings deposit for overdraft protection or for direct bill payments) and transfers and withdrawals initiated by telephone, facsimile, or computer, and

transfers made by check, debit card, or other similar order made by the depositor and payable to third parties. Other, less-convenient types of transfers, such as withdrawals or transfers made in person at the bank, by mail, or by using an ATM, do not count toward the six-per-month limit and do not affect the account's status as a savings account. Also, a withdrawal request initiated by telephone does not count toward the transfer limit when the withdrawal is disbursed via check mailed to the depositor.

Examiners should be particularly wary of a bank's practices for handling telephone transfers. As noted, an unlimited number of telephone-initiated withdrawals are allowed so long as a check for the withdrawn funds is mailed to the depositor. Otherwise, the limit is six telephone transfers per month. The limit applies to telephonic transfers to move savings deposit funds to another type of deposit account and to make payments to third parties.

The limit on telephone transfers applies to both business and personal accounts, but banks should handle accounts that exceed the limit differently. Generally, if a savings deposit account exceeds, or is authorized to exceed, the "convenient" transfer limit, the bank should take away the transfer and draft capabilities of the account or close the account and place the funds in another account that the depositor is eligible to maintain. If the depositor is a natural person, the funds may be placed in a NOW account. If the depositor is not a natural person, the bank may be required to reclassify the account as a demand account, as businesses are not allowed to hold NOW accounts.

Savings deposit accounts have the following characteristics:

- have no maturity
- institutions must reserve the right at any time to require at least seven days' written notice of an intended withdrawal (in practice, this right is rarely, if ever, exercised)
- may be interest-bearing
- allow no more than six transfers or withdrawals per calendar month or statement cycle of at least four weeks for the purpose of transferring funds to another of the depositor's accounts at the same institution or making third-party payments by means of preauthorized, automatic, or telephonic transfers or transfers or withdrawals made by check, debit card, or other similar order made by the depositor and payable to third parties
- allow unlimited withdrawals by mail, messenger, ATM, in person, or by telephone (via check mailed to the depositor)

- have no eligibility requirements
- must be reclassified as a transaction account if withdrawal or transfer limits are exceeded
- may be reclassified as NOW accounts if held by a natural person and the withdrawal or transfer limits are exceeded
- includes money market deposit accounts (MMDAs)

Money Market Deposit Accounts

Before the mid-1980s, money market deposit accounts (MMDAs) had characteristics that distinguished them from ordinary savings deposit accounts. Now, however, they have the same characteristics as savings deposit accounts and are subject to the same transfer and withdrawal limits.

Highlights of Regulation D that Affect Consumers

Reservation of Right

In order for an account to be classified as a “savings deposit” under Regulation D, the institution must reserve the right at any time to require at least seven days’ written notice of an intended withdrawal from savings accounts and from NOW accounts. In practice, institutions never exercise this reserved right, although it must nevertheless

be part of the institution’s account agreement with the depositor.

If all or a portion of the funds in a time deposit account are withdrawn within six days of the date of deposit or within six days of the date of the most recent partial withdrawal, the account must be subject to an early withdrawal penalty. This penalty, which is the minimum penalty that must be imposed, is at least seven days’ simple interest on the amount withdrawn.

If an institution allows customers to make partial withdrawals from time deposits, the institution must impose the early withdrawal penalty on amounts withdrawn. For example, suppose a customer deposits \$1,000 into a new time deposit on the 1st of the month, withdraws \$100 on the 4th, and another \$100 on the 9th. The customer would be subject to an early withdrawal penalty for the first \$100 withdrawal in the amount of seven days’ simple interest on \$100, and another early withdrawal penalty for the second \$100 withdrawal in the amount of seven days’ simple interest on \$100 because the second withdrawal occurred within six days of the first withdrawal. If the bank does not impose the minimum early withdrawal penalties on either withdrawal, the account ceases to be a “time deposit” and must be reclassified as either a savings account (provided the account meets the characteristics of a savings account) or a transaction account.

Regulation CC

Availability of Funds and Collection of Checks

Background

Regulation CC (12 CFR 229) implements two laws—the Expedited Funds Availability Act (EFA Act), which was enacted in August 1987 and became effective in September 1988, and the Check Clearing for the 21st Century Act (Check 21), which was enacted in October 2003 and became effective on October 28, 2004. The regulation sets forth the requirements that depository institutions make funds deposited into transaction accounts available according to specified time schedules and that they disclose their funds availability policies to their customers. It also establishes rules designed to speed the collection and return of unpaid checks and describes requirements that affect banks that create or receive substitute checks, including requirements related to consumer disclosures and expedited recredit procedures.

Regulation CC contains four subparts. The first three implement the EFA Act, and the fourth implements Check 21. Specifically,

- Subpart A—Defines terms and provides for administrative enforcement
- Subpart B—Specifies availability schedules, or time frames within which banks must make funds available for withdrawal; also includes rules concerning exceptions to the schedules, disclosure of funds availability policies, and payment of interest
- Subpart C—Sets forth rules concerning the expeditious return of checks, the responsibilities of paying and returning banks, authorization of direct returns, notification of nonpayment of large-dollar returns by the paying bank, check-endorsement standards, and other related changes to the check-collection system
- Subpart D—Contains provisions concerning the requirements a substitute check must meet to be the legal equivalent of an original check; bank duties, warranties, and indemnities associated with substitute checks; expedited recredit procedures for consumers and banks; and consumer disclosures regarding substitute checks

The appendixes to the regulation provide additional information:

- Appendixes A and B—Routing number guide
- Appendix C—Model forms and clauses that banks may use to meet their disclosure responsibilities under the regulation

- Appendix D—Standards for check endorsement by banks

SUBPART A—GENERAL

Definitions—Section 229.2

Bank

The term *bank* refers to FDIC-insured banks, mutual savings banks, savings banks, and savings associations; federally insured credit unions; non-federally insured banks, credit unions, and thrift institutions; agencies and branches of foreign banks; and Federal Home Loan Bank (FHLB) members.

For purposes of subparts C and D, “bank” also includes any person engaged in the business of banking, Federal Reserve Banks, FHLBs, and state and local governments to the extent that the government unit pays checks.

For purposes of subpart D only, “bank” also refers to the U.S. Treasury and the U.S. Postal Service (USPS) to the extent that they act as payors.

- The term *paying bank* applies to any bank at which or through which a check is payable and to which it is sent for payment or collection. For purposes of subpart D, “paying bank” also includes the U.S. Treasury and the USPS. The term also includes Federal Reserve Banks, FHLBs, state and local governments, and, if the check is not payable by a bank, the bank through which a check is payable.
- A *reconverting bank* is the bank that creates a substitute check or is the first bank to transfer or present a substitute check to another party.

Check

The term *check* includes both original checks and substitute checks.¹

- An *original check* is the first paper check issued with respect to a particular payment transaction.
- A *substitute check* is a paper reproduction of an original check that
 - Contains an image of the front and back of the original check,
 - Bears a MICR line containing all of the

¹. The term “check” does not include checks drawn in a foreign currency or checks drawn on a bank located outside the United States.

information encoded on the original check's MICR line, except as provided in the industry standard for substitute checks,²

- Conforms in dimension, paper stock, and otherwise with industry standards for substitute checks, and
- Is suitable for automated processing in the same manner as the original check.

A substitute check for which a bank has provided the warranties described in section 229.52 is the legal equivalent of an original check if the substitute check accurately represents all of the information on the front and back of the original check and bears the legend "This is a legal copy of your check. You can use it the same way you would use the original check."

- A *copy* of an original check is any paper reproduction of an original check, including a paper printout of an electronic image, a photocopy, or a substitute check. A *sufficient copy* is a copy of an original check that accurately represents all of the information on the front and back of the check at the time of truncation or is otherwise sufficient to establish the validity of a claim.
- *Truncate* means to remove an original check from the forward collection or return process and replace it with a substitute check or, by agreement, information relating to the original check. The truncating bank may or may not choose to provide subsequent delivery of the original check.
- A *local* check is a check deposited in a depository bank that is located in the same Federal Reserve check-processing region as the paying bank. A *nonlocal* check is a check deposited in a check-processing region different from that of the paying bank.

Account

For purposes of subparts B and C, an *account* is a "deposit" (as defined in the Board's Regulation D, in 12 CFR 204.2(a)(1)(i)) that is a "transaction account" (as defined in 12 CFR 204.2(e)). "Account" encompasses consumer and corporate accounts and includes accounts from which the account holder is permitted to make transfers or withdrawals by any of the following:

2. "MICR (magnetic ink character recognition) line" refers to the numbers—including routing number, account number, check number, and check amount—that are printed across the bottom of a check in magnetic ink. The industry standard for substitute checks is American National Standard Specifications for an Image Replacement Document-IRD, X9.100-140. ANS X9.100-140 specifies ways in which the content of a substitute check's MICR line may vary from the content of the original check's MICR line. ANS X9.100-140 also specifies circumstances in which a substitute check MICR line need not be printed in magnetic ink.

- Negotiable instrument
- Payment order of withdrawal
- Telephone transfer
- Electronic payment

For purposes of subpart B, "account" does not include accounts for which the account holder is a bank, a foreign bank, or the Treasury of the United States.

For purposes of subpart D, "account" means any deposit at a bank, including a demand deposit or other transaction account and a savings deposit or other time deposit. Many deposits that are not accounts for purposes of the other subparts of Regulation CC, such as savings deposits, are accounts for purposes of subpart D.

Consumers and Customers

- A *consumer* is a natural person who draws a check on a consumer account or cashes or deposits a returned check against a consumer account.
- A *consumer account* is an account used primarily for personal, family, or household purposes.
- A *customer* is a person who has an account with a bank.

Business and Banking Days

- A *business day* is any day except Saturday, Sunday, and a legal holiday (standard Federal Reserve holiday schedule).
- A *banking day* is a business day on which a bank is open for substantially all its banking activities.

Even though a bank may be open for regular business on a Saturday, that day is not considered a banking day for purposes of Regulation CC because Saturday is never a "business day" under the regulation. The fact that one branch is open to the public for substantially all its banking activities does not necessarily mean that that day is a banking day for the other branches of the bank.

Administrative Enforcement— Section 229.3

Regulation CC is to be enforced for banks through section 8 of the Federal Deposit Insurance Act (12 USC 1818) and through the Federal Credit Union Act (12 USC 1751 et seq.). In addition, a supervisory agency may enforce compliance through any other authority conferred on it by law. The Federal Reserve Board is responsible for enforcing the requirements of Regulation CC for depository institutions that are not specifically the responsibility of another government agency.

SUBPART B—AVAILABILITY OF FUNDS AND DISCLOSURE OF FUNDS AVAILABILITY POLICIES

Next-Day Availability—Section 229.10

Rules governing next-day availability of funds are set forth in section 229.10.

General Rules (§§ 229.10(a)–229.10(c))

Cash, electronic payments, and certain check deposits must generally be made available for withdrawal the business day after the banking day on which they were received. Among the covered check deposits are cashier's, certified, and teller's checks; government checks (including U.S. Treasury checks, U.S. Postal Service money orders, state and local government checks, and checks drawn on a Federal Reserve Bank or a Federal Home Loan Bank); and certain *on-us* checks (checks drawn on the same bank, or a branch thereof).

Generally, to qualify for next-day availability, the deposit must be both

- Made at a staffed teller station and
- Deposited into an account held by the payee of the check.

Exceptions are U.S. Treasury checks and *on-us* checks, which must receive next-day availability even if the deposit is not made at a staffed teller station. Cash and other next-day check deposits (such as Postal Service money orders, cashier's checks, certified checks, checks drawn on a state or local government, and checks drawn on a Reserve Bank or a Federal Home Loan Bank) that are not made at a staffed teller station must be available for withdrawal on the second business day after the day of deposit. (§§ 229.10(a)(2) and 229.10(c)(2))

Additional Rules

A few additional rules also apply:

- State and local government checks—For state and local government checks to receive next-day availability, the depository bank must be located in the same state as the governmental unit issuing the check. (§§ 229.10(c)(1)(iv) and 229.10(c)(1)(v))
- Special deposit slips or envelopes—For deposits of state and local government checks, as well as deposits of cashier's, certified, and teller's checks, the depository bank may require the use of special deposit slips or envelopes. If the depository bank requires the use of special

deposit slips or envelopes, it must either provide the slips or tell customers how they can be obtained. (§ 229.10(c)(3))

- On-us checks—For an on-us check to receive next-day availability, it must be drawn on the same branch or another branch of the bank where it is deposited. In addition, both branches must be located in the same state or check-processing region. (§ 229.10(c)(1)(vi))
- \$100 rule—Under a special rule for check deposits not subject to next-day availability, the depository bank must provide next-day availability for withdrawal of the lesser of \$100 or the aggregate amount deposited to all accounts, including individual and joint accounts, held by the same customer on any one banking day. The \$100 rule does not apply to deposits received at nonproprietary ATMs. (§ 229.10(c)(1)(vii))

Availability Schedule—Section 229.12

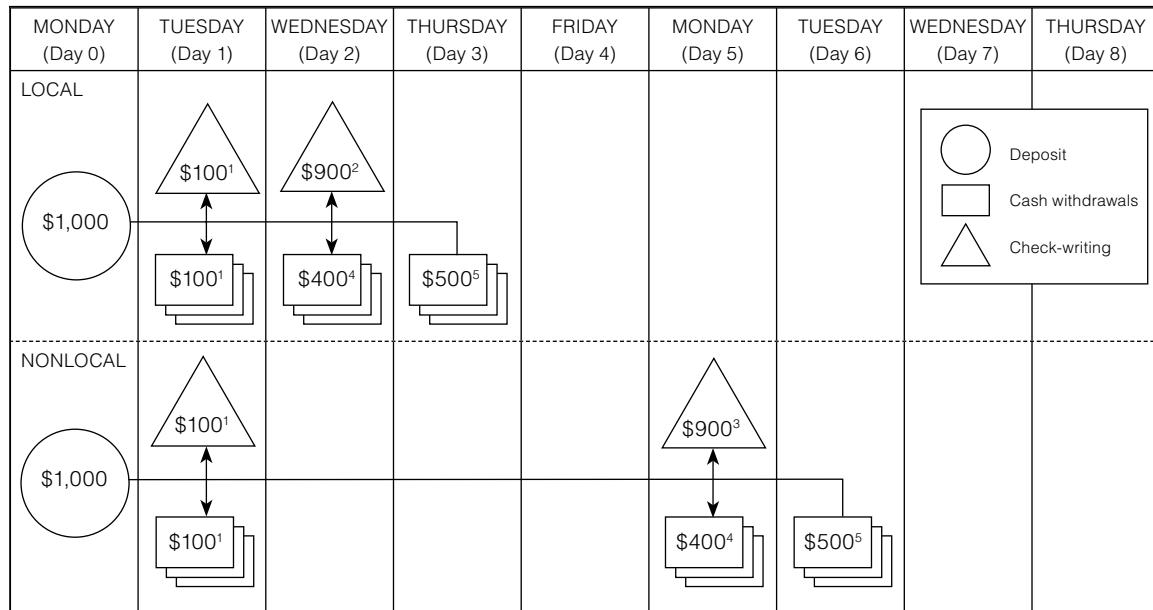
General Rules (§§ 229.12(a)–229.12(c) and 229.12(f))

Under the permanent availability schedule, which became effective in September 1990 (figures 1 and 2), local check deposits must be made available no later than the second business day following the day on which the funds were deposited. Deposits of nonlocal checks must be made available no later than the fifth business day following the banking day of deposit. Funds deposited at nonproprietary ATMs, including cash and all checks, must be made available no later than the fifth business day following the banking day on which they were deposited.

Checks that would normally receive next-day availability are treated as local or nonlocal check deposits if they do not meet all the criteria for next-day availability under section 229.10(c). (As noted in the preceding section, certain checks generally deposited at a staffed teller station and into an account held by the payee of the check receive next-day availability. However, state and local government checks and certain *on-us* checks are subject to additional rules.)

U.S. Treasury checks and Postal Service money orders that do not meet all the requirements for next-day or second-day availability outlined in section 229.10(c) receive funds availability as if they were *local* checks. Cashier's, certified, teller's, and state and local government checks and checks drawn on a Federal Reserve Bank or Federal Home Loan Bank that do not meet all the requirements in section 229.10(c) receive funds availability as either local or nonlocal checks according to the location of the bank on which they are drawn.

Figure 1
Availability of Different Types of Checks Deposited on the Same Day



1. The first \$100 of a day's deposit must be made available for either cash withdrawal or check-writing purposes at the start of the next business day. (§ 229.10(c)(1)(vii))

2. Local checks must be made available for check-writing purposes by the second business day following deposit. (§ 229.12(b))

3. Nonlocal checks must be made available for check-writing purposes by the fifth business day following deposit. (§ 229.12(c))

4. \$400 of the deposit must be made available for cash withdrawal no later than 5:00 p.m. on the day specified in the schedule. This is in addition to the \$100 that must be made available on the business day following deposit. (§ 229.12(d))

5. The remainder of the deposit must be made available for cash withdrawal at the start of business the following day. (§ 229.12(d))

Special Rules for Cash Withdrawals (§ 229.12(d))

Special rules apply to cash withdrawals from local and nonlocal check deposits. While the depository bank is allowed to extend the availability schedule for cash or similar withdrawals by one day, the customer must still be allowed to withdraw the first \$100 of any check deposit not subject to next-day availability on the business day following the day of deposit. In addition to the first \$100, a customer must also be allowed to withdraw \$400 of the deposited funds (or the maximum amount that may be withdrawn from an ATM, but not more than \$400) no later than 5:00 p.m. on the day the funds become available for check withdrawals. The remainder of the deposited funds would be available for cash withdrawal on the following business day.

Extension of the Schedule for Certain Deposits (§ 229.12(e))

Banks in Alaska, Hawaii, Puerto Rico, and the Virgin Islands that receive checks drawn on or payable through banks located in another state may extend

the availability schedules for local and nonlocal checks by one day. The exception does not apply to checks drawn on banks in these states or territories and deposited in banks located in the continental United States.

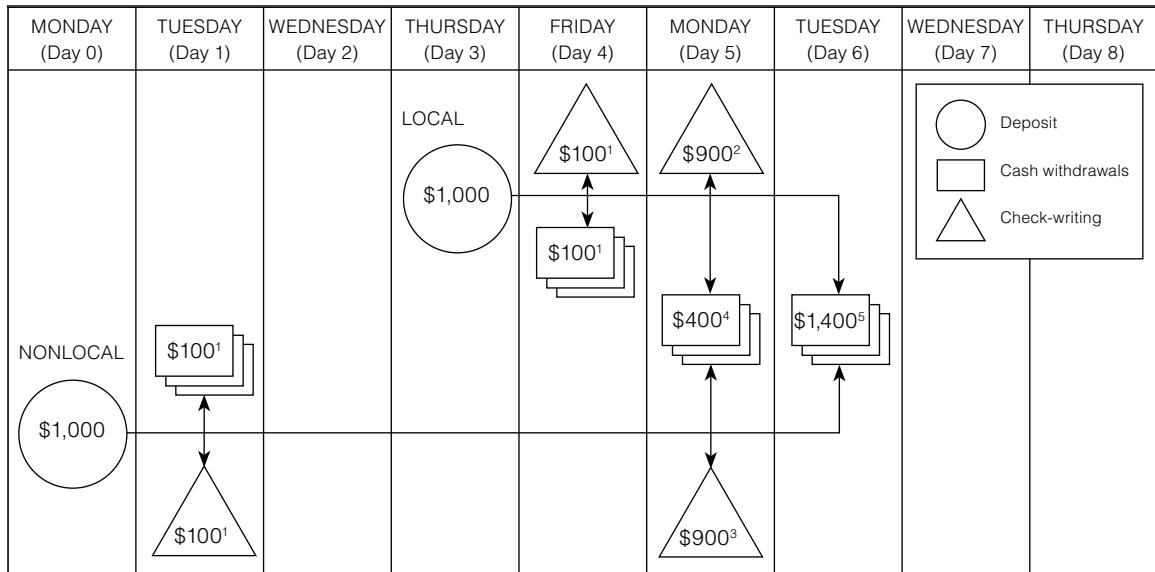
Exceptions to the Availability Schedule—Section 229.13

The regulation provides for exceptions that allow banks to exceed the maximum hold periods specified in the availability schedule. The exceptions are considered “safeguards” because they offer institutions a means of reducing risk based on the size of the deposit, the depositor’s past performance, the absence of a record on the depositor’s past performance, or a belief that the deposit may not be collectible.

Categories of Exception (§§ 229.13(a)–229.13(f))

The regulation provides for exceptions in six situations:

Figure 2
Availability of Different Types of Checks Deposited on Separate Days



1. The first \$100 of a day's deposit must be made available for either cash withdrawal or check-writing purposes at the start of the next business day. (§ 229.10(c)(1)(vii))

2. Local checks must be made available for check-writing purposes by the second business day following deposit. (§ 229.12(b))

3. Nonlocal checks must be made available for check-writing purposes by the fifth business day following deposit. (§ 229.12(c))

4. \$400 of the deposit must be made available for cash withdrawal no later than 5:00 p.m. on the day specified in the schedule. This applies to the aggregate amount of deposits that must be made available on a specified day, and is in addition to the \$100 that must be made available on the business day following deposit. (§ 229.12(d))

5. The remainder of the deposit must be made available for cash withdrawal at the start of business the following day. (§ 229.12(d))

- New accounts
- Deposits in excess of \$5,000 on any one day
- Checks that have been returned unpaid and are being redeposited
- Deposits to accounts that have been repeatedly overdrawn
- Cases in which the bank has reasonable cause to believe the check being deposited is uncollectible
- Emergency conditions

Although banks may exceed the time frames for availability in these situations, the exceptions generally may not be invoked if the deposit would ordinarily receive next-day availability.

New Accounts (§ 229.13(a))

An account is considered a “new” account, under section 229.13(a), for the first thirty calendar days it is open, beginning on the date the account is established. An account is not considered “new” if “each customer on the account has had, within thirty calendar days before the account is estab-

lished, another account at the . . . bank for at least thirty calendar days.”

The new-account exception does not cover all deposits made to the account. New accounts are exempted from the availability schedules for deposits of local and nonlocal checks, but next-day availability is required for deposits of cash and for electronic payments. Also, the first \$5,000 of a day's aggregate deposits of government checks (including federal, state, and local governments), cashier's, certified, teller's, depository, or traveler's checks must be given next-day availability. The amount in excess of \$5,000 must be made available no later than the ninth business day following the day of deposit.

To qualify for next-day availability, deposits into a new account generally must be made in person to an employee of the depository bank. If the deposits are not made in person to an employee of the depository bank—for instance, if they are made at an ATM—availability may be provided on the second business day after the day of deposit. Treasury check deposits, however, must be given next-day availability regardless of whether they are

made at staffed teller stations or ATMs. Banks are not required to make the first \$100 of a day's deposits of local and nonlocal checks, or the funds from on-us checks, available on the next business day.

Large Deposits (Deposits over \$5,000) (§ 229.13(b))

A depositary bank may extend hold schedules when deposits other than cash or electronic payments exceed \$5,000 on any one day. A hold may be applied to the amount in excess of \$5,000. To apply the rule, the depositary bank may aggregate deposits made to multiple accounts held by the same customer, even if the customer is not the sole owner of the accounts.

Redeposited Checks (§ 229.13(c))

A depositary bank may delay making the funds from a check available if the check had previously been deposited and returned unpaid. The exception does not apply to checks that were previously returned unpaid because of a missing endorsement or because the check was postdated when presented.

Repeated Overdrafts (§ 229.13(d))

If a customer's account, or accounts, have been repeatedly overdrawn during the preceding six months, the bank may delay making the funds from a check available. A customer's account may be considered repeatedly overdrawn in two ways. First, the exception may be applied if the account was overdrawn, or would have been overdrawn had check or other charges been paid, for six or more banking days during the preceding six months.

Second, the exception may be applied to customers who incurred overdrafts on two banking days within the preceding six-month period if the negative balance in the account(s) at that time was \$5,000 or more. The exception may also apply if the account would have been overdrawn by \$5,000 or more had the check or other charges been paid.

Reasonable Cause to Doubt Collectibility (§ 229.13(e))

This exception may be applied to all types of checks. To trigger the exception, the depositary institution must have reasonable cause to believe that the check is not collectible and must disclose the basis for the extended hold to the customer. The basis for reasonable cause may include, for example, communication with the paying bank indicating that

- A stop-payment order has been placed on the check
- There are insufficient funds in the drawer's account to cover the check
- The check will be returned unpaid

The reasonable-cause exception may also be invoked in cases in which

- The check was deposited six months after the date of the check (stale date)
- The check was postdated (future date)
- The depositary bank believes that the depositor may be engaged in check kiting
- The depositary bank has other confidential information, such as the insolvency or pending insolvency of the customer

The reasonable-cause exception may not be invoked because of either

- The race or national origin of the depositor or
- The fact that the paying bank is located in a rural area and the depositary bank will not have time to learn of nonpayment of the check before the funds have to be made available under the availability schedules in place.

If the depositary bank intends to use this exception, it must notify the customer, in writing, at the time of deposit. If the deposit is not made in person or the decision to place the hold is based on facts that become known to the bank at a later date, the bank must mail the notice by the business day after the day the deposit is made or the facts become known. The notice must indicate that availability is being delayed and must include the reason the bank believes the funds are uncollectible. If a hold is placed on the basis of confidential information, as when check kiting is suspected, the bank need only disclose to the customer that the hold is based on confidential information indicating that the check may not be paid.

If the depositary bank asserts that the hold was based on confidential information, it must note the reason on the notice it retains as a record of compliance. The bank must maintain a record of each exception notice, including documents and a brief description of the facts supporting the reasonable-cause exception, for two years.

Overdraft and returned-check fees (§ 229.13(e)(2))

If a depositary bank invokes the reasonable-cause exception and does not inform the customer in writing at the time of the deposit, it may not charge the customer any overdraft or returned-check fees resulting from the hold if

- The deposited check is paid by the paying bank and
- The overdraft would not have occurred or the check would not have been returned had the depositary bank not imposed the reasonable-cause hold.

However, the depositary bank may assess overdraft or returned-check fees if the exception hold notice states that the customer may be entitled to a refund of any overdraft or returned-check fees imposed and describes how the customer can obtain the refund. The bank must then refund the fees upon request.

Emergency Conditions (§ 229.13(f))

Banks may suspend the availability schedule under the following emergency conditions:

- An interruption of communications or computer or other equipment facilities
- Suspension of payments by another depository institution
- War
- Any emergency condition beyond the control of the depositary bank

Notices of Exception (§ 229.13(g))

Whenever a bank invokes one of the exceptions to the availability schedules (except the new-account exception), it must notify the customer in writing. The bank may send a notice that complies solely with section 229.13(g)(1) (the “general exception notice”) or one of the two alternative notices described below.

General Exception Notice (§ 229.13(g)(1))

The general notice of exception must include the following:

- The customer’s account number
- The date of the deposit
- The amount of the deposit that will be delayed
- The reason the exception was invoked
- The day the funds will be available for withdrawal (unless unknown, as in an emergency situation)

If the deposit is made at a staffed facility, the notice may be given to the person making the deposit, regardless of whether that person is the customer who holds the account. If the deposit is not made at a staffed facility, the exception notice may be mailed to the customer no later than the business day following the banking day of deposit. If the depositary bank discovers a reason to delay the funds subsequent to the time the notice should

have been given, the bank must notify the customer about the hold as soon as possible, but no later than the business day after the facts become known. Certain exception holds due to emergency conditions do not require notification of customers. For example, if the deposited funds that were subject to a hold during an emergency become available for withdrawal before the time the notice must be sent, the depositary bank need not send a notice.

One-Time Exception Notice for Nonconsumer Accounts (§ 229.13(g)(2))

If most of the check deposits into a particular nonconsumer account qualify for either the large-deposit exception or the redeposited-check exception, the bank may send a one-time notice rather than a notice complying with section 229.13(g)(1) each time the exception is invoked. The one-time notice must be sent either the first time the exception is invoked or before that time. It must state both

- The reason the exception may be invoked and
- The time period when the funds will generally be made available.

Exception Notice for Repeated Overdrafts (§ 229.13(g)(3))

If most of the check deposits into a particular account qualify for the repeated-overdraft exception, the bank may send an exception notice that covers a specified period of time rather than a notice complying with section 229.13(g)(1) each time the exception is invoked. The “specified period” notice must be sent when the overdraft exception is first invoked. It must state all of the following:

- The customer’s account number
- The fact that access to the funds is being delayed because the repeated-overdraft exception is being invoked
- The time period during which the exception will apply
- The time period within which the funds generally will be available for withdrawal

Availability of Deposits Subject to Exceptions (§ 229.13(h))

For deposits subject to exceptions to the availability schedules, other than deposits into new accounts, the depositary bank is permitted to delay availability for a *reasonable* time beyond the schedule. Generally, a reasonable period is considered to be no more than one business day for

on-us checks, five business days for local checks, and six business days for nonlocal checks. If a depository bank extends its availability beyond these time frames, it must be able to prove that the extended delay is reasonable.

Payment of Interest—Section 229.14

General Rule (§ 229.14(a))

A depository bank must begin accruing interest on interest-bearing accounts no later than the business day on which it receives provisional credit for the deposited funds. A depository bank typically receives credit on checks within one or two days following deposit. It receives credit on cash deposits, electronic payments, and checks that are drawn on itself on the day the cash, check, or electronic payment is received. And if a nonproprietary ATM is involved, it usually receives credit on the day the bank that operates the ATM credits the depository bank for the amount of deposit.

A depository bank may rely on the availability schedule of its Federal Reserve Bank, Federal Home Loan Bank, or correspondent bank when determining when the depository bank receives credit (section 229.14(a)(1)). If availability is delayed beyond the time specified in that schedule, a bank may charge back to the account any interest erroneously paid or accrued on the basis of that schedule.

A depository bank may accrue interest on checks deposited to all of its interest-bearing accounts based on an average of when the bank receives credit for all checks sent for payment or collection (section 229.14(a)(2)). For example, if a bank receives credit on 20 percent of the funds deposited by check on the business day of deposit (for example, via on-us checks), 70 percent on the business day following deposit, and 10 percent on the second business day following deposit, the bank may apply these percentages to determine the day on which interest must begin to accrue for check deposits into all interest-bearing accounts, regardless of when the bank received credit for deposits into any particular account. Consequently, a bank may begin accruing interest uniformly across all interest-bearing accounts rather than having to track the type of check deposited to each account.

Nothing in the general rule limits a depository bank policy that provides that interest may accrue only on balances that exceed a specified amount or on the minimum balance maintained in the account during a given period. However, the balance must be determined according to the date the bank receives credit for the funds. Nor is there

a limit on a policy that provides that interest may accrue sooner than required by the regulation.

Money market deposit accounts, savings deposit accounts, and time deposit accounts are not subject to the general rule concerning the timing of interest payment. However, for simplicity of operation, a bank may accrue interest on such deposits in the same manner that it accrues interest on transaction accounts.

Exemption for Certain Credit Unions (§ 229.14(b))

Credit unions that do not begin to accrue interest or dividends on their members' accounts until a date later than the day the credit union receives credit for those deposits, including cash deposits, are exempt from the general rule for payment of interest (section 229.14(a)) as long as they provide notice of their interest-accrual policies in accordance with section 229.16(d).

Exception for Checks Returned Unpaid (§ 229.14(c))

Banks are not required to pay interest on funds deposited in an interest-bearing account by a check that has been returned unpaid, regardless of the reason for return.

General Disclosure Requirements—Section 229.15

Form of Disclosures (§ 229.15(a))

A bank must disclose its funds availability policy to its customers. The disclosures must be clear and conspicuous and must be in writing. Disclosures other than those posted at locations where employees accept consumer deposits, at ATMs, or on preprinted deposit slips must be in a form that customers can keep. They must be grouped and must not contain information unrelated to the requirements of Regulation CC. If other account terms are included in the same document, disclosures related to the regulation should be highlighted, for example, by having a separate heading.

Uniform Reference to Day of Availability (§ 229.15(b))

A bank must refer to the day on which funds will be available for withdrawal in a uniform manner in all its disclosures. The statement should describe funds as being available for withdrawal on "the _____ business day after" the day of deposit. The first business day is the business day following the banking day the deposit was received, and the last

business day is the day on which the funds are made available.

Multiple Accounts and Multiple Account Holders (§ 229.15(c))

A bank is not required to give multiple disclosures to customers who have more than one account if the accounts are subject to the same availability policies. Nor is a bank required to give separate disclosures to joint account holders; a single disclosure to one of the holders of the joint account is sufficient.

Dormant or Inactive Accounts (§ 229.15(d))

A bank is not required to give disclosures to customers who have dormant or inactive accounts.

Specific Availability Policy Disclosure—Section 229.16

The disclosure describing its funds availability policy that a bank must provide to its customers must reflect the policy followed by the institution in most cases. If the institution wishes to reserve its right to impose longer delays on a case-by-case basis or by invoking one of the exceptions specified in section 229.13, its policy regarding these situations must be reflected in the disclosure.

Content of Specific Availability Policy Disclosure (§ 229.16(b))

A bank's specific availability policy disclosure must include, as applicable, the following:

- A summary of the bank's availability policy
- A description of the categories of deposits or checks used by the bank when it delays availability, such as local or nonlocal checks; how to determine the category to which a particular deposit or check (such as a payable-through draft) belongs; and when each category will be available for withdrawal (including a description of the bank's business days and when a deposit is considered received)
- A description of any of the exceptions specified in section 229.13 that may be invoked by the bank, including the time at which the deposited funds generally will become available for withdrawal and a statement that the bank will notify the customer if the bank invokes one of the exceptions
- A description of any case-by-case policy of delaying availability that may result in deposited funds being available for withdrawal later than

the time periods stated in the bank's availability policy (specific requirements are laid out in section 229.16(c)(1))

Longer Delays on a Case-by-Case Basis (§ 229.16(c))

A bank that has a policy of making deposited funds available for withdrawal sooner than required may extend the time when funds are available up to the time periods allowed under the regulation on a case-by-case basis. However, the bank must include the following in its specific policy disclosure:

- A statement that the time when deposited funds are available for withdrawal may be extended in some cases, and a statement of the latest time deposited funds will be available for withdrawal
- A statement that the bank will notify the customer if funds deposited in the customer's account will not be available for withdrawal until after the time periods stated in its availability policy
- A statement that customers should ask if they need to know when a particular deposit will be available for withdrawal

When a depository bank extends the time that funds will be available for withdrawal on a case-by-case basis, it must provide the depositor with a written notice. The notice must include all of the following information:

- The customer's account number
- The date and amount of the deposit
- The amount of the deposit that is being delayed
- The day the funds will be available for withdrawal

The notice must be provided at the time of the deposit, unless the deposit was not made in person to an employee of the depository bank or the decision to delay availability was made after the time of the deposit. If notice is not given at the time of the deposit, the depository bank must mail or deliver the notice to the customer no later than the first business day following the banking day the deposit was made.

A depository bank that extends the time when funds will be available for withdrawal on a case-by-case basis and does not furnish the depositor with written notice at the time of deposit may not assess any fees for any subsequent overdrafts (including use of a line of credit) or return of checks or other debits to the account if

- The overdraft or return of the check or other debit would not have occurred except for the fact that the deposited funds were delayed under section 229.16(c)(1) of the regulation and

- The deposited check was paid by the paying bank.

However, the depositary bank may assess an overdraft or returned-check fee if it includes a notice concerning overdraft and returned-check fees with the disclosure required in section 229.16(c)(2) and, when required, refunds any such fees upon the request of the customer. The overdraft and returned-check notice must state that the customer may be entitled to a refund of overdraft or returned-check fees that are assessed if the check subject to the delay is paid, and also must state how to obtain a refund.

Credit Union Notice of Interest-Payment Policy (§ 229.16(d))

If a credit union begins to accrue interest or dividends on all deposits made into an interest-bearing account, including cash deposits, at a later time than the day specified in section 229.14(a), the institution's specific policy disclosures must explain when interest or dividends on deposited funds will begin to accrue.

Initial Disclosures—Section 229.17

A bank must provide potential customers with the disclosures described in section 229.16 before an account is opened.

Additional Disclosure Requirements—Section 229.18

Deposit Slips (§ 229.18(a))

All preprinted deposit slips given to customers must include a notice that deposits may not be available for immediate withdrawal.

Locations Where Employees Accept Consumer Deposits (§ 229.18(b))

A bank must post, at a conspicuous place at each location where its employees receive deposits to consumer accounts, a notice that sets forth the time periods applicable to the availability of funds deposited.

Automated Teller Machines (§ 229.18(c))

At each of its ATM locations, a depositary bank must post or provide a notice that funds deposited in the ATM may not be available for immediate withdrawal. A depositary bank that operates an off-premises ATM from which deposits are removed not more than two times each week, as described in section 229.19(a)(4), must disclose at or on the

ATM the days on which deposits made at the ATM will be considered received.

Upon Request (§ 229.18(d))

A bank must provide a copy of its specific availability policy disclosure (described in section 229.16) to any person who requests it.

Changes in Policy (§ 229.18(e))

Thirty days before implementing a change in its availability policy, a bank must send notification of the change to all account holders adversely affected by the change. Changes that result in faster availability may be disclosed no later than thirty days after implementation.

Miscellaneous Provisions—Section 229.19

When Funds Are Considered Deposited (§ 229.19(a))

For purposes of subpart B of Regulation CC (sections 229.10–229.21), the time at which funds must be made available for withdrawal is measured from the day the funds are considered deposited (or “received” by the bank). When funds are considered officially deposited differs according to where, how, and when they are deposited:

- Funds deposited at a staffed teller station or a staffed ATM—Considered deposited when received by the teller or placed in the ATM.
- Funds mailed to the depositary bank— Considered deposited on the banking day they are received by the depositary bank; in this case, funds are considered “received” at the time the mail is delivered to the bank, even if it is initially delivered to a mail room rather than the check-processing area.
- Funds deposited at a night depository— Considered deposited on the banking day the funds are removed from the night depository and are accessible to the depositary bank for processing. For example, some businesses deposit their funds in a locked bag at the night depository late in the evening and return to the bank the following day to open the bag; others have an agreement with the bank that the deposit bag must be opened under the dual control of the bank and the depositor. In both cases, the funds are considered deposited when the customer returns to the bank and opens the deposit bag.
- Funds deposited through a lock box arrangement—Considered deposited on the day the funds are removed from the lock box and are

accessible to the depository bank for processing. A *lock box* is a post office box that is typically used by a corporation for the collection of bill payments or other check receipts.

- Funds deposited at off-premises ATMs that are not serviced more than twice a week—Considered deposited on the day they are removed from the ATM. This special provision is geared toward banks whose practice is to service remote ATMs infrequently. A depository bank that uses this provision must post a notice at the ATM informing depositors that funds deposited at the ATM may not be considered received on the date of deposit.
- Funds deposited on a day the depository bank is closed or after the bank's cutoff hour—May be considered deposited on the next banking day.

Cutoff Hours

Generally, a bank may establish a cutoff hour of 2:00 p.m. or later for receipt of deposits at its main office or branch offices and a cutoff hour of 12:00 noon or later for deposits made at ATMs, lock boxes, night depositories, or other off-premises facilities. (As specified in the commentary to section 229.19(a), the 12:00 noon cutoff time relates to the local time at the branch or other location of the depository bank where the account is maintained or the local time at the ATM or off-premises facility.)

Different cutoff hours may be established for different types of deposits—for example, a 2:00 p.m. cutoff for receipt of check deposits and a later time for receipt of wire transfers is permissible. Location can also play a role in the establishment of cutoff hours; for example, different cutoff hours may be established for ATM deposits and over-the-counter deposits, or for different teller stations at the same branch. With the exception of the 12:00 noon cutoff hour for deposits at ATMs and off-premises facilities, the cutoff hour for receipt of deposits may not be earlier than 2:00 p.m.

Hour of Funds Availability (§ 229.19(b))

Generally, funds must be available for withdrawal by 9:00 a.m. or the time a depository bank's teller facilities, including ATMs, are available for customer account withdrawals, whichever is later. (Under certain circumstances, there is a special exception for cash withdrawals—see section 229.12(d).) Thus, if a bank has no ATMs and its branch facilities are available for customer transactions beginning at 10:00 a.m., funds must be available for withdrawal by 10:00 a.m. If a bank has 24-hour ATM service, funds must be available for ATM withdrawals by 9:00 a.m.

The start of business is determined by the local time at the branch or depository bank holding the account. For example, if funds in an account at a West Coast bank are first made available at the start of business on a given day and a customer attempts to withdraw the funds at an East Coast ATM, the depository bank is not required to make funds available until 9:00 a.m. West Coast time (12:00 noon East Coast time).

Effects of the Regulation on Depository Bank Policies (§ 229.19(c))

Essentially, a depository bank is permitted to provide availability to its customers in a shorter time than that prescribed in the regulation. The bank may also adopt different funds availability policies for different segments of its customer base, so long as each policy meets the schedules in the regulation. For example, it may differentiate between its corporate and consumer customers, or may adopt different policies for its consumer customers based on whether a customer has an overdraft line of credit associated with his or her account.

The regulation does not affect a depository bank's right to accept or reject a check for deposit, to "charge back" the customer's account for the amount of a check based on the return of the check or receipt of a notice of nonpayment of the check, or to claim a refund for any credit provided to the customer.

Nothing in the regulation requires a depository bank to have its facilities open for customers to make withdrawals at specified times or on specific days. For example, even though the special cash withdrawal rule set forth in section 229.12(d) states that a bank must make up to \$400 available for cash withdrawals no later than 5:00 p.m. on specific business days, if a bank does not participate in an ATM system and does not have any teller windows open at or after 5:00 p.m., the bank need not join an ATM system or keep offices open. In this case, the bank complies with the rule if the funds that are required to be available for cash withdrawal at 5:00 p.m. on a particular day are available for withdrawal at the start of business on the following day. Similarly, if a depository bank is closed for customer transactions, including ATM transactions, on a day on which funds must be made available for withdrawal, the regulation does not require the bank to open.

If a bank has a policy of limiting cash withdrawals at ATMs to \$250 a day, the regulation does not require that the bank dispense \$400 of the proceeds of the customer's deposit that must be made available for cash withdrawal on that day.

Some small financial institutions do not keep cash on their premises and do not offer cash

withdrawal services to their customers. Others limit the amount of cash on their premises, for reasons related to bonding, and as a result reserve the right to limit the amount of cash a customer may withdraw on a given day or to require advance notice for large cash withdrawals. Nothing in the regulation is intended to prohibit these practices if they are applied uniformly and are based on security, operating, or bonding requirements and if the policy is not dependent on the length of time the funds have been in the customer's account, as long as the permissible hold has expired. However, the regulation does not authorize such policies if they are otherwise prohibited by statutory, regulatory, or common law.

Calculated Availability for Nonconsumer Accounts (§ 229.19(d))

Under calculated availability, a specified percentage of funds from check deposits may be made available to the customer on the next business day, with the remaining percentage deferred until subsequent days. The determination of the percentage of deposited funds that will be made available each day is based on the customer's typical deposit mix as determined by a sample of the customer's deposits. Use of calculated availability is permitted only if, on average, the availability terms that result from the sample are equivalent to or more prompt than the requirements of the regulation.

Holds on Other Funds (§ 229.19(e))

If a customer deposits a check, the bank may place a hold on any of the customer's funds to the extent that the funds held do not exceed the amount of the check deposited and if the total amount of funds held are made available for withdrawal within the times required in the regulation. For example, if a customer cashes a check (other than an on-us check) over-the-counter, the depository bank may place a hold on any of the customer's funds to the extent that the funds held do not exceed the amount of the check cashed.

Employee Training and Compliance (§ 229.19(f))

The Expedited Funds Availability Act requires banks to inform each employee who performs duties subject to the act about its requirements. The act and Regulation CC also require banks to establish and maintain procedures designed to ensure and monitor employee compliance with the requirements.

Effects of Mergers (§ 229.19(g))

Merged banks may be treated as separate banks for a period of up to one year after consummation of the merger transaction. However, a customer of any bank that is a party to the merger transaction and has an established account with the merging bank may not be treated as a new account holder under the new-account exception of section 229.13(a). A deposit in any branch of the merged bank is considered deposited in the bank for purposes of the availability schedules in accordance with section 220.19(a).

This rule affects the status of the combined entity in a number of areas, for example,

- When the resulting bank is a *participant* in a check clearinghouse association
- When an ATM is a *proprietary* ATM
- When a check is drawn on a branch of the depository bank

Relation to State Law— Section 229.20

General Rule (§ 229.20(a))

If a state has a shorter hold for a certain category of checks than is provided for under federal law, the state requirement supersedes the federal provision. For example, most state laws base some hold periods on whether the check deposited is drawn on an in-state or out-of-state bank. If a state contains more than one check-processing region, the state's hold period for in-state checks may be shorter than the federal maximum hold period for nonlocal checks. Accordingly, the state schedule supersedes the federal schedule to the extent that it applies to in-state, nonlocal checks.

The Expedited Funds Availability Act also indicates that any state law providing availability in a shorter period of time than required by federal law is applicable to all federally insured institutions in that state, including federally chartered institutions. If a state law provides shorter availability only for deposits in accounts in certain categories of banks, such as commercial banks, the superseding state law continues to apply to only those categories of banks, rather than to all federally insured banks in the state.

Preemption of Inconsistent Law (§ 229.20(b))

Provisions of state laws that are inconsistent with federal law, other than those discussed in the preceding section ("General Rule"), are preempted. State laws requiring disclosure of availability policies for transaction accounts are preempted

by Regulation CC. Preemption does not require a determination by the Federal Reserve Board to be effective.

Preemption Standards and Determinations (§§ 229.20(c) and (d))

The Federal Reserve Board may issue a preemption determination upon request by an interested party in a state. The determination will relate only to the provisions of subparts A and B of Regulation CC.

Civil Liability—Section 229.21

Statutory Penalties (§ 229.21(a))

Statutory penalties can be imposed as a result of a successful individual or class action suit brought for violations of subpart B of Regulation CC. Basically, a bank can be held liable for

- Actual damages,
- No less than \$100 nor more than \$1,000 in the case of an individual action,
- The lesser of \$500,000 or 1 percent of the net worth of the bank involved in the case of a class action, and
- The costs of the action, together with reasonable attorney's fees as determined by the court.

These penalties also apply to provisions of state law that supersede provisions of the regulation, such as requirements that funds deposited in accounts at banks be made available more promptly than required by the regulation, but they do not apply to other provisions of state law. (See commentary to appendix D, section 229.20.)

Bona Fide Errors (§ 229.21(c))

A bank will not be considered liable for violations of Regulation CC if it can demonstrate, by a preponderance of evidence, that violations resulted from bona fide errors and that it maintains procedures designed to avoid such errors.

Reliance on Federal Reserve Board Rulings (§ 229.21(e))

A bank will not be held liable if it acts in good faith in reliance on any rule, regulation, model form (if the disclosure actually corresponds to the bank's availability policy), or interpretation of the Federal Reserve Board, even if that rule, regulation, form, or interpretation is subsequently determined to be invalid. Banks may rely on the commentary as well as on the regulation itself.

Exclusions (§ 229.21(f))

The liability established by section 229.21 does not apply to violations of subpart C (Collection of Checks) of Regulation CC or to actions for wrongful dishonor of a check by a paying bank's customer. (Separate liability provisions applying to subpart C are found in section 229.38.)

SUBPART C— COLLECTION OF CHECKS

Subpart C covers the check-collection system and includes rules to speed the collection and return of checks. Basically, these rules cover the return responsibilities of paying and returning banks, authorization of direct returns, notification of nonpayment on large-dollar returns of the paying bank, and mandatory check endorsement standards.

Sections 229.30 and 229.31 require paying and returning banks to return checks expeditiously using one of two standards: the "two-day/four-day" test and the "forward collection" test. Under the two-day/four-day test, a return is considered expeditious if a local check is received by the depository bank two business days after presentment, and a nonlocal bank four business days after presentment. Under the forward collection test, a return is considered expeditious if the paying bank uses, for returns, transportation methods and banks comparable to those used for forward collection. The paying bank may return checks directly to the depository bank of any bank agreeing to process the returns, including the Federal Reserve.

Subpart C, in section 229.33, also requires a bank to provide notification of nonpayment if it determines not to pay a check of \$2,500 or more, regardless of the channel of collection. The regulation addresses the depository bank's duty to notify its customers that a check is being returned and the paying bank's responsibility for giving notice of nonpayment.

Other areas that are covered in subpart C are endorsement standards, warranties by paying and returning banks, bona fide errors and liability, variations by agreement, insolvency of banks, and the effect of merger transactions.

The provisions of subpart C, section 229.41, supersede any state law, but only to the extent that state law is inconsistent with Regulation CC.

The expeditious-return requirements of section 229.42 do not apply to checks drawn on the U.S. Treasury, U.S. Postal Service money orders, and checks drawn on states and units of general local government that are presented directly to the state or units of general local government and that are not payable through or at a bank.

SUBPART D—SUBSTITUTE CHECKS

General Provisions Governing Substitute Checks—Section 229.51

A substitute check for which a bank has provided the warranties described in section 229.52³ is the legal equivalent of an original check if the substitute check

- Accurately represents all of the information on the front and back of the original check and
- Bears the legend “This is a legal copy of your check. You can use it the same way you would use the original check.”⁴

The reconverting bank must adhere to Regulation CC’s standards for preserving bank endorsements and identifications. A reconverting bank that receives consideration for a substitute check that it transfers, presents, or returns is also the first bank to provide the warranties described in section 229.52 and the indemnity described in section 229.53.

Substitute Check Warranties and Indemnity—Sections 229.52 and 229.53

Starting with the reconverting bank, any bank that transfers, presents, or returns a substitute check (or a paper or electronic representation of a substitute check) and receives consideration for that check warrants that the substitute check meets the legal-equivalence requirements and that a check that has already been paid will not be presented for subsequent payment.

Such a bank also provides an indemnity to cover losses that the recipient and any subsequent recipient of the substitute check incur because of the receipt of a substitute check instead of the original check.

Expedited Recredit for Consumers—Section 229.54

Section 229.54(a) sets forth the conditions under which a consumer may make an expedited recredit claim for losses associated with the consumer’s receipt of a substitute check. To use the expedited recredit procedure, the consumer must be able to assert in good faith that

- The consumer’s account was charged for a

3. A person other than a bank that creates a substitute check could transfer that check only by agreement unless and until a bank provides the substitute check warranties.

4. A bank may not vary the language of the legal-equivalence legend.

substitute check that was provided to the consumer,

- The consumer’s account was improperly charged or the consumer has a warranty claim,
- The consumer suffered a loss, and
- The consumer needs the original check or a sufficient copy to determine the validity of the claim.

To make a claim, the consumer must comply with the timing, content, and form requirements in section 229.54(b). This section generally provides that a consumer’s claim must be received by the bank that holds the consumer’s account no later than the fortieth calendar day after the later of

- The calendar day on which the bank mailed (or delivered by a means agreed to by the consumer) the periodic statement describing the contested transaction or
- The calendar day on which the bank mailed (or delivered by a means agreed to by the consumer) the substitute check itself.

Section 229.54(b)(1)(ii) requires the bank to give the consumer an additional, reasonable period of time if the consumer experiences “extenuating circumstances” that prevent timely submission of the claim.

The commentary to section 229.60 provides that the bank may voluntarily give the consumer more time to submit a claim than the rule allows.

Under section 229.54(b)(2)(ii), a complaint is not considered complete, and thus does not constitute a claim, until it contains all of the required information the rule requires. The rule requires that the claim contain⁵

- A description of why the consumer believes the account was improperly charged or the nature of the consumer’s warranty claim,
- A statement that the consumer has suffered a loss, and an estimate of the amount of the loss,
- A reason why the original check (or a copy of the check that is better than the substitute check the consumer already received) is necessary to determine whether the consumer’s claim is valid, and
- Sufficient information to allow the bank to identify the substitute check and investigate the claim.

A bank, at its discretion, may require the consumer to submit the claim in writing. If a consumer makes an oral claim to a bank that requires a written claim, the bank must inform the consumer of the written requirement at that time.

5. If a consumer submits an incomplete complaint, the bank must so inform the consumer and must tell the consumer what information is missing.

Under those circumstances, the bank must receive the written claim by the later of ten business days from the date of an oral claim or the expiration of the consumer's initial forty-day period for submitting a timely claim. As long as the original oral claim fell within the forty-day requirement for notification and a complete written claim was received within the additional ten-day window, the claim meets the timing requirements (sections 229.54(b)(1) and 229.54(b)(3)), even if the written claim was received after the expiration of the initial forty-day period.

Bank's Action on Claims

Section 229.54(c) requires a bank to act on a consumer's claim no later than the tenth business day after the banking day on which it received the consumer's claim:

- If the bank determines that the consumer's claim is valid, it must recredit the consumer's account no later than the end of the business day after the banking day on which it makes that determination. The amount of the recredit should equal the amount of the consumer's loss, up to the amount of the substitute check, plus interest on that amount if the account is an interest-bearing account. The bank must then notify the consumer of the recredit using the notice discussed below ("Notices Relating to Expedited Recredit Claims").
- If the bank determines that the consumer's claim is invalid, it must notify the consumer of that decision using the notice discussed below ("Notices Relating to Expedited Recredit Claims").
- If the bank has not determined the validity of the consumer's claim by the tenth business day after the banking day on which it received the claim, the bank must recredit the consumer's account for the amount of the consumer's loss, up to the amount of the substitute check or \$2,500, whichever is less. The bank must also recredit interest on that amount if the consumer's account is an interest-bearing account. The bank must send a notice to that effect to the consumer using the notice discussed below ("Notices Relating to Expedited Recredit Claims"). If the consumer's loss was more than \$2,500, the bank has until the end of the forty-fifth calendar day from the date of the claim to recredit any remaining amount of the consumer's loss, up to the amount of the substitute check (plus interest), unless it determines prior to that time that the claim was invalid and notifies the consumer of that decision.

Section 229.54(d) generally requires that recredited funds receive next-day availability. However, a bank that provisionally recredits funds pending further investigation may invoke safeguard exceptions to delay availability of the recredit under

the limited circumstances described in section 229.54(d)(2). The safeguard exceptions apply to new accounts and repeatedly overdrawn accounts and also when the bank has reasonable cause to suspect that the claim is fraudulent. A bank may delay availability of a provisionally recredited amount until the start of the earlier of (1) the business day after the banking day on which the bank determines that the consumer's claim is valid or (2) the forty-fifth calendar day after the banking day on which the bank received the claim if the account is new, the account is overdrawn, or the bank has reasonable cause to believe that the claim is fraudulent. When the bank delays availability under this section, it may not impose overdraft fees on checks drawn against the provisionally credited funds until the fifth calendar day after the day on which the bank sent the notice regarding the delayed availability.

If, after providing the recredit, the bank determines that the consumer's claim was invalid, the bank may reverse the recredit. This reversal must be accompanied by a consumer notification using the notice discussed below ("Notices Relating to Expedited Recredit Claims").

Notices Relating to Expedited Recredit Claims

Section 229.54(e) outlines the requirements for providing consumer notices related to expedited recredit:

- The bank must send the notice of recredit no later than the business day after the banking day on which the bank recredits the consumer's account. The notice must include the amount of the recredit and the date the recredited funds will be available for withdrawal.
- The bank must send notice that the consumer's claim is not valid no later than the business day after the banking day on which the bank makes this determination. The notice must include the original check or a sufficient copy of it (except as provided in section 229.58; see below). Also, it must demonstrate to the consumer why the claim is not valid. Further, the notice must include either any information or document that the bank used in making its determination or an indication that the consumer may request copies of this information.
- The bank must send the notice of a reversal of recredit no later than the business day after the banking day on which the bank made the reversal. The notice must include all the information required in a notice of invalid claim plus the amount (including interest) and date of the reversal (section 229.54(e)(3)(i)).

Appendix C to Regulation CC contains model forms (models C-23 through C-25) that a bank may use to craft the various notices required in section 229.54(e). The Board published these models to assist banks in complying with section 229.54(e). Appropriate use of the models, however, does not offer banks a statutory safe harbor.

Expedited Recredit for Banks— Section 229.55

Section 229.55 sets forth expedited recredit procedures applicable between banks. A claimant bank must adhere to the timing, content, and form requirements of section 229.55(b) in order for the claim to be valid. A bank against which an interbank recredit claim is made has ten business days within which to act on the claim (section 229.55(c)). The provisions of section 229.55 may be varied by agreement. (No other provisions of subpart D may be varied by agreement.)

Liability—Section 229.56

Section 229.56 describes the damages for which a bank or person would be liable in the event of breach of warranty or failure to comply with subpart D:

- The amount of the actual loss, up to the amount of the substitute check, resulting from the breach or failure and
- Interest and expenses (including costs, reasonable attorney's fees, and other expenses of representation) related to the substitute check.

These amounts could be reduced in the event of negligence or failure to act in good faith. It is also important to note that section 229.56 contains a specific exception that allows for greater recovery as provided in the indemnity section. Thus, a person who has an indemnity claim that also involves a breach of a substitute check warranty could recover all damages proximately caused by the warranty breach.

Section 229.56(b) excuses failure to meet this subpart's time limits because of circumstances beyond a bank's control. Section 229.56(c) provides that an action to enforce a claim under this subpart may be brought in any U.S. district court. Section 229.56(c) also provides the subpart's statute of limitations: one year from the date on which a person's cause of action accrues.⁶ Section 229.56(d) states that if a person fails to provide

notice of a claim for more than thirty days from the date on which a cause of action accrues, the warranting or indemnifying bank is discharged from liability *to the extent of any loss caused by the delay in giving notice of the claim*.

Consumer Awareness— Section 229.57

Content Requirements

A bank must provide its consumer customers with a disclosure that explains that a substitute check is the legal equivalent of the original check and describes the consumer's recredit rights for substitute checks. A bank may use, but is not required to use, the Board's model form (model C-5A in appendix C to Regulation CC) to meet the content requirements for this notice. A bank that uses the model form appropriately is deemed to be in compliance with the content requirements for which it uses language from the model form. A bank may provide the notice required by section 229.57 along with other information.

Distribution to Consumer Customers Who Receive Canceled Checks with Periodic Account Statements

Under section 229.57(b)(1), a bank must provide this disclosure to existing consumer customers who routinely receive their canceled checks in their periodic statement no later than the first statement after October 28, 2004. For customer relationships established after that date, a bank must provide the disclosure to a new consumer customer who will routinely receive canceled checks in periodic statements at the time the customer relationship is established.

Distribution to Consumer Customers Who Receive a Substitute Check Occasionally

Under section 229.57(b)(2), a bank must also provide the disclosure to a consumer customer who receives a substitute check on an occasional basis, including when a consumer receives a substitute check in response to a request for a check or a copy of a check and when a check deposited by the consumer is returned to the consumer as an unpaid item in the form of a substitute check. A bank must provide the disclosure to a consumer customer in these cases even if the bank previously provided the disclosure to the consumer.

When the consumer contacts the bank to request a check or a copy of a check and the bank

6. For purposes of this paragraph, a cause of action accrues as of the date on which the injured person first learns, or reasonably should have learned, of the facts giving rise to the claim, including the identity of the warranting or indemnifying bank against which the action is brought.

responds by providing a substitute check, the bank must provide this disclosure at the time of the request, if feasible. Otherwise, the bank must provide the disclosure no later than when the bank provides a substitute check in response to the consumer's request. It would not be feasible to provide the disclosure at the time of the request if, for example, the consumer made his or her request by telephone or if the bank did not know at the time of the request whether it would provide a substitute check or some other document in response. A bank is not required to provide the disclosure if the bank responds to the consumer's request by providing something other than an actual substitute check (such as a photocopy of an original check or a substitute check).

When a bank returns a deposited item unpaid to a consumer in the form of a substitute check, the bank must provide the disclosure when it provides the substitute check.

Mode of Delivery of Information— Section 229.58

Section 229.58 provides that banks may deliver any notice or other information required under this subpart by U.S. mail or by any other means to which the recipient has agreed to receive account information, including electronically. A bank that is required to provide an original check or a sufficient copy (each of which is defined as a specific paper document) instead may provide an electronic image of the original check or sufficient copy if the recipient has agreed to receive that information electronically.

Regulation CC

Examination Objectives and Procedures

Note: The examination objectives and examination procedures for this regulation are broken down by regulation subpart: Section I covers subparts A and B, and section II covers subpart D. Subpart C of the regulation, "Collection of Checks," is not covered here, as it addresses payments system issues exclusively and therefore does not present any consumer-related regulatory compliance issues to be reviewed during a consumer compliance examination.

I. SUBPARTS A AND B

EXAMINATION OBJECTIVES

1. To determine that the financial institution's funds availability policies are in compliance with Regulation CC
2. To determine that the financial institution has established internal controls for compliance with Regulation CC
3. To determine that the financial institution has established a training program for applicable employees concerning their duties with respect to Regulation CC
4. To determine that the financial institution maintains records of compliance with Regulation CC for a period of two years

EXAMINATION PROCEDURES

A financial institution may delay funds availability for some deposits on a case-by-case basis and for other deposits on an automatic basis. In addition, the institution may make decisions concerning holds and maintain records at branches as well as at the main office. Therefore, to check on an institution's compliance with its holds policies, the examiner must determine not only the types of holds policies the institution has, but how decisions are made and where records are maintained. If a branch makes its own decision and maintains its own records, such as in a decentralized structure, sampling may be done at the branch. If decisions to delay availability are either centralized or made at a regional processing center and records are maintained there, sampling for compliance may be made at that location.

General

1. Determine the types of transaction accounts, as defined in Regulation D, section 204.2(e)

(demand deposits, NOW accounts, and ATS accounts), offered by the financial institution.

2. Obtain copies of the forms used by the institution for transaction accounts, as applicable:
 - Specific availability policy disclosures
 - Exception hold notices
 - Case-by-case hold notices
 - Special deposit slips
 - Change-in-terms notices
3. Determine, by account type, the institution's specific funds availability policies with regard to deposits.
4. Determine which individuals actually perform the various activities necessary to comply with the provisions of Regulation CC, subpart B, including, for example, personnel engaged in
 - Distributing disclosure statements
 - Employee training
 - Internal reviews
 - Computer program development for deposit accounts (not necessarily a computer programmer)
 - Deposit operations
 - Overdraft administration
 - ATM deposit processing
 - Determining case-by-case holds or exceptions
5. Review the institution's training manual, internal audit or similar reports for Regulation CC, written procedures given to employees detailing their responsibilities under the regulation, and similar materials.
6. Determine the extent and adequacy of the instruction and training received by those employees to enable them to carry out their assigned responsibilities in conformance with Regulation CC.
7. Verify that the institution provides each employee with a written statement regarding the institution's procedures that pertain to that employee's function. (§ 229.19(f))

Initial Disclosures and Subsequent Changes

1. Review the financial institution's specific availability policy disclosures. Determine if the disclosures accurately reflect the institution's funds availability policies and meet the requirements for content under section 229.16.

2. Determine if the institution provides the initial disclosure statement prior to accepting funds to open a new transaction account, or mails the disclosures within one business day of receiving a written request by mail or telephone to open a new account. (§ 229.17(a))
3. Determine if the institution provides its funds availability policy upon an oral or written request within a reasonable time period. (§ 229.18(d))
4. Determine if the institution has made changes to its availability policies since the last examination. If it has, determine whether depositors were notified in accordance with section 229.18(e).

Automatic (or Automated) Hold Policies

1. Review the financial institution's schedules or other materials relating to its funds availability time periods for the following types of deposits:
 - Cash (§ 229.10(a))
 - Electronic payments (§ 229.10(b))
 - U.S. Treasury checks (§§ 229.10(c)(1)(i) and 229.12(b)(2))
 - U.S. Postal Service money orders (§§ 229.10(c)(1)(ii), 229.10(c)(2), and 229.12(b)(3))
 - Checks drawn on Federal Reserve Banks and Federal Home Loan Banks (§§ 229.10(c)(1)(iii), 229.10(c)(2), 229.12(b)(4), and 229.12(c)(1)(ii))
 - State or local government checks (§§ 229.10(c)(1)(iv), 229.10(c)(2), 229.12(b)(4), and 229.12(c)(1)(ii))
 - Cashier's, certified, and teller's checks (§§ 229.10(c)(1)(v), 229.10(c)(2), 229.12(b)(4), and 229.12(c)(1)(ii))
 - On-us checks (§§ 229.10(c)(1)(vi) and 229.11(c)(1)(ii))
 - Local checks (§ 229.12(b)(1))
 - Nonlocal checks (§ 229.12(c)(1)(i))
 - Credit union share draft accounts (commentary to § 229.16(b))
2. Determine that the institution's policy for providing funds availability is in accordance with regulatory requirements.
3. Determine the institution's procedures for placing holds.
4. Selectively sample each of the types of deposits listed in item 1 and verify the funds availability time frames. Determine, for each deposit category, whether the financial institution's procedures provide funds availability within the

required time periods. Determine that the procedures and disclosed policy are the same.

Deposits at Nonproprietary ATMs— Section 229.12(f)

(See also sections 229.19(a)(4) and 229.19(a)(5)(ii) and commentary to sections 229.19(a) and 229.19(b) for off-premises ATMs.)

1. Determine that the institution makes funds deposited in an account at a nonproprietary ATM by cash or check available for withdrawal not later than the fifth business day following the day of deposit.

Availability Rules—\$100 and \$400— Sections 229.10(c)(1)(vii) and 229.11(b)(2)

1. Determine the financial institution's procedures for complying with the \$100 availability rule and, if applicable, the \$400 cash withdrawal rule.
2. Review records that detail holds placed on accounts. Determine if holds are in accordance with the regulation.
3. Sample deposit accounts with deposits subject to the \$100 availability rule and the \$400 cash withdrawal rule and verify the institution's compliance with the rules. Verify that actual practices and policies match.

Extended Holds

Case-by-Case Holds

1. Determine if the financial institution places holds on a case-by-case basis. If it does, review the institution's procedures for placing case-by-case holds.
2. Review the institution's specific availability policy disclosures to determine whether the case-by-case hold policy has been disclosed.
3. Review any physical records or reports generated from holds placed. (Sample should include records from the main office as well as branch offices, depending on the type of branch system operated.)
4. Sample a few of the case-by-case holds and determine whether the institution makes the funds available for withdrawal within the required time frames.
5. Determine whether the institution provides the customer with a notice of the case-by-case hold as required by section 229.16(c)(2). Determine if the notices meet the timing and content requirements.

6. If the institution does not provide the notice at the time of deposit, determine whether it either discloses the availability of refunds of overdraft and returned-check fees or does not assess these fees when the requirements of section 229.16(c)(3) are met.

Exception Holds (§ 229.13)

1. Determine whether the financial institution places holds on an exception basis. If it does, review its procedures for placing exception holds.
2. Review the institution's specific availability policy disclosures to determine whether it has disclosed its exception-holds policy.
3. Review any physical records or reports generated from holds placed. (Sample should include records from the main office as well as branch offices, depending on the type of branch system operated.)
4. Sample a few of the exception holds and determine when the institution makes the funds available for withdrawal. Determine that the institution does not add more than one business day for on-us checks, five business days for local checks, and six business days for nonlocal checks to the maximum time periods in the federal availability schedule for the deposit unless it can show that a longer delay is reasonable. (§ 229.13(h))
5. With the exception of new accounts, determine whether the institution provides the customer with an exception-hold notice as required by section 229.13(g).
6. Review hold notices. Determine if the notices meet the timing and content requirements for each type of exception hold. (Note: Institutions are required to retain copies of reasonable-cause hold notices.)

New Accounts (§ 229.13(a))

1. Review financial institution policies for new accounts.
2. Determine how the institution defines a new-account relationship. Determine if the institution's definition is in compliance with Regulation CC.
3. Review the institution's specific availability policy disclosure to determine whether the institution has disclosed its availability policy regarding new accounts.
4. Review a new-account report or listing of new-account holders. Determine if any holds were placed on the accounts.
5. Sample deposit accounts, and ask the institution to provide documentation concerning the

composition of the opening deposit or the most recent deposit.

6. Review holds placed and determine if they are within regulatory limits with respect to time and amount (see section 229.13(a)(1)). (Note: No regulatory time limits are set forth for funds availability for local and nonlocal check deposits into new accounts.)

Large Deposits (§ 229.13(b))

1. Determine whether the financial institution has procedures and a special hold policy for large deposits. If it does, determine whether the institution considers a large deposit, for purposes of the large-deposit exception, to be a day's aggregate deposit of checks exceeding \$5,000.
2. Determine that the institution does not invoke the large-deposit exception for cash or electronic payments.
3. Review at least one account deposit on which a large-deposit hold was placed and ensure that the hold was placed only on the amount by which a day's deposits of checks exceeded \$5,000.
4. Determine if the institution provided the customer with a written exception notice that meets the requirements of section 229.13(g)(1) or 229.13(g)(2).
5. Determine if the notice was provided within the time frames prescribed in section 229.13(g)(1) or 229.13(g)(2).

Redeposited Checks (§ 229.13(c))

1. Determine if the financial institution has procedures and a special hold policy for redeposited checks.
2. If it does, determine if the institution refrains from imposing this exception solely because of a missing endorsement or because the check was postdated.
3. Determine if the institution provided the customer with a written exception notice that meets the requirements of section 229.13(g)(1) or 229.13(g)(2).
4. Determine if the notice was provided within the time frames prescribed in section 229.13(g)(1) or 229.13(g)(2).

Repeated Overdrafts (§ 229.13(d))

1. Determine whether the financial institution has procedures or a special hold policy for customers with repeated overdrafts.

2. If it does, review the institution's definition of accounts "repeatedly overdrawn" and determine whether it meets the regulatory definition in section 229.13(d).
3. Determine that the institution returns the account to the institution's normal account status when the account has not been repeatedly overdrawn for a six-month period following the time the account was characterized as repeatedly overdrawn.
4. Review the financial institution's list of customers whose accounts are repeatedly overdrawn. (Note: This list may or may not be the same overdraft list maintained in the ordinary course of business. The institution may maintain a list of recent overdrafts as well as a list of customers whose accounts are repeatedly overdrawn.)
5. Review an account classified as repeatedly overdrawn. Determine if the institution properly classified the account and followed the regulatory procedures outlined in section 229.13(d).
6. Determine the date the account was placed in "repeated overdraft" exception status. Review account statements for the six months before the account was identified as an overdraft exception.
7. Determine whether the institution provided the customer with an exception notice when an exception hold was placed on the account. If it did, review the content of the notice and determine if it meets the requirements of section 229.13(g)(1) or 229.13(g)(3).
8. Determine if notice was given within the required time frames. (§ 229.12(g)(1) or 229.12(g)(3))

Reasonable Cause to Doubt Collectibility (§ 229.13(e))

1. Determine if the financial institution has procedures or a special policy for placing reasonable-cause holds.
2. If it does, determine who initiates reasonable-cause holds.
3. Obtain a list of accounts or checks to which this exception was applied. Review the exception notice given to the customer.
4. Determine if the reason for invoking the exception was reasonable.
5. Review the content of the notice and determine if it meets the requirements of section 229.13(g)(1).
6. Determine if notice was given within the required time frames. (§ 229.13(g)(1))
7. If the institution imposes a reasonable-cause exception hold and does not provide the notice at the time of deposit, determine whether it either discloses the availability of refunds of overdraft and returned-check fees or does not assess these fees when the requirements of section 229.13(e)(2) are met.

Emergency Conditions (§ 229.13(f))

1. Determine if the financial institution has procedures or a special policy for placing emergency-condition holds. If it does, review the institution's procedures for placing these holds.
2. Determine whether the institution invokes this exception only under the conditions specified in section 229.13(f).
3. Determine whether the institution makes the funds available for withdrawal within a reasonable time after either the termination of the emergency or the time at which the deposit would normally be available for withdrawal, whichever is later. (Note: A reasonable period for on-us checks is one business day; for local checks, five business days; and for nonlocal checks, usually six days. (§§ 229.13(h)(3) and 229.13(h)(4))

Miscellaneous Provisions

Special Deposit Slips (§ 229.10(c)(3))

1. Determine if the financial institution requires a special deposit slip for state or local government, cashier's, certified, or teller's checks in order to provide next-business-day availability on the deposits. (§ 229.10(c)(3)(i))
2. If the institution requires a special deposit slip, determine that it does one of the following: (§ 229.10(c)(3)(ii))
 - Provides the deposit slip to its customers
 - Informs its customers of how to obtain and prepare the slips
 - Makes the special deposit slips "reasonably available"

Additional Disclosure Requirements (§ 229.18)

1. Determine if the financial institution displays a notice of its availability policy in a conspicuous place at locations where employees receive consumer deposits. (§ 229.18(b)) (Note: The notice is not required at drive-up windows and night depositories. See commentary to section 229.18(b).)
2. Determine if the institution displays a notice at each of its proprietary ATMs stating that the funds deposited in the ATM may not be available for immediate withdrawal. (§ 229.18(c)(1))

3. If the institution has off-premises ATMs from which funds are not collected more than twice a week, determine if the institution discloses on or at the ATM the days on which the deposits made at the ATM will be considered "received." (§ 229.18(c)(2))
4. Determine if the institution includes a notice on all preprinted deposit slips that the deposited funds may not be available for immediate withdrawal. (§ 229.18(a))

Payment of Interest—Section 229.14

1. Determine whether the financial institution pays interest as of the date of the deposit or as of the date provisional credit is granted.
2. If the institution pays interest as of the date provisional credit is granted, review the institution's schedule for provisional credit. (This schedule may be from a Federal Reserve Bank or may be based on the time credit is generally received from a correspondent bank.) Select a NOW account statement and ask the institution to give a detailed explanation of how the interest was calculated.
3. Review the institution's method for calculating interest on deposits reviewed. Select another NOW account and, using the institution's procedures for calculating interest, verify that the institution accrues interest as of the date provisional credit is received.

Calculated Availability— Nonconsumer Transaction Accounts— Section 229.19(d)

1. Determine if the financial institution uses a formula for calculating funds availability for nonconsumer transaction accounts.
2. If it does, review a copy of the institution's formula.
3. Select a large corporate account subject to the formula. Ask the institution to demonstrate how funds are made available to the customer. Determine whether it appears that the formula accurately reflects the type of deposit mix reasonably expected for this type of account holder. (For example, a local grocery store may have 90% of its deposits made up of local check deposits. Therefore, a formula providing a deposit mix of at least 90% availability within two days may be reasonable. A mail order firm, on the other hand, may have a large percentage of nonlocal checks in its check deposits. Therefore, the institution's formula may allow for lengthier availability schedules.)

Record Retention— Sections 229.21(g) and 229.13(g)(4)

1. Determine that the financial institution retains for two years the notices required when a "reasonable cause" exception is invoked.

II. SUBPART D

EXAMINATION OBJECTIVES

1. Determine the financial institution's compliance with subpart D notice content and timing requirements (general consumer-awareness disclosures regarding substitute checks and notices that respond to a consumer's expedited recredit claim regarding a substitute-check error)
2. Ascertain whether the financial institution complies with timing requirements for acting on a substitute-check expedited recredit claim.

EXAMINATION PROCEDURES

Whether a financial institution will or will not function as a "reconverting bank,"¹ the interlinked nature of the payments system virtually guarantees that every financial institution will at some time receive a substitute check that is subject to the provisions of subpart D, the "Check 21" section of Regulation CC. While some financial institutions will rapidly migrate toward electronic check exchange, others will proceed more hesitantly. Regardless, because the Check 21 Act provides that a properly prepared substitute check is the "legal equivalent of the original check for all purposes," all banks must be prepared to accept a substitute check in place of the original after the act's effective date of October 28, 2004.

One of a bank's regulatory compliance obligations is to apprise consumer customers who receive canceled checks with their periodic account statements or who otherwise occasionally receive substitute checks of their rights under the new law through a consumer-awareness disclosure. A bank that provides a substitute check to a consumer must also be prepared to comply with the Check 21 Act's expedited recredit procedure for addressing errors relating to substitute checks. Even if the customer does not receive actual canceled checks in a monthly statement but instead receives a truncated summary, the individual may eventually receive a substitute check, either in response to a request for a check or a copy of a check or

1. A *reconverting bank* is the bank that creates a substitute check; if a nonbank creates a substitute check, the reconverting bank is the first bank to transfer, present, or return the substitute check (or the first paper or electronic representation of that substitute check) for consideration.

because a check that the consumer deposited was returned unpaid to the consumer in the form of a substitute check. Some increase in the potential for duplicate posting (substitute check and original) may also involve a degree of consumer education and explanation. The regulation specifies the appropriate timing for the distribution of the consumer-awareness disclosure and also provides model language. Finally, institutions will likely want to train their personnel so that they can adequately convey to customers the impact of this new instrument in the payments system.

General

1. Obtain copies of the documents associated with the financial institution's Check 21 compliance, including but not limited to the following:
 - Consumer-awareness disclosure(s)
 - Sample (test) substitute checks, *if available*
 - Direct mail correspondence, statement stuffers, and the like, describing Check 21/substitute check implementation to consumer customers
 - Notices relating to expedited recredit claims:
 - Notice of valid claim and refund
 - Notice of provisional refund
 - Denial of claim
 - Reversal of refund
 - Any other relevant documents
2. Identify the individuals within the institution who may have responsibilities associated with Check 21. The following is a non-exhaustive list of such individuals:
 - New-accounts personnel
 - Employee training department
 - Internal auditors, reviewers
 - Deposit operations, bookkeeping
3. Review the institution's training manual, internal audit or similar reports for Regulation CC, written procedures given to employees detailing their responsibilities under the regulation, and similar materials.
4. Determine the training methods used by the institution in conveying specific responsibilities to employees. Are written procedures distributed to employees?

Consumer Awareness— Section 229.57

(Note: Model disclosure language is provided in appendix C of the regulation.)

Determine whether the bank distributes only a single version of its consumer-awareness disclosure or maintains variations of the disclosure to be used depending on the circumstances giving rise to distribution. Each notice should reflect the following:

1. General disclosure content—Determine whether the disclosure notice states
 - That a substitute check is the legal equivalent of an original check and (§ 229.57(a)(1))
 - The consumer recredit rights that apply when a consumer in good faith believes that a substitute check was not properly charged to his or her account. (§ 229.57(a)(2))
2. Timing and distribution—A bank is required to provide its consumer customers with a consumer-awareness disclosure prior to the receipt of a substitute check.
 - For those who receive canceled checks with periodic statements:
 - Existing customers as of October 28, 2004—Determine that the bank provided the disclosure no later than the first regularly scheduled communication with the consumer after October 28, 2004 (for each consumer who is a customer of the bank on that date). (§ 229.57(b)(1)(i))
 - New customers after October 28, 2004—Determine that the bank provided the disclosure at the time the customer relationship was established. (§ 229.57(b)(1)(ii))
 - For those who do not receive canceled checks with periodic statements and who will receive substitute checks only occasionally:
 - Upon customer request for an original check or a copy of a check—Determine that the bank provides the disclosure to a consumer customer who requested an original check or a copy of a check and received a substitute check in response. (§ 229.57(b)(2)(i))
 - Upon customer's receipt of a returned substitute check—Determine that the bank provides the disclosure to a consumer customer of the bank who receives a returned substitute check (at the time the bank provides such substitute check). (§ 229.57(b)(2)(ii))
3. Mode of delivery of information (§ 229.58)—Determine whether the bank employed one of the following in delivering its consumer-awareness disclosure(s) and expedited recredit notice(s):
 - U.S. mail

- Any other means to which the recipient agreed to receive account information, including electronically

Expedited Recredit for Consumers— Section 229.54

1. Determine whether any financial institution customer has raised a Check 21-related claim of loss since the last examination. If yes, review for the following. (At financial institutions at which multiple Check 21-related claims have been raised and resolved, the examiner need only review a sampling sufficient to ensure that the bank's processing is consistent and in compliance with subpart D.)
 - Necessary preconditions (consumer must allege *all* of these)—(§§ 229.54(a)(1)–229.54(a)(4))
 - Was the consumer's account charged for a substitute check *that was provided to the consumer?* (The consumer need not be in possession of the substitute check at the time of claim submission.)
 - Was the consumer's account not properly charged? (Alternatively, a consumer's account could be properly charged yet still give rise to a warranty claim, for example, in the case of a substitute-check image that is illegible.)
 - Did the consumer suffer a resulting financial loss?
 - Was the production of the original check or a sufficient copy necessary to determine whether or not the consumer's claim was valid?
 - Procedural steps for consumer's claim
 - Did the consumer submit a timely claim? (§ 229.54(b)(1))
 - Did the claim contain a description of the claim, a statement and estimate of loss, the reason why the original check or a sufficient copy is necessary, and sufficient information for the bank to investigate? (§ 229.54(b)(2))
 - If the consumer attempted to make a claim but failed to provide all of the necessary information (as listed above), did the bank inform the consumer that the claim was incomplete and identify the information that was missing? (§ 229.54(b)(2)(D)(ii))
 - Was the claim submitted in a form acceptable to the financial institution? Did the bank compute the time for action accurately? (§ 229.54(b)(3))

- Procedural steps for financial institution response—if the financial institution concluded that (1) all necessary prerequisites to the filing of a consumer claim existed and (2) the consumer followed the appropriate steps in filing the claim, verify that the bank provided the following appropriate response:

Claim deemed valid:

In the event of a valid consumer claim, did the bank

- Recredit the account for the amount of the loss, up to the amount of the substitute check (plus interest, if applicable), no later than the end of the business day after the banking day on which the bank made its determination. (§ 229.54(c)(1)(i))
- Draft a notice of recredit stating (1) the amount of the recredit and (2) the date on which funds will be available for withdrawal, and (§§ 229.54(e)(1)(i) and 229.54(e)(1)(ii))
- Send the notice no later than the business day after the banking day on which the bank recredit occurred? (§ 229.54(e)(1))

Claim deemed invalid:

In the event of an invalid consumer claim, determine whether the bank

- Sent a notice stating that the claim was invalid and included the original check or a sufficient copy, (§ 229.54(e)(2)(i))
- Demonstrated to the consumer that the substitute check was properly charged (or that the consumer's warranty claim was not valid), and (§ 29.54(e)(2)(ii))
- Included the information or documents (in addition to the original check), if any, relied upon by the bank in making its determination (or a statement that the consumer may request such). (§ 229.54(e)(2)(iii))

Claim not resolved within initial ten days, pending further investigation:

If the bank could not resolve the claim before the end of the tenth business day after the banking day on which the bank received the claim, determine whether the bank

- Recredited the consumer's account for the amount of the loss, up to the lesser of the amount of the substitute check or \$2,500 (plus interest, if applicable), (§ 229.54(c)(3)(i)(A))
- Drafted a notice of recredit stating (1) the amount of the recredit and (2) the date on which the funds would be available for withdrawal, (§§ 229.54(e)(1)(i) and 229.54(e)(1)(ii))

- Recredited the consumer's account for the remaining amount of the loss, if any, up to the amount of the substitute check (plus interest, if applicable), no later than the end of the forty-fifth calendar day after the banking day on which the bank received the claim, and (§ 229.54(c)(3)(ii))
- Sent the notice of recredit no later than the business day after the banking day on which the bank recredit occurred. (§ 229.54(e)(1))

Claim resulting in reversal of recredit:

In some instances it may be necessary for a bank to reverse a recredit made previously to a consumer's account (plus any interest paid, if applicable). If such a circumstance has occurred, determine whether the bank

- Concluded that the consumer's claim was not valid and (§ 229.54(c)(4)(i))
- Drafted a notice of reversal of recredit (§ 229.54(e)(3)), accompanied by the following:
 - The original check or a sufficient copy, (§ 229.54(e)(2)(i))
 - Information or explanation to demonstrate to the consumer that the substitute check was properly charged (or that the consumer's warranty claim was not valid), (§ 229.54(e)(2)(ii))
 - Information or documents (in addition to the original check or a sufficient copy), if any, on which the bank relied in making its determination (or a statement that the consumer can request such), (§ 229.54(e)(2)(iii))
 - A description of the amount of the reversal, including both the amount of the recredit and the amount of interest

- paid on the recredited amount, if any, being reversed, and (§ 229.54(e)(3)(i))
- The date on which the bank made the reversal. (§ 229.54(e)(3)(ii))
- Sent the notice no later than the business day after the banking day on which the bank made the reversal (§ 229.54(e)(3))
- Availability of recredited funds—Under circumstances detailed above, when the financial institution determined that it was appropriate to recredit its consumer customer's account, determine whether the bank took the following actions:
 - *Next day availability*—Did the bank make any recredited amount available for withdrawal no later than the start of the business day after the banking day on which the recredit was provided? (§ 229.54(d)(1))
 - *Safeguard exceptions*—If necessary for reasons of (1) new-account status, (2) overdrawn-account status, or (3) well-reasoned suspicion of fraud, did the bank invoke its right to delay immediate availability of recredited funds? If so, was the delay invoked because the bank had not yet determined the validity of the claim? Were the funds made available no later than the business day after the banking day on which the final determination was made or the forty-fifth calendar day after the bank received the claim, whichever occurred earlier? (§ 229.54(d)(2))
 - *Overdraft fees*—If the bank chose to invoke its right to delay immediate availability of recredited funds, did it refrain from imposing an overdraft fee until the appropriate five-day period had elapsed? (§ 229.54(d)(3))

Regulation CC

Examination Checklist

General Operations

Date of Deposit

- | | | |
|--|-----|----|
| 1. Does the bank consider every day except Saturday, Sunday, and federal holidays a “business day”? (§ 229.2(g)) | Yes | No |
| 2. Does the bank consider “banking days” those business days on which an office of the bank is open for substantially all of its business? (§ 229.2(f)) | Yes | No |
| 3. Does the bank have a cutoff for receipt of deposits of 2:00 p.m. or later for bank offices and 12:00 noon or later for ATMs? (§ 229.19(a)(5)(ii)) | Yes | No |
| 4. Does the bank comply with the following rules in determining when funds are considered to have been deposited? | | |
| A. Deposits over the counter or at ATMs are considered deposited when “received.” (§ 229.19(a)(1)) | Yes | No |
| B. Mail deposits are considered deposited when they are received by the mail room of the bank. (§ 229.19(a)(2)) | Yes | No |
| C. Deposits in a night depository, lock box, or similar facility are considered received when the deposits are removed from the facility and are available for processing. (§ 229.19(a)(3)) | Yes | No |
| D. Deposits at an off-premises ATM (not within fifty feet of the bank) that is not serviced more than twice a week are considered received as of the date the deposits are removed from the ATM by the bank. (§ 229.19(a)(4)) | Yes | No |
| 5. Does the bank consider deposits made on a nonbanking day to have been received no later than the next banking day? (§ 229.19(a)(5)(i)) | Yes | No |
| 6. When funds must be available on a given “business day,” does the bank make the funds available at the later of 9:00 a.m. or the time the bank’s teller facilities (including ATMs) are available for account withdrawals? (§ 229.19(b)) | Yes | No |
| 7. If the bank limits cash withdrawals, does it make \$400 available for cash withdrawals no later than 5:00 p.m. on the appropriate business day (second day for local checks, fifth for nonlocal checks) following the day of deposit? (§ 229.12(d)) | Yes | No |

Required Next-Day Availability

- | | | |
|--|-----|----|
| 8. Does the bank make funds from the following types of deposits available for withdrawal no later than the first business day following the date of deposit? | | |
| A. Electronic payments (§ 229.10(b)) | Yes | No |
| B. Checks drawn on the U.S. Treasury and deposited to the payee’s account (§ 229.10(c)(1)(i)) | Yes | No |
| C. On-us checks and checks that are drawn on and deposited in branches of the same bank in the same state or check-processing region (§ 229.10(c)(1)(vi)) | Yes | No |
| 9. Does the bank make funds from the following deposits available no later than the first business day after the day of deposit if the deposit is made in person to a bank employee, or no later than the second business day if the deposit is not made in person to a bank employee? | | |
| A. Cash deposits (§§ 229.10(a)(1) and 229.10(a)(2)) | Yes | No |

B. U.S. Postal Service money orders deposited in an account held by the payee of the check (§§ 229.10(c)(1)(ii) and 229.10(c)(2))	Yes	No
C. Checks drawn on a Federal Reserve Bank or Federal Home Loan Bank deposited in an account held by the payee of the check (§§ 229.10(c)(1)(iii) and 229.10(c)(2))	Yes	No
D. Checks drawn by a state or local governmental unit and deposited		
• In an account held by the payee of the check, (§§ 229.10(c)(1)(iv)(A) and 229.10(c)(2))	Yes	No
• In a depository bank located in the same state as the governmental unit issuing the check, and (§§ 229.10(c)(1)(iv)(B) and 229.10(c)(2))	Yes	No
• Accompanied by a special deposit slip (if required by the bank to make the funds available on the next business day). (§§ 229.10(c)(1)(iv)(D) and 229.10(c)(3))	Yes	No
E. Cashier's checks, certified checks, and teller's checks (as defined in section 229.2) deposited in an account held by the payee of the check when		
• The check is accompanied by a special deposit slip (if required by the bank to make the funds available on the next business day) (§§ 229.10(c)(1)(v)(C) and 229.10(c)(3))	Yes	No
10. If the bank requires the special deposit slips, for the checks covered in checklist items 9(D) and 9(E), does it provide the slip to its customers or tell its customers how to prepare or obtain the slips? (§ 229.10(c)(3)(ii))	Yes	No
Are the special deposit slips reasonably available? (§ 229.10(c)(3)(ii))	Yes	No
11. Is the first \$100 of a customer's daily aggregate deposits of checks not subject to the next-day availability rules available on the next business day? (§ 229.10(c)(1)(vii))	Yes	No
12. Is the \$100 in addition to other deposited amounts that must be afforded next-day availability? (§ 229.10(c)(1)(vii))	Yes	No

Local Checks and Certain Other Deposits

13. Are funds from local checks generally available no later than the second business day after the day of deposit? (§ 229.12(b)(1))	Yes	No
14. If a bank limits cash withdrawals, (§ 229.12(d))		
A. Is the \$100 available on the next business day after the day of deposit for withdrawal in cash or by check?	Yes	No
B. Is the \$400 available for cash withdrawal sometime before 5:00 p.m. on the second business day after the day of deposit?	Yes	No
C. Are any remaining funds available for withdrawal the business day after the \$400 was made available?	Yes	No
15. For Treasury checks and U.S. Postal Service money orders that do not meet the criteria for next-day (or second-day) availability, does the bank make funds available no later than the second business day after the date of deposit? (§§ 229.12(b)(2) and 229.12(b)(3))	Yes	No
16. Are funds deposited by cash or check at a nonproprietary ATM available no later than the fifth business day after the banking day of deposit? (§ 229.12(f))	Yes	No

Nonlocal Checks

- | | | |
|---|-----|----|
| 17. Are funds from nonlocal checks generally available no later than the fifth business day after the day of deposit? (§ 229.12(c)(1)) | Yes | No |
| 18. If the bank is located in a city listed in appendix B to Regulation CC, does it have procedures to make funds for certain nonlocal checks available on a shorter schedule as required by the appendix? (§ 229.12(c)(2)) | Yes | No |
| 19. If the bank limits cash withdrawals, (§ 229.12(d)) | | |
| A. Is \$100 available on the next business day after the day of deposit for withdrawal in cash or by check? | Yes | No |
| B. Is \$400 available for cash withdrawal sometime before 5:00 p.m. on the fifth business day after the day of deposit? | Yes | No |
| C. Are any remaining funds available for cash withdrawal on the business day after the \$400 is made available? | Yes | No |

Payable-Through Checks

- | | | |
|--|-----|----|
| 20. Does the bank's policy distinguish between local and nonlocal checks (are funds from local and nonlocal checks available on the second business day following the day of deposit)? (§ 229.16(b)(2), footnote 3(a)) | Yes | No |
| 21. If local and nonlocal checks are treated differently, | | |
| A. Does the policy state that payable-through checks will be treated as local or nonlocal based on the location of the bank where the check is payable? (§ 229.16(b)(2)) | Yes | No |
| B. Does the policy do one of the following? (§ 229.16(b)(2), footnote 3(a)) | | |
| • Describe how the customer can determine whether the checks will be treated as local or nonlocal or | Yes | No |
| • State that special rules apply and that the customer may ask about the availability of these checks | Yes | No |

Extended Holds

Case-by-Case Holds

- | | | |
|---|-----|----|
| 22. Does the bank's specific availability policy disclosure indicate that case-by-case holds may be placed? (§ 229.16(c)(1)) | Yes | No |
| If it does, does the disclosure do the following? | | |
| A. State that the bank may extend the time period when deposited funds are available for withdrawal (§ 229.16(c)(1)(i)) | Yes | No |
| B. State the latest time a deposit will be available for withdrawal, if the availability time frame is extended (§ 229.16(c)(1)(i)) | Yes | No |
| C. State that the bank will notify the customer if funds from a particular deposit will not be available for withdrawal until after the time period stated in the bank's funds availability policy (§ 229.16(c)(1)(ii)) | Yes | No |
| D. Encourage customers to ask when particular deposits will be made available for withdrawal (§ 229.16(c)(1)(iii)) | Yes | No |
| 23. When case-by-case holds are placed, does the bank provide the customer with a written notice of the hold? (§ 229.16(c)(2)) | Yes | No |
| 24. Does the notice include the following? | | |
| A. The customer's account number (§ 229.16(c)(2)(i)(A)) | Yes | No |

B. The date and amount of the deposit (§ 229.16(c)(2)(i)(B))	Yes	No
C. The amount of the deposit that is being delayed (§ 229.16(c)(2)(i)(C))	Yes	No
D. The day the funds will be available for withdrawal (§ 229.16(c)(2)(i)(D))	Yes	No
25. Does the bank provide the notice at the time the deposit is made, if the deposit is made to an employee of the depositary bank? (§ 229.16(c)(2)(ii))	Yes	No
26. If the notice is not given at the time of deposit, does the depositary bank mail or deliver the notice to the customer not later than the first business day after the day of the deposit? (§ 229.16(c)(2)(ii))	Yes	No
27. If the bank does not provide the notice at the time of deposit, does it refrain from charging the customer overdraft or return check fees if		
A. The overdraft or other fee would not have occurred if the deposited check had not been delayed and	Yes	No
B. The deposited check was paid by the paying bank (§ 229.16(c)(3))	Yes	No
28. If the bank does not provide the notice at the time of deposit and charges overdraft fees, does it notify the customer of the right to a refund of such fees and how to obtain the refund? (§ 229.16(c)(3))	Yes	No
29. Does the bank refund the fees if the conditions listed in checklist item 27 above are met and the customer requests a refund? (§ 229.16(c)(3))	Yes	No

Exception-Based Holds

30. When invoking an exception hold for accounts other than new accounts, does the bank provide the customer with a written notice that includes the following?		
A. The customer's account number (§ 229.13(g)(1)(i)(A))	Yes	No
B. The date and amount of the deposit (§ 229.13(g)(1)(i)(B))	Yes	No
C. The amount of the deposit that is being delayed (§ 229.13(g)(1)(i)(C))	Yes	No
D. The reason the exception was invoked (§ 229.13(g)(1)(i)(D))	Yes	No
E. The day the funds will be available for withdrawal (unless the emergency-conditions exception is invoked and the bank does not know when the funds will become available) (§ 229.13(g)(1)(i)(E))	Yes	No
31. Does the bank refrain from delaying funds availability beyond a reasonable time period? (Note: Five days for local checks and six days for nonlocal checks is considered reasonable.) (§ 229.13(h)(4))	Yes	No

Exceptions

New Accounts (§ 229.13(a))

32. Does the bank's definition of a new account comply with the definition under section 229.13(a)(2)? (Note: If a customer has had another transaction account at the bank within the thirty days prior to opening an account, the customer does not qualify for the new-account exception.)	Yes	No
33. If the bank's definition is different, does it delay availability to new-account holders beyond the limits set forth in the regulation?	Yes	No
34. Do bank disclosures accurately reflect the bank's practice for making deposited funds available for new accounts?	Yes	No
35. Do cash deposits made in person to a bank employee become available for withdrawal on the first business day following the day of deposit? (§§ 229.13(a)(1)(i) and 229.10(a)(1))	Yes	No

36. Are cash deposits not made in person to a bank employee available for withdrawal on the second business day following the day of deposit? (§§ 229.13(a)(1)(i) and 229.10(a)(2)) Yes No
37. Are electronic transfers into new accounts available for withdrawal on the business day following the day the transfer is received? (§§ 229.13(a)(1)(i) and 229.10(b)) Yes No
38. Is the first \$5,000 from any of the following types of check deposits available for withdrawal from a new account not later than the first business day after the day of the deposit, if the deposits meet the requirements of section 229.10(c)? (§ 229.13(a)(1)(ii)) (For more information, see checklist section "Required Next-Day Availability.")
- A. Treasury checks (§ 229.10(c)(1)(i)) Yes No
 - B. U.S. Postal Service money orders (§ 29.10(c)(1)(ii)) Yes No
 - C. Federal Reserve and Federal Home Loan Bank checks (§ 229.10(c)(1)(iii)) Yes No
 - D. State or local government checks (§ 229.10(c)(1)(iv)) Yes No
 - E. Cashier's, certified, and teller's checks (§ 229.10(c)(1)(v)) Yes No
 - F. Traveler's checks (§ 229.10(c)(1)(v)) Yes No
39. Is the amount of any deposit of the types listed in checklist item 38 exceeding \$5,000 available for withdrawal no later than the ninth business day following the day of deposit? (§ 229.13(a)(1)(ii)) Yes No

Large Deposits (§ 229.13(b))

40. If the bank invokes the large-deposit rule, does it do so for only that portion of the aggregate local and nonlocal check deposits that exceeds \$5,000 on any one banking day? (§ 229.13(b)) Yes No
41. Does the bank refrain from applying this exception to deposits made in cash, to deposits made by electronic payment, or to checks that must receive next-day availability under section 229.10(c)? (See commentary to section 229.13(b).) Yes No
42. Does the bank provide customers with a written notice of the longer delay? (§ 229.13(g)(1)) Yes No
- Is the notice (§ 229.13(g)(2))
- A. Provided at the time of the deposit, when the deposit is received in person by an employee of the bank or Yes No
 - B. Mailed on or before the first business day after the day the bank learns of the facts giving rise to the exception Yes No

Redeposited Checks (§ 229.13(c))

43. Does the bank refrain from applying the redeposited exception to the following?
- A. Checks that are returned because an indorsement is missing and are subsequently indorsed and redeposited (§ 229.13(c)(1)) Yes No
 - B. Checks that were returned because they were postdated but are not postdated when redeposited (§ 229.13(c)(2)) Yes No
44. Does the bank consider the day the check was redeposited to be the day of deposit when determining when funds must be made available for withdrawal? (commentary to section 229.13(c)) Yes No

Repeated Overdrafts (§ 229.13(d))

- | | | |
|--|-----|----|
| 45. Does the bank impose longer holds for depositors who have a history of overdrafts? | Yes | No |
| 46. Does the bank invoke the repeated-overdraft exception only when the account balance has been negative (or would have been negative had checks or other charges been paid) <ul style="list-style-type: none"> A. Six or more times during the preceding six months or (§ 229.13(d)(1)) B. Two or more times during the preceding six months, if the amount of any negative balance would have been \$5,000 or more (§ 229.13(d)(2)) | Yes | No |
| 47. Is this practice articulated in the bank's written policy and initial disclosure statement? (§ 229.16(a)) | Yes | No |
| 48. When the bank imposes the longer delay, is the depositor notified of the reason, in writing, at the time of deposit? If not, is a notice mailed on or before the first business day after the day of the deposit or the day the bank learns of the facts giving rise to the exception? (§ 229.13(g)) | Yes | No |
| 49. Does the bank return the account to the normal availability schedule when the account is no longer repeatedly overdrawn? (Note: Banks may use this exception for six months after the last overdraft that made the depositor eligible for the repeated-overdraft exception. See checklist item 46.) (§ 229.13(d)) | Yes | No |

Reasonable Cause to Doubt Collectibility (§ 229.13(e))

- | | | |
|--|-----|----|
| 50. Does the bank refrain from applying the reasonable-cause exception to the following? (§ 229.13(e)(1)) <ul style="list-style-type: none"> A. U.S. Treasury checks B. U.S. Postal Service money orders C. State and local government checks D. On-us checks | Yes | No |
| 51. When the bank invokes a reasonable-cause exception, does it provide the customer with a written notice of exception at the time the deposit is made, if the deposit is made in person to an employee of the bank? (§ 229.13(g)(1)(ii)) | Yes | No |
| 52. If the deposit is not made in person to an employee of the bank, or if the hold is placed because of information learned subsequent to the receipt of the deposit, does the institution mail the exception notice to the customer? (§ 229.13(g)(1)(ii)) | Yes | No |
| 53. Does the bank retain a copy of each reasonable-cause exception notice, along with a brief statement of the facts that led to the hold, for a period of two years? (§ 229.13(g)(4)) | Yes | No |
| 54. Does the depositary bank refrain from invoking the reasonable-cause exception on the basis of the race or national origin of the depositor or the class of the check? (§ 229.13(e)(1)) | Yes | No |
| 55. Does the bank refrain from assessing a fee for any subsequent overdraft, returned check, or other unpaid charge (or advise customers of their right to a refund of such fees, and refund the fees upon request) if all of the following conditions are met? <ul style="list-style-type: none"> A. The depositary bank extended the availability period on the basis of its belief that the check was uncollectible (§ 229.13(e)(1)) B. The depositor was not provided with the written notice required by section 229.13(g)(1) at the time of deposit (§ 229.13(e)(2)) | Yes | No |

C. The overdraft or return would not have occurred if the availability period had not been extended (§ 229.13(e)(2)(i))	Yes	No
D. The deposited check was finally paid by the paying bank (§ 229.13(e)(2)(ii))	Yes	No
56. Does the exception notice tell the customer where to direct a request for a refund of the overdraft fees? (§ 229.13(e)(2))	Yes	No

Emergency Conditions (§ 229.13(f))

57. Does the bank refrain from imposing emergency-condition holds on checks subject to next-day availability under section 229.10(c)? (commentary to § 229.13(f))	Yes	No
58. Does the bank invoke the emergency-conditions exception only in the following circumstances and when the bank has exercised necessary diligence as circumstances require?		
A. An interruption of communications or computer or other equipment (§ 229.13(f)(1))	Yes	No
B. Suspension of payments by another bank (§ 229.13(f)(2))	Yes	No
C. War (§ 229.13(f)(3))	Yes	No
D. An emergency condition beyond the control of the bank (§ 229.13(f)(4))	Yes	No
59. Does the bank make funds available for withdrawal no later than a reasonable period after the emergency has ended or within the time period established by the temporary and permanent schedules, whichever is later? (§ 229.13(h)(3)) (As stated in the commentary to section 229.13(h)(4), a reasonable period is five business days for local checks and six for nonlocal checks.)	Yes	No
60. Does the bank provide customers with a written notice of the longer delay? (§ 229.13(g)(1))	Yes	No
61. Is the notice provided at the time of the deposit, if the deposit is received in person by an employee of the bank, or is the notice mailed on or before the first business day after the day the bank learns of the facts giving rise to the exception? (§ 229.13(g)(1)(ii))	Yes	No

Miscellaneous

Calculated Availability—Nonconsumer Transaction Accounts (§ 229.19(d))

62. Does the bank calculate funds availability for nonconsumer accounts on the basis of a sample of the customer's deposits? If it does, obtain a copy of the bank's formula for determining its availability schedule. Review a sample of checks similar to that used by the bank to calculate funds availability and answer the following questions:		
A. Is the sample of checks large enough to accurately use the formula?	Yes	No
B. Does the formula accurately represent the average composition of the customer's deposits?	Yes	No
C. Does the specified percentage of available funds appear reasonable? (Is a set percentage available the next business day, with remaining funds available according to the customer's deposit mix?)	Yes	No
63. Based on the sample, are the terms of availability for the account equivalent to or more prompt than the terms outlined in the regulation?	Yes	No

Payment of Interest

Review a copy of the bank's availability schedule for check deposits credited through the Reserve Bank or its correspondent bank. Determine the time that the bank receives provisional credit for check deposits.

64. For each interest-bearing transaction account offered by the bank (for example, NOW accounts and ATS accounts), does the bank begin to accrue interest on the funds deposited no later than the business day on which the bank receives provisional credit for the funds? (§ 229.14)

Yes No

Regulation CC

Workpaper Appendix for Districts with Banks Located outside the Continental U.S.

For deposits at offices located outside the continental United States, availability may be extended one day under certain strictly defined circumstances and for limited types of deposits. If a check is deposited at a bank office in Alaska, Hawaii, Puerto Rico, or the U.S. Virgin Islands and the paying bank is not located in the same jurisdiction, a one-day extension is permitted for deposits other than those that must be available on the next business day. (Note: This extension applies only to check deposits at bank offices located outside the continental United States. Check deposits received at a bank inside the continental United States but drawn on a bank located outside the continental United States, such as one in Alaska or Hawaii, are not granted an extension.)

1. For offices located in Alaska, Hawaii, Puerto Rico, and the U.S. Virgin Islands, does the bank extend availability for check deposits drawn on banks in other states? (§ 229.11(e)(1))

Yes No

2. If yes,

- A. Is the extension limited to checks drawn on banks in a different state? (A Hawaiian bank, for example, could receive a "local" check drawn on a bank in Honolulu or a bank in San Francisco. Only the San Francisco check may be delayed.) (§ 229.12(e)(2))

Yes No

- B. Is the extension limited to one day? (§ 229.12(e))

Yes No

Regulation DD

Truth in Savings

Background

Regulation DD (12 CFR 230), which implements the Truth in Savings Act (TISA), became effective in June 1993. An official staff commentary interprets the requirements of Regulation DD (12 CFR 230 (Supplement I)). Since then, several amendments have been made to Regulation DD and the Staff Commentary, including changes, effective January 1, 2010, concerning disclosures of aggregate overdraft and returned item fees on periodic statements and balance disclosures provided to consumers through automated systems. In addition, effective July 6, 2010, clarifications were made to the provisions related to overdraft services (NOTE: The effective date for the clarification to section 230.11(a)(1)(i), requiring the term "Total Overdraft Fees" to be used, is October 1, 2010) (75 FR 31673).

The purpose of Regulation DD is to enable consumers to make informed decisions about their accounts at depository institutions through the use of uniform disclosures. The disclosures aid comparison shopping by informing consumers about the fees, annual percentage yield, interest rate, and other terms for deposit accounts. A consumer is entitled to receive disclosures

- When an account is opened;
- Upon request;
- When the terms of the account are changed;
- When a periodic statement is sent; and
- For most time accounts, before the account matures.

The regulation also includes requirements on the payment of interest, the methods of calculating the balance on which interest is paid, the calculation of the annual percentage yield, and advertising.

Coverage (§230.1)

Regulation DD applies to all depository institutions, except credit unions, that offer deposit accounts to residents of any state. Branches of foreign institutions located in the United States are subject to Regulation DD if they offer deposit accounts to consumers. Edge Act and agreement corporations, and agencies of foreign institutions, are not depository institutions for purposes of Regulation DD.

In addition, persons who advertise accounts are subject to the advertising rules. For example, if a

deposit broker places an advertisement offering consumers an interest in an account at a depository institution, the advertising rules apply to the advertisement, whether the account is to be held by the broker or directly by the consumer.

Definitions (§230.2)

Section 230.2 defines key terms used in Regulation DD. Among those definitions are the following:

Account (§230.2(a))

An *account* is a deposit account at a depository institution that is held by, or offered to, a consumer. It includes time, demand, savings, and negotiable order of withdrawal accounts. Regulation DD covers interest-bearing as well as noninterest-bearing accounts.

Advertisement (§230.2(b))

An *advertisement* is a commercial message, appearing in any medium, that promotes directly or indirectly (a) the availability or terms of, or a deposit in, a new account, and (b) for purposes of sections 230.8(a) (misleading or inaccurate advertisements) and 230.11 (additional disclosure requirements for institutions advertising the payment of overdrafts), the terms of, or a deposit in, a new or existing account. An advertisement includes a commercial message in visual, oral, or print media that invites, offers, or otherwise announces generally to prospective customers the availability or terms of, or a deposit in, a consumer account. Examples of advertisements include telephone solicitations and messages on automated teller machine screens.

Annual Percentage Yield (§230.2(c))

An *annual percentage yield* is a percentage rate reflecting the total amount of interest paid on an account, based on the interest rate and the frequency of compounding for a 365-day period or 366-day period during leap years and calculated according to the rules in Appendix A of Regulation DD. Interest or other earnings are not to be included in the annual percentage yield if the circumstances for determining the interest and other earnings may or may not occur in the future

(see Appendix A, footnote 1).

Average Daily Balance Method (\\$230.2(d))

The average daily balance method is the application of a periodic rate to the average daily balance in the account for the period. The average daily balance is determined by adding the full amount of principal in the account for each day of the period and dividing that figure by the number of days in the period.

Board (\\$230.2(e))

The Board means the Board of Governors of the Federal Reserve System.

Bonus (\\$230.2(f))

A *bonus* is a premium, gift, award, or other consideration worth more than \$10 (whether in the form of cash, credit, merchandise, or any equivalent) given or offered to a consumer during a year in exchange for opening, maintaining, renewing, or increasing an account balance. The term does not include interest, other consideration worth \$10 or less given during a year, the waiver or reduction of a fee, or the absorption of expenses.

Business Day (\\$230.2(g))

A *business day* is a calendar day other than a Saturday, a Sunday, or any of the legal public holidays specified in 5 USC 6103(a).

Consumer (\\$230.2(h))

A *consumer* is a natural person who holds an account primarily for personal, family, or household purposes, or to whom such an account is offered. The term does not include accounts held by a natural person on behalf of another in a professional capacity or accounts held by individuals as sole proprietors.

Daily Balance Method (\\$230.2(i))

The *daily balance method* is the application of a daily periodic rate to the full amount of principal in the account each day.

Depository Institution (\\$230.2(j))

A *depository institution* and an *institution* are institutions defined in section 19(b)(1)(A)(i)-(vi) of the Federal Reserve Act (12 USC 461), except credit unions defined in section 19(b)(1)(A)(iv). Branches of foreign institutions located in the

United States are subject to the regulation if they offer deposit accounts to consumers. Edge Act and agreement corporations, and agencies of foreign institutions, are not depository institutions for purposes of this regulation.

Deposit Broker (\\$230.2(k))

A *deposit broker* is a person who is in the business of placing or facilitating the placement of deposits in an institution, as defined by section 29(g) of the Federal Deposit Insurance Act (12 USC 1831f(g))

Fixed-Rate Account (\\$230.2(l))

A *fixed-rate account* is an account for which the institution contracts to give at least 30 calendar days' advance written notice of decreases in the interest rate.

Grace Period (\\$230.2(m))

A *grace period* is a period following the maturity of an automatically renewing time account during which the consumer may withdraw funds without being assessed a penalty.

Interest (\\$230.2(n))

Interest is any payment to a consumer or to an account for the use of funds in an account, calculated by applying a periodic rate to the balance. Interest does not include the payment of a bonus or other consideration worth \$10 or less during a year, the waiver or reduction of a fee, or the absorption of expenses.

Interest Rate (\\$230.2(o))

An *interest rate* is the annual rate of interest paid on an account and does not reflect compounding. For purposes of the account disclosures in section 230.4(b)(1)(i), the interest rate may, but need not, be referred to as the "annual percentage rate" in addition to being referred to as the "interest rate."

Passbook Savings Account (\\$230.2(p))

A *passbook savings account* is a savings account in which the consumer retains a book or other document in which the institution records transactions on the account. Passbook savings accounts include accounts accessed by preauthorized electronic fund transfers to the account. As defined in Regulation E, a preauthorized electronic fund transfer is an electronic fund transfer authorized in advance to recur at substantially regular intervals. Examples include an account that receives direct

deposit of Social Security payments. Accounts permitting access by other electronic means are not passbook savings accounts and must comply with the requirements of section 230.6 if statements are sent four or more times a year.

Periodic Statement (§ 230.2(q))

A *periodic statement* is a statement setting forth information about an account (other than a time account or passbook savings account) that is provided to a consumer on a regular basis four or more times a year.

State (§ 230.2(r))

A *state* is a state, the District of Columbia, the commonwealth of Puerto Rico, and any territory or possession of the United States.

Stepped-Rate Account (§ 230.2(s))

A *stepped-rate account* is an account that has two or more interest rates that take effect in succeeding periods and are known when the account is opened.

Tiered-Rate Account (§ 230.2(t))

A *tiered-rate account* is an account that has two or more interest rates that are applicable to specified balance levels. A requirement to maintain a minimum balance to earn interest does not make an account a tiered-rate account.

Time Account (§ 230.2(u))

A *time account* is an account with a maturity of at least seven days in which the consumer generally does not have a right to make withdrawals for six days after the account is opened, unless the deposit is subject to an early withdrawal penalty of at least seven days' interest on the amount withdrawn.

Variable-Rate Account (§ 230.2(v))

A *variable-rate account* is an account in which the interest rate may change after the account is opened, unless the institution contracts to give at least 30 calendar days' advance written notice of rate decreases.

General Disclosure Requirements (§ 230.3)

General Requirements (§ 230.3(a) and (b))

Section 230.3 outlines the general requirements for account disclosures and periodic statement disclosures. Such disclosures are required to be

- Clear and conspicuous;
- In writing;
- In a form the consumer may keep;
- Clearly identifiable for different accounts, if disclosures for different accounts are combined;
- Reflective of the terms of the legal obligation of the account agreement between the consumer and the depository institution;
- Available in English upon request if the disclosures are made in languages other than English; and
- Consistent in terminology when describing terms or features that are required to be disclosed.

Electronic Disclosures

Regulation DD disclosures may be provided to the consumer in electronic form, subject to compliance with the consumer consent and other applicable provisions of the Electronic Signatures in Global and National Commerce Act (E-Sign Act) (15 USC 7001 et seq.).

The E-Sign Act does not mandate that institutions or consumers use or accept electronic records or signatures. It does, however, permit institutions to satisfy any statutory or regulatory requirements that information, such as Regulation DD disclosures, be provided in writing to a consumer by providing the information electronically after obtaining the consumer's affirmative consent. But before consent can be given, consumers must be provided with a clear and conspicuous statement, informing the consumer of

- Any right or option to have the information provided in paper or nonelectronic form;
- The right to withdraw the consent to receive information electronically and the consequences, including fees, of doing so;
- The scope of the consent (whether the consent

- applies only to a particular transaction or to identified categories of records that may be provided during the course of the parties' relationship);
- The procedures to withdraw consent and to update information needed to contact the consumer electronically; and
 - The methods by which a consumer may obtain, upon request, a paper copy of an electronic record after consent has been given to receive the information electronically and whether any fee will be charged.

Prior to consenting, the consumer must be provided with a statement of the hardware and software requirements for access to, and retention of, the electronic information. The consumer must consent electronically or confirm consent electronically in a manner that "reasonably demonstrates that the consumer can access information in the electronic form that will be used to provide the information that is the subject of the consent."

After the consent, if an institution changes the hardware or software requirements such that a consumer may be prevented from accessing and retaining information electronically, the institution must notify the consumer of the new requirements and must allow the consumer to withdraw consent without charge.

Under section 230.3(a), the disclosures required by sections 230.4(a)(2) (Disclosures Upon Request) and 230.8 (Advertising) may be provided to the consumer in electronic form without regard to the consumer consent or other provisions of the E-Sign Act, as set forth in those sections of Regulation DD. For example, under section 230.4(a)(2) (Disclosures Upon Request), if a consumer who is not present at the institution makes a request for disclosures, the institution may provide the disclosures electronically if the consumer agrees without regard to the consumer consent or other provisions of the E-Sign Act.

Relation to Regulation E (§230.3(c))

Disclosures required by and provided in accordance with the Electronic Fund Transfer Act (15 USC 1693 et seq.) and its implementing Regulation E (12 CFR 205) that are also required by Regulation DD may be substituted for the disclosures required by this regulation. Compliance with Regulation E (12 CFR 205) is deemed to satisfy the disclosure requirements of Regulation DD, such as when

- An institution changes a term that triggers a notice under Regulation E, and uses the timing and disclosure rules of Regulation E for sending change-in-term notices;

- Consumers add an ATM access feature to an account, and the institution provides disclosures pursuant to Regulation E, including disclosure of fees (see 12 CFR 205.7);
- An institution, complying with the timing rules of Regulation E, discloses at the same time fees for electronic services (such as for balance inquiry fees at ATMs) required to be disclosed by this regulation but not by Regulation E; or
- An institution relies on Regulation E's rules regarding disclosure of limitations on the frequency and amount of electronic fund transfers, including security-related exceptions. But any limitations on intra-institutional transfers to or from the consumer's other accounts during a given time period must be disclosed, even though intra-institutional transfers are exempt from Regulation E.

Other Requirements (§230.3(d)—(f))

Other general disclosure requirements include the following:

Multiple Consumers (§230.3(d))

If an account is held by more than one consumer, disclosures may be made to any one of the consumers.

Oral Response to Inquiries (§230.3(e))

If an institution chooses to provide rate information orally, it must state the annual percentage yield and may state the interest rate. However, the institution may not state any other rate. The advertising rules do not cover an oral response to a rate inquiry.

Rounding and Accuracy Rules for Rates and Yields (§230.3(f))

The rounding and accuracy requirements are as follows:

- Rounding—The annual percentage yield, the annual percentage yield earned, and the interest rate must be rounded to the nearest one-hundredth of one percentage point (.01 percent) and expressed to two decimal places. (For account disclosures, the interest rate may be expressed to more than two decimal places.) For example, if an annual percentage yield is calculated at 5.644 percent, it must be rounded down and disclosed as 5.64 percent, or if annual percentage yield is calculated at 5.645 percent, it must be rounded up and disclosed as 5.65 percent.
- Accuracy—The annual percentage yield (and the annual percentage yield earned) will be consid-

ered accurate if it is not more than one-twentieth of one percentage point (.05 percent) above or below the annual percentage yield (and the annual percentage yield earned) that are calculated in accordance with Appendix A of Regulation DD.

Account Disclosures (§230.4)

Section 230.4 covers the delivery and content of account disclosures both at the time an account is open and when requested by a consumer.

Delivery of Account Disclosures (§230.4(a))

Disclosures at Account Opening (§230.4(a)(1))

A depository institution must provide account disclosures to a consumer before an account is opened or a service is provided, whichever is earlier. (An institution is deemed to have provided a service when a fee, required to be disclosed, is assessed.) An institution must mail or deliver the account opening disclosures no later than 10 business days after the account is opened or the service is provided, whichever is earlier, if the consumer

- Is not present when the account is opened or the service is provided, and
- Has not received the disclosures.

If a consumer who is not present at the institution uses electronic means (for example, an Internet website) to apply to open an account or to request a service, the disclosures must be provided before the account is opened or the service is provided.

Disclosures Upon Request (§230.4(a)(2))

A depository institution must provide full account disclosures, including complete fee schedules, to a consumer upon request. Institutions must comply with all requests for this information, whether or not the requestor is an existing customer or a prospective customer. A response to an oral inquiry (by telephone or in person) about rates and yields or fees does not trigger the duty to provide account disclosures. However, when consumers ask for written information about an account (whether by telephone, in person, or by other means), the institution must provide disclosures, unless the account is no longer offered to the public.

If the consumer makes the request in person, disclosures must be provided at that time. If a consumer is not present when the request is made, the institution must mail or deliver the disclosures within a reasonable time after it receives the

request. Ten business days is considered a reasonable time for responding to requests for account information that a consumer does not make in person, including requests made by electronic means (such as by electronic mail).

If a consumer who is not present at the institution makes a request for account disclosures, including a request made by telephone, e-mail, or via the institution's website, the institution may send the disclosures in paper form, or if the consumer agrees, may provide the disclosures electronically, such as to an e-mail address that the consumer provides for that purpose, or on the institution's website, without regard to the consumer consent or other provisions of the E-Sign Act. The institution is not required to provide, nor is the consumer required to agree to receive, the disclosures required by section 230.4(a)(2) in electronic form.

When providing disclosures upon the request of a consumer, the institution has several choices of how to specify the interest rate and annual percentage yield. The institution may disclose the rate and yield offered

- Within the most recent seven calendar days,
- As of an identified date, or
- Currently by providing a telephone number for consumers to call.

Further, when providing disclosures upon the request of a consumer, the institution may state the maturity of a time account as a term rather than a date. Describing the maturity of a time account as "1 year" or "6 months," for example, illustrates a statement of the maturity as a term rather than a date ("January 10, 1995").

Content of Account Disclosures (§230.4(b))

Account disclosures must include, as applicable, information on the following (see Appendix A and B of Regulation DD for information on the annual percentage yield calculation and for model clauses for account disclosures and sample forms):

Rate Information (§230.4(b)(1))

An institution must disclose both the "annual percentage yield" and the "interest rate," using those terms.

For fixed-rate accounts, an institution must disclose the period of time that the interest rate will be in effect.

For variable-rate accounts, an institution must disclose the following:

- The fact that the interest rate and annual percentage yield may change,

- How the interest rate is determined,
- The frequency with which the interest rate may change, and
- Any limitation on the amount the interest rate may change.

Compounding and Crediting (§230.4(b)(2))

An institution must disclose the frequency with which interest is compounded and credited. In cases where consumers will forfeit interest if they close an account before accrued interest is credited, an institution must state that interest will not be paid.

Balance Information (§230.4(b)(3))

An institution must disclose the following information about account balances:

- Minimum balance requirements—An institution must disclose any minimum balance requirement to
 - a. Open the account,
 - b. Avoid the imposition of a fee, or
 - c. Obtain the annual percentage yield disclosed.

In addition, the institution must disclose how the balance is determined to avoid the imposition of a fee or to obtain the annual percentage yield.

- Balance-computation method—An explanation of the balance-computation method, specified in section 230.7 of Regulation DD, that is used to calculate interest on the account. An institution may use different methods or periods to calculate minimum balances for purposes of imposing a fee and accruing interest. Each method and corresponding period must be disclosed.
- When interest begins to accrue—An institution must state when interest begins to accrue on noncash deposits.

Fees (§230.4(b)(4))

An institution must disclose the amount of any fee that may be imposed in connection with the account (or an explanation of how the fee will be determined) and the conditions under which the fee may be imposed. Examples of fees that must be disclosed are

- Maintenance fees, such as monthly service fees;
- Fees to open or to close an account;
- Fees related to deposits or withdrawals, such as fees for use of the institution's ATMs; and

- Fees for special services, such as stop-payment fees.

Institutions must state if fees that may be assessed against an account are tied to other accounts at the institution. For example, if an institution ties the fees payable on a NOW account to balances held in the NOW account and a savings account, the NOW account disclosures must state that fact and explain how the fee is determined.

An institution must specify the categories of transactions for which an overdraft fee may be imposed. For example, it is sufficient to state that the fee applies to overdrafts “created by check, in-person withdrawal, ATM withdrawal, or other electronic means.” However, it is insufficient to state that a fee applies “for overdraft items.”

Transaction Limitations (§230.4(b)(5))

An institution must disclose any limitations on the number or dollar amount of withdrawals or deposits. Examples of such limitations include

- Limits on the number of checks that may be written on an account within a given time period,
- Limits on withdrawals or deposits during the term of a time account, and
- Limits under Regulation D (Reserve Requirements on Depository Institutions) on the number of withdrawals permitted from money market deposit accounts by check to third parties each month.

Features of Time Accounts (§230.4(b)(6))

For time accounts, an institution must disclose information about the following features:

- Time requirements—An institution must state the maturity date and, for “callable” time accounts, the date or circumstances under which an institution may redeem a time account at the institution’s option.
- Early withdrawal penalties—An institution must state
 - a. If a penalty will or may be imposed for early withdrawal,
 - b. How it is calculated, and
 - c. The conditions for its assessment.

An institution may, but does not need to, use the term “penalty” to describe the loss of interest that consumers may incur for early withdrawal of funds from an account.

Examples of early withdrawal penalties include

- a. Monetary penalties, such as “\$10.00” or

- “seven days’ interest plus accrued but uncredited interest”;
 - b. Adverse changes to terms such as a lowering of the interest rate, annual percentage yield, or compounding frequency for funds remaining on deposit; and
 - c. Reclamation of bonuses.
- Withdrawal of interest prior to maturity—An institution must disclose the following, as applicable:
 - a. A statement that the annual percentage yield assumes interest remains on deposit until maturity and that a withdrawal will reduce earnings for accounts where
 - i. Compounding occurs during the term, and
 - ii. Interest may be withdrawn prior to maturity, or
 - b. A statement that interest cannot remain on deposit and that payout of interest is mandatory for accounts where
 - i. The stated maturity is greater than one year,
 - ii. Interest is not compounded on an annual or more frequent basis,
 - iii. Interest is required to be paid out at least annually, and
 - iv. The annual yield is determined in accordance with section E of Appendix A of Regulation DD.
 - Renewal policies—An institution must state whether an account will, or will not, renew automatically at maturity. If it will, the statement must indicate whether a grace period will be provided and, if so, must indicate the length of that period. For accounts that do not renew automatically, the statement must indicate whether interest will be paid after maturity if the consumer does not renew the account.

Bonuses (§230.4(b)(7))

For bonuses, an institution must disclose

- The amount or type of any bonus,
- When the bonus will be provided, and
- Any minimum balance and time requirements to obtain the bonus.

Subsequent Disclosures (§230.5)

Section 230.5 covers the required disclosures when the terms of an account change, resulting in a negative effect on the consumer. In addition, this

section covers the required disclosures for both time accounts that automatically renew and have a maturity longer than one month and time accounts that do not renew automatically and have a maturity of longer than one year.

Change in Terms (§230.5(a))

Advance Notice Required (§230.5(a)(1))

An institution must give advance notice to affected consumers of any change in a term that is required to be disclosed if the change may reduce the annual percentage yield or adversely affect the consumer. The notice must include the effective date of the change and must be mailed or delivered at least 30 calendar days before the effective date of the change.

No Notice Required (§230.5(a)(2))

An institution is not required to provide a notice for the following changes:

- For variable-rate accounts, any change in the interest rate and corresponding changes in the annual percentage yield;
- Any changes in fees assessed for check printing;
- For short-term time accounts, any changes in any term for accounts with maturities of one month or less;
- The imposition of account maintenance or activity fees that previously had been waived for a consumer when the consumer was employed by the depository institution, but who is no longer employed there; and
- The expiration of a one-year period that was part of a promotion, described in the account opening disclosures, for example, to “waive \$4.00 monthly service charges for one year.”

Notice for Time Accounts Longer Than One Month that Renew Automatically (§230.5(b))

For automatically renewing time accounts with maturity longer than one month, an institution must provide different disclosures depending on whether the maturity is longer than one year or whether the maturity is one year or less. All disclosures must be provided *before* maturity. The requirements are summarized below and in a chart in Attachment A of these procedures.

Maturities Longer Than One Year (§230.5(b)(1))

If the maturity is longer than one year, the institution

must provide the date the existing account matures and the required account disclosures for a new account, as described in section 230.4(b). If the interest rate and annual percentage yield that will be paid for the new account are unknown when disclosures are provided, the institution must state

- That those rates have not yet been determined,
- The date when they will be determined, and
- A telephone number for consumers to call to obtain the interest rate and the annual percentage yield for the new account.

Maturities Longer Than One Month but No More Than One Year (§230.5(b)(2))

If the maturity is longer than one month but less than or equal to one year, the institution must either

- Provide the disclosures required in section 230.5(b)(1) for accounts longer than one year or
- Disclose to the consumer
 - a. The date the existing account matures and the new maturity date if the account is renewed;
 - b. The interest rate and the annual percentage yield for the new account if they are known. If the rates have not yet been determined, the institution must disclose
 - i. The date when they will be determined, and
 - ii. A telephone number the consumer may call to obtain the interest rate and the annual percentage yield for the new account; and
 - c. Any difference in the terms of the new account as compared to the terms required to be disclosed for the existing account.

Delivery (§230.5(b))

All disclosures must be mailed or delivered at least 30 calendar days before maturity of the existing account. Alternatively, the disclosures may be mailed or delivered at least 20 calendar days before the end of the grace period on the existing account, provided a grace period of at least five calendar days is allowed.

Notice for Time Accounts Longer Than One Year that Do Not Renew Automatically (§230.5(c))

For time accounts with maturity longer than one year that do not renew automatically at maturity, an institution must disclose to consumers the maturity

date and whether interest will be paid after maturity. The disclosures must be mailed or delivered at least 10 calendar days before maturity of the existing account. The requirements are summarized in a chart in Attachment A of these procedures.

**Periodic Statement Disclosures
(§230.6)**

Regulation DD does not require institutions to provide periodic statements. However, for institutions that mail or deliver periodic statements, section 230.6 sets forth specific information that must be included in a periodic statement.

General Requirements (§230.6(a))

The statement must include the following disclosures:

*Annual Percentage Yield Earned
(§230.6(a)(1))*

An institution must state the *annual percentage yield earned* during the statement period, using that term, and calculated according to Appendix A of Regulation DD.

Amount of Interest (§230.6(a)(2))

An institution must state the dollar amount of interest earned during the statement period, whether or not it was credited. In disclosing interest earned for the period, an institution must use the term "interest" or terminology such as

- "Interest paid" to describe interest that has been credited or
- "Interest accrued" or "interest earned" to indicate that interest is not yet credited.

Fees Imposed (§230.6(a)(3))

An institution must report any fees that are required to be disclosed and that were debited to the account during the statement period, even if assessed for an earlier period. The fees must be itemized by type and dollar amounts.

When fees of the same type are imposed more than once in a statement period, an institution may itemize each fee separately or group the fees together and disclose a total dollar amount for all fees of that type. When fees of the same type are grouped together, the description must make clear that the dollar figure represents more than a single fee, for example, "total fees for checks written this period." The Staff Commentary provides examples of fees that may not be grouped together. For

example, an institution must separately identify whether a fee was for the payment of an overdraft or for returning the item unpaid.

Total overdraft and returned item fees, if any, must also be disclosed on the periodic statement. An institution must provide totals for fees for the payment of overdrafts and totals for items returned unpaid, both for the statement period and for the calendar year-to-date. See section 230.11(a)(1) and (2). (The institution may, however, continue to itemize overdraft and returned item fees.)

Length of Period (§230.6(a)(4))

An institution must indicate the total number of days in the statement period, or the beginning and ending dates of the period. Institutions providing the beginning and ending dates of the period must make clear whether both dates are included in the period.

Combined Statements (Staff Commentary §230.6(a)-3)

Institutions may provide information about an account (for example, a Money Market Deposit Account) on the periodic statement for another account (such as a Negotiable Order of Withdrawal account) without triggering the disclosures required by this section, as long as

- The information is limited to the account number, the type of account, or balance information, and
- The institution also provides a periodic statement complying with this section for each account.

Aggregate Fee Disclosure (§ 230.6(a)(5))

If an institution charges a consumer overdraft and returned item fees, it must disclose them on the consumer's periodic statement as required by section 230.11(a).

Special Rule for Average Daily Balance Method (§230.6(b))

Section 230.6 has special periodic statement requirements for an institution using the average daily balance method and calculating interest for a period other than the statement period. In these situations, an institution must calculate and disclose the annual percentage yield earned and amount of interest earned based on the time period used rather than the statement period. In addition, when disclosing the length of period requirement on the periodic statement, an institution must state this information for the statement period as well as the interest-calculation period. See Staff Commentary for examples.

Payment of Interest (§230.7)

Section 230.7 covers the payment of interest, including how to determine the balance on which to pay interest, the daily periodic rate to use, and the date interest begins to accrue.

Permissible Methods to Determine Balance to Calculate Interest (§230.7(a)(1))

An institution must calculate interest on the full amount of principal in an account for each day by using one of the two following methods:

- Daily balance method, where the daily periodic rate is applied to the full amount of principal in the account each day, or
- Average daily balance method, where a periodic rate is applied to the average daily balance in the account for the period. The average daily balance is determined by adding the full amount of principal in the account for each day of the period and dividing that figure by the number of days in the period.

The following are prohibited calculation methods:

- Ending-balance method, where interest is paid on the balance in the account at the end of the period;
- Low-balance method, where interest is paid based on the lowest balance in the account for any day in that period; and
- Investable-balance method, where interest is paid on a percentage of the balance, excluding the amount set aside for reserve requirements.

Use of 365-Day Basis (Staff Commentary §230.7(a)(1)-2)

Institutions may apply a daily periodic rate greater than 1/365 of the interest rate—such as 1/360 of the interest rate—as long as it is applied 365 days a year.

Leap Year (Staff Commentary §230.7(a)(1)-4)

Institutions may apply a daily rate of 1/366 or 1/365 of the interest rate for 366 days in a leap year, if the account will earn interest for February 29.

Maturity of Time Accounts (Staff Commentary §230.7(a)(1)-5)

Institutions are not required to pay interest after time accounts mature.

Dormant Accounts

(Staff Commentary §230.7(a)(1)-6)

Institutions must pay interest on funds in an account, even if inactivity or the infrequency of transactions would permit the institution to consider the account to be “inactive” or “dormant” (or similar status) as defined by state, other laws, or the account contract.

Permissible Methods to Determine Minimum Balance to Earn Interest (§230.7(a)(2))

If an institution requires a minimum balance to earn interest, it must use the same method to determine the required minimum balance as it uses to determine the balance on which interest is calculated. For example, if an institution requires a \$300 minimum balance that would be determined by using the average daily balance method, then it must calculate interest based on the average daily balance method. Further, an institution may use an additional method that is unequivocally beneficial to the consumer.

Balances Below the Minimum

(Staff Commentary §230.7(a)(2)-1 and 2)

An institution that requires a minimum balance may choose not to pay interest for days or period when the balance drops below the required minimum, whether they use the daily balance method or the average daily balance method to calculate interest.

Paying on Full Balance

(Staff Commentary §230.7(a)(2)-4)

Institutions must pay interest on the full balance in the account that meets the required minimum balance. For example, if \$300 is the minimum daily balance required to earn interest, and a consumer deposits \$500, the institution must pay the stated interest rate on the full \$500 and not just on \$200.

Minimum Balance Not Affecting Interest

(Staff Commentary §230.7(a)(2)-7)

Institutions may use the daily balance, average daily balance, or any other computation method to calculate minimum balance requirements that do not involve the payment of interest. For example, an institution may use any computation method to compute minimum balances for assessing fees.

Compounding and Crediting Policies (§230.7(b))

This section does not require institutions to com-

ound or credit interest at any particular frequency. Institutions choosing to compound interest may compound or credit interest annually, semi-annually, quarterly, monthly, daily, continuously, or on any other basis.

An institution may choose not to pay accrued interest if consumers close an account prior to the date accrued interest is credited, as long as the institution has disclosed this practice in the initial account disclosures.

Date Interest Begins to Accrue (§230.7(c))

Interest shall begin to accrue not later than the business day specified for interest-bearing accounts in section 606 of the Expedited Funds Availability Act, which states

... interest shall accrue on funds deposited in an interest-bearing account at a depository institution beginning not later than the business day on which the depository institution receives provisional credit for such funds.

Interest shall accrue until the day funds are withdrawn.

Advertising (§230.8)

Section 230.8 contains account advertising requirements, including overall general rules and rules for special account features. In addition, the section describes advertising involving certain types of media and in-house posters that are exempt from Regulation DD's advertising requirements.

General Advertising Rules (§230.8(a) and (b))

Misleading or Inaccurate Advertising (§230.8(a))

An institution may not advertise in a way that is misleading or inaccurate or misrepresents its deposit contract. In addition, an advertisement may not use the word “profit” in referring to interest paid on an account.

An institution's advertisement may not refer to or describe an account as “free” or “no cost” (or contain a similar term such as “fees waived”) if a maintenance or activity fee may be imposed on the account. Examples of such maintenance or activity fees include

- Any fee imposed when a minimum balance requirement is not met, or when consumers exceed a specified number of transactions;
- Transaction and service fees that consumers

reasonably expect to be imposed on a regular basis;

- A flat fee, such as a monthly service fee; and
- Fees imposed to deposit, withdraw, or transfer funds, including per-check or per-transaction charges (for example, 25 cents for each withdrawal, whether by check or in person).

Examples of fees that are not maintenance or activity fees include

- Fees not required to be disclosed under section 230.4(b)(4),
- Check-printing fees,
- Balance-inquiry fees,
- Stop-payment fees and fees associated with checks returned unpaid,
- Fees assessed against a dormant account, and
- Fees for ATM or electronic transfer services (such as preauthorized transfers or home banking services) not required to obtain an account.

If an account (or a specific account service) is free only for a limited period of time (for example, for one year following the account opening) the account (or service) may be advertised as free if the time period is also stated.

If an electronic advertisement (such as an advertisement appearing on an Internet website) displays a triggering term (such as a bonus or annual percentage yield), described elsewhere in section 230.8, the advertisement must clearly refer the consumer to the location where the additional required information begins. For example, an advertisement that includes a bonus or annual percentage yield may be accompanied by a link that directly takes the consumer to the additional information. As discussed in section 230.3(a), electronic advertising disclosures may be provided to the consumer in electronic form without regard to the consumer consent or other provisions of the E-Sign Act.

The Staff Commentary provides the following examples of advertisements that would ordinarily be misleading, inaccurate, or misrepresent the deposit contract:

- Representing an overdraft service as a “line of credit,” unless the service is subject to the Board’s Regulation Z, 12 CFR 226.
- Representing that the institution will honor all checks or authorize payment of all transactions that overdraw an account, with or without a specified dollar limit, when the institution retains discretion at any time not to honor checks or authorize transactions.
- Representing that consumers with an overdrawn

account are allowed to maintain a negative balance when the terms of the account’s overdraft service require consumers promptly to return the deposit account to a positive balance.

- Describing an institution’s overdraft service solely as protection against bounced checks when the institution also permits overdrafts for a fee for overdrawing accounts by other means, such as ATM withdrawals, debit card transactions, or other electronic fund transfers.
- Advertising an account-related service for which the institution charges a fee in an advertisement that also uses the word “free” or “no cost” (or a similar term) to describe the account, unless the advertisement clearly and conspicuously indicates that there is a cost associated with the service. If the fee is a maintenance or activity fee under section 230.8(a)(2), however, an advertisement may not describe the account as “free” or “no cost” (or contain a similar term) even if the fee is disclosed in the advertisement.

Advertising Rate Information (§230.8(b))

When an institution states a rate of return in an advertisement,

- It must state the rate as an “annual percentage yield,” using that term;
- If the advertisement uses the abbreviation “APY,” the term “annual percentage yield” must be stated at least once in the advertisement;
- If the advertisement uses the term “interest rate,” it must use the term in conjunction with, but not more conspicuously than, the related annual percentage yield;
- It may not state any other rate except “annual percentage yield” or “interest rate;” and
- It must round the annual percentage yield, the annual percentage yield earned, and the interest rate to the nearest one-hundredth of one percentage point (.01 percent) and express them to two decimal places.

An advertisement for a tiered-rate account that states an annual percentage yield must also state the annual percentage yield for each tier, along with corresponding minimum balance requirements.

An advertisement for a stepped-rate account that states an interest rate must state all the interest rates and the time period that each rate is in effect.

Required Advertising for Special Account Features (§230.8(c))

If an institution advertises an annual percentage yield for a product and the product includes one of the features listed in sections 230.8(c)(1)-(6), then

the institution must clearly and conspicuously disclose the information outlined in sections 230.8(c)(1)-(6) as noted below. However, these requirements do not necessarily apply if the situation falls under the exemptions of section 230.8(e).

Variable Rates (§230.8(c)(1))

For variable-rate accounts, the advertisement must state that the rate may change after the account is opened.

Time Annual Percentage Yield (APY) Is Offered (§230.8(c)(2))

The advertisement must include the period of time during which the annual percentage yield will be offered. Alternatively, the advertisement may state that the annual percentage yield is accurate as of a specified date. The date must be recent in relation to the publication or media broadcast used for the advertisement, taking into account the particular circumstances or production deadlines involved. An advertisement may refer to the annual percentage yield as being accurate as of the date of publication, if the date is on the publication itself.

Minimum Balance (§230.8(c)(3))

For accounts that have a required minimum balance, the advertisement must state the minimum balance required to obtain the advertised annual percentage yield. For tiered-rate accounts, the advertisement must state the minimum balance required for each tier in close proximity and, with equal prominence to, the applicable annual percentage yield.

Minimum Opening Deposit (§230.8(c)(4))

For an account that requires a minimum deposit to open the account, the advertisement must state the minimum deposit required to open the account, if it is greater than the minimum balance necessary to obtain the advertised annual percentage yield.

Effect of Fees (§230.8(c)(5))

An advertisement must state that fees could reduce the earnings on the account. This requirement only applies to maintenance or activity fees.

Features of Time Accounts (§230.8(c)(6))

For time accounts, the advertisement must include

- Term of the account;
- Early withdrawal penalties—a statement that a

penalty will or may be imposed for early withdrawal; and

- Required interest payouts—a statement that interest cannot remain on deposit and that payout of interest is mandatory for noncompounding time accounts with the following features:
 - a. The stated maturity is greater than one year,
 - b. Interest is not compounded on an annual or more frequent basis,
 - c. Interest is required to be paid out at least annually, and
 - d. The annual percentage yield is determined in accordance with section E of Appendix A of Regulation DD.

Bonuses (§230.8(d))

If an institution states a bonus in an advertisement, the advertisement must state clearly and conspicuously the following information, if applicable to the advertised product:

- “Annual percentage yield,” using that term;
- Time requirement to obtain the bonus;
- Minimum balance required to obtain the bonus;
- Minimum balance required to open the account, if it is greater than the minimum balance necessary to obtain the bonus; and
- Time when the bonus will be provided.

However, these requirements do not necessarily apply if the situation falls under the exemptions of section 230.8(e). In addition, general statements such as “bonus checking” or “get a bonus when you open a checking account” do not trigger the bonus disclosures.

Exemption for Certain Advertisements (§230.8(e))

Section 230.8(e) exempts certain types of media and certain indoor signs from some of the section’s advertising rules.

Media Exemptions (§230.8(e)(1))

If an institution advertises through one of the following media, the advertisement does not need to include information required under certain section 230.8 rules, as outlined below:

- Exempted Media—
 - a. Broadcast or electronic media, such as television or radio. However, the exemption does not extend to Internet and e-mail advertisements.

- b. Outdoor media, such as billboards.
 - c. Telephone response machines. However, solicitations for a tiered-rate account made through telephone-response machines must provide the annual percentage yields and the balance requirements applicable to each tier.
- Exempted Advertising Requirements—
- a. Information required for special account features involving variable rates, time an annual percentage yield is offered, minimum opening deposit, effect of fees, and early withdrawal penalties for time accounts.
 - b. When bonuses are advertised, information required related to a minimum balance to open an account (if it is greater than the minimum balance necessary to obtain the bonus) and related to when a time the bonus will be provided.

Indoor Signs (§230.8(e)(2))

If an institution posts account information on signs inside its premises (or the premises of a deposit broker), the postings are exempt from the advertising requirements for

- Permissible rates,
- When additional disclosures are required,
- Bonuses, and
- Certain media exemption.

If a sign, falling under this exemption, states a rate of return, it must

- State the rate as an “annual percentage yield,” using that term or the term “APY.” The sign must not state any other rate, although the related interest rate may be stated.
- Contain a statement advising consumers to contact an employee for further information about applicable fees and terms.

Indoor signs include advertisements displayed on computer screens, banners, preprinted posters, and chalk or peg boards. Any advertisement inside the premises that can be retained by a consumer (such as a brochure or a printout from a computer) is not an indoor sign.

Additional Disclosures in Connection with the Payment of Overdrafts (§230.8(f))

In addition to the general requirement that advertisements not be misleading, an institution that promotes the payment of overdrafts in an advertisement must also include in the advertisement the disclosures required under section 230.11(b).

Record Retention (§230.9(c))

Section 230.9(c) covers the record retention requirements in order for an institution to demonstrate compliance with Regulation DD, including rate information, advertising, and providing disclosures to consumers at the appropriate time (including upon a consumer's request).

Timing

An institution must retain records that evidence compliance for a minimum of two years after the date that disclosures are required to be made or an action is required to be taken. If required by its supervising agency, an institution may need to retain records for a longer time period.

Evidence of Required Actions

An institution may demonstrate its compliance by

- Establishing and maintaining procedures for paying interest and providing timely disclosures, and
- Retaining sample disclosures for each type of account offered to consumers such as account-opening disclosures, copies of advertisements, and change-in-term notices; and information regarding the interest rates and annual percentage yields offered.

Methods of Retaining Evidence

An institution must be able to reconstruct the required disclosures and other required actions, but does not need to maintain hard copies of disclosures and other records. It may keep records evidencing compliance in microfilm, microfiche, or other methods that reproduce records accurately (including computer files).

Payment of Interest

An institution must retain sufficient rate and balance information to permit the verification of interest paid on an account, including the payment of interest on the full principal balance.

Section 230.10—[Reserved]

Additional Disclosure Requirements for Overdraft Services (§230.11)

Section 230.11 contains periodic statement and advertising requirements for certain discretionary overdraft services. The requirements address concerns about the uniformity and adequacy of information provided to consumers when they

overdraw their deposit accounts. Specifically, they address certain types of services—sometimes referred to as “bounced-check protection” or “courtesy overdraft protection”—which institutions offer to pay consumers’ checks and other items when there are insufficient funds in the account. The requirements apply to all depository institutions, regardless of whether they promote their overdraft services.

Periodic Statement Disclosures (\$230.11(a))

Disclosure of Total Fees (\$230.11(a)(1))

The institution must disclose on its periodic statements (if it provides periodic statements) separate totals for the statement period and for the calendar year to date for

- The total dollar amount for all fees or charges imposed on the account for paying checks or other items when there are insufficient or unavailable funds and the account becomes overdrawn, using the term “Total Overdraft Fees” (the requirement to use the term “Total Overdraft Fees” is effective October 1, 2010), and
- The total dollar amount for all fees or charges imposed on the account for returning items unpaid.

The aggregate fee disclosures must be placed in close proximity to the disclosure of any fee(s) that may be imposed in connection with the account and must use a substantially similar format as shown below (see Appendix B of the regulation). The table must contain lines (or similar markings such as asterisks) inside the table to divide the columns and rows.

	Total for this period	Total year-to-date
Total Overdraft Fees	\$60.00	\$150.00
Total Returned Item Fees	0.00	30.00

The total dollar amount for paying overdrafts includes per-item fees as well as interest charges, daily or other periodic fees, or fees charged for maintaining an account in overdraft status, whether the overdraft is by check, debit card transactions, or by other transaction type. It also includes fees charged when there are insufficient funds because previously deposited funds are subject to a hold or are uncollected. It does not include fees for transferring funds from another account of the consumer to avoid an overdraft, or fees charged under a service subject to Regulation Z, 12 CFR 226.

The total dollar amount for all fees for returning items unpaid must include all fees charged to the

account for dishonoring or returning checks or other items drawn on the account. The institution must disclose separate totals for the statement period and for the calendar year-to-date. Fees imposed when deposited items are returned are not included. Institutions may use terminology such as “returned item fee” or “NSF fee” to describe fees for returning items unpaid.

In the case of waived fees, an institution may provide a statement for the current period reflecting that fees imposed during a previous period were waived and credited to the account. Institutions may, but are not required to, reflect the adjustment in the total for the calendar year-to-date and in the applicable statement period. For example, if an institution assesses a fee in January and refunds the fee in February, the institution could disclose a year-to-date total reflecting the amount credited, but it should not affect the total disclosed for the February statement period, because the fee was not assessed in the February statement period. If an institution assesses and then waives and credits a fee within the same cycle, the institution may, at its option, reflect the adjustment in the total disclosed for fees imposed during the current statement period and for the total for the calendar year-to-date. Thus, if the institution assesses and waives the fee in the February statement period, the February fee total could reflect a total net of the waived fee.

The disclosures under this section must be included on periodic statements provided by an institution starting the first statement period that began after January 1, 2010. For example, if a consumer’s statement period typically closes on the 15th of each month, an institution must provide the disclosures required by this section on subsequent periodic statements for that consumer beginning with the statement reflecting the period from January 16, 2010, to February 15, 2010.

Advertising Disclosures for Overdraft Services (\$230.11(b))

Disclosures (\$230.11(b)(1))

Unless an exception in section 230.11(b)(2)-(4) applies, any advertisement promoting the payment of overdrafts must disclose in a clear and conspicuous manner all of the following:

- The fee(s) for the payment of each overdraft,
- The categories of transactions for which a fee may be imposed for paying an overdraft,
- The time period by which the consumer must repay or cover any overdraft, and
- The circumstances under which the institution will not pay an overdraft. It is sufficient to state, as

applicable, "Whether your overdrafts will be paid is discretionary and we reserve the right not to pay. For example, we typically do not pay overdrafts if your account is not in good standing, or you are not making regular deposits, or you have too many overdrafts."

Communications Not Subject to Additional Advertising Disclosures (§ 230.11(b)(2))

The advertising disclosure rules for overdraft services do not apply in the following circumstances:

- An advertisement promoting a service where the institution's payment of overdrafts would be agreed upon in writing and subject to Regulation Z (12 CFR 226).
- A communication by an institution about the payment of overdrafts in response to a consumer-initiated inquiry about deposit accounts or overdrafts. However, providing information about the payment of overdrafts in response to a balance inquiry made through an automated system, such as a telephone response machine, ATM, or an institution's Internet site, is not a response to a consumer-initiated inquiry that is exempt from the advertising disclosures.
- An advertisement made through broadcast or electronic media, such as television or radio. However, this exception does not apply to advertisements posted on an institution's Internet site, on an ATM screen, provided on telephone-response machines, or sent by electronic mail.
- An advertisement made on outdoor media, such as billboards.
- An ATM receipt.
- An in-person discussion with a consumer.
- Disclosures required by federal or other applicable law.
- Information included on a periodic statement or on a notice informing a consumer about a specific overdrawn item or the amount the account is overdrawn.
- A term in a deposit account agreement discussing the institution's right to pay overdrafts.
- A notice provided to a consumer, such as at an ATM, that completing a requested transaction may trigger a fee for overrawing an account, or a general notice that items overrawing an account may trigger a fee.
- Informational or educational materials concerning the payment of overdrafts if the materials do not specifically describe the institution's overdraft service.
- An opt-out or opt-in notice regarding the institu-

tion's payment of overdrafts or provision of discretionary overdraft services.

Exception for ATM Screens and Telephone Response Machines (§ 230.11(b)(3))

Any advertisement made on an ATM screen or using a telephone response machine is not required to include the following:

- The categories of transactions for which a fee may be imposed for paying an overdraft or
- The circumstances under which the institution will not pay an overdraft.

Exception for Indoor Signs (§ 230.11(b)(4))

The advertising requirement to disclose fees for the payment of each overdraft does not apply to advertisements for the payment of overdrafts on indoor signs, if the indoor sign contains a clear and conspicuous statement that

- Fees may apply and
- Consumers should contact an employee for further information about applicable fees and terms.

An indoor sign covered under this exception is one described in section 230.8(e)(2) and the accompanying Staff Commentary. In addition to the Staff Commentary's examples of advertisements that are not considered indoor signs, an ATM screen is not considered an indoor sign for purposes of the overdraft disclosure requirements.

Account Balance Disclosures (§ 230.11(c))

In general, Section 230.11(c) covers how an institution displays a consumer's account balance information on automated systems, such as an ATM, when the institution will advance additional funds to cover insufficient or unavailable funds in a consumer's account. Specifically, if an institution discloses balance information to a consumer through an automated system, the disclosed balance may not include additional amounts that the institution may provide to cover an item when there are insufficient or unavailable funds in the consumer's account. This requirement covers additional funds that an institution may provide under a service provided at the institution's own discretion, a service subject to Regulation Z (12 CFR 226), or a service to transfer funds from another account of the consumer. However, the institution may, at its option, disclose an additional, second account balance that would include funds provided by the institution, if the institution prominently states that any such second balance includes funds that the institution may provide to cover insufficient or

unavailable funds in the consumer's account and, if applicable, that additional funds are not available for all transactions.

Additional amounts that may be included in balance. The balance may, but need not, include funds that are deposited in the consumer's account, such as from a check, that are not yet made available for withdrawal in accordance with the funds availability rules under Regulation CC (12 CFR 229). In addition, the balance may, but need not, include funds that are held by the institution to satisfy a prior obligation of the consumer (for example, to cover a hold for an ATM or debit card transaction that has been authorized but for which the bank has not settled).

Retail sweep programs. When disclosing a transaction account balance, an institution is not required to exclude funds from the consumer's balance that may be transferred from another account pursuant to a retail sweep account. In a retail sweep program, an institution establishes two legally distinct subaccounts, a transaction subaccount and a savings subaccount. These two accounts together make up the consumer's account. Retail sweep account programs typically

- Comply with Regulation D,
- Prevent direct access by the consumer to the non-transaction subaccount that is part of the retail sweep program, and
- Document on the consumer's periodic statements the account balance as the combined balance in the subaccounts.

Disclosure of second balance. If an institution discloses additional balances that include funds that may be provided to cover an overdraft, the institution must prominently state that the additional balance(s) includes additional overdraft funds. The institution may not simply state, for instance, that the second balance is the consumer's "available balance," or contains "available funds." Rather, the institution should provide enough information to convey that the second balance includes funds that the institution may provide to cover insufficient or unavailable funds. For example, the institution may state that the balance includes "overdraft funds." Where a consumer has not opted into (or as

applicable, has opted out of) the institution's discretionary overdraft service, any additional balance disclosed should not include funds that otherwise might be available under that service. Where a consumer has not opted into (or as applicable, has opted out of) the institution's discretionary overdraft service for some, but not all transactions (e.g., the consumer has not opted into overdraft services for ATM and one-time debit card transactions), an institution that includes funds from its discretionary overdraft service in the balance should convey that the overdraft funds are not available for all transactions. For example, the institution could state that overdraft funds are not available for ATM and one-time debit card transactions. Similarly, if funds are not available for all transactions pursuant to a service subject to the Board's Regulation Z (12 CFR 226) or a service that transfers funds from another account, a second balance that includes such funds should also indicate this fact.

Automated systems. The balance disclosure requirement applies to any automated system through which the consumer requests a balance, including, but not limited to, a telephone response system, the institution's Internet site, or an ATM. The requirement applies whether the institution discloses a balance through an ATM owned or operated by the institution or through an ATM not owned or operated by the institution (including an ATM operated by a non-depository institution). If the balance is obtained at an ATM, the requirement also applies whether the balance is disclosed on the ATM screen or on a paper receipt.

Effect on State Laws (Regulation DD—Appendix C)

Regulation DD preempts state law requirements that are inconsistent with the requirements of the Truth in Savings Act (TISA) or Regulation DD. A state law is inconsistent if it contradicts the definitions, disclosure requirements, or interest-calculation methods outlined in the act or the regulation. The regulation also provides that interested parties may request the Board to determine whether a state law is inconsistent with the TISA.

Attachment A—Subsequent Notice Requirements for Time Accounts

Maturity	Automatically renewable (rollover)	Non-automatically renewable (non-rollover)
More than 1 year	<p><i>Timing</i></p> <p>(a) 30 calendar days before maturity, or (b) 20 calendar days before end of grace period, if a grace period is at least 5 calendar days</p> <p><i>Content</i></p> <p>(a) Date existing account matures (b) Disclosures for a new account (§ 230.4(b))</p> <p>If terms have not been determined, indicate this fact, state the date when they will be determined, and provide a telephone number to obtain the terms.</p> <p>(§ 230.5(b)(1))</p>	<p><i>Timing</i></p> <p>10 calendar days before maturity</p> <p><i>Content</i></p> <p>Maturity date, and whether or not interest will be paid after maturity (§ 230.5(c))</p>
More than 1 month and less than 1 year	<p><i>Timing</i></p> <p>(a) 30 calendar days before maturity, or (b) 20 calendar days before end of grace period, if a grace period is at least 5 calendar days</p> <p><i>Content</i></p> <p>(a) Disclosures required under § 230.5(b)(1), or (b) Date of maturities of existing and new account, any change in terms, and a difference in terms between new account and ones of existing account.</p> <p>If terms have not been determined, indicate this fact, state the date when they will be determined, and provide a telephone number to obtain the terms.</p> <p>(§ 230.5(b)(2))</p>	No subsequent notice required

Regulation DD

Examination Objectives and Procedures

EXAMINATION OBJECTIVES

1. To determine the institution's compliance with Regulation DD, including (a) the requirements to provide full account disclosures (for example, fee schedules) to consumers upon request, and (b) the requirements covering overdraft payment disclosures and advertising.
2. To assess the quality of the institution's compliance risk-management systems and its policies and procedures for implementing Regulation DD.
3. To determine the reliance that can be placed on the institution's internal controls and procedures for monitoring the institution's compliance with Regulation DD.
4. To direct corrective action when violations of law are identified, or when the institution's policies or internal controls are deficient.

EXAMINATION PROCEDURES

Management and Policy-Related Examination Procedures

1. Determine the types of deposit accounts offered by the institution to consumers (including accounts usually offered to commercial customers that may occasionally be offered to consumers) as well as the characteristics of each type of deposit account (for example, bonuses offered, minimum balances, balance-computation method, frequency of interest crediting, fixed or variable rates, fees imposed, and frequency of periodic statements).
2. Review relevant written policies and procedures, management's self-assessments, consumer complaints, and any compliance audit material including work papers and reports to determine whether
 - a. The scope of the audit addresses all provisions as applicable.
 - b. Management has taken corrective actions to follow up on previously identified deficiencies.
 - c. The testing includes samples covering all product types and decision centers.
 - d. The work performed is accurate.
 - e. Significant deficiencies and their causes are included in reports to management and to the board of directors, as appropriate.
3. Through discussions with management and review of available information, determine whether the institution's internal controls are adequate to ensure compliance with the Regulation DD area under review. Consider the following:
 - a. Organization charts
 - b. Process flowcharts
 - c. Policies and procedures
 - d. Account documentation
 - e. Checklists
 - f. Computer program documentation
4. Through a review of the institution's training materials, determine whether
 - a. The institution provides appropriate training to individuals responsible for Regulation DD compliance and operational procedures.
 - b. The training is comprehensive and covers the various aspects of Regulation DD that apply to the individual institution's product offerings and operations.
 - c. The training includes the timing requirements of section 230.4(a)(2) to provide disclosure information (for example, terms, conditions, and fees) to a consumer upon a request, whether or not the consumer is an existing or a prospective customer. Review whether the training instructs all employees, including branch employees, to provide such disclosures at the time of the request if the consumer makes the request in person or within 10 business days if the consumer is not present when making the request.
5. Determine the extent and adequacy of the institution's policies, procedures, and practices for ensuring compliance with the regulation. In particular, verify that
 - a. Account disclosure information is available to be provided to all consumers within the appropriate time frames. This requirement pertains to all consumer requesters whether or not the consumer is an existing customer or a prospective customer.
 - b. Advance notice is given for any changes in terms required to be disclosed under section 230.4 and that exceptions to the advance notice requirements are limited to those set forth in section 230.5(a)(2).

- c. If periodic statements are given, the statements disclose the required information, including the annual percentage yield earned, the amount of interest, fees imposed, and the statement's covered time period.
- d. The institution's methods of paying interest are permissible. Review the dates on which interest begins to accrue on deposits to accounts, and determine whether hold times comply with the Expedited Funds Availability Act.
- e. The institution's advertising policies are consistent with the requirements of the regulation, including advertising requirements for overdraft services.
- f. Evidence of compliance is retained for a minimum of two years after the date disclosures are required to be made or action is required to be taken.
- g. The periodic statements separately disclose the total fees and charges for payment of items that overdraw the account and for returning items unpaid. These disclosures must be provided for the statement period and the calendar year-to-date.

Transaction-Related Examination Procedures

If upon conclusion of the management and policy-related examination procedures, procedural weaknesses or other risks requiring further investigation are noted, conduct the transaction testing, as necessary, using the following examination procedures. Use examiner judgment in deciding how large each sample of deposit account disclosures, notices, and advertisements should be. The sample size should be increased until confidence is achieved that all aspects of the institution's activities and policies that are subject to the regulation are reviewed.

General Disclosure Requirements (12 CFR 230.3)

- 1. Determine whether disclosures are made clearly and conspicuously in writing and in a form the consumer may keep. (§ 230.3(a))
- 2. If the disclosures are combined with other account disclosures, determine whether it is clear which disclosures are applicable to the consumer's account. (§ 230.3(a))
- 3. If the institution provides consumer disclosures in electronic form, determine whether the institution has obtained the consumer's consent, where required, and complies with the other applicable provisions of the Electronic

Signatures in Global and National Commerce Act (E-Sign Act) (15 USC 7001 et seq.). (§ 230.3(a))

- 4. Determine whether the disclosures reflect the legal obligation of the account agreement between the consumer and the institution. (§ 230.3(b))
- 5. If disclosures are provided in a language other than English, verify whether the disclosures are available in English upon request. (§ 230.3(b))
- 6. Determine whether disclosures use consistent terminology when describing terms or features that are required to be disclosed. (Staff Commentary 230.3(a)-2)
- 7. Determine whether the institution substitutes disclosures required by Regulation E for disclosures required by Regulation DD. (§ 230.3(c))
- 8. Determine whether the institution provides required disclosures to at least one account holder if there are multiple holders. (§ 230.3(d))
- 9. Determine whether the institution's oral response to a consumer's inquiry about interest rates payable on accounts state the annual percentage yield (APY). If the institution chooses, it may also state the interest rate, but no other rate. (§ 230.3(e))
- 10. Determine whether the APY, the annual percentage yield earned (APYE), and the interest rate are rounded to the nearest one-hundredth of one percentage point (.01 percent).

NOTE: For account disclosures, the interest rate may be expressed to more than two decimal places. (§ 230.3(f)(1))

- 11. Determine whether the APYs and APYEs are not more than one-twentieth of one percentage point (.05 percent) above or below the APY (and APYE) as determined in accordance with Appendix A of Regulation DD. (§ 230.3(f)(2))

Account Disclosures (12 CFR 230.4)

Delivery of Account Disclosures

Account Opening

- 1. Determine whether account disclosures are provided to consumers before an account is opened or a service is provided, whichever is earlier. (§ 230.4(a)(1)(i))
 - a. If the consumer is not present when the account is opened or a service is provided (and has not already received the disclosures), the disclosures should be mailed or delivered no later than 10 business days after the account is opened or the service is provided, whichever is earlier.

(§ 230.4(a)(1)(i))

- b. If the consumer who is not present at the institution uses electronic means to open an account or request a service, the disclosures must be provided before the account is opened or the service is provided.
- (§ 230.4(a)(1)(ii))

Consumer Request

2. Determine whether full account disclosures, including complete fee schedules, are available to be provided to a consumer upon request. This requirement pertains to all consumer requests, whether or not the consumer is an existing customer or a prospective customer.
 - a. If the request is made in person, determine whether the disclosures are available to be provided upon request.
 - b. If the consumer is not present, the institution must mail or deliver the disclosures within a reasonable period of time after it receives the request (generally no more than 10 days). (§ 230.4(a)(2)(i))
3. Determine whether the institution chooses one of the following options when providing rate information: (§ 230.4(a)(2)(ii)(A))
 - a. Specifies an interest rate and APY that were offered within the most recent seven calendar days,
 - b. States that the rate and yield are accurate as of an identified date, or
 - c. Provides a telephone number that consumers may call to obtain current rate information.
4. For a time deposit account, the institution may state the maturity as a term rather than a date. (§ 230.4(a)(2)(ii)(B))

Content of Disclosures

Rate Information

5. Determine whether account disclosures include, as applicable,
 - a. The “annual percentage yield” and the “interest rate” using those terms, and
 - b. For fixed-rate accounts the period of time the interest rate will be in effect. (§ 230.4(b)(1)(i))
6. For variable-rate accounts, determine whether account disclosures include the following information: (§ 230.4(b)(1)(ii))
 - a. The fact that the interest rate and APY may change,

- b. How the interest rate is determined,
- c. The frequency with which the interest rate may change, and
- d. Any limitations on the amount the interest rate may change.

Compounding and Crediting

7. Determine whether account disclosures describe the frequency with which interest is compounded or credited. (§ 230.4(b)(2)(i))
8. If the consumer will forfeit interest if the consumer closes an account before accrued interest is credited, determine whether account disclosures include a statement that interest will not be paid in such cases. (§ 230.4(b)(2)(ii))

Balance Information

9. As applicable, determine whether account disclosures
 - a. Describe the minimum balance required to (§ 230.4(b)(3)(i))
 - i. Open an account,
 - ii. Avoid the imposition of a fee, or
 - iii. Obtain the APY disclosed.
 - b. Describe how the minimum balance requirement is determined to avoid the imposition of a fee or to obtain the APY disclosed. (§ 230.4(b)(3)(ii))
 - c. Explain the balance computation method (specified in section 230.7) used to calculate interest on the account. (§ 230.4(b)(3)(ii))
 - d. State when interest begins to accrue on noncash deposits (§ 230.4(b)(3)(iii))

Fees

10. Determine whether account disclosures state the amount of any fee that may be imposed in connection with the account (or an explanation of how the fee will be determined) and the conditions under which the fee may be imposed. (§ 230.4(b)(4))
 - a. Determine whether the institution has specified the categories of transactions for which an overdraft fee may be imposed. (Staff Commentary § 230.4(b)(4)-5)

Transaction Limitations

11. Determine whether the account disclosures state any limits on the number or dollar amount of withdrawals or deposits. (§ 230.4(b)(5))

Features of Time Accounts

12. For time accounts, determine whether account disclosures include, as applicable,

- a. The maturity date. (§ 230.4(b)(6)(i))
- b. A statement that a penalty will or may be imposed for early withdrawal, how it is calculated, and the conditions for its assessment. (§ 230.4(b)(6)(ii))
- c. If compounding occurs during the term and the interest may be withdrawn prior to maturity, a statement that the APY assumes interest remains on deposit until maturity and that a withdrawal will reduce earnings. (§ 230.4(b)(6)(iii))
- d. A statement that interest cannot remain on deposit and that payout of interest is mandatory for accounts (§ 230.4(b)(6)(iv))
 - i. With a stated maturity greater than one year,
 - ii. That do not compound interest on an annual or more frequent basis,
 - iii. That require interest payouts at least annually, and
 - iv. That disclose an APY determined in accordance with section E of Appendix A of Regulation DD.
- e. A statement of whether or not the account will renew automatically at maturity. (§ 230.4(b)(6)(v))
 - i. If it will renew automatically at maturity, a statement whether or not a grace period will be provided and, if so, the length of the grace period.
 - ii. If it will not renew automatically, a statement of whether interest will be paid after maturity if the consumer does not renew the account.

Bonuses

13. Determine whether the account disclosures state the amount or type of any bonus, when the bonus will be provided, and any minimum balance and time requirements to obtain the bonus. (§ 230.4(b)(7))

Subsequent Disclosures (12 CFR 230.5)

Change in Terms Notice

1. Determine whether the institution sends out advance change in terms notices to consumers of any change in a term, required to be disclosed under section 230.4(b), that may reduce the annual percentage yield (APY) or that otherwise adversely affects consumers. Verify that the notice (§ 230.5(a)(1))
 - a. Includes the effective date of the change, and
 - b. Is mailed or delivered at least 30 days before the effective date of the change.
2. Determine whether exceptions to the notice requirements are limited to (§ 230.5(a)(2))
 - a. Variable-rate changes
 - b. Check-printing fees
 - c. Short-term time accounts (one month or less)

Pre-Maturity Notices— Renewable Accounts

3. For time accounts with a maturity longer than one month and that renew automatically, determine whether the proper subsequent disclosures (§ 230.5(b))
 - a. Are mailed or delivered at least 30 days before maturity of the existing account. Alternatively, the disclosures may be mailed or delivered at least 20 calendar days before the end of the grace period on the existing account, if a grace period of at least five days is allowed. (§ 230.5(b))
 - b. For accounts with maturities of more than one year, include the following information (§ 230.5(b)(1)):
 - i. The account disclosures required in section 230.4(b) for new accounts
 - ii. The date the existing account matures
 - iii. If the interest rate and APY are not known, include the following:
 1. The fact that the rates are unknown
 2. The date that the rates will be determined
 3. A telephone number to call to obtain the rates that will be paid on the new account.

- c. For accounts with maturities of one year or less, include the following information (§ 230.5(b)(2)):
 - i. The account disclosures required in section 230.5(b)(1) for accounts with maturities of more than one year.
or
 - ii. The date the existing account matures and the new maturity date if the account is renewed, and
 - iii. If the rates are not known, include the following:
 1. The fact that the rates are unknown
 2. The date they will be determined
 3. A telephone number to call to obtain

- the rates that will be paid on the new account, and
- iv. The difference in the terms of the new account, as compared to the existing account.

Pre-Maturity Notices— Nonrenewable Accounts

4. For time accounts with a maturity longer than one year and that do not renew automatically, determine whether the institution (§230.5(c))
 - a. Discloses the maturity date
 - b. Discloses whether interest will be paid after maturity
 - c. Mails or delivers the disclosures at least 10 calendar days before maturity of the existing account.

Periodic Statement Disclosures (12 CFR 230.6)

1. If an institution mails or delivers a periodic statement, determine whether the statements include the following (§230.6(a)):
 - a. The “annual percentage yield earned” during the statement period, using that term and calculated in accordance to Appendix A of Regulation DD; (§230.6(a)(1))
 - b. The amount of interest earned during the statement period (§230.6(a)(2)); and
 - c. Any debited fees required to be disclosed under section 230.4(b)(4) itemized by dollar amount and type. (§230.6(a)(3))

NOTE: Except as required in section 230.11(a)(1) for overdraft payment fees, if fees of the same type are imposed more than once in a statement period, an institution may itemize fees separately or group them together and disclose a total dollar amount for all fees of the same type. Fees for paying overdrafts and for returning items unpaid are not fees of the same type and must be separately distinguished. (Staff Commentary §230.6(a)(3)-2(iv))

- d. The total number of days in the statement period, or the beginning and ending dates of the period. (§230.6(a)(4))
- e. If applicable, the total overdraft and returned item fees required to be disclosed by § 230.11(a). (§230.6(a)(5))
2. If the institution uses the average daily balance method and calculates interest for a period other than the statement period, determine whether the institution (§230.6(b))
 - a. Calculates and discloses the APY earned

and the amount of interest earned based on the other period rather than the statement period, and

- b. States the information required in section 230.6(a)(4), specifying the period length for the other period as well as for the statement period.

Payment of Interest (12 CFR 230.7)

1. Determine whether the institution calculates interest based on the full amount of principal in an account for each day by use of either the daily balance method or the average daily balance method. (§230.7(a)(1))
2. For deposit accounts that require a minimum balance to earn interest, determine whether the institution is using the same method to determine the minimum balance as it uses to determine the balance on which interest is calculated. (§230.7(a)(2))

NOTE: An institution may use an additional method that is unequivocally beneficial to the consumer. (§230.7(a)(2))

3. If an institution chooses not to pay accrued interest if the consumer closes an account prior to the date accrued interest is credited, determine whether the institution has disclosed this practice in the initial account disclosures. (Staff Commentary §230.7(b)-3)

NOTE: An institution is not required to compound or credit interest at any particular frequency but, if it does, it may compound or credit interest annually, semi-annually, quarterly, monthly, daily, continuously, or on any other basis. (§230.7(b) and Staff Commentary §230.7(b)-1)

4. Determine whether interest begins to accrue no later than the business day on which the depository institution receives provisional credit for the funds, in accordance with section 606 of the Expedited Funds Availability Act and the implementing Regulation CC, section 229.14. (§230.7(c))
5. Determine whether interest accrues until the day funds are withdrawn. (§230.7(c))

Advertising (12 CFR 230.8)

General

1. Determine the types of advertising the institution uses, including visual, oral, or print, that meet the regulatory definition of an advertisement.
2. Determine that all types of advertisements do not contain misleading or inaccurate statements, and do not misrepresent deposit contracts. (§230.8(a)(1))

3. Determine that advertisements of accounts do not
 - a. Refer to or describe an account as "free" or "no cost" (or contain a similar term) if any maintenance or activity fee is charged
 - b. Use the word profit to refer to interest paid on the account
 - c. Use the term "fees waived" if a maintenance or activity fee can be imposed. (§230.8(a)(2) and Staff Commentary §230.8(a)-5)
4. If an electronic advertisement displays a triggering term, determine whether the advertisement clearly refers the consumer to the location where the additional required information begins. (Staff Commentary §230.8(a)-9)
5. For institutions that promote the payment of overdrafts in an advertisement, determine whether the advertisement includes the disclosures required by section 230.11(b). (§230.8(f))

Permissible Advertisement Rates

6. For advertisements that state a rate of return, determine whether (§230.8(b))
 - a. The rate is stated as an "annual percentage yield" using that term and that no other rate is stated except "interest rate."
 - b. The advertisement uses the abbreviation "APY," the term "annual percentage yield" is stated at least once in the advertisement.
 - c. The advertisement states the interest rate, and uses the term "interest rate" in conjunction with, but not be more conspicuous than, the annual percentage yield to which it relates.
 - d. Rates are rounded to the nearest one-hundredth of one percentage point (.01 percent) and expressed to two decimal places.
7. For tiered-rate accounts, determine whether an annual percentage yield is stated for each tier, along with corresponding minimum balance requirements. (Staff Commentary §230.8(b)-1).
8. For stepped-rate accounts, determine whether all interest rates and the time period that each rate is in effect are stated. (Staff Commentary §230.8(b)-2)

Required Additional Disclosures

9. With the exception of broadcast, electronic, or outdoor media, telephone-response machines, and indoor signs, if the annual percentage yield is stated in the advertisement, determine whether it includes the following information, as applicable, clearly and conspicuously:

- a. For a variable rate account, that the rate may change after account opening. (§230.8(c)(1))
- b. The time period that the annual percentage yield will be offered, or a statement that it is accurate as of a specified date. (§230.8(c)(2))
- c. The minimum balance required to earn the advertised annual percentage yield. (§230.8(c)(3))
- d. For tiered accounts, the minimum balance required for each tier stated in close proximity and with equal prominence to the applicable APY, if applicable. (§230.8(c)(3))
- e. The minimum deposit to open the account, if it is greater than the minimum balance necessary to obtain the advertised annual percentage yield. (§230.8(c)(4))
- f. A statement that maintenance or activity fees could reduce the earnings on the account. (§230.8(c)(5) and Staff Commentary §230.8(c)(5)-1)
- g. For time accounts:
 - i. Term of the account. (§230.8(c)(6)(i))
 - ii. A statement that a penalty will or may be imposed for early withdrawal. (§230.8(c)(6)(ii))
 - iii. A statement that interest cannot remain on deposit and that payout of interest is mandatory for noncompounding time accounts with the following features: (§230.8(c)(6)(iii))
 1. Stated maturity greater than one year.
 2. Interest is not compounded annually or more frequently.
 3. Interest is required to be paid out at least annually.
 4. The APY is determined in accordance with section E of Appendix A of Regulation DD.

Bonuses

10. For advertisements that state a bonus (a premium, gift, award, or other consideration worth more than \$10), determine whether they also state
 - a. The "annual percentage yield," using that term; (§230.8(d)(1))
 - b. The time requirement to obtain the bonus; (§230.8(d)(2))
 - c. The minimum balance required to obtain the bonus; (§230.8(d)(3))

- d. The minimum balance required to open the account, if it is greater than the minimum balance required to obtain the bonus; and (§230.8(d)(4))
- e. When the bonus will be provided. (§230.8(d)(5))

Exemptions for Certain Advertisements

- 11. Advertisements made through broadcast, electronic, or outdoor media, and telephone-response machines are exempted from some of the Regulation DD advertising requirements and are only required to contain certain information. (This exemption does not apply to Internet or e-mail advertisements.) Determine whether advertisements made in these media contain the following information as applicable, clearly and conspicuously: (§230.8(e)(1) and Staff Commentary §230.8(e)(1)(i)-1)
 - a. The minimum balance required to earn the advertised annual percentage yield. For tiered accounts, the minimum balance required for each tier stated in close proximity and with equal prominence to the applicable APY, if applicable. (§230.8(c)(3))
 - b. For time accounts:
 - i. Term of the account. (§230.8(c)(6)(i))
 - ii. A statement that interest cannot remain on deposit and that payout of interest is mandatory for noncompounding time accounts with the following features: (§230.8(c)(6)(iii))
 - 1. Stated maturity greater than one year.
 - 2. Interest is not compounded annually or more frequently.
 - 3. Interest is required to be paid out at least annually.
 - 4. The APY is determined in accordance with section E of Appendix A of Regulation DD.
 - c. For advertisements that state a bonus (a premium, gift, award, or other consideration worth more than \$10):
 - i. The “annual percentage yield,” using that term. (§230.8(d)(1))
 - ii. The time requirement to obtain the bonus. (§230.8(d)(2))
 - iii. The minimum balance required to obtain the bonus. (§230.8(d)(3))
- 12. Indoor signs are exempted from most of the Regulation DD advertising requirements. Determine that indoor signs

- a. Do not
 - i. Contain misleading or inaccurate statements, and do not misrepresent deposit contracts; (§230.8(a)(1))
 - ii. Refer to or describe an account as “free” or “no cost” (or contain a similar term) if any maintenance or activity fee is charged; (§230.8(a))
 - iii. Use the word profit to refer to interest paid on the account; (§230.8(a)(2))
 - iv. Use the term “fees waived” if a maintenance or activity fee can be imposed. (Staff Commentary §230.8(a)-5)
- b. If a rate of return is stated, determine whether the indoor sign
 - i. States the rate as “annual percentage yield” or “APY.” No other rate may be stated except for the interest rate in conjunction with the APY to which it relates. (§230.8(b)(2)(i))
 - ii. Contains a statement advising consumers to contact an employee for further information about applicable fees and terms. (§230.8(e)(2)(ii))

Record Retention Requirements (12 CFR 230.9)

- 1. Determine whether the institution has maintained evidence of compliance with Regulation DD, including rate information, advertising, and the provision of consumer disclosures at the appropriate time (including upon a consumer’s request), for a minimum of two years after disclosures are required to be made or action is required to be taken. For example, review samples of advertising and disclosures, policies and procedures, and training activities, as appropriate. (§230.9(c))

Section 230.10—[Reserved]

Additional Disclosure Requirements for Overdraft Services (12 CFR 230.11)

Periodic Statement Disclosures

- 1. Determine whether the institution discloses on each periodic statement (if a statement is provided) separate totals, for both the statement period and for the calendar year-to-date, for the following: (§230.11(a)(1) and (a)(2))
 - a. The total amount for all fees or charges imposed on the account for paying checks or other items when there are insufficient or unavailable funds and the account becomes

- overdrawn, using the term "Total Overdraft Fees" (the requirement to use the term "Total Overdraft Fees" is effective October 1, 2010); (§ 230.11(a)(1)(i))
- b. The total amount for all fees or charges imposed on the account for returning items unpaid. (§ 230.11(a)(1)(ii))
 2. Determine if the aggregate fee disclosures are in a format that is substantially similar to the sample form in Appendix B of Regulation DD and that the disclosures are in close proximity to any fee identified in section 230.6(a)(3). (§ 230.11(a)(3)) NOTE: The table must contain lines (or similar markings such as asterisks) inside the table to divide the columns and rows.

Advertisement Requirements

3. Unless an exception under section 230.11(b)(2)-(4) applies, when an institution advertises the payment of overdrafts, determine whether the institution clearly and conspicuously discloses in advertisements
 - a. The fee(s) for the payment of each overdraft. (§ 230.11(b)(1)(i))
 - b. The categories of transactions for which a fee may be imposed for paying an overdraft. (§ 230.11(b)(1)(ii))

- c. The time period by which the consumer must repay or cover any overdraft. (§ 230.11(b)(1)(iii))
- d. The circumstances under which the institution will not pay an overdraft. (§ 230.11(b)(1)(iv))

Disclosure of Account Balances

4. If the institution discloses account balance information through automated systems, determine whether:
 - a. The balance excludes additional amounts that the institution may provide to cover items when there are insufficient or unavailable funds. (§ 230.11(c))
 - b. The institution, if it discloses at its option additional account balances that include additional amounts, prominently states that any such balance includes additional amounts and, if applicable, that those additional amounts are not available for all transactions. (§ 230.11(c))

NOTE: Regulation DD does not require an institution to exclude funds from the consumer's balance that may be transferred from another account pursuant to a retail sweep program. (Staff Commentary § 230.11(c)-2)

Regulation DD Examination Checklist

Section 230.3—General Disclosure Requirements

1. Does the institution make the required disclosures clearly and conspicuously in writing and in a form the consumer may keep? (§230.3(a))	Yes	No	NA
2. If the disclosures are combined with other account disclosures, is it clear which disclosures are applicable to the consumer's account? (§230.3(a))	Yes	No	NA
3. If the institution provides in electronic form disclosures to a consumer, does the institution obtain the consumer's consent, if required, and comply with the other applicable provisions of the Electronic Signatures in Global and National Commerce Act (E-Sign Act) (15 USC 7001 et seq.)? (§230.3(a))	Yes	No	NA
4. Do the disclosures reflect the terms of the legal obligation of the account agreement between the consumer and the institution? (§230.3(b))	Yes	No	NA
5. If the disclosures are provided in a language other than English, are disclosures also available in English upon request? (§230.3(b))	Yes	No	NA
6. Do the disclosures use consistent terminology when describing terms or features that are required to be disclosed? (Staff Commentary §230.3(a)-2)	Yes	No	NA
7. Does the institution substitute disclosures required by Regulation E for disclosures required by this regulation? (§230.3(c))	Yes	No	NA
8. Does the institution provide disclosures to at least one account holder if there are multiple holders? (§230.3(d))	Yes	No	NA
9. Do the institution's oral responses to a consumer's inquiry about interest rates payable on accounts state the annual percentage yield (APY)? If the institution chooses, it may state the interest rate, but no other rate. (§230.3(e))	Yes	No	NA
10. Are the APY, annual percentage yield earned (APYE), and the interest rate rounded to the nearest one-hundredth of one percentage point (.01%) and expressed to two decimal places? (§230.3(f)(1))	Yes	No	NA
a. For account disclosures, is the interest rate expressed to two or more decimal places? (§230.3(f)(1))	Yes	No	NA
11. Are the APY and APYE not more than one-twentieth of one percentage point (.05%) above or below the APY and APYE determined in accordance with Appendix A of Regulation DD? (§230.3(f)(2))	Yes	No	NA

Section 230.4—Account Disclosures

Delivery of Account Disclosures

Account Opening

1. Does the institution provide initial disclosures before an account is opened or a service provided, whichever is earlier? (§230.4(a)(1))	Yes	No	NA
a. If the consumer is not present when the account is open or a service is provided (and has not already received the disclosures), does the institution mail or deliver the disclosures no later than 10 business days after the account is opened or the service is provided, whichever is earlier? (§230.4(a)(1)(i))	Yes	No	NA
b. If the consumer who is not present at the institution uses electronic means to open an account or request a service, are the disclosures provided before the account is opened or the service is provided? (§230.4(a)(1)(ii))	Yes	No	NA

Consumer Request

- | | | | |
|---|-----|----|----|
| 2. Does the institution have full account disclosures, including complete fee schedules, available to be provided to consumers upon request? This requirement pertains to all consumer requests, whether or not the consumer is an existing customer or a prospective customer. (§230.4(a)(2)(i)) | Yes | No | NA |
| a. If the consumer makes the request in person, does the institution have disclosures available to be provided upon request? | Yes | No | NA |
| b. If the consumer who is not present at the institution makes a request, does the institution mail or deliver the account disclosures within a reasonable time after it receives the request (generally no more than 10 days)? (§230.4(a)(2)(i)) | Yes | No | NA |
| 3. In providing disclosures upon request, does the institution choose one of the following options when providing rate information: (§230.4(a)(2)(ii)) | | | |
| a. Specify an interest rate and APY that were offered within the most recent seven calendar days? (§230.4(a)(2)(ii)(A)) | Yes | No | NA |
| b. State that the rate and yield are accurate as of an identified date? (§230.4(a)(2)(ii)(A)) or | Yes | No | NA |
| c. Provide a telephone number that consumers may call to obtain current rate information? (§230.4(a)(2)(ii)(A)) | Yes | No | NA |
| 4. For a time deposit account, does the institution choose to state the maturity of the time account as a term rather than a date? (§230.4(a)(2)(ii)(B)) | Yes | No | NA |

Content of Disclosures*Rate Information*

- | | | | |
|---|-----|----|----|
| 5. Do account disclosures include, as applicable, (§230.4(b)) | | | |
| a. The “annual percentage yield” and interest rate, using those terms? (§230.4(b)(1)(i)) | Yes | No | NA |
| b. For fixed-rate accounts, the period of time the interest rate will be in effect? (§230.4(b)(1)(i)) | Yes | No | NA |
| 6. For variable-rate accounts, do account disclosures include the following information: (§230.4(b)(1)(ii)) | | | |
| a. The fact that the interest rate and APY may change? (§230.4(b)(1)(ii)(A)) | Yes | No | NA |
| b. How the interest rate is determined? (§230.4(b)(1)(ii)(B)) | Yes | No | NA |
| c. The frequency with which the interest rate may change? (§230.4(b)(1)(ii)(C)) and | Yes | No | NA |
| d. Any limitation on the amount the interest rate may change? (§230.4(b)(1)(ii)(D)) | Yes | No | NA |

Compounding and Crediting

- | | | | |
|--|-----|----|----|
| 7. Do the account disclosures describe the frequency with which interest is compounded and credited? (§230.4(b)(2)(i)) | Yes | No | NA |
| 8. If consumers will forfeit interest if they close the account before accrued interest is credited, do the account disclosures include a statement that interest will not be paid in such cases? (§230.4(b)(2)(ii)) | Yes | No | NA |

Balance Information

9. As applicable, do the account disclosures (§230.4(b)(3)(i))			
a. Describe the minimum balance required to			
• Open an account? (§230.4(b)(3)(i)(A))	Yes	No	NA
• Avoid the imposition of a fee? (§230.4(b)(3)(i)(B))	Yes	No	NA
• Obtain the APY disclosed? (§230.4(b)(3)(i)(C))	Yes	No	NA
b. Describe how the minimum balance requirement is determined to avoid the imposition of a fee or to obtain the APY disclosed? (§230.4(b)(3)(i))	Yes	No	NA
c. Explain the balance computation method used to calculate interest on the account? (§230.4(b)(3)(ii))	Yes	No	NA
d. State when interest begins to accrue on noncash deposits? (§230.4(b)(3)(iii))	Yes	No	NA

Fees

10. Do the account disclosures state the amount of any fee that may be imposed in connection with the account (or an explanation of how the fee will be determined) and the conditions under which the fee may be imposed? (§230.4(b)(4))			
a. Regardless of whether the institution promotes overdraft payment, does it disclose specific categories of transactions that may cause an overdraft fee to be imposed on the account holder? (Staff Commentary §230.4(b)(4)-5)	Yes	No	NA
	Yes	No	NA

Transaction Limitations

11. Do the account disclosures state any limits on the number or dollar amount of withdrawals or deposits? (§230.4(b)(5))			
	Yes	No	NA

Features of Time Accounts

12. For time accounts, do the account disclosures also include the following, as applicable: (§230.4(b)(6))			
a. The maturity date? (§230.4(b)(6)(i))	Yes	No	NA
b. A statement that a penalty will or may be imposed for early withdrawal, how it is calculated, and the conditions for its assessment? (§230.4(b)(6)(ii))	Yes	No	NA
c. If compounding occurs during the term and the interest may be withdrawn prior to maturity, a statement that the APY assumes that interest remains on deposit until maturity and that a withdrawal will reduce earnings? (§230.4(b)(6)(iii))	Yes	No	NA
d. A statement that interest cannot remain on deposit and that payout of interest is mandatory for accounts with the following features: (§230.4(b)(6)(iv))	Yes	No	NA
• With a stated maturity greater than one year	Yes	No	NA
• That do not compound interest on an annual or more frequent basis	Yes	No	NA
• That require interest payouts at least annually, and	Yes	No	NA
• That disclose an APY determined in accordance with section E of Appendix A of Regulation DD	Yes	No	NA
e. A statement of whether or not the account will renew automatically at maturity? (§230.4(b)(6)(iv))	Yes	No	NA

- If the account will renew automatically at maturity, a statement of whether or not a grace period is provided, and if so, the length of the grace period? Yes No NA
- If the account does not renew automatically, a statement of whether interest will be paid after maturity if the consumer does not renew the account? Yes No NA

Bonuses

13. Do account disclosures state the amount or type of any bonus, when the bonus will be provided, and any minimum balance and time requirements to obtain the bonus? (§230.4(b)(7)) Yes No NA

Section 230.5—Subsequent Disclosures**Change in Terms Notice**

1. Does the institution provide advance change in terms notices to consumers of any change to a term, required to be disclosed under section 230.4(b), that may reduce the annual percentage yield or that otherwise adversely affects the consumer? (§230.5(a)(1))
 - a. Does the notice include the effective date of the change? (§230.5(a)(1)) Yes No NA
 - b. Is the notice mailed or delivered at least 30 days before the effective date of the change? (§230.5(a)(1)) Yes No NA
2. Are exceptions to the notice requirements limited to the following: (§230.5(a)(2))
 - a. Variable-rate changes? (§230.5(a)(2)(i)) Yes No NA
 - b. Check-printing fees? (§230.5(a)(2)(ii)) Yes No NA
 - c. Short-term time accounts (one month or less)? (§230.5(a)(2)(iii)) Yes No NA

Pre-Maturity Notices—Renewable Accounts

3. For time accounts with maturities longer than one month and that automatically renew, does the institution (§230.5(b))
 - a. Mail or deliver subsequent disclosures at least 30 calendar days before maturity of existing account? (§230.5(b))

(Alternatively, if grace period of at least five calendar days is allowed, disclosures may be mailed or delivered at least 20 calendar days before the end of grace period).

 - b. For accounts with maturities longer than one year, include in the disclosures (§230.5(b)(1))
 - The account disclosures outlined in section 230.4(b) for the new account? Yes No NA
 - The date the existing account matures? Yes No NA
 - If the interest rate and APY for the new account have not been determined
 - (1) The fact that the rates have not yet been determined? Yes No NA
 - (2) The date that the rates will be determined? Yes No NA
 - (3) A telephone number to call for the interest rate and APY that will be paid on the new account? Yes No NA

c. For accounts with maturities of one year or less, include in the disclosures (\$230.5(b)(2))			
• The account disclosures required under section 230.5(b)(1) for accounts with maturities of more than one year? (\$230.5(b)(2)(i))	Yes	No	NA
or			
• The date the existing account matures and the new maturity date if the account is renewed? (\$230.5(b)(2)(ii)(A))	Yes	No	NA
• The interest rate and APY for the new account, if known? (\$230.5(b)(2)(ii)(B))	Yes	No	NA
• If the rates are not known, (\$230.5(b)(2)(ii)(B))			
(1) The fact that the rates have not yet been determined?	Yes	No	NA
(2) The date they will be determined?	Yes	No	NA
(3) A telephone number to call for the interest rate and APY that will be paid on the new account?	Yes	No	NA
• Any difference in the terms of the new account, compared to the existing account? (\$230.5(b)(2)(ii)(C))	Yes	No	NA

Pre-Maturity Notices—Nonrenewable Accounts

4. For time accounts with maturities longer than one year and that do not automatically renew, does the institution (\$230.5(c))			
a. Disclose the maturity date?	Yes	No	NA
b. Disclose whether interest will be paid after maturity?	Yes	No	NA
c. Mail or deliver the disclosures at least 10 calendar days before the maturity of the existing account?	Yes	No	NA

Section 230.6—Periodic Statement Disclosures

1. If an institution mails or delivers a periodic statement, do the statements include the following: (\$230.6(a))			
a. The “annual percentage yield earned” during the statement period, using that term and calculated in accordance to Appendix A of Regulation DD? (\$230.6(a)(1))	Yes	No	NA
b. The amount of interest earned during the statement period? (\$230.6(a)(2))	Yes	No	NA
c. Any debited fees required to be disclosed under section 230.4(b)(4), itemized by dollar amount and type? (\$230.6(a)(3))	Yes	No	NA
NOTE: Except as required in section 230.11(a)(1) for overdraft payment fees, if fees of the same type are imposed more than once in a statement period, an institution may itemize fees separately or group them together and disclose a total dollar amount for all fees of the same type. Fees for paying overdrafts and for returning items unpaid are not fees of the same type and must be separately distinguished.			
d. The total number of days in the statement period, or the beginning and ending dates of the period? (\$230.6(a)(4))	Yes	No	NA
2. If the institution uses the average daily balance method and calculates interest for a period other than the statement period, does the institution (\$230.6(b))			
a. Calculate and disclose the APYE and the amount of interest earned based on the other period rather than the statement period?	Yes	No	NA

- b. State the information required in section 230.6(a)(4), specifying the period length for the other period as well as for the statement period? Yes No NA

Section 230.7—Payment of Interest

1. Does the institution calculate interest on the full amount of principal in the account each day by use of either the daily balance method or the average daily balance method? (§230.7(a)(1)) Yes No NA
2. For deposit accounts that require a minimum balance to earn interest, does the institution use the same method to determine any minimum balance as it uses to determine the balance on which interest is calculated? Yes No NA
NOTE: An institution may use an additional method that is unequivocally beneficial to the consumer. (§230.7(a)(2))
3. If an institution chooses not to pay accrued interest if the consumer closes an account prior to the date accrued interest is credited, does the institution disclose this practice in the initial account disclosures? (Staff Commentary §230.7(b)-3) Yes No NA
NOTE: An institution is not required to compound or credit interest at any particular frequency but, if it does, it may compound or credit interest annually, semi-annually, quarterly, monthly, daily, continuously, or on any other basis. (§230.7(b) and Staff Commentary §230.7(b)-1)
4. Does interest begin to accrue no later than the business day specified for interest-bearing accounts in section 606 of the Expedited Funds Availability Act and implementing Regulation CC? (§230.7(c)) Yes No NA
5. Does interest accrue until the day the funds are withdrawn? (§230.7(c)) Yes No NA

Section 230.8—Advertising Requirements

General

1. Do the types of advertising that the institution uses, including visual, oral, or print, meet the regulatory definition of an advertisement? Yes No NA
2. Do the advertisements refrain from misleading or inaccurate statements, and from misrepresenting the institution's deposit contract? (§230.8(a)(1)) Yes No NA
3. Do the advertisements refrain from using (§230.8(a)(2) and Staff Commentary §230.8(a)-5)
 - a. The terms "free" or "no cost" (or similar term) if any maintenance or activity fee may be imposed? Yes No NA
 - b. The word "profit" when referring to interest paid on an account? Yes No NA
 - c. The term "fees waived" if a maintenance or activity fee can be imposed? Yes No NA
4. If an electronic advertisement displays a triggering term, does the advertisement clearly refer the consumer to the location where the additional required information begins? (Staff Commentary §230.8(a)-9) Yes No NA
5. For an institution that promotes the payment of overdrafts in an advertisement, does the advertisement include the disclosures required by section 230.11(b)? (§230.8(f)) Yes No NA

Permissible Advertisement Rates

6. If the institution advertises a rate of return, (§230.8(b))			
a. Is the rate stated as "annual percentage yield," using that term, and no other rate except "interest rate"?	Yes	No	NA
b. If the advertisement uses the abbreviation "APY," has the term "annual percentage yield" been stated at least once in the advertisement?	Yes	No	NA
c. If the advertisement states the interest rate, using that term, is it stated in conjunction with, but not more conspicuous than, the annual percentage yield to which it relates?	Yes	No	NA
d. Are the annual percentage yields and interest rates rounded to the nearest one-hundredth of one percentage point (.01%) and expressed to two decimal places?	Yes	No	NA
7. If the institution advertises tiered-rate accounts, does the advertisement state an annual percentage yield for each tier, along with corresponding minimum balance requirements? (Staff Commentary §230.8(b)-1)	Yes	No	NA
8. If the institution advertises stepped-rate accounts, does the advertisement state all the interest rates and the time period that each rate is in effect? (Staff Commentary §230.8(b)-2)	Yes	No	NA

Required Additional Disclosures

9. With the exception of broadcast, electronic, or outdoor media, telephone-response machines, and indoor signs, if the annual percentage yield is stated in the advertisement, is the following information, as applicable, stated clearly and conspicuously: (§230.8(c))			
a. For a variable rate account, that the rate may change after account opening? (§230.8(c)(1))	Yes	No	NA
b. The time period that the annual percentage yield will be offered, or a statement that it is accurate as of a specified date? (§230.8(c)(2))	Yes	No	NA
c. The minimum balance required to earn the advertised annual percentage yield? (§230.8(c)(3))	Yes	No	NA
d. For tiered-rate accounts, the minimum balance required for each tier stated in close proximity and with equal prominence to the applicable APY, if applicable? (§230.8(c)(3))	Yes	No	NA
e. The minimum deposit to open the account, if it is greater than the minimum balance necessary to obtain the advertised annual percentage yield? (§230.8(c)(4))	Yes	No	NA
f. A statement that maintenance or activity fees could reduce the earnings on the account? (§230.8(c)(5) and Staff Commentary §230.8(c)(5)-1)	Yes	No	NA
g. For time accounts, the following features: (§230.8(c)(6))			
• Term of the account? (§230.8(c)(6)(i))	Yes	No	NA
• A statement that a penalty will or may be imposed for early withdrawal? (§230.8(c)(6)(ii))	Yes	No	NA
• A statement that interest cannot remain on deposit and that payout of interest is mandatory for noncompounding time accounts with the following features: (§230.8(c)(6)(iii))	Yes	No	NA
(1) A stated maturity greater than one year	Yes	No	NA
(2) Interest is not compounded on an annual or more frequent basis	Yes	No	NA
(3) Interest is required to be paid out at least annually, and	Yes	No	NA

(4) The APY is determined in accordance with section E of Appendix A.

Bonuses

10. Unless an exception applies in section 230.8(e), if a bonus is stated in an advertisement, does the advertisement state the following information, as applicable, clearly and conspicuously: (§230.8(d))
- | | | | |
|---|-----|----|----|
| a. The “annual percentage yield,” using that term? (§230.8(d)(1)) | Yes | No | NA |
| b. The time requirement to obtain the bonus? (§230.8(d)(2)) | Yes | No | NA |
| c. The minimum balance required to obtain the bonus? (§230.8(d)(3)) | Yes | No | NA |
| d. The minimum balance required to open the account, if it is greater than the minimum balance necessary to obtain the bonus)? (§230.8(d)(4)) | Yes | No | NA |
| e. When the bonus will be provided? (§230.8(d)(5)) | Yes | No | NA |

Exemptions for Certain Advertisements

11. Do advertisements made through broadcast, electronic, or outdoor media, and telephone-response machines contain the following information, as applicable, clearly and conspicuously: (§230.8(e)(1) and Staff Commentary §230.8(e)(1)(i)-1)
- | | | | |
|--|-----|----|----|
| a. The minimum balance required to earn the advertised annual percentage yield? For tiered accounts, the minimum balance required for each tier stated in close proximity and with equal prominence to the applicable APY, if applicable? (§230.8(c)(3)) | Yes | No | NA |
| b. For time accounts: | | | |
| • Term of the account? (§230.8(c)(6)(i)) | Yes | No | NA |
| • A statement that interest cannot remain on deposit and that payout of interest is mandatory for noncompounding time accounts with the following features: (§230.8(c)(6)(iii)) | Yes | No | NA |
| (1) A stated maturity greater than one year | Yes | No | NA |
| (2) Interest is not compounded on an annual or more frequent basis | Yes | No | NA |
| (3) Interest is required to be paid out at least annually, and | Yes | No | NA |
| (4) The APY is determined in accordance with section E of Appendix A of Regulation DD. | Yes | No | NA |
| c. If an advertisement states a bonus, | | | |
| • The “annual percentage yield,” using that term? (§230.8(d)(1)) | Yes | No | NA |
| • The time requirement to obtain the bonus? (§230.8(d)(2)) | Yes | No | NA |
| • The minimum balance required to obtain the bonus? (§230.8(d)(3)) | Yes | No | NA |
12. Do indoor signs
- | | | | |
|---|-----|----|----|
| a. Refrain from | | | |
| • Containing misleading or inaccurate statements, and misrepresenting deposit contracts? (§230.8(a)(1)) | Yes | No | NA |
| • Referring to or describing an account as “free” or “no cost” (or contain a similar term) if any maintenance or activity fee is charged? | Yes | No | NA |
| • Using the word “profit” to refer to interest paid on the account? | Yes | No | NA |
| • Using the term “fees waived” if a maintenance or activity fee can be imposed? (§230.8(a)(2) and Staff Commentary §230.8(a)-5) | Yes | No | NA |

b. If a rate of return is stated,			
• State the rate as “annual percentage yield” or “APY”? No other rate may be stated except for the interest rate in conjunction with the APY to which it relates.	Yes	No	NA
• Contain a statement advising consumers to contact an employee for further information about applicable fees and terms? (§230.8(e)(2))	Yes	No	NA

Section 230.9—Record Retention Requirements

1. Has the institution retained evidence of compliance with Regulation DD, including rate information, advertising, and the provision of consumer disclosures at the appropriate time (including upon a consumer's request), for a minimum of two years after disclosures are required to be made or action is required to be taken? For example, review samples of advertising and disclosures, policies and procedures, and training activities, as appropriate. (§230.9(c))	Yes	No	NA
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Section 230.10—RESERVED

Section 230.11—Overdraft Payment Disclosure and Advertising Requirements

Periodic Statement Disclosures

1. Does the institution disclose on each periodic statement (if it provides a statement, and if a consumer is charged such fees) separate totals, for both the statement period and the calendar year-to-date, for the following: (§230.11(a)(1) and (2))	Yes	No	NA
a. The total amount of fees and charges imposed for paying checks or other items when there are insufficient or unavailable funds and the account becomes overdrawn, using the term “Total Overdraft Fees”? (§230.11(a)(1)(i)) (NOTE: The requirement to use the term “Total Overdraft Fees” is effective October 1, 2010.)	Yes	No	NA
and			
b. The total amount of fees imposed on an account for returning items unpaid? (§230.11(a)(1)(ii))	Yes	No	NA

2. Does the institution disclose the fees in close proximity to any fee identified in section 230.6(a)(3) that may be imposed in connection with the account and in a substantially similar format as found in Appendix B of Regulation DD? NOTE: The table must contain lines (or similar markings such as asterisks) inside the table to divide the columns and rows.

Yes	No	NA
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Advertisement Requirements

3. Unless an exception under section 230.11(b)(2)-(4) applies, when an institution advertises the payment of overdrafts, are the following disclosed clearly and conspicuously in the advertisement:			
a. The fee(s) for the payment of each overdraft? (§230.11(b)(1)(i))	Yes	No	NA
b. The categories of transactions for which a fee may be imposed for paying an overdraft? (§230.11(b)(1)(ii))	Yes	No	NA
c. The time period by which the consumer must repay or cover any overdraft? (§230.11(b)(1)(iii)) and	Yes	No	NA
d. The circumstances under which the institution will not pay an overdraft? (§230.11(b)(1)(iv))	Yes	No	NA

Disclosure of Account Balances

4. If the institution discloses account balance information to a consumer through an automated system, does:
- The balance exclude additional amounts that the institution may provide to cover an item when there are insufficient or unavailable funds in the consumer's account? (§ 230.11(c)) NOTE: The regulation does not require an institution to exclude funds from the consumer's balance that may be transferred from another account pursuant to a retail sweep program. (Staff Commentary (§ 230.11(c)-2))
 - The institution, if it discloses at its option additional account balances that include such additional amounts, prominently state that the balance includes such additional amounts, and if applicable, that the additional amounts are not available for all transactions? (§ 230.11(c))

Yes No NA

Yes No NA

Garnishment of Accounts Containing Federal Benefit Payments (31 CFR 212)

Background and Overview

Many consumers receive federal benefit payments that are protected under federal law from being accessed or “garnished” by creditors, other than the United States government and certain State agencies, through a garnishment order or similar written instruction issued by a court. Despite these protections, developments in debt collection practices and technology, including the direct deposit of benefits, have led to an increase in the freezing of accounts containing federal benefit payments by financial institutions that receive a garnishment order. As a result, the Department of the Treasury (Fiscal Service), the Social Security Administration, the Department of Veterans Affairs, the Railroad Retirement Board, and the Office of Personnel Management have jointly issued a rule¹ (interagency regulation or regulation) that a financial institution must follow when it receives a garnishment order against an account holder who receives certain federal benefit payments by direct deposit. The types of federal benefit payments covered by the interagency regulation are:

- Social Security benefits;
- Supplemental Security Income benefits;
- Veterans benefits;
- Federal Railroad retirement, unemployment and sickness benefits;
- Civil Service Retirement System benefits; and
- Federal Employee Retirement System benefits.

The federal banking agencies are responsible for enforcing compliance with this regulation.² Under the regulation, generally, financial institutions that receive a garnishment order are required to follow certain procedures, including the following: (1) determine whether any account held by the named account holder received exempt federal payments by direct deposit, (2) determine the sum of protected federal benefits deposited to each individual account during a two-month period, and (3) ensure that the account holder has access to an amount equal to that sum or to the current balance of such account(s), whichever is lower.

1. Final rule published in the *Federal Register* on May 29, 2013. Effective June 28, 2013. 78 FR at 32099. Interim final rule published in the *Federal Register* on February 23, 2011. Effective May 1, 2011. 76 FR at 9939.

2. The regulation specifically defines “federal banking agency” to include: the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the National Credit Union Administration. See 31 CFR 212.3.

When a financial institution receives a garnishment order, it must first determine whether the order was obtained by the United States or issued by a state child support enforcement agency.³ If so, the financial institution follows its customary procedures for handling the order since federal benefit payments can generally be accessed or garnished by such agencies.

If the garnishment order was not obtained by the United States or issued by a state child support enforcement agency, the financial institution must follow the interagency regulation to protect federal benefit payments directly deposited into a consumer’s account during a two-month “lookback” period. The interagency regulation contains provisions on the timing of an account review, the determination of the protected amount, notice to the account holder (including a model form) regarding the garnishment order, and record retention. In addition, the interagency regulation allows a financial institution to rely on the presence of certain ACH identifiers (i.e., character “XX” encoded in the appropriate positions of the “Company Entry Description” field and the number “2” in the “Originator Status Code” field of the Batch Header Record) to determine whether a direct deposit payment is a federal benefit payment for purposes of the regulation.

The financial institution must notify the account holder that the financial institution has received a garnishment order, if all of the following conditions are met: (1) a covered benefit agency deposited a benefit payment into an account during the lookback period, (2) the balance in the account on the date of account review was above zero dollars and the financial institution established a protected amount, and (3) there are funds in the account in excess of the protected amount. For an account containing a protected amount, the financial institution may not charge or collect a garnishment fee against the protected amount. The financial institution may charge or collect a garnishment fee against additional funds deposited to the account up to five business days after the account review date.

Scope (31 CFR 212.2)

The interagency regulation applies to financial

3. A state child support enforcement agency is the single and separate organizational unit in a state that has the responsibility for administering or supervising the state’s plan for child and spousal support pursuant to Title IV, Part D, of the Social Security Act, 42 U.S.C. 654. See 31 CFR 212.3.

institutions that hold accounts into which the following benefits have been **directly** deposited:

- (1) Social Security Administration
 - Social Security benefits
 - Supplemental Security Income benefits
- (2) Department of Veterans Affairs
 - Veterans benefits
- (3) Railroad Retirement Board
 - Federal Railroad retirement, unemployment, and sickness benefits
- (4) Office of Personnel Management
 - Civil Service Retirement System benefits
 - Federal Employee Retirement System benefits

Definitions (31 CFR 212.3)

Account means an account, including a master account or subaccount, at a financial institution to which an electronic payment may be directly routed.⁴

Account holder means a natural person against whom a garnishment order is issued and whose name appears in a financial institution's records as the direct or beneficial owner of an account.

Account review means the process of examining deposits in an account to determine if a benefit agency has deposited a benefit payment into the account during the lookback period.

Benefit agency means the Social Security Administration, the Department of Veterans Affairs, the Railroad Retirement Board, or the Office of Personnel Management.

Benefit payment means a federal benefit payment referred to in 31 CFR 212.2(b) paid by direct deposit to an account with the character "XX" encoded in positions 54 and 55 of the Company Entry Description field and the number "2" encoded in the Originator Status Code field of the Batch Header Record of the direct deposit entry.⁵

Freeze or account freeze means an action by a financial institution to seize, withhold, or preserve funds, or to otherwise prevent an account holder

from drawing on or transacting against funds in an account, in response to a garnishment order.

Garnish or garnishment means execution, levy, attachment, garnishment, or other legal process.

Garnishment fee means any service or legal processing fee, charged by a financial institution to an account holder, for processing a garnishment order or any associated withholding or release of funds.

Garnishment order or order means a writ, order, notice, summons, judgment, levy, or similar written instruction issued by a court, a state or state agency, a municipality or municipal corporation, or a state child support enforcement agency, including a lien arising by operation of law for overdue child support or an order to freeze the assets in an account, to effect a garnishment against a debtor.

Lookback period means the two-month period that (a) begins on the date preceding the date of account review and (b) ends on the corresponding date of the month two months earlier, or on the last date of the month two months earlier if the corresponding date does not exist.

For example, under this definition, the lookback period that begins on November 15 would end on September 15. On the other hand, the lookback period that begins on April 30 would end on February 28 (or 29 in a leap year), to reflect the fact that there are not 30 days in February.

Other examples illustrating the application of this definition are included in Appendix C of the interagency regulation.

Protected amount means the lesser of:

- (1) The sum of all benefit payments posted to an account between the close of business on the beginning date of the lookback period and the open of business on the ending date of the lookback period; or
- (2) The balance in an account when the account review is performed.⁶

Examples illustrating the application of this definition are included in Appendix C of the interagency regulation.

Initial Action upon Receipt of a Garnishment Order (31 CFR 212.4)

Within two business days after receiving a garnishment order, and prior to taking any other action related to the order, a financial institution must determine whether the order was obtained by the

4. An account does not include an account to which a benefit payment is subsequently transferred following its initial delivery by direct deposit to another account. See 76 FR at 9950. If a payment recipient is assigned a customer number that serves as a "prefix" for individual sub-accounts, the individual sub-account (and not the "master account") is subject to the account review and lookback. See 78 FR at 32100.

5. For more information, see the Treasury Department's "Guidelines for Garnishment of Accounts Containing Federal Benefit Payments" (www.fms.treas.gov/greenbook/guidelines_garnish0311.pdf).

6. The account balance includes intraday items such as ATM or cash withdrawals. The balance does not include any line of credit associated with the account. See 78 FR at 32101-32102.

United States or issued by a state child support enforcement agency.⁷ To make this determination, the financial institution may rely on a “Notice of Right to Garnish Federal Benefits” (see Appendix B of the interagency regulation). For such orders obtained by the United States or issued by a state child support enforcement agency, the financial institution should not follow the interagency regulation but instead should follow its customary procedures for handling a garnishment order.

For all other garnishment orders, the financial institution is required to follow the procedures in 31 CFR 212.5 and 212.6.

If a financial institution will not act on a garnishment order due to the operation of state law, the financial institution need not examine the order to determine if a Notice of Right to Garnish federal Benefits is attached or included or take any of the additional steps required under the rule.⁸

Account Review (31 CFR 212.5)

Timing of account review. After having been served a garnishment order issued against a debtor, a financial institution must perform an account review:

- (1) No later than two business days following receipt of both the garnishment order and sufficient information from the creditor to determine whether the debtor is an account holder; or
- (2) By a later date permitted by the creditor in situations where the financial institution is served a batch of a large number of orders. The date must be consistent with the terms of the orders, and the financial institution must maintain records on such batches and creditor permissions, consistent with 31 CFR 212.11(b).

No benefit payment deposited during lookback period. If the account review shows that a benefit agency did not deposit a benefit payment into the account during the lookback period, then the financial institution should follow its customary procedures for handling the garnishment order and not the procedures in 31 CFR 212.6.

Benefit payment deposited during lookback period. If the account review shows that a benefit

7. Financial institutions will not violate state law by utilizing the two-day period because the rule preempts any state requirement that an order be processed on the day of receipt. See 78 FR at 32104.

8. State law is not inconsistent with the interagency regulation if it protects benefit payments in an account from being frozen or garnished at a higher protected amount than required under the regulation. For further discussion on preemption of state law (31 CFR 212.9), see “Comments and Analysis” section in Part II of Supplementary Information of the final rule. See 78 FR at 32106-32107.

agency deposited a benefit payment into the account during the lookback period, then the financial institution must follow the procedures in 31 CFR 212.6.

Uniform application of account review. The financial institution must perform an account review without consideration for any other attributes of the account or the garnishment order, such as:

- (1) The presence of other funds, from whatever source, that may be commingled in the account with funds from a benefit payment;
- (2) The existence of a co-owner on the account;
- (3) The existence of benefit payments to multiple beneficiaries, and/or under multiple programs, deposited in the account;
- (4) The balance in the account, provided the balance is above zero dollars on the date of account review;
- (5) Instructions to the contrary in the order; or
- (6) The nature of the debt or obligation underlying the order.

Priority of account review. The financial institution must perform the account review prior to taking any other actions related to the garnishment order that may affect funds in the account.

Separate account reviews. The financial institution must perform an account review separately for each account in the name of an account holder against whom a garnishment order has been issued. In performing account reviews for multiple accounts in the name of one account holder, a financial institution must not trace the movement of funds between accounts by attempting to associate funds from a benefit payment deposited into one account with amounts subsequently transferred to another account.

Rules and Procedures to Protect Benefits (31 CFR 212.6)

If an account review shows that covered federal benefits have been directly deposited into an account during the lookback period, the financial institution must comply with the rules and procedures to protect federal benefits set forth in 31 CFR 212.6.

Protected amount. The financial institution must calculate and establish the protected amount for an account, ensuring that the account holder has full access to the protected amount.⁹ The financial

9. Where an account holder had debit card access to an account prior to the receipt of a garnishment order, the requirement to provide “full and customary” access to the protected amount means the account holder should have debit

institution may not freeze the protected amount in response to the garnishment order. Further, the account holder may not be required to assert any right of garnishment exemption prior to accessing the protected amount in the account.

Separate protected amounts. The financial institution must calculate and establish the protected amount separately for each account in the name of an account holder, consistent with the requirements in 31 CFR 212.5(f) to conduct distinct account reviews.

Funds in excess of the protected amount. For any funds in an account in excess of the protected amount, the financial institution must follow its customary procedures for handling garnishment orders, including the freezing of funds, provided they are consistent with paragraphs (f) and (g) of 31 CFR 212.6.

One-time account review process. The financial institution is only required to perform the account review one time after it receives a garnishment order. The financial institution should not repeat the account review or take any other action related to the order if the same order is subsequently served again upon the financial institution. However, if the financial institution is subsequently served a new or different garnishment order against the same account holder, the financial institution must perform a separate and new account review.¹⁰

No continuing or periodic garnishment responsibilities. The financial institution may not continually garnish amounts deposited or credited to the account following the date of account review. It also must take no action to freeze any funds subsequently deposited or credited, unless the institution is served with a new or different garnishment order.

Impermissible garnishment fee. The financial institution may not charge or collect a garnishment fee against a protected amount. The financial institution may charge or collect a garnishment fee up to five business days after the account review if funds other than a benefit payment are deposited to the account within this period, provided that the fee may not exceed the amount of the non-benefit deposited funds.

card access to that amount. See 78 FR at 32104. Also, the interagency regulation does not limit a federal credit union's right to exercise its statutory lien authority against the protected amount in a member's account. A lien may be enforced against an account when the member fails to satisfy an outstanding financial obligation due and payable to the federal credit union. 12 U.S.C. 1757(11) and 12 CFR 701.39.

10. A "new" garnishment order means the creditor has gone back to court and obtained a new order, as opposed to re-filing an order previously served (www.fms.treas.gov/greenbook/FAQs-May-12-trsy-ver1.pdf). A garnishment order that is re-issued after the return date, under a different execution number, would not constitute a "new" garnishment order.

Notice to the Account Holder (31 CFR 212.7)

A financial institution must send an account holder named in the garnishment order a notice if:

- (1) A covered federal benefit payment was directly deposited into an account during the lookback period;
- (2) The balance in the account on the date of account review was above zero dollars, and the financial institution established a protected amount; and
- (3) There are funds in the account in excess of the protected amount.

Notice content. The notice must contain the following information in readily understandable language:

- (1) The financial institution's receipt of an order against the account holder;
- (2) The date on which the order was served;
- (3) A succinct explanation of garnishment;
- (4) The financial institution's requirement under the interagency regulation to ensure that account balances up to the protected amount specified in 31 CFR 212.3 are protected and made available to the account holder if a benefit agency deposited a benefit payment into the account in the last two months;
- (5) The account subject to the order and the protected amount established by the financial institution;
- (6) The financial institution's requirement pursuant to state law to freeze other funds in the account to satisfy the order and the amount frozen, if applicable;
- (7) The amount of any garnishment fee charged to the account, consistent with 31 CFR 212.6;
- (8) A list of the federal benefit payments subject to this interagency regulation, as identified in 31 CFR 212.2(b);
- (9) The account holder's right to assert against the creditor that initiated the order a further garnishment exemption for amounts above the protected amount, by completing exemption claim forms, contacting the court of jurisdiction, or contacting the creditor, as customarily applicable for a given jurisdiction;
- (10) The account holder's right to consult an attorney or legal aid service in asserting against the creditor that initiated the order a further garnishment exemption for amounts above the protected amount; and

(11) The name of the creditor, and, if contact information is included in the order, means of contacting the creditor.

Optional notice content. The financial institution also may provide the account holder in readily understandable language any of the following information:

- (1) The means of contacting a local free attorney or legal aid service;
- (2) The means of contacting the financial institution; and
- (3) A disclaimer that the financial institution is not providing legal advice by sending the required notice to the account holder.

Amending notice content. The financial institution may also amend the content of the notice to integrate information about a state's garnishment rules and protections in order to avoid potential confusion or harmonize the notice with state requirements, or to provide more complete information about an account.

Notice delivery. The financial institution must issue the notice directly to the account holder or to a fiduciary who administers the account and receives communications on behalf of the account holder. Only information and documents pertaining to the garnishment order (including other notices or forms that may be required under state or local law) may be included in the communication.

Notice timing. The financial institution must send the notice to the account holder within three business days of the date of account review.

One notice for multiple accounts. The financial institution may issue one notice with information related to multiple accounts of an account holder.

Record Retention (31 CFR 212.11)

A financial institution must maintain records of account activity and actions taken in response to a garnishment order, sufficient to demonstrate compliance with this part, for a period of not less than two years from the date on which the financial institution receives the garnishment order.¹¹

Model Notice to Account Holder (31 CFR 212, Appendix A)

A financial institution may use the model notice found in Appendix A to the interagency regulation to meet the requirements of 31 CFR 212.7. Although use of the model notice is not required, a financial institution using it properly is deemed to be in compliance with 31 CFR 212.7.

11. The financial institution has discretion in deciding what documentation to retain. The appropriate documentation may vary depending on the circumstances of each situation. See 78 FR at 32107.

Garnishment of Accounts Containing Federal Benefit Payments (31 CFR 212)

Examination Procedures

Initial Action upon Receipt of a Garnishment Order (31 CFR 212.4)

- (1) Determine whether, prior to taking any action relating to a garnishment order, the financial institution reviewed the order within two business days of receiving the order to ascertain whether it was obtained by the United States or issued by a state child support enforcement agency.
 - (a) If the garnishment order was obtained by the United States or issued by a state child support enforcement agency as indicated by an attached or included Notice of Right to Garnish Federal Benefits, determine whether the financial institution followed its customary procedures to comply with the order.
 - (b) If the garnishment order is not accompanied by a Notice of Right to Garnish Federal Benefits, proceed with the remaining examination procedures to determine whether the institution followed the requirements of 31 CFR 212.5 and 212.6.

Account Review (31 CFR 212.5)

- (2) Determine whether the financial institution performed an account review:
 - (a) No later than two business days following receipt of both the garnishment order and sufficient information from the creditor to determine whether the debtor is an account holder;
or
 - (b) By a later date permitted by the creditor in situations where the financial institution is served a batch of a large number of orders. The date must be consistent with the terms of the orders and the financial institution must maintain records on such batches and creditor permissions consistent with 31 CFR 212.11(b).

Rules and Procedures to Protect Benefits (31 CFR 212.6)

- (3) If an account review shows that a covered benefit agency deposited a benefit payment into an account during the lookback period (i.e., the preceding two-month period as defined in 31 CFR 212.3), determine whether the financial institution has appropriately cal-

culated and established the protected amount, and has done this separately for each account in the name of the account holder, if applicable.

- (4) Determine that the account holder has full and customary access to the protected amount established after the account review.
- (5) If a garnishment fee has been assessed, determine that it was charged or collected up to five business days of the account review date and was not charged against a protected amount.
- (6) For any funds in an account in excess of the protected amount, determine whether the financial institution followed its customary procedures for handling garnishment orders, including the freezing of funds.
- (7) Determine whether the financial institution ceased to garnish amounts deposited or credited to the account following the date of account review.
- (8) Determine whether the financial institution performed one-time account review upon the first service of the order and only took action to freeze funds subsequently deposited or credited if the institution was served with a new or different garnishment order consistent with the interagency regulation.

Notice to the Account Holder (31 CFR 212.7)

- (9) If a covered benefit agency deposited a benefit payment into an account during the lookback period, the balance in the account on the date of account review was above zero dollars, the financial institution established a protected amount, and there are funds in the account in excess of the protected amount, determine whether the financial institution sent a notice to the account holder named in the garnishment order in readily understandable language within three business days of account review and included the following:
 - (a) The financial institution's receipt of an order against the account holder.
 - (b) The date on which the order was served.
 - (c) A succinct explanation of garnishment.
 - (d) The financial institution's requirement under the interagency regulation to ensure that account balances up to the protected

amount specified in 31 CFR 212.3 are protected and made available to the account holder if a benefit agency deposited a benefit payment into the account in the last two months.

- (e) Identification of the account subject to the order and notice of the protected amount established by the financial institution.
- (f) The financial institution's requirement pursuant to state law to freeze other funds in the account to satisfy the order and the amount frozen, if applicable.
- (g) The amount of any garnishment fee charged to the account, consistent with 31 CFR 212.6.
- (h) A list of the federal benefit payments subject to this interagency regulation, as identified in 31 CFR 212.2(b).
- (i) The account holder's right to assert against the creditor that initiated the order a further garnishment exemption for amounts above the protected amount, by completing exemption claim forms, contacting the court of jurisdiction, or contacting the creditor, as customarily applicable for a given jurisdiction.

(j) The account holder's right to consult an attorney or legal aid service in asserting against the creditor that initiated the order a further garnishment exemption for amounts above the protected amount.

(k) The name of the creditor, and, if contact information is included in the order, means of contacting the creditor.

A financial institution may also provide optional notice content or amend the notice content consistent with this section of the regulation.

A financial institution may use the model notice in Appendix A of the interagency regulation to meet the requirements of 31 CFR 212.7. Although use of the model notice is not required, a financial institution that uses it properly is deemed to be in compliance with this section.

Record Retention (31 CFR 212.11)

(10) Determine whether the financial institution maintains records of account activity and actions taken in response to a garnishment order for at least two years from the date on which it receives the garnishment order.

Garnishment of Accounts Containing Federal Benefit Payments (31 CFR 212)

Examination Checklist

Initial Action upon Receipt of a Garnishment Order (31 CFR 212.4)

1. Does the financial institution, within two business days after receiving a garnishment order, review a garnishment order before taking any other action with regard to the order to ascertain whether the order is obtained by the United States or issued by a state child support enforcement agency? Yes No NA
- If a garnishment order is obtained by the United States or issued by a state child support enforcement agency as indicated by an attached or included Notice of Right to Garnish Federal Benefits, does the financial institution follow its customary procedures to comply with the order? Yes No NA

If a garnishment order is not accompanied by a Notice of Right to Garnish Federal Benefits, proceed with the remaining examination procedures to determine whether the institution follows the requirements of 31 CFR 212.5 and 212.6.

Account Review (31 CFR 212.5)

2. Does the financial institution perform an account review:
- No later than two business days following receipt of both the garnishment order and sufficient information from the creditor to determine whether the debtor is an account holder; Yes No NA
- or
- By a later date permitted by the creditor in situations where the financial institution is served a batch of a large number of orders?
- NOTE: The date must be consistent with the terms of the orders, and the financial institution must maintain records on such batches and creditor permissions consistent with 31 CFR 212.11(b). Yes No NA

Rules and Procedures to Protect Benefits (31 CFR 212.6)

3. If an account review shows that a covered benefit agency deposited a benefit payment into an account during the lookback period (i.e., during the preceding two-month period as defined in 31 CFR 212.3), does the financial institution appropriately calculate and establish the protected amount, and if applicable, do this separately for each account in the name of the account holder? Yes No NA
4. Does the financial institution refrain from charging or collecting a garnishment fee against the protected amount? Yes No NA
5. Does the financial institution refrain from charging or collecting a garnishment fee against additional funds deposited to the account *after* five business days of the account review date? Yes No NA
6. For any funds in an account in excess of the protected amount, does the financial institution follow its customary procedures for handling garnishment orders, including the freezing of funds? Yes No NA
7. Does the financial institution cease to garnish amounts deposited or credited to the account following the date of account review? Yes No NA
8. Does the financial institution perform a one-time account review upon the first service of the order and only take action to freeze funds subsequently deposited or credited, if the institution is served with a new or different garnishment order consistent with the interagency regulation? Yes No NA

Notice to the Account Holder (31 CFR 212.7)

9. If (a) a covered benefit agency deposited a benefit payment into an account during the lookback period, (b) the balance in the account on date of account review was above zero dollars and the financial institution established a protected amount, and (c) there are funds in the account in excess of the protected amount, does the financial institution send a notice within three business days of account review to the account holder named in the garnishment order?	Yes	No	NA
10. Does the notice include the following:			
• The financial institution's receipt of an order against the account holder?	Yes	No	NA
• The date on which the order was served?	Yes	No	NA
• A succinct explanation of garnishment?	Yes	No	NA
• The financial institution's requirement under the interagency regulation to ensure that account balances up to the protected amount specified in 31 CFR 212.3 are protected and made available to the account holder, if a benefit agency deposited a benefit payment into the account in the last two months?	Yes	No	NA
• The account subject to the order and the protected amount established by the financial institution?	Yes	No	NA
• The financial institution's requirement pursuant to state law to freeze other funds in the account to satisfy the order and the amount frozen, if applicable?	Yes	No	NA
• The amount of any garnishment fee charged to the account, consistent with 31 CFR 212.6?	Yes	No	NA
• A list of the benefit payments subject to this part, as identified in 31 CFR 212.2(b)?	Yes	No	NA
• The account holder's right to assert against the creditor that initiated the order a further garnishment exemption for amounts above the protected amount, by completing exemption claim forms, contacting the court of jurisdiction, or contacting the creditor, as customarily applicable for a given jurisdiction?	Yes	No	NA
• The account holder's right to consult an attorney or legal aid service in asserting against the creditor that initiated the order a further garnishment exemption for amounts above the protected amount?	Yes	No	NA
• The name of the creditor, and, if contact information is included in the order, means of contacting the creditor?	Yes	No	NA

Record Retention (31 CFR 212.11)

11. Does the financial institution maintain records of account activity and actions taken in response to a garnishment order for at least two years from the date on which it receives the garnishment order?	Yes	No	NA
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Regulation C

Home Mortgage Disclosure

Background

Regulation C (12 CFR 203) implements the Home Mortgage Disclosure Act (HMDA), which was enacted by Congress in 1975. The period 1988 through 1992 saw substantial changes to HMDA. Especially significant were the amendments to the act resulting from the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). The FIRREA amendments expanded coverage to many independent nondepository mortgage lenders in addition to the previously covered banks, savings associations, and credit unions. Coverage of independent mortgage bankers was further expanded in 1993 with implementation of amendments contained in the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). For a detailed discussion of the history of HMDA, see the Federal Financial Institutions Examination Council's web site (www.ffiec.gov/hmda/history2.htm).

HMDA grew out of public concern about credit shortages in certain urban neighborhoods. Congress believed that some financial institutions had contributed to the decline of some geographic areas by their failure to provide adequate home financing to qualified applicants on reasonable terms and conditions. Thus, one purpose of HMDA and Regulation C is to provide the public with information that will help show whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. A second purpose is to aid public officials in distributing public-sector investments so as to attract private investment to areas where it is needed. A third purpose is to assist in identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes.

As the name implies, HMDA is a disclosure law. It relies on public scrutiny for its effectiveness. It does not prohibit any specific lender activity, and it does not establish a quota for mortgage lending in any metropolitan statistical area (MSA) or other geographic area defined by the Office of Management and Budget.

Lenders must report data on loan originations, applications, and purchases as well as requests under a preapproval program (as defined in section 203.2(b) of Regulation C) if the preapproval request is denied or results in the origination of a home purchase loan. They must also report the ethnicity, race, gender, and gross income of mortgage applicants and borrowers. In addition, lenders must report information on the pricing of each loan and whether the loan is subject to

the Home Ownership and Equity Protection Act (15 USC 1639). Additionally, lenders must identify the type of purchaser for each mortgage loan they sell. Some lenders have the option of indicating the reasons for their decision to deny a loan application. (Lenders regulated by the Office of the Comptroller of the Currency or the Office of Thrift Supervision *must* indicate the reasons for denial.)

Regulation C requires institutions to report lending data to their supervisory agencies on a loan-by-loan and application-by-application basis by way of a "register" reporting format. The supervisory agencies, through the Federal Financial Institutions Examination Council (FFIEC), compile this information to produce individual disclosure statements for each institution and aggregate reports for all covered institutions within each MSA. In addition, the FFIEC produces other aggregate reports that show lending patterns by median age of homes and by the central-city or non-central-city location of the property. The public can obtain the individual disclosure statements and the aggregate reports from the FFIEC or from central depositories located in each MSA. Individual disclosure statements can also be obtained from financial institutions.

Applicability

Regulation C covers two categories of financial institutions. One is *depository institution*, which the regulation defines as a bank, savings association, or credit union that meets the following criteria:

- On the preceding December 31 had assets in excess of the annually published asset threshold,
- On the preceding December 31 had a home or branch office in an MSA,
- In the preceding calendar year originated at least one first-lien home purchase loan (or a refinancing of such a loan) on a one- to four-family dwelling, and
- Meets one of the following criteria: (1) the institution is federally insured or regulated, (2) the mortgage loan referred to is federally guaranteed, insured, or supplemented, or (3) the institution intended to sell the loan to Fannie Mae or Freddie Mac.

The other category is *for-profit, nondepository mortgage lending institution*. A for-profit, nondepository mortgage lending institution is covered by Regulation C if

- the preceding calendar year, it originated home

purchase loans (including refinancings of home purchase loans) that either (1) totaled 10 percent or more of its loan origination volume, measured in dollars, or (2) totaled \$25 million or more,

- In the preceding December 31, it had a home or branch office in an MSA,¹ and
- Either (1) on the preceding December 31, it had total assets of more than \$10 million, counting the assets of any parent corporation, or (2) in the preceding calendar year, it originated at least 100 home purchase loans or refinancings of home purchase loans.

For purposes of this discussion and the examination procedures, the term "financial institution" signifies both a depository institution and a non-depository institution. The term "mortgage lending institution" applies to majority-owned mortgage lending subsidiaries of depository institutions and, since 1990, to independent mortgage companies. Mortgage lending subsidiaries of bank and savings and loan holding companies, as well as of savings and loan service corporations, have been covered by HMDA since 1988. Mortgage lending subsidiaries are treated as entities distinct from their "parent" and must file separate reports with their parent's supervisory agency.

The Board may exempt from Regulation C a state-chartered or state-licensed financial institution that is covered by a substantially similar state law that contains adequate provision for enforcement by the state. As of January 1, 2009, no exemptions were in effect.

Compilation of Loan Data

For each calendar year, a financial institution must report data on its applications that resulted in originations of:

- purchase loans,
- improvement loans, and
- refinancings.

Data must also be reported for loan purchases. In addition, data must be reported for applications that did not result in originations:

- applications that were approved by the institution but were not accepted by the applicant, and
- applications that were denied, withdrawn, or closed for incompleteness.

Finally, data must be reported on certain denials of requests for preapproval of a home purchase loan under a program whereby a lender issues

1. The institution may or may not have a physical presence in the MSA (section 203.2(c)(2)).

a written commitment covering a specific period of time to lend a creditworthy borrower up to a specific amount.

Loans secured by real estate that are neither refinancings nor made for home purchase or home improvement need not be reported.

Loan Information

For each application, financial institutions must identify the purpose of the requested or originated loan (home purchase, home improvement, or refinancing), the lien status of the property relating to the application, and whether the property will be owner-occupied as a principal dwelling. Regulation C defines terms as follows:

- **Dwelling**—A residential structure that may or may not be attached to real property located in a state, the District of Columbia, or the Commonwealth of Puerto Rico, including an individual condominium or cooperative unit, a mobile or manufactured home, and a multifamily structure such as an apartment building.
- **Home purchase loan**—A loan secured by a dwelling and made for the purpose of purchasing that (or another) dwelling.
- **Home improvement loan**—A loan that is to be used at least in part for the purpose of repairing, rehabilitating, remodeling, or improving a dwelling or the real property on which the dwelling is located. (Home improvement loans not secured by a dwelling are to be reported only if the institution classifies the loan as a home improvement loan and dwelling-secured home improvement loans are to be reported without regard to classification.)
- **Refinancing**—A transaction in which a new obligation satisfies and replaces an existing obligation by the same borrower. To determine whether or not a loan is covered by HMDA, the existing obligation must be a home purchase loan and both the new and the existing obligations must be secured by a first lien on a dwelling. For reporting purposes, both the existing and new obligations must be secured by a lien on a dwelling.

Financial institutions are also required to identify the following general loan types: conventional, FHA-insured, VA-guaranteed, and FSA/RHS-guaranteed. In addition, they must report the property type as a one- to four-family dwelling, a multifamily dwelling, or manufactured housing. Finally, they must report the amount of the loan (or the loan applied for), the application date, the action date, and the type of action taken.

Property Location

For loans on, and applications for loans on, properties located in any MSA in which the institution has a home or branch office, certain geographic location information must be reported.² For loans on properties located outside these MSAs, and outside any MSA, reporting of geographic information is optional—except in the case of large financial institutions subject to additional data reporting requirements under the Community Reinvestment Act (CRA). The geographic information consists of the MSA or MD number, codes identifying the state and county, and the census tract number of the property to which the loan or loan application relates.

Large financial institutions subject to both the CRA and HMDA must collect and report geographic information for all loans and applications (whether located in an MSA or not), not just for loans and applications relating to property in MSAs in which the institution has a home or branch office.³ Under the CRA, a *large institution* is a bank or savings association that has assets of \$1 billion or more.

Applicant Information

For applications and originated loans, financial institutions must report data on the applicant's or borrower's ethnicity, race, sex, and annual income; for purchased loans, reporting of these data is optional. The institution must request information regarding the ethnicity, race, and sex of all applicants and borrowers, including those who apply entirely by telephone, mail, or Internet. If the applicant does not provide the information and the application is submitted in person, the lender must note the information on the basis of visual observation or surname. Regulation C contains a model form that can be used to collect data on ethnicity, race, and sex. Alternatively, the form used to obtain monitoring information under section 202.13 of Regulation B (Equal Credit Opportunity) may be used.

If an institution originates or purchases a loan and then sells it in the same calendar year, it must report the type of entity that purchased the loan. Except in the case of large secondary-market purchasers such as Fannie Mae and Freddie Mac, the exact purchaser need not be identified. For example, the institution may indicate that it sold a loan to a bank without identifying the particular bank.

2. In the case of an MSA divided into metropolitan divisions (MDs), the relevant unit for this purpose is the MD.

3. For loans and applications on properties located in a county with a population of less than 30,000, the institution may enter "NA."

Pricing-Related Data

For originations of home purchase loans, dwelling-secured home improvement loans, and refinancings, financial institutions must report the spread between the annual percentage rate (APR) and the average prime offer rate for a comparable transaction as of the date the interest rate is set, if the spread is equal to or greater than 1.5 percentage points for first-lien loans, or equal to or greater than 3.5 percentage points for subordinate-liens.⁴ The following are excluded from the rate-spread reporting requirement: (1) applications that are incomplete, withdrawn, denied, or approved but not accepted, (2) purchased loans, (3) home improvement loans not secured by a dwelling, (4) assumptions, (5) home equity lines of credit, and (6) loans not subject to Regulation Z (Truth in Lending). To determine the applicable rate spread, the financial institution may use the table published on the FFIEC's web site (www.ffiec.gov/hmda) entitled, "Average Prime Offer Rate Tables."

Financial institutions must report whether the loan is subject to the Home Ownership and Equity Protection Act (HOEPA) (15 USC 1639). A loan becomes subject to HOEPA when the APR or the points and fees on the loan exceed the HOEPA triggers. (Additional information on HOEPA coverage can be found in the FFIEC examination procedures for the Truth in Lending Act and HOEPA.)

Financial institutions must also report the lien status of any property related to the loan or application (first lien, subordinate lien, or not secured by a lien on a dwelling).

Optional Data

Financial institutions supervised by the Federal Reserve (and the FDIC) may, at their option, report their reasons for denying a loan application. (Financial institutions regulated by the OCC and the OTS, including subsidiaries of national banks and savings associations, are required to provide reasons for denials, as are credit unions, which are regulated by the NCUA.) Institutions may also choose to report certain requests for preapproval that are approved by the institution but not accepted by the applicant, and home equity lines of credit made in whole or in part for the purpose of home improvement or home purchase.

4. Lenders will use the new rate spread reporting test on loans for which applications are taken on and after October 1, 2009, and for all loans consummated on or after January 1, 2010 (regardless of their application dates). For loans for which applications were taken before October 1, 2009, and that are consummated in 2009, the revised rules do not apply. Lenders will apply the existing rate spread reporting test, using Treasury security yield benchmarks, for those loans. For loans for which applications were taken before October 1, 2009, and that are consummated in 2010 or later, the revised rules apply.

Excluded Data

Financial institutions are not required to report loan data for

- Loans originated or purchased by the institution acting as trustee or in some other fiduciary capacity
- Loans on unimproved land
- Temporary financing (such as bridge or construction loans)
- The purchase of an interest in a pool of loans (such as mortgage-participation certificates)
- The purchase of mortgage loan servicing rights
- Loans originated prior to the current reporting year and acquired as part of a merger or acquisition or the acquisition of all the assets and liabilities of a branch office

Reporting Format

Financial institutions are required to record data on each application for, and each origination and purchase of, home purchase loans, home improvement loans, and refinancings on a form titled "Loan/Application Register," or "HMDA-LAR." They must also record data on requests under a preapproval program (as defined in section 203.2(b)), but only if the preapproval request is denied or results in the origination of a home purchase loan. Transactions are to be reported for the calendar year in which final action was taken. If a loan application is pending at the end of the calendar year, it is to be reported on the HMDA-LAR for the following year, when the final disposition is made. Loans originated or purchased during the calendar year must be reported for the calendar year of origination, even if they were subsequently sold.

The HMDA-LAR is accompanied by a list of codes to be used for each entry on the form. Detailed instructions and guidance on the requirements for the register are contained in appendix A to Regulation C. Additional information is available in the FFIEC publication "A Guide to HMDA Reporting: Getting it Right!" and on the FFIEC web site.

Financial institutions must record data on their HMDA-LAR within thirty calendar days of the end of the calendar quarter in which final action was taken. They do, however, have flexibility in determining how to maintain the register, as the entries need not be grouped in any prescribed fashion. For example, an institution could record home purchase loans on one HMDA-LAR and home improvement loans on another; alternatively, both types of loans could be reported on one register. Similarly, a

separate register may be kept at each branch office, or a single register for the entire institution may be maintained at a central location. These separate registers must be combined into a single consolidated register, however, when submitted to the appropriate supervisory agency.

For each calendar year, a financial institution must submit to its supervisory agency its HMDA-LAR, accompanied by a transmittal sheet. Unless it has twenty-five or fewer reportable transactions, the institution must submit its data in automated form. For registers submitted in paper form, two copies must be mailed to the supervisory agency. For both automated and hard-copy submissions, the layout of the register must conform exactly to that of the register in appendix A to Regulation C.

The HMDA-LAR must be submitted by March 1 following the calendar year covered by the data. The FFIEC then produces a disclosure statement for each institution, cross-tabulating data on individual loans in various groupings, as well as an aggregate report for each MSA. The FFIEC posts these disclosure statements at www.ffiec.gov/hmda. Disclosure statements are no longer mailed to financial institutions.

Disclosure

As a result of amendments to HMDA incorporated in the Housing and Community Development Act of 1992, an institution must make its disclosure statement available to the public at its home office within three business days after it is posted on the FFIEC website. The institution must also either (1) make this disclosure statement available to the public in at least one branch office in each additional MSA or MD in which it has offices within ten business days of its posting on the FFIEC website, or (2) post, in each branch office in each additional MSA or MD in which it has offices, the address to which requests for copies of the statement should be sent, and then send the disclosure statement within fifteen calendar days after receiving a written request.

Also, an institution must make its loan application register available to the public, after modifying the register by deleting the following fields: application or loan number, date application was received, and date action was taken. These deletions are required so as to protect the privacy interests of applicants and borrowers. For application register requests received on or before March 1, the modified HMDA-LAR for a given year must be available by March 31; for requests received after March 1, it must be available within thirty days of receipt of the request. The modified register need contain only data relating to the metropolitan area for which the request is made.

The FFIEC also produces aggregate tables to illustrate the lending activity of all covered financial institutions in each MSA or MD. These tables and the individual disclosure statements are available on the FFIEC website, www.ffiec.gov/hmda, and through central repositories, such as libraries, in each MSA or MD. A list of the depositories is also available on the FFIEC website.

A financial institution must retain its full (unmodified) HMDA-LAR for at least three years for examination purposes. It must also be prepared to make each modified HMDA-LAR available for three years and each FFIEC disclosure statement available for five years. When responding to specific requests for copies of the data, institutions may charge reasonable fees to cover the costs incurred

in providing or producing the data for public release.

Finally, an institution must post a notice at its home office and at each branch in an MSA to advise the public of the availability of the disclosure statements.

Enforcement

Administrative sanctions, including civil money penalties, may be imposed by the institution's supervisory agency. An error in compiling or recording loan data is not a violation of the act or the regulation if it was unintentional and occurred despite the maintenance of procedures reasonably adopted to avoid such errors.

Regulation C

Appendix A. HMDA Sampling Procedures

The following sampling procedures should be applied when reviewing HMDA-LAR data for accuracy:

1. Identify and select the LAR to be reviewed. For each HMDA reporter, review both the current year's data and data submitted since the most recent consumer examination. Examinations conducted after April 30 of each year should include a review of the current year's data. Examinations conducted before April 30 should include a review of the current year's data to the extent that the institution has already entered data for the current year on the LAR. The data from a single year's LAR is the universe from which the sample is taken.
 2. Determine the total number of files to be sampled, based on the size of the universe, by referring to column A of the HMDA Sampling Schedule (appendix B to this chapter). For banks at which HMDA data are not relied on in conducting fair lending or CRA examinations, the product module and examination matrix may indicate a Level II review, involving sampling as appropriate. In these instances, the examiner should choose a judgmental sample that is sufficiently large to ensure confidence in the overall accuracy of the data.
 3. Select the total random sample.
 - A. From an automated download—The most important thing to remember is that the sample must be *randomly* selected from the universe. A variety of tools, including a feature in Excel, can be used to select a random sample of data electronically. The following instructions will assist you in working with Excel:
 1. Generate a random order to the universe of files from which the sample will be selected using Excel's "Random Number Generation" tool by taking the following steps:
 - a. Select the following from the Excel menu:
 - Add-Ins
 - Analysis Tool Pak (check the box and click "OK")
 - (again)
 - Analysis
 - Random Number Generation (highlight and click "OK")
- b. Respond to the items on the "Random Number Generation" screen as follows:
- Number of Variables (leave blank)
 - Number of Random Numbers (leave blank)
 - Distribution (select "Uniform" from list)
 - Parameters (leave the default as is—it is set at 0 and 1)
 - Random Seed (leave blank)
 - Output Options (click on the "Output Range" circle, and then on the small box to the right for "Output Range")
- c. A small screen titled "Random Number Generation" will appear. Do not enter any information directly on that screen. Rather, select the range (output location) for the random numbers by highlighting the column on the spreadsheet where you want the random numbers to go. (Use the "Shift" key and the down arrow to highlight the column.) Hint: Designating a column at the end of the spreadsheet may work best.
- d. Click on the small box on the "Random Number Generation" screen (or press "Enter").
- e. Click on "OK."
- f. The random numbers are automatically assigned and placed into the designated column.
- g. Sort the files in ascending order by random number by (1) highlighting all the data, (2) selecting "Data," (3) selecting "Sort," (4) identifying the column (containing the random numbers) by which you will sort, (5) selecting "Ascending," and (6) selecting "OK."
2. Once the loans are placed in a random order, simply take the sample needed for HMDA verification starting at the top of the list. Be sure to save this information as a supporting workpaper.
- B. From hard-copy LAR—As with electronic data, the sample of files selected from a hard-copy LAR must be *randomly* selected from the universe.

1. Divide the number of files in the “universe” by the desired size of the sample to determine the “interval.” If necessary, round down the interval to reach a whole number.
2. Randomly pick a number between zero and the interval.
3. Starting with the first file in the universe, count the items until reaching the number randomly picked. The file corresponding to the random number is the first file in the sample.
4. Starting with the next file as number 1, count the files until reaching the number corresponding to the interval and select that file for the sample.
5. Repeat step 4 throughout the universe until reaching the chosen sample size.
6. Review the number of files indicated for the initial file review (column B in the HMDA Sampling Schedule) according to current FRB HMDA data review procedures.
7. The examiner may stop the HMDA sampling process after reviewing the initial number of files *if* the results indicate that a very small number of files had errors in key fields.⁵ This number is given in column D of the HMDA Sampling Schedule (“Maximum number of files with errors—Stop sampling”).

For example, if the HMDA universe contains 150 files, a total random sample of 56 files should be taken. The examiner may initially review 29 files. If the review of the initial 29 files identifies no more than 1 file with an error or errors in a key field, the examiner may end the review for that HMDA reporter for that universe. The examiner may then reach a statistically reliable conclusion that the findings are indicative of the universe, and resubmission is not necessary.

6. The examiner must complete a review of the entire random sample of files if a larger number of errors in key fields are found during the initial file review.

The need for additional file review can be determined by referring to column E of the HMDA Sampling Schedule (“Number of files with errors—Additional file review required”). If the number of files with errors in key fields identified in the initial review is shown in column E, the examiner must review the additional files

⁵. Key fields are defined as loan type; loan purpose; property type; owner occupancy; loan amount; action taken type; request for preapproval; application date and action date; MSA; state; county; census tract; ethnicity, race, and sex of the applicant and co-applicant; income; type of purchaser; rate spread; HOEPA status; and lien status.

in the random sample.

For example, if the HMDA universe contains 150 files, a total random sample of 56 files should be taken. The examiner may initially review 29 files. If the review of the initial 29 files identifies 4 files with an error or errors in key fields, the examiner should then review 27 additional files, for a total sample size of 56 files. After completing review of the additional 27 files, the examiner should determine the total number of key-field errors and apply the current Board HMDA resubmission standards to the entire sample.

7. If the examiner determines that a large number of files reviewed in the initial file review have an error or errors in key fields, the examiner may stop HMDA data verification after the initial file review is completed and should apply the current Board HMDA resubmission standards.

This “large” number can be determined by referring to column F of the HMDA Sampling Schedule (“Minimum number of files with errors—Stop sampling and apply resubmission standards”). For example, if the HMDA universe contains 150 files, a total random sample of 56 files should be taken. The examiner may initially review 29 files. If the review of the initial 29 files identifies 6 (or more) files with an error or errors in key fields, the examiner should stop the review. Sufficient statistical evidence has been obtained to conclude that a larger sample would have an unacceptable number of errors, thus requiring resubmission. At this point, the examiner should apply the current Board HMDA resubmission standards to the entire sample.

Provisional HMDA Data Sampling Procedures

In 2004, the Board temporarily revised the HMDA sampling procedures in light of errors in 2004 data in some of the new key data fields.⁶ Specifically, the Board increased the required sample sizes, to help ensure the integrity of the HMDA data reported by banks and used by examiners in fair lending and CRA analyses. The provisional sampling procedures, which are described below, are to be in effect until further notice.

Using the sampling procedures described earlier in this appendix and the sample sizes given in appendix B as a starting point, review the sampled loans and possibly increase the number of loans in the sample to ensure that loans *originated by the bank* (HMDA action code 1) make up at least

⁶. These new fields include race, ethnicity, sex, lien status, Home Ownership and Equity Protection Act status, and loan pricing data.

50 percent of the items in the sample.⁷ If in the original randomly selected sample fewer than 50 percent of applications were originated by the bank, continue to randomly select applications with action code 1 until the number of originations reaches at least 50 percent of the number of items required to be sampled. For example,

HMDA universe	100
Sample size according to CA 04-04 guidelines	39
Random sample selected	
Action code 1 (Originations) (28%)	11
Action code 2 (Approved not accepted)	4
Action code 3 (Denied)	7
Action code 4 (Withdrawn)	4
Action code 5 (Incomplete)	2
Action code 6 (Purchased)	5
Action code 7 (Preapproval denied)	4
Action code 8 (Preapproval not accepted)	2
Additional originations required for the sample	9
Revised sample size	48

Special Sampling Method for HOEPA Loan Originations

This sampling method is designed to determine if the bank's procedures for calculating APR spreads and identifying HOEPA loans are accurate and to ensure that those loans that were reported as HOEPA loans, as well as those that were not, were identified correctly. If the random sample selected for HMDA data verification, as outlined earlier in this appendix, does not include enough loans to fulfill the sampling requirements described below, a targeted sample of loans should be selected to meet the minimum requirements. *The targeted loans should be reviewed only to determine if the rate spread was accurately computed and the*

7. The sampling guidance in this chapter is based on CA Letter 04-4.

HOEPA status correctly reported.

- *Banks at which fewer than 10 percent of originated loans have APRs above HOEPA thresholds—Review 6 first-lien loans and 6 subordinate-lien loans, for a total of 12 loans (see section 226.32 of Regulation Z for a discussion of thresholds). If possible, in each set of 6 loans include 3 high-cost non-HOEPA loans having an APR of 1 point or less below the HOEPA trigger and 3 HOEPA loans having an APR of 1 point or less above the trigger. If the bank does not have that many loans with an APR within 1 point above or below the trigger, select loans with an APR beyond the 1 point margin to bring the total sampled to 12.*

This methodology has been selected because looking at close cases is most likely to reveal whether the creditor is correctly designating HOEPA loans. For both first and subordinate liens, if the bank originated fewer than 3 high-cost non-HOEPA loans with APRs below the HOEPA thresholds or fewer than 3 loans with APRs above the thresholds, review all the loans in that category.

- *Banks at which more than 10 percent of originated loans have APRs above the HOEPA thresholds—Review a minimum of 10 first-lien and 10 subordinate-lien loans, for a total of 20 loans. If possible, in each set of 10 loans include 5 high-cost non-HOEPA loans having an APR of 1 point or less below the HOEPA trigger and 5 HOEPA loans having an APR of 1 point or less above the trigger. If the bank does not have that many loans with an APR within 1 point above or below the trigger, select loans with an APR beyond the 1 point margin.*

For both first and subordinate liens, if the bank originated fewer than 5 high-cost non-HOEPA loans having APRs below the HOEPA thresholds or fewer than 5 loans with APRs above the thresholds (but nonetheless meets the 10 percent criterion), review all the loans in that category.

Regulation C

Appendix B. HMDA Sampling Schedule

HMDA universe	Initial file review						Additional file review	Additional number of loans originated by bank	Total random sample ²
	(A)	(B)	(C)	(D)	(E)	(F)			
1–11	Review all	6							
12–20	12	6	0	1	2	Review all	Review all	All	
21–30	13	7	0	1	2	Review all	Review all	All	
31–50	15	8	0	1–2	3	13	7	28	
51–70	17	9	0	1–2	3	12	6	29	
71–90	18	9	0	1–3	4	20	10	38	
91–110	28	14	1	2–3	4	11	6	39	
111–130	29	15	1	2–4	5	18	9	47	
131–140	29	15	1	2–4	5	20	10	49	
141–170	29	15	1	2–5	6	27	14	56	
171–190	30	15	1	2–5	6	27	14	57	
191–270	30	15	1	2–5	6	29	15	59	
271–380	30	15	1	2–6	7	38	19	68	
381–750	31	16	1	2–6	7	38	19	69	
751– 1,100	31	16	1	2–7	8	48	24	79	
1,101 or more	32	16	1	2–7	8	47	24	79	

1. Files with one or more errors in key fields. Key fields are defined as loan type; loan purpose; property type; owner occupancy; loan amount; action taken type; request for preapproval; application date and action date; MSA; state; county; census tract; ethnicity, race, and sex of the applicant and co-applicant; income; type of purchaser; rate spread; HOEPA status; and lien status.

2. The total random sample could be larger if the minimum number of loans originated by the bank is not found in the original sample.

Regulation C

Appendix C. HMDA Resubmission Standards

To ensure the integrity of the HMDA data used for analysis, the following guidelines should be followed when considering whether to have an institution resubmit HMDA data. The guidelines cover two general categories of assessments: assessments of the accuracy of the data in individual data fields, and assessments of overall accuracy.

Individual Data Fields

Institutions should be required to correct and resubmit data in certain “key” fields on the HMDA-LAR when at least 5.0 percent of the files sampled contain inaccurate data within a key field. These fields are

- type
- purpose
- Property type
- occupancy
- amount
- Action taken type
- Request for preapproval
- Application date
- Action date
- MSA
- State

- County
- Ethnicity of the applicant and co-applicant
- of the applicant and co-applicant
- of the applicant and co-applicant
- Income
- of purchaser
- spread
- status
- status

Errors in rounding amounts in the “loan amount” and “income” fields should not be counted toward the 5 percent resubmission standard, although the violations should be cited and the bank should report the data correctly in the future. When the regression program is used during an examination, each of the key fields except “state,” “county,” “census tract,” “applicant sex,” and “co-applicant sex” must have an error rate of less than 5.0 percent before the step 1 regression program is run.

Overall Accuracy

If at least 10.0 percent of the sampled files contain an error in at least one key field, the entire HMDA-LAR must be resubmitted. The institution must verify the data in each of the fields, not just in those with an error rate greater than 5.0 percent.

Regulation C

Examination Objectives and Procedures

EXAMINATION OBJECTIVES

1. To appraise the quality of the financial institution's compliance risk management system to ensure compliance with the Home Mortgage Disclosure Act (HMDA) and Regulation C
2. To determine how much reliance can be placed on the financial institution's compliance risk management system for ensuring its compliance with HMDA and Regulation C, including such elements as internal controls, policies, procedures, and compliance review and audit functions
3. To determine the accuracy and timeliness of the financial institution's submitted HMDA-LAR
4. To initiate corrective action when policies or internal controls are deficient or when violations of law or regulation are identified

EXAMINATION PROCEDURES

A. Initial Procedures

Depository Institutions

1. Determine whether the depository institution is subject to the requirements of HMDA and Regulation C by determining if the regulatory criteria addressed in sections 203.2(e)(1)(i)–203.2(e)(1)(iv) are met.

Mortgage Subsidiaries

2. Determine whether the depository institution has a majority ownership in a mortgage subsidiary that meets relevant criteria in sections 203.2(e)(2)(i)–203.2(e)(2)(iii). If all relevant criteria are met, the subsidiary is subject to the requirements of HMDA and Regulation C.
3. Determine whether the depository institution has been involved in any mergers or acquisitions since January 1 of the preceding calendar year.
 - a. If it has been, determine whether the required HMDA data for the acquired financial institution(s) were reported separately or in consolidation. The examination procedures in the following sections that concern accuracy and disclosure also apply to an acquired financial institution's data, even if those data are reported separately.

Note: If HMDA and Regulation C are applicable, the following examination procedures should be completed separately for the depository institution and any of its majority-owned mortgage subsidiaries. Complete a separate checklist for each institution subject to HMDA and Regulation C. Also, when determining whether a financial institution is subject to HMDA, the examiner should remain cognizant of any newly created MSAs and changes in MSA boundaries, including the addition or deletion of counties to or from an MSA, thus causing a financial institution either to become a new HMDA reporter or to no longer be a HMDA reporter. For a list of counties in an MSA, by state, see the FFIEC web site and the publication "A Guide to HMDA Reporting: Getting It Right!"

B. Evaluation of Compliance Management

The examiner should obtain the information necessary to make a reasonable assessment of the financial institution's ability to collect data on applications for, and originations and purchases of, home purchase loans, home improvement loans, and refinancings for each calendar year, in accordance with the requirements of HMDA and Regulation C.

The examiner should determine, through a review of written policies, internal controls, and the HMDA Loan/Application Register(s) (HMDA-LAR) and discussions with management, whether the financial institution adopted and implemented comprehensive procedures to ensure adequate compilation of home mortgage disclosure information in accordance with sections 203.4(a)–203.4(e).

During the review of the financial institution's system for maintaining compliance with HMDA and Regulation C, the examiner should obtain and review policies and procedures, along with any applicable audit and compliance program materials, to determine whether

1. Policies, procedures, as well as training are adequate, on an ongoing basis, to ensure compliance with Regulation C
2. Internal review procedures and audit schedules comprehensively cover all the pertinent regulatory requirements associated with Regulation C
3. The audits or internal analysis performed

- include a reasonable amount of transactional analysis and a reasonable number of written reports that detail findings and recommendations for corrective action
4. Internal reviews include any regulatory changes that may have occurred since the prior examination
 5. The financial institution has assigned one or more individuals responsibility for oversight, data update, and data entry, as well as for timeliness of the institution's data submission. The examiner should also determine whether the institution's board of directors is informed of the results of all analyses
 6. The individuals who have been assigned responsibility for data entry receive appropriate training for completion of the HMDA-LAR and also receive copies of instructions—appendix A to Regulation C (Forms and Instructions for Completion of the HMDA-LAR); the staff commentary to Regulation C; and the FFIEC publication "Guide to HMDA Reporting: Getting it Right!" in a timely manner
 7. The financial institution has ensured effective corrective action in response to previously identified deficiencies
 8. The financial institution performs HMDA-LAR volume analysis from year to year to detect increases or decreases in activity that might indicate omissions of data
 9. The financial institution maintains documentation for those loans it packages and sells to other institutions
- written materials
4. If the financial institution has established and implemented adequate controls to ensure the separation of duties (for example, data entry, review, oversight, and approval)
 5. Any internal reports or records documenting revisions to policies and procedures, as well as any informal self-assessments of the financial institution's compliance with the regulation
 6. If the financial institution offers preapprovals, whether the institution's preapproval program meets the specifications detailed in the HMDA regulation; and, if so, whether the institution's policies and procedures provide adequate guidance for the reporting of preapproval requests that are approved or denied, in accordance with the regulation
 7. Whether the financial institution's policies and procedures address the reporting of (1) non-dwelling-secured loans that are originated in whole or in part for home improvement and are classified as such by the institution and (2) dwelling-secured loans that are originated in whole or in part for home improvement, whether or not classified as such
 8. Whether the financial institution has established a method for determining and reporting the lien status of property associated with all originated loans and applications
 9. Whether the financial institution's policies and procedures contain guidance for collecting ethnicity, race, and sex data for all loan applications, including applications made by telephone, mail, and Internet
 10. Whether the financial institution's policies and procedures address the collection of data on the rate spread (the difference between the APR and the average prime offer rate for a comparable transaction as of the date the interest rate is set) and whether the institution has established a system for tracking rate "lock dates" and calculating the rate spread
 11. Whether the financial institution's policies and procedures address how to determine if a loan is subject to the Home Ownership and Equity Protection Act and the reporting of applications involving loans for manufactured homes
 12. Whether the HMDA-LAR is updated within thirty days after the end of each calendar quarter
 13. Whether data are collected at all branches and, if so, whether the appropriate personnel are sufficiently trained to ensure that all branches are reporting data under the same guidelines
 14. Whether the financial institution's loan officers, including loan officers in the commercial loan

- department who may handle loan applications reportable under HMDA (including loans and applications for multifamily and mixed-use properties and small business refinances secured by residential real estate), are informed of the reporting requirements necessary to assemble the information
15. Whether the financial institution's board of directors has established an independent review of the policies, procedures, and HMDA data to ensure compliance and accuracy and is advised each year of the accuracy and timeliness of the institution's data submissions
 16. What procedures the financial institution has put in place to comply with the requirement to submit data in machine-readable form, and whether the institution has some mechanism in place to ensure the accuracy of the data that are submitted in machine-readable form
 17. Whether the financial institution's loan officers are familiar with the disclosure, reporting, and retention requirements associated with loan/application registers and FFIEC public disclosure statements
 18. Whether the financial institution's loan officers are familiar with the disclosure statements that will be produced from the data
 19. Whether the financial institution's loan officers are aware that civil money penalties may be imposed if an institution has submitted erroneous data and has not established adequate procedures to ensure the accuracy of the data
 20. Whether the financial institution's loan officers are aware that correction and resubmission of erroneous data may be required when data for at least 5 percent of loan/application records are incorrectly reported
- a. Submits its HMDA-LAR to the appropriate supervisory agency no later than March 1 following the calendar year for which the data are compiled and maintains its HMDA-LAR for at least three years thereafter
- Note: Financial institutions that report twenty-five or fewer entries on their HMDA-LAR may collect and report HMDA data in paper form. Financial institutions opting to submit their data in such a manner must send two typed or computer-printed copies. They must use the format of the HMDA-LAR but need not use the form itself.
- b. Makes its FFIEC disclosure statement available to the public at its home office no later than three business days after receiving its statement from the FFIEC
 - c. Either (1) makes its FFIEC disclosure statement available to the public in at least one branch office in each additional MSA or MD in which it has offices within ten business days after receiving the disclosure statement from the FFIEC or (2) posts, in the lobby of each branch office in additional MSAs or MDs in which it has offices, the address to which written requests for the disclosure statement should be sent, and then mails or delivers a copy of the disclosure statement within fifteen calendar days of receiving a written request
 - d. Makes its modified HMDA-LAR (modified by removal of loan application numbers, dates applications were received, and dates action was taken) available to the public by March 31 for requests received on or before March 1 and within thirty days for requests received after March 1
 - e. Maintains its modified HMDA-LARs for three years and its disclosure statements for five years, and has policies and procedures to ensure that its modified HMDA-LARs and disclosure statements are available to the public during those terms
 - f. Makes its modified HMDA-LARs and disclosure statements available for inspection and copying during the hours the office is normally open to the public for business. If it imposes a fee for costs incurred in providing or reproducing the data, the fee should be reasonable.
 - g. Posts a general notice about the availability of its HMDA data in the lobby of its home office and of each branch office located in an MSA
 - h. Provides promptly, upon request, the location of the financial institution's offices

D. Transaction Testing

Verify that the financial institution accurately compiled home mortgage disclosure information on a register in the format prescribed in appendix A to Regulation C, by reviewing a sample of applications. For submitted data, the review should include a sample of the applications represented on the HMDA-LAR. A sample of the current year's data should also be reviewed. In both cases, the sample should include

1. Approved and denied transactions subject to HMDA
2. Housing-related purchased loans
3. Withdrawn housing-related loan applications

E. Disclosure and Reporting

1. Determine whether the financial institution

- where the statement is available for inspection and copying, or includes the location in the lobby notice
2. If the financial institution has a subsidiary covered by HMDA, determine that the subsidiary completed a separate HMDA-LAR and submitted it either directly or through its parent to the parent's supervisory agency.
 3. Determine that the HMDA-LAR transmittal sheet was completed accurately and that an officer of the financial institution signed and certified to the accuracy of the data contained in the register. (Refer to appendix A of Regulation C.) Note: If the HMDA-LAR was submitted via the Internet, the signature should be retained on file at the institution.
 4. Review the financial institution's most recent disclosure statement, HMDA-LAR, modified HMDA-LAR, and any applicable correspondence, such as notices of noncompliance. Determine whether errors occurred during the previous reporting period and, if errors did occur, what steps the institution took to correct and prevent such errors in the future.
 5. Determine whether the financial institution has the necessary tools to compile the geographic information.
 - a. Determine whether the financial institution uses the FFIEC geocoding web site (www.ffiec.gov/geocode/default.htm); the U.S. Census Bureau's Census Tract Street Address Lookup Resources for 2000; the Census Bureau's 2000 Census Tract Outline Maps; LandView 5-equivalent materials available from the Census Bureau or from a private publisher; or an automated geocoding system to obtain census tract numbers.
 - b. If the financial institution relies on outside assistance to obtain census tract numbers (for example, private "geocoding" services or real estate appraisals), verify that adequate procedures are in place to ensure that the census tract numbers are obtained when they are not provided by the outside source. For example, if the institution usually uses property appraisals to obtain census tract numbers, it must have procedures to obtain this information when an appraisal is not received, such as when a loan application is denied before an appraisal is made.
 - c. Verify that the financial institution has taken steps to ensure that the provider of outside services is using the appropriate 2000 Census Bureau data.
 - d. Verify that the financial institution uses current MSA and MD definitions to determine MSA and MD numbers and boundaries. MSA definitions and numbers (and state and county codes) are available from the supervisory agency and from the FFIEC publication "A Guide to HMDA Reporting: Getting it Right!"
 6. For financial institutions required under the CRA to report data on small business, small farm, and community development lending, verify that they also collect accurate data on property located outside MSAs or MDs in which they have a home or branch office, or outside any MSA or MD.

F. Examination Conclusions

1. Summarize the findings, supervisory concerns, and regulatory violations.
2. For the violations noted, determine the root cause by identifying weaknesses in internal controls, audit and compliance reviews, training, management oversight, or other factors; also, determine if the violations are repetitive, isolated, or systemic.
3. Identify action needed to correct violations and weaknesses in the financial institution's compliance system.
4. Discuss findings with the financial institution's management, and obtain a commitment to take corrective action.

Regulation C Examination Checklist

Applicability

Depository Institutions

- | | | |
|---|-----|----|
| 1. Is the depository institution a bank, savings association, or credit union that in the preceding calendar year originated at least one home purchase loan (or refinancing of a home purchase loan) secured by a first lien on a one- to four-family dwelling? (§ 203.2(e)(1)(iii)) | Yes | No |
| 2. Does the depository institution meet at least one of the following criteria? | | |
| a. The depository institution is a federally insured or regulated institution (§ 203.2(e)(1)(iv)(A)) | Yes | No |
| b. The depository institution originated a mortgage loan (see question 1) that was insured, guaranteed, or supplemented by a federal agency (§ 203.2(e)(1)(iv)(B)) | Yes | No |
| c. The depository institution originated a mortgage loan (see question 1) intending to sell it to Fannie Mae or Freddie Mac (§ 203.2(e)(1)(iv)(C)) | Yes | No |
| 3. Did the depository institution have either a home or a branch office in an MSA on December 31 of the preceding calendar year? (§ 203.2(e)(1)(ii)) | Yes | No |
| 4. On the preceding December 31 did the depository institution have assets in excess of the asset threshold that is adjusted annually and published annually by the Federal Reserve Board? (§ 203.2(e)(1)(i)) | Yes | No |

If the answers to questions 1–4 are “yes,” the depository institution is subject to the requirements of HMDA and Regulation C, and the examiner should complete the remainder of the checklist

Mortgage Subsidiaries

- | | | |
|---|-----|----|
| 5. Is the depository institution a majority owner of a for-profit mortgage subsidiary? | Yes | No |
| If the answer to question 5 is “yes,” complete questions 6–8; otherwise, proceed to question 9. | | |
| 6. In the preceding calendar year, did the mortgage subsidiary either | | |
| a. Originate home purchase loans or refinancings of home purchase loans that together equaled at least 10 percent of its total loan-origination volume, measured in dollars, or (§ 203.2(e)(2)(i)(A)) | Yes | No |
| b. Originate home purchase loans or refinancings of home purchase loans that together equaled at least \$25 million (§ 203.2(e)(2)(i)(B)) | Yes | No |
| 7. Did the mortgage subsidiary have a home or branch office in an MSA as of December 31 of the previous year? ⁸ (§ 203.2(e)(2)(ii)) | Yes | No |
| 8. Does the mortgage subsidiary meet at least one of the following criteria? (§ 203.2(e)(2)(iii)) | | |
| a. The mortgage subsidiary had total assets (when combined with the assets of the parent corporation) exceeding \$10 million on the previous December 31 | Yes | No |

⁸. A nondepository institution is deemed to have a branch office in an MSA or MD if, in the preceding calendar year, it received applications for, originated, or purchased five or more home purchase loans, home improvement loans, or refinancings in that MSA or MD.

- b. The mortgage subsidiary originated at least 100 home purchase loans (including refinancings of home purchase loans) in the preceding calendar year

Yes No

If the answers to questions 6–8 are “yes,” the mortgage subsidiary is subject to the requirements of HMDA and Regulation C. If the depository institution that has a majority interest in the mortgage subsidiary is also subject to HMDA and Regulation C, the examiner should complete a separate checklist for each entity, beginning with question 9 for the mortgage subsidiary. If the depository institution that has a majority interest in the mortgage subsidiary is not subject to Regulation C and HMDA, the examiner should use the remaining portion of this checklist for the mortgage subsidiary. The examiner should note the financial institution to which the remaining checklist questions apply.

Compilation of Loan Data

9. Does the financial institution collect the following data in accordance with section 203.4(a) and appendix A of the regulation?

- a. An identifying number (that does not include the applicant’s name or Social Security number) for the loan or loan application, and the date the application was received (§ 203.4(a)(1))
- b. The type of the loan or application (§ 203.4(a)(2))
- c. The purpose of the loan or application (§ 203.4(a)(3))
- d. Whether the application was for a preapproval, and whether it resulted in a denial or an origination (§ 203.4(a)(4))
- e. The property type to which the loan or application relates (§ 203.4(a)(5))
- f. The owner-occupancy status of the property to which the loan or application relates (§ 203.4(a)(6))
- g. The loan amount or the amount requested on the application (§ 203.4(a)(7))
- h. The type of action taken (§ 203.4(a)(8))
- i. The date such action was taken (§ 203.4(a)(8))
- j. The location of the property to which the loan or application relates, by (§ 203.4(a)(9))
 - i. MSA or MD number (5 digits)
 - ii. State (2 digits)
 - iii. County (3 digits)
 - iv. Census tract number (6 digits)
- k. The ethnicity and race of the applicant or borrower (§ 203.4(a)(10))
- l. The ethnicity and race of the co-applicant or co-borrower (§ 203.4(a)(10))
- m. The sex of the applicant or borrower (§ 203.4(a)(10))
- n. The sex of the co-applicant or co-borrower (§ 203.4(a)(10))

Yes No

Note: Collection of data on ethnicity, race, and sex is mandatory for all transactions unless the financial institution purchased the loans or the borrower is not a natural person (that is, is a corporation or partnership).

o. The gross annual income relied on in processing the applicant's request (§ 203.4(a)(10))	Yes	No
Note: Collection of data on annual income is mandatory for all transactions unless the financial institution purchased the loan, the borrower is not a natural person, the loan is for a multifamily dwelling, income was not relied on in the credit decision, or the loan was made to an employee.		
p. The type of entity purchasing a loan that the financial institution originates or purchases and then sells within the same calendar year (§ 203.4(a)(11))	Yes	No
q. For originated loans subject to Regulation Z, the difference between the loan's APR and the average prime offer rate for a comparable transaction as of the date the interest is set, if that difference is equal to or greater than 1.5 percentage points for first lien loans or equal to or greater than 3.5 percentage points for subordinate lien loans on a dwelling. (§ 203.4(a)(12))	Yes	No
r. Whether the loan is subject to HOEPA (§ 203.4(a)(13))	Yes	No
s. The lien status of the property relating to the loan or application (§ 203.4(a)(14))	Yes	No
t. Does the institution provide the reasons for denial of an application? (§ 203.4(c)(1))	Yes	No
If it does, are the reasons accurate?	Yes	No
u. Is the HMDA-LAR updated within thirty calendar days after the end of the quarter in which final action is taken? (§ 203.4(a))	Yes	No
10. Does the institution request ethnicity, race, and sex data for all telephone, mail, and Internet applications in accordance with appendix B to Regulation C? (§ 203.4(b)(1))	Yes	No
11. For applications taken face to face, does the institution note data concerning ethnicity, race, and sex on the basis of visual observation or surname if the applicant chooses not to provide this information? (§ 203.4(b)(1))	Yes	No

Note: If the applicant fails to provide this information in mail, telephone, or Internet applications, ethnicity, race, and sex are not recorded; instead, an applicable code number is provided—ethnicity, 3; race, 6; and sex, 3 (“NA” should not be used for these three situations).

Disclosure and Reporting

12. Is the loan or applicant data presented in the format prescribed in appendix A to Regulation C? (§ 203.4(a))	Yes	No
13. Has the institution reported all applications for, originations of, and purchases of home purchase loans, home improvement loans, and refinancings? (§ 203.4(a))	Yes	No
14. Has the financial institution refrained from reporting the following? (§ 203.4(d))		
a. Loans originated or purchased by the financial institution acting in a fiduciary capacity (such as trustee)	Yes	No
b. Loans on unimproved land	Yes	No
c. Temporary financing (such as a bridge or construction loan)	Yes	No
d. Purchase of an interest in a pool of loans (such as mortgage-participation certificates, mortgage-backed securities, or real estate mortgage investment conduits)	Yes	No
e. Purchase solely of the right to service loans	Yes	No

f. Loans originated prior to the current reporting year and acquired as part of a merger or acquisition or as part of the acquisition of all assets and liabilities of a branch office	Yes	No
g. A refinancing if, under the loan agreement, the financial institution is unconditionally obligated to refinance the obligation, or is obligated to refinance the obligation subject to conditions under the borrower's control (Regulation C, appendix A, I(A)(5a))	Yes	No
15. Did the financial institution submit its completed HMDA-LAR to the appropriate supervisory agency in automated machine-readable format by March 1 following the calendar year during which the data were compiled? (§ 203.5(a))	Yes	No
Note: Financial institutions that report twenty-five or fewer entries on their HMDA-LAR may collect and report their HMDA data in paper form. Financial institutions opting to submit their data in such a manner must send two typed or computer-printed copies. The institution must use the format of the HMDA-LAR but need not use the form itself.		
16. Has an officer of the financial institution signed the HMDA-LAR transmittal sheet certifying the accuracy of the data contained in the register?	Yes	No
17. Is the transmittal sheet accurately completed?	Yes	No
18. Has the financial institution maintained its HMDA-LAR in its records for at least three years? (§ 203.5(a))	Yes	No
19. Has the financial institution made its FFIEC-prepared disclosure statement		
a. Available to the public at its home office no later than three business days after receiving it from the FFIEC and	Yes	No
b. Available within ten business days in at least one branch office in each additional MSA or MD in which it has offices; or posted, in the lobby of each branch office in other MSAs or MDs in which it has offices, the address to which written requests should be sent, and delivered a copy of the disclosure statement within fifteen calendar days of receiving a written request (§ 203.5(b))	Yes	No
20. Has the financial institution made its modified HMDA-LAR (modified by removal of loan application numbers, dates applications were received, and dates of action taken) for the preceding calendar year available to the public by March 31 for requests received on or before March 1 and within thirty days for requests received after March 1? (§ 203.5(c))	Yes	No
21. Has the financial institution retained its modified HMDA-LARs for three years?	Yes	No
Does the institution have policies and procedures to ensure that its modified HMDA-LARs are available to the public during that term? (§ 203.5(d))	Yes	No
22. Has the financial institution retained its disclosure statements for five years? (§ 203.5(d))	Yes	No
23. Does the financial institution have policies and procedures to ensure that its disclosure statements are available to the public during that term? (§ 203.5(d))	Yes	No
24. Does the financial institution make its modified HMDA-LARs and disclosure statements available for inspection and copying during the hours the office is normally open to the public for business?	Yes	No
If it imposes a fee for costs incurred in providing or reproducing the data, is the fee reasonable? (§ 203.5(d))	Yes	No
25. Has the financial institution posted a general notice about the availability of its disclosure statement in the lobby of its home office and in each branch office located in an MSA? (§ 203.5(e))	Yes	No

26. Does the institution provide promptly, upon request, the location of the institution's offices where the statement is available for inspection and copying, or include the location in the lobby notice? (§ 203.5(e))	Yes	No
27. Did errors occur in the previous reporting period? (Review the financial institution's most recent disclosure statement, HMDA-LAR, modified HMDA-LAR, and any applicable correspondence from the regulatory agency, such as notices of noncompliance.)	Yes	No
28. If errors did occur, has the financial institution taken appropriate steps to correct and prevent such errors in the future?		
a. Do individuals who are responsible for all data entry		
i. Receive appropriate training in the completion of the HMDA-LAR	Yes	No
ii. Receive copies of Regulation C, including instructions for completion of the HMDA-LAR and the FFIEC publication "A Guide to HMDA Reporting: Getting it Right!"	Yes	No
iii. Know whom to contact, at the financial institution or the institution's supervisory agency, if they have questions not answered by the written materials	Yes	No
b. Are the financial institution's loan officers, including loan officers in the commercial loan department who may handle loan applications for HMDA reportable loans (such as multifamily and mixed-use properties and small business refinances secured by residential real estate),		
i. Informed of the reporting requirements so they can assemble the necessary information, and do they understand the importance of accuracy	Yes	No
ii. Familiar with the disclosure statements that are produced from the data and cognizant of the ramifications for the financial institution if the data are wrong	Yes	No
iii. Do they maintain appropriate documentation of the information entered on the HMDA-LAR?	Yes	No
c. If data are collected at more than one branch, are the appropriate personnel sufficiently trained to ensure that all branches report data using the same guidelines?	Yes	No
d. Does the financial institution have internal control processes to ensure that the individuals who capture and code the data are doing so accurately and consistently?	Yes	No
e. Does the financial institution have established controls to ensure the separation of duties (for example, data entry, review, oversight, and approval)?	Yes	No

Regulation H

Flood Disaster Protection

Introduction

The National Flood Insurance Program (NFIP) is administered primarily under the National Flood Insurance Act of 1968 (1968 Act) and the Flood Disaster Protection Act of 1973 (FDPA).¹ The 1968 Act made federally subsidized flood insurance available to owners of improved real estate or mobile homes located in special flood hazard areas (SFHA) if their community participates in the NFIP. The NFIP, administered by a department of the Federal Emergency Management Agency (FEMA) known as the Federal Insurance and Mitigation Administration (FIMA), makes federally backed flood insurance available to consumers through NFIP Direct Program agents who deal directly with FEMA or through the Write Your Own (WYO) Program, which allows consumers to purchase federal flood insurance from private insurance carriers. The NFIP aims to reduce the impact of flooding by providing affordable insurance to property owners and by encouraging communities to adopt and enforce floodplain management regulations. The FDPA requires federal financial regulatory agencies to adopt regulations prohibiting their regulated lending institutions from making, increasing, extending, or renewing a loan secured by improved real estate or a mobile home located or to be located in an SFHA in a community participating in the NFIP unless the property securing the loan is covered by flood insurance. Flood insurance may be provided through the NFIP or through a private insurance carrier.

Title V of the Riegle Community Development and Regulatory Improvement Act of 1994,² which is called the National Flood Insurance Reform Act of 1994 (1994 Act), comprehensively revised the federal flood insurance statutes. The purpose of the 1994 Act was to increase compliance with flood insurance requirements and participation in the NFIP in order to provide additional income to the National Flood Insurance Fund and to decrease the financial burden of flooding on the federal government, taxpayers, and flood victims.³ The 1994 Act required the federal financial regulatory agencies, the Board of Governors of the Federal Reserve System (FRB); the Federal Deposit Insurance Corporation (FDIC); the National Credit Union

Administration (NCUA); and the Office of the Comptroller of the Currency (OCC) to revise their current flood insurance regulations and brought lenders regulated by the Farm Credit Administration (FCA) under the coverage of the federal flood insurance statutes. The federal financial regulatory agencies and the FCA (collectively, the Agencies) jointly issued regulations on August 29, 1996 (61 FR 45684).⁴

The 1994 Act also made the flood insurance requirements directly applicable to the loans purchased by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) and to agencies that provide government insurance or guarantees such as the Small Business Administration (SBA), Federal Housing Administration (FHA), and the Department of Veterans Affairs (VA).

The mandatory flood insurance purchase requirements of the FDPA were again significantly amended with the passage of the Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert-Waters Act) and the Homeowner Flood Insurance Affordability Act of 2014 (HFIAA). These statutes made changes to the provisions pertaining to force placement of flood insurance; escrowing of flood insurance premiums and fees; exemptions to the mandatory flood insurance purchase requirement; and civil money penalties. Moreover, a new provision mandating the acceptance of a private flood insurance policy meeting certain criteria as satisfaction of the mandatory purchase requirement was added to the FDPA. The Agencies jointly issued rules addressing force placement, escrow, and the exemption to the mandatory purchase requirement for detached structures on July 21, 2015 (80 FR 43215).

Objectives of the FDPA

- Provide flood insurance to owners of improved real estate located in SFHAs of communities participating in the NFIP.
- Require communities to enact measures designed to reduce or avoid future flood losses as a condition for making federally subsidized flood insurance available.
- Require federal financial regulatory agencies to adopt regulations prohibiting their regulated lending institutions from making, increasing,

1. These statutes are codified at 42 USC §4001-4129. FEMA administers the NFIP; its regulations implementing the NFIP appear at 44 CFR parts 59-80.

2. Pub. L.103-325, Title V, 108 Stat. 2160, 2255-87 (September 23, 1994).

3. H.R. Conf. Rep. No. 652, 103d Cong. 2d Sess. 195 (1994). (Conference Report).

4. Agency regulations are codified at 12 CFR 22 (OCC); 12 CFR 208 (FRB); 12 CFR 339 (FDIC); 12 CFR 614 (FCA); 12 CFR 760 (NCUA).

extending, or renewing a loan secured by improved real estate or a mobile home located or to be located in an SFHA of a community participating in the NFIP, unless the property securing the loan is covered by flood insurance.

- Require federal agencies, such as the FHA, the SBA, and the VA not to subsidize, insure, or guarantee any loan if the property securing the loan is in an SFHA of a community not participating in the NFIP.

Structures Eligible for Flood Insurance under the NFIP

The NFIP covers improved real property or mobile homes located or to be located in an area identified by FEMA as having special flood hazards. Generally, each insurable structure requires a separate insurance policy. The following types of structures are eligible for coverage:

- residential, industrial, commercial, and agricultural buildings that are walled and roofed structures that are principally above ground
- buildings under construction where a development loan is made to construct insurable improvements on the land. Insurance can be purchased to keep pace with the new construction
- mobile homes that are affixed to a permanent site, including mobile homes that are part of a dealer's inventory and affixed to permanent foundations
- condominiums
- co-operative buildings
- flood insurance coverage is also available for personal property and other insurable contents contained in real property or mobile homes located in SFHAs. The property must be insured in order for the contents to be eligible.

Structures Not Eligible for Flood Insurance under the NFIP

- unimproved land, bridges, dams, and roads
- mobile homes not affixed to a permanent site
- travel trailers and campers
- converted buses or vans
- buildings entirely in, on, or over water into which boats are floated
- buildings newly constructed or substantially improved on or after October 1, 1983, in an area designated as an undeveloped coastal barrier with the Coastal Barrier Resource System established by the Coastal Barrier Resources Act (Public Law 97-348)

Flood Insurance Requirements for Lending Institutions

Basic Requirement

Flood insurance, either issued through the NFIP or from a private insurance provider, is required for the term of the loan on buildings or mobile homes when an institution makes, increases, extends, or renews a designated loan, meaning all three of the following factors are present:

- the loan (commercial or consumer) is secured by improved real estate or a mobile home that is affixed to a permanent foundation (security property);
- the property securing the loan is located or will be located in an SFHA as identified by FEMA; and
- the community in which the property is located participates in the NFIP.

In the case of mobile homes, an institution does not have to obtain a security interest in the underlying real estate in order for a loan secured by a mobile home to be covered by the regulations.

The FDPA provides that a regulated lending institution may not make, increase, extend, or renew any loan secured by improved real property that is located in an SFHA unless the improved real property is covered by the minimum amount of flood insurance required by statute. This includes situations where a security interest in improved real property is taken only "out of an abundance of caution."

Nonparticipating Communities

Although a lender may make, increase, extend, or renew a loan in a nonparticipating community, a lender is still required to determine whether the security property is located in an SFHA and if so, to notify the borrower. The lender must also notify the borrower that flood insurance coverage under the NFIP is not available because the community does not participate in the NFIP. If the nonparticipating community has been identified for at least one year as containing an SFHA, properties located in the community will not be eligible for federal disaster relief assistance in the event of a federally declared disaster.

Because of the lack of NFIP flood insurance coverage and limited federal disaster assistance available, a lender should carefully evaluate the risk involved in making such a loan. A lender making a loan in a nonparticipating community may want to require the purchase of private flood insurance, if available. Also, a lender with signifi-

cant lending in nonparticipating communities should establish procedures to ensure that such loans do not constitute an unacceptably large portion of the financial institution's loan portfolio.

Federal agency lenders such as the FHA, the SBA, and the VA will not subsidize, insure, or guarantee any loan if the property securing the loan is in an SFHA of a community not participating in the NFIP. In addition, Freddie Mac and Fannie Mae will not purchase mortgages secured by improved properties located in SFHAs in nonparticipating communities.

Special Situation—Table-Funded Loans

In the typical table-funding situation, the party providing the funding reviews and approves the credit standing of the borrower and issues a commitment to the broker or dealer to purchase the loan at the time the loan is originated. Frequently, all loan documentation and other statutorily mandated notices are supplied by the party providing the funding, rather than the broker or dealer. The funding party provides the original funding "at the table" when the broker or dealer and the borrower close the loan. Concurrent with the loan closing, the funding party acquires the loan from the broker or dealer.

For flood hazard determination purposes, the substance of the table-funded transaction should control and the typical table-funded transaction should be considered a loan made, rather than purchased, by the entity that actually supplies the funds. Regulated institutions that provide table funding to close loans originated by a mortgage broker or mobile home dealer will be considered to be "making" a loan for purposes of the flood insurance requirements.

Treating table-funded loans as loans made by the funding entity need not result in duplication of flood hazard determinations and borrower notices. The funding entity may delegate to the broker or dealer originating the transaction the responsibility for fulfilling the flood insurance requirements or may otherwise divide the responsibilities with the broker or dealer.

Exemptions to the Purchase Requirement

The flood insurance purchase requirement does not apply to the following three loan situations:

1. loans on state-owned property covered under an adequate policy of self-insurance satisfactory to the administrator of FEMA. The administrator will periodically publish a list of state property falling within this exemption

2. loans with an original principal balance of \$5,000 or less, and having an original repayment term of one year or less
3. any structure that is a part of any residential property but is detached from the primary residential structure of such property and does not serve as a residence
 - a structure that is part of a residential property is a structure used primarily for personal, family, or household purposes and not used primarily for agricultural, commercial, industrial, or other business purposes. It is detached from the primary residential structure if it is not joined by any structural connection to that structure;
 - whether a structure serves as a residence is based on the institution's good faith determination that the structure is intended for residential use or actually used as a residence, which generally includes sleeping, bathroom, or kitchen facilities but not necessarily all three.

Amount of Flood Insurance Required

The minimum amount of flood insurance required must be at least equal to the lesser of the outstanding principal balance of the loan, the maximum amount available under the NFIP for the type of structure, or the insurable value of the property. Flood insurance coverage under the NFIP is limited to the building or mobile home and any personal property that secures the loan and not the land itself.

The limits of coverage for flood policies are

- \$250,000 for residential property structures and \$100,000 for personal contents
- \$500,000 for nonresidential structures and \$500,000 for contents
- \$500,000 for non-condominium residential buildings of five units or greater and \$100,000 for personal contents⁵

Waiting Period

NFIP flood insurance policies that are not issued in conjunction with the making, increasing, extending, or renewing of a loan have a 30-day waiting period. The congressional intent behind this requirement was to prevent the purchase of flood insurance (and any direct loss to the U.S. government) in times of imminent loss. However, if the initial purchase of flood insurance is made during the 13-month period following revision or update of a

5. This amount was increased from \$250,000 to \$500,000 as of June 1, 2014.

Flood Insurance Rate Map for the community, there is a one-day waiting period.

There is no waiting period when an additional amount of NFIP insurance is required in connection with the making, increasing, extending or renewing of a loan, such as a second mortgage, home equity loan, or refinancing.

Special Situations—Second Mortgages/Home Equity Loans

Both second mortgages and home-equity loans are transactions that may be subject to the mandatory purchase requirements of the FDPA. Because only one NFIP flood insurance policy can be issued on a building, an institution should not request a new NFIP flood insurance policy if one already exists. Instead, the institution should have the borrower contact the insurance agent

- to inform the agent of the intention to obtain a loan involving a subordinate lien,
- to obtain verification of the existence of a flood insurance policy, and
- to check whether the amount of insurance covers all loan amounts.

After obtaining this information, the insurance agent should increase the amount of NFIP coverage if necessary and issue an endorsement that will reflect the institution as a lien holder.

As an alternative, the borrower may also consider obtaining a private flood insurance policy in the proper amount.

For loans with approved lines of credit to be used in the future, it may be difficult to calculate the amount of insurance for the loan since the borrower will be drawing down differing amounts on the line at different times. If there is no policy on the collateral, the borrower must, at a minimum, obtain a policy as a requirement for drawing on the line. As a matter of administrative convenience to ensure compliance with the requirements, an institution may take the following alternative approaches:

- as part of its procedures, an institution should review its records periodically so that as draws are made against the line or repayments made to the account, the appropriate amount of insurance coverage can be maintained; or
- upon origination, require the purchase of flood insurance for the total amount of the line, the value of the improved property or the maximum amount of flood insurance coverage available, whichever is less.

Special Situations—Condominium Policies

FEMA's condominium master policy is called a Residential Condominium Building Association Policy (RCBAP). The RCBAP covers both the common and individually owned building elements within the units, improvements within the units, and contents owned in common if contents coverage is purchased. The maximum amount of building flood insurance coverage that can be purchased under an RCBAP is either 100 percent of the replacement cost value of the building or the total number of units in the condominium building times \$250,000, whichever is less.

An institution must ensure that the minimum amount of flood insurance covering the condominium unit is the lesser of

- the outstanding principal balance of the loan; or
- the maximum amount of insurance available under the NFIP, which is the lesser of
 - the maximum limit available for the residential condominium unit; or
 - the insurable value allocated to the residential condominium unit, which is the replacement cost value of the condominium building divided by the number of units.

Therefore, an institution must require a borrower whose loan is secured by a residential condominium unit to either

- ensure the condominium owners association has purchased an RCBAP, or other flood insurance policy, covering either 100 percent of the replacement cost value of the building or the total number of units in the condominium building times \$250,000, whichever is less; or
- obtain a Dwelling Policy if the condominium owners association has not purchased flood insurance as described above or if that coverage is less than either 100 percent of the replacement cost value of the building or the total number of units in the condominium building times \$250,000, whichever is less. The amount of coverage under a Dwelling Policy required to be purchased by the individual unit owner would be the difference between the condominium policy's coverage allocated to that unit and the mandatory flood insurance purchase requirements discussed above.

For instance, the maximum amount of coverage on a 50-unit condominium building would be \$12,500,000 (\$250,000 x 50). If the replacement cost value of the building was \$10,000,000, the condominium association could purchase a policy of \$10,000,000. This amount of insurance would meet the requirements of the regulations for any

individual unit insurance requirement in the condominium.

Nonresidential condominium buildings are not eligible for coverage under the RCBAP. The NFIP offers a maximum amount of building coverage up to \$500,000 for these buildings and \$500,000 for commonly owned contents. Under the NFIP, the owner of a nonresidential condominium unit within a nonresidential condominium building may purchase only contents coverage for that unit. Building coverage may not be purchased in the name of the unit owner. The maximum allowable contents coverage for nonresidential owners is \$500,000.

Other Special Situations

- *Multiple Structures*—Multiple structures that secure a loan located in an SFHA must each be covered by flood insurance, even though the value of one structure may be sufficient to cover the loan amount. Under the NFIP, FEMA generally requires one policy per building, but also permits borrowers to insure nonresidential buildings using one policy with a schedule separately listing each building. This coverage alternative may be especially useful for loans secured by agricultural properties and improvements.
- *Other Real Estate Owned*—An institution with other real estate owned (OREO) in SFHAs should, as a prudent practice, purchase flood insurance policies on its OREO property, although it is not required to do so by the regulations.

Escrow Requirements

The regulations require the escrowing of flood insurance premiums and fees for designated loans secured by residential improved real estate or a mobile home made, increased, renewed, or extended on or after January 1, 2016. In addition, institutions must offer and make available the option to escrow for flood insurance premiums and fees to borrowers with designated loans secured by residential improved real estate or a mobile home outstanding as of January 1, 2016. The escrow provisions are designed to improve compliance with flood insurance requirements by ensuring that borrowers with designated loans secured by residential improved real estate or a mobile home set aside funds to maintain flood insurance for the life of the loan.

While the escrow requirement pertains generally to any designated loan secured by residential improved real estate or a mobile home, there are two types of exceptions: a small lender exception and a loan-type exception. The regulation provides that an institution is not required to escrow if it has total assets of less than \$1 billion as of Decem-

ber 31 of either of the two prior calendar years and, as of July 6, 2012,

- the institution was not required by federal or state law to escrow taxes, insurance premiums, fees, or any other charges for the term of the loan; and
- the institution did not have a policy of uniformly and consistently escrowing the same.

If an excepted institution no longer qualifies for the exception because its assets exceeded the threshold for two consecutive calendar year ends, it must begin escrowing for any designated loan secured by residential improved real estate or a mobile home made, increased, extended, or renewed on or after July 1 of the first calendar year of changed status. If a financial institution provides escrow accounts only upon requests from borrowers, this does not constitute a uniform or consistent policy of requiring escrows.

In addition, the escrow requirement does not apply to the following types of loans

- extensions of credit primarily for business, commercial, or agricultural purposes even if secured by residential real estate;
- loans in a subordinate position to a senior lien secured by the same property upon which the borrower has obtained sufficient flood insurance;
- loans secured by a property that is covered by a flood insurance policy with sufficient flood insurance coverage, which is provided by a condominium, cooperative, or homeowners association;
- home equity lines of credit;
- nonperforming loans; or
- loans with a term of no longer than 12 months.

A nonperforming loan in this instance is a loan that is 90 or more days past due and remains nonperforming until it is permanently modified or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of the past due status, is collected or otherwise discharged in full.

A loan that has a term exceeding 12 months does not qualify for the 12-month exception, even if one phase of the loan is for 12 months or less.

If the institution determines that a loan no longer qualifies for one of these loan-type exceptions, the institution must begin escrowing as soon as reasonably practicable.

Option to escrow: An institution (or its servicer) must offer and make available to borrowers the option to escrow flood insurance premiums and fees for designated loans secured by residential improved real estate or a mobile home that are outstanding as of January 1, 2016. In addition, an

institution must provide the option to escrow notice to borrowers by June 30, 2016. A model clause for the notice on the option to escrow is provided in appendix B of the regulations.

An institution that no longer qualifies for the small lender exception must provide a notice of the option to escrow flood insurance premiums and fees for loans outstanding on July 1 of the first calendar year in which it has a change in status by September 30 of that year. Further, the financial institution must begin escrowing as soon as reasonably practicable after receiving a borrower's request to escrow. The notice regarding the option to escrow does not have to be provided in conjunction with any other disclosure or be segregated from other information provided to the borrower. An institution may choose whether to provide a separate notice or add it to any other disclosure the lender provides the borrower, such as a periodic statement.

Standard Flood Hazard Determination Form

When an institution makes, increases, extends, or renews any loan secured by improved real estate or by a mobile home, it must use the standard flood hazard determination form (SFHDF) developed by FEMA⁶ to determine whether the building or mobile home offered as security property is or will be located in an SFHA in which flood insurance is available under the federal flood insurance statutes.

An institution can use a printed, computerized, or electronic form. It must retain a copy of the completed form, in either hard copy or electronic format, for the period of time it owns the loan. FEMA has stated that if an electronic format is used, the format and exact layout of the SFHDF is not required, but the fields and elements listed on the form are required. Accordingly, any electronic format used by an institution must contain all mandatory fields indicated on the SFHDF.

The SFHDF is available on the FEMA website at www.fema.gov/media-library/assets/documents/225.

Decisions as to the applicability of flood insurance may not be based on an institution's unilateral determination of elevations at which floods may occur. Official elevation determinations and, therefore, map revisions or amendments, Letter of Map Revision (LOMR) or Letter of Map Amendment (LOMA), respectively, may be performed only by FEMA.

6. See 63 FR 27857 (May 21, 1998) (codified at 44 CFR § 65.16).

Letter of Map Amendment

- A flood map will occasionally show a property as being in an SFHA, even though the building on the property is actually above the base flood elevation. In practice, flood insurance maps do not reflect every rise in terrain, and there may be instances of high ground inadvertently included in the SFHAs. Nevertheless, lenders are bound by the information shown on the FEMA maps until the map is changed by FEMA.
- To resolve such a situation, a property owner can submit elevation materials with a request to FEMA for a LOMA to remove the property from the SFHA. The request must be submitted on the appropriate FEMA application form available at www.fema.gov/flood-mapping-related-forms.
- Upon receiving a complete application package, FEMA will normally complete its review and issue its determination within four to six weeks.
- After obtaining a LOMA, a borrower must submit it to the lender for the flood insurance requirement to be waived. The lender has the discretion to continue to require flood insurance if the lender determines it is prudent to do so.

Letter of Map Revision

- A LOMR is appropriate when physical changes are necessary to raise the land above the base flood elevation 100-year flood level. For example, a LOMR request is appropriate when a property, located within an SFHA, is graded and filled to raise the level of the land above the base flood elevation 100-year flood level. The request for a LOMR must be initiated and approved by the community since changes in land level may affect other property owners. Community approval also confirms that the change in the land has been reviewed and is compatible with the community's planning.
- A LOMR request must be submitted to FEMA on the appropriate form, available at www.fema.gov/flood-mapping-related-forms.
- After obtaining a LOMR, the borrower must submit it to the lender before the flood insurance requirement is waived. The lender has the discretion to continue to require flood insurance if the lender determines that it is prudent to do so.

Flood maps, Standard Flood Hazard Determination forms, and Community Status Books may be obtained from FEMA by

- calling: 1-800-358-9616 or 1-800-611-6125, or
- ordering online: <http://msc.fema.gov/portal>.

To obtain information on a community's participation status, contact a FEMA representative at

1-800-358-9616 to request a community status book. Information on community status is also available on the Internet at www.fema.gov/national-flood-insurance-program-community-status-book.

Reliance on Prior Determination

An institution may rely on a prior flood determination, whether or not the security property is located in an SFHA, and it is exempt from liability for errors in the previous determination if

- the previous determination is not more than seven years old, and
- the basis for the previous determination was recorded on the SFHDF.

There are, however, some circumstances in which an institution may not rely on a previous determination, such as

- if FEMA's map revisions or updates show that the security property has been remapped into an SFHA, or
- if the lender contacts FEMA and discovers that map revisions or updates affecting the security property have been made after the date of the previous determination.

An institution may also rely on a previous determination, which is not more than seven years old and is set forth on an SFHDF, when it increases, extends, renews, or purchases a loan. The making of a loan is not listed as a permissible event that permits an institution to rely on a previous determination. However, when the loan involves a refinancing or assumption by the same lender who obtained the original flood determination on the same property, the institution may rely on the previous determination, but only if the original determination was made not more than seven years before the date of the transaction, the basis for the determination was set forth on the SFHDF, and there were no map revisions affecting the property since the original determination was made. The same is true for multiple loans made by the same lender to the same borrower secured by the same property. A new determination is required when a loan refinancing or assumption is made by a lender different from the one who obtained the original determination because this constitutes a new loan.

Force Placement Requirements

An institution is not required to monitor for map changes, and flood determinations are not required to be made at any time other than when a loan is made, increased, extended, or renewed. If, however, at any time during the life of the loan the

institution or its servicer determines that required flood insurance is deficient, the Agencies' regulations require initiation of force placement procedures.

An institution or a servicer acting on its behalf is required to purchase or "force place" flood insurance for the borrower if the institution or the servicer determines that coverage is inadequate. An institution, or servicer acting on its behalf, upon discovering that the security property is not covered by an adequate amount of flood insurance, must provide notice to the borrower that the borrower should obtain flood insurance. If the borrower fails to purchase flood insurance in the appropriate amount within 45 days, the lender must purchase insurance on the borrower's behalf. If there is a brief delay in force placing coverage, the Agencies expect the lender to be able to provide a reasonable explanation, for example, because the lender uses batch processing when purchasing force-placed flood insurance policies.

An institution or its servicer continues to be responsible for ensuring that if flood insurance was required at origination, the borrower renews the flood insurance policy and continues to renew it for as long as flood insurance is required for the security property. If a borrower allows a policy to lapse when insurance is required, the institution or its servicer is required to commence force placement procedures.

Under the Biggert-Waters Act, an institution may force place and charge for insurance beginning on the date on which flood insurance coverage lapsed or did not provide a sufficient coverage amount. The Biggert-Waters Act also provides that an institution must terminate force-placed insurance within 30 days of receipt of confirmation of a borrower's existing flood insurance coverage. Additionally, an institution must refund to the borrower all premiums and fees for force-placed insurance paid by the borrower during any period of overlap between the borrower's policy and the force-placed policy. Because an insurer is the entity that actually cancels the policy, an institution need only notify the insurer to terminate the force-placed policy in order to comply with the termination requirement.

Force placement authority is designed to be used if, over the term of the loan, the institution or its servicer determines that flood insurance coverage on the security property is deficient; that is, whenever the amount of coverage in place is not equal to the lesser of the outstanding principal balance of the loan or the maximum coverage available under the NFIP. If a borrower fails to obtain the required amount of flood insurance coverage upon notification by an institution or its servicer, the amount that must be force placed is

equal to the difference between the present amount of coverage, if any, and the lesser of the outstanding principal balance or the maximum coverage limit.

There is no required form of notice to borrowers for use in connection with the force placement procedures. An institution or its servicer may choose to send the notice directly or may use the insurance company that issues the force placement policy to send the notice. Force-placed flood insurance policies are available through private insurers or through the NFIP. FEMA has developed the Mortgage Portfolio Protection Program (MPPP) to assist lenders in connection with force-placement procedures. For information concerning the MPPP, lenders and others should consult FEMA's website.⁷

Determination Fees

The regulations permit an institution or its servicer to charge a reasonable fee to the borrower for the costs of making a flood hazard determination under the following circumstances:

- the borrower initiates a transaction (making, increasing, extending, or renewing a loan) that triggers a flood hazard determination;
- there is a revision or updating of floodplain areas or risk zones by FEMA;
- the determination is due to FEMA's publication of a notice that affects the area in which the loan is located; or
- the determination results in the purchase of flood insurance under the force placement provision.

The loan agreement or other contractual documents between the parties may also permit the imposition of fees.

The authority to charge a borrower a reasonable fee for a flood hazard determination extends to a fee for life-of-loan monitoring by either the institution, its servicer, or by a third party, such as a flood hazard determination company.

Truth in Lending Act Issues

The Commentary to Regulation Z states that a fee for services that will be performed periodically during the loan term is a finance charge, regardless of whether the fee is imposed at closing, or when the service is performed. This would include the fee for life-of-loan monitoring. The fee for the original flood determination (i.e., whether a security property is in an SFHA) is excluded from the finance

charge. The Commentary further indicates that any portion of a fee that does not relate to the initial decision to grant credit must be included in the finance charge.⁸ If creditors are uncertain about what portion of a fee is related to the initial decision to grant credit, the entire fee may be treated as a finance charge.

Notice of Special Flood Hazards and Availability of Federal Disaster Relief Assistance

When an institution makes, increases, extends, or renews a loan secured by property that is or will be located in an SFHA, the institution must provide a written notice of special flood hazards to the borrower and the servicer, if there is one. This notice of special flood hazards must be provided regardless of whether the security property is located in a participating or nonparticipating community. The written notice must contain the following information:

- a warning that the building or mobile home is or will be located in an SFHA
- a description of the flood purchase requirements contained in section 102(b) of the FDPA, as amended
- a statement, if applicable, that flood insurance coverage is available under the NFIP and may also be available from private insurers
- a statement that flood insurance coverage is available from private insurance companies that issue standard flood insurance policies on behalf of the NFIP or directly from the NFIP
- a statement that flood insurance that provides the same level of coverage as a standard flood insurance policy under the NFIP may also be available from a private insurance company that issues policies on behalf of the company
- a statement that the borrower is encouraged to compare flood insurance policies issued on behalf of the NFIP and policies issued on behalf of private insurance companies, and that the borrower should inquire about the availability, cost, and comparisons of flood insurance coverage to an insurance agent
- a statement whether federal disaster relief assistance may be available in the event of damage to the building or mobile home, caused by flooding in a federally declared disaster

For any loan for which an institution is required to escrow under the regulations, the institution must provide a written notice with the notice of special flood hazards informing the borrower that the

7. See www.fema.gov/media-library-data/1444065610669-6de95573a833329e4a889e95569d5d9b/11_mppp_508_nov2015.pdf.

8. See 12 CFR part 1026, supplement 1, comment 4(c)(7)-3.

institution is required to escrow all premiums and fees for flood insurance required under the regulations. The language in the notice about escrow should be substantially similar to the model clauses provided in appendix A of the regulations, under the section titled "Escrow Requirements for Residential Loans." The escrow notice may be provided in the notice of special flood hazards or separately.

An institution may use the sample form contained in appendix A to the regulations to comply with the notice requirements. The sample form is an example of an acceptable form the notice may take and contains additional information not required under the regulations. Lenders may also personalize, change the format of, and add information to the sample form if they wish to do so. However, to ensure compliance with the notice requirements, a lender-revised notice form must provide the borrower, at a minimum, with the information required by the regulations.

The regulations permit an institution to rely on assurances from a seller or lessor that the seller or lessor has provided the requisite notice to the purchaser or lessee. As an example, this alternate form of notice might arise in a situation in which the lender is providing financing through a developer for the purchase of condominium units by multiple borrowers. The lender may not deal directly with the individual condominium unit purchaser and need not provide notice to each purchaser but may instead rely on the developer/seller's assurances that the developer/seller has given the required notice.

Delivery of the notice of special flood hazards must take place within a "reasonable time" before the completion of the transaction. What constitutes "reasonable" notice will necessarily vary according to the circumstances of particular transactions. An institution should bear in mind, however, that a borrower should receive notice timely enough to ensure that

- the borrower has the opportunity to become aware of the borrower's responsibilities under the NFIP; and
- where applicable, the borrower can purchase flood insurance before completion of the loan transaction.

The Agencies generally regard 10 days as a "reasonable" time interval.

Notice to Servicer

Loan servicers must also be notified of special flood hazards. In many cases, the servicer's identity will not be known until well after the loan closing; consequently, notification to the servicer in advance of the loan closing would not be possible

or would serve no purpose. Notice to the servicer is required as promptly as practicable after the institution provides notice to the borrower, and must be given no later than at the time the lender transmits to the servicer other loan data concerning hazard insurance and taxes. Delivery to the servicer of a copy of the borrower's notice suffices as notice to the servicer.

Notice to the Administrator of FEMA

An institution must notify the administrator of FEMA, or the administrator's designee, of the identity of the loan servicer and of any change in the servicer. FEMA has designated the insurance carrier as its designee to receive notice of the servicer's identity and of any change thereof, and at FEMA's request this designation is stated in the regulations. Notice of the identity of the servicer will enable FEMA's designee to provide notice to the servicer of a loan 45 days before the expiration of a flood insurance contract. Notice is required to be sent within 60 days of the effective date of the transfer of servicing. No standard form of notice is required to be used; however, the information should be sufficient for the administrator, or the administrator's designee, to identify the security property and the loan, as well as the new servicer and its address.

Notice of Option to Escrow

When an institution must offer and make available to a borrower the option to escrow flood insurance premiums and fees, the institution is required to mail or deliver to the borrower a written notice of the option to escrow for required flood insurance. The language in this notice must be similar to the language in the model clause of appendix B of the regulations. The notice must also include the method(s) by which the borrower may request the escrow. Institutions must mail or deliver the notice no later than June 30, 2016, for any loan covered by flood insurance and outstanding on January 1, 2016.

Institutions that no longer qualify for the small lender exception must mail or deliver, for any loan covered by flood insurance and outstanding on July 1 of the first calendar year in which the institution had a change in status, the notice by September 30 of that year.

Recordkeeping Requirements

The record keeping requirements of the regulations include retention of

- copies of completed SFHDFs in either hard copy or electronic form, for as long as the institution owns the loan; and

- records of the receipt of the notice of special flood hazards to the borrower and the servicer for as long as the institution owns the loan.

There is no particular form required for the record of receipt; however, it should contain a statement from the borrower indicating that the borrower has received the notification. Examples of records of receipt may include

- a borrower's signed acknowledgment on a copy of the notice,
- a borrower-initialed list of documents and disclosures that the lender provided the borrower, or
- a scanned electronic image of a receipt or other document signed by the borrower.

An institution may keep the record of receipt provided by the borrower and the servicer in the form that best suits the institution's business. Institutions that retain these records electronically must be able to retrieve them within a reasonable time.

Penalties and Liabilities

The FDPA provides penalties for violations of

- mandatory flood purchase requirement;
- escrow requirements;
- notice requirements; and
- force placement requirements.

If an institution is found to have a pattern or practice of committing any of these violations, the Agencies are required to assess civil money penalties in an amount not to exceed \$2,000 per violation. Any penalty assessed will be paid into the FEMA National Flood Mitigation Fund. Liability for violations cannot be transferred to a subsequent purchaser of a loan. No penalty may be imposed after the expiration of four years beginning on the date of the occurrence of the violation.

Regulation H—Flood Disaster Protection Examination Objectives and Procedures

EXAMINATION OBJECTIVES

1. To determine whether an institution performs required flood determinations for loans secured by improved real estate or a mobile home affixed to a permanent foundation in accordance with the regulations.
 2. To determine if the institution requires flood insurance in the correct amount when it makes, increases, extends, or renews a loan secured by improved real estate or a mobile home located or to be located in an SFHA in a participating community.
 3. To determine if the institution provides the required notices to the borrower and servicer when the property is located in an SFHA, and to the administrator of FEMA whenever flood insurance is required as a condition of the loan.
 4. To determine if the institution requires flood insurance premiums to be escrowed when required by law.
 5. To determine if the institution complies with the force placement provisions if, at any time during the term of a loan, it determines that flood insurance on the loan is not sufficient to meet the requirements of the regulation.
 6. To initiate corrective action when policies or internal controls are deficient, or when violations of law are identified.
- mobile homes are or will be located in an SFHA.
2. Verify that the process used accurately identifies special flood hazard areas.
 3. For those special flood hazard areas identified, determine if the communities in which they are located participate in the NFIP.
 4. If the detached structure is not covered by flood insurance, review the institution's documented conclusion and verify that the structure meets the exemption.
 5. If the institution provides "table funding" to close loans originated by mortgage brokers or dealers, verify that it complies with regulatory requirements.
 6. If the institution purchases servicing rights, review the contractual obligations placed on the institution as servicer by the owner of the loans to ascertain if flood insurance requirements are identified and compliance responsibilities are adequately addressed.
 7. If the institution utilizes a third party to service loans, review the contractual obligations between the parties to ascertain that flood insurance requirements are identified and compliance responsibilities are adequately addressed.

EXAMINATION PROCEDURES⁹

The following procedures should be performed, as appropriate:

- by reviewing previous examinations and supervisory correspondence;
- by obtaining and reviewing the institution's policies, procedures, and other pertinent information;
- by reviewing the institution's system of internal controls;
- by discussing procedures with management; and
- by reviewing a sample of loan files.

Coverage and Internal Control

1. Determine the method(s) used by the institution to ascertain whether improved real estate or

9. These reflect the interagency examination procedures in their entirety.

Property Determination Requirements

1. Verify that flood zone determinations are accurately recorded on the SFHDF. (Note: An institution is required to prepare a flood hazard determination for all detached structures, including those that may not be in an SFHA or require flood insurance coverage. Because a flood hazard determination is often needed to identify the number and types of structures on the property, conducting a flood hazard determination remains necessary to ensure compliance with the flood insurance requirements.)
2. Verify that the institution relies on a previous determination only if it is not more than seven years old; the determination was recorded on the SFHDF; and the determination is not on a property located in a community that has been remapped.
3. If the institution utilizes a third party to prepare flood zone determinations, review the contractual obligations between the parties to ascertain that flood insurance requirements are identified and compliance responsibilities are adequately covered, including the extent of the third party's

- guarantee of work and the procedures in place to resolve disputes relating to determinations.
4. Verify that the institution retains a copy of the completed SFHDF, in either hard copy or electronic form, for as long as it owns the loan.

Purchase Requirements

1. For loans that require flood insurance, determine that sufficient insurance was obtained prior to loan closing and is maintained for the life of the loan.
2. In connection with a residential property, if flood insurance was not required for a detached structure, determine whether the institution followed its internal policies and procedures and verify that the institution documented its decision in writing not to require insurance for such structure at the time of loan origination.
3. If the institution makes loans insured or guaranteed by a government agency (SBA, VA, or FHA) determine how it complies with the prohibition against making these loans if the security property is in an SFHA within a nonparticipating community.

Determination Fee Requirements

1. Determine that any fees charged to the borrower by the institution for flood zone determinations (absent some other authority such as contract language) are charged only when a loan
 - is made, increased, renewed, or extended;
 - is made in response to a remapping by FEMA; or
 - results in the purchase of flood insurance under the force placement provisions.
2. If other authority permits the institution to charge fees for determinations in situations other than the ones listed above, determine if the institution is consistent in this practice.
3. Determine the reasonableness of any fees charged to a borrower for flood determinations by evaluating the method used by the institution to determine the amount of the charge. Consider, for example, the relationship of the fees charged to the cost of services provided.

Notice Requirements

Notice of Special Flood Hazards and Availability of Federal Disaster Relief Assistance

1. Ascertain that when an institution makes, increases, extends, or renews a loan secured by

property located in an SFHA, written notice is mailed or delivered to the borrower within a reasonable time prior to completion of the transaction.

2. Verify that the notice contains
 - a warning that the property securing the loan is or will be located in an SFHA;
 - a description of the flood insurance purchase requirements;
 - a statement, where applicable, that flood insurance coverage is available under the NFIP and may also be available from private insurers, if applicable;
 - a statement that flood insurance coverage is available from private insurance companies that issue standard flood insurance policies on behalf of the NFIP or directly from the NFIP;
 - a statement that flood insurance that provides the same level of coverage as a standard flood insurance policy under the NFIP may also be available from a private insurance company that issues policies on behalf of the company;
 - a statement that the borrower is encouraged to compare flood insurance policies issued on behalf of the NFIP and policies issued on behalf of private insurance companies, and that the borrower should inquire about the availability, cost, and comparisons of flood insurance coverage to an insurance agent;
 - a statement whether federal disaster relief assistance may be available in the event of damage to the property caused by flooding in a federally declared disaster, if applicable.
3. If an institution is required to escrow under the regulations, verify that the institution provided a written notice with the notice of special flood hazards informing the borrower that the institution is required to escrow all premiums and fees for flood insurance, similar to the model clause in appendix A of the regulations.
4. If the seller or lessor provided the notice to the purchaser or lessee, verify that the institution obtained satisfactory written assurance that the notice was provided within a reasonable time before the completion of the sale or lease transaction.
5. Verify that the institution retains a record of receipt of the notice provided to the borrower for as long as it owns the loan.
6. If applicable, verify that the institution provided written notice to the servicer of the loan within the prescribed time frames and that the institution retains a record of receipt of the notice for as long as it owns the loan.

Notice of the Option to Escrow

1. If the institution is required to send a notice of option to escrow flood insurance premiums and fees, ascertain that written notice is mailed or delivered to the borrower (1) by June 30, 2016 for any loan covered by flood insurance and outstanding on January 1, 2016, or, if applicable; (2) by September 30 of the first calendar year in which the institution has had a change in status and no longer qualifies for the small lender exception for any loan covered by flood insurance and outstanding as of July 1 of that calendar year.
 2. Verify that the notice contains
 - a statement that the borrower has an option to escrow required flood insurance premiums and fees
 - a statement about the methods the borrower may use to request the escrow
- loans secured by residential improved real estate or a mobile home that are outstanding as of January 1, 2016. In addition, verify that an institution started escrowing as soon as reasonably practicable after receiving the borrower's request to escrow.
5. Verify that, for institutions that no longer qualify for the small lender exception, the institution mailed or delivered, for any loan covered by flood insurance and outstanding on July 1 of the first calendar year in which the institution no longer qualifies for the small lender exception, the notice of the option to escrow by September 30 of that year. In addition, verify that the institution started escrowing as soon as reasonably practicable after receiving a borrower's request to escrow.
 6. Verify that the institution's escrow procedures comply with section 10 of the Real Estate Settlement Procedures Act (RESPA).

Notice of Servicer's Identity

1. If the institution transfers servicing of loans to another servicer, ascertain whether it provides notice of the new servicer's identity to the flood insurance carrier (the administrator of FEMA's designee) within prescribed time frames.

Escrow Requirements

1. Verify that the institution escrows for flood insurance premiums and fees for designated loans made, increased, renewed, or extended on or after January 1, 2016, unless the loan qualifies for one of the exceptions or the institution qualifies for the small lender exception.
2. If a designated loan no longer qualifies for a loan-related exception, verify that the institution established an escrow account as soon as reasonably practicable.
3. If the institution no longer qualifies for the small lender exception, verify that the institution started requiring escrow on designated loans made, increased, extended, or renewed on or after July 1 of the first calendar year of changed status.
4. Verify that an institution (or its servicer) offered and made available to borrowers the option to escrow flood insurance premiums and fees for

loans secured by residential improved real estate or a mobile home that are outstanding as of January 1, 2016. In addition, verify that an institution started escrowing as soon as reasonably practicable after receiving the borrower's request to escrow.

5. Verify that, for institutions that no longer qualify for the small lender exception, the institution mailed or delivered, for any loan covered by flood insurance and outstanding on July 1 of the first calendar year in which the institution no longer qualifies for the small lender exception, the notice of the option to escrow by September 30 of that year. In addition, verify that the institution started escrowing as soon as reasonably practicable after receiving a borrower's request to escrow.
6. Verify that the institution's escrow procedures comply with section 10 of the Real Estate Settlement Procedures Act (RESPA).

Force Placement Requirements

1. If the institution determines that flood insurance coverage is less than the amount required by the FDPA, ascertain that it has appropriate policies and procedures in place to exercise its force placement authority.
2. If the institution is required to force place insurance, verify
 - that it provides written notice to the borrower that flood insurance is required; and
 - that if the required insurance is not purchased by the borrower within 45 days from the time that the institution provides the written notice, that the institution purchases the required insurance on the borrower's behalf.
3. If the institution purchases required flood insurance on the borrower's behalf and charges the borrower for premiums and fees incurred for coverage, verify that within 30 days of receiving confirmation of a borrower's existing flood insurance coverage, the institution
 - notifies the insurance provider to terminate the existing force-placed insurance, and
 - refunds to the borrower all force-placed insurance premiums and any fees paid for by the borrower during any period of overlap between the borrower's policy and the force-placed policy.

Regulation H—Flood Disaster Protection Examination Checklist

The following questions are designed to be used in conjunction with the Examination Procedures to guide the examiner in a comprehensive review of the requirements of the regulation as it is applied to depository institutions.

Coverage

- | | | |
|--|-----|----|
| 1. Does the institution offer or extend credit (consumer or commercial) that is secured by improved real estate or mobile homes as defined in the regulations? If yes, complete the remainder of this checklist. | Yes | No |
| 2. If the institution provides “table funding” to close loans originated by mortgage brokers or dealers, does it have procedures to ensure that the requirements of the regulations are followed? | Yes | No |
| 3. If the institution purchases servicing rights to loans covered by the regulation, do the documents between the parties specify the contractual obligations on the institution with respect to flood insurance compliance? | Yes | No |
| 4. If the institution utilizes third parties to service loans covered by the regulation, do the contractual documents between the parties require the servicer to meet the requirements of the regulations? | Yes | No |

Property Determination

- | | | |
|--|-----|----|
| 1. If the institution utilizes a third party to prepare flood zone determinations, do the contractual documents between the parties | Yes | No |
| • provide for the third party's guarantee of work? | Yes | No |
| • contain provisions to resolve disputes relating to determinations, to allocate responsibility for compliance, and to address which party will be responsible for penalties incurred for noncompliance? | Yes | No |
| 2. Are the determinations prepared on the SFHDF developed and authorized by FEMA? | Yes | No |
| • If the form is maintained in electronic format, does it contain the elements required by FEMA? | Yes | No |
| 3. Does the institution maintain a record of the SFHDF either in hard copy or electronic form for as long as it owns the loan? | Yes | No |
| 4. When increasing, extending, renewing, or purchasing a loan (not making a loan), does the institution rely on a prior determination only if it is made on the SFHDF, is no more than seven years old, and the community has not been remapped? | Yes | No |

Determination Fees

- | | | |
|--|-----|----|
| 1. Absent some other authority (such as contract language) does the institution charge a fee to the borrower for a flood determination only when | Yes | No |
| • it is made when a loan is made, increased, renewed, or extended; or | Yes | No |
| • it is made in response to a remapping by FEMA; or | Yes | No |
| • it results in the purchase of flood insurance under the force placement provisions? | Yes | No |
| 2. If the institution has other authority to charge fees for determinations in situations other than those noted above, is the practice followed consistently? | Yes | No |

3. For those loans subject to the Truth in Lending Act (TILA), if the institution requires the borrower to obtain life-of-loan monitoring and passes that charge along to the borrower, does it either
- break out the original determination charge from the charge for life-of-loan monitoring or Yes No
 - include the full amount of the charge as a finance charge? Yes No
4. Are the fees charged by the institution for making a flood determination reasonable? Yes No

Notice Requirements

Notice of Special Flood Hazards and Availability of Federal Disaster Relief Assistance

1. Are borrowers whose security property is located in an SFHA provided written notice of special flood hazards within a reasonable time prior to loan closing? Yes No
2. Does the notice contain the following required information?
 - A warning that the building or mobile home is located in a SFHA; Yes No
 - A description of the flood insurance requirements; Yes No
 - a statement that flood insurance is available under the NFIP and is also available from private insurers; Yes No
 - a statement that flood insurance coverage is available from private insurance companies that issue standard flood insurance policies on behalf of the NFIP or directly from the NFIP; Yes No
 - a statement that flood insurance that provides the same level of coverage as a standard flood insurance policy under the NFIP may also be available from a private insurance company that issues policies on behalf of the company; Yes No
 - a statement that the borrower is encouraged to compare flood insurance policies issued on behalf of the NFIP and policies issued on behalf of private insurance companies, and that the borrower should inquire about the availability, cost, and comparisons of flood insurance coverage to an insurance agent; Yes No
 - a statement whether federal disaster relief assistance may be available in the event of damage to the property caused by flooding in a federally declared disaster, if applicable. Yes No
3. If an institution is required to escrow under the regulations, verify that the institution provided a written notice with the notice of special flood hazards informing the borrower that the institution is required to escrow all premiums and fees for flood insurance, similar to the model clause in appendix A of the regulations. Yes No
4. If the institution uses the alternate notice procedures in certain instances as permitted by the regulation, does it obtain the required satisfactory written assurance from the seller or lessor? Yes No
5. Does the institution provide a copy of the notice of special flood hazards to the servicer of the loan within the required time frames? Yes No
6. Does the institution retain a record of receipt of the notifications provided to the borrower and the servicer for as long as it owns the loan? Yes No

Notice of Option to Escrow

1. If the institution is required to mail or deliver a notice of the option to escrow flood insurance premiums and fees, ascertain that written notice is mailed or delivered to the borrower (1) by June 30, 2016, for any loan covered by flood insurance and outstanding as of January 1, 2016; or (2) if applicable, by September 30 of the first calendar year in which the institution has had a change in status and no longer qualifies for the small lender exception in the regulation for any loan covered by flood insurance and outstanding on July 1 of that calendar year.
- Yes No
2. Verify that the notice contains
 - a statement that the borrower has an option to escrow required flood insurance premiums and fees
 - a statement about the methods the borrower may use to request the escrow.
- Yes No
Yes No

Insurance Requirements

1. If an improved property or mobile home is located in an SFHA and flood insurance is required, does the institution have the borrower obtain a policy, with the institution as loss payee, in the correct amount prior to closing?
- Yes No
2. When multiple properties securing the loan are located in SFHAs, does the institution have sufficient insurance, either through a single policy with a scheduled list of several buildings or multiple policies, to meet the minimum requirements of the regulation? (See narrative for description of minimum requirements.)
- Yes No

Escrow Requirements

1. Does the institution require the escrow of premiums and fees for flood insurance on designated loans secured by residential improved real estate or a mobile home made, increased, extended, or renewed after January 1, 2016, unless the loan qualifies for one of the exceptions or the institution qualifies for the small lender exception?
- Yes No
2. If a designated loan secured by residential improved real estate or a mobile home no longer qualifies for the loan-related exception, does the lender establish an escrow as soon as reasonably practicable?
- Yes No
3. If the institution no longer qualifies for the small lender exception, did the lender begin requiring escrow on designated loans secured by residential improved real estate or a mobile home made, increased, extended, or renewed on or after July 1 of the first calendar year of changed status?
- Yes No
4. Did the institution (or its servicer) offer and make available to borrowers the option to escrow flood insurance premiums and fees for designated loans secured by residential improved real estate or a mobile home that are outstanding as of January 1, 2016? In addition, did the institution start escrowing as soon as reasonably practicable after receiving a borrower's request to escrow?
- Yes No
5. If the institution no longer qualifies for the small lender exception, did the institution mail or deliver, for any loan covered by flood insurance and outstanding on July 1 of the first calendar year in which the institution no longer qualifies for the small lender exception, the notice of the option to escrow by September 30 of that year? In addition, did the institution start escrowing as soon as reasonably practicable after receiving a borrower's request to escrow?
- Yes No
6. Does the institution comply with the provisions of section 10 of RESPA (12 CFR §1024.17 of Regulation X) for escrows?
- Yes No

Force Placement Requirements

1. If at any time during the life of the loan, the institution determines that property securing a designated loan lacks adequate flood insurance coverage:
 - Does the institution provide written notice to the borrower stating that the necessary coverage must be obtained or the institution will purchase it on the borrower's behalf?
 - Does the institution purchase the coverage on the borrower's behalf if the borrower does not obtain the required policy 45 days after the notice to the borrower has been sent?
2. If the institution purchases required flood insurance on the borrower's behalf and charges the borrower for premiums and fees incurred for coverage, verify that within 30 days of receiving confirmation of a borrower's existing flood insurance coverage, the institution
 - notifies the insurance provider to terminate the existing force-placed insurance, and
 - refunds to the borrower all force-placed insurance premiums and any fees paid for by the borrower during any period of overlap between the borrower's policy and the force-placed policy.

Yes No

Yes No

Yes No

Yes No

Notice to Administrator of FEMA

1. Does the institution provide the appropriate notice to the carrier of the insurance policy (the administrator of FEMA's designee) regarding the identity of the servicer of a designated loan?
2. If the institution sells or transfers the servicing of designated loans to another party, does it have procedures in place to provide the appropriate notice to the administrator's designee within 60 days of the effective date of the transfer of the servicing?

Yes No

Yes No

Fair Credit Reporting

Background

The Fair Credit Reporting Act (FCRA) deals with the rights of consumers in relation to their credit reports and the obligations of credit reporting agencies and the businesses that provide information to them. The FCRA has been revised numerous times since it took effect in 1971, notably by passage of the Consumer Credit Reporting Reform Act of 1996, the Gramm-Leach-Bliley Act of 1999, and the Fair and Accurate Credit Transactions Act of 2003 (FACT Act).

The FACT Act created new responsibilities for consumer reporting agencies and users of consumer reports, many concerning consumer disclosures and identity theft. It also created new rights for consumers, including the right to free annual consumer reports and improved access to report information, with the aim of making data in the consumer reporting system more accurate.

Coverage

Business entities that are consumer reporting agencies have significant responsibilities under the FCRA; business entities that are not consumer reporting agencies have somewhat lesser responsibilities. Generally, financial institutions are not considered consumer reporting agencies; however, those that engage in certain types of information-sharing practices can be deemed consumer reporting agencies. In addition, the FCRA applies to financial institutions that operate as

- Procurers and users of information (for example, when granting credit, purchasing dealer paper, or opening deposit accounts),
- Furnishers and transmitters of information (by reporting information to consumer reporting agencies or other third parties, or to affiliates),
- Marketers of credit or insurance products, or
- Employers.

Key Definitions

Key definitions used throughout the FCRA include the following:

Consumer

A *consumer* is an individual.

Consumer Report

A *consumer report* is any written, oral, or other communication of any information by a consumer reporting agency that bears on a consumer's creditworthiness, credit standing, credit capacity, character, general reputation, personal characteristics, or mode of living that is used (or is expected to be used) or collected in whole or in part for the purpose of serving as a factor in establishing the consumer's eligibility for

- Credit or insurance to be used primarily for personal, family, or household purposes;
- Employment purposes; or
- Any other purpose authorized under FCRA, section 604.

The term "consumer report" does not include

- Any report containing information solely about transactions or experiences between the consumer and the institution making the report;
- Any communication of that transaction or experience information among entities related by common ownership or affiliated by corporate control (for example, different banks that are members of the same holding company, or subsidiary companies of a bank);
- Communication of other information among persons related by common ownership or affiliated by corporate control if
 - It is clearly and conspicuously disclosed to the consumer that the information may be communicated among such persons, and
 - The consumer is given the opportunity, before the time the information is communicated, to direct that the information not be communicated among such persons;
- Any authorization or approval of a specific extension of credit directly or indirectly by the issuer of a credit card or similar device;
- Any report in which a person who has been requested by a third party to make a specific extension of credit directly or indirectly to a consumer (such as a lender who has received a request from a broker) conveys his or her decision with respect to such request, if the third party advises the consumer of the name and address of the person to whom the request was made, and such person makes the disclosures to

- the consumer required under FCRA, section 615; or
- A communication described in FCRA, subsection 603(o) or (x) (which relate to certain investigative reports and certain reports to prospective employers).

Person

A *person* is any individual, partnership, corporation, trust, estate, cooperative, association, government or governmental subdivision or agency, or other entity.

Investigative Consumer Report

An *investigative consumer report* is a consumer report or portion thereof for which information on a consumer's character, general reputation, personal characteristics, or mode of living is obtained through personal interviews with neighbors, friends, or associates of the consumer, or with others with whom the consumer is acquainted or who may have knowledge concerning any such information. However, such information does not include specific factual information on a consumer's credit record obtained directly from a creditor of the consumer or from a consumer reporting agency when such information was obtained directly from a creditor of the consumer or from the consumer.

Adverse Action

With regard to credit transactions, the term *adverse action* has the same meaning as used in section 701(d)(6) of the Equal Credit Opportunity Act (ECOA), Regulation B, and the official staff commentary. Under the ECOA, an "adverse action" is a denial or revocation of credit, a change in the terms of an existing credit arrangement, or a refusal to grant credit in substantially the same amount or on terms substantially similar to those requested. Under the ECOA, the term does not include a refusal to extend additional credit under an existing credit arrangement when the applicant is delinquent or otherwise in default, or when such additional credit would exceed a previously established credit limit.

For non-credit transactions, the term has the following additional meanings for purposes of the FCRA:

- A denial or cancellation of, an increase in any charge for, or a reduction or other adverse or unfavorable change in the terms of coverage or amount of any insurance, existing or applied for, in connection with the underwriting of insurance
- A denial of employment, or any other decision for

employment purposes that adversely affects any current or prospective employee

- A denial or cancellation of, an increase in any charge for, or any other adverse or unfavorable change in the terms of any license or benefit described in FCRA, section 604(a)(3)(D)
- An action taken or determination that (1) is made in connection with an application made by, or transaction initiated by, any consumer, or in connection with a review of an account to determine whether the consumer continues to meet the terms of the account, and (2) is adverse to the interests of the consumer

Employment Purposes

A consumer report used for *employment purposes* is a report used for the purpose of evaluating a consumer for employment, promotion, reassignment, or retention as an employee.

Consumer Reporting Agency

A *consumer reporting agency* is any person that (1) for monetary fees, dues, or on a cooperative nonprofit basis regularly engages in whole or in part in the practice of assembling or evaluating consumer credit information, or other information on consumers, for the purpose of furnishing consumer reports to third parties, and (2) uses any means or facility of interstate commerce for the purpose of preparing or furnishing consumer reports.

Implementation of the FCRA

Some of the requirements for financial institutions imposed by the FCRA are written directly into the statute; others are contained in regulations issued jointly by the FFIEC agencies; still others are spelled out in regulations issued by the Federal Reserve Board and/or the Federal Trade Commission.

For examination purposes, similar requirements have been grouped together, creating a series of examination modules. The five modules that have been completed to date cover requirements applicable to financial institutions that are not consumer reporting agencies. A sixth module will cover institutions that are considered consumer reporting agencies. The five completed examination modules are listed below with the statutory or regulatory cites for the FCRA requirements they cover.¹

1. Other FCRA provisions—including section 628 (Disposal Rules)—are covered in other functional examinations, such as safety and soundness examinations, and therefore are not part of these procedures.

Module 1: Obtaining Consumer Reports

- Permissible Purposes of Consumer Reports, and Investigative Consumer Reports—FCRA, Sections 604 and 606

Module 2: Obtaining Information and Sharing among Affiliates

- Consumer Report and Information Sharing—FCRA, Section 603(d)
- Protection of Medical Information—FCRA, Section 604(g), and Regulation V, Sections 222.30–32
- Affiliate Marketing Opt-Out—FCRA, Section 624 and Regulation V, Section 222.20

Module 3: Disclosures to Consumers and Miscellaneous Requirements

- Use of Consumer Reports for Employment Purposes—FCRA, Section 604(b)
- Prescreened Consumer Reports and Opt-Out Notice—FCRA, Sections 604(c) and 615(d); FTC Regulations, Parts 642 and 698
- Truncation of Credit and Debit Card Account Numbers—FCRA, Section 605(g)
- Disclosure of Credit Scores by Certain Mortgage Lenders—FCRA, Section 609(g)
- Adverse Action Disclosures—FCRA, Sections 615(a) and (b)
- Debt Collector Communications concerning Identity Theft—FCRA, Section 615(g)
- Risk-Based Pricing Notice—FCRA, Section 615(h)

Module 4: Duties of Users of Credit Reports and Furnishers of Consumer Report Information

- Duties of Users of Credit Reports Regarding

Address Discrepancies—FCRA, Section 605(h)(1) and Regulation V, Section 222.82

- Furnishers of Information—General—FCRA, Section 623
- Prevention of Re-Pollution of Consumer Reports—FCRA, Section 623(a)(6)
- Negative Information Notice—FCRA, Section 623(a)(7)

Module 5: Consumer Alerts and Identity Theft Protections

- Fraud and Active Duty Alerts—FCRA, Section 605A(h)
- Information Available to Victims—FCRA, Section 609(e)
- Duties of Card Issuers Regarding Changes of Address—FCRA, Section 615(e)(1)(c) and Regulation V, Section 222.91

*Module 6: Requirements for Consumer Reporting Agencies***Organization of Examination Procedures**

The modules in this chapter contain both general information about each of the requirements and examination procedures. Preceding the modules are the objectives and initial procedures for fair credit reporting examinations.

Fair Credit Reporting Examination Objectives and Initial Examination Procedures

EXAMINATION OBJECTIVES

1. To determine the financial institution's compliance with the FCRA
2. To assess the quality of the financial institution's compliance management systems and its policies and procedures for implementing the FCRA
3. To determine the reliance that can be placed on the financial institution's internal controls and procedures for monitoring the institution's compliance with the FCRA
4. To direct corrective action when violations of law are identified or when policies or internal controls are deficient

INITIAL EXAMINATION PROCEDURES

The initial examination procedures are designed to acquaint examiners with the operations and processes of the institution being examined. They focus on the institution's systems, controls, policies, and procedures, including audits and previous examination findings.

The applicability of the various sections of the FCRA and the implementing regulations depends on an institution's unique operations. The functional examination requirements for an institution's FCRA responsibilities are presented topically in modules 1 through 6.

Initially, examiners should

1. Through discussions with management and a review of available information, determine whether the institution's internal controls are adequate to ensure compliance in the area under review. Consider the following:
 - a. Organization charts
 - b. Process flowcharts
 - c. Policies and procedures

- d. Loan documentation
- e. Checklists
- f. Computer program documentation (for example, records that illustrate the fields and types of data reported to consumer reporting agencies, and automated records that track customer opt-outs for FCRA affiliate information sharing)
2. Review any compliance audit material, including workpapers and reports, to determine whether
 - a. The scope of the audit addresses all provisions as applicable;
 - b. Corrective actions were taken to follow up on previously identified deficiencies;
 - c. The testing includes samples covering all product types and decision centers;
 - d. The work performed is accurate;
 - e. Significant deficiencies and their causes are included in reports to management and/or to the board of directors; and
 - f. The frequency of review is appropriate.
3. Review the financial institution's training materials to determine whether
 - a. Appropriate training is provided to individuals responsible for FCRA compliance and operational procedures, and
 - b. The training is comprehensive and covers the various aspects of the FCRA that apply to the individual financial institution's operations.
4. Through discussions with management, determine which portions of the six examination modules will apply.
5. Complete appropriate examination modules; document and form conclusions regarding the quality of the financial institution's compliance management systems and compliance with the FCRA.

Fair Credit Reporting

Examination Module 1: Obtaining Consumer Reports

Overview

Consumer reporting agencies have a significant amount of personal information about consumers. This information is invaluable in assessing a consumer's creditworthiness for a variety of products and services, including loan and deposit accounts, insurance, and telephone services. Access to this information is governed by the Fair Credit Reporting Act (FCRA) to ensure that it is obtained for permissible purposes and is not used for illegitimate purposes.

The FCRA requires any prospective "user" of a consumer report—for example a lender, insurer, landlord, or employer—to have a legally permissible purpose for obtaining a report.

Permissible Purposes of Consumer Reports (FCRA, Section 604) and Investigative Consumer Reports (FCRA, Section 606)

Legally Permissible Purposes

The FCRA allows a consumer reporting agency to furnish a consumer report under the following circumstances and no other:

- In response to a court order or federal grand jury subpoena
- In accordance with the written instructions of the consumer
- To a person, including a financial institution, that it has reason to believe
 - Intends to use the report in connection with a credit transaction involving the consumer (including extending, reviewing, and collecting credit);
 - Intends to use the information for employment purposes;²
 - Intends to use the information in connection with the underwriting of insurance involving the consumer;
 - Intends to use the information in connection with a determination of the consumer's eligibility for a license or other benefit granted by a governmental instrumentality that is required by

2. Use of consumer reports for employment purposes requires specific advance authorization and disclosure notices and, if applicable, adverse action notices. These issues are addressed in module 3 of these examination procedures.

law to consider an applicant's financial responsibility;

- Intends to use the information, as a potential investor or servicer or a current insurer, in connection with a valuation of, or an assessment of the credit or prepayment risks associated with, an existing credit obligation; or
- Otherwise has a legitimate business need for the information
 - a. In connection with a business transaction that is initiated by the consumer, or
 - b. To review an account to determine whether the consumer continues to meet the terms of the account
- In response to a request by the head of a state or local child support enforcement agency (or authorized appointee), if the person certifies various information to the consumer reporting agency regarding the need to obtain the report. (Generally, a financial institution that is not a consumer reporting agency is not involved in such a situation.)

Prescreened Consumer Reports

Users of consumer reports, such as financial institutions, are allowed to obtain prescreened consumer reports in order to make firm offers of credit or insurance to consumers, unless the consumers have elected to opt out of being included on prescreened lists. The FCRA contains many requirements, including an opt-out notice requirement, when prescreened consumer reports are used. In addition to defining prescreened consumer reports, module 3 covers these requirements.

Investigative Consumer Reports

FCRA, section 606, contains specific requirements concerning the use of investigative consumer reports. Such reports contain information about a consumer's character, general reputation, personal characteristics, or mode of living that is obtained in whole or in part through personal interviews with the consumer's neighbors, friends, or associates. If a financial institution procures an investigative consumer report, or causes one to be prepared, the institution must meet the following requirements:

- The institution must clearly and accurately disclose to the consumer that an investigative consumer report may be obtained.
- The disclosure must contain a statement of the

consumer's right to request other information about the report and a summary of the consumer's rights under the FCRA.

- The disclosure must be in writing and must be mailed or otherwise delivered to the consumer not later than three business days after the date on which the report was first requested.
- The financial institution procuring the report must certify to the consumer reporting agency that it has complied with the disclosure requirements and will comply in the event that the consumer requests additional disclosures about the report.

able information and the growth of identity theft, financial institutions should manage the risks associated with obtaining and using consumer reports. They should employ procedures, controls, or other safeguards to ensure that consumer reports are obtained and used only in situations for which there are permissible purposes. Access to, storage of, and destruction of this information should be dealt with under an institution's information-security program; however, obtaining consumer reports initially must be done in compliance with the FCRA.

Institution Procedures

Given the preponderance of electronically avail-

Fair Credit Reporting—Module 1

Examination Procedures

Permissible Purposes of Consumer Reports (FCRA, Section 604) and Investigative Consumer Reports (FCRA, Section 606)

1. Determine whether the financial institution obtains consumer reports.
2. Determine whether the financial institution obtains prescreened consumer reports and/or reports for employment purposes. If it does, complete the appropriate sections of module 3.
3. Determine whether the financial institution procures, or causes to be prepared, investigative consumer reports. If it does, determine whether the appropriate disclosure is given to consumers within the required time periods. In addition, determine whether the institution certifies compliance with the disclosure requirements to the consumer reporting agency.
4. Evaluate the financial institution's procedures to ensure that consumer reports are obtained only for permissible purposes. Confirm that the institution certifies to the consumer reporting

agency the purposes for which it will obtain reports. (The certification is usually contained in the institution's contract with the consumer reporting agency.)

5. If procedural weaknesses or other risks requiring further investigation are noted, such as the receipt of several consumer complaints, review a sample of consumer reports obtained from a consumer reporting agency and determine whether the financial institution had permissible purposes for obtaining the reports. For example,
 - Obtain a copy of a billing statement or other list of consumer reports obtained by the financial institution from the consumer reporting agency over a period of time.
 - Compare this list, or a sample from this list, with the institution's records to ensure that there was a permissible purpose for obtaining the report(s)—for instance, the consumer applied for credit, insurance, or employment. The institution may also obtain a report in connection with the review of an existing account.

Fair Credit Reporting

Examination Module 2: Obtaining Information and Sharing among Affiliates

Overview

The Fair Credit Reporting Act (FCRA) sets forth many substantive compliance requirements for consumer reporting agencies that are designed to help ensure the accuracy and integrity of the consumer reporting system. As noted in the first section of this FCRA chapter, a consumer reporting agency is a person that generally furnishes consumer reports to third parties. By their very nature, banks, credit unions, and thrifts hold a significant amount of consumer information that could constitute a consumer report. Communication of this information could cause the institution to become a consumer reporting agency. The FCRA contains several exceptions that enable a financial institution to communicate this type of information, within strict guidelines, without becoming a consumer reporting agency.

Rather than containing strict information-sharing prohibitions, the FCRA creates a business disincentive such that if a financial institution shares consumer report information outside of the exceptions, the institution becomes a consumer reporting agency and is subject to the significant, substantive requirements of the FCRA applicable to those entities. Typically, a financial institution will structure its information-sharing practices within the exceptions to avoid becoming a consumer reporting agency. This examination module generally covers the information-sharing practices within these exceptions.

If upon completion of this module, examiners determine that the financial institution's information-sharing practices fall outside of these exceptions, the institution may be considered a consumer reporting agency, and the examination procedures in module 6 should be completed.

Consumer Report and Information Sharing (FCRA, Section 603(d))

FCRA, section 603(d), defines a consumer report to include information about a consumer that bears on a consumer's creditworthiness, character, and credit capacity, among other characteristics. Communication of this information may cause a person, including a financial institution, to become a consumer reporting agency. The statutory definition contains key exceptions to this definition that enable a financial institution to share this type of information under certain circumstances without becoming a consumer reporting agency. Specifi-

cally, the term "consumer report" does not include the following:

- A report containing information solely related to transactions or experiences between the consumer and the financial institution making the report. A person, including a financial institution, may share information strictly related to its own transactions or experiences with a consumer (such as the consumer's record with a loan or savings account at an institution) with any third party, without regard to affiliation, without becoming a consumer reporting agency. This type of information sharing may, however, be restricted under the Privacy of Consumer Financial Information regulations that implement the Gramm-Leach-Bliley Act (GLBA) because the information meets the definition of nonpublic personal information under the Privacy regulations; sharing it with nonaffiliated third parties may be subject to opt-out provisions under the Privacy regulations. In turn, the FCRA may restrict activities that the GLBA permits. For example, the GLBA permits a financial institution to share lists of its customers and information about those customers, such as their credit scores, with another financial institution for the purpose of jointly marketing or sponsoring other financial products or services. Such a communication may be considered a consumer report under the FCRA and could cause the sharing institution to become a consumer reporting agency.
- Communication of such transaction or experience information among persons, including financial institutions, related by common ownership or affiliated by corporate control.
- Communication of other information (that is, other than transaction or experience information) among persons, including financial institutions, related by common ownership or affiliated by corporate control (1) if it is clearly and conspicuously disclosed to the consumer that the information will be communicated among such entities and (2) if, before the information is initially communicated, the consumer is given the opportunity to opt out of the communication. Thus, a financial institution is allowed to share information (other than information about its own transactions or experiences) that could otherwise constitute a consumer report without becoming a consumer reporting agency under the following circumstances:
 - The sharing of the "other" information is done with affiliates

- Consumers are provided with the notice and an opportunity to opt out of this sharing before the information is first communicated among affiliates

“Other” information can include, for example, information provided by a consumer on an application form concerning accounts with other financial institutions. It can also include information obtained by a financial institution from a consumer reporting agency, such as the consumer’s credit score. If a financial institution shares other information with affiliates without providing a notice and an opportunity to opt out, the institution may become a consumer reporting agency subject to the FCRA requirements.

The opt-out right required by this section must be stated in a financial institution’s privacy notice, as required by the GLBA and its implementing regulations.

Other Exceptions

Specific Extensions of Credit

In addition, the term “consumer report” does not include the communication of a specific extension of credit directly or indirectly by the issuer of a credit card or similar device. For example, this exception allows a lender to communicate an authorization through a credit card network to a retailer, to enable a consumer to complete a purchase using a credit card.

Credit Decision to Third Party

The term “consumer report” also does not include any report in which a person, including a financial institution, that has been requested by a third party (such as an automobile dealer) to make a specific extension of credit directly or indirectly to a consumer conveys the decision with respect to the request. The third party must advise the consumer of the name and address of the financial institution to which the request was made, and the financial institution must make the adverse action disclosures when required by FCRA, section 615. For example, this exception allows a lender to communicate a credit decision to an automobile dealer that is arranging financing for the purchase of an automobile by a consumer who requires a loan to finance the transaction.

“Joint User” Rule

The Federal Trade Commission staff commentary discusses another exception, known as the Joint User Rule. Under this exception, users of consumer reports, including financial institutions, may

share information with each other if they are jointly involved in the decision to approve a consumer’s request for a product or service, provided that each has a permissible purpose for obtaining a consumer report on the individual. For example, a consumer applies for a mortgage loan that will have a high loan-to-value ratio, and thus the lender will require private mortgage insurance (PMI) in order to approve the application. The PMI will be provided by an outside company. The lender and the PMI company may share consumer report information about the consumer because both entities have permissible purposes for obtaining the information and they are jointly involved in the decision to grant products to the consumer.

This exception applies both to entities that are affiliated and to nonaffiliated third parties. It is important to note that the GLBA still applies to the sharing of nonpublic personal information with nonaffiliated third parties; therefore, financial institutions should be aware that sharing under the FCRA Joint User Rule may still be limited or prohibited by the GLBA.

Protection of Medical Information (FCRA, Section 604(g); and Regulation V, Subpart D)

Section 604(g) generally prohibits creditors from obtaining and using medical information in connection with any determination of the consumer’s eligibility, or continued eligibility, for credit. The statute contains no prohibition regarding creditors’ obtaining or using medical information for other purposes that are not in connection with a determination of the consumer’s eligibility, or continued eligibility, for credit.

Section 604(g)(5)(A) required the FFIEC agencies to prescribe regulations that permit transactions determined to be necessary and appropriate to protect legitimate operational, transactional, risk, consumer, and other needs (including administrative verification purposes) and that are consistent with the congressional intent to restrict the use of medical information for inappropriate purposes. The agencies published final rules in the *Federal Register* (70 FR 70664) on November 22, 2005; subpart D of Regulation V implements the requirements for entities supervised by the Federal Reserve. The rules contain the general prohibition regarding obtaining or using medical information and provide exceptions for the limited circumstances under which medical information may be used. The rules define “credit” and “creditor” as having the same meanings as in section 702 of the Equal Credit Opportunity Act.

Obtaining and Using Unsolicited Medical Information (Regulation V, § 222.30(c))

A creditor does not violate the prohibition on obtaining medical information if it receives the medical information pertaining to a consumer in connection with any determination of the consumer's eligibility, or continued eligibility, for credit without specifically requesting medical information. However, the creditor may use this medical information only in connection with a determination of the consumer's eligibility, or continued eligibility, for credit in accordance with either the financial information exception or one of the specific other exceptions provided in the rules. These exceptions are discussed below.

Financial Information Exception (Regulation V, § 222.30(d))

A creditor is allowed to obtain and use medical information pertaining to a consumer in connection with any determination of the consumer's eligibility, or continued eligibility, for credit, so long as all of the following conditions are met:

- The information is the type of information routinely used in making credit eligibility determinations, such as information relating to debts, expenses, income, benefits, assets, collateral, or the purpose of the loan, including the use of the loan proceeds.
- The creditor uses the medical information in a manner and to an extent that is no less favorable than it would use comparable information that is not medical information in a credit transaction.
- The creditor does not take the consumer's physical, mental, or behavioral health, condition or history, type of treatment, or prognosis into account as part of any such determination.

The financial information exception is designed in part to allow a creditor to consider a consumer's medical debts and expenses in the assessment of that consumer's ability to repay the loan according to the loan terms. The financial information exception also allows a creditor to consider the dollar amount and continued eligibility for disability income, worker's compensation income, or other benefits related to health or a medical condition that is relied on as a source of repayment.

The creditor may use the medical information in a manner and to an extent that is *no less favorable* than it would use comparable nonmedical information. For example, a consumer includes on an application for credit information about two \$20,000 debts. One debt is to a hospital; the other is to a retailer. The creditor may use and consider the debt

to the hospital in the same manner in which it considers the debt to the retailer, such as including the debts in the calculation of the consumer's proposed debt-to-income ratio. In addition, the consumer's history of payment of the debt to the hospital may be considered in the same manner as payment of the debt to the retailer. For example, if the creditor does not grant loans to applicants who have debts that are ninety days past due, the creditor could consider the past-due status of a debt to the hospital in the same manner as it considers the past-due status of a debt to the retailer.

A creditor may use medical information in a manner that is more favorable to the consumer, according to its regular policies and procedures. For example, if a creditor has a routine policy of declining consumers who have a ninety-day past-due installment loan to a retailer but does not decline consumers who have a ninety-day past-due debt to a hospital, the financial information exception would allow the creditor to continue this policy without violating the rules, because in such a case, the creditor's treatment of the hospital debt is more favorable to the consumer.

A creditor may not take the consumer's physical, mental, or behavioral health, condition or history, type of treatment, or prognosis into account as part of any determination regarding the consumer's eligibility, or continued eligibility, for credit. The creditor may consider only the financial implications as discussed above, such as the status of a debt to a hospital or the continuance of disability income.

Specific Exceptions for Obtaining and Using Medical Information (Regulation V, § 222.30(e))

In addition to the financial information exception, the rules provide for the following nine specific exceptions under which a creditor may obtain and use medical information in its determination of the consumer's eligibility, or continued eligibility, for credit:

1. To determine whether the use of a power of attorney or legal representative that is triggered by a medical condition or event is necessary and appropriate, or whether the consumer has the legal capacity to contract when a person seeks to exercise a power of attorney or act as a legal representative for a consumer on the basis of an asserted medical condition or event. For example, if person A is attempting to act on behalf of person B under a power of attorney that is invoked on the basis of a medical event, a creditor is allowed to obtain and use medical information to verify that person B has experienced a medical condition or event such that

- person A is allowed to act under the power of attorney.
2. To comply with applicable requirements of local, state, or federal laws
 3. To determine, at the consumer's request, whether the consumer qualifies for a legally permissible special credit program or credit-related assistance program that is
 - Designed to meet the special needs of consumers with medical conditions, and
 - Established and administered pursuant to a written plan that
 - Identifies the class of persons that the program is designed to benefit, and
 - Sets forth the procedures and standards for extending credit or providing other credit-related assistance under the program
 4. To the extent necessary for purposes of fraud prevention or detection
 5. In the case of credit for the purpose of financing medical products or services, to determine and verify the medical purpose of the loan and the use of the proceeds
 6. Consistent with safe and sound banking practices, if the consumer or the consumer's legal representative requests that the creditor use medical information in determining the consumer's eligibility, or continued eligibility, for credit to accommodate the consumer's particular circumstances, and such request is documented by the creditor. For example, at the consumer's request, a creditor may grant an exception to its ordinary policy to accommodate a medical condition that the consumer has experienced. This exception allows a creditor to consider medical information in this context, but it does not require a creditor to make such an accommodation, nor does it require a creditor to grant a loan that is unsafe or unsound.
 7. Consistent with safe and sound practices, to determine whether the provisions of a forbearance practice or program that is triggered by a medical condition or event apply to a consumer. For example, if a creditor has a policy of delaying foreclosure in cases in which a consumer is experiencing a medical hardship, this exception allows the creditor to use medical information to determine if the policy would apply to the consumer. Like exception 6 above, this exception does not require a creditor to grant forbearance; it merely provides an exception so that a creditor may consider medical information in these instances.
 8. To determine the consumer's eligibility for, the triggering of, or the reactivation of a debt-cancellation contract or debt-suspension agreement if a medical condition or event is a triggering event for the provision of benefits under the contract or agreement
 9. To determine the consumer's eligibility for, the triggering of, or the reactivation of a credit insurance product if a medical condition or event is a triggering event for the provision of benefits under the product

Limits on Redisclosure of Information (Regulation V, § 222.31(b))

If a creditor subject to the medical information rules receives medical information about a consumer from a consumer reporting agency or its affiliate, the creditor must not disclose that information to any other person, except as necessary to carry out the purpose for which the information was initially disclosed or as otherwise permitted by statute, regulation, or order.

Sharing Medical Information with Affiliates (Regulation V, § 222.32(b))

In general, the exclusions from the definition of "consumer report" in FCRA, section 603(d)(2), allow the sharing of information among affiliates. With regard to medical information, FCRA, section 603(d)(3), provides that the exclusions in section 603(d)(2) do not apply when a person subject to the medical information rules shares information of the following types with an affiliate:

- Medical information
- An individualized list or description based on the payment transactions of the consumer for medical products or services
- An aggregate list of identified consumers based on payment transactions for medical products or services

If a person that is subject to the medical rules shares with an affiliate information of one of the types listed above, the exclusions from the definition of "consumer report" do not apply. Effectively, this means that if a person shares medical information, that person becomes a consumer reporting agency, subject to all the other substantive requirements of the FCRA.

The rules provide exceptions to these limitations on sharing medical information with affiliates (Regulation V, section 222.32(c)). A covered entity, such as a state member bank, may share medical information with its affiliates without becoming a consumer reporting agency under one or more of

the following circumstances:

- In connection with the business of insurance or annuities (including the activities described in section 18B of the model Privacy of Consumer Financial and Health Information Regulation issued by the National Association of Insurance Commissioners, as in effect on January 1, 2003)
- For any purpose permitted without authorization under the regulations issued by the Department of Health and Human Services pursuant to the Health Insurance Portability and Accountability Act of 1996 (HIPAA)
- For any purpose referred to in section 1179 of HIPAA
- For any purpose described in section 502(e) of the Gramm-Leach-Bliley Act
- In connection with a determination of the consumer's eligibility, or continued eligibility, for credit consistent with the financial information exceptions or specific exceptions
- As otherwise permitted by order of an FFIEC agency

Affiliate Marketing Opt-Out (Regulation V, § 222.20)

Section 624 gives a consumer the right to restrict an entity, with which it does not have a pre-existing business relationship, from *using* certain information obtained from an affiliate to make solicitations to that consumer. This provision is distinct from section 603(d)(2)(A)(iii) which gives a consumer the right to restrict the *sharing* of certain consumer information amongst affiliates.³

Under section 624, an entity may not use information received from an affiliate to market its products or services to a consumer, unless the consumer is given notice and a reasonable opportunity and a reasonable and simple method to opt out of the making of such solicitations. The affiliate marketing opt-out applies to information that an entity has obtained from transactions or its experience with a consumer. The opt-out also applies to "other" information, such as information the entity obtains about a consumer from credit reports and credit applications. On November 7, 2007, the federal financial institution regulators published final regulations in the Federal Register to implement this section (72 FR 62910).⁴

3. See Module 2, Consumer Report and Information Sharing (Section 603(d)), for provisions pertaining to the sharing of consumer information. Under section 603(d)(2)(A)(iii) of the FCRA, entities are responsible for complying with the affiliate *sharing* notice and opt-out requirement, where applicable. Thus, under the FCRA, certain consumer information will be subject to two opt-outs, a sharing opt-out (section 603(d)) and a marketing use opt-out (section 624). These two opt-outs may be consolidated.

4. See 12 CFR 222.20(a) for the scope of entities covered by

Exceptions to the notice and opt-out requirements apply when an entity uses eligibility information in certain ways, as described later in these procedures.

Key Definitions (Regulation V, § 222.20)⁵

1. *Eligibility information* (12 CFR 222.20(b)(3)) includes not only transaction and experience information, but also the type of information found in consumer reports, such as information from third-party sources and credit scores. Eligibility information does not include aggregate or blind data that does not contain personal identifiers such as account numbers, names, or addresses.⁶
2. *Pre-existing business relationship* (12 CFR 222.20(b)(4))⁷ means a relationship between a person, such as a financial institution (or a person's licensed agent), and a consumer based on
 - a. A financial contract between the person and the consumer which is in force on the date on which the consumer is sent a solicitation covered by the affiliate marketing regulation;
 - b. The purchase, rental, or lease by the consumer of the person's goods or services, or a financial transaction (including holding an active account or a policy in force, or having another continuing relationship) between the consumer and the person, during the 18-month period immediately preceding the date on which the consumer is sent a solicitation covered by the affiliate marketing regulation; or
 - c. An inquiry or application by the consumer regarding a product or service offered by that person during the three-month period immediately preceding the date on which the consumer is sent a solicitation covered by the affiliate marketing regulation.
3. *Solicitation* (12 CFR 222.20(b)(5)) means the marketing of a product or service initiated by a person, such as a financial institution, to a particular consumer that is
 - a. Based on eligibility information communicated to that person by its affiliate, and
 - b. Intended to encourage the consumer to

Subpart C of 12 CFR 222.

5. See 12 CFR 222.20 for other definitions.

6. Specifically, "eligibility information" is defined in the affiliate marketing regulation as "any information the communication of which would be a consumer report if the exclusions from the definition of 'consumer report' in Section 603(d)(2)(A) of the [Fair Credit Reporting] Act did not apply."

7. See 12 CFR 222.20(b)(4)(ii) and (iii) for examples of pre-existing business relationships and situations where no pre-existing business relationship exists.

purchase or obtain such product or service.

Examples of a solicitation include a telemarketing call, direct mail, e-mail, or other form of marketing communication directed to a particular consumer that is based on eligibility information received from an affiliate. A solicitation *does not* include marketing communications that are directed at the general public (for example, television, general circulation magazine, and billboard advertisements).

Initial Notice and Opt-Out Requirement (Regulation V, §§ 222.21(a), 222.24, and 222.25)

A financial institution and its subsidiaries (“financial institution”) generally may not use eligibility information about a consumer that it receives from an affiliate to make a solicitation for marketing purposes to the consumer, unless

1. It is clearly and conspicuously disclosed to the consumer in writing or, if the consumer agrees, electronically, in a concise notice that the financial institution may use eligibility information about that consumer that it received from an affiliate to make solicitations for marketing purposes to the consumer;
2. The consumer is provided a reasonable opportunity and a reasonable and simple method to “opt out” (that is, the consumer prohibits the financial institution from using eligibility information to make solicitations for marketing purposes to the consumer);⁸ and
3. The consumer has not opted out.

For example, a consumer has a homeowner’s insurance policy with an insurance company. The insurance company shares eligibility information about the consumer with its affiliated depository institution. Based on that eligibility information, the depository institution wants to make a solicitation to the consumer about its home equity loan products. The depository institution does not have a pre-existing business relationship with the consumer and none of the other exceptions apply. The depository institution may not use eligibility information it received from its insurance affiliate to make solicitations to the consumer about its home equity loan products unless the insurance company gave the consumer a notice and opportunity to opt out and the consumer does not opt out.

8. See 12 CFR 222.24 and 222.25 for examples of “a reasonable opportunity to opt out” and “reasonable and simple methods for opting out.”

Making Solicitations (Regulation V, § 222.21(b))⁹

A financial institution (or a service provider acting on behalf of the financial institution) makes a solicitation for marketing purposes if

1. The financial institution receives eligibility information from an affiliate, including when the affiliate places that information into a common database that the financial institution may access;
2. The financial institution uses that eligibility information to do one or more of the following:
 - a. Identify the consumer or type of consumer to receive a solicitation;
 - b. Establish criteria used to select the consumer to receive a solicitation; or
 - c. Decide which of the financial institution’s products or services to market to the consumer or tailor the financial institution’s solicitation to that consumer; and
3. As a result of the financial institution’s use of the eligibility information, the consumer is provided a solicitation.

A financial institution does *not* make a solicitation for marketing purposes (and therefore the affiliate marketing regulation, with its notice and opt-out requirements, does not apply) in the situations listed below, commonly referred to as “constructive sharing.” Constructive sharing occurs when a financial institution provides criteria to an affiliate to use in marketing the financial institution’s product and the affiliate uses the criteria to send marketing materials to the affiliate’s own customers that meet the criteria. In this situation, the financial institution is not *using* shared eligibility information to make solicitations.

1. The financial institution provides criteria for consumers to whom it would like its affiliate to market the financial institution’s products. Then, based on this criteria, the affiliate uses eligibility information that the affiliate obtained in connection with its own pre-existing business relationship with the consumer to market the financial institution’s products or services (or directs its service provider to use the eligibility information in the same manner and the financial institution does not communicate with the service provider regarding that use).

9. See 12 CFR 222.21(b)(6) for examples of making solicitations.

2. A service provider, applying the financial institution's criteria, uses information from an affiliate, such as that in a shared database, to market the financial institution's products or services to the consumer, so long as it meets certain requirements, including
 - a. The affiliate controls access to, and use of, its eligibility information by the service provider under a written agreement between the affiliate and the service provider;
 - b. The affiliate establishes, in writing, specific terms and conditions under which the service provider may access and use the affiliate's eligibility information to market the financial institution's products and services (or those of affiliates generally) to the consumer;
 - c. The affiliate requires the service provider, under a written agreement, to implement reasonable policies and procedures designed to ensure that the service provider uses the affiliate's eligibility information in accordance with the terms and conditions established by the affiliate relating to the marketing of the financial institution's products or services;
 - d. The affiliate is identified on or with the marketing materials provided to the consumer; and
 - e. The financial institution does not directly use its affiliate's eligibility information in the manner described above under "Making Solicitations (Regulation V, § 222.21(b)), item 2.

Exceptions to Initial Notice and Opt-out Requirements (Regulation V, § 222.21(c))¹⁰

The initial notice and opt-out requirements do not apply to a financial institution if it uses eligibility information that it receives from an affiliate

1. To make a solicitation for marketing purposes to a consumer with whom the financial institution has a pre-existing business relationship;
2. To facilitate communications to an individual for whose benefit the financial institution provides employee benefit or other services pursuant to a contract with an employer;
3. To perform services on behalf of an affiliate (but this would not allow solicitation where the consumer has opted out);
4. In response to a communication about the

¹⁰. See 12 CFR 222.21(d) for examples of exceptions to the initial notice and opt-out requirement.

financial institution's products or services initiated by the consumer;

5. In response to a consumer's authorization or request to receive solicitations; or
6. If the financial institution's compliance with the affiliate marketing regulation would prevent it from complying with State insurance laws pertaining to unfair discrimination in any state in which the financial institution is lawfully doing business.

Contents of Opt-out Notice (Regulation V, § 222.23)

A financial institution must provide to the consumer a reasonable and simple method for the consumer to opt out. The opt-out notice must be clear, conspicuous, and concise, and must accurately disclose specific information outlined in 12 CFR 222.23(a), including that the consumer may elect to limit the use of eligibility information to make solicitations to the consumer. See Appendix C to the regulation for the model notices contained in the affiliate marketing regulation.

Alternative contents. An affiliate that provides a consumer a broader right to opt out than that required by the affiliate marketing regulation may satisfy the regulatory requirements by providing the consumer with a clear, conspicuous, and concise notice that accurately discloses the consumer's opt-out rights.

Coordinated, consolidated, and equivalent notices. Opt-out and renewal notices may be coordinated and consolidated with any other notice or disclosure required under any other provision of law, such as the Gramm-Leach-Bliley Act (GLBA), 15 USC 6801 et seq. Renewal notices, which have additional required content (12 CFR 222.27), may be consolidated with the annual GLBA privacy notices.

Delivery of the Opt-Out Notice (Regulation V, §§ 222.21(a)(3) and 222.26)¹¹

An affiliate that has or previously had a pre-existing business relationship with the consumer must provide the notice either individually or as part of a joint notice from two or more members of an affiliated group of companies. The opt-out notice must be provided so that each consumer can reasonably be expected to receive actual notice. A consumer may *not* reasonably be expected to receive actual notice if, for example, the affiliate providing the notice sends the notice via e-mail to a

¹¹. See 12 CFR 222.26(b) and (c) for examples of "reasonable expectation of actual notice" and "no reasonable expectation of actual notice."

consumer who has not agreed to receive electronic disclosures by e-mail from the affiliate providing the notice.¹²

Scope of Opt-Out (Regulation V, §§ 222.22(a) and 222.23(a)(2))¹³

As a general rule, the consumer's election to opt out prohibits any affiliate covered by the opt-out notice from using eligibility information received from another affiliate, described in the notice, to make solicitations to the consumer. If two or more consumers jointly obtain a product or service, any of the joint consumers may exercise the right to opt out. It is impermissible to require all joint consumers to opt out before implementing any opt-out direction.

Menu of alternatives. A consumer may be given the opportunity to choose from a menu of alternatives when electing to prohibit solicitations, such as by

1. Electing to prohibit solicitations from certain types of affiliates covered by the opt-out notice but not other types of affiliates covered by the notice,
2. Electing to prohibit solicitations based on certain types of eligibility information but not other types of eligibility information, or
3. Electing to prohibit solicitations by certain methods of delivery but not other methods of delivery.

One of the alternatives, however, must allow the consumer to prohibit all solicitations from all of the affiliates that are covered by the notice.

Continuing relationship. If the consumer establishes a continuing relationship with a financial institution or its affiliate, an opt-out notice may apply to eligibility information obtained from one or more continuing relationships (such as a deposit account, a mortgage loan, or a credit card), if the notice adequately describes the continuing relationships covered. The opt-out notice can also apply to future continuing relationships if the notice adequately describes the continuing future relationships that would be covered.

Special rule for a notice following termination of all continuing relationships. After all continuing relationships with a financial institution or its affiliate(s) are terminated, a consumer must be given a new opt-out notice if the consumer later establishes another continuing relationship with the financial institution or its affiliate(s) and the consum-

12. For opt-out notices provided electronically, the notice may be provided in compliance with either the electronic disclosure provisions of 12 CFR 222.24(b)(2) and 222.24(b)(3) or the provisions in section 101 of the Electronic Signatures in Global and National Commerce Act, 15 USC 7001 et seq.

13. See 12 CFR 222.22(a) for examples of the scope of the opt-out, including examples of continuing relationships.

er's eligibility information is to be used to make a solicitation. The consumer's decision not to opt out after receiving the new opt-out notice would not override a prior opt-out election that applies to eligibility information obtained in connection with a terminated relationship.

No continuing relationship (isolated transaction). If the consumer does not establish a continuing relationship with a financial institution or its affiliate, but the financial institution or its affiliate obtains eligibility information about the consumer in connection with a transaction with the consumer (such as an ATM cash withdrawal, purchase of traveler's checks, or a credit application that is denied), an opt-out notice provided to the consumer only applies to eligibility information obtained in connection with that transaction.

Time, Duration, and Renewal of Opt-Out (Regulation V, §§ 222.22(b) and (c) and 222.27)

A consumer may opt out at any time. The opt-out must be effective for a period of at least five years beginning when the consumer's opt-out election is received and implemented, unless the consumer later revokes the opt-out in writing or, if the consumer agrees, electronically. An opt-out period may be set at more than five years, including an opt-out that does not expire unless the consumer revokes it.

Renewal after opt-out period expires. After the opt-out period expires, a financial institution may not make solicitations based on eligibility information it receives from an affiliate to a consumer who previously opted out, unless

1. The consumer receives a renewal notice and opportunity to opt out, and the consumer does not renew the opt-out; or
2. An exception to the notice and opt-out requirements applies.¹⁴

Contents of renewal notice. The renewal notice must be clear, conspicuous, and concise, and must accurately disclose most of the elements of the original opt-out notice, as well as the facts that

1. The consumer previously elected to limit the use of certain information to make solicitations to the consumer;
2. The consumer's election has expired or is about to expire;
3. The consumer may elect to renew the consumer's previous election; and
4. If applicable, that the consumer's election to renew will apply for the specified period of time

14. See 12 CFR 222.21(c) for exceptions.

stated in the notice and that the consumer will be allowed to renew the election once that period expires.

See 12 CFR 222.27(b) for all the content requirements of renewal notice.

Renewal period. Each opt-out renewal must be effective for a period of at least five years.

Affiliate who may provide the notice. The renewal notice must be provided by the affiliate that provided the previous opt-out notice, or its successor; or as part of a joint renewal notice from two or more members of an affiliated group of companies, or their successors, that jointly provided the previous opt-out notice.

Timing of the renewal notice. A renewal notice may be provided to the consumer either at a reasonable period of time before the expiration of the opt-out period¹⁵ or at any time after the expiration of the opt-out period but before solicitations that would have been prohibited by the expired opt-out are made to the consumer.

Prospective Application (Regulation V, § 222.28(c))

A financial institution may use eligibility information received from an affiliate to make solicitations to a consumer if it received such information prior to

15. An opt-out period may not be shortened by sending a renewal notice to the consumer before expiration of the opt-out period, even if the consumer does not renew the opt-out. If a financial institution provides an annual privacy notice under the Gramm-Leach-Bliley Act, providing a renewal notice with the last annual privacy notice provided to the consumer before expiration of the opt-out period is a reasonable period of time before expiration of the opt-out in all cases. 12 CFR 222.27(d)

October 1, 2008, the mandatory compliance date of the affiliate marketing regulation. An institution is deemed to have received eligibility information when such information is placed into a common database and is accessible by the institution prior to that date.

Model Forms for Opt-Out Notices (Regulation V, § 222, Appendix C)

Appendix C of the affiliate marketing regulation contains model forms that may be used to comply with the requirement for clear, conspicuous, and concise notices. The five model forms are

- C-1 Model Form for Initial Opt-out Notice (Single-Affiliate Notice)
- C-2 Model Form for Initial Opt-out Notice (Joint Notice)
- C-3 Model Form for Renewal Notice (Single-Affiliate Notice)
- C-4 Model Form for Renewal Notice (Joint Notice)
- C-5 Model Form for Voluntary “No Marketing” Notice

Use of the model forms is not required and a financial institution may make certain changes to the language or format of the model forms without losing the protection from liability afforded by use of the model forms. These changes may not be so extensive as to affect the substance, clarity, or meaningful sequence of the language in the model forms. Institutions making such extensive revisions will lose the “safe harbor” that Appendix C provides. Examples of acceptable changes are provided in Appendix C to the regulation.

Fair Credit Reporting—Module 2 Examination Procedures

Consumer Report and Information Sharing (FCRA, Section 603(d))

1. Review the financial institution's policies, procedures, and practices concerning the sharing of consumer information with third parties, including both affiliated and nonaffiliated third parties. Determine the type of information shared and with whom the information is shared. (This portion of the examination may overlap with a review of the institution's compliance with Regulation P, Privacy of Consumer Financial Information, which implements the Gramm-Leach-Bliley Act.)
2. Determine whether the financial institution's information-sharing practices fall within the exceptions to the definition of a consumer report. If they do not, the financial institution could be considered a consumer reporting agency, in which case the examination procedures in module 6 should be completed.
3. If the financial institution shares information other than transaction and experience information with affiliates subject to opt-out provisions, determine whether the institution's GLBA privacy notice contains information regarding how to opt out, as required by Regulation P.
4. If procedural weaknesses or other risks requiring further investigation are noted, obtain a sample of opt-out rights exercised by consumers and determine whether the financial institution honored the opt-out requests by not sharing "other information" about those consumers with the institution's affiliates after receiving the opt-out requests.

Protection of Medical Information (FCRA, Section 604(g); and Regulation V, Subpart D)

1. Review the financial institution's policies, procedures, and practices concerning the collection and use of consumer medical information in connection with any determination of the consumer's eligibility, or continued eligibility, for credit.
2. If the financial institution's policies, procedures, and practices allow for obtaining and using consumer medical information in the context of a credit transaction, determine whether there are adequate controls in place to ensure that the information is used only subject to the financial information exception or one of the specific exceptions set forth in Regulation V.

3. If procedural weaknesses or other risks requiring further investigation are noted, obtain samples of credit transactions to determine whether the use of consumer medical information was done strictly under the financial information exception or one of the specific exceptions in Regulation V.
4. Determine whether the financial institution has adequate policies and procedures in place to limit the redisclosure of consumer medical information that was received from a consumer reporting agency or an affiliate.
5. Determine whether the financial institution shares medical information about a consumer with its affiliates. If it does, determine whether the sharing occurred in accordance with an exception in Regulation V that enables the institution to share the information without becoming a consumer reporting agency.

Affiliate Marketing Opt-Out (FCRA, Section 624; and Regulation V, Section 222.20)

1. Determine whether the financial institution receives consumer eligibility information from an affiliate. Stop here if it does not because Subpart C of 12 CFR 222 does not apply.
2. Determine whether the financial institution uses consumer eligibility information received from an affiliate to make a solicitation for marketing purposes that is subject to the notice and opt-out requirements. If it does not, stop here.
3. Evaluate the institution's policies, procedures, practices, and internal controls to ensure that, where applicable, the consumer is provided with an appropriate notice, a reasonable opportunity, and a reasonable and simple method to opt out of the institution's using eligibility information to make solicitations for marketing purposes to the consumer, and that the institution is honoring the consumer's opt-outs.
4. If compliance risk management weaknesses or other risks requiring further investigation are noted, obtain and review a sample of notices to ensure technical compliance and a sample of opt-out requests from consumers to determine if the institution is honoring the opt-out requests.
 - a. Determine whether the opt-out notices are clear, conspicuous, and concise and contain the required information, including the name of the affiliate(s) providing the notice, a general description of the types of eligibility

- information that may be used to make solicitations to the consumer, and the duration of the opt out. (12 CFR 222.23(a))
- b. Review opt-out notices that are coordinated and consolidated with any other notice or disclosure that is required under other provisions of law for compliance with the affiliate marketing regulation. (12 CFR 222.23(b))
 - c. Determine whether the opt-out notices and renewal notices provide the consumer a reasonable opportunity to opt out and a reasonable and simple method to opt out.
- (12 CFR 222.24 and 222.25)
- d. Determine whether the opt-out notice and renewal notice are provided (by mail delivery or electronically) so that a consumer can reasonably be expected to receive that actual notice. (12 CFR 222.26)
 - e. Determine whether, after an opt-out period expires, a financial institution provides a consumer a renewal notice prior to making solicitations based on eligibility information received from an affiliate. (12 CFR 222.27)

Fair Credit Reporting

Examination Module 3: Disclosures to Consumers and Miscellaneous Requirements

Overview

The Fair Credit Reporting Act (FCRA) requires financial institutions to provide consumers with various notices and information under a variety of circumstances. This module deals with examination responsibilities for these various areas.

Use of Consumer Reports for Employment Purposes (FCRA, Section 604(b))

FCRA, section 604(b), sets forth specific requirements for financial institutions that obtain consumer reports on its employees or prospective employees prior to, and/or during, the term of employment. The FCRA generally requires the written permission of the consumer to procure a consumer report for "employment purposes." Moreover, a clear and conspicuous disclosure that a consumer report may be obtained for employment purposes must be provided in writing to the consumer prior to procuring a report.

Prior to taking any adverse action involving employment that is based in whole or in part on the consumer report, the user generally must provide to the consumer

- A copy of the report, and
- A description in writing of the rights of the consumer, as prescribed by the Federal Trade Commission (FTC) in FCRA, section 609(c)(1).

At the time a financial institution takes adverse action in an employment situation, the consumer must also be provided with an adverse action notice, as required by FCRA, section 615, and described later in this module.

Prescreened Consumer Reports and Opt-Out Notice (FCRA, Sections 604(c) and 615(d); and FTC Regulations, Parts 642 and 698)

FCRA, section 604(c)(1)(B), allows persons, including financial institutions, to obtain and use consumer reports on any consumer in connection with any credit or insurance transaction that is not initiated by the consumer, for the purpose of making firm offers of credit or insurance. This process, known as *prescreening*, occurs when a financial institution obtains, from a consumer reporting agency, a list of consumers who meet certain predetermined creditworthiness criteria and who have not elected to be excluded from such lists. These lists may contain

only the following information:

- The name and address of a consumer
- An identifier that is not unique to the consumer and that is used by the person solely for the purpose of verifying the identity of the consumer
- Other information pertaining to a consumer that does not identify the relationship or experience of the consumer with respect to a particular creditor or other entity

Each name on the list is considered an individual consumer report. In order to obtain and use these lists, the financial institution must make a "firm offer of credit or insurance," as defined in FCRA, section 603(l), to each person on the list. The institution is not required to grant credit or insurance if the consumer is found to be not creditworthy or insurable or cannot furnish required collateral, provided that the underwriting criteria are determined in advance.

Example 1. Assume that a home mortgage lender obtains from a consumer reporting agency a list of everyone in county X who has a current home mortgage loan and a credit score of 700. The lender will use this list to market a second-lien home equity loan product. Besides the criteria used to create the prescreened list for this product, the lender's criteria include a total debt-to-income ratio (DTI) of 50 percent or less. Some of these other criteria can be screened by the consumer reporting agency, but others, such as the DTI, must be determined from an application or other sources when consumers respond to the offer. If a consumer who responds to the offer has a DTI of 60 percent, the lender does not have to grant the loan.

In addition, the financial institution is allowed to obtain a full consumer report on anyone responding to the offer in order to verify that the consumer continues to meet the creditworthiness criteria. If the consumer no longer meets those criteria, the institution does not have to grant the loan.

Example 2. On January 1, a credit card lender obtains from a consumer reporting agency a list of consumers in county Y who have credit scores of 720 and no previous bankruptcy records. On January 2, the lender mails solicitations offering a preapproved credit card to everyone on the list. On January 31, a consumer responds to the offer and the lender obtains and reviews a full consumer report, which shows that a bankruptcy record was added on January 15. Since this consumer no longer meets the lender's predeter-

mined criteria, the lender is not required to issue the credit card.

These basic requirements seek to ensure that financial institutions that obtain prescreened lists follow through with an offer of credit or insurance. An institution must maintain a list of the criteria used for the product (including the criteria used to generate the prescreened list and any other criteria, such as collateral requirements) on file for three years, beginning on the date that the offer was made to the consumer.

Technical Notice and Opt-Out Requirements

FCRA, section 615(d), sets forth consumer protections and technical notice requirements concerning prescreened offers of credit or insurance. The FCRA requires consumer reporting agencies that operate nationwide to jointly operate an “opt-out” system whereby consumers can elect to be excluded from prescreened lists by calling a toll-free number.

When a financial institution obtains and uses such lists, it must provide consumers with a “prescreen opt-out notice” along with a written offer of credit or insurance. The notice alerts consumers that they are receiving the offer because they meet certain creditworthiness criteria. The notice must also provide the toll-free telephone number operated by the nationwide consumer reporting agencies for consumers to call to opt out of prescreened lists.

The FCRA sets forth the basic requirement concerning the provision of notices to consumers at the time prescreened offers are made. The FTC's implementing regulation, which spells out the technical requirements of the notice, are at 16 CFR 642 and 698. This regulation—which is applicable to anyone, including banks, credit unions, and thrifts, that obtains and uses prescreened consumer reports—became effective on August 1, 2005; however, the requirement to provide a notice containing the toll-free opt-out telephone number has existed under the FCRA for many years.

Requirements Beginning August 1, 2005

The FTC regulations—16 CFR 642 and 698—require that a “short” notice and a “long” notice of the “prescreen opt-out” information be given with each written solicitation made to consumers on the basis of prescreened consumer reports. These regulations, which were published on January 31, 2005, at 70 FR 5022, also contain specific requirements concerning the content and appearance of these notices. The requirements are listed below.

The short notice must be a clear and conspicu-

ous, simple, and easy-to-understand statement, as follows:

- **Content.** The short notice must state that the consumer has the right to opt out of receiving prescreened solicitations, must provide the toll-free number, must direct consumers to the existence and location of the long notice, and must state the title of the long notice. It *may not* contain any other information.
- **Form.** The short notice must be in a type size larger than the principal text on the same page, but it may not be smaller than 12 point type. If the notice is provided by electronic means, it must be larger than the type size of the principal text on the same page.
- **Location.** The short notice must be on the front side of the first page of the principal promotional document in the solicitation or, if provided electronically, on the same page and in close proximity to the principal marketing message. The statement must be located so that it is distinct from other information, such as inside a border, and must be in a distinct type style, such as bolded, italicized, underlined, and/or in a color that contrasts with the principal text on the page, if the solicitation is provided in more than one color.

The long notice must also be a clear and conspicuous, simple, and easy-to-understand statement, as follows:

- **Content.** The long notice must state the information required by FCRA, section 615(d), and may not include any other information that interferes with, detracts from, contradicts, or otherwise undermines the purpose of the notice.
- **Form.** The long notice must appear in the solicitation and be in a type size that is no smaller than the type size of the principal text on the same page; for solicitations provided other than by electronic means, the type size may not be smaller than 8-point. The notice must begin with a heading, in capital letters and underlined, identifying the long notice as the “PRESCREEN & OPT OUT NOTICE.” Also, the notice must be in a type style that is distinct from the principal type style used on the same page, such as bolded, italicized, underlined, and/or in a color that contrasts with the principal text, if the solicitation is in more than one color. Further, the notice must be set apart from other text on the page, such as by including a blank line above and below the statement, and by indenting both the left and right margins from other text on the page.

Model prescreen opt-out notices developed by the FTC, along with complete sample solicitations showing context, appear in appendix A to 16 CFR

698. The model notice text is shown below.

Sample Short Notice

You can choose to stop receiving "prescreened" offers of [credit or insurance] from this and other companies by calling toll-free [toll-free number]. See PRESCREEN & OPT-OUT NOTICE on other side [or other location] for more information about prescreened offers.

Sample Long Notice

PRESCREEN & OPT-OUT NOTICE: This "prescreened" offer of [credit or insurance] is based on information in your credit report indicating that you meet certain criteria. This offer is not guaranteed if you do not meet our criteria [including providing acceptable property as collateral]. If you do not want to receive prescreened offers of [credit or insurance] from this and other companies, call the consumer reporting agencies [or name of consumer reporting agency] toll-free, [toll-free number]; or write: [consumer reporting agency name and mailing address].

Truncation of Credit and Debit Card Account Numbers (FCRA, Section 605(g))

FCRA, section 605(g), provides that persons, including financial institutions, that accept debit and credit cards for the transaction of business are prohibited from issuing electronically generated receipts that contain more than the last five digits of the card number, or the card expiration date, at the point of sale or transaction. This requirement applies only to electronically developed receipts and does not apply to handwritten receipts or those developed with an imprint of the card.

For automatic teller machines (ATMs) and point-of-sale (POS) terminals or other machines that were put into operation before January 1, 2005, this requirement is effective on December 4, 2006. For those that were put into operation on or after January 1, 2005, the effective date is the date of installation.

Disclosure of Credit Scores by Certain Mortgage Lenders (FCRA, Section 609(g))

FCRA, section 609(g), requires financial institutions that make or arrange mortgage loans using credit scores to provide the score, with accompanying information, to applicants.

Credit Score

For purposes of this section, *credit score* is defined as a numerical value or a categorization derived from a statistical tool or modeling system used by a

person that makes or arranges a loan to predict the likelihood of certain credit behaviors, including default (the numerical value or the categorization derived from such analysis may also be referred to as a "risk predictor" or "risk score"). A credit score does not include

- Any mortgage score or rating by an automated underwriting system that considers one or more factors in addition to credit information, such as the loan-to-value ratio, the amount of down payment, or the financial assets of a consumer, or
- Any other elements of the underwriting process or underwriting decision.

Covered Transactions

The disclosure requirement applies to both closed-end and open-end loans that are for consumer purposes and are secured by one- to four-family residential real properties, including purchase and refinance transactions. The requirement does not apply in circumstances that do not involve a consumer purpose, such as when a borrower obtains a loan secured by his or her residence to finance his or her small business.

Specific Required Notice

Financial institutions that are engaged in covered transactions and that use credit scores must provide a disclosure containing the specific language shown below, which is contained in FCRA, section 609(g)(1)(D):

Notice to the Home Loan Applicant

In connection with your application for a home loan, the lender must disclose to you the score that a consumer reporting agency distributed to users and the lender used in connection with your home loan, and the key factors affecting your credit scores.

The credit score is a computer generated summary calculated at the time of the request and based on information that a consumer reporting agency or lender has on file. The scores are based on data about your credit history and payment patterns. Credit scores are important because they are used to assist the lender in determining whether you will obtain a loan. They may also be used to determine what interest rate you may be offered on the mortgage. Credit scores can change over time, depending on your conduct, how your credit history and payment patterns change, and how credit scoring technologies change.

Because the score is based on information in your credit history, it is very important that you review the credit-related information that is being furnished to make sure it is accurate. Credit records may vary from one company to another.

If you have questions about your credit score or the credit information that is furnished to you, contact the consumer reporting agency at the address and telephone number provided with this notice, or contact the lender, if the lender developed or generated the credit score. The consumer reporting agency plays no part in the decision to take any action on the loan application and is unable to provide you with specific reasons for the decision on a loan application.

If you have questions concerning the terms of the loan, contact the lender.

The notice must include the name, address, and telephone number of each consumer reporting agency that provided a credit score that was used.

Credit Score and Key Factors Disclosed

In addition to providing the notice to home loan applicants, financial institutions must disclose the credit score, the range of possible scores, the date on which the score was created, and the "key factors" used in calculating the score. *Key factors* are all relevant elements or reasons adversely affecting the credit score for the particular individual, listed in the order of their importance based on their effect on the credit score. The total number of factors to be disclosed must not exceed four. However, if one of the key factors is the number of inquiries into a consumer's credit information, then the total number of factors must not exceed five. These key factors come from information supplied by the consumer reporting agencies with any consumer report that was furnished containing a credit score. (FCRA, section 605(d)(2))

This disclosure requirement applies to any application for a covered transaction, regardless of the final action on the application taken by the lender. The FCRA requires a financial institution to disclose all of the credit scores that were used in these transactions. For example, if two applicants jointly apply for a mortgage loan to purchase a single-family residence and the lender uses the credit scores of both, then both scores need to be disclosed. The statute specifically does not require that more than one disclosure be provided per loan; therefore, if multiple scores are used, all of them can be included in one disclosure containing the Notice to the Home Loan Applicant.

If a financial institution uses a credit score that was not obtained directly from a consumer reporting agency but may contain some information from a consumer reporting agency, this disclosure requirement can be satisfied by providing a score and associated key factor information that were supplied by the consumer reporting agency. For example, certain automated underwriting systems generate scores used in credit decisions. These systems are often populated by data obtained from

consumer reporting agencies. If a financial institution uses such an automated system, the disclosure requirement can be satisfied by providing the applicants with a score and list of key factors supplied by a consumer reporting agency based on the data, including the credit score(s), that were imported into the automated system. Doing so will provide applicants with information about their credit history and its role in the credit decision, in the spirit of this section of the statute.

Timing

The statute requires that the disclosure be provided as soon as is reasonably practicable after the credit score is used.

Adverse Action Disclosures (FCRA, Sections 615(a) and (b))

Section 615(a)-(b) requires users of consumer reports, such as creditors, to make certain disclosures when they

1. take adverse actions with respect to consumers, based in whole or in part on information contained in a consumer report;
2. deny credit for personal, family, or household purposes or increase the charge for such credit based in whole or in part on information obtained from a person other than a consumer reporting agency bearing upon the consumer's credit worthiness, credit standing, credit capacity, character, general reputation, personal characteristics, or mode of living; or
3. take certain adverse action based in whole or in part on information from an affiliate.

The disclosure requirements are discussed separately below.

Information Obtained From a Consumer Reporting Agency

Section 615(a), Duties of Users Taking Adverse Actions on the Basis of Information Contained in Consumer Reports, provides that when adverse action is taken with respect to any consumer based in whole or in part on any information contained in a consumer report, the person, such as a *financial institution*, must

1. provide oral, written, or electronic notice of the adverse action to the consumer;
2. provide to the consumer written or electronic disclosures of a numerical credit score used by such person in taking any adverse action based in whole or in part on any information in a consumer report and the following information:

- a. the range of possible credit scores under the model used;
 - b. all of the key factors that adversely affected the credit score, which shall not exceed four key factors, except that if one of the key factors is the number of enquiries made with respect to the consumer report, the number of key factors shall not exceed five;
 - c. the date on which the credit score was created; and
 - d. the name of the person or entity that provided the credit score or credit file upon which the credit score was created;
3. provide to the consumer orally, in writing, or electronically
 - a. the name, address, and telephone number of the consumer reporting agency from which it received the information (including a toll-free telephone number established by the agency, if the consumer reporting agency maintains files on a nationwide basis); and
 - b. a statement that the consumer reporting agency did not make the decision to take the adverse action and is unable to provide the consumer the specific reasons why the adverse action was taken;
 4. provide to the consumer an oral, written, or electronic notice of the consumer's right to obtain a free copy of the consumer report from the consumer reporting agency within 60 days of receiving notice of the adverse action, and the consumer's right to dispute the accuracy or completeness of any information in the consumer report with the consumer reporting agency.

Information Obtained from Third Parties Other than Consumer Reporting Agencies (Including Affiliates)

Section 615(b), Adverse Action Based on Information Obtained from Third Parties Other than Consumer Reporting Agencies, provides that, in general, whenever credit for personal, family, or household purposes involving a consumer is denied or the charge for such credit is increased either wholly or partly because of information obtained from a person other than a consumer reporting agency bearing upon the consumer's credit worthiness, credit standing, credit capacity, character, general reputation, personal characteristics, or mode of living, the user of such information shall

1. at the time such adverse action is communicated, clearly and accurately disclose to the

consumer his right to make a written request for the reasons for such adverse action within 60 days after learning of such adverse action; and

2. within a reasonable period of time after receipt of such written request from the consumer, disclose the nature of the information to the consumer.

If the adverse action described in 615(b)(2)(B) is (i) taken based in whole or in part on information from a person related by common ownership or affiliated by common corporate control to the person taking the action; (ii) bears on the credit worthiness, credit standing, credit capacity, character, general reputation, personal characteristics, or mode of living of the consumer; and (iii) does not include information solely as to transactions or experiences between the consumer and the person furnishing the information or information in a consumer report, then the person taking the adverse action shall

1. notify the consumer of the action, including a statement that the consumer may obtain the information upon written request from the consumer received within 60 days after transmittal of the notice required; and
2. not later than 30 days after receipt of such written request from the consumer, disclose to the consumer the nature of the information upon which the action is based.

Debt Collector Communications concerning Identity Theft (FCRA, Section 615(g))

Section 615(g) sets forth specific requirements for financial institutions that act as debt collectors, that is, financial institutions that collect debts on behalf of a third party that is a creditor or other user of a consumer report. The requirements do not apply when a financial institution is collecting its own loans. When a financial institution is notified that any information relating to a debt that it is attempting to collect may be fraudulent or may be the result of identity theft, the institution must notify the third party of this fact. In addition, if the consumer to whom the debt purportedly relates requests information about the transaction, the financial institution must provide all of the information the consumer would otherwise be entitled to if the consumer wished to dispute the debt under other provisions of law applicable to the financial institution.

Duties of Users Regarding Risk-Based Pricing (FCRA, Section 615(h); and Regulation V, Subpart H)

Section 615(h) of the Fair Credit Reporting Act (FCRA) generally requires a user of consumer

reports, such as a creditor, to provide a risk-based pricing notice to a consumer when the creditor, based on a consumer report, extends credit to the consumer on terms that are “materially less favorable” than the terms the creditor has extended to other consumers. On January 15, 2010, the Federal Reserve and the Federal Trade Commission (FTC) published final rules in the *Federal Register* (75 Fed. Reg. 2724) implementing this section of the FCRA.

The risk-based pricing notice requirement is designed primarily to improve the accuracy of consumer reports by alerting consumers to the existence of negative information in their consumer reports so that the consumers can, if they choose, check their consumer reports for accuracy and correct any inaccurate information. This notice provision is meant to complement an existing provision of the FCRA, Section 615(a), whereby a creditor that denies a consumer’s application for credit, based in whole or in part on information in a consumer’s report, must provide an adverse action notice. Section 615(h), covers the situation where credit is offered on “materially less favorable terms,” rather than being denied.

The Dodd-Frank Act amended section 615(h) of the FCRA to require a person to disclose a consumer’s credit score and certain information relating to the credit score, if a credit score is used in making the credit decision. On July 15, 2011, the Federal Reserve Board and the FTC published final rules (effective August 15, 2011) amending the risk-based pricing regulation to effect the Dodd-Frank Act changes (76 Fed. Reg. 41602). On December 21, 2011, the Consumer Financial Protection Bureau (CFPB) restated the FCRA regulations at 12 CFR Part 1022 (76 Fed. Reg. 79308).

Key Definitions (12 CFR 1022.71)

The following definitions pertain to the rules governing the risk-based pricing regulation:

Material terms means, in general,

1. for open-end credit (except as provided in (b) and (d) below), the annual percentage rate (APR) required to be disclosed in the account opening disclosures required under Regulation Z. This does not include a temporary initial rate that is lower than the rate that will apply when the temporary rate expires, any penalty rate that applies upon the occurrence of specific events (such as a late payment), or any fixed APR option for a home equity line of credit;
2. for credit cards (other than a credit card used to access a home equity line of credit or a charge card), the APR that applies for purchases. For credit cards without a purchase

APR, “material terms” means the APR that varies based on consumer report information and that has the most significant financial impact on consumers;

3. for closed-end credit, the APR required to be disclosed prior to consummation under the closed-end provisions of Regulation Z; and
4. for credit that does not have an APR, the financial term that varies based on consumer report information and that has the most significant financial impact on consumers, such as an annual membership fee for a charge card.

Materially less favorable means, generally, that the terms granted, extended, or otherwise provided to a consumer differ from the terms granted, extended, or otherwise provided to another consumer such that the cost of credit to a consumer would be significantly greater than the cost of credit granted, extended, or otherwise provided to the other consumer. Relevant factors in determining the significance of a difference in cost include the type of credit product, the term of the credit extension, and the extent of the difference between the material terms granted, extended, or otherwise provided to the two consumers.

General Requirements (12 CFR 1022.72-.73)

A person must provide to a consumer a notice (“risk-based pricing notice”) in the form and manner prescribed by the regulation if

1. the person uses a consumer report in connection with an application for, or a grant, extension, or other provision of, credit to a consumer for personal, family, or household purposes; and
2. based in whole or in part on the consumer report, the person grants, extends, or otherwise provides credit to that consumer on material terms that are materially less favorable than the most favorable material terms available to a substantial proportion of consumers from that person.

The obligation to provide the notice applies to the creditor to whom the obligation is initially payable, i.e., the original creditor. This interpretation excludes brokers and other intermediaries who do not themselves grant, extend, or provide credit to consumers. See preamble to the final regulation (75 Fed. Reg. 2730)(January 15, 2010).

Determination of which consumers must receive notice (12 CFR 1022.72(b)). A person may determine, on a case-by-case basis, whether a consumer has received material terms that are materi-

ally less favorable by comparing the material terms offered to the consumer to the material terms offered to other consumers for a specific type of credit product. A “specific type of credit product” means one or more credit products with similar features that are designed for similar purposes. Examples include student loans, unsecured credit cards, secured credit cards, new automobile loans, used automobile loans, fixed-rate mortgage loans, and variable-rate mortgage loans.

Because making such a direct comparison between consumers may not be operationally feasible, the rules provide two alternative methods, a credit score proxy method and a tiered pricing method, both of which are described as follows:

- Credit score proxy method (12 CFR 1022.72(b)(1)).* If a person uses credit scores to set the material terms of credit, the person may determine a cutoff score that represents the point at which approximately 40 percent of its consumers have higher credit scores and 60 percent of its consumers have lower credit scores. The person may then provide a risk-based pricing notice to each consumer who has a credit score lower than the cutoff score.

Credit Score Proxy Example

The number of all, or a representative sample of, consumers to whom the institution granted credit for a specific type of credit product	10,000
40 percent of consumers	4,000
Credit scores of the 4,000 consumers with the highest credit scores	700 or higher
Cutoff score	700
Credit scores of those consumers to whom the creditor must provide a risk-based pricing notice, because the consumers' scores are lower than cutoff score	699 or lower

Alternative to 40/60 cutoff. The regulation provides an alternative to the 40/60 cutoff discussed above for situations where more than 40 percent of consumers (e.g., 80 percent) receive the most favorable material terms. In such situations, the person may set a different cutoff score based on its historical experience. The cutoff score would be set at a point at which the approximate percentage of consumers who historically have received the most favorable material terms based on their credit score would not receive a notice in the future. Under this alternative, the risk-based pricing notices would be provided to the approximate percentage of consumers who historically have been granted credit on material terms other than the most favorable terms.

For example, based on a sample of credit extended in the past six months, a creditor may determine that approximately 80 percent of its consumers received credit at its lowest APR (i.e., the most favorable material terms), and 20 percent of its consumers received credit at a higher APR (i.e., material terms other than the most favorable). Approximately 80 percent of the sampled consumers had a credit score at or above 750, and 20 percent had a credit score below 750. As a result, the card issuer could select 750 as its cutoff score. Consumers who have credit scores lower than 750 would receive the risk-based pricing notice. See preamble to the final regulation (75 Fed. Reg. at 2733)(January 15, 2010).

Recalculation. A person must recalculate the score no less than every two years.

Specific type of product (sampling approach). A person must calculate the cutoff score by considering the credit scores of all, or a representative sample of, the consumers who have received credit for a specific type of credit product.

New entrants or new products (secondary approach in limited circumstances). For new entrants into the credit business or for new products subject to risk-based pricing, a person may determine the cutoff score based on information from market research or other third-party sources for a specific type of credit product. For a newly acquired credit portfolio, a person may determine the cutoff score from information obtained from the party from which it acquired the portfolio. The person must recalculate the cutoff score using the scores of its own consumers within one year after it begins using a score derived from market research, third-party data, or the party from which it acquired the portfolio. If, within that one year, it has not granted credit to a sufficient number of new consumers, thus preventing it from having sufficient data with which to recalculate a cut-off score based on the credit scores of its own consumers, it may continue to use the original cutoff score until it obtains sufficient data on which to base the calculation. However, within two years, it must calculate its own cutoff score if it has granted credit to some new consumers within those two years.

Use of multiple credit scores. For a person that generally uses two or more credit scores to set material credit terms, the person must determine the cutoff score using the same method used to evaluate multiple scores when making credit decisions (for example, using an average credit score). If the person does not

consistently use the same method for evaluating multiple scores, the person must use a reasonable means. For example, the person may use any one of the methods that the person ordinarily uses or the average credit score of each consumer to calculate the credit score by a reasonable means.

No credit score available for a consumer. If no credit score is available for a consumer, a person must assume that it is granting credit on materially less favorable terms and thus must provide a risk-based pricing notice to the consumer.

2. *Tiered pricing method (12 CFR 1022.72(b)(2)).* If a person sets the material terms of credit by assigning each consumer to one of a discrete number of pricing tiers for a specific type of credit product, based in whole or in part on a consumer report, the person may provide a risk-based pricing notice to each consumer who is not assigned to the top pricing tier or tiers.

If the person uses four or fewer pricing tiers, it complies by providing risk-based pricing notices to all consumers who do not qualify for the top, best-priced tier. If the person uses five or more pricing tiers, it complies by providing the notices to all consumers who do not qualify for the two top, best-priced tiers and any other tier that, combined with the top two tiers, equals no less than the top 30 percent and no more than the top 40 percent of the total number of tiers.

Tiered Pricing Example

Four or fewer tiers		
Top tier = best rate	APR	Notice requirements.
Tier 1 (top)	8%	No risk-based pricing notice required.
Tier 2	10%	<i>Risk-based pricing notice required for Tiers 2, 3, and 4.</i>
Tier 3	12%	
Tier 4	14%	

Five or more tiers (5 tiers)		
Top tier = best rate	APR	
Tier 1 (top)	8%	No risk-based pricing notice required for top 30% to 40% of tiers.
Tier 2	10%	Top two tiers comprise 2 out of 5 (40%) of the number of tiers.
Tier 3	12%	<i>Risk-based notices required for Tiers 3-5.</i>
Tier 4	14%	
Tier 5	16%	

Five or more tiers (9 tiers)		
Top tier = best rate	APR	
Tier 1 (top)	8%	No risk-based pricing notice required for top 30% to 40% of tiers.
Tier 2	10%	<i>Top three tiers comprise 3 out of 9 (33%) of the number of tiers.</i>
Tier 3	12%	
Tier 4	14%	
Tier 5	16%	<i>Risk-based notices required for Tiers 4-9.</i>
Tier 6	18%	
Tier 7	20%	
Tier 8	22%	
Tier 9	24%	

Application to credit card issuers (12 CFR 1022.72(c)). A credit card issuer may use any of the methods in 12 CFR 1022.72(b) to identify consumers to whom it must provide a risk-based pricing notice. Alternatively, the card issuer may provide the notice when

1. a consumer applies for a credit card in connection with an application program or in response to a solicitation, and more than one purchase APR may apply under the program or solicitation; and
2. based in whole or in part on a consumer report, the credit card is issued to a consumer with an APR that is higher than the lowest APR available in connection with the application or solicitation.

The risk-based pricing requirements do not apply to a card issuer if the credit card program offers only a single annual APR (other than temporary initial rates or penalty rates) or if the issuer offers the consumer the lowest possible APR under the credit card program.

Content of the notice (12 CFR 1022.73(a)(1)). The risk-based pricing notice must include

1. a statement that a consumer report (or credit report) includes information about the consumer's credit history and the type of information included in that history;
2. a statement that the consumer is encouraged to verify the accuracy of the information contained in the consumer report and has the right to dispute any inaccurate information in the report;
3. the identity of each consumer reporting agency that furnished a consumer report used in the credit decision;
4. a statement that federal law gives the consumer the right to obtain a copy of a consumer report from the consumer reporting agency or agencies identified in the notice without charge for 60 days after receipt of the notice;
5. a statement informing the consumer how to obtain a consumer report from the consumer reporting agency or agencies identified in the notice and providing contact information (including a toll-free telephone number, where applicable) specified by the consumer reporting agency or agencies;
6. a statement directing consumers to the website of the CFPB to obtain more information about consumer reports;
7. if a credit score of the consumer to whom a person grants, extends, or otherwise provides credit is used in setting the material terms of credit

- a. a statement that a credit score is a number that takes into account information in a consumer report, that the consumer's credit score was used to set the terms of credit offered, and that a credit score can change over time to reflect changes in the consumer's credit history;
 - b. the credit score used by the person in making the credit decision;
 - c. the range of possible credit scores under the model used to generate the credit score;
 - d. all of the key factors that adversely affected the credit score, which shall not exceed four key factors, except that if one of the key factors is the number of enquiries made with respect to the consumer report, the number of key factors shall not exceed five;
 - e. the date on which the credit score was created; and
 - f. the name of the consumer reporting agency or other person that provided the credit score;
8. a statement that the terms offered, such as the APR, have been set based on information from a consumer report; and
 9. a statement that the terms offered may be less favorable than the terms offered to consumers with better credit histories.

See Appendix H-1 and H-6 of the regulation for model forms for the risk-based pricing notice.

Account review (12 CFR 1022.72(d)). Generally, a person must provide an account review risk-based pricing notice to the consumer if the person, based in whole or in part on a consumer report, increases the consumer's APR after a review of the consumer's account, unless one of the exceptions in 12 CFR 1022.74 applies (for example, the creditor provides an adverse action notice).

Content of account review risk-based pricing notice (12 CFR 1022.73(a)(2)). The account review risk-based pricing notice must include

1. a statement that a consumer report (or credit report) includes information about the consumer's credit history and the type of information included in that history;
2. a statement that the consumer is encouraged to verify the accuracy of the information contained in the consumer report and has the right to dispute any inaccurate information in the report;
3. the identity of each consumer reporting agency that furnished a consumer report used in the account review;

4. a statement that federal law gives the consumer the right to obtain a copy of a consumer report from the consumer reporting agency or agencies identified in the notice without charge for 60 days after receipt of the notice;
5. a statement informing the consumer how to obtain a consumer report from the consumer reporting agency or agencies identified in the notice and providing contact information (including a toll-free telephone number, where applicable) specified by the consumer reporting agency or agencies;
6. a statement directing consumers to the website of the CFPB to obtain more information about consumer reports;
7. if a credit score of the consumer whose extension of credit is under review is used in increasing the APR
 - a. a statement that a credit score is a number that takes into account information in a consumer report, that the consumer's credit score was used to set the terms of credit offered, and that a credit score can change over time to reflect changes in the consumer's credit history;
 - b. the credit score used by the person in making the credit decision;
 - c. the range of possible credit scores under the model used to generate the credit score;
 - d. all of the key factors that adversely affected the credit score, which shall not exceed four key factors, except that if one of the key factors is the number of enquires made with respect to the consumer report, the number of key factors shall not exceed five;
 - e. the date on which the credit score was created; and
 - f. the name of the consumer reporting agency or other person that provided the credit score.
8. a statement that the person has conducted a review of the account using information from a consumer report; and
9. a statement that as a result of the review, the APR on the account has been increased based on information from a consumer report.

Note: Items 1 through 7 for the account review risk-based pricing notice are substantially the same as items 1 through 7 for the risk-based pricing notice. Only the last two items in each list are different.

See Appendix H-2 and H-7 of the regulation for model forms for the account review risk-based

pricing notice.

Form of the notice (12 CFR 1022.73(b)). The risk-based pricing notices and the account review risk-based pricing notices must be clear and conspicuous and provided to the consumer in oral, written, or electronic form. Persons, such as creditors, are deemed to be in compliance with the disclosure requirements through use of the optional, applicable model forms, found in Appendix H of the regulation.

Timing (12 CFR 1022.73(c)). The timing requirement depends on the specific type of credit transaction as specified below:

1. For closed-end credit, a risk-based pricing notice must be provided to the consumer after the decision to approve a credit request is communicated to the consumer, but before consummation of the transaction.
2. For open-end credit, the notice must be provided after the decision to grant credit is communicated to the consumer, but before the first transaction under the plan has been made.
3. For account reviews, the notice must be provided at the time that the decision to increase the APR is communicated to the consumer. If no notice of the increase in the APR is provided to the consumer prior to the effective date of the APR change, the notice must be provided no later than five days after the effective date of the APR change.
4. For automobile lending transactions made through an auto dealer or other party that is unaffiliated with the creditor, the creditor may provide a risk-based pricing notice in the time periods described above for closed-end credit. Alternatively, the creditor may arrange to have the auto dealer or other party provide a risk-based pricing notice to the consumer on its behalf within these time periods and maintain reasonable policies and procedures to verify that the auto dealer provides the notices to consumers within the applicable time periods. If the creditor arranges to have the auto dealer or other party provide a credit score disclosure exception notice, the creditor complies if the consumer receives a notice containing a credit score obtained by the dealer or other party, even if a different credit score is obtained and used by the creditor (12 CFR 1022.73(c)(2)).
5. For credit that is granted under an open-end credit plan to a consumer in person or by telephone for contemporaneous purchase of goods or services, the risk-based pricing notice may be provided at the earlier of
 - a. the time of the first mailing to the consumer after the decision is made to approve the

- credit, such as in a mailing containing the account agreement or a credit card; or
- b. within 30 days after the decision to approve the credit.

Multiple credit scores (12 CFR 1022.73(d)). When a person obtains or creates two or more credit scores and uses one of those credit scores in setting the material terms of credit (e.g., by using the low, middle, high, or most recent score), the risk-based pricing notice and the account review notice must include that credit score and the information about the credit score described in the notice content requirements above.

When a person obtains or creates two or more credit scores and uses multiple credit scores in setting the material terms of credit (e.g., by computing the average of all the credit scores obtained or created, the risk-based pricing notice and the account review notice must include one of those credit scores and the information about the credit score described previously in the notice content requirements. The notice may, at the person's option, include more than one credit score and the related information for each credit score disclosed.

Examples

1. A person that uses consumer reports to set the material terms of credit cards granted, extended, or provided to consumers regularly requests credit scores from several consumer reporting agencies and uses the low score when determining the material terms it will offer to the consumer. That person must disclose the low score in the risk-based pricing notice and the account review notice.
2. A person that uses consumer reports to set the material terms of automobile loans granted, extended, or provided to consumers regularly requests credit scores from several consumer reporting agencies, each of which it uses in an underwriting program in order to determine the material terms it will offer to the consumer. That person may choose one of these scores to include in the risk-based pricing notice and the account review notice.

Exceptions (12 CFR 1022.74)

The rules contain a number of exceptions to the risk-based pricing notice requirement, as follows:

1. when a consumer applies for specific material terms of credit (e.g., a specific APR), and receives them, unless those terms were specified by the creditor using a consumer report after the consumer applied for the credit and after the creditor obtained the consumer report

- (12 CFR 1022.74(a));
2. when a person such as a creditor provides a notice of adverse action (12 CFR 1022.74(b));
 3. when a person makes a firm offer of credit in a prescreened solicitation even if the person makes other firm offers of credit to other consumers on more favorable material terms (12 CFR 1022.74(c));
 4. when a person generally provides a credit score disclosure to each consumer that requests a loan that is or will be secured by residential real property (12 CFR 1022.74(d));
 5. when a person generally provides a credit score disclosure to each consumer that requests a loan that is not or will not be secured by residential real property (12 CFR 1022.74(e));
 6. when a person who otherwise provides credit score disclosures to consumers that request loans, provides a disclosure about credit scores when no credit score is available (12 CFR 1022.74(f)).

The specific disclosure requirements for exceptions in Sections 1022.74(d)-(f) are described below.

Section 1022.74(d) exception—credit score disclosure for loans secured by residential real property. A person is not required to provide a risk-based pricing notice to a consumer under Sections 1022.72(a) or (c) if

1. the consumer requests from an person an extension of credit that is or will be secured by one to four units of residential real property; and
2. the person generally provides to each consumer that requests such an extension of credit a notice that contains the following:
 - a. a statement that a consumer report (or credit report) is a record of the consumer's credit history and includes information about whether the consumer pays his or her obligations on time and how much the consumer owes to creditors;
 - b. a statement that a credit score is a number that takes into account information in a consumer report and that a credit score can change over time to reflect changes in the consumer's credit history;
 - c. a statement that the consumer's credit score can affect whether the consumer can obtain credit and what the cost of that credit will be;
 - d. a statement that the consumer is encouraged to verify the accuracy of the informa-

- tion contained in the consumer report and has the right to dispute any inaccurate information in the report;
- e. a statement that federal law gives the consumer the right to obtain copies of his or her consumer reports directly from the consumer reporting agencies, including a free report from each of the nationwide consumer reporting agencies once during any 12-month period;
 - f. contact information for the centralized source from which consumers may obtain their free annual consumer reports;
 - g. a statement directing consumers to the website of the CFPB to obtain more information about consumer reports;
 - h. the information required to be disclosed to the consumer in Section 609(g) of the FCRA, and as described in Module 3 of these examination procedures, under “Disclosure of Credit Scores by Certain Mortgage Lenders (FCRA), Section 609(g)”;
 - i. the distribution of credit scores among consumers who are scored under the same scoring model that is used to generate the consumer’s credit score. The distribution must
 - i. use the same scale as that of the credit score provided to the consumer, and
 - ii. be presented
 - in the form of a bar graph containing a minimum of six bars that illustrates the percentage of consumers with credit scores within the range of scores reflected in each bar,
 - by other clear and readily understandable graphical means, or
 - in a clear and readily understandable statement informing the consumer how his or her credit score compares to the scores of other consumers.

The presentation may use a graph or statement obtained from the entity providing the credit score if it meets these requirements.

Form of the notice. The Section 1022.74(d) notice must be

1. clear and conspicuous;
2. provided on or with the notice required by Section 609(g) of the FCRA;
3. segregated from other information provided to

the consumer, except for the notice required by Section 609(g) of the FCRA; and

4. provided to the consumer in writing and in a form that the consumer may keep.

Timing. The Section 1022.74(d) notice must be provided to the consumer at the same time as the disclosure required by Section 609(g) of the FCRA is provided to the consumer, which must be provided as soon as reasonably practicable after the credit score has been obtained. In any event, the Section 1022.74(d) notice must be provided at or before consummation in the case of closed-end credit or before the first transaction is made under an open-end credit plan.

Content of the notice when using multiple credit scores. When a person obtains two or more credit scores from consumer reporting agencies in setting material terms of credit, the content of the Section 1022.74(d) notice varies depending upon whether the person only relies upon one of the credit scores or relies upon multiple credit scores.

1. If a person only relies upon one of those credit scores in setting the material terms of credit granted, extended, or otherwise provided to a consumer (for example, by using the low, middle, high, or most recent score), the notice must include that credit score and the other information required by Section 1022.74(d).
2. If a person relies upon multiple credit scores in setting the material terms of credit granted, extended, or otherwise provided to a consumer (for example, by computing the average of all the credit scores obtained), the notice must include one of those credit scores and the other information required by Section 1022.74(d).

At the person’s option, the notice may include more than one credit score, along with the additional information required by Section 1022.74(d) for each credit score disclosed.

Examples

1. A person uses consumer reports to set the material terms of mortgage credit granted, extended, or provided to consumers and regularly requests credit scores from several consumer reporting agencies. It relies upon the low score when determining the material terms it will offer to the consumer. The person must disclose the low score in the Section 1022.74(d) notice.
2. A person uses consumer reports to set the material terms of mortgage credit granted, extended, or provided to consumers and regularly requests credit scores from several consumer reporting agencies. The person

takes an average of all of the credit scores obtained in order to determine the material terms it will offer to the consumer, and thus relies upon all of the credit scores that it receives. The person may choose one of these scores to include in the Section 1022.74(d) notice.

Model form. Appendix H-3 of the regulation contains a model form of the Section 1022.74(d) notice that is consolidated with the notice required by Section 609(g) of the FCRA. While use of the model form is optional, appropriate use of Model Form H-3 is deemed to comply with the requirements of Section 1022.74(d).

Section 1022.74(e) exception-credit score disclosure for loans not secured by residential real property. A person is not required to provide a risk-based pricing notice to a consumer under Section 1022.72(a) or (c) if

1. the consumer requests from a person an extension of credit that is *not* or will *not* be secured by one to four units of residential real property; and
2. the person provides to each consumer that requests such an extension of credit a notice that contains the following:
 - a. a statement that a consumer report (or credit report) is a record of the consumer's credit history and includes information about whether the consumer pays his or her obligations on time and how much the consumer owes to creditors;
 - b. a statement that a credit score is a number that takes into account information in a consumer report and that a credit score can change over time to reflect changes in the consumer's credit history;
 - c. a statement that the consumer's credit score can affect whether the consumer can obtain credit and what the cost of that credit will be;
 - d. a statement that the consumer is encouraged to verify the accuracy of the information contained in the consumer report and has the right to dispute any inaccurate information in the report;
 - e. a statement that federal law gives the consumer the right to obtain copies of his or her consumer reports directly from the consumer reporting agencies, including a free report from each of the nationwide consumer reporting agencies once during any 12-month period;
 - f. contact information for the centralized source from which consumers may obtain

their free annual consumer reports;

- g. a statement directing consumers to the website of the CFPB to obtain more information about consumer reports;
- h. the current credit score of the consumer or the most recent credit score of the consumer that was previously calculated by the consumer reporting agency for a purpose related to the extension of credit;
- i. the distribution of credit scores among consumers who are scored under the same scoring model that is used to generate the consumer's credit score. The distribution must
 - i. use the same scale as that of the credit score provided to the consumer, and
 - ii. be presented
 - in the form of a bar graph containing a minimum of six bars that illustrates the percentage of consumers with credit scores within the range of scores reflected in each bar,
 - by other clear and readily understandable graphical means, or
 - in a clear and readily understandable statement informing the consumer how his or her credit score compares with the scores of other consumers.

The presentation may use a graph or statement obtained from the entity providing the credit score if it meets these requirements.

- j. the range of possible credit scores under the model used to generate the credit score;
- k. the date on which the credit score was created; and
- l. the name of the consumer reporting agency or other person that provided the credit score.

Note: Items a, b, c, d, e, f, g, and i for the Section 1022.74(e) notice are the same as items a, b, c, d, e, f, g, and i for the Section 1022.74(d) notice.

Form of the notice. The Section 1022.74(e) notice must be

1. clear and conspicuous;
2. segregated from other information provided to the consumer; and
3. provided to the consumer in writing and in a form that the consumer may keep.

Timing. The Section 1022.74(e) notice generally must be provided to the consumer as soon as reasonably practicable after the credit score has been obtained, but in any event at or before consummation in the case of closed-end credit or before the first transaction is made under an open-end credit plan. The notice may alternatively be provided in the following manner:

1. For automobile lending transactions made through an auto dealer or other party that is unaffiliated with the person, such as a creditor, the person may provide a Section 1022.74(e) notice in the time periods described above. Alternatively, the creditor may arrange to have the auto dealer or other party provide a Section 1022.74(e) notice to the consumer on its behalf within these time periods and maintain reasonable policies and procedures to verify that the auto dealer provides the notice to the consumer within the applicable time periods. If the creditor arranges to have the auto dealer or other party provide a Section 1022.74(e) notice, the creditor complies if the consumer receives a notice containing a credit score obtained by the dealer, even if a different credit score is obtained and used by the creditor (12 CFR 1022.73(c)(2)).
2. For credit that is granted under an open-end credit plan to a consumer in person or by telephone for contemporaneous purchase of goods or services, the Section 1022.74(e) notice may be provided at the earlier of
 - a. the time of the first mailing to the consumer after the decision is made to approve the credit, such as in a mailing containing the account agreement or a credit card; or
 - b. within 30 days after the decision to approve the credit (12 CFR 1022.73(c)(3)).

Multiple credit scores. When a person obtains two or more credit scores from consumer reporting agencies in setting material terms of credit, the content of the Section 1022.74(e) notice varies depending if the person relies upon only one of the credit scores or relies upon multiple credit scores. These disclosures requirements are the same as those for the Section 1022.74(d) notices, as described previously.

Model form. Appendix H-4 of the regulation contains a model form of the Section 1022.74(e) notice. While use of the model form is optional, appropriate use of Model Form H-4 is deemed to comply with the requirements of Section 1022.74(e).

Section 1022.74(f) exception—credit score not available. A person is not required to provide a risk-based pricing notice to a consumer under Section 1022.72(a) or (c) if the person:

1. regularly obtains credit scores from a consumer reporting agency and provides credit score disclosures to consumers in accordance with Sections 1022.74(d) or (e), but a credit score is not available from the consumer reporting agency from which the person regularly obtains credit scores for a consumer to whom the person grants, extends, or provides credit;
2. does not obtain a credit score from another consumer reporting agency in connection with granting, extending, or providing credit to the consumer; and
3. provides to the consumer a notice that contains the following:
 - a. a statement that a consumer report (or credit report) includes information about the consumer's credit history and the type of information included in that history;
 - b. a statement that a credit score is a number that takes into account information in a consumer report and that a credit score can change over time in response to changes in the consumer's credit history;
 - c. a statement that credit scores are important because consumers with higher credit scores generally obtain more favorable credit terms;
 - d. a statement that not having a credit score can affect whether the consumer can obtain credit and what the cost of that credit will be;
 - e. a statement that a credit score about the consumer was not available from a consumer reporting agency, which must be identified by name, generally due to insufficient information regarding the consumer's credit history;
 - f. a statement that the consumer is encouraged to verify the accuracy of the information contained in the consumer report and has the right to dispute any inaccurate information in the consumer report;
 - g. a statement that federal law gives the consumer the right to obtain copies of his or her consumer reports directly from the consumer reporting agencies, including a free consumer report from each of the nationwide consumer reporting agencies once during any 12-month period;
 - h. the contact information for the centralized source from which consumers may obtain their free annual consumer reports; and
 - i. a statement directing consumers to the website of the CFPB to obtain more information.

mation about consumer reports.

Note: Items b, f, g, h, and i for the Section 1022.74(f) notice are the same as items b, f, g, h, and i for the Sections 1022.74(d) and (e) notices.

Example. A person, such as a creditor, uses consumer reports to set the material terms of non-mortgage credit granted, extended, or provided to consumers and regularly requests credit scores from a particular consumer reporting agency. As required by Section 1022.74(e), the creditor provides those credit scores and additional information to consumers. The consumer reporting agency provides to the creditor a consumer report on a particular consumer that contains one trade line, but does not provide the creditor with a credit score on that consumer. If the creditor does not obtain a credit score from another consumer reporting agency and, based in whole or in part on information in a consumer report, grants, extends, or provides credit to the consumer, the creditor may provide the Section 1022.74(f) notice. If, however, the creditor obtains a credit score from another consumer reporting agency, the creditor may not rely upon the Section 1022.74(f) exception but must satisfy the requirements of Section 1022.74(e).

Form of the notice. The Section 1022.74(f) notice must be

1. clear and conspicuous;
2. segregated from other information provided to the consumer; and
3. provided to the consumer in writing and in a form that the consumer may keep.

Timing. The Section 1022.74(f) notice generally must be provided to the consumer as soon as reasonably practicable after the person has requested the credit score but in any event not later than consummation of a transaction in the case of closed-end credit or when the first transaction is made under an open-end credit plan. The notice may alternatively be provided in the following manner:

1. For automobile lending transactions made through an auto dealer or other party that is unaffiliated with the person, such as a creditor, the creditor may provide a Section 1022.74(f) notice in the time periods described above. Alternatively, the creditor may arrange to have the auto dealer or other party provide a Section 1022.74(f) notice to the consumer on its behalf within these time periods and maintain reasonable policies and procedures to verify that the auto dealer provides the notice to the consumer within the applicable time periods.
2. For credit that is granted under an open-end

credit plan to a consumer in person or by telephone for contemporaneous purchase of goods or services, the Section 1022.74(f) notice may be provided at the earlier of

- a. the time of the first mailing to the consumer after the decision is made to approve the credit, such as in a mailing containing the account agreement or a credit card; or
- b. within 30 days after the decision to approve the credit (12 CFR 1022.73(c)(3)).

Model form. Appendix H-5 of the regulation contains a model form of the Section 1022.74(f) notice. While use of the model form is optional, appropriate use of Model Form H-5 is deemed to comply with the requirements of Section 1022.74(f).

Rules of Construction (12 CFR 1022.75)

The rules clarify that, in general, only one risk-based pricing notice or one credit score exception notice is required to be provided per credit extension (however, an account review would still be required, if applicable).

In a transaction involving two or more consumers who are granted, extended, or otherwise provided credit, a person must provide a risk-based pricing notice to each consumer. If the consumers have the same address, and the notice does not include a credit score(s), a person may satisfy the requirements by providing a single notice addressed to both consumers. However, if a notice includes a credit score(s), the person must provide a separate notice to each consumer whether the consumers have the same address or not. Each separate notice that includes a credit score(s) must contain only the credit score(s) of the consumer to whom the notice is provided, and not the credit score(s) of the other consumer. Similarly, for credit score disclosure exception notices, whether the consumers have the same address or not, the person must provide a separate notice to each consumer and each separate notice that includes a credit score(s) must contain only the credit score(s) of the consumer to whom the notice is provided.

A purchaser or assignee of a credit contract with a consumer is not subject to the risk-based pricing notice requirements.

Appendix H

Appendix H contains seven optional model forms that may be used to comply with the regulatory requirements. The seven model forms are

1. H-1 Model form for risk-based pricing notice
2. H-2 Model form for account review risk-based pricing notice

3. H-3 Model form for credit score disclosure exception for credit secured by one to four units of residential real property
4. H-4 Model form for credit score disclosure exception for loans not secured by residential real property
5. H-5 Model form for credit score disclosure exception for loans where credit score is not available
6. H-6 Model form for risk-based pricing notice with credit score information
7. H-7 Model form for account review risk-based

pricing notice with credit score information

Use of the model forms is not required. A person may change the forms by rearranging the format or by making technical modifications to the language of the forms. However, any change may not be so extensive as to materially affect the substance, clarity, comprehensibility, or meaningful sequence of the forms. Persons making such extensive revisions would lose the “safe harbor” that Appendix H provides. Examples of acceptable changes are provided in Appendix H to the regulation.

Fair Credit Reporting—Module 3

Examination Procedures

Use of Consumer Reports for Employment Purposes (FCRA, Section 604(b))

1. Determine whether the financial institution obtains consumer reports on current or prospective employees.
2. Assess the financial institution's policies and procedures to determine if appropriate disclosures are provided to current and prospective employees when consumer reports are obtained for employment purposes, including in situations in which adverse actions are taken on the basis of consumer report information.
3. If procedural weaknesses or other risks requiring further investigation are noted, review a sample of the disclosures to determine if they are accurate and in compliance with the technical FCRA requirements.

Prescreened Consumer Reports and Opt-Out Notice (FCRA, Sections 604(c) and 615(d); and FTC Regulations, Parts 642 and 698)

1. Determine whether the financial institution obtained and used prescreened consumer reports in connection with offers of credit and/or insurance.
2. Evaluate the institution's policies and procedures to determine if a list of the criteria used for prescreened offers, including all post-application criteria, is maintained in the institution's files and the criteria are applied consistently when consumers respond to the offers.
3. Determine whether written solicitations contain the required disclosures of consumers' right to opt out of prescreened solicitations and comply with all requirements applicable at the time of the offer.
4. If procedural weaknesses or other risks requiring further investigation are noted, obtain and review a sample of approved and denied responses to the offers to ensure that criteria were appropriately applied.

Truncation of Credit and Debit Card Account Numbers (FCRA, Section 605(g))

1. Determine whether the financial institution's policies and procedures ensure that electronically generated receipts from automated teller

machines and point-of-sale terminals or other machines do not contain more than the last five digits of the card number and do not contain the expiration date.

2. For ATMs and POS terminals or other machines that were put into operation before January 1, 2005, determine if the institution has brought the terminals into compliance or has begun a plan to ensure that these terminals comply by the mandatory compliance date of December 4, 2006.
3. If procedural weaknesses or other risks requiring further investigation are noted, review samples of actual receipts to ensure compliance.

Disclosure of Credit Scores by Certain Mortgage Lenders (FCRA, Section 609(g))

1. Determine whether the financial institution uses credit scores in connection with applications for closed-end or open-end loans secured by one-to four-family residential real property.
2. Evaluate the institution's policies and procedures to determine whether accurate disclosures are provided to applicants as soon as is reasonably practicable after using credit scores.
3. If procedural weaknesses or other risks requiring further investigation are noted, review a sample of disclosures given to home loan applicants to determine technical compliance with the requirements.

Adverse Action Disclosures (FCRA, Sections 615(a) and (b))

1. Determine whether the policies and procedures adequately ensure that the creditor or other person provides the appropriate disclosures, including the consumer's credit score as appropriate, when it takes adverse action against consumers based in whole or in part on information contained in a consumer report or specified information received from third parties, including affiliates.
2. Review the policies and procedures of the creditor or other person for responding to requests for information in response to these adverse action notices.
3. If procedural weaknesses or other risks requiring further investigation are noted, review a sample of adverse action notices to determine

if they are accurate and in technical compliance.

Debt Collector Communications concerning Identity Theft (FCRA, Section 615(g))

1. Determine whether the financial institution collects debts for third parties.
2. Determine whether the financial institution has policies and procedures to ensure that the third parties are notified if the financial institution obtains any information that may indicate that the debt in question is the result of fraud or identity theft.
3. Determine if the institution has effective policies and procedures for providing information to consumers to whom the fraudulent debts relate.
4. If procedural weaknesses or other risks requiring further investigation are noted, review a sample of instances in which consumers have alleged identity theft and requested information related to transactions to determine if all of the appropriate information was provided to the consumers.

Duties of Users Regarding Risk-Based Pricing (FCRA, Section 615(h); and Regulation V, Subpart H)

1. Determine whether the creditor (or other person) uses consumer report information in consumer credit decisions.

If “yes,” determine whether the creditor uses such information to provide credit on terms that are “materially less favorable” than the most favorable material terms available to a substantial proportion of its consumers. Relevant factors in determining the significance of differences in the cost of credit include the type of credit product, the term of the credit extension, and the extent of the difference.

If “yes,” the creditor is subject to the risk-based pricing regulations.
2. Determine the method the creditor uses to identify consumers who must receive a risk-based pricing notice and whether the method complies with the regulation (12 CFR 1022.72 (b)).
 - a. For creditors that use the direct comparison method (12 CFR 1022.72(b)), determine whether the creditor directly compares the material terms offered to each consumer and the material terms offered to other consumers for a specific type of credit product.

- b. For creditors that use the credit score proxy method (12 CFR 1022.72(b)(1))
 - i. determine whether the creditor calculates the cutoff score by considering the credit scores of all, or a representative sample, of consumers who have received credit for a specific type of credit product;
 - ii. determine whether the creditor recalculates the cutoff score no less than every two years;
 - iii. for new entrants into the credit business, for new products subject to risk-based pricing, or for acquired credit portfolios, determine whether the creditor recalculates the cutoff scores within time periods specified in the regulation;
 - iv. for creditors using more than one credit score to set material terms, determine whether the creditor establishes a cut-off score according to the methods specified in the regulation; and
 - v. if no credit score is available for a consumer, determine whether the creditor provides the consumer a risk-based pricing notice.
- c. For creditors that use the tiered pricing method (12 CFR 1022.72(b)(2))
 - i. when four or fewer pricing tiers are used, determine if the creditor sends risk-based pricing notices to consumers who do not qualify for the top, best-priced tier; or
 - ii. when five or more pricing tiers are used, determine if the creditor provides risk-based pricing notices to consumers who do not qualify for the two top, best-priced tiers and any other tier that, combined with the top two tiers, equal no less than the top 30 percent and no more than the top 40 percent of the total number of tiers.
- d. For credit card issuers
 - i. determine whether the card issuer uses the direct comparison method, the credit score proxy method, or the tiered pricing method to identify consumers to whom it must provide a risk-based pricing notice;
 - ii. if the card issuer does not use the direct comparison method, the credit score proxy method, or the tiered pricing method, determine whether the card issuer uses the following method as permitted by 12 CFR 1022.72(c) to

- identify consumers to whom it must provide a risk-based pricing notice:
- (a) a consumer applies for a credit card either in connection with an application program, such as a direct-mail offer or a take-one application, or in response to a solicitation under 12 CFR 1026.60, and more than a single possible purchase annual percentage rate (APR) may apply under the program or solicitation; and
 - (b) based in whole or in part on a consumer report, the credit card issuer provides a credit card to the consumer with a purchase APR that is greater than the lowest purchase APR available in connection with the application or solicitation.
 - iii. determine whether the card issuer provides a risk-based pricing notice to each consumer that is provided a credit card with a purchase APR greater than the lowest purchase APR available under the program or solicitation.
3. Determine whether the creditor provides a risk-based pricing notice to a consumer (12 CFR 1022.72(a)). For creditors that provide the notice, proceed to step #4. If the creditor does not provide a risk-based pricing notice, proceed to step #5 to determine whether an exception applies (12 CFR 1022.74).
4. Determine whether the risk based pricing notice contains (12 CFR 1022.73(a)(1)):
- a. a statement that a consumer report (or credit report) includes information about the consumer's credit history and the type of information included in that history;
 - b. a statement that the terms offered, such as the APR, have been set based on information from a consumer report;
 - c. a statement that the terms offered may be less favorable than the terms offered to consumers with better credit histories;
 - d. a statement that the consumer is encouraged to verify the accuracy of the information contained in the consumer report and has the right to dispute any inaccurate information in the report;
 - e. the identity of each consumer reporting agency that furnished a consumer report used in the credit decision;
 - f. a statement that federal law gives the consumer the right to obtain a copy of a consumer report from the consumer reporting agency or agencies identified in the notice without charge for 60 days after receipt of the notice;
 - g. a statement informing the consumer how to obtain a consumer report from the consumer reporting agency or agencies identified in the notice and providing contact information (including a toll-free telephone number, where applicable) specified by the consumer reporting agency or agencies;
 - h. a statement directing consumers to the website of the CFPB to obtain more information about consumer reports; and
 - i. if a credit score of the consumer to whom a person grants, extends, or otherwise provides credit is used in setting the material terms of credit:
 - i. a statement that a credit score is a number that takes into account information in a consumer report, that the consumer's credit score was used to set the terms of credit offered, and that a credit score can change over time to reflect changes in the consumer's credit history;
 - ii. the credit score used by the person in making the credit decision;
 - iii. the range of possible credit scores under the model used to generate the credit score;
 - iv. all of the key factors that adversely affected the credit score, which shall not exceed four key factors, except that if one of the key factors is the number of enquiries made with respect to the consumer report, the number of key factors shall not exceed five;
 - v. the date on which the credit score was created; and
 - vi. the name of the consumer reporting agency or other person that provided the credit score.
- Proceed to step #10.
5. If the creditor does not provide a risk-based pricing notice, determine if one of the following situations that qualify for a regulatory exception applies (12 CFR 1022.74(a)-(f)):
- a. a consumer applies for specific terms of credit, and receives them, unless those terms were specified by the creditor using a consumer report after the consumer applied for the credit and after the creditor obtained the consumer report;

- b. a creditor provides a notice of adverse action;
 - c. a creditor makes a firm offer of credit in a prescreened solicitation (even if the person makes other firm offers of credit to other consumers on more favorable material terms);
 - d. a creditor generally provides a credit score disclosure to each consumer that requests a loan that is or will be secured by residential real property (if so, proceed to step #6);
 - e. a creditor generally provides a credit score disclosure to each consumer that requests a loan that is not or will not be secured by residential real property (if so, proceed to step #7); or
 - f. a creditor, which otherwise provides credit score disclosures to consumers that request loans, provides a disclosure for when no credit score is available (if so, proceed to step #8).
6. For creditors that choose to provide a credit score disclosure to consumers that request a loan that is or will be secured by residential real property, determine whether the Section 1022.74(d) notice generally is provided to each consumer that requests such an extension of credit and that each notice contains
- a. a statement that a consumer report (or credit report) is a record of the consumer's credit history and includes information about whether the consumer pays his or her obligations on time and how much the consumer owes to creditors;
 - b. a statement that a credit score is a number that takes into account information in a consumer report and that a credit score can change over time to reflect changes in the consumer's credit history;
 - c. a statement that the consumer's credit score can affect whether the consumer can obtain credit and what the cost of that credit will be;
 - d. a statement that the consumer is encouraged to verify the accuracy of the information contained in the consumer report and has the right to dispute any inaccurate information in the report;
 - e. a statement that federal law gives the consumer the right to obtain copies of his or her consumer reports directly from the consumer reporting agencies, including a free report from each of the nationwide consumer reporting agencies once during any 12-month period;
- f. contact information for the centralized source from which consumers may obtain their free annual consumer reports;
- g. a statement directing consumers to the website of the CFPB to obtain more information about consumer reports;
- h. the information required to be disclosed to the consumer in Section 609(g) of the FCRA, and as described in Module 3 of these examination procedures, under "Disclosure of Credit Scores by Certain Mortgage Lenders (FCRA), Section 609(g)"; and
- i. the distribution of credit scores among consumers who are scored under the same scoring model that is used to generate the consumer's credit score. The distribution must
 - i. use the same scale as that of the credit score provided to the consumer, and
 - ii. be presented
 - (a) in the form of a bar graph containing a minimum of six bars that illustrates the percentage of consumers with credit scores within the range of scores reflected in each bar,
 - (b) by other clear and readily understandable graphical means, or
 - (c) in a clear and readily understandable statement informing the consumer how his or her credit score compares to the scores of other consumers.
- The presentation may use a graph or statement obtained from the entity providing the credit score if it meets these requirements.
7. For creditors that choose to provide a credit score disclosure to consumers that request a loan that is not or will not be secured by residential real property, determine whether the Section 1022.74(e) notice generally is provided to each consumer that requests such an extension of credit and that each notice contains
- a. a statement that a consumer report (or credit report) is a record of the consumer's credit history and includes information about whether the consumer pays his or her obligations on time and how much the consumer owes to creditors;
 - b. a statement that a credit score is a number

- that takes into account information in a consumer report and that a credit score can change over time to reflect changes in the consumer's credit history;
- c. a statement that the consumer's credit score can affect whether the consumer can obtain credit and what the cost of that credit will be;
 - d. a statement that the consumer is encouraged to verify the accuracy of the information contained in the consumer report and has the right to dispute any inaccurate information in the report;
 - e. a statement that federal law gives the consumer the right to obtain copies of his or her consumer reports directly from the consumer reporting agencies, including a free report from each of the nationwide consumer reporting agencies once during any 12-month period;
 - f. contact information for the centralized source from which consumers may obtain their free annual consumer reports;
 - g. a statement directing consumers to the website of CFPB to obtain more information about consumer reports;
 - h. the current credit score of the consumer or the most recent credit score of the consumer that was previously calculated by the consumer reporting agency for a purpose related to the extension of credit;
 - i. the distribution of credit scores among consumers who are scored under the same scoring model that is used to generate the consumer's credit score. The distribution must
 - i. use the same scale as that of the credit score provided to the consumer, and
 - ii. be presented
 - (a) in the form of a bar graph containing a minimum of six bars that illustrates the percentage of consumers with credit scores within the range of scores reflected in each bar,
 - (b) by other clear and readily understandable graphical means, or
 - (c) in a clear and readily understandable statement informing the consumer how his or her credit score compares to the scores of other consumers.
- The presentation may use a graph or statement obtained from the entity provid-

- ing the credit score if it meets these requirements.
- j. the range of possible credit scores under the model used to generate the credit score;
 - k. the date on which the credit score was created; and
 - l. the name of the consumer reporting agency or other person that provided the credit score.
8. For creditors that otherwise provide credit score disclosures to consumers that request loans, determine whether the Section 1022.74(f) notice is provided to the applicable consumers in situations where no credit score is available for the consumer, as required by 1022.74(f). Determine whether each notice contains
- a. a statement that a consumer report (or credit report) includes information about the consumer's credit history and the type of information included in that history;
 - b. a statement that a credit score is a number that takes into account information in a consumer report and that a credit score can change over time in response to changes in the consumer's credit history;
 - c. a statement that credit scores are important because consumers with higher credit scores generally obtain more favorable credit terms;
 - d. a statement that not having a credit score can affect whether the consumer can obtain credit and what the cost of that credit will be;
 - e. a statement that a credit score about the consumer was not available from a consumer reporting agency, which must be identified by name, generally due to insufficient information regarding the consumer's credit history;
 - f. a statement that the consumer is encouraged to verify the accuracy of the information contained in the consumer report and has the right to dispute any inaccurate information in the consumer report;
 - g. a statement that federal law gives the consumer the right to obtain copies of his or her consumer reports directly from the consumer reporting agencies, including a free consumer report from each of the nationwide consumer reporting agencies once during any 12-month period;
 - h. the contact information for the centralized source from which consumers may obtain their free annual consumer reports; and

- i. a statement directing consumers to the website of the CFPB to obtain more information about consumer reports.
9. For creditors that provide credit score exception notices and that obtain multiple credit scores in setting material terms of credit, determine whether the score(s) is disclosed in a manner consistent with the regulation (12 CFR 1022.74(d)(4) and .74(e)(4)):
 - a. if a creditor only relies upon one of those credit scores in setting the material terms of credit granted, extended, or otherwise provided to a consumer (for example, by using the low, middle, high, or most recent score), determine whether the notice includes that credit score and the other information required by Section 1022.74(d).
 - b. if a creditor relies upon multiple credit scores in setting the material terms of credit granted, extended, or otherwise provided to a consumer (for example, by computing the average of all the credit scores obtained), determine whether the notice includes one of those credit scores and the other information required by Section 1022.74(d).
10. Regardless of whether the creditor provides risk-based pricing notices or credit score exception notices, if the creditor increases the consumer's APR as the result of a review of a consumer's account, determine whether the creditor provided the consumer with an account review risk-based pricing notice (12 CFR 1022.72(d)) if an adverse action notice was not already provided.
11. Determine whether the account review risk-based pricing notice contains (12 CFR 1022.73 (a)(2))
 - a. a statement that a consumer report (or credit report) includes information about the consumer's credit history and the type of information included in that history;
 - b. a statement that the consumer is encouraged to verify the accuracy of the information contained in the consumer report and has the right to dispute any inaccurate information in the report;
 - c. the identity of each consumer reporting agency that furnished a consumer report used in the credit decision;
 - d. a statement that federal law gives the consumer the right to obtain a copy of a consumer report from the consumer reporting agency or agencies identified in the notice without charge for 60 days after receipt of the notice;
- e. a statement that informs the consumer how to obtain a consumer report from the consumer reporting agency or agencies identified in the notice and provides contact information (including a toll-free telephone number, where applicable) specified by the consumer reporting agency or agencies;
- f. a statement that directs consumers to the website of the CFPB to obtain more information about consumer reports;
- g. a statement that the creditor has conducted a review of the account using information from a consumer report;
- h. a statement that, as a result of the review, the APR on the account has been increased based on information from a consumer report; and
- i. if a credit score of the consumer whose extension of credit is under review is used in increasing the APR:
 - i. a statement that a credit score is a number that takes into account information in a consumer report, that the consumer's credit score was used to set the terms of credit offered, and that a credit score can change over time to reflect changes in the consumer's credit history;
 - ii. the credit score used by the person in making the credit decision;
 - iii. the range of possible credit scores under the model used to generate the credit score;
 - iv. all of the key factors that adversely affected the credit score, which shall not exceed four key factors, except that if one of the key factors is the number of enquiries made with respect to the consumer report, the number of key factors shall not exceed five;
 - v. the date on which the credit score was created; and
 - vi. the name of the consumer reporting agency or other person that provided the credit score.
12. For all notices, determine whether the notices are clear and conspicuous and comply with the specific format requirements for the notices (12 CFR 1022.73(b), .74(d)(2), .74(e)(2), and .74(f)(3)).
13. For all notices, determine whether the notices are provided within the required time frames (12 CFR 1022.73(c), .74(d)(3), .74(e)(3), and .74(f)(4)), as set out as follows:

Risk-based pricing notices and account review risk-based pricing notices

- For closed-end credit, the notice generally must be provided to the consumer after the decision to approve a credit request is communicated to the consumer but before consummation of the transaction.
- For open-end credit, the notice generally must be provided after the decision to grant credit is communicated to the consumer but before the first transaction under the plan has been made.
- For account reviews, the notice generally must be provided at the time that the decision to increase the APR is communicated to the consumer or no later than five days after the effective date of the change in the APR.

Credit score disclosures for loans secured by residential real property

- The credit score disclosure for loans secured by residential real property must be provided to the consumer at the same time as the disclosure required by Section 609(g) of the FCRA is provided to the consumer. The 609(g) notice must be provided as soon as reasonably practicable after the credit score has been obtained. In any event, the credit score disclosure for loans secured by residential real property must be provided at or before consummation in the case of closed-end credit or before the first transaction is made under an open-end credit plan.

Credit score disclosures for loans not secured by residential real property

- The notice generally must be provided to the consumer as soon as reasonably practicable after the credit score has been obtained but in any event at or before consummation in the case of closed-end credit or before the first transaction is made under an open-end credit plan.

Credit score exception notices when no credit score is available

- The notice generally must be provided to the consumer as soon as reasonably practicable after the creditor has requested the credit score but in any event not later than consummation of a transaction in the case of closed-end credit or when the first transaction is made under an open-end credit plan.

Application to certain automobile lending transactions

- For automobile lending transactions made

through an auto dealer that is unaffiliated with the creditor, the creditor may provide a notice in the time periods described above. Alternatively, the creditor may arrange to have the auto dealer provide a notice to the consumer on its behalf within these time periods and maintain reasonable policies and procedures to verify that the auto dealer provides the notice to the consumer within the applicable time periods. If the creditor arranges to have the auto dealer provide a credit score disclosure for loans not secured by residential real property, the creditor complies if the consumer receives a notice containing a credit score obtained by the dealer with these time periods, even if a different credit score is obtained and used by the creditor.

- For credit that is granted under an open-end credit plan to a consumer in person or by telephone for contemporaneous purchase of goods or services, the notice may be provided at the earlier of
 - the time of the first mailing to the consumer after the decision is made to approve the credit, such as in a mailing containing the account agreement or a credit card; or
 - within 30 days after the decision to approve the credit.

14. For all notices, determine whether the creditor follows the rules of construction pertaining to the number of notices provided to the consumer(s) (12 CFR 1022.75). In a transaction involving two or more consumers, a creditor must provide a risk-based notice to each consumer. If the consumers have the same address, and the notice does not include a credit score(s), a person may satisfy the requirements by providing a single notice addressed to both consumers. However, if a notice includes a credit score(s), the person must provide a separate notice to each consumer whether the consumers have the same address or not. Each separate notice that includes a credit score(s) must contain only the credit score(s) of the consumer to whom the notice is provided, and not the credit score(s) of the other consumer. Similarly, for credit score disclosure exception notices, whether the consumers have the same address or not, the creditor must provide a separate notice to each consumer and each separate notice that includes a credit score(s) must contain only the credit score(s) of the consumer to whom the notice is provided.

15. For all notices, determine whether the creditor uses the model forms in Appendix H of the

regulation. If "yes," determine that it does not modify the model form so extensively as to affect the substance, clarity, comprehensibility,

or meaningful sequence of the forms (Appendix H).

Fair Credit Reporting

Examination Module 4: Duties of Users of Credit Reports and Furnishers of Consumer Information

Overview

The Fair Credit Reporting Act (FCRA) sets forth many responsibilities for financial institutions that use credit reports and furnish information to consumer reporting agencies. Those responsibilities generally concern ensuring the accuracy of the data that are placed in the consumer reporting system. This examination module addresses the various areas associated with users of credit reports and furnishers of information; it does not apply to financial institutions that do not furnish information to consumer reporting agencies.

Duties of Users of Credit Reports Regarding Address Discrepancies (Regulation V, Section 222.82)

Section 605(h)(1) of the Fair Credit Reporting Act requires that, when providing a consumer report to a person that requests the report (a user), a nationwide consumer reporting agency (NCRA) must provide a notice of address discrepancy to the user if the address provided by the user in its request "substantially differs" from the address the NCRA has in the consumer's file. Section 605(h)(2) requires the federal banking agencies and the National Credit Union Administration (collectively, the Agencies) and the Federal Trade Commission to prescribe regulations providing guidance regarding reasonable policies and procedures that a user of a consumer report should employ when such user has received a notice of address discrepancy. On November 9, 2007, the agencies published final rules in the Federal Register (72 FR 63718) implementing this section.

Definitions

1. *Nationwide consumer reporting agency.* Section 603(p) defines an NCRA as one that compiles and maintains files on consumers on a nationwide basis and regularly engages in the practice of assembling or evaluating and maintaining the following two pieces of information about consumers residing nationwide for the purpose of furnishing consumer reports to third parties bearing on a consumer's credit worthiness, credit standing, or credit capacity:
 - a. Public record information, and
 - b. Credit account information from persons who furnish that information regularly and in the ordinary course of business.
2. *Notice of address discrepancy* (12 CFR 222.82

(b)). A "notice of address discrepancy" is a notice sent to a user by an NCRA (section 603 (p)) that informs the user of a substantial difference between the address for the consumer that the user provided to request the consumer report and the address(es) in the NCRA's file for the consumer.

Requirement to Form a Reasonable Belief (12 CFR 222.82(c)).

A user must develop and implement reasonable policies and procedures designed to enable the user to form a reasonable belief that the consumer report relates to the consumer whose report was requested, when the user receives a notice of address discrepancy in connection with a new or existing account.

The rules provide the following examples of reasonable policies and procedures for forming a reasonable belief that a consumer report relates to the consumer whose report was requested:

1. Comparing information in the consumer report with information the user
 - a. Has obtained and used to verify the consumer's identity as required by the Customer Identification Program rules (31 CFR 103.121);
 - b. Maintains in its records; or
 - c. Obtains from a third party.
2. Verifying the information in the consumer report with the consumer.

Requirement to Furnish a Consumer's Address to an NCRA (12 CFR 222.82(d)).

A user must develop and implement reasonable policies and procedures for furnishing to the NCRA an address for the consumer that the user has reasonably confirmed is accurate when the user

1. Can form a reasonable belief that the report relates to the consumer whose report was requested;
2. Establishes a continuing relationship with the consumer (that is, in connection with a new account); and
3. Regularly, and in the ordinary course of business, furnishes information to the NCRA that provided the notice of address discrepancy.

A user's policies and procedures for furnishing a consumer's address to an NCRA must require the user to furnish the confirmed address as part of the information it regularly furnishes to the NCRA during the reporting period when it establishes a continuing relationship with the consumer.

The rules also provide the following examples of how a user may reasonably confirm an address is accurate:

1. Verifying the address with the consumer whose report was requested
2. Reviewing its own records
3. Verifying the address through third-party sources or
4. Using other reasonable means

Furnishers of Information—General (FCRA, Section 623 and Regulation V, Section 222.40)

Section 623 of the Fair Credit Reporting Act (FCRA) requires the federal banking agencies (Agencies) and the Federal Trade Commission (FTC) to:

1. Issue guidelines for use by furnishers regarding the accuracy and integrity of the information about consumers that they furnish to consumer reporting agencies (§623(e)(1)(A));
2. Prescribe regulations requiring furnishers to establish reasonable policies and procedures for implementing the guidelines (§623(e)(1)(B)); and
3. Issue regulations identifying the circumstances under which a furnisher must reinvestigate disputes concerning the accuracy of information contained in a consumer report based on a direct request from a consumer (§623(a)(8)).

On July 1, 2009, the Agencies and the FTC published final rules in the *Federal Register* (74 FR 31484) implementing this section of FCRA.

Definitions (12 CFR 222.41)

The following definitions pertain to the rules governing the furnishers of information to a consumer reporting agency:

1. “Accuracy” means that the information a furnisher provides to a consumer reporting agency about an account or other relationship with the consumer correctly:
 - a. Reflects the terms of and liability for the account or other relationship;
 - b. Reflects the consumer’s performance and other conduct with respect to the account or other relationship; and

- c. Identifies the appropriate consumer.
2. “Direct dispute” means a dispute submitted by a consumer directly to a furnisher (including a furnisher that is a debt collector) concerning the accuracy of any information contained in a consumer report and pertaining to an account or other relationship that the furnisher has or had with the consumer.
3. “Furnisher” means an entity that furnishes information relating to consumers to one or more consumer reporting agencies for inclusion in a consumer report. An entity is not a furnisher when it:
 - a. Provides information to a consumer reporting agency solely to obtain a consumer report in accordance with the permissible purposes outlined in sections 604(a) and (f) of the FCRA;
 - b. Is acting as a “consumer reporting agency” as defined in section 603(f) of the FCRA;
 - c. Is a consumer to whom the furnished information pertains; or
 - d. Is a neighbor, friend, or associate of the consumer, or another individual with whom the consumer is acquainted or who may have knowledge about the consumer, and who provides information about the consumer’s character, general reputation, personal characteristics, or mode of living in response to a specific request from a consumer reporting agency.
4. “Identity theft” means a fraud committed or attempted using the identifying information of another person without authority. “Identifying information” means any name or number that may be used alone or in conjunction with any other information to identify a specific person (16 CFR 603.2).
5. “Integrity” means that the information a furnisher provides to a consumer reporting agency about an account or other relationship with the consumer:
 - a. Is substantiated by the furnisher’s records at the time it is furnished;
 - b. Is furnished in a form and manner that is designed to minimize the likelihood that the information may be incorrectly reflected in a consumer report; and
 - c. Includes information in the furnisher’s possession about the account or other relationship that:
 - i. the relevant Agency has determined that the absence of which would likely be materially misleading in evaluating a consumer’s creditworthiness, credit

- standing, credit capacity, character, general reputation, personal characteristics, or mode of living; and
- ii. is specified in the Interagency Guidelines Concerning the Accuracy and Integrity of Information Furnished to Consumer Reporting Agencies (12 CFR 222, Appendix E). Currently, the Guidelines specify the credit limit, if applicable and in the furnisher's possession.

Duties of Furnishers to Provide Accurate Information

Section 623(a) states that a person, including a financial institution, may, but need not, specify an address to which consumers may send notices concerning inaccurate information. If the financial institution specifies such an address, then it may not furnish information relating to a consumer to any consumer reporting agency if (1) the institution has been notified by the consumer, at the specified address, that the information is inaccurate and (2) the information is in fact inaccurate. If the financial institution does not specify an address, then it may not furnish any information relating to a consumer to any consumer reporting agency if it knows or has reasonable cause to believe that the information is inaccurate.

When a financial institution that (regularly and in the ordinary course of business) furnishes information to one or more consumer reporting agencies about its transactions or experiences with any consumer determines that any such information is not complete or accurate, the institution must promptly notify the consumer reporting agency of that determination. Corrections to that information or any additional information necessary to make the information complete and accurate must be provided to the consumer reporting agency. Further, any information that remains incomplete or inaccurate must not thereafter be furnished to the consumer reporting agency.

If the completeness or accuracy of any information furnished by a financial institution to a consumer reporting agency is disputed by a consumer, that financial institution may not furnish the information to any consumer reporting agency without notice that the information is disputed by the consumer.

Reasonable Policies and Procedures Concerning the Accuracy and Integrity of Furnished Information (12 CFR 222.42) and Interagency Guidelines (12 CFR 222, Appendix E)

Each furnisher must establish and implement

reasonable written policies and procedures regarding the accuracy and integrity of consumer information that it furnishes to a consumer reporting agency. The policies and procedures must be appropriate to the nature, size, complexity, and scope of each furnisher's activities. In developing its policies and procedures, a furnisher must consider the Interagency Guidelines and may include its existing policies and procedures that are relevant and appropriate. Each furnisher must also review its policies and procedures periodically and update them as necessary to ensure their continued effectiveness. The guideline's recommendations include the following:

- Using standard data reporting formats and standard procedures for compiling and furnishing data, where feasible, such as electronic transmission of information about consumers to consumer reporting agencies;
- Maintaining records for a reasonable period of time, not less than any applicable recordkeeping requirement, in order to substantiate the accuracy of any information furnished about consumers to consumer reporting agencies that is subject to a direct dispute; and
- Training staff that participates in activities related to the furnishing of information about consumers to consumer reporting agencies.

Voluntary Closures of Accounts

Section 623(a)(4) requires that any person, including a financial institution, that (regularly and in the ordinary course of business) furnishes information to a consumer reporting agency regarding a consumer who has a credit account with that institution notify the agency of the voluntary closure of the account by the consumer, in information regularly furnished for the period in which the account is closed.

Notice Involving Delinquent Accounts

Section 623(a)(5) requires that a person, including a financial institution, that furnishes information to a consumer reporting agency about a delinquent account being placed for collection, charged off, or subjected to any similar action, not later than ninety days after furnishing the information to the agency, notify the agency of the month and year of the commencement of the delinquency that immediately preceded the action.

Duties upon Notice of Dispute from a Consumer Reporting Agency

Section 623(b) requires the financial institution to do the following whenever it receives a notice of

dispute from a consumer reporting agency regarding the accuracy or completeness of any information provided by the institution to the agency pursuant to FCRA, section 611 (Procedure in Case of Disputed Accuracy):

- Conduct an investigation regarding the disputed information.
- Review all relevant information provided by the consumer reporting agency along with the notice.
- Report the results of the investigation to the consumer reporting agency.
- If the disputed information is found to be incomplete or inaccurate, report those results to all nationwide consumer reporting agencies to which the financial institution previously provided the information.
- If the disputed information is incomplete, inaccurate, or not verifiable by the financial institution, for purposes of reporting to the consumer reporting agency,
 - Modify the item of information,
 - Delete the item of information, or
 - Permanently block the reporting of that item of information.

The investigations, reviews, and reports required to be made must be completed within thirty days. The time period may be extended for fifteen days if a consumer reporting agency receives additional relevant information from the consumer.

Duties upon Notice of a Dispute from a Consumer (Direct Disputes) (12 CFR 222.43)

General rule. A furnisher must conduct a reasonable investigation of a direct dispute (unless exceptions, described later, apply) if the dispute relates to:

1. The consumer's liability for a credit account or other debt with the furnisher, such as direct disputes relating to whether there is or has been identify theft or fraud against the consumer, whether there is individual or joint liability on an account, or whether the consumer is an authorized user of a credit account;
2. The terms of a credit account or other debt with the furnisher, such as, direct disputes relating to the type of account, principal balance, scheduled payment amount on an account, or the amount of the credit limit on an open-end account;
3. The consumer's performance or other conduct concerning an account or other relationship with

the furnisher such as, direct disputes relating to the current payment status, high balance, payment date, the payment amount, or the date an account was opened or closed; or

4. Any other information contained in a consumer report regarding an account or other relationship with the furnisher that bears on the consumer's creditworthiness, credit standing, credit capacity, character, general reputation, personal characteristics, or mode of living.

Exceptions. The direct dispute requirements do not apply to a furnisher if the direct dispute relates to:

1. The consumer's identifying information such as name(s), date of birth, Social Security number, telephone number(s), or address(es);
2. The identity of past or present employers;
3. Inquiries or requests for a consumer report;
4. Information derived from public records, such as judgments, bankruptcies, liens, and other legal matters (unless the information was provided by a furnisher with an account or other relationship with the consumer);
5. Information related to fraud alerts or active duty alerts; or
6. Information provided to a consumer reporting agency by another furnisher.

The direct dispute requirements also do not apply if the furnisher has a reasonable belief that the direct dispute is:

1. Submitted by a credit repair organization;
2. Prepared on behalf of the consumer by a credit repair organization; or
3. Submitted on a form supplied to the consumer by a credit repair organization.

Direct Dispute Address. A furnisher is required to investigate a direct dispute only if a consumer submits a dispute notice to the furnisher at:

1. The address provided by a furnisher and listed on a consumer report relating to the consumer;
2. An address clearly and conspicuously specified by the furnisher that is provided to the consumer in writing or electronically (if the consumer has agreed to the electronic delivery of information from the furnisher); or
3. Any business address of the furnisher if the furnisher has not provided a specific address for submitting direct disputes.

Direct Dispute Notice Contents. A dispute notice from a consumer must include:

1. Sufficient information to identify the account or other relationship that is in dispute, such as an

- account number and the name, address, and telephone number of the consumer;
2. The specific information that the consumer is disputing and an explanation of the basis for the dispute; and
 3. All supporting documentation or other information reasonably required by the furnisher to substantiate the basis of the dispute. This documentation may include, for example, a copy of the relevant portion of the consumer report that contains the allegedly inaccurate information; a police report; a fraud or identity theft affidavit; a court order; or account statements.

Duties of a Furnisher after Receiving a Direct Dispute Notice from a Consumer. After receiving a dispute notice from a consumer, the furnisher must:

1. Conduct a reasonable investigation with respect to the disputed information;
2. Review all relevant information provided by the consumer with the dispute notice;
3. Complete its investigation of the dispute and report the results of the investigation to the consumer before the expiration of the period under section 611(a)(1) of the FCRA (15 U.S.C. 1681i(a)(1)) within which a consumer reporting agency would be required to complete its action if the consumer had elected to dispute the information under that section; and
4. If the investigation finds that the information reported was inaccurate, promptly notify each consumer reporting agency to which the furnisher provided inaccurate information of investigation findings and provide to the consumer reporting agency any correction to that information that is necessary to make the information provided by the furnisher accurate.

Frivolous or Irrelevant Disputes. A furnisher is not required to investigate a direct dispute if the furnisher has reasonably determined that the dispute is frivolous or irrelevant. A dispute qualifies as frivolous or irrelevant if:

1. The consumer did not provide sufficient information to investigate the disputed information;
2. The direct dispute is substantially the same as a dispute previously submitted by or on behalf of the consumer and the dispute is one with respect to which the furnisher has already complied with the statutory or regulatory requirements. However, a direct dispute would not be "substantially the same"/ as the one previously submitted if the dispute includes new information required by the regulation to be provided to the furnisher, but that had not previously been provided; or

3. The furnisher is not required to investigate the direct dispute because one or more of the exceptions listed in 12 CFR 222.43(b) applies.

Upon making a determination that a dispute is frivolous or irrelevant, the furnisher must notify the consumer of the determination not later than five business days after making the determination, by mail or, if authorized by the consumer for that purpose, by any other means available to the furnisher. The furnisher's notice that a dispute is frivolous or irrelevant must include the reasons for such determination and identify any information required to investigate the disputed information. The notice may consist of a standardized form describing the general nature of such information.

Prevention of Re-Pollution of Consumer Reports (FCRA, Section 623(a)(6))

Section 623(a)(6) has specific requirements for furnishers of information, including financial institutions, to a consumer reporting agency that receives notice from a consumer reporting agency that the information furnished may be fraudulent as a result of identity theft. FCRA, section 605B, requires consumer reporting agencies to notify furnishers of information, including financial institutions, that the information may be fraudulent as a result of identity theft, that an identity theft report has been filed, and that a block has been requested. Section 623(a)(6) requires financial institutions, upon receiving such notice, to establish and follow reasonable procedures to ensure that this information is not re-reported to the consumer reporting agency, thus "re-polluting" the victim's consumer report.

FCRA, section 615(f), also prohibits a financial institution from selling or transferring debt resulting from an alleged identity theft.

Negative Information Notice (FCRA, Section 623(a)(7))

Section 623(a)(7) requires financial institutions to provide consumers with a notice either before negative information is provided to a nationwide consumer reporting agency or within thirty days after reporting the negative information.

Financial institutions may provide this disclosure on or with any notice of default, any billing statement, or any other materials provided to the customer, as long as the notice is clear and conspicuous. Institutions may also choose to provide this notice to all customers as an abundance of caution. However, this notice may not be included in the initial disclosures provided under section 127(a) of the Truth in Lending Act.

Negative Information

For these purposes, *negative information* is any information concerning a customer's delinquencies, late payments, insolvency, or any form of default.

Nationwide Consumer Reporting Agency

FCRA, section 603(p), defines a *consumer reporting agency that compiles and maintains files on consumers on a nationwide basis* as one that regularly engages in the practice of assembling or evaluating and maintaining the following two pieces of information about consumers residing nationwide, for the purpose of furnishing consumer reports to third parties bearing on a consumer's creditworthiness, credit standing, or credit capacity:

- Public record information
- Credit account information from persons who furnish that information regularly and in the ordinary course of business

Model Notices

As required by the FCRA, the Federal Reserve Board developed the following model notices that financial institutions may use to comply with these requirements. One model notice is to be used when an institution chooses to provide a notice before furnishing negative information. The other is to be used when an institution provides a notice within thirty days after reporting negative information:

- *Notice prior to communicating negative information (model B-1).* "We may report information

about your account to credit bureaus. Late payments, missed payments, or other defaults on your account may be reflected in your credit report."

- *Notice within thirty days after communicating negative information (model B-2).* "We have told a credit bureau about a late payment, missed payment or other default on your account. This information may be reflected in your credit report."

Use of the model notices is not required; however, proper use of the model notices provides financial institutions with a safe harbor from liability. Financial institutions may make certain changes to the language or format of the model notices without losing the safe harbor from liability provided by the models, but the changes may not be so extensive as to affect the substance, clarity, or meaningful sequence of the language in the models. Institutions making such extensive revisions will lose the safe harbor from liability that the model notices provide. Acceptable changes include, for example,

- Rearranging the order of the references to "late payment(s)" or "missed payment(s);"
- Pluralizing the terms "credit bureau," "credit report," and "account";
- Specifying the particular type of account on which information may be furnished, such as "credit card account"; and
- Rearranging, in model B-1, the phrases "information about your account" and "to credit bureaus" such that it would read "We may report to credit bureaus information about your account."

Fair Credit Reporting—Module 4

Examination Procedures

Duties of Users of Credit Reports Regarding Address Discrepancies (Regulation V, Section 222.82)

1. Determine whether a user of consumer reports has policies and procedures to recognize notices of address discrepancy that it receives from a nationwide consumer reporting agency (NCRA)¹⁶ in connection with consumer reports.
2. Determine whether a user that receives notices of address discrepancy has policies and procedures to form a reasonable belief that the consumer report relates to the consumer whose report was requested (12 CFR 222.82(c)).
See examples of reasonable policies and procedures “to form a reasonable belief” in 12 CFR 222.82(c)(2).
3. Determine whether a user that receives notices of address discrepancy has policies and procedures in place to furnish to the NCRA an address for the consumer that the user has reasonably confirmed is accurate, if the user
 - a. Can form a reasonable belief that the report relates to the consumer;
 - b. Establishes a continuing relationship with the consumer; and
 - c. Regularly, and in the ordinary course of business, furnishes information to the NCRA (12 CFR 222.82(d)(1)).
See examples of reasonable confirmation methods in 12 CFR 222.82(d)(2).
4. Determine whether the user’s policies and procedures require it to furnish the confirmed address as part of the information it regularly furnishes to an NCRA during the reporting period when it establishes a relationship with the consumer (12 CFR 222.82(d)(3)).
5. If procedural weaknesses or other risks requiring further investigation are noted, obtain a sample of consumer reports requested by the user from an NCRA that included notices of address discrepancy and determine
 - a. How the user established a reasonable belief that the consumer reports related to the consumers whose reports were requested; and

16. An NCRA compiles and maintains files on consumers on a nationwide basis. As of the effective date of the rule (January 1, 2008), there were three such consumer reporting agencies: Experian, Equifax, and TransUnion (section 603(p) of FCRA (15 USC 1681a)).

- b. If a consumer relationship was established,
 - i. Whether the institution furnished a consumer’s address that it reasonably confirmed to the NCRA from which it received the notice of address discrepancy; and
 - ii. Whether it furnished the address in the reporting period during which it established the relationship.

Conclusion: On the basis of examination procedures completed, form a conclusion about the ability of the user’s policies and procedures to meet regulatory requirements for the proper handling of address discrepancies reported by an NCRA.

Furnishers of Information—General (FCRA, Section 623 and Regulation V, Section 222.40)

1. Determine whether the financial institution furnishes consumer information to a consumer reporting agency about an account or other relationship with a consumer. If so, the institution is subject to 12 CFR 222.40.
2. Determine whether the financial institution has established and implemented reasonable policies and procedures regarding the accuracy and integrity of information furnished to a consumer reporting agency (12 CFR 222.42 (a)).
3. Determine whether the institution considered the Interagency Guidelines in Appendix E of the regulation when developing its policies and procedures, and incorporated the guidelines as appropriate (12 CFR 222.42(b)).
4. Determine whether the institution reviews its policies and procedures periodically and updates them as necessary to ensure their effectiveness (12 CFR 222.42(c)).
5. If procedural weaknesses or other risks requiring further investigation are noted, such as a high number of complaints from consumers regarding the accuracy of their consumer report information furnished by the financial institution, select a sample of reported items and the corresponding loan or collection file to determine that the institution did the following:
 - a. Did not report information that it knew, or had reasonable cause to believe, was inaccurate (§ 623(a)(1)(A))

- b. Did not report information to a consumer reporting agency if it was notified by the consumer that the information was inaccurate and the information was, in fact, inaccurate (§ 623(a)(1)(B))
 - c. Provided the consumer reporting agency with corrections or additional information to make the information complete and accurate, and thereafter did not send the consumer reporting agency the inaccurate or incomplete information (§ 623(a)(2))
 - d. Furnished a notice to a consumer reporting agency of a dispute in situations in which a consumer disputed the completeness or accuracy of any information the institution furnished, and the institution continued furnishing the information to a consumer reporting agency (§ 623(a)(3))
 - e. Notified the consumer reporting agency of a voluntary account-closing by the consumer, and did so as part of the information regularly furnished for the period in which the account was closed (§ 623(a)(4))
 - f. Notified the consumer reporting agency of the month and year of commencement of a delinquency that immediately preceded the action of placing the delinquent account for collection, charging it off, or similar action. The notification to the agency must be made within ninety days of furnishing information to the agency about a delinquent account being placed for collection, charged off, or subjected to any similar action (§ 623(a)(5))
6. If weaknesses within the financial institution's procedures for investigating errors are revealed, review a sample of notices of disputes received from a consumer reporting agency and determine whether the institution did the following:
- a. Conducted an investigation with respect to the disputed information (§ 623(b)(1)(A))
 - b. Reviewed all relevant information provided by the consumer reporting agency (§ 623(b)(1)(B))
 - c. Reported the results of the investigation to the consumer reporting agency (§ 623(b)(1)(C))
 - d. Reported the results of the investigation to all other nationwide consumer reporting agencies to which the information was furnished, if the investigation found that the reported information was inaccurate or incomplete (§ 623(b)(1)(D))
 - e. Modified, deleted, or blocked the reporting of information that could not be verified
7. Determine whether the institution conducts reasonable investigations of direct disputes from consumers, including a review of all relevant information provided by the consumer (12 CFR 222.43(e)(1) and (2)).
 - a. Determine whether the institution completes the investigation and reports the results to the consumer within the required timeframe (12 CFR 222.43(e)(3)).
 - b. Determine whether the institution notifies and provides corrected information to the consumer reporting agencies when the results of its investigation find that inaccurate information was furnished to the consumer reporting agencies (12 CFR 222.43(e)(4)).
 - c. When the institution finds that a dispute is frivolous or irrelevant, determine whether the institution:
 - i. notifies the consumer within five days after finding the dispute frivolous or irrelevant (12 CFR 222.43(f)(2)), and
 - ii. includes in the consumer notification the reasons for the findings and the information necessary to investigate the disputed information (12 CFR 222.43(f)(3)).

Prevention of Re-Pollution of Consumer Reports (FCRA, Section 623(a)(6))

1. If the financial institution provides information to a consumer reporting agency, review the institution's policies and procedures for ensuring that items of information blocked because of an alleged identity theft are not re-reported to the consumer reporting agency.
2. If weaknesses are noted within the financial institution's policies and procedures, review a sample of notices from a consumer reporting agency of allegedly fraudulent information due to identity theft furnished by the financial institution, to determine whether the institution does not re-report the item to a consumer reporting agency.
3. If procedural weaknesses or other risks requiring further investigation are noted, verify that the financial institution has not sold or transferred a debt that resulted from an alleged identity theft.

Negative Information Notice (FCRA, Section 623(a)(7))

1. If the financial institution provides negative information to a nationwide consumer reporting agency, verify that the institution's policies and procedures ensure that the appropriate notices

- are provided to customers.
2. If procedural weaknesses or other risks requiring further investigation are noted, review a sample of notices provided to consumers to determine compliance with the technical content and timing requirements.

Fair Credit Reporting

Examination Module 5: Consumer Alerts and Identity Theft Protections

Overview

The Fair Credit Reporting Act (FCRA) contains several provisions for both consumer reporting agencies and users of consumer reports, including financial institutions, that are designed to help combat identity theft. This module applies to financial institutions that are not consumer reporting agencies but are users of consumer reports. In addition, this module applies to debit and credit card issuers.

There are two primary requirements for users of consumer reports: (1) a user of a consumer report that contains a fraud or active duty alert must take steps to verify the identity of the individual to whom the consumer report relates and (2) a financial institution must disclose certain information when consumers allege that they are the victim of identity theft.

The primary responsibility for card issuers is to assess the validity of address changes before issuing additional or replacement cards.

Fraud and Active Duty Alerts (FCRA, Section 605A(h))

Initial Fraud and Active Duty Alerts

A consumer who suspects that he or she may be the victim of fraud, including identity theft, may ask nationwide consumer reporting agencies to place initial fraud alerts in his or her consumer reports. These alerts must remain in the consumer's report for no less than ninety days. In addition, members of the armed services who are called to active duty may request that active duty alerts be placed in their consumer reports. Active duty alerts must remain in these service members' files for no less than twelve months.

Section 605A(h)(1)(B) requires users of consumer reports, including financial institutions, to verify a consumer's identity if a consumer report includes a fraud or active duty alert. Unless the financial institution uses reasonable policies and procedures to form a reasonable belief that it knows the identity of the person making the request, the financial institution may not

- Establish a new credit plan or extension of credit (other than under an open-end credit plan) in the name of the consumer,
- Issue an additional card on an existing account, or
- Increase a credit limit.

Extended Alerts

Consumers who allege that they are the victim of identity theft may also place an extended alert, which lasts seven years, on their consumer report. Extended alerts require consumers to submit identity theft reports and appropriate proof of identity to the nationwide consumer reporting agencies.

Section 605A(h)(2)(B) requires a financial institution that obtains a consumer report that contains an extended alert to contact the consumer in person, or by the method listed by the consumer in the alert, prior to taking any of the three actions listed above.

Information Available to Victims (FCRA, Section 609(e))

Section 609(e) requires financial institutions to provide records of fraudulent transactions to victims of identity theft within thirty days after receiving a request for the records. These records include the application and business transaction records under the control of the financial institution, whether maintained by the institution or another person on behalf of the institution (such as a service provider). This information should be provided to one of the following:

- The victim
- Any federal, state, or local government law enforcement agency or officer specified by the victim in the request
- Any law enforcement agency investigating the identity theft that was authorized by the victim to take receipt of these records

The request for the records must be made by the victim in writing and must be sent to the financial institution to the address specified by the institution for this purpose. The financial institution may ask the victim to provide information, if known, regarding the date of the transaction or application and any other identifying information, such as an account or transaction number.

Unless the financial institution, at its discretion, otherwise has a high degree of confidence that it knows the identity of the victim making the request for information, before disclosing any information to the victim it must take prudent steps to positively identify the person requesting the information. Proof of identity can include any of the following:

- A government-issued identification card

- Personally identifying information of the same type that was provided to the financial institution by the unauthorized person
- Personally identifying information that the financial institution typically requests from new applicants or for new transactions

At the election of the financial institution, the victim must also provide the institution with proof of an identity theft complaint, which may consist of a copy of a police report evidencing the claim of identity theft and a properly completed affidavit. The affidavit may be either the standardized affidavit form prepared by the Federal Trade Commission (published in April 2005 in the *Federal Register* at 70 FR 21792) or an "affidavit of fact" that is acceptable to the financial institution for this purpose.

When these conditions are met, the financial institution must provide the information at no charge to the victim. However, the institution is not required to provide any information if, acting in good faith, it determines that

- Section 609(e) does not require disclosure of the information;
- It does not have a high degree of confidence in knowing the true identity of the requestor, based on the identification and/or proof provided;
- The request for information is based on a misrepresentation of fact by the requestor; or
- The information requested is Internet navigational data or similar information about a person's visit to a web site or online service.

Duties of Card Issuers Regarding Changes of Address (FCRA, Section 615(e)(1)(C) and Regulation V, Section 222.91)

Background

Section 615(e)(1)(C) of the Fair Credit Reporting Act requires the federal banking agencies (agencies) and the Federal Trade Commission to prescribe regulations for debit and credit card issuers regarding the assessment of the validity of address changes for existing accounts. The regulations require card issuers to have procedures to assess the validity of an address change if the card issuer receives a notice of change of address for an existing account, and within a short period of time (during at least the first 30 days) receives a request for an additional or replacement card for the same account. On November 9, 2007, the agencies published final rules in the *Federal Register* (72 FR

63718) implementing this section.

Definitions (12 CFR 222.91(b))

The following definitions pertain to the rules governing the duties of card issuers regarding changes of address:

1. A *cardholder* is a consumer who has been issued a credit or debit card.
2. *Clear and conspicuous* means reasonably understandable and designed to call attention to the nature and significance of the information presented.

Address Validation Requirements (12 CFR 222.91(c))

A card issuer must establish and implement policies and procedures to assess the validity of a change of address if it receives notification of a change of address for a consumer's debit or credit card account and, within a short period of time afterwards (during at least the first 30 days after it receives such notification), the card issuer receives a request for an additional or replacement card for the same account. In such situations, the card issuer must not issue an additional or replacement card until it assesses the validity of the change of address in accordance with its policies and procedures.

The policies and procedures must provide that the card issuer will

- 1a. Notify the cardholder of the request for an additional or replacement card
 - (i) At the cardholder's former address, *or*
 - (ii) By any other means of communication that the card issuer and the cardholder have previously agreed to use, *and*
- 1b. Provide to the cardholder a reasonable means of promptly reporting incorrect address changes, *or*
2. Assess the validity of the change of address according to the procedures the card issuer has established as a part of its Identity Theft Prevention Program (12 CFR 222.90).

Alternative Timing of Address Validation (12 CFR 222.91(d))

A card issuer may satisfy the requirements of these rules prior to receiving any request for an additional or replacement card by validating an address (by

one of the methods in 12 CFR 222.91(c)) when it receives an address change notification.

provides to satisfy these rules must be clear and conspicuous and provided separately from its regular correspondence with the cardholder.

Form of Notice (12 CFR 222.91(e))

Any written or electronic notice that a card issuer

Fair Credit Reporting—Module 5

Examination Procedures

Fraud and Active Duty Alerts (FCRA, Section 605A(h))

1. Determine whether the financial institution has effective policies and procedures in place to verify the identity of consumers in situations in which consumer reports include fraud and/or active duty military alerts.
2. Determine if the financial institution has effective policies and procedures in place to contact consumers in situations in which consumer reports include extended alerts.
3. If procedural weaknesses or other risks requiring further investigation are noted, review a sample of transactions in which consumer reports including these types of alerts were obtained. Verify that the financial institution complied with the identity verification and/or consumer contact requirements.

Information Available to Victims (FCRA, Section 609(e))

1. Review financial institution policies, procedures, and/or practices to determine whether identities and claims of fraudulent transactions are verified and whether information is properly disclosed to victims of identity theft and/or appropriately authorized law enforcement agents.
2. If procedural weaknesses or other risks requiring further investigation are noted, review a sample of requests of these types to determine whether the financial institution properly verified the requestor's identity prior to disclosing the information.

Duties of Card Issuers Regarding Changes of Address (FCRA, Section 615(e))

1. Verify that the card issuer has policies and procedures to assess the validity of a change of address if
 - It receives notification of a change of address for a consumer's debit or credit card account; and

- Within a short period of time afterwards (during at least the first 30 days after it receives such notification), the card issuer receives a request for an additional or replacement card for the same account (12 CFR 222.91(c)).

2. Determine whether the policies and procedures prevent the card issuer from issuing additional or replacement cards until it
 - Notifies the cardholder at the cardholder's former address or by any other means previously agreed to and provides the cardholder a reasonable means to promptly report an incorrect address change (12 CFR 222.91(c)(1)(i)-(ii)); or
 - Assesses the validity of the address change in accordance with its procedures established under its Identity Theft Prevention Program (12 CFR 222.91(c)(2)).

In the alternative, a card issuer may validate a change of address request when it is received, using the above methods, *prior* to receiving any request for an additional or replacement card (12 CFR 222.91(d)).

3. Determine whether any written or electronic notice sent to cardholders for purposes of validating a change of address request is clear and conspicuous and is provided separately from any regular correspondence with the cardholder (12 CFR 222.91(e)).
4. If procedural weaknesses or other risks requiring further information are noted, obtain a sample of notifications from cardholders of changes of address and requests for additional or replacement cards to determine whether the card issuer complied with the regulatory requirement to evaluate the validity of the notice of address change before issuing additional or replacement cards.

Conclusion: On the basis of examination procedures completed, form a conclusion about whether a card issuer's policies and procedures effectively meet regulatory requirements for evaluating the validity of change of address requests received in connection with credit or debit card accounts.

Fair Credit Reporting

Examination Module 6: Requirements for Consumer Reporting Agencies

Module 6, covering institutions that are considered consumer reporting agencies, will be added later.

Regulation Z

Truth in Lending Act¹

The Truth in Lending Act (TILA), 15 U.S.C. 1601 *et seq.*, was enacted on May 29, 1968, as title I of the Consumer Credit Protection Act (Pub. L. 90-321). The TILA, implemented by Regulation Z (12 CFR 1026), became effective July 1, 1969.

The TILA was first amended in 1970 to prohibit unsolicited credit cards. Additional major amendments to the TILA and Regulation Z were made by the Fair Credit Billing Act of 1974, the Consumer Leasing Act of 1976, the Truth in Lending Simplification and Reform Act of 1980, the Fair Credit and Charge Card Disclosure Act of 1988, and the Home Equity Loan Consumer Protection Act of 1988.

Regulation Z also was amended to implement section 1204 of the Competitive Equality Banking Act of 1987, and in 1988, to include adjustable rate mortgage loan disclosure requirements. All consumer leasing provisions were deleted from Regulation Z in 1981 and transferred to Regulation M (12 CFR 1013).

The Home Ownership and Equity Protection Act of 1994 (HOEPA) amended the TILA. The law imposed new disclosure requirements and substantive limitations on certain closed-end mortgage loans bearing rates or fees above a certain percentage or amount. The law also included new disclosure requirements to assist consumers in comparing the costs and other material considerations involved in a reverse mortgage transaction and authorized the Federal Reserve Board to prohibit specific acts and practices in connection with mortgage transactions.

The TILA amendments of 1995 dealt primarily with tolerances for real estate secured credit. Regulation Z was amended on September 14, 1996, to incorporate changes to the TILA. Specifically, the revisions limit lenders' liability for disclosure errors in real estate secured loans consummated after September 30, 1995. The Economic Growth and Regulatory Paperwork Reduction Act of 1996 further amended the TILA. The amendments were made to simplify and improve disclosures related to credit transactions.

The Electronic Signatures in Global and National Commerce Act (the E-Sign Act), 15 U.S.C. 7001 *et seq.*, was enacted in 2000 and did not require implementing regulations. On November 9, 2007, amendments to Regulation Z and the official commentary were issued to simplify the regulation and provide guidance on the electronic delivery of disclosures consistent with the E-Sign Act.

In July 2008, Regulation Z was amended to protect consumers in the mortgage market from unfair, abusive, or deceptive lending and servicing practices. Specifically, the change applied protections to a newly defined category of "higher-priced mortgage loans" that includes virtually all closed-end subprime loans secured by a consumer's principal dwelling. The revisions also applied new protections to mortgage loans secured by a dwelling, regardless of loan price, and required the delivery of early disclosures for more types of transactions. The revisions also banned several advertising practices deemed deceptive or misleading. The Mortgage Disclosure Improvement Act of 2008 (MDIA) broadened and added to the requirements of the Board's July 2008 final rule by requiring early Truth in Lending disclosures for more types of transactions and by adding a waiting period between the time when disclosures are given and consummation of the transaction. In 2009, Regulation Z was amended to address those provisions. The MDIA also requires disclosure of payment examples if the loan's interest rate or payments can change, as well as disclosure of a statement that there is no guarantee the consumer will be able to refinance in the future. In 2010, Regulation Z was amended to address these provisions, which became effective on January 30, 2011.

In December 2008, the Board adopted two final rules pertaining to open-end (not home-secured) credit. The first rule involved Regulation Z revisions and made comprehensive changes applicable to several disclosures required for: applications and solicitations, new accounts, periodic statements, change in terms notifications, and advertisements. The second was a rule published under the Federal Trade Commission (FTC) Act and was issued jointly with the Office of Thrift Supervision (OTS) and the National Credit Union Administration (NCUA). It sought to protect consumers from unfair acts or practices with respect to consumer credit card accounts. Before these rules became effective, however, the Credit Card Accountability Responsibility and Disclosure Act of 2009 (Credit CARD Act) amended the TILA and established a number of new requirements for open-end consumer credit plans. Several provisions of the Credit CARD Act are similar to provisions in the Board's December 2008 TILA revisions and the joint FTC Act rule, but other portions of the Credit CARD Act address practices or mandate disclosures that were not addressed in these rules. In light of the Credit CARD Act, the Board, NCUA, and OTS withdrew the substantive requirements of the joint FTC Act

1. These reflect FFIEC-developed procedures.

rule. On July 1, 2010, compliance with the provisions of the Board's rule that were not impacted by the Credit CARD Act became effective.

The Credit CARD Act provisions became effective in three stages. The provisions effective first (August 20, 2009) required creditors to increase the amount of notice consumers receive before the rate on a credit card account is increased or a significant change is made to the account's terms. These amendments also allowed consumers to reject such increases and changes by informing the creditor before the increase or change goes into effect. The provisions effective next (February 22, 2010) involved rules regarding interest rate increases, over-the-limit transactions, and student cards. Finally, the provisions effective last (August 22, 2010) addressed the reasonableness and proportionality of penalty fees and charges and re-evaluation of rate increases.

In 2009, Regulation Z was amended following the passage of the Higher Education Opportunity Act (HEOA) by adding disclosure and timing requirements that apply to lenders making private education loans.

In 2009, the Helping Families Save Their Homes Act amended the TILA to establish a new requirement for notifying consumers of the sale or transfer of their mortgage loans. The purchaser or assignee that acquires the loan must provide the required disclosures no later than 30 days after the date on which it acquired the loan.

In 2010, the Board further amended Regulation Z to prohibit payment to a loan originator that is based on the terms or conditions of the loan, other than the amount of credit extended. The amendment applies to mortgage brokers and the companies that employ them, as well as to mortgage loan officers employed by depository institutions and other lenders. In addition, the amendment prohibits a loan originator from directing or "steering" a consumer to a loan that is not in the consumer's interest to increase the loan originator's compensation.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) amended the TILA to include several provisions that protect the integrity of the appraisal process when a consumer's home is securing the loan. The rule also requires that appraisers receive customary and reasonable payments for their services. The appraiser and loan originator compensation requirements had a mandatory compliance date of April 6, 2011.

The Dodd-Frank Act generally granted rulemaking authority under the TILA to the Consumer Financial Protection Bureau (CFPB). Title XIV of the Dodd-Frank Act included a number of amend-

ments to the TILA, and in 2013, the CFPB issued rules to implement them. Prohibitions on mandatory arbitration and waivers of consumer rights, as well as requirements that lengthen the time creditors must maintain an escrow account for higher-priced mortgage loans, were generally effective June 1, 2013. The remaining amendments to Regulation Z were effective in January 2014.² These amendments include ability-to-repay requirements for mortgage loans, appraisal requirements for higher-priced mortgage loans, a revised and expanded test for high-cost mortgages, as well as additional restrictions on those loans, expanded requirements for servicers of mortgage loans, refined loan originator compensation rules and loan origination qualification standards, and a prohibition on financing credit insurance for mortgage loans. The amendments also established new record retention requirements for certain provisions of the TILA. On October 22, 2014, the CFPB issued a final rule providing an alternative small servicer definition for nonprofit entities and amended ability to repay exemption for nonprofit entities. The final rule also provided a cure mechanism for the points and fees limit that applies to qualified mortgages. The final rule was effective on November 3, 2014, except for one provision that is effective on October 3, 2015.

In 2013, the CFPB also revised several open-end credit provisions in Regulation Z. The CFPB revised the general limitation on the total amount of account fees that a credit card issuer may require a consumer to pay. Effective March 28, 2013, the limit is 25 percent of the credit limit in effect when the account is opened and applies only during the first year after account opening. The CFPB also amended Regulation Z to remove the requirement that card issuers consider the consumer's independent ability to pay for applicants who are 21 or older and to permit issuers to consider income and assets to which such consumers have a reasonable expectation of access. This change was effective May 3, 2013, with a mandatory compliance date of November 4, 2013.

In 2013, the CFPB further amended Regulation Z as well as Regulation X, the regulation implementing the Real Estate Settlement Procedures Act (RESPA), to fulfill the mandate in the Dodd-Frank Act to integrate the mortgage disclosures under TILA and RESPA sections 4 and 5. Regulation Z now contains two new forms required for most closed-end consumer mortgage loans. The Loan Estimate is provided within three business days from application, and the Closing Disclosure is

2. The amendment to 12 CFR 1026.35(e) was effective July 24, 2013; the amendments to section 12 CFR 1026.35(b)(2)(iii), 1026.36(a), (b), and (j), and commentary to section 1026.25(c)(2), 1026.35, and 1026.36(a), (b), (d), and (f) in Supp. I to part 1026, were effective January 1, 2014. These FFIEC examination procedures cover amendments to Regulation Z that were issued by the CFPB in final form as of July 24, 2015.

provided to consumers three business days before loan consummation.

These disclosures must be used for mortgage loans for which the creditor or mortgage broker receives an application on or after October 3, 2015.³

Format of Regulation Z

The rules creditors must follow differ depending on whether the creditor is offering open-end credit, such as credit cards or home-equity lines, or closed-end credit, such as car loans or mortgages.

Subpart A (sections 1026.1 through 1026.4) of the regulation provides general information that applies to open-end and closed-end credit transactions. It sets forth definitions (§1026.2) and stipulates which transactions are covered and which are exempt from the regulation (§1026.3). It also contains the rules for determining which fees are finance charges (§1026.4).

Subpart B (sections 1026.5 through 1026.16) relates to open-end credit. It contains rules on account-opening disclosures (§1026.6) and periodic statements (§§1026.7–8). It also describes special rules that apply to credit card transactions, treatment of payments (§1026.10) and credit balances (§1026.11), procedures for resolving credit billing errors (§1026.13), annual percentage rate calculations (§1026.14), rescission rights (§1026.15), and advertising (§1026.16).

Subpart C (sections 1026.17 through 1026.24) relates to closed-end credit. It contains rules on disclosures (§§1026.17–20), treatment of credit balances (§1026.21), annual percentage rate calculations (§1026.22), rescission right (§1026.23), and advertising (§1026.24).

Subpart D (sections 1026.25 through 1026.30) contain rules on record retention (§1026.25), disclosures in languages other than English (§1026.27), record retention (§1026.25), effect on state laws (§1026.28), state exemptions (§1026.29), and rate limitations (§1026.30).

Subpart E (sections 1026.31 through 1026.45) Subpart E contains special rules for mortgage transactions. The rules require certain disclosures

and provide limitations for closed-end credit transactions and open-end credit plans that have rates or fees above specified amounts or certain prepayment penalties (§1026.32). Special disclosures are also required, including the total annual loan cost rate, for reverse mortgage transactions (§1026.33). The rules also prohibit specific acts and practices in connection with high-cost mortgages, as defined in 12 CFR 1026.32(a) (§1026.34); in connection with closed-end higher-priced mortgage loans, as defined in 12 CFR 1026.35(a) (§1026.35); and in connection with an extension of credit secured by a dwelling (§1026.36). Disclosure requirements, effective October 3, 2015, for most closed-end transactions secured by real property, as required by 12 CFR 1026.19(e) and (f) are also provided (§§1026.37–38).

Subpart F (sections 1026.46 through 1026.48) relates to private education loans. It contains rules on disclosures (§1026.46), limitations on changes in terms after approval (§1026.48), the right to cancel the loan (§1026.47), and limitations on co-branding in the marketing of private education loans (§1026.48).

Subpart G (sections 1026.51 through 1026.60) relates to credit card accounts under an open-end (not home-secured) consumer credit plan (except for §1026.57(c), which applies to all open-end credit plans). This subpart contains rules regarding credit and charge card application and solicitation disclosures (§1026.60). It also contains rules on evaluation of a consumer's ability to make the required payments under the terms of an account (§1026.51), limits the fees that a consumer can be required to pay (§1026.52), and contains rules on allocation of payments in excess of the minimum payment (§1026.53). It also sets forth certain limitations on the imposition of finance charges as the result of a loss of a grace period (§1026.54), and on increases in annual percentage rates, fees, and charges for credit card accounts (§1026.55), including the reevaluation of rate increases (§1026.59). This subpart prohibits the assessment of fees or charges for over-the-limit transactions unless the consumer affirmatively consents to the creditor's payment of over-the-limit transactions (§1026.56). This subpart also sets forth rules for reporting and marketing of college student open-end credit (§1026.57). Finally, it sets forth requirements for the Internet posting of credit card accounts under an open-end (not home-secured) consumer credit plan (§1026.58).

Several appendixes contain information such as the procedures for determinations about state laws, state exemptions and issuance of official interpretations, special rules for certain kinds of credit plans, model disclosure forms, standards for determining ability to pay, and the rules for

3. The effective date for the TILA-RESPA Integrated Disclosure rule was extended to October 3, 2015, by a final rule issued July 21, 2015, and published in the Federal Register on July 24, 2015 (80 FR 43911). There are additional regulations that are effective on October 3, 2015, regardless of whether an application has been received on that date. Specifically, the rule restricts the imposition of fees on a consumer before the consumer has received the Loan Estimate and indicated an intent to proceed, providing a consumer with a written estimate of terms or costs (prior to providing the Loan Estimate) without also providing a written statement informing the consumer that the terms or costs may change. The rule also restricts a creditor from requiring the submission of documents verifying information related to the consumer's application before providing the Loan Estimate.

computing annual percentage rates in closed-end credit transactions and total-annual-loan-cost rates for reverse mortgage transactions.

Official interpretations of the regulation are published in a commentary. Good faith compliance with the commentary protects creditors from civil liability under the TILA. In addition, the commentary includes more detailed information on disclosures or other actions required of creditors. It is virtually impossible to comply with Regulation Z without reference to and reliance on the commentary.

NOTE: The following narrative does not discuss all the sections of Regulation Z, but rather highlights only certain sections of the regulation and the TILA.

Subpart A—General

This subpart contains general information regarding both open-end and closed-end credit transactions. It sets forth definitions (§1026.2) and sets out which transactions are covered and which are exempt from the regulation (§1026.3). It also contains the rules for determining which fees are finance charges (§1026.4).

Purpose of the TILA and Regulation Z

The TILA is intended to ensure that credit terms are disclosed in a meaningful way so consumers can compare credit terms more readily and knowledgeably. Before its enactment, consumers were faced with a bewildering array of credit terms and rates. It was difficult to compare loans because they were seldom presented in the same format. Now, all creditors must use the same credit terminology and expressions of rates. In addition to providing a uniform system for disclosures, the act

- protects consumers against inaccurate and unfair credit billing and credit card practices,
- provides consumers with rescission rights,
- provides for rate caps on certain dwelling-secured loans,
- imposes limitations on home-equity lines of credit and certain closed-end home mortgages,
- provides minimum standards for most dwelling-secured loans, and
- delineates and prohibits unfair or deceptive mortgage lending practices.

The TILA and Regulation Z do not, however, tell financial institutions how much interest they may charge or whether they must grant a consumer a loan.

Summary of Coverage Considerations—Sections 1026.1 and 1026.2

Lenders must carefully consider several factors when deciding whether a loan requires Truth in Lending disclosures or is subject to other Regulation Z requirements. The coverage considerations under Regulation Z are addressed in more detail in the commentary to Regulation Z. For example, broad coverage considerations are included under section 1026.1(c) of the regulation and relevant definitions appear in section 1026.2.

Exempt Transactions—Section 1026.3

The following transactions are exempt from Regulation Z:

- credit extended primarily for a business, commercial, or agricultural purpose
- credit extended to other than a natural person (including credit to government agencies or instrumentalities)
- credit in excess of an annually adjusted threshold not secured by real property or by personal property used or expected to be used as the principal dwelling of the consumer⁴
- public utility credit
- credit extended by a broker-dealer registered with the Securities and Exchange Commission (SEC) or the Commodity Futures Trading Commission (CFTC), involving securities or commodities accounts
- home fuel budget plans not subject to a finance charge
- certain student loan programs

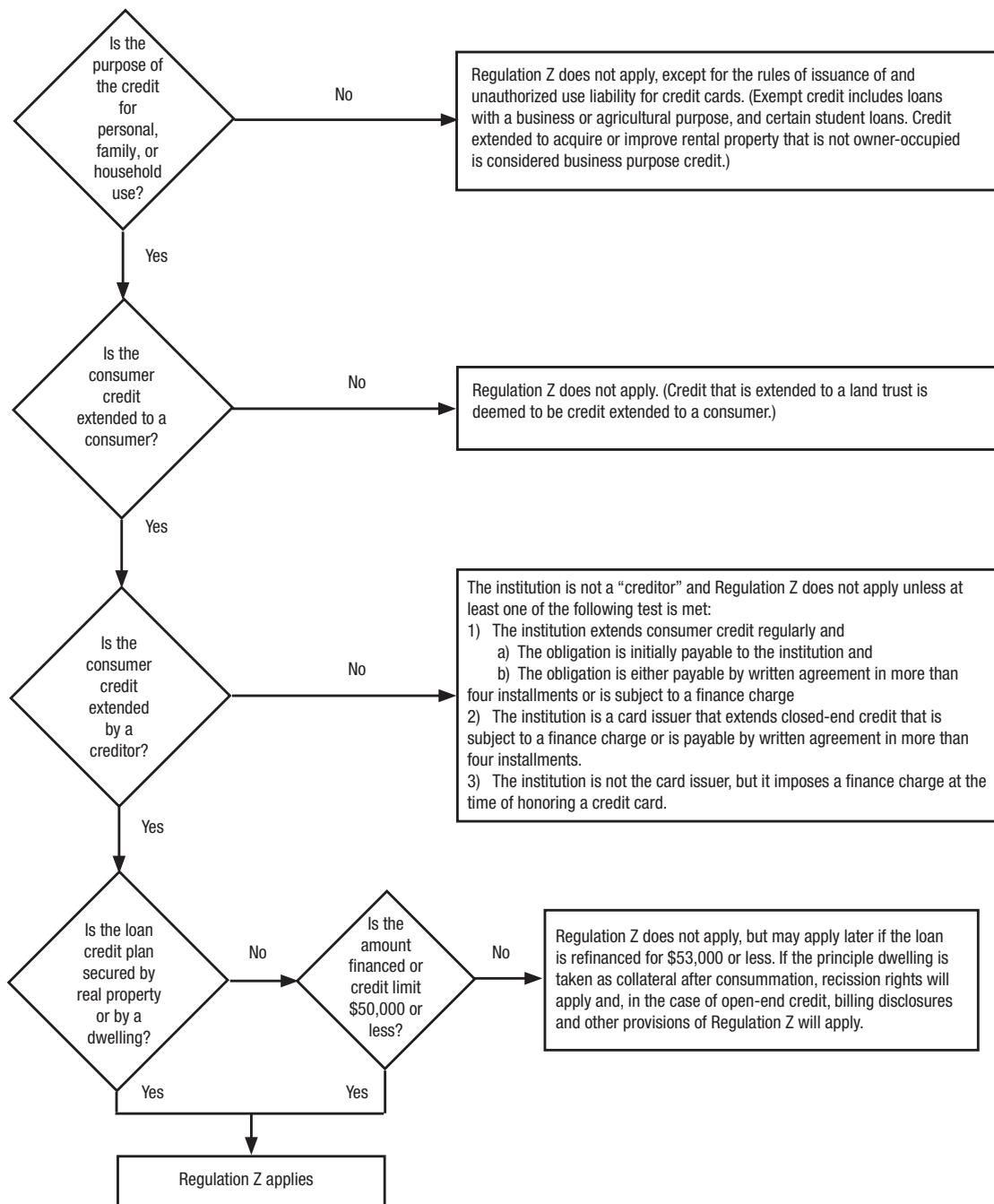
However, when a credit card is involved, generally exempt credit (e.g., business purpose credit) is subject to the requirements that govern the issuance of credit cards and liability for their unauthorized use. Credit cards must not be issued on an unsolicited basis and, if a credit card is lost or stolen, the cardholder must not be held liable for more than \$50 for the unauthorized use of the card (Comment 3-1).

When determining whether credit is for consumer purposes, the creditor must evaluate all of the following:

- Any statement obtained from the consumer describing the purpose of the proceeds.

4. The Dodd-Frank Act requires that this threshold be adjusted annually by any annual percentage increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). Accordingly, based on the annual percentage increase in the CPI-W as of June 1, 2014, the exemption threshold increased from \$53,500 to \$54,600, effective January 1, 2015.

Coverage Considerations under Regulation Z



- For example, a statement that the proceeds will be used for a vacation trip would indicate a consumer purpose.
 - If the loan has a mixed-purpose (e.g., proceeds will be used to buy a car that will be used for personal and business purposes), the lender must look to the primary purpose of the loan to decide whether disclosures are necessary. A statement of purpose from the consumer will help the lender make that decision.
 - A checked box indicating that the loan is for a business purpose, absent any documentation showing the intended use of the proceeds could be insufficient evidence that the loan did not have a consumer purpose.
- *The consumer's primary occupation and how it relates to the use of the proceeds.* The higher the correlation between the consumer's occupation and the property purchased from the loan proceeds, the greater the likelihood that the loan has a business purpose. For example, proceeds used to purchase dental supplies for a dentist would indicate a business purpose.
 - *Personal management of the assets purchased from proceeds.* The lower the degree of the borrower's personal involvement in the management of the investment or enterprise purchased by the loan proceeds, the less likely the loan will have a business purpose. For example, money borrowed to purchase stock in an automobile company by an individual who does not work for that company would indicate a personal investment and a consumer purpose.
 - *The size of the transaction.* The larger the size of the transaction, the more likely the loan will have a business purpose. For example, if the loan is for a \$5,000,000 real estate transaction, that might indicate a business purpose.
 - *The amount of income derived from the property acquired by the loan proceeds relative to the borrower's total income.* The lesser the income derived from the acquired property, the more likely the loan will have a consumer purpose. For example, if the borrower has an annual salary of \$100,000 and receives about \$500 in annual dividends from the acquired property, that would indicate a consumer purpose.

All five factors must be evaluated before the lender can conclude that disclosures are not necessary. Normally, no one factor, by itself, is sufficient reason to determine the applicability of Regulation Z. In any event, the financial institution may routinely furnish disclosures to the consumer. Disclosure under such circumstances does not control whether the transaction is covered, but can

assure protection to the financial institution and compliance with the law. Coverage Considerations under Regulation Z

Determination of Finance Charge and Annual Percentage Rate (“APR”)

Finance Charge (Open-End and Closed-End Credit)—Section 1026.4

The finance charge is a measure of the cost of consumer credit represented in dollars and cents. Along with Annual Percentage Rate (APR) disclosures, the disclosure of the finance charge is central to the uniform credit cost disclosure envisioned by the TILA.

The finance charge does not include any charge of a type payable in a comparable cash transaction. Examples of charges payable in a comparable cash transaction may include taxes, title, license fees, or registration fees paid in connection with an automobile purchase.

Finance charges include any charges or fees payable directly or indirectly by the consumer and imposed directly or indirectly by the financial institution either as an incident to or as a condition of an extension of consumer credit. The finance charge on a loan always includes any interest charges and, often, other charges. Regulation Z includes examples, applicable both to open-end and closed-end credit transactions, of what must, must not, or need not be included in the disclosed finance charge (§1026.4(b)).

Accuracy Tolerances (Closed-End Credit)—Sections 1026.18(d) and 1026.23(g)

Regulation Z provides finance charge tolerances for legal accuracy that should not be confused with those provided in the TILA for reimbursement under regulatory agency orders. As with disclosed APRs, if a disclosed finance charge were legally accurate, it would not be subject to reimbursement.

Under the TILA and Regulation Z, finance charge disclosures for open-end credit must be accurate since there is no tolerance for finance charge errors. However, both the TILA and Regulation Z permit various finance charge accuracy tolerances for closed-end credit.

Tolerances for the finance charge in a closed-end transaction, other than a mortgage loan, are generally \$5 if the amount financed is less than or equal to \$1,000 and \$10 if the amount financed exceeds \$1,000. Tolerances for certain transactions consummated on or after September 30, 1995, are noted below.

- Credit secured by real property or a dwelling (closed-end credit only):
 - The disclosed finance charge is considered accurate if it is not understated by more than \$100.
 - Overstatements are not violations.
- Rescission rights after the three-business-day rescission period (closed-end credit only):
 - The disclosed finance charge is considered accurate if it does not vary from the actual finance charge by more than one-half of 1 percent of the credit extended or \$100, whichever is greater.
 - The disclosed finance charge is considered accurate if it does not vary from the actual finance charge by more than 1 percent of the credit extended for the initial and subsequent refinancings of residential mortgage transactions when the new loan is made at a different financial institution. (This excludes high-cost mortgage loans subject to section 1026.32, transactions in which there are new advances, and new consolidations.)
- Rescission rights in foreclosure:
 - The disclosed finance charge is considered accurate if it does not vary from the actual finance charge by more than \$35.
 - Overstatements are not considered violations.
 - The consumer can rescind if a mortgage broker fee that should have been included in the finance charge was not included.

NOTE: Normally, the finance charge tolerance for a rescindable transaction is either 0.5 percent of the credit transaction or, for certain refinancings, 1 percent of the credit transaction. However, in the event of a foreclosure, the consumer may exercise the right of rescission if the disclosed finance charge is understated by more than \$35.

See the "Finance Charge Tolerances" charts within these examination procedures for help in determining appropriate finance charge tolerances.

Calculating the Finance Charge (Closed-End Credit)

One of the more complex tasks under Regulation Z is determining whether a charge associated with an extension of credit must be included in, or excluded from, the disclosed finance charge. The finance charge initially includes any charge that is, or will be, connected with a specific loan. Charges imposed by third parties are finance charges if the financial institution requires use of the third party.

Charges imposed by settlement or closing agents are finance charges if the bank requires the specific service that gave rise to the charge and the charge is not otherwise excluded. The "Finance Charge Tolerances" charts within this document briefly summarize the rules that must be considered.

Prepaid Finance Charges—Section 1026.18(b)(3)

A prepaid finance charge is any finance charge paid separately to the financial institution or to a third party, in cash or by check before or at closing, settlement, or consummation of a transaction, or withheld from the proceeds of the credit at any time.

Prepaid finance charges effectively reduce the amount of funds available for the consumer's use, usually before or at the time the transaction is consummated.

Examples of finance charges frequently prepaid by consumers are borrower's points, loan origination fees, real estate construction inspection fees, odd days' interest (interest attributable to part of the first payment period when that period is longer than a regular payment period), mortgage guarantee insurance fees paid to the Federal Housing Administration (FHA), private mortgage insurance (PMI) paid to such companies as the Mortgage Guaranty Insurance Company (MGIC), and, in non-real-estate transactions, credit report fees.

Precomputed Finance Charges

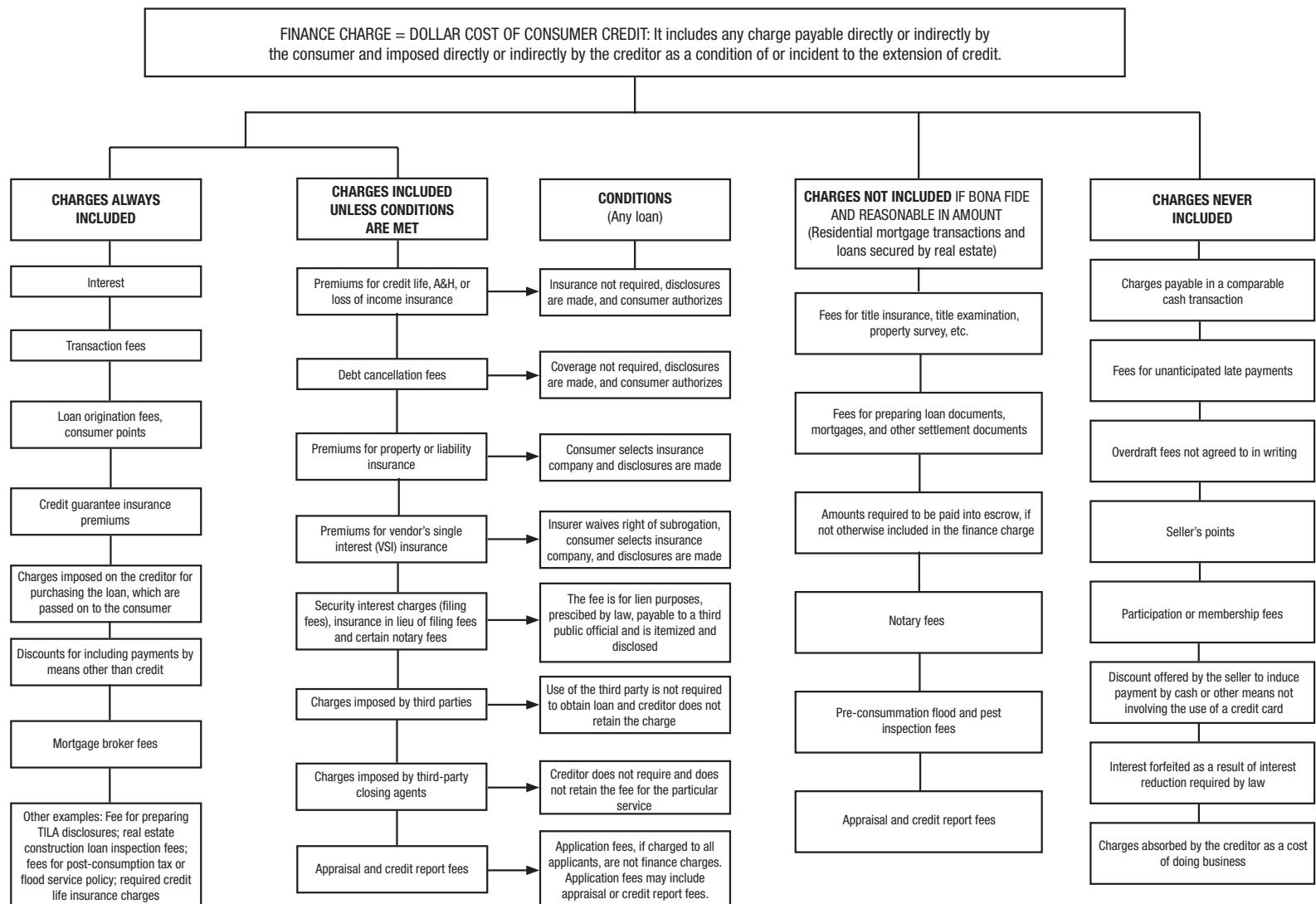
A precomputed finance charge includes, for example, interest added to the note amount that is computed by the add-on, discount, or simple interest methods. If reflected in the face amount of the debt instrument as part of the consumer's obligation, finance charges that are not viewed as prepaid finance charges are treated as precomputed finance charges that are earned over the life of the loan.

Instructions for the Finance Charge Chart

The finance charge initially includes any charge that is, or will be, connected with a specific loan. Charges imposed by third parties are finance charges if the creditor requires use of the third party. Charges imposed on the consumer by a settlement agent are finance charges only if the creditor requires the particular services for which the settlement agent is charging the borrower and the charge is not otherwise excluded from the finance charge.

Immediately below the finance charge definition, the chart presents five captions applicable to

Finance Charge Chart



determining whether a loan-related charge is a finance charge.

The first caption is “charges always included.” This category focuses on specific charges given in the regulation or commentary as examples of finance charges.

The second caption, “charges included unless conditions are met,” focuses on charges that must be included in the finance charge unless the creditor meets specific disclosure or other conditions to exclude the charges from the finance charge.

The third caption, “conditions,” focuses on the conditions that need to be met if the charges identified to the left of the conditions are permitted to be excluded from the finance charge. Although most charges under the second caption may be included in the finance charge at the creditor’s option, third-party charges and application fees (listed last under the third caption) must be excluded from the finance charge if the relevant conditions are met. However, inclusion of appraisal and credit report charges as part of the application fee is optional.

The fourth caption, “charges not included,” identifies fees or charges that are not included in the finance charge under conditions identified by the caption. If the credit transaction is secured by real property or the loan is a residential mortgage transaction, the charges identified in the column, if they are bona fide and reasonable in amount, must be excluded from the finance charge. For example, if a consumer loan is secured by a vacant lot or commercial real estate, any appraisal fees connected with the loan must not be included in the finance charge.

The fifth caption, “charges never included,” lists specific charges provided by the regulation as examples of those that automatically are not finance charges (e.g., fees for unanticipated late payments).

Annual Percentage Rate Definition—Section 1026.22 (Closed-End Credit)

Credit costs may vary depending on the interest rate, the amount of the loan and other charges, the timing and amounts of advances, and the repayment schedule. The APR, which must be disclosed in nearly all consumer credit transactions, is designed to take into account all relevant factors and to provide a uniform measure for comparing the cost of various credit transactions.

The APR is a measure of the cost of credit, expressed as a nominal yearly rate. It relates the amount and timing of value received by the

consumer to the amount and timing of payments made. The disclosure of the APR is central to the uniform credit cost disclosure envisioned by the TILA.

The value of a closed-end credit APR must be disclosed as a single rate only, whether the loan has a single interest rate, a variable interest rate, a discounted variable interest rate, or graduated payments based on separate interest rates (step rates), and it must appear with the segregated disclosures. Segregated disclosures are grouped together and do not contain any information not directly related to the disclosures required under section 1026.18.

Since an APR measures the total cost of credit, including costs such as transaction charges or premiums for credit guarantee insurance, it is not an “interest” rate, as that term is generally used. APR calculations do not rely on definitions of interest in state law and often include charges, such as a commitment fee paid by the consumer, that are not viewed by some state usury statutes as interest. Conversely, an APR might not include a charge, such as a credit report fee in a real property transaction, which some state laws might view as interest for usury purposes. Furthermore, measuring the timing of value received and of payments made, which is essential if APR calculations are to be accurate, must be consistent with parameters under Regulation Z.

The APR is often considered to be the finance charge expressed as a percentage. However, two loans could require the same finance charge and still have different APRs because of differing values of the amount financed or of payment schedules. For example, the APR is 12 percent on a loan with an amount financed of \$5,000 and 36 equal monthly payments of \$166.07 each. It is 13.26 percent on a loan with an amount financed of \$4,500 and 35 equal monthly payments of \$152.18 each and final payment of \$152.22. In both cases the finance charge is \$978.52. The APRs on these example loans are not the same because an APR does not only reflect the finance charge. It relates the amount and timing of value received by the consumer to the amount and timing of payments made.

The APR is a function of:

- *The amount financed, which is not necessarily equivalent to the loan amount.* For example, if the consumer must pay at closing a separate 1 percent loan origination fee (prepaid finance charge) on a \$100,000 residential mortgage loan, the loan amount is \$100,000, but the amount financed would be \$100,000 less the \$1,000 loan fee, or \$99,000.

- *The finance charge, which is not necessarily equivalent to the total interest amount (interest is not defined by Regulation Z, but rather is defined by state or other federal law).* For example:

- If the consumer must pay a \$25 credit report fee for an auto loan, the fee must be included in the finance charge. The finance charge in that case is the sum of the interest on the loan (i.e., interest generated by the application of a percentage rate against the loan amount) plus the \$25 credit report fee.
- If the consumer must pay a \$25 credit report fee for a home improvement loan secured by real property, the credit report fee must be excluded from the finance charge. The finance charge in that case would be only the interest on the loan.

- *The payment schedule, which does not necessarily include only principal and interest (P + I) payments.* For example:

- If the consumer borrows \$2,500 for a vacation trip at 14 percent simple interest per annum and repays that amount with 25 equal monthly payments beginning one month from consummation of the transaction, the monthly P + I payment will be \$115.87, if all months are considered equal, and the amount financed would be \$2,500. If the consumer's payments are increased by \$2.00 a month to pay a nonfinanced \$50 loan fee during the life of the loan, the amount financed would remain at \$2,500 but the payment schedule would be increased to \$117.87 a month, the finance charge would increase by \$50, and there would be a corresponding increase in the APR. This would be the case whether or not state law defines the \$50 loan fee as interest.
- If the loan above has 55 days to the first payment and the consumer prepays interest at consummation (\$24.31 to cover the first 25 days), the amount financed would be \$2,500 - \$24.31, or \$2,475.69. Although the amount financed has been reduced to reflect the consumer's reduced use of available funds at consummation, the time interval during which the consumer has use of the \$2,475.69, 55 days to the first payment, has not changed. Since the first payment period exceeds the limitations of the regulation's minor irregularities provisions (see §1026.17(c)(4)), it may not be treated as regular. In calculating the APR, the first payment period must not be reduced by 25 days (i.e., the first payment period may not be treated as one month).

Financial institutions may, if permitted by state or other law, precompute interest by applying a rate against a loan balance using a simple interest,

add-on, discount or some other method, and may earn interest using a simple interest accrual system, the Rule of 78s (if permitted by law) or some other method. Unless the financial institution's internal interest earnings and accrual methods involve a simple interest rate based on a 360-day year that is applied over actual days (even that is important only for determining the accuracy of the payment schedule), it is not relevant in calculating an APR, since an APR is not an interest rate (as that term is commonly used under state or other law). Since the APR normally need not rely on the internal accrual systems of a bank, it always may be computed after the loan terms have been agreed upon (as long as it is disclosed before actual consummation of the transaction).

Special Requirements for Calculating the Finance Charge and APR

Proper calculation of the finance charge and APR are of primary importance. The regulation requires that the terms "finance charge" and "annual percentage rate" be disclosed more conspicuously than any other required disclosure, subject to limited exceptions. The finance charge and APR, more than any other disclosures, enable consumers to understand the cost of the credit and to comparison shop for credit. A creditor's failure to disclose those values accurately can result in significant monetary damages to the creditor, either from a class action lawsuit or from a regulatory agency's order to reimburse consumers for violations of law.

If an APR or finance charge is disclosed incorrectly, the error is not, in itself, a violation of the regulation if

- the error resulted from a corresponding error in a calculation tool used in good faith by the financial institution,
- upon discovery of the error the financial institution promptly discontinues use of that calculation tool for disclosure purposes, and
- the financial institution notifies the CFPB in writing of the error in the calculation tool.

When a financial institution claims a calculation tool was used in good faith, the financial institution assumes a reasonable degree of responsibility for ensuring that the tool in question provides the accuracy required by the regulation. For example, the financial institution might verify the results obtained using the tool by comparing those results to the figures obtained by using another calculation tool. The financial institution might also verify that the tool, if it is designed to operate under the actuarial method, produces figures similar to those provided by the examples in appendix J to the

regulation. The calculation tool should be checked for accuracy before it is first used and periodically thereafter.

Subpart B—Open-End Credit

Subpart B relates to open-end credit. It contains rules on account-opening disclosures (§1026.6) and periodic statements (§§1026.7–8). It also describes special rules that apply to credit card transactions, treatment of payments (§1026.10) and credit balances (§1026.11), procedures for resolving credit billing errors (§1026.13), annual percentage rate calculations (§1026.14), rescission requirements (§1026.15) and advertising (§1026.16).

Time of Disclosures (Periodic Statements)—Section 1026.5(b)

For credit card accounts under an open-end (not home-secured) consumer credit plan, creditors must adopt reasonable procedures designed to ensure that periodic statements are mailed or delivered at least 21 days prior to the payment due date disclosed on the periodic statement and that payments are not treated as late for any purpose if they are received within 21 days after mailing or delivery of the statement. In addition, for all open-end consumer credit accounts with grace periods, creditors must adopt reasonable procedures designed to ensure that periodic statements are mailed or delivered at least 21 days prior to the date on which a grace period (if any) expires and that finance charges are not imposed as a result of the loss of a grace period if a payment is received within 21 days after mailing or delivery of a statement. For purposes of this requirement, a “grace period” is defined as a period within which any credit extended may be repaid without incurring a finance charge due to a periodic interest rate. For non-credit card open-end consumer plans without a grace period, creditors must adopt reasonable policies and procedures designed to ensure that periodic statements are mailed or delivered at least 14 days prior to the date on which the required minimum periodic payment is due. Moreover, the creditor must adopt reasonable policies and procedures to ensure that it does not treat as late a required minimum periodic payment received by the creditor within 14 days after it has mailed or delivered the periodic statement.

Subsequent Disclosures (Open-End Credit)—Section 1026.9

For open-end, not home-secured credit, the following applies:

Creditors are required to provide consumers with 45 days' advance written notice of rate increases and other significant changes to the terms of their credit card account agreements. The list of “significant changes” includes most fees and other terms that a consumer should be aware of before use of the account. Examples of such fees and terms include

- penalty fees,
- transaction fees,
- fees imposed for the issuance or availability of the open-end plan,
- grace period, and
- balance computation method.

Changes that do not require advance notice include

- reductions of finance charges;
- termination of account privileges resulting from an agreement involving a court proceeding;
- increases in APR upon expiration of a specified period of time previously disclosed in writing;
- increases in variable APRs that change according to an index not under the card issuer's control; and
- rate increases due to the completion of, or failure of a consumer to comply with, the terms of a workout or temporary hardship arrangement, if those terms are disclosed prior to commencement of the arrangement.

A creditor may suspend account privileges, terminate an account, or lower the credit limit without notice. However, a creditor that lowers the credit limit may not impose an over limit fee or penalty rate as a result of exceeding the new credit limit without a 45-day advance notice that the credit limit has been reduced.

For significant changes in terms (with the exception of rate changes, increases in the minimum payment, certain changes in the balance computation method, and when the change results from the consumer's failure to make a required minimum periodic payment within 60 days after the due date), a creditor must also provide consumers the right to reject the change. If the consumer does reject the change prior to the effective date, the creditor may not apply the change to the account (§1026.9(h)(2)(i)).

In addition, when a consumer rejects a change or increase, the creditor must not

- impose a fee or charge or treat the account as in default solely as a result of the rejection; or
- require repayment of the balance on the account using a method that is less beneficial to the

consumer than one of the following methods: (1) the method of repayment prior to the rejection; (2) an amortization period of not less than five years from the date of rejection; or (3) a minimum periodic payment that includes a percentage of the balance that is not more than twice the percentage included prior to the date of rejection.

Finance Charge (Open-End Credit)— Sections 1026.6(a)(1) and (b)(3)

Each finance charge imposed must be individually itemized. The aggregate total amount of the finance charge need not be disclosed.

Determining the Balance and Computing the Finance Charge

The examiner must know how to compute the balance to which the periodic rate is applied. Common methods used are the previous balance method, the daily balance method, and the average daily balance method, which are described as follows:

- *Previous balance method.* The balance on which the periodic finance charge is computed is based on the balance outstanding at the start of the billing cycle. The periodic rate is multiplied by this balance to compute the finance charge.
- *Daily balance method.* A daily periodic rate is applied to either the balance on each day in the cycle or the sum of the balances on each of the days in the cycle. If a daily periodic rate is multiplied by the balance on each day in the billing cycle, the finance charge is the sum of the products. If the daily periodic rate is multiplied by the sum of all the daily balances, the result is the finance charge.
- *Average daily balance method.* The average daily balance is the sum of the daily balances (either including or excluding current transactions) divided by the number of days in the billing cycle. A periodic rate is then multiplied by the average daily balance to determine the finance charge. If the periodic rate is a daily one, the product of the rate multiplied by the average balance is multiplied by the number of days in the cycle.

In addition to those common methods, financial institutions have other ways of calculating the balance to which the periodic rate is applied. By reading the financial institution's explanation, the examiner should be able to calculate the balance to which the periodic rate was applied. In some cases, the examiner may need to obtain additional information from the financial institution to verify the explanation disclosed. If the examiner is unable to

understand the disclosed explanation, he or she should discuss the explanation with management and should remind management of Regulation Z's requirement that disclosures be clear and conspicuous.

When a balance is determined without first deducting all credits and payments made during the billing cycle, that fact and the amount of the credits and payments must be disclosed.

If the financial institution uses the daily balance method and applies a single daily periodic rate, disclosure of the balance to which the rate was applied may be stated as any of the following:

- *A balance for each day in the billing cycle.* The daily periodic rate is multiplied by the balance on each day and the sum of the products is the finance charge.
- *A balance for each day in the billing cycle on which the balance in the account changes.* The finance charge is figured by the same method as discussed previously, but the statement shows the balance only for those days on which the balance changed.
- *The sum of the daily balances during the billing cycle.* The balance on which the finance charge is computed is the sum of all the daily balances in the billing cycle. The daily periodic rate is multiplied by that balance to determine the finance charge.
- *The average daily balance during the billing cycle.* If this is stated, the financial institution may, at its option, explain that the average daily balance is or can be multiplied by the number of days in the billing cycle and the periodic rate applied to the product to determine the amount of interest.

If the financial institution uses the daily balance method, but applies two or more daily periodic rates, the sum of the daily balances may not be used. Acceptable ways of disclosing the balances include

- a balance for each day in the billing cycle,
- a balance for each day in the billing cycle on which the balance in the account changes, or
- two or more average daily balances.

If the average daily balances are stated, the financial institution may, at its option, explain that interest is or may be determined by

- multiplying each of the average daily balances by the number of days in the billing cycle (or if the daily rate varied during the cycle),
- multiplying each of the results by the applicable daily periodic rate, and
- adding these products together.

In explaining the method used to find the balance on which the finance charge is computed, the financial institution need not reveal how it allocates payments or credits. That information may be disclosed as additional information, but all required information must be clear and conspicuous.

NOTE: Section 1026.54 prohibits a credit card issuer from calculating finance charges based on balances for days in previous billing cycles as a result of the loss of a grace period (a practice sometimes referred to as "double-cycle billing").

Finance Charge Resulting from Two or More Periodic Rates

Some financial institutions use more than one periodic rate in computing the finance charge. For example, one rate may apply to balances up to a certain amount and another rate to balances more than that amount. If two or more periodic rates apply, the financial institution must disclose all rates and conditions. The range of balances to which each rate applies also must be disclosed. It is not necessary, however, to break the finance charge into separate components based on the different rates.

Annual Percentage Rate (Open-End Credit)

The disclosed APR on an open-end credit account is accurate if it is within one-eighth of one percentage point of the APR calculated under Regulation Z.

Determination of APR—Section 1026.14

The basic method for determining the APR in open-end credit transactions involves multiplying each periodic rate by the number of periods in a year. This method is used in all types of open-end disclosures, including the

- corresponding APR in the initial disclosures,
- corresponding APR on periodic statements,
- APR in early disclosures for credit card accounts,
- APR in early disclosures for home-equity plans,
- APR in advertising, and
- APR in oral disclosures.

The corresponding APR is prospective and it does not involve any particular finance charge or periodic balance.

A second method of calculating the APR is the quotient method. At a creditor's option, the quotient method may be disclosed on periodic statements

for home-equity plans subject to section 1026.40 (home-equity lines of credit, or HELOCs).⁵ The quotient method reflects the annualized equivalent of the rate that was actually applied during a cycle. This rate, also known as the effective APR, will differ from the corresponding APR if the creditor applies minimum, fixed, or transaction charges to the account during the cycle (§1026.14(c)).

Brief Outline for Open-End Credit APR Calculations on Periodic Statements

NOTE: Assume monthly billing cycles for each of the calculations below.

- I. Basic method for determining the APR in an open-end credit transaction. This is the corresponding APR (§1026.14(b))
 - A. Monthly rate $\times 12 = \text{APR}$
- II. Optional effective APR that may be disclosed on HELOC periodic statements
 - A. APR when only periodic rates are imposed (§1026.14(c)(1))
 1. Monthly rate $\times 12 = \text{APR}$
Or
 2. (Total finance charge / sum of the balances) $\times 12 = \text{APR}$
 - B. APR when minimum or fixed charge, but not transaction charge imposed (§1026.14(c)(2))
 1. (Total finance charge / amount of applicable balance⁶) $\times 12 = \text{APR}^7$
 - C. APR when the finance charge includes a charge related to a specific transaction (such as a cash advance fee), even if the total finance charge also includes any other minimum, fixed, or other charge not calculated using a periodic rate (§1026.14(c)(3))
 1. (Total finance charge / (all balances + other amounts on which a finance charge was imposed during the billing cycle without duplication⁸) $\times 12 = \text{APR}^9$

5. If a creditor does not disclose the effective (or quotient method) APR on a HELOC periodic statement, it must instead disclose the charges (fees and interest) imposed as provided in section 1026.7(a).

6. For the following formulas, the APR cannot be determined if the applicable balance is zero (§1026.14(c)(2)).

7. Loan fees, points, or similar finance charges that relate to the opening of the account must not be included in the calculation of the APR.

8. The sum of the balances may include the average daily balance, adjusted balance, or previous balance method. When a portion of the finance charge is determined by application of one or more daily periodic rates, the sum of the balances also means the average of daily balances. See Appendix F to Regulation Z.

9. Cannot be less than the highest periodic rate applied, expressed as an APR. Loan fees, points, or similar finance charges that relate to the opening of the account must not be included in the calculation of the APR.

D. APR when the finance charge imposed during the billing cycle includes a minimum or fixed charge that does not exceed \$.50 for a monthly or longer billing cycle (or pro rata part of \$.50 for a billing cycle shorter than monthly) (§1026.14(c)(4))

$$1. \text{ Monthly rate} \times 12 = \text{APR}$$

E. APR calculation when daily periodic rates are applicable if only the periodic rate is imposed or when a minimum or fixed charge (but not a transactional charge is imposed) (§1026.14(d))

1. $(\text{Total finance charge} / \text{average daily balance}) \times 12 = \text{APR}$
Or
2. $(\text{Total finance charge} / \text{sum of daily balances}) \times 365 = \text{APR}$

Change in Terms Notices for Home-Equity Plans Subject to Section 1026.40—Section 1026.9(c)

Servicers are required to provide consumers with 15 days' advance written notice of a change to any term required to be disclosed under section 1026.6(a) or where the required minimum periodic payment is increased. Notice is not required when the change involves a reduction of any component of a finance charge or other charge or when the change results from an agreement involving a court proceeding. If the creditor prohibits additional extensions of credit or reduces the credit limit in certain circumstances (if permitted by contract), a written notice must be provided no later than three business days after the action is taken and must include the specific reasons for the action. If the creditor requires the consumer to request reinstatement of credit privileges, the notice also must state that fact.

Timely Settlement of Estates—Section 1026.11(c)

Issuers are required to establish procedures to ensure that any administrator of an estate can resolve the outstanding credit card balance of a deceased account holder in a timely manner. If an administrator requests the amount of the balance

- the issuer is prohibited from imposing additional fees on the account;
- the issuer is required to disclose the amount of the balance to the administrator in a timely manner (safe harbor of 30 days); and
- if the balance is paid in full within 30 days after disclosure of the balance, the issuer must waive

or rebate any trailing or residual interest charges that accrued on the balance following the disclosure.

Minimum Payments—Section 1026.7(b)(12)

For credit card accounts under an open-end credit plan, card issuers generally must disclose on periodic statements an estimate of the amount of time and the total cost (principal and interest) involved in paying the balance in full by making only the minimum payments, an estimate of the monthly payment amount required to pay off the balance in 36 months, and the total cost (principal and interest) of repaying the balance in 36 months. Card issuers also must disclose a minimum payment warning and an estimate of the total interest that a consumer would save if that consumer repaid the balance in 36 months instead of making minimum payments.

Advertising for Open-End Plans—Section 1026.16

The regulation requires that loan product advertisements provide accurate and balanced information, in a clear and conspicuous manner, about rates, monthly payments, and other loan features. The advertising rules ban several deceptive or misleading advertising practices, including representations that a rate or payment is "fixed" when in fact it can change.

If an advertisement for credit states specific credit terms, it must state only those terms that actually are or will be arranged or offered by the creditor. If any finance charges or other charges are set forth in an advertisement, the advertisement must also clearly and conspicuously state any

- minimum, fixed, transaction, activity, or similar charge that is a finance charge under section 1026.4 that could be imposed;
- periodic rate that may be applied expressed as an APR as determined under section 1026.14(b). If the plan provides for a variable periodic rate, that fact must be disclosed; and
- membership or participation fee that could be imposed.

If any finance charges or other charge or payment terms are set forth, affirmatively or negatively, in an advertisement for a home-equity plan subject to the requirements of section 1026.40, the advertisement also must clearly and conspicuously set forth

- any loan fee that is a percentage of the credit limit under the plan and an estimate of any other fees

- imposed for opening the plan, stated as a single dollar amount or a reasonable range;
- any periodic rate used to compute the finance charge, expressed as an APR as determined under section 1026.14(b); and
 - the maximum APR that may be imposed in a variable-rate plan.

Regulation Z's open-end home-equity plan advertising rules include a clear and conspicuous standard for home-equity plan advertisements, consistent with the approach taken in the advertising rules for consumer leases under Regulation M. Commentary provisions clarify how the clear and conspicuous standard applies to advertisements of home-equity plans with promotional rates or payments, and to Internet, television, and oral advertisements of home-equity plans. The regulation allows alternative disclosures for television and radio advertisements for home-equity plans. The regulation also requires that advertisements adequately disclose not only promotional plan terms, but also the rates or payments that will apply over the term of the plan.

Regulation Z also contains provisions implementing the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, which requires disclosure of the tax implications of certain home-equity plans.

Subpart C—Closed-End Credit

Subpart C relates to closed-end credit. It contains rules on disclosures (§§1026.17–.20), treatment of credit balances (§1026.21), annual percentage rate calculations (§1026.22), rescission rights (§1026.23), and advertising (§1026.24).

The TILA-RESPA integrated disclosures must be given for most closed-end transactions secured by real property for which the creditor receives an application on or after October 3, 2015. The TILA-RESPA integrated disclosures do not apply to HELOCs, reverse mortgages, or mortgages secured by a mobile home or by a dwelling that is not attached to real property. Truth in Lending disclosures (TIL disclosures) and the Consumer Handbook on Adjustable Rate Mortgages (CHARM) booklet must still be provided for certain limited closed-end loan transactions.

I. Disclosures, Generally

A. Timing

Generally, all disclosures provided to consumers must be made clearly and conspicuously in writing,

in a form that the consumer may keep (§§1026.17(a), 1026.37(o), 1026.38(t)). However, the timing of the disclosures may change depending on the transaction (§§1026.19(a), (e)(1)(iii), (f)(1)(ii) and (g)).

Disclosures in connection with non-mortgage closed-end loans and specified housing assistance loan programs for low- and moderate-income consumers must be provided before consummation of the transaction (§1026.3).

For most closed-end transactions secured by real property for which the creditor receives an application on or after October 3, 2015 (including construction-only loans, loans secured by vacant land or by 25 or more acres, and credit extended to certain trusts for tax or estate planning purposes), disclosures must be provided in accordance with the timing requirements outlined in 12 CFR 1026.19 (e), (f), and (g). Generally, a creditor is required to mail or deliver the Loan Estimate within three business days of receipt of the consumer's loan application and to ensure that the consumer receives the Closing Disclosure no later than three business days before loan consummation (§§1026.19(e)(iii) and (f)(1)(ii)). If the loan is a purchase transaction, the special information booklet must also be provided within three business days of receipt of the consumer's application (§1026.19(g)). The specifics of these disclosure timing requirements are further discussed below, including a discussion about revised disclosures.

Mortgage loans not subject to 12 CFR 1026.19(e) and (f) (e.g., reverse mortgages, and chattel-dwelling loans) have different disclosure requirements. For reverse mortgages, disclosures must be delivered or mailed to the consumer no later than the third business day after a creditor receives the consumer's written application (§1026.19(a)). For chattel-dwelling mortgage loans, disclosures must be provided to the consumer prior to consummation of the loan (§1026.17(b)). Revised disclosures are also required within three business days of consummation if certain mortgage loan terms change (§1026.19(a)(2)). For loans like reverse mortgages, the consumer will receive the Good Faith Estimate (GFE), HUD-1 Settlement Statement (HUD-1), and Truth in Lending disclosures as required under the applicable sections of both TILA and RESPA. Consumers receive TIL disclosures for chattel-dwelling loans that are not secured by land, but the GFE and the HUD-1 are not required. Finally, certain variable-rate transactions secured by a dwelling have additional disclosure obligations with specific timing requirements both prior to and after consummation (see §§1026.20(c) and (d) below).

B. Basis for Disclosures

1. Generally

Disclosures provided for closed-end transactions must reflect the credit terms to which the parties will be legally bound as of the outset of the credit transaction. If information required for the disclosures is unknown, the creditor may provide the consumer with an estimate, using the best information reasonably available. The disclosure must be clearly marked as an estimate.

Variable and Adjustable Rate

If the terms of the legal obligation allow the financial institution, after consummation of the transaction, to increase the APR, the financial institution must furnish the consumer with certain information on variable rates. Variable-rate disclosures are not applicable to rate increases resulting from delinquency, default, assumption, acceleration, or transfer of the collateral.

Some of the more important transaction-specific variable-rate disclosure requirements follow:

- Disclosures for variable-rate loans must be given for the full term of the transaction and must be based on the terms in effect at the time of consummation.
- If the variable-rate transaction includes either a seller buy-down that is reflected in a contract or a consumer buy-down, the disclosed APR should be a composite rate based on the lower rate for the buy-down period and the rate that is the basis for the variable-rate feature for the remainder of the term.
- If the initial rate is not determined by the index or formula used to make later interest rate adjustments, as in a discounted variable-rate transaction, the disclosed APR must reflect a composite rate based on the initial rate for as long as it is applied and, for the remainder of the term, the rate that would have been applied using the index or formula at the time of consummation (i.e., the fully indexed rate).
 - If a loan contains a rate or payment cap that would prevent the initial rate or payment, at the time of the adjustment, from changing to the fully indexed rate, the effect of that rate or payment cap needs to be reflected in the disclosures.
 - The index at consummation need not be used if the contract provides a delay in the implementation of changes in an index value (e.g., the contract indicates that future rate changes are based on the index value in effect for some specified period, such as 45 days before the change date). Instead, the financial institution may use any rate from the

date of consummation back to the beginning of the specified period (e.g., during the previous 45-day period).

- If the initial interest rate is set according to the index or formula used for later adjustments, but is set at a value as of a date before consummation, disclosures should be based on the initial interest rate, even though the index may have changed by the consummation date.

II. Finance Charge, Amount Financed and APRs

A. Finance Charge—Section 1026.18(c)

The aggregate total amount of the finance charge must be disclosed for all loans. An itemization of the amount financed is required (except as provided in 12 CFR 1026.18(c)(2) or (c)(3)), unless the loan is subject to 12 CFR 1026.19(e) and (f) (i.e., most closed-end mortgage loans).

Amount Financed—Section 1026.18(b), 1026.38(o)

1. Definition

The amount financed is the net amount of credit extended for the consumer's use. It should not be assumed that the amount financed under the regulation is equivalent to the note amount, proceeds, or principal amount of the loan. The amount financed normally equals the total of payments less the finance charge.

To calculate the amount financed, all amounts and charges connected with the transaction, either paid separately or included in the note amount, must first be identified. Any prepaid, precomputed, or other finance charge must then be determined.

The amount financed must not include any finance charges. If finance charges have been included in the obligation (either prepaid or pre-computed), they must be subtracted from the face amount of the obligation when determining the amount financed. The resulting value must be reduced further by an amount equal to any prepaid finance charge paid separately. The final resulting value is the amount financed.

When calculating the amount financed, finance charges (whether in the note amount or paid separately) should not be subtracted more than once from the total amount of an obligation. Charges not in the note amount and not included in the finance charge (e.g., an appraisal fee paid separately in cash on a real estate loan) are not required to be disclosed under Regulation Z and must not be included in the amount financed.

In a multiple advance construction loan, proceeds placed in a temporary escrow account and awaiting disbursement in draws to the developer are not considered part of the amount financed until actually disbursed. Thus, if the entire commitment amount is disbursed into the lender's escrow account, the lender must not base disclosures on the assumption that all funds were disbursed immediately, even if the lender pays interest on the escrowed funds.

2. Calculating the Amount Financed

A consumer signs a note secured by real property in the amount of \$5,435. The note amount includes \$5,000 in proceeds disbursed to the consumer, \$400 in precomputed interest, \$25 paid to a credit reporting agency for a credit report, and a \$10 service charge. Additionally, the consumer pays a \$50 loan fee separately in cash at consummation. The consumer has no other debt with the financial institution. The amount financed is \$4,975.

The amount financed may be calculated by first subtracting all finance charges included in the note amount ($\$5,435 - \$400 - \$10 = \$5,025$). The \$25 credit report fee is not a finance charge because the loan is secured by real property. The \$5,025 is further reduced by the amount of prepaid finance charges paid separately, for an amount financed of $\$5,025 - \$50 = \$4,975$. The answer is the same whether finance charges included in the obligation are considered prepaid or precomputed finance charges.

The financial institution may treat the \$10 service charge as an addition to the loan amount and not as a prepaid finance charge. If it does, the loan principal would be \$5,000. The \$5,000 loan principal does not include either the \$400 or the \$10 precomputed finance charge in the note. The loan principal is increased by other amounts that are financed that are not part of the finance charge (the \$25 credit report fee) and reduced by any prepaid finance charges (the \$50 loan fee, not the \$10 service charge) to arrive at the amount financed of $\$5,000 + \$25 - \$50 = \$4,975$.

Conversely, the financial institution may treat the \$10 service charge as a prepaid finance charge. If it does, the loan principal would be \$5,010. The \$5,010 loan principal does not include the \$400 precomputed finance charge. The loan principal is increased by other amounts that are financed that are not part of the finance charge (the \$25 credit report fee) and reduced by any prepaid finance charges (the \$50 loan fee and the \$10 service charge withheld from loan proceeds) to arrive at the same amount financed of $\$5,010 + \$25 - \$50 - \$10 = \$4,975$.

B. Payment Schedule—Section 1026.18(g)

For transactions that are not subject to 12 CFR 1026.19(e) and (f), the disclosed payment schedule must reflect all components of the finance charge. It includes all payments scheduled to repay loan principal, interest on the loan, and any other finance charge payable by the consumer after consummation of the transaction.

However, any finance charge paid separately before or at consummation (e.g., odd days' interest) is not part of the payment schedule. It is a prepaid finance charge that must be reflected as a reduction in the value of the amount financed.

At the creditor's option, the payment schedule may include amounts beyond the amount financed and finance charge (e.g., certain insurance premiums or real estate escrow amounts such as taxes added to payments). However, when calculating the APR, the creditor must disregard such amounts.

If the obligation is a renewable balloon payment instrument that unconditionally obligates the financial institution to renew the short-term loan at the consumer's option or to renew the loan subject to conditions within the consumer's control, the payment schedule must be disclosed using the longer term of the renewal period or periods. The long-term loan must be disclosed with a variable-rate feature.

If there are no renewal conditions or if the financial institution guarantees to renew the obligation in a refinancing, the payment schedule must be disclosed using the shorter balloon payment term. The short-term loan must be disclosed as a fixed-rate loan, unless it contains a variable-rate feature during the initial loan term.

C. Annual Percentage Rate (Closed-End Credit)—Section 1026.22

1. Calculating the Annual Percentage Rate—Section 1026.22

The APR must be determined under either

- the actuarial method, which is defined by Regulation Z and explained in appendix J to the regulation; or
- the U.S. Rule, which is permitted by Regulation Z and briefly explained in appendix J to the regulation. The U.S. Rule is an accrual method that seems to have first surfaced officially in an early nineteenth century U.S. Supreme Court case, *Story v. Livingston*, 38 U.S. 359 (1839).

Whichever method is used by the financial institution, the rate calculated will be accurate if it is able to "amortize" the amount financed while it

generates the finance charge under the accrual method selected. Financial institutions also may rely on minor irregularities and accuracy tolerances in the regulation, both of which effectively permit somewhat imprecise, but still legal, APRs to be disclosed.

2. Accuracy Tolerances

The disclosed APR on a closed-end transaction is accurate for

- regular transactions (which include any single advance transaction with equal payments and equal payment periods, or an irregular first payment period and/or a first or last irregular payment) if the disclosed APR is within one-eighth of 1 percentage point of the APR calculated under Regulation Z (§1026.22(a)(2));
- irregular transactions (which include multiple advance transactions and other transactions not considered regular), if the disclosed APR is within one-quarter of 1 percentage point of the APR calculated under Regulation Z (§1026.22(a)(3));
- mortgage transactions, if the disclosed APR is within one-eighth of 1 percentage point for regular transactions or one-quarter of 1 percentage point for irregular transactions *or if:*
 - i. the rate results from the disclosed finance charge, and:
 - A. the disclosed finance charge is considered accurate under 12 CFR 1026.18(d)(1) or 1026.38(o)(2), as applicable;
 - B. the disclosed finance charge is calculated incorrectly but is considered accurate for purposes of rescission, under 12 CFR 1026.23(g) or (h), whichever applies. (§1026.22(a)(4))
 - ii. the disclosed finance charge is calculated incorrectly but is considered accurate under 12 CFR 1026.18(d)(1) or 1026.38(o)(2), as applicable, or 12 CFR 1026.23 (g) or (h), and either:
 - A. the finance charge is understated and the disclosed APR is also understated but is closer to the actual APR than the APR that would be considered accurate under section 1026.22(a)(4); or
 - B. the disclosed finance charge is overstated and the disclosed APR is also overstated but is closer to the actual APR than the APR that would be considered accurate under section 1026.22(a)(4).

For example, in an irregular transaction subject to a tolerance of one quarter of 1 percentage point,

if the actual APR is 9.00 percent and a \$75 omission from the finance charge corresponds to a rate of 8.50 percent that is considered accurate under section 1026.22(a)(4), a disclosed APR of 8.65 percent is considered accurate under section 1026.22(a)(5). However, a disclosed APR below 8.50 percent or above 9.25 percent would not be considered accurate.

3. Construction Loans—Section 1026.17(c)(6) and Appendix D

Construction and certain other multiple advance loans pose special problems in computing the finance charge and APR. In many instances, the amount and dates of advances are not predictable with certainty since they depend on the progress of the work. Regulation Z provides that the APR and finance charge for such loans may be estimated for disclosure.

At its option, the financial institution may rely on the representations of other parties to acquire necessary information (for example, it might look to the consumer for the dates of advances). In addition, if either the amounts or dates of advances are unknown (even if some of them are known), the financial institution may, at its option, use appendix D to the regulation to make calculations and disclosures. The finance charge and payment schedule obtained through appendix D may be used with volume one of the CFPB's APR tables or with any other appropriate computation tool to determine the APR. If the financial institution elects not to use appendix D, or if appendix D cannot be applied to a loan (e.g., appendix D does not apply to a combined construction-permanent loan if the payments for the permanent loan begin during the construction period), the financial institution must make its estimates under section 1026.17(c)(2) and calculate the APR using multiple advance formulas.

On loans involving a series of advances under an agreement to extend credit up to a certain amount, a financial institution may treat all of the advances as a single transaction or disclose each advance as a separate transaction. If advances are disclosed separately, disclosures must be provided before each advance occurs, with the disclosures for the first advance provided before consummation.

In a transaction that finances the construction of a dwelling that may or will be permanently financed by the same financial institution, the construction-permanent financing phases may be disclosed as

- a single transaction with one disclosure combining both phases,
- two separate transactions with one disclosure for each phase, or

- more than two transactions with one disclosure for each advance and one for the permanent financing phase.

If two or more disclosures are furnished, buyer's points or similar amounts imposed on the consumer may be allocated among the transactions in any manner the financial institution chooses, as long as the charges are not applied more than once. In addition, if the financial institution chooses to give two sets of disclosures and the consumer is obligated for both construction and permanent phases at the outset, both sets of disclosures must be given to the consumer initially, before consummation of each transaction occurs.

If the creditor requires interest reserves for construction loans, special appendix D rules apply that can make the disclosure calculations quite complicated. The amount of interest reserves included in the commitment amount must not be treated as a prepaid finance charge.

If the lender uses appendix D for construction-only loans with required interest reserves, the lender must estimate construction interest using the interest reserve formula in appendix D. The lender's own interest reserve values must be completely disregarded for disclosure purposes.

If the lender uses appendix D for combination construction-permanent loans, the calculations can be much more complex. Appendix D is used to estimate the construction interest, which is then measured against the lender's contractual interest reserves.

If the interest reserve portion of the lender's contractual commitment amount exceeds the amount of construction interest estimated under appendix D, the excess value is considered part of the amount financed if the lender has contracted to disburse those amounts whether they ultimately are needed to pay for accrued construction interest. If the lender will not disburse the excess amount if it is not needed to pay for accrued construction interest, the excess amount must be ignored for disclosure purposes.

4. 360-Day and 365-Day Years—Section 1026.17(c)(3)

Confusion often arises over whether to use the 360-day or 365-day year in computing interest, particularly when the finance charge is computed by applying a daily rate to an unpaid balance. Many single-payment loans or loans payable on demand are in this category. There are also loans in this category that call for periodic installment payments. Regulation Z does not require the use of one method of interest computation in preference to another (although state law may). It does,

however, permit financial institutions to disregard the fact that months have different numbers of days when calculating and making disclosures. This means financial institutions may base their disclosures on calculation tools that assume all months have an equal number of days, even if their practice is to take account of the variations in months to collect interest.

For example, a financial institution may calculate disclosures using a financial calculator based on a 360-day year with 30-day months, when, in fact, it collects interest by applying a factor of 1/365 of the annual interest rate to actual days.

Disclosure violations may occur, however, when a financial institution applies a daily interest factor based on a 360-day year to the actual number of days between payments. In those situations, the financial institution must disclose the higher values of the finance charge, the APR, and the payment schedule resulting from this practice.

For example, a 12 percent simple interest rate divided by 360 days results in a daily rate of .033333 percent. If no charges are imposed except interest, and the amount financed is the same as the loan amount, applying the daily rate on a daily basis for a 365-day year on a \$10,000 one year, single payment, unsecured loan results in an APR of 12.17 percent (.033333 x 365 = 12.17%), and a finance charge of \$1,216.67. There would be a violation if the APR were disclosed as 12 percent or if the finance charge were disclosed as \$1,200 (12% x \$10,000).

However, if there are no other charges except interest, the application of a 360-day year daily rate over 365 days on a regular loan would not result in an APR in excess of the one-eighth of 1 percentage point APR tolerance unless the nominal interest rate is greater than 9 percent. For irregular loans, with one-quarter of 1 percentage point APR tolerance, the nominal interest rate would have to be greater than 18 percent to exceed the tolerance.

NOTE: Notwithstanding the APR tolerance, a creditor's disclosures must reflect the terms of the legal obligation between the parties (§1026.17(c)(1)), and the APR must be determined in accordance with either the actuarial method or the U.S. Rule method (§1026.22(a)(1)). A creditor may not ignore, for disclosure purposes, the effects of applying a 360-day year daily rate over 365 days (Comment 1026.17(c)(3)-1.ii).

D. Required Deposit—Section 1026.18(r)

A required deposit, with certain exceptions, is one that the financial institution requires the consumer to maintain as a condition of the specific credit transaction. It can include a compensating balance

or a deposit balance that secures the loan. The effect of a required deposit is not reflected in the APR. Also, a required deposit is not a finance charge since it is eventually released to the consumer. A deposit that earns at least 5 percent per year need not be considered a required deposit.

III. Transactions with TILA-RESPA Integrated Disclosures—Generally

On December 31, 2013, the CFPB published a final rule implementing sections 1098(2) and 1100A(5) of the Dodd-Frank Act, which directed the CFPB to publish a single, integrated disclosure for mortgage loan transactions, which includes mortgage loan disclosure requirements under TILA and sections 4 and 5 of RESPA. The amendments in the final rule, referred to as the “TILA-RESPA Integrated Disclosure Rule” or “TRID,” are applicable to covered closed-end mortgage loans for which a creditor or mortgage broker receives an application on or after October 3, 2015. As a result, Regulation Z now houses the integrated forms, timing, and related disclosure requirements for most closed-end consumer mortgage loans.

The new integrated disclosures are not used to disclose information about reverse mortgages, HELOCs, chattel-dwelling loans such as loans secured by a mobile home or by a dwelling that is not attached to real property (i.e., land), or other transactions not covered by the TILA-RESPA Integrated Disclosure Rule. The final rule also does not apply to loans made by a creditor who makes five or fewer mortgages in a year. Creditors originating these types of mortgages must continue to use, as applicable, the GFE, HUD-1, and TIL disclosures.

Most closed-end mortgage loans are exempt from the requirement to provide the GFE, HUD-1, and servicing disclosure requirements of 12 CFR

1024.6, .7, .8, .10, and .33(a). Instead, these loans are subject to disclosure, timing, and other requirements under TILA and Regulation Z. Specifically, the aforementioned provisions do not apply to the following federally related mortgage loans:

- Loans subject to the special disclosure (TILA-RESPA Integrated Disclosure) requirements for certain closed-end consumer credit transactions secured by real property set forth in 12 CFR 1026.19(e), (f), and (g); or
- Certain no-interest loans secured by subordinate liens made for the purpose of down payment or similar home buyer assistance, property rehabilitation assistance, energy efficiency assistance, or foreclosure avoidance or prevention (§1026.3(h)).

NOTE: A creditor may not use the TILA-RESPA Integrated Disclosure forms instead of the GFE, HUD-1, and TIL forms for transactions that continue to be covered by TILA or RESPA that require those disclosures (e.g., reverse mortgages).

Creditors making closed-end consumer credit transactions secured by real property, and subject to the provisions of 12 CFR 1026.19(e) and (f), must provide consumers with a Loan Estimate under 12 CFR 1026.37, Closing Disclosure under 12 CFR 1026.38, the special information booklet as required by RESPA, under 12 CFR 1026.19(g), and, as applicable for ARM transactions, the CHARM booklet. The special information booklet is described in further detail below.

A. Early Disclosures (Loan Estimate)—Section 1026.19(e)

Section 1026.19(e) requires the creditor to provide good faith estimates of the Loan Estimate disclosures required by 12 CFR 1026.37 (see subpart E for information on the content, form, and format of the disclosure). The creditor generally must deliver

Summary of Applicable Disclosure Requirements

Use TILA-RESPA Integrated Disclosures (See Regulation Z)

- most closed-end mortgage loans, including
 - construction-only loans
 - loans secured by vacant land or by 25 or more acres

Continue to use existing TIL and RESPA disclosures (as applicable)

- HELOCs (subject to disclosure requirements under Regulation Z, 12 CFR 1026.40)
- reverse mortgages* (subject to existing TIL and GFE disclosures)
- chattel-secured mortgages (i.e., mortgages secured by a mobile home or by a dwelling that is not attached to real property, such as land) (subject to existing TIL disclosures, and not RESPA)

NOTE: In both cases, there is a partial exemption from these disclosures under 12 CFR 1026.3(h) for loans secured by subordinate liens and associated with certain housing assistance loan programs for low- and moderate-income persons.

* An open-end reverse mortgage receives open-end disclosures, not a GFE or HUD-1.

or place in the mail the Loan Estimate no later than three business days after receiving the consumer's application, and no later than seven business days before consummation (§1026.19(e)(1)(i) and (iii)).

Generally, the creditor is responsible for ensuring that the Loan Estimate and its delivery meet the rule's content, delivery, and timing requirements (see §§1026.19(e) and 1026.37). If a mortgage broker receives a consumer's application, the mortgage broker may provide the Loan Estimate to the consumer on the creditor's behalf. If it does so, the mortgage broker must comply with all requirements of 12 CFR 1026.19(e), as well as the three-year record retention requirements in 12 CFR 1026.25(c) (§1026.19(e)(1)(ii)). The creditor is expected to maintain communication with mortgage brokers to ensure that the Loan Estimate and its delivery satisfy the rule's requirements, and the creditor is legally responsible for any errors or defects (§1026.19(e)(1)(ii); Comment 19(e)(1)(ii)-1 and -2).

Timing—Loan Estimate—early disclosures. The Loan Estimate must be delivered or placed in the mail to the consumer no later than the third business day after the creditor or mortgage broker receives the consumer's application for a mortgage loan (§1026.19(e)(1)(iii)(A)). If the Loan Estimate is not provided to the consumer in person, the consumer is considered to have received the Loan Estimate three business days after it is delivered or placed in the mail (this applies to electronic delivery as well) (§1026.19(e)(1)(iv); Comment 19(e)(1)(iv)-2). Other than for transactions secured by a consumer's interest in a timeshare plan, the Loan Estimate must be delivered or placed in the mail no later than the seventh business day before consummation (§§1026.19(e)(1)(iii)(B) and (C)).

For purposes of the TILA-RESPA Integrated Disclosures rule, an "application" is defined in 12 CFR 1026.2(a)(3)(ii). For transactions subject to 12 CFR 1026.19(e), (f), or (g), an application consists of the submission of the following six pieces of information:

- the consumer's name,
- the consumer's income,
- the consumer's Social Security number to obtain a credit report,
- the property address,
- an estimate of the value of the property, and
- the mortgage loan amount sought.

This definition of application is similar to the definition under Regulation X (§1024.2(b)), except that it does not include the seventh "catch-all" element of that definition, that is, "any other information deemed necessary by the loan originator."

An application may be submitted in written or electronic format, and includes a written record of an oral application (Comment 2(a)(3)-1).

This definition of application does not prevent a creditor from collecting whatever additional information it deems necessary in connection with the request for the extension of credit. However, once a consumer has submitted¹⁰ the six pieces of information discussed above to the creditor for purposes of obtaining an extension of credit, the creditor has an application for purposes of the requirement for delivery of the Loan Estimate to the consumer and must abide by the three-business-day timing requirement (Comment 2(a)(3)-1).

If the creditor determines, within the three-business-day period, that the consumer's application will not or cannot be approved on the terms requested by the consumer, or if the consumer withdraws the application within that period, the creditor does not have to provide the Loan Estimate. However, if the creditor does not provide the Loan Estimate, it will not have complied with the Loan Estimate requirements if it later consummates the transaction on the terms originally applied for by the consumer. If a consumer amends an application and a creditor determines the amended application may proceed, then the creditor is required to comply with the Loan Estimate requirements, including delivering or mailing a Loan Estimate within three business days of receiving the amended or resubmitted application (Comment 19(e)(1)(iii)-3).

A "business day" for purposes of providing the Loan Estimate is a day on which the creditor's offices are open to the public for carrying out substantially all of its business functions (Comment 19(e)(1)(iii)-1, §1026.2(a)(6)).

NOTE: The term "business day" is defined differently for other purposes, including counting days to ensure the consumer receives the Closing Disclosure on time (§§1026.2(a)(6), 1026.19(e)(1)(iii)(B) and (e)(1)(iv), and 1026.19(f)(1)(ii)(A) and (f)(1)(iii)). For these other purposes, business day means all calendar days except Sundays and the legal public holidays specified in 5 U.S.C. 6103(a) (§1026.2(a)(6); Comment 2(a)(6)-2; Comments 19(e)(1)(iii)-1 and 19(f)(1)(ii)-1).

Creditors are required to act in good faith and exercise due diligence in obtaining information necessary to complete the Loan Estimate (Comment 17(c)(2)(i)-1). Normally, creditors may rely on the representations of other parties in obtaining information (§1026.17(c)(2)(i)).

10. When a consumer uses an online application system that allows the information to be saved, the application must be submitted before the Loan Estimate timing requirements are triggered.

NOTE: There may be some information that is not reasonably available to the creditor at the time the Loan Estimate is made. In these instances, except as otherwise provided in 12 CFR 1026.19, 1026.37, and 1026.38, the creditor may use estimates even though it knows that more precise information will be available by the point of consummation. However, new disclosures may be required under 12 CFR 1026.17(f) or 1026.19 (Comment 17(c)(2)(i)-1). When estimated figures are used, they must be designated as such on the Loan Estimate (Comment 17(c)(2)(i)-2).

The consumer may modify or waive the seven-business-day waiting period after receiving the Loan Estimate if the consumer determines that the mortgage loan is needed to meet a bona fide personal financial emergency that necessitates consummating the credit transaction before the end of the waiting period (§1026.19(e)(1)(v)). Whether a consumer has a bona fide personal financial emergency is determined by the facts surrounding the consumer's individual situation. One example is the imminent sale of the consumer's home at foreclosure, where the foreclosure sale will proceed unless loan proceeds are made available to the consumer during the waiting period (§1026.19(e)(1)(v); Comment 19(e)(1)(v)-1). To modify or waive the waiting period, the consumer must give the creditor a dated written statement that describes the emergency, specifically modifies or waives the waiting period, and is signed by all consumers primarily liable on the legal obligation (§1026.19(e)(1)(v)). The creditor may not provide the consumer with a pre-printed waiver form (§1026.19(e)(1)(v)).

Good faith requirement and tolerances. Creditors are responsible for ensuring that the figures stated in the Loan Estimate are made in good faith and consistent with the best information reasonably available to the creditor at the time they are disclosed (§1026.19(e)(3); Comment 19(e)(3)(iii)-1 through -3). Whether or not a Loan Estimate was made in good faith is determined by calculating the difference between the estimated charges originally provided in the Loan Estimate and the actual charges paid by or imposed on the consumer in the Closing Disclosure (§§1026.19(e)(3)(i) and (ii)). Generally, if the charge paid by or imposed on the consumer exceeds the amount originally disclosed on the Loan Estimate, it is not in good faith (§1026.19(e)(3)(i)). As long as the creditor's estimate is consistent with the best information reasonably available, and the creditor charges the consumer less than the amount disclosed on the Loan Estimate, the Loan Estimate is considered to be in good faith (§1026.19(e)(3)(i)).

The general rule is that the estimated closing

cost is in good faith if the charge does not exceed the amount disclosed in the Loan Estimate. Unless there is an exception, the creditor may not charge more than the amounts disclosed on the Loan Estimate (§1026.19(e)(3)(i)). A creditor may charge the consumer *more* than the amount disclosed in the Loan Estimate, and the estimate may still be considered to be in good faith in specific circumstances. For certain charges, there are different tolerances when charges exceed the amounts disclosed.

Zero tolerance. For charges other than those that are specifically excepted, as noted below, creditors may not charge consumers more than the amount disclosed on the Loan Estimate, other than for changed circumstances that permit a revised Loan Estimate (§1026.19(e)(3)(i) and (iv)). The zero tolerance charges include but are not limited to the following:

- fees paid to the creditor, mortgage broker, or an affiliate of either (§1026.19(e)(3)(ii)(B));
- fees paid to an unaffiliated third party if the creditor did not permit the consumer to shop for a third-party service provider for a settlement service (§1026.19(e)(3)(ii)(C)) or transfer taxes (Comments 19(e)(3)(i)-1 and 4).

Ten percent cumulative tolerance. Charges for third-party services and recording fees paid by or imposed on the consumer are grouped together and are subject to a 10 percent cumulative tolerance. This means the creditor may charge the consumer more than the amount disclosed on the Loan Estimate for any of these charges so long as the total sum of the charges added together does not exceed the sum of all such charges disclosed on the Loan Estimate by more than 10 percent (§1026.19(e)(3)(ii)(A)). These charges are

- recording fees (Comment 19(e)(3)(ii)-4);
- charges for third-party services where:
 - the charge is not paid to the creditor or the creditor's affiliate (§1026.19(e)(3)(ii)(B)); and
 - the consumer is permitted by the creditor to shop for the third-party service, and the consumer selects a third-party service provider on the creditor's written list of service providers (§1026.19(e)(3)(ii)(C); §1026.19(e)(1)(vi); Comments 19(e)(1)(vi)-1 through 7)).

Variances permitted without tolerance limits. Creditors may charge consumers more than the amount disclosed on the Loan Estimate without any tolerance limitation for certain costs or terms, but only if the original estimated charge, or lack of an estimated charge for a particular service, was based on the best information reasonably available to the creditor at the time the disclosure was

provided (§1026.19(e)(3)(iii)). These charges are:

- prepaid interest; property insurance premiums; amounts placed into an escrow, impound, reserve or similar account (§1026.19(e)(3)(iii)(A)-(C));
- charges paid to third-party service providers for services required by the creditor if the creditor permits the consumer to shop and the consumer selects a third-party service provider not on the creditor's written list of service providers (§1026.19(e)(3)(iii)(D)); and
- charges paid to third-party service providers for services not required by the creditor (may be paid to affiliates of the creditor) (§1026.19(e)(3)(iii)(E)).

List of services for which a consumer may shop. In addition to the Loan Estimate, if the consumer is permitted to shop for a settlement service, the creditor, no later than three business days after receiving the application, must provide the consumer with a written list of services for which the consumer can shop. This list must

- identify at least one available settlement service provider for each service, and
- state that the consumer may choose a different provider of that service (§1026.19(e)(3)(ii)(C) and (e)(1)(vi)(C)).

NOTE: When a creditor allows a consumer to shop for a third-party service and the consumer chooses a service provider not identified on the creditor's list, the charge is not subject to a tolerance limitation.

Refunds within 60 days of consummation. If the amounts paid by the consumer at closing exceed the amounts disclosed on the Loan Estimate beyond the applicable tolerance threshold, the creditor must refund the excess to the consumer no later than 60 calendar days after consummation (§1026.19(f)(2)(v)).

- For charges subject to zero tolerance, any amount charged beyond the amount disclosed on the Loan Estimate must be refunded to the consumer (§1026.19(e)(3)(i)).
- For charges subject to a 10 percent cumulative tolerance, to the extent the total sum of the charges added together exceeds the sum of all such charges disclosed on the Loan Estimate by more than 10 percent, the difference must be refunded to the consumer (§1026.19(e)(3)(ii)).

Loan Estimate—Revisions and Corrections. Creditors generally are bound by the original Loan Estimate and must determine the estimate's good faith by calculating the difference between the estimated charges originally provided and the

actual charges paid by the consumer. For purposes of determining whether the estimates are in good faith, the creditor may use a revised estimate of a charge instead of the amount originally disclosed if the revision is due to one of the reasons set out in specific circumstances in 12 CFR 1026.19(e)(3)(iv)(A) through (F). Specific circumstances include:

Changed circumstances—increased settlement charges. Changed circumstances that occur after the Loan Estimate is provided to the consumer that cause estimated settlement charges to increase more than is permitted under the TILA-RESPA Integrated Disclosure rule (§1026.19(e)(3)(iv)(A)).

- A creditor may provide and use a revised Loan Estimate redisclosing a settlement charge and compare that revised estimate to the amount imposed on the consumer for purposes of determining good faith if changed circumstances cause the estimated charge to increase or, in the case of charges subject to the 10 percent cumulative tolerance under 12 CFR 1026.19(e)(3)(ii), cause the sum of those charges to increase by more than the 10 percent tolerance (§1026.19(e)(3)(iv)(A); Comment 19(e)(3)(iv)(A)-1). Examples of changed circumstances affecting settlement costs include (Comment 19(e)(3)(iv)(A)-2)
 - a natural disaster that damages the property or otherwise results in additional closing costs;
 - a creditor's estimate of title insurance is no longer valid because the title insurer goes out of business; or
 - new information not relied on when the Loan Estimate was provided is discovered, such as a neighbor of the seller filing a claim contesting the property boundary.

Changed circumstances—consumer eligibility. Changed circumstances that occur after the Loan Estimate is provided to the consumer that affect the consumer's eligibility for the terms for which the consumer applied or the value of the security for the loan (§1026.19(e)(3)(iv)(B)).

NOTE: A changed circumstance permitting a revised Loan Estimate under 12 CFR 1026.19(e)(3)(iv)(A) and (B) is

- an extraordinary event beyond the control of any interested party or other unexpected event specific to the consumer or transaction (§1026.19(e)(3)(iv)(A)(1));
- information specific to the consumer or transaction that the creditor relied upon when providing the original Loan Estimate and that was inaccur-

- rate or changed after the disclosures were provided (§1026.19(e)(3)(iv)(A)(2)); or
- new information specific to the consumer or transaction that the creditor did not rely on when providing the original Loan Estimate (§1026.19(e)(3)(iv)(A)(3)).

Change in eligibility. A creditor also may provide and use a revised Loan Estimate if a changed circumstance affected the consumer's creditworthiness or the value of the security for the loan and resulted in the consumer being ineligible for an estimated loan term previously disclosed (§1026.19(e)(3)(iv)(B) and Comment 19(e)(3)(iv)(B)-1). This may occur when a changed circumstance causes a change in the consumer's eligibility for specific loan terms disclosed on the Loan Estimate, which in turn results in increased cost for a settlement service beyond the applicable tolerance threshold (Comment 19(e)(3)(iv)(A)-2). For example:

- The creditor relied on the consumer's representation to the creditor of a \$90,000 annual income, but underwriting determines that the consumer's annual income is only \$80,000.
- There are two co-applicants applying for a mortgage loan and the creditor relied on a combined income when providing the Loan Estimate, but one applicant subsequently becomes unemployed.

Rewards requested by the consumer. The consumer requests revisions to the credit terms or the settlement that cause the estimated charge to increase. For example, a consumer grants a power of attorney authorizing a family member to consummate the transaction on the consumer's behalf, and the creditor provides revised disclosures reflecting the fee to record the power of attorney (Comment 19(e)(3)(iv)(C)-1).

Rate locks after initial Loan Estimate. If the interest rate for the loan was not locked when the Loan Estimate was provided and, upon being locked at some later time, points or lender credits for the mortgage loan change, the creditor is required to provide a revised Loan Estimate no later than three business days after the interest rate is locked and may use the revised Loan Estimate to compare to points and lender credits charged. The revised Loan Estimate must reflect the revised interest rate as well as any revisions to the points disclosed on the Loan Estimate pursuant to 12 CFR 1026.37(f)(1), lender credits, and any other interest rate dependent charges and terms that have changed due to the new interest rate (§1026.19(e)(3)(iv)(D); Comment 19(e)(3)(iv)(D)-1).

Expiration of Loan Estimate. If the consumer indicates an intent to proceed with the transaction more than 10 business days after the Loan Estimate was delivered or placed in the mail to the

consumer, a creditor may use a revised Loan Estimate (§1026.19(e)(3)(iv)(E); Comment 19(e)(3)(iv)(E)-1). No justification is required for the change to the original estimate of a charge other than the lapse of 10 business days.

Construction loans. In addition to the circumstances described above, creditors also may use a revised Loan Estimate where the transaction involves financing of new construction and the creditor reasonably expects that settlement will occur more than 60 calendar days after the original Loan Estimate has been provided (§1026.19(e)(3)(iv)(F)). Creditors may use revised Loan Estimates in this circumstance only when the original Loan Estimate clearly and conspicuously stated that at any time prior to 60 days before consummation, the creditor may issue revised disclosures (Comment 19(e)(3)(iv)(F)-1).

NOTE: Section 1026.19(e)(3) does not include technical errors, miscalculations, or underestimations of charges as reasons for which creditors are permitted to provide revised Loan Estimates.

Timing—Loan Estimate—revised disclosures. The general rule is that the creditor must deliver or place in the mail the revised Loan Estimate to the consumer no later than three business days after receiving the information sufficient to establish that one of the reasons for the revision has occurred (§1026.19(e)(4)(i); comment 19(e)(4)(i)-1).

The creditor may not provide a revised Loan Estimate on or after the date the creditor provides the consumer with the Closing Disclosure (§1026.19(e)(4)(ii); Comment 19(e)(4)(ii)-1.ii). Because the Closing Disclosure must be received by the consumer no later than three business days before consummation, this means the consumer must receive a revised Loan Estimate no later than four business days prior to consummation (§1026.19(e)(4)(ii); Comment 19(e)(4)(ii)-1.ii).

NOTE: Generally a creditor is required to provide a revised Loan Estimate within three business days of receiving information sufficient to establish the changed circumstance or other triggering event (or in the case of a rate lock, the next business day). In some circumstances, the creditor may already have provided a Closing Disclosure and thus be unable to provide a revised Loan Estimate. However, if there are less than four business days between the date the creditor would be required to provide a revised disclosure and consummation, creditors may provide consumers with a Closing Disclosure reflecting any revised charges resulting from the changed circumstance and rely on those figures (rather than the amounts disclosed on the Loan Estimate) for purposes of determining good faith and the applicable tolerance. Comment 19(e)(4)(ii)-1 provides illustrative examples.

Predisclosure activity (§1026.19(e)(2)(i)(A)). A creditor or other person generally may not impose any fee on a consumer in connection with the consumer's application for a mortgage transaction until the consumer has received the Loan Estimate and has indicated intent to proceed with the transaction (§1026.19(e)(2)(i)(A)). This restriction includes limits on imposing

- application fees;
- appraisal fees;
- underwriting fees; and
- other fees imposed on the consumer.

The only exception to this exclusion is for a bona fide and reasonable fee for obtaining a consumer's credit report (§1026.19(e)(2)(i)(B); Comment 19(e)(2)(i)(A)-1 through -5 and Comment 19(e)(2)(i)(B)-1).

Documentation of intent to proceed. To satisfy the record retention requirements of section 1026.25, the creditor must document the consumer's communication of the intent to proceed (§1026.19(e)(2)(i)(A)). A consumer indicates intent to proceed with the transaction when the consumer communicates, in any manner, that the consumer chooses to proceed after the Loan Estimate has been delivered, unless a particular manner of communication is required by the creditor (§1026.19(e)(2)(i)(A)). This may include

- oral communication in person immediately upon delivery of the Loan Estimate; or
- oral communication over the phone, written communication via e-mail, or signing a pre-printed form after receipt of the Loan Estimate.

A consumer's silence is not indicative of intent to proceed (Comment 19(e)(2)(i)(A)-2).

Written information for consumers before the Loan Estimate is provided (§1026.19(e)(2)(ii)). A creditor or other person may provide a consumer with estimated terms or costs prior to the consumer receiving the Loan Estimate, if the person clearly and conspicuously states at the top of the front of the first page of the written estimate and in font size no smaller than 12-point font "Your actual rate, payment, and costs could be higher. Get an official Loan Estimate before choosing the loan" (§1026.19(e)(2)(ii); Comment 19(e)(2)(ii)-1). In addition, the written estimate may not have headings, content, and format substantially similar to the Loan Estimate or the Closing Disclosure (§1026.19(e)(2)(ii); Comment 19(e)(2)(ii)-1).

The CFPB has provided a model of the required statement in form H-26 of appendix H to Regulation Z.

Verification of information before the Loan Estimate is provided. A creditor or other person may not condition providing the Loan Estimate on a consumer submitting documents verifying informa-

tion related to the consumer's mortgage loan application before providing the Loan Estimate (§1026.19(e)(2)(iii); Comment 19(e)(2)(iii)-1).

B. Final Disclosures (Closing Disclosure)—Section 1026.19(f)

For loans that require a Loan Estimate (i.e., most closed-end mortgage loans secured by real property) and that proceed to closing, creditors must provide a new final disclosure reflecting the actual terms of the transaction; it is called the Closing Disclosure. The form integrates and replaces the HUD-1 and the final TIL disclosure for these transactions. The creditor is generally required to ensure that the consumer receives the Closing Disclosure no later than three business days before consummation of the loan (§1026.19(f)(1)(ii)).

NOTE: If the creditor mails the disclosure six business days prior to consummation, it can assume that it was received three business days after sending (§1026.19(f)(1)(iii); Comment 19(f)(1)(iii)).

- The Closing Disclosure generally must contain the actual terms and costs of the transaction (§1026.19(f)(1)(i)). Creditors may estimate disclosures using the best information reasonably available when the actual term or cost is not reasonably available to the creditor at the time the disclosure is made. However, creditors must act in good faith and use due diligence in obtaining the information. The creditor normally may rely on the representations of other parties in obtaining the information, including, for example, the settlement agent. The creditor is required to provide corrected disclosures containing the actual terms of the transaction at or before consummation (Comments 19(f)(1)(i)-2, 2.i, and 2.ii).
- The Closing Disclosure must be in writing and contain the information prescribed in 12 CFR 1026.38. The creditor must disclose only the specific information set forth in 12 CFR 1026.38(a) through (s), as shown in the CFPB's form in appendix H-25 (§1026.38(t)).
- If the actual terms or costs of the transaction change prior to consummation, the creditor must provide a corrected disclosure that contains the actual terms of the transaction and complies with the other requirements of 12 CFR 1026.19(f), including the timing requirements, and requirements for providing corrected disclosures due to subsequent changes (Comment 19(f)(1)(i)-1).
- *New three-day waiting period.* If the creditor provides a corrected disclosure, it must provide the consumer with an additional three-business-day waiting period prior to consummation if the

annual percentage rate becomes inaccurate, the loan product changes, or a prepayment penalty is added to the transaction (§1026.19(f)(2)(ii)).

“Consummation” occurs when the consumer becomes contractually obligated to the creditor on the loan, not, for example, when the consumer becomes contractually obligated to a seller on a real estate transaction. The time when a consumer becomes contractually obligated to the creditor on the loan depends on applicable state law (§1026.2(a)(13) and Comment 2(a)(13)-1).

Timing and Delivery—Closing Disclosure.

Generally, the creditor is responsible for ensuring that the consumer receives the Closing Disclosure form no later than three business days before consummation (§1026.19(f)(1)(ii)(A); Comment 19(f)(1)(v)-3). The creditor also is responsible for ensuring that the Closing Disclosure meets the content, delivery, and timing requirements (§§1026.19(f) and 1026.38). For timeshare transactions, the creditor must ensure that the consumer receives the Closing Disclosure no later than consummation (§1026.19(f)(1)(ii)(B)).

If the Closing Disclosure is provided in person, it is considered received by the consumer on the day it is provided. If it is mailed or delivered electronically, the consumer is considered to have received the Closing Disclosure three business days after it is delivered or placed in the mail (§1026.19(f)(1)(iii); Comment 19(f)(1)(ii)-2).

However, if the creditor has evidence that the consumer received the Closing Disclosure earlier than three business days after it is mailed or delivered, it may rely on that evidence and consider it to be received on that date (Comments 19(f)(1)(iii)-1 and -2).

Multiple consumers. In transactions that are not rescindable, the Closing Disclosure may be provided to any consumer with primary liability on the obligation (§1026.17(d)). In rescindable transactions, the creditor must provide the Closing Disclosure separately and meet the timing requirements for each consumer who has the right to rescind under TILA (see §1026.23).

Settlement agents. Creditors may contract with settlement agents to have the settlement agent provide the Closing Disclosure to consumers on the creditor’s behalf, provided that the settlement agent complies with all relevant requirements of 12 CFR 1026.19(f) (§1026.19(f)(1)(v)). Creditors and settlement agents also may agree to divide responsibility with regard to completing the Closing Disclosure, with the settlement agent assuming responsibility to complete some or all the Closing Disclosure (Comment 19(f)(1)(v)-4). Any such creditor must maintain communication with the settlement agent to ensure that the Closing Disclosure

and its delivery satisfy the requirements described above, and the creditor is legally responsible for any errors or defects (§1026.19(f)(1)(v) and Comment 19(f)(1)(v)-3). In transactions involving a seller, the settlement agent is required to provide the seller with the Closing Disclosure reflecting the actual terms of the seller’s transaction no later than the day of consummation (§1026.19(f)(4)(i) and (ii)).

NOTE: “Business day” has a different meaning for purposes of providing the Closing Disclosure than it is for purposes of providing the Loan Estimate after receiving a consumer’s application. For purposes of providing the Closing Disclosure, the term business day means all calendar days except Sundays and the legal public holidays specified in 5 U.S.C. 6103(a) (see §§1026.2(a)(6), 1026.19(f)(1)(ii)(A) and (f)(1)(iii)).

Three-business-day waiting period. The loan may not be consummated less than three business days after the Closing Disclosure is received by the consumer. If a settlement is scheduled during the waiting period, the creditor generally must postpone settlement, unless the consumer determines that the extension of credit is necessary to meet a bona fide personal financial emergency and waives the waiting period. The written waiver describes the emergency, specifically modifies or waives the waiting period, and bears the signature of all consumers who are primarily liable on the legal obligation. Pre-printed forms for this purpose are prohibited (§1026.19(f)(1)(iv)).

Average charges. In general, the amount imposed on the consumer for any settlement service must not exceed the amount the settlement service provider actually received for that service. However, an average charge may be imposed instead of the actual amount received for a particular service, as long as the average charge satisfies the following conditions (§1026.19(f)(3)(i)-(ii); Comment 19(f)(3)(i)-1):

- The average charge is no more than the average amount paid for that service by or on behalf of all consumers and sellers for a class of transactions;
- The creditor or settlement service provider defines the class of transactions based on an appropriate period of time, geographic area, and type of loan;
- The creditor or settlement service provider uses the same average charge for every transaction within the defined class; and
- The creditor or settlement service provider does not use an average charge:
 - for any type of insurance;
 - for any charge based on the loan amount or property value; or

— if doing so is otherwise prohibited by law.

Closing Disclosures—Revisions and Corrections (§1026.19(f)(2)). Creditors must re-disclose terms or costs on the Closing Disclosure if certain changes occur to the transaction after the Closing Disclosure was first provided that cause the disclosures to become inaccurate. There are three categories of changes that require a corrected Closing Disclosure containing all changed terms (§1026.19(f)(2)):

- changes that occur before consummation that require a new three-business-day waiting period (§1026.19(f)(2)(ii)),
- changes that occur before consummation and do not require a new three-business-day waiting period (§1026.19(f)(2)(i)), and
- changes that occur after consummation (§1026.19(f)(2)(iii)).

Changes before consummation requiring new waiting period. If one of the following occurs after delivery of the Closing Disclosure and before consummation, the creditor must provide a corrected Closing Disclosure containing all changed terms and ensure that the consumer receives it no later than three business days before consummation (§1026.19(f)(2)(ii); Comment 19(f)(2)(ii)-1).

- *The disclosed APR becomes inaccurate.* If the APR previously disclosed becomes inaccurate, the creditor must provide a corrected Closing Disclosure with the corrected APR disclosure and all other terms that have changed. The APR's accuracy is determined according to 12 CFR 1026.22 (§1026.19(f)(2)(ii)(A)).
- *The loan product changes.* If the loan product is changed, causing the product description disclosed to become inaccurate, the creditor must provide a corrected Closing Disclosure with the corrected loan product and all other terms that have changed (§1026.19(f)(2)(ii)(B)).
- *A prepayment penalty is added.* If a prepayment penalty is added to the transaction, the creditor must provide a corrected Closing Disclosure with the prepayment penalty provision disclosed and all other terms that have changed (§1026.19(f)(2)(ii)(C)).

The consumer may waive this period if the consumer is facing a bona fide personal financial emergency (§1026.19(f)(1)(iv)).

Changes before consummation not requiring new waiting period; consumer's right to inspect. For any other changes before consummation that do not fall under the three categories above (i.e., related to the APR, loan product, or the addition of a prepayment penalty), the creditor still must provide a corrected Closing Disclosure with any

terms or costs that have changed and ensure that the consumer receives it. For these changes, there is no additional three-business-day waiting period required. The creditor must ensure only that the consumer receives the revised Closing Disclosure at or before consummation (§1026.19(f)(2)(i); Comment 19(f)(2)(i)-1 through -2).

However, a consumer has the right to inspect the Closing Disclosure during the business day before consummation (§1026.19(f)(2)(i)). If a consumer asks to inspect the Closing Disclosure the business day before consummation, the Closing Disclosure presented to the consumer must reflect any adjustments to the costs or terms that are known to the creditor at the time the consumer inspects it (§1026.19(f)(2)(i)).

A creditor may satisfy the obligation to provide the Closing Disclosure by ensuring that a settlement agent that provides a consumer with the disclosures complies with the requirements of 12 CFR 1026.19(f) (§1026.19(f)(1)(v) and Comment 19(f)(2)(i)-2).

Changes due to events occurring after consummation. Creditors must provide a corrected Closing Disclosure if an event in connection with the settlement occurs during the 30-calendar-day period after consummation that causes the Closing Disclosure to become inaccurate and results in a change to an amount paid by the consumer from what was previously disclosed (§1026.19(f)(2)(iii); Comment 19(f)(2)(iii)-1).

When a post-consummation event requires a corrected Closing Disclosure, the creditor must deliver or place in the mail a corrected Closing Disclosure not later than 30 calendar days after receiving information sufficient to establish that such an event has occurred (§1026.19(f)(2)(iii); Comment 19(f)(2)(iii)-1). In transactions involving a seller, the settlement agent must provide the seller with a revised Closing Disclosure if an event occurs within 30 days of consummation that makes the disclosures inaccurate as they relate to the amount actually paid by the seller. The settlement agent must deliver or mail a corrected closing disclosure no later than 30 days from receiving information that establishes the Closing Disclosure is inaccurate and results in a change to an amount actually paid by the seller from what was previously disclosed (§1026.19(f)(4)(ii)).

Changes due to clerical errors. The creditor must provide a revised Closing Disclosure to correct non-numerical clerical errors no later than 60 calendar days after consummation (§1026.19(f)(2)(iv)). An error is clerical if it does not affect a numerical disclosure and does not affect the timing, delivery, or other requirements imposed by 12 CFR 1026.19(e) or (f) (Comment 19(f)(2)(iv)-1).

Refunds related to the good faith analysis. The creditor can cure a tolerance violation of 12 CFR 1026.19(e)(3)(i) or (ii) by providing a refund to the consumer and delivering or placing in the mail a corrected Closing Disclosure that reflects the refund no later than 60 calendar days after consummation (§1026.19(f)(2)(v)).

C. Special Information Booklet— Section §1026.19(g)

Creditors generally must provide a copy of the special information booklet, otherwise known as the home buying information booklet, to consumers who apply for a consumer credit transaction secured by real property. For loans using the Loan Estimate and Closing Disclosure forms, creditors provide the “Your Home Loan Toolkit: A Step-by-Step Guide,” designed by the CFPB to replace “Shopping for Your Home Loan: Settlement Cost Booklet” as the special information booklet. This requirement is not limited to closed-end transactions and applies to most consumer credit transactions secured by real property, except in a few circumstances (see below). The special information booklet is required pursuant to Regulation Z (§1026.19(g)(1)) as well as section 5 of RESPA (12 U.S.C. 2604) and section 12 CFR 1024.6 of Regulation X. It is published by the CFPB to help consumers applying for federally related mortgage loans understand the nature and cost of real estate settlement services.

- If the consumer is applying for a HELOC subject to 12 CFR 1026.40, the creditor (or mortgage broker) can provide a copy of the brochure entitled “When Your Home is On the Line: What You Should Know About Home Equity Lines of Credit” instead of the special information booklet (§1026.19(g)(1)(ii)).
- The creditor need not provide the special information booklet if the consumer is applying for a real property-secured consumer credit transaction that does not have the purpose of purchasing a one- to four-family residential property, such as a refinancing, a closed-end loan secured by a subordinate lien, or a reverse mortgage (§1026.19(g)(1)(iii)).

Creditors must deliver or place in the mail the special information booklet not later than three business days after receiving the consumer’s loan application (§1026.19(g)(1)(i)).

If the creditor denies the consumer’s application or if the consumer withdraws the application before the end of the three-business-day period, the creditor need not provide the special information booklet (§1026.19(g)(1)(i); Comment 19(g)(1)(i)-3).

When two or more persons apply together for a

loan, the creditor may provide a copy of the special information booklet to just one of them (Comment 19(g)(1)-2).

If the consumer uses a mortgage broker, the mortgage broker must provide the special information booklet and the creditor need not do so (§1026.19(g)(1)(i)).

Creditors generally are required to use the booklets designed by the CFPB and may make only limited changes to the special information booklet (§1026.19(g)(2)). The CFPB may issue revised or alternative versions of the special information booklet from time to time in the future. Creditors should monitor the *Federal Register* for notice of revisions (Comment 19(g)(1)-1).

IV. Loans Receiving Non-TILA-RESPA Integrated Disclosures, Generally

Creditors making closed-end loans to consumers not subject to the TILA-RESPA Integrated Disclosures Rule (i.e., other than loans where 12 CFR 1026.19(e) and (f) require the Loan Estimate and the Closing Disclosure) must provide the consumer with the Truth in Lending (TIL) disclosure, as outlined in 12 CFR 1026.17 and 1026.18. Creditors engaged in specified housing assistance programs for low- and moderate-income consumers would also provide their consumers with the TIL Disclosure (§1026.3(h)).

TIL Disclosure. The TIL disclosure provided for these loans includes a payment schedule (§1026.18(g)). The disclosed payment schedule must reflect all components of the finance charge. It includes all payments scheduled to repay loan principal, interest on the loan, and any other finance charge payable by the consumer after consummation of the transaction.

However, any finance charge paid separately before or at consummation (e.g., odd days’ interest) is not part of the payment schedule. It is a prepaid finance charge that must be reflected as a reduction in the value of the amount financed.

At the creditor’s option, the payment schedule may include amounts beyond the amount financed and finance charge (e.g., certain insurance premiums or real estate escrow amounts such as taxes added to payments). However, when calculating the APR, the creditor must disregard such amounts.

If the obligation is a renewable balloon payment instrument that unconditionally obligates the financial institution to renew the short-term loan at the consumer’s option or to renew the loan subject to conditions within the consumer’s control, the payment schedule must be disclosed using the longer

term of the renewal period or periods. The long-term loan must be disclosed with a variable-rate feature.

If there are no renewal conditions or if the financial institution guarantees to renew the obligation in a refinancing, the payment schedule must be disclosed using the shorter balloon payment term. The short-term loan must be disclosed as a fixed-rate loan, unless it contains a variable-rate feature during the initial loan term.

V. Variable and Adjustable Rate Transactions; Sections 1026.18(f), 1026.20(c) and (d)

A. Closed-End Transactions Generally

If the terms of the legal obligation allow the financial institution, after consummation of the transaction, to increase the APR, the financial institution must furnish the consumer with certain information on variable rates. In addition, variable-rate disclosures are not applicable to rate increases resulting from delinquency, default, assumption, acceleration, or transfer of the collateral.

Some of the more important transaction-specific variable-rate disclosure requirements follow.

- Disclosures for variable-rate loans must be given for the full term of the transaction and must be based on the terms in effect at the time of consummation.
- If the variable-rate transaction includes either a seller buy-down that is reflected in a contract or a consumer buy-down, the disclosed APR should be a composite rate based on the lower rate for the buy-down period and the rate that is the basis for the variable-rate feature for the remainder of the term.
- If the initial rate is not determined by the index or formula used to make later interest rate adjustments, as in a discounted variable-rate transaction, the disclosed APR must reflect a composite rate based on the initial rate for as long as it is applied and, for the remainder of the term, the rate that would have been applied using the index or formula at the time of consummation (i.e., the fully indexed rate).
 - If a loan contains a rate or payment cap that would prevent the initial rate or payment, at the time of the adjustment, from changing to the fully indexed rate, the effect of that rate or payment cap needs to be reflected in the disclosures.
 - The index at consummation need not be used if the contract provides a delay in the implementation of changes in an index value

(e.g., the contract indicates that future rate changes are based on the index value in effect for some specified period, such as 45 days before the change date). Instead, the financial institution may use any rate from the date of consummation back to the beginning of the specified period (e.g., during the previous 45-day period).

- If the initial interest rate is set according to the index or formula used for later adjustments, but is set at a value as of a date before consummation, disclosures should be based on the initial interest rate, even though the index may have changed by the consummation date.

B. Adjustable Rate Mortgage Disclosures

1. Disclosure of Initial Rate Change for Adjustable Rate Mortgages—Section 1026.20(d)

Creditors, assignees, or servicers¹¹ (referred to collectively as creditors) of adjustable rate mortgages, or ARMs, secured by the consumer's principal dwelling and with terms of more than one year are generally required to provide consumers with certain information pertaining to the ARM's initial rate change.¹² This information must be provided in a disclosure that is separate from all other documents, and the disclosure must be provided between 210 and 240 days before the first payment at the adjusted rate is due. If the first payment at a new rate is due within the first 210 days after consummation, the creditor must provide the rate change disclosure at consummation.

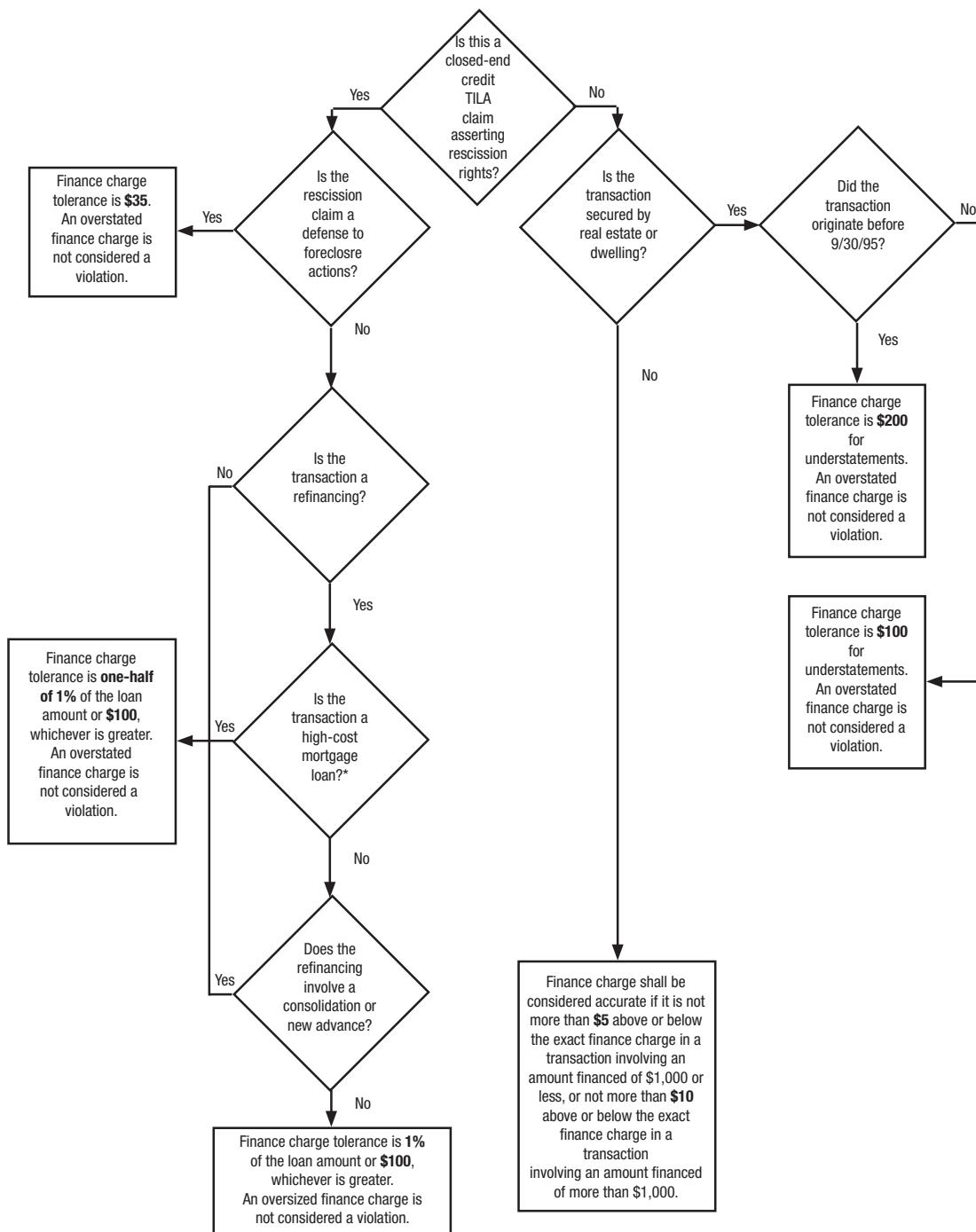
Disclosures required under this section must provide consumers with information related to the timing and nature of the rate change. If the new rate pursuant to the change disclosed is not known and the creditor provides an estimate, the rate must be identified as an estimate. If the creditor is using an estimate, it must be based on the index within 15 business days prior to the date of the disclosure. The calculation is made using the index reported in the source of information that the creditor uses in the explanation of how the interest rate is determined.

Disclosures required under section 1026.20(d)

11. Creditors, assignees, and servicers are all subject to the requirements of this section 1026.20(d). Creditors, assignees, and servicers may decide among themselves which of them will provide the required disclosures. However, establishing a business relationship where one party agrees to provide disclosures on behalf of the other parties does not absolve all other parties from their legal obligations.

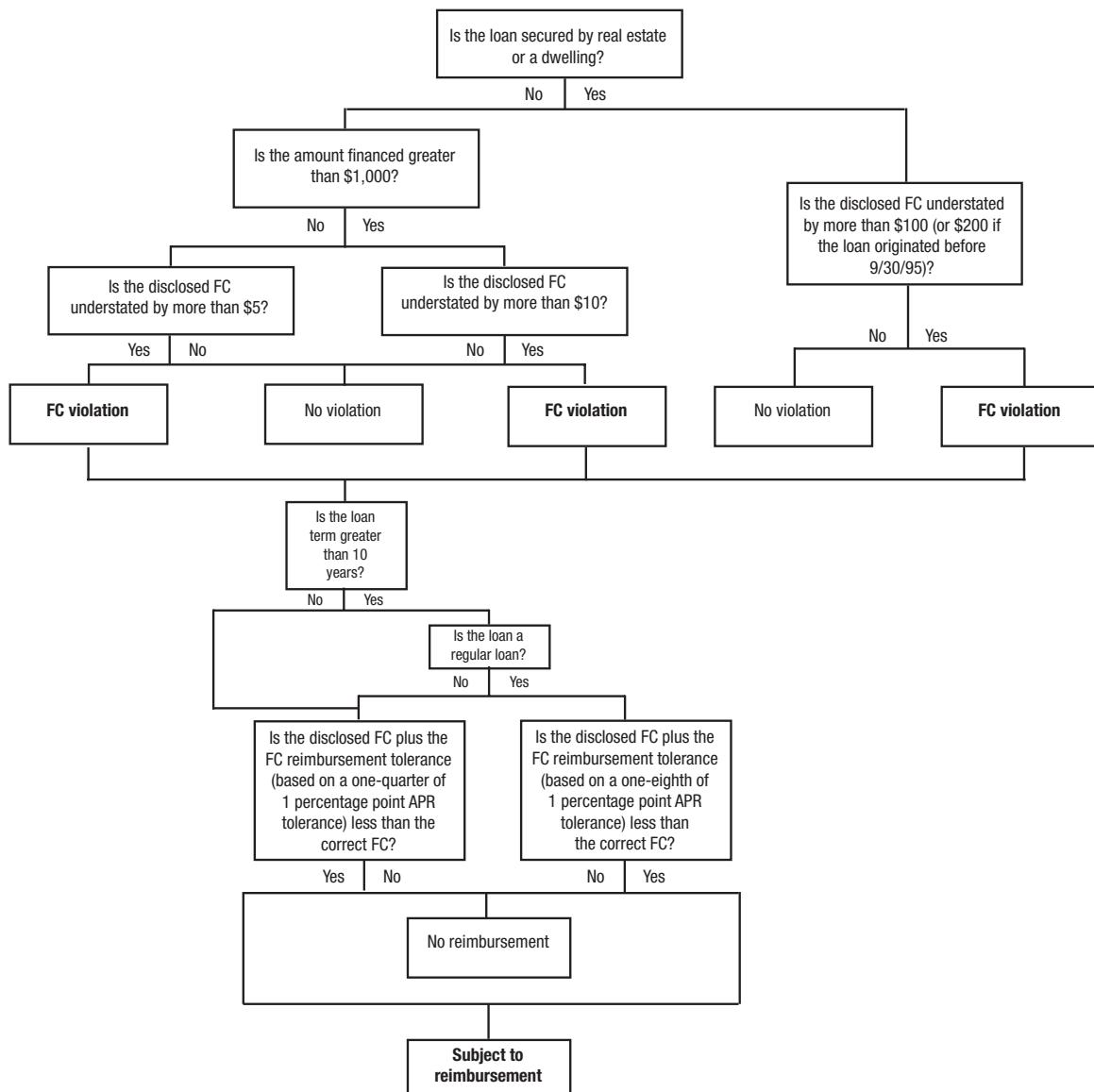
12. Exemptions to disclosure requirements are covered in the section titled, "Exemptions to the Adjustable Rate Mortgage Disclosure Requirements—Sections 1026.20(c)(1)(ii) and (d)(1)(ii)" below.

Closed-End Credit: Finance Charge Accuracy Tolerances

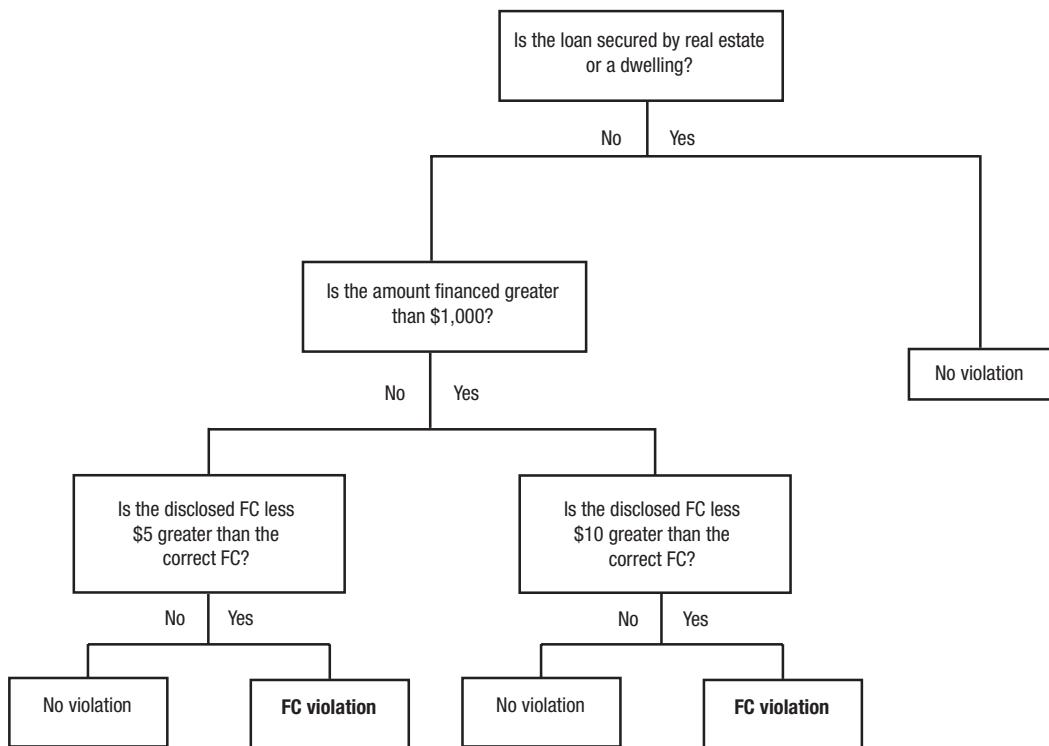


* See 15 U.S.C. 1602 (bb)

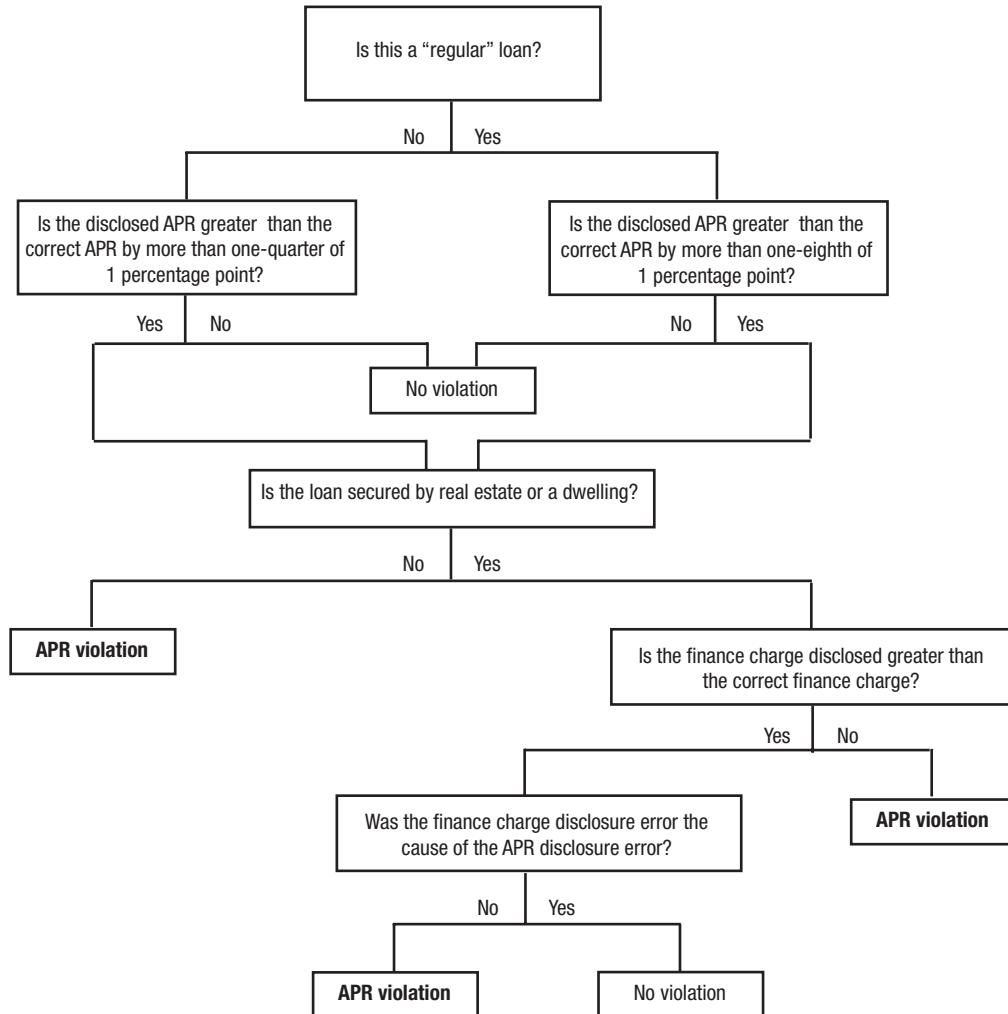
Closed-End Credit: Accuracy and Reimbursement Tolerances for UNDERSTATED FINANCE CHARGES



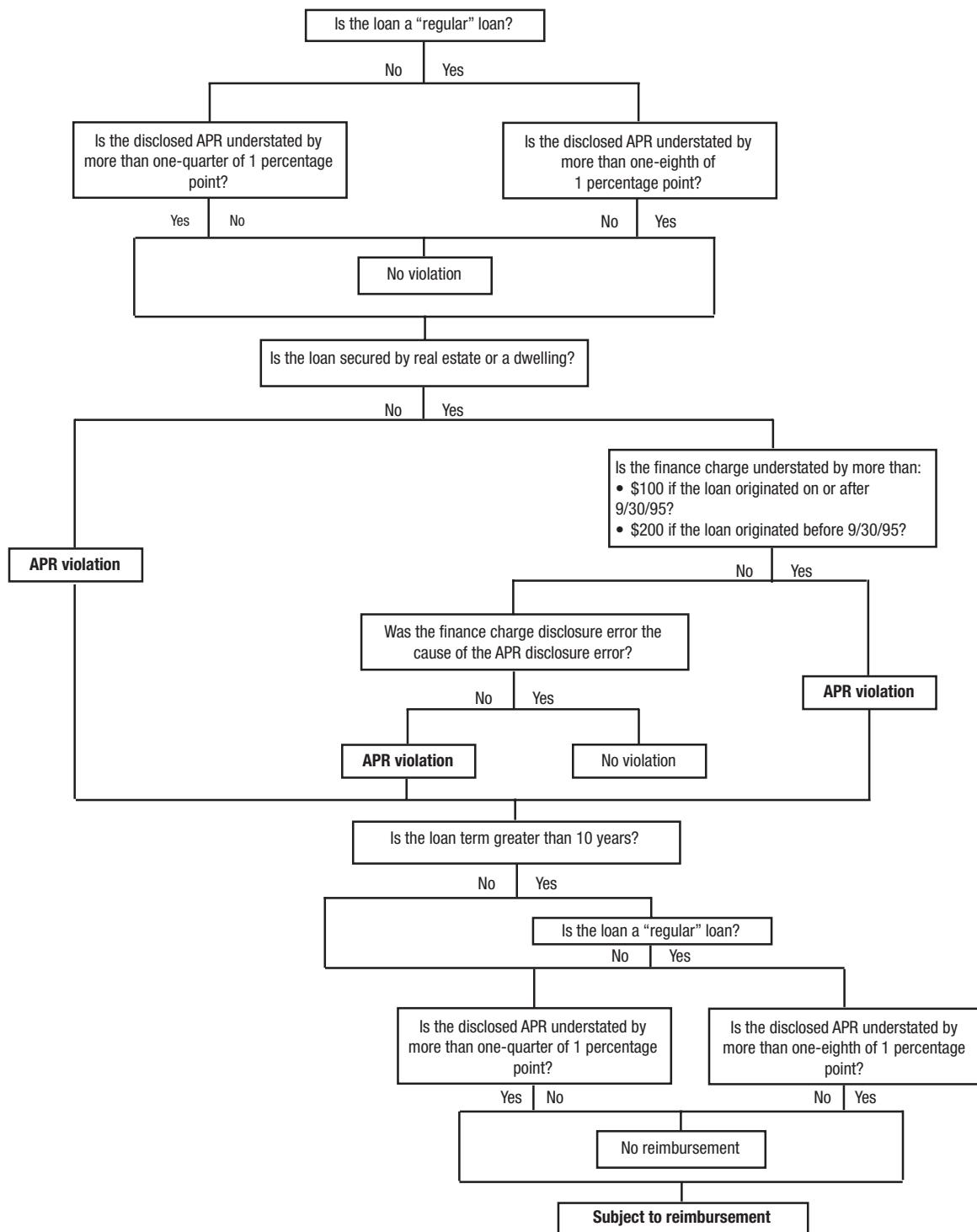
Closed-End Credit: Accuracy Tolerances for OVERSTATED FINANCE CHARGES



Closed-End Credit: Accuracy Tolerances for OVERSTATED APRs



Closed-End Credit: Accuracy and Reimbursement Tolerances for UNDERSTATED APRs



must also include, among others

- the date of the disclosure;
- a statement explaining that the time period that the current rate has been in effect is ending, that the current rate is expiring, and that a change in the rate may result in a change in the required payment, providing the effective date of the change and a schedule of any future changes, and describing any other changes to the loan terms, features, or options taking effect on the same date (including expiration of interest-only or payment-option features).
- a table containing the current and new interest rates, the current and new payments, including the date the new payment is due, and for interest-only or negative amortization loans, the amount of the current and new payment allocated to principal, interest, and escrow (if applicable).

NOTE: The new payment allocation disclosed is the expected payment allocation for the first payment for which the new interest rate will apply.

- an explanation of how the interest rate is determined, including (among other things) an explanation of the index or formula used to determine the new rate and the margin;
- any limitations on the interest rate or payment increase for each scheduled increase and over the life of the loan. Creditors must also include a statement regarding the extent to which such limitations result in foregone interest rate increases and the earliest date such foregone interest rate increases may apply to future interest rate adjustments;
- an explanation of how the new payment is determined, including an explanation of the index or formula used to determine the new rate, including the margin, the expected loan balance on the date of the rate adjustment, and the remaining loan term or any changes to the term caused by the rate change;
- if the creditor is using an estimated rate or payment, a statement that the actual new interest rate and new payment will be provided to the consumer between two and four months prior to the first payment at the new rate;
- for negative amortization loans, creditors must provide a statement indicating that the new payment will not be allocated to pay loan principal and will not reduce the balance of the loan; instead, the payment will only apply to part of the interest, thereby increasing the amount of principal;
- a statement indicating the circumstances under

which any prepayment penalty may be imposed, the time period during which it may be imposed, and a statement that the consumer may contact the servicer for additional information, including the maximum amount of the penalty that may be charged to the consumer;

- the telephone number of the creditor, assignee, or servicer for use if the consumer anticipates that he or she may not be able to make the new payments;
- a statement providing specified alternatives (which include refinancing, selling the property, loan modification, and forbearance) available if the consumer anticipates not being able to make the new payment;
- a website address for either the CFPB's or the Department of Housing and Urban Development's (HUD) list of homeownership counselors and counseling organizations, the HUD toll-free telephone number to access the HUD list of homeownership counselors and counseling organizations, and the CFPB's website address for state housing finance authorities contact information.

For more information pertaining to the required format of the disclosures required under section 1026.20(d), please see section 1026.20(d)(3) and the model and sample forms H-4(D)(3) and (4) in appendix H.

2. Disclosure of Rate Adjustments Resulting in Payment Changes—Section 1026.20(c)

Creditors, assignees, or servicers¹³ (referred to collectively as creditors) of ARMs secured by a consumer's principal dwelling with a term greater than one year are generally required to provide consumers with disclosures prior to the adjustment of the interest rate on the mortgage,¹⁴ if the interest rate change will result in a payment change as follows:

- For ARMs where the payment changes along with a rate change, disclosures must be provided to consumers between 60 and 120 days before the first payment at the new amount is due.
- For ARMs where the payment changes in connection with a uniformly scheduled interest rate

13. Creditors, assignees, and servicers are all subject to the requirements of section 1026.20(c). Creditors, assignees, and servicers may decide among themselves which of them will provide the required disclosures. However, establishing a business relationship where one party agrees to provide disclosures on behalf of the other parties does not absolve all other parties from their legal obligations.

14. Exemptions to disclosure requirements are covered in the section titled, "Exemptions to the Adjustable Rate Mortgage Disclosure Requirements—Sections 1026.20(c)(1)(ii) and (d)(1)(ii)" below.

adjustment occurring every 60 days (or more frequently), the disclosures must be provided between 25 and 120 days before the first payment at the new amount is due.

- For ARMs originated prior to January 10, 2015, in which the contract requires the adjusted interest and payment to be calculated based on an index that is available on a date less than 45 days prior to the adjustment date, disclosures must be provided between 25 and 120 days before the first payment at the new amount is required.
- For ARMs where the first adjustment occurs within 60 days of consummation and the new interest rate disclosed at the time was an estimate, the disclosures must be provided as soon as practicable, but no less than 25 days before the first payment at the new amount is due.

Disclosures required under section 1026.20(c) must contain specific information, which includes, among others

- a statement explaining that the time period during which the consumer's current rate has been in effect is ending and that the rate and payment will change, when the interest rate will change, dates when additional interest rate adjustments are scheduled to occur, and any other change in loan terms or features that take effect on the same date that the interest rate and payment change, such as an expiration of interest-only treatment or payment-option feature;
- a table explaining the current and new interest rates, the current and new payments, including the date the new payment is due, and for interest-only or negative amortizing loans, the amount of the current and new payment allocated to principal, interest, and amounts for escrow (if applicable);
- an explanation of how the new interest rate is determined, including (among other things) the index or formula used to determine the new rate and the margin and any application of previously foregone interest rate increases from past adjustments;
- any limitations on the interest rate and payment increase for each scheduled increase for the duration of the loan. Creditors must also include a statement regarding the extent to which such limitations result in foregone interest rate increases and the earliest date such foregone interest rate increases may apply to future interest rate adjustments;
- an explanation of how the new payment is determined, including an explanation of the index or formula used to determine the new rate,

including the margin, the expected loan balance on the date of the rate adjustment, and the remaining loan term or any changes to the term caused by the rate change;

- for negative amortization loans, creditors must provide a statement indicating that the new payment will not reduce the balance of the loan, rather, the payment will only apply to part of the interest, thereby increasing the amount of principal; and
- a statement indicating the circumstances under which any prepayment penalty may be imposed, the time period during which it may be imposed, and a statement that the consumer may contact the servicer for additional information, including the maximum amount of the penalty that may be charged to the consumer.

For more information pertaining to the required format of the disclosures required under section 1026.20(c), please see section 1026.20(c)(3) and the model and sample forms H-4(D)(1) and (2) in appendix H.

3. Exemptions to the Adjustable Rate Mortgage Disclosure Requirements—Sections 1026.20(c)(1)(ii) and (d)(1)(ii)

Disclosures under sections 1026.20(c) and (d) are not required for ARMs with a term of one year or less. Likewise, disclosures under section 1026.20(c) are not required if the first interest rate and payment adjustment occurs within the first 210 days and the new rate disclosed at consummation pursuant to section 1026.20(d) was not an estimate. ARM disclosures for payment changes are exempt under section 1026.20(c)(1)(ii)(C) where the servicer is a debt collector under the Fair Debt Collection Practices Act (FDCPA) and a consumer has exercised the right under FDCPA section 805(c) to prohibit debt collector communications regarding the debt.

VI. Refinancings—Section 1026.20(a)

When an obligation is satisfied and replaced by a new obligation to the original financial institution (or a holder or servicer of the original obligation) and is undertaken by the same consumer, it must be treated as a refinancing for which a complete set of new disclosures must be furnished. A refinancing may involve the consolidation of several existing obligations, disbursement of new money to the consumer, or the rescheduling of payments under an existing obligation. In any form, the new obligation must completely replace the earlier one to be considered a refinancing under the regulation. The finance charge on the new disclosure must include any unearned portion of the old

finance charge that is not credited to the existing obligation (§1026.20(a)).

The following transactions are not considered refinancings even if the existing obligation is satisfied and replaced by a new obligation undertaken by the same consumer:

- a renewal of an obligation with a single payment of principal and interest or with periodic interest payments and a final payment of principal with no change in the original terms
- an APR reduction with a corresponding change in the payment schedule
- an agreement involving a court proceeding
- changes in credit terms arising from the consumer's default or delinquency
- the renewal of optional insurance purchased by the consumer and added to an existing transaction, if required disclosures were provided for the initial purchase of the insurance

However, even if it is not accomplished by the cancellation of the old obligation and substitution of a new one, a new transaction subject to new disclosures results if the financial institution:

- increases the rate based on a variable-rate feature that was not previously disclosed, or
- adds a variable-rate feature to the obligation.

If, at the time a loan is renewed, the rate is increased, the increase is not considered a variable-rate feature. It is the cost of renewal, similar to a flat fee, as long as the new rate remains fixed during the remaining life of the loan. If the original debt is not canceled in connection with such a renewal, the regulation does not require new disclosures. Also, changing the index of a variable-rate transaction to a comparable index is not considered adding a variable-rate feature to the obligation.

VII. Escrow Cancellation Disclosures—Section 1026.20(e)

Escrow Closing Notice. Before cancelling an escrow account, an Escrow Closing Notice must be provided to any consumers for whom an escrow account was established in connection with a closed-end consumer credit transaction secured by a first lien on real property or a dwelling, except for reverse mortgages (§1026.20(e)(1)). For this purpose, the term escrow account has the same meaning given to it as under Regulation X, 12 CFR 1024.17(b), and the term servicer has the same meaning given to it as under Regulation X, 12 CFR 1024.2(b). There are two exceptions to the requirement to provide the notice:

- Creditors and servicers are not required to

provide the notice if the escrow account that is being cancelled was established solely in connection with the consumer's delinquency or default on the underlying debt obligation (Comment 20(e)(1)-2).

- Creditors and servicers are not required to provide the notice when the underlying debt obligation for which an escrow account was established is terminated, including by repayment, refinancing, rescission, and foreclosure (Comment 20(e)(1)-3).

For loans subject to the Escrow Closing Notice requirement, if the creditor or servicer cancels the escrow account at the consumer's request, the creditor or servicer must ensure that the consumers receive the notice no later than three business days (i.e., all calendar days except Sundays and the legal public holidays (see §§1026.2(a)(6), 1026.19 (f)(1)(ii)(A) and (f)(1)(iii))) before the consumer's escrow account is canceled (§1026.20(e)(5)(i)). If the creditor or servicer cancels the escrow account and the cancellation is not at the consumer's request, the creditor or servicer must ensure that the consumer receives the notice no later than 30 business days before the closure of the consumer's escrow account (§1026.20(e)(5)(ii)). If the Escrow Closing Notice is not provided to the consumer in person, the consumer is considered to have received the notice three business days after it is delivered or placed in the mail (§1026.20(e)(5)(iii)).

The creditor or servicer must disclose (§1026.20 (e)(1)-(2))

- the date on which the account will be closed;
- that an escrow account may also be called an impound or trust account;
- the reason why the escrow account will be closed;
- that without an escrow account the consumer must pay all property costs, such as taxes and homeowner's insurance, directly, possibly in one or two large payments a year;
- a table, titled "Cost to you," that contains an itemization of the amount of any fee the creditor or servicer imposes on the consumer in connection with the closure of the consumer's escrow account, labeled "Escrow Closing Fee," and a statement that the fee is for closing the escrow account;
- under the reference "In the future":
 - the consequences if the consumer fails to pay property costs, including the actions that a state or local government may take if property taxes are not paid and the actions the creditor or servicer may take if the consumer does not pay some or all property costs, such as

adding amounts to the loan balance, adding an escrow account to the loan, or purchasing a property insurance policy on the consumer's behalf that may be more expensive and provide fewer benefits than a policy that the consumer could obtain directly;

- a telephone number that the consumer can use to request additional information about the cancellation of the escrow account;
- whether the creditor or servicer offers the option of keeping the escrow account open and, as applicable, a telephone number the consumer can use to request that the account be kept open; and
- whether there is a cut-off date by which the consumer can request that the account be kept open.

The creditor or servicer may also, at its option, disclose (§1026.20(e)(3))

- the creditor or servicer's name or logo;
- the consumer's name, phone number, mailing address, and property address;
- the issue date of the notice;
- the loan number; or
- the consumer's account number.

In addition, the disclosures must

- contain a required heading that is more conspicuous than and precedes the required disclosures discussed above (§1026.20(e)(4));
- be clear and conspicuous. This standard generally requires that the disclosures in the Escrow Closing Notice be in a reasonably understandable form and readily noticeable to the consumer (Comment 20(e)(2)-1);
- be written in 10-point font, at a minimum (§1026.20(e)(4));
- be grouped together on the front side of a one-page document. The disclosures must be separate from all other materials, with the headings, content, order, and format substantially similar to model form H-29 in appendix H to Regulation Z (§1026.20(e)(4)).

VIII. Closed-End Advertising—Section 1026.24

If an advertisement for credit states specific credit terms, it must state only those terms that actually are or will be arranged or offered by the creditor.

Disclosures required by this section must be made "clearly and conspicuously." To meet this standard in general, credit terms need not be printed in a certain type size nor appear in any

particular place in the advertisement. For advertisements for credit secured by a dwelling, a clear and conspicuous disclosure means that the required information is disclosed with equal prominence and in close proximity to the advertised rates or payments triggering the required disclosures.

If an advertisement states a rate of finance charge, it must state the rate as an "annual percentage rate," using that term. If the APR may be increased after consummation, the advertisement must state that fact.

If an advertisement is for credit not secured by a dwelling, the advertisement must not state any other rate, except that a simple annual rate or periodic rate that is applied to an unpaid balance may be stated in conjunction with, but not more conspicuously than, the APR.

If an advertisement is for credit secured by a dwelling, the advertisement must not state any other rate, except that a simple annual rate that is applied to an unpaid balance may be stated in conjunction with, but not more conspicuously than, the APR. That is, an advertisement for credit secured by a dwelling may not state a periodic rate, other than a simple annual rate, that is applied to an unpaid balance.

"Triggering terms"

The following are triggering terms that require additional disclosures:

- the amount or percentage of any down payment;
- the number of payments or period of repayment;
- the amount of any payment; and
- the amount of any finance charge.

An advertisement stating a triggering term must also state the following terms as applicable:

- the amount or percentage of any down payment;
- the terms of repayment, which reflect the repayment obligations over the full term of the loan, including any balloon payment; and
- the "annual percentage rate," using that term, and, if the rate may be increased after consummation, that fact.

For any advertisement secured by a dwelling, other than television or radio advertisements, that states a simple annual rate of interest and more than one simple annual rate of interest will apply over the term of the advertised loan, the advertisement must state in a clear and conspicuous manner

- each simple rate of interest that will apply. In variable-rate transactions, a rate determined by adding an index and margin must be disclosed based on a reasonably current index and margin;

- the period of time during which each simple annual rate of interest will apply;
- the APR for the loan.

The regulation prohibits the following seven deceptive or misleading acts or practices in advertisements for closed-end mortgage loans:

- stating that rates or payments for loans are “fixed” when those rates or payments can vary without adequately disclosing that the interest rate or payment amounts are “fixed” only for a limited period of time, rather than for the full term of the loan;
- making comparisons between actual or hypothetical credit payments or rates and any payment or rate available under the advertised product that are not available for the full term of the loan, with certain exceptions for advertisements for variable-rate products;
- characterizing the products offered as “government loan programs,” “government-supported loans,” or otherwise endorsed or sponsored by a federal or state government entity even though the advertised products are not government-supported or -sponsored loans;
- displaying the name of the consumer’s current mortgage lender, unless the advertisement also prominently discloses that the advertisement is from a mortgage lender not affiliated with the consumer’s current lender;
- making claims of debt elimination if the product advertised would merely replace one debt obligation with another;
- creating a false impression that the mortgage broker or lender is a “counselor” for the consumer; and
- in foreign-language advertisements, providing certain information, such as a low introductory “teaser” rate, in a foreign language, while providing required disclosures only in English.

Subpart D—Miscellaneous

Subpart D contains rules on oral disclosures (§1026.26), disclosures in languages other than English (§1026.27), record retention (§1026.25), effect on state laws (§1026.28), state exemptions (§1026.29), and rate limitations (§1026.30).

Record Retention—Section 1026.25

As a general rule, the creditor must retain evidence of compliance with Regulation Z (other than advertising requirements under §§1026.16 and 1026.24, and other than certain requirements for

mortgage loans) for two years after the date disclosures are required to be made or action is required to be taken (§1026.25(a)). This includes, for example, evidence that the creditor properly handled adverse credit reports in connection with amounts subject to a billing dispute under 12 CFR 1026.13, and properly handled the refunding of credit balances under 12 CFR 1026.11 and 1026.21. The creditor may retain the evidence by any method that reproduces records accurately (including computer programs) (Comment 25(a)-2). A creditor must permit the enforcing agency to inspect its relevant records for compliance (§1026.25(b)).

The record retention period for mortgage loans is generally three years (§1026.25(c)). A creditor must retain evidence of compliance with the requirements of 12 CFR 1026.19(e) and (f) for three years after the later of the date of consummation, the date disclosures are required to be made, or the date the action is required to be taken (§1026.25(c)(1)(i)).

For Closing Disclosures, the record retention period is five years. The creditor must retain completed closing disclosures required by 12 CFR 1026.19(f)(1)(i) or (f)(4)(i), and all documents related to such disclosures, for five years after consummation (§1026.25(c)(1)(ii)(A)). If a creditor sells, transfers, or otherwise disposes of its interest in a mortgage loan subject to 12 CFR 1026.19(f) and does not service the mortgage loan, the creditor must provide a copy of the closing disclosures to the owner or servicer of the mortgage, and the new owner or servicer must retain such disclosures for the remainder of the five-year period.

For loan originator compensation, creditors and loan originator organizations must retain records-related requirements for mortgage loan originator compensation and the compensation agreement that governs those payments for three years after the date of payment (§1026.25(c)(2)).

A creditor must retain evidence to show compliance with the minimum standards for loans secured by a dwelling in 12 CFR 1026.43 for three years after consummation of a transaction covered by that section (§1026.25(c)(3)).

Relationship to State Law—TILA 111 and Sections 1026.28, .29

State laws providing rights, responsibilities, or procedures for consumers or financial institutions for consumer credit contracts may be

- preempted by federal law;

- not preempted by federal law; or
- substituted in lieu of the TILA and Regulation Z requirements.

State law provisions are preempted to the extent that they contradict the requirements in the following chapters of the TILA and the implementing sections of Regulation Z:

- Chapter 1, General Provisions, which contains definitions and acceptable methods for determining finance charges and annual percentage rates
- Chapter 2, Credit Transactions, which contains disclosure requirements, rescission rights, and certain credit card provisions
- Chapter 3, Credit Advertising, which contains consumer credit advertising rules and APR oral disclosure requirements

For example, a state law would be preempted if it required a bank to use the terms “nominal annual interest rate” in lieu of “annual percentage rate.”

Conversely, state law provisions are generally not preempted under federal law if they call for, without contradicting chapters 1, 2, or 3 of the TILA or the implementing sections of Regulation Z, either of the following:

- disclosure of information not otherwise required. A state law that requires disclosure of the minimum periodic payment for open-end credit, for example, would not be preempted because it does not contradict federal law; or
- disclosures more detailed than those required. A state law that requires itemization of the amount financed, for example, would not be preempted, unless it contradicts federal law by requiring the itemization to appear with the disclosure of the amount financed in the segregated closed-end credit disclosures.

The relationship between state law and chapter 4 of the TILA (Credit Billing) involves two parts. The first part is concerned with sections 161 (correction of billing errors) and 162 (regulation of credit reports) of the act; the second part addresses the remaining sections of chapter 4.

State law provisions are preempted if they differ from the rights, responsibilities, or procedures contained in sections 161 or 162. An exception is made, however, for state law that allows a consumer to inquire about an account and requires the bank to respond to such inquiry beyond the time limits provided by federal law. Such a state law would not be preempted for the extra time period.

State law provisions are preempted if they result in violations of sections 163 through 171 of chapter 4. For example, a state law that allows the card issuer to offset the consumer’s credit-card indebtedness against funds held by the card issuer would

be preempted, since it would violate 12 CFR 1026.12(d). Conversely, a state law that requires periodic statements to be sent more than 14 days before the end of a free-ride period would not be preempted, since no violation of federal law is involved.

A bank, state, or other interested party may ask the CFPB to determine whether state law contradicts chapters 1 through 3 of the TILA or Regulation Z. They also may ask if the state law is different from, or would result in violations of, chapter 4 of the TILA and the implementing provisions of Regulation Z. If the CFPB determines that a disclosure required by state law (other than a requirement relating to the finance charge, APR, or the disclosures required under section 1026.32) is substantially the same in meaning as a disclosure required under the act or Regulation Z, generally creditors in that state may make the state disclosure in lieu of the federal disclosure.

Subpart E—Special Rules for Certain Home Mortgage Transactions

Subpart E contains special rules for mortgage transactions. Section 1026.32 requires certain disclosures and provides limitations for closed-end credit transactions and open-end credit plans that have rates or fees above specified amounts or certain prepayment penalties. Section 1026.33 requires special disclosures, including the total annual loan cost rate, for reverse mortgage transactions. Section 1026.34 prohibits specific acts and practices in connection with high-cost mortgages, as defined in 12 CFR 1026.32(a). Section 1026.35 provides requirements for higher-priced mortgage loans. Section 1026.36 prohibits specific acts and practices in connection with an extension of credit secured by a dwelling. Sections 1026.37 and 1026.38 set forth disclosure requirements for most closed-end transactions secured by real property, as required by 12 CFR 1026.19(e) and (f).

General Rules—Section 1026.31

The requirements and limitations of this subpart are in addition to, and not in lieu of, those contained in other subparts of Regulation Z. The disclosures for high-cost, reverse mortgage, and higher-priced mortgage transactions must be made clearly and conspicuously in writing, in a form that the consumer may keep and in compliance with specific timing requirements.

Requirements for High-Cost Mortgages—Section 1026.32

The requirements of this section generally apply to a high-cost mortgage, which is a consumer credit

transaction secured by the consumer's principal dwelling (subject to the exemptions discussed below) that meets any one of the following three coverage tests.

1. The APR will exceed the average prime offer rate (APOR), as defined in section 1026.35(a)(2), applicable for a comparable transaction as of the date the interest rate is set by
 - more than 6.5 percentage points for first-lien transactions (other than as described below);
 - more than 8.5 percentage points for first-lien transactions where the dwelling is personal property and the loan amount is less than \$50,000; or
 - more than 8.5 percentage points for subordinate-lien transactions.
2. The total points and fees (see definition below) for the transaction will exceed
 - for transactions with a loan amount of \$20,000 or more, 5 percent of the total loan amount; or
 - for transactions with a loan amount of less than \$20,000, the lesser of 8 percent of the total transaction amount or \$1,000 for the calendar year 2014.

The \$20,000 and \$1,000 dollar amounts will be adjusted annually based on changes in the Consumer Price Index and will be reflected in official interpretations of section 1026.32(a)(1)(ii). The official interpretation of section 1026.32(a)(1)(ii) also contains a historical list of dollar amount adjustments for transactions originated prior to January 10, 2014.

NOTE: The "total loan amount" (using the face amount of the note) for closed-end credit is calculated by taking the amount financed (see §1026.18(b)) and deducting any cost listed in sections 1026.32(b)(1)(iii), (iv), or (vi) that is both included in points and fees and financed by the creditor. The "total loan amount" for open-end credit is the credit plan limit when the account is opened.

3. The terms of the loan contract or open-end credit agreement permit the creditor to charge a prepayment penalty (see definition below) more than 36 months after consummation or account opening, or prepayment penalties that exceed more than 2 percent of the amount prepaid (§1026.32(a)(1)(iii)).

NOTE: Section 1026.32(d)(6) prohibits prepayment penalties for high-cost mortgages. However, if a mortgage loan has a prepayment penalty that may be imposed more than 36 months after consummation or account opening or that is greater than 2 percent of the amount prepaid, the loan is a high-cost mortgage regardless of interest

rate or fees. Therefore, the prepayment penalty coverage test above effectively bans transactions of the types subject to HOEPA coverage that permit creditors to charge prepayment penalties that exceed the prescribed limits.

Exemptions from HOEPA Coverage—Section 1026.32(a)(2)

- reverse mortgage transactions subject to section 1026.33;
- a transaction that finances the initial construction of a dwelling;
- a transaction originated by a Housing Finance Agency, where the Housing Finance Agency is the creditor for the transaction; or
- a transaction originated pursuant to the United States Department of Agriculture's (USDA's) Rural Development Section 502 Direct Loan Program.

Determination of APR for High-Cost Mortgages—Section 1026.32(a)(3)

The APR used to determine whether a mortgage is a high-cost mortgage is calculated differently than the APR that is used on TILA disclosures. Specifically, the APR for HOEPA coverage is based on the following:

- if the APR will not vary during the length of the loan or credit plan (i.e., for fixed-rate transactions), the interest rate in effect as of the date the interest rate for the transaction is set (§1026.32(a)(3)(i));
- if the interest rate may vary during the term of the loan or credit plan in accordance with an index, the interest rate that results from adding the maximum margin permitted at any time during the term of the loan or credit plan to the index rate in effect as of the date the interest rate for the transaction is set, or to the introductory interest rate, whichever is greater (§1026.32(a)(3)(ii)); or
- if the interest rate may or will vary during the term of the loan or credit plan other than as described above (i.e., as in a step-rate transaction), the maximum interest rate that may be imposed during the life of the loan or credit plan (§1026.32(a)(3)(iii)).

Points and Fees for High-Cost Mortgages—Section 1026.32(b)

NOTE: Points and fees calculations for high-cost mortgages depend upon whether the transaction is closed end or open end.

For a *closed-end transaction*, calculate the points and fees by including the following charges (§1026.32(b)(1)):

- all items included in the finance charge under sections 1026.4(a) and (b), except that the following items are excluded:
 - interest or the time-price differential;
 - any premiums or other charges imposed in connection with a federal or state agency program for any guaranty or insurance that protects the creditor against the consumer's default or other credit loss (i.e., up-front and annual Federal Housing Administration (FHA) premiums, U.S. Department of Veterans Affairs (VA) funding fees, and USDA guarantee fees);
 - premiums or other charges for any guaranty or insurance that protects creditors against the consumer's default or other credit loss and IS NOT in connection with a federal or state agency program (i.e., private mortgage insurance (PMI) premiums) as follows:
 - the entire amount of any premiums or other charges payable after consummation (i.e., monthly or annual PMI premiums); or
 - if the premium or other charge is payable at or before consummation, the portion of any such premium or other charge that is not in excess of the permissible up-front mortgage insurance premium for FHA loans, but only if the premium or charge is refundable on a pro rata basis and the refund is automatically issued upon the notification of the satisfaction of the underlying mortgage loan. The permissible up-front mortgage insurance premiums for FHA loans are published in HUD Mortgagee Letters, available online at http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/letters/mortgagee.
 - bona fide third-party charges not retained by the creditor, loan originator, or an affiliate of either, unless the charge is required to be included under section 1026.32(b)(1)(i)(C), (iii), or (v);
 - up to 2 bona fide discount points payable by the consumer in connection with the transaction, provided that the interest rate without any discount does not exceed
 - the APOR for a comparable transaction by more than 1 percentage point; or
 - if the transaction is secured by personal property, the average rate for a loan insured under Title I of the National Housing Act by more than 1 percentage point; or
 - if no discount points have been excluded above, then up to 1 bona fide discount point payable by the consumer in connection with

the transaction, provided that the interest rate without any discount does not exceed

- the APOR for a comparable transaction by more than 2 percentage points; or
- if the transaction is secured by personal property, the average rate for a loan insured under Title I of the National Housing Act by more than 2 percentage points.

NOTE: In the case of a closed-end plan, a bona fide discount point means an amount equal to 1 percent of the loan amount paid by the consumer that reduces the interest rate or time-price differential applicable to the transaction based on a calculation that is consistent with established industry practices for determining the amount of reduction in the interest rate or time-price differential appropriate for the amount of discount points paid by the consumer (§1026.32(b)(3)).

- all compensation paid directly or indirectly by a consumer or creditor to a loan originator (as defined in section 1026.36(a)(1) that can be attributed to the transaction at the time the interest rate is set unless
 - that compensation is paid by a consumer to a mortgage broker, as defined in section 1026.36(a)(2), and already has been included in points and fees under section 1026.32(b)(1)(i);
 - that compensation is paid by a mortgage broker, as defined in section 1026.36(a)(2), to a loan originator that is an employee of the mortgage broker;
 - that compensation is paid by a creditor to a loan originator that is an employee of the creditor; or
- all items listed in section 1026.4(c)(7), other than amounts held for future taxes, unless ALL of the following conditions are met:
 - the charge is reasonable;
 - the creditor receives no direct or indirect compensation in connection with the charge; and
 - the charge is not paid to an affiliate of the creditor.
- premiums or other charges paid at or before consummation, whether paid in cash or financed, for any credit life, credit disability, credit unemployment, or credit property insurance, or for any other life, accident, health, or loss-of-income insurance for which the creditor is a beneficiary, or any payments directly or indirectly for any debt cancellation or suspension agreement or contract;
- the maximum prepayment penalty that may be

charged or collected under the terms of the mortgage or credit plan; and

- the total prepayment penalty incurred by the consumer if the consumer refinances an existing mortgage loan, or terminates an existing open-end credit plan in connection with obtaining a new mortgage loan, with a new mortgage transaction extended by the current holder of the existing loan, a servicer acting on behalf of the current holder, or an affiliate of either.

For an *open-end credit plan*, points and fees mean the following charges that are known at or before account opening (§1026.32(b)(2)):

- all items included in the finance charge under sections 1026.4(a) and (b), except that the following items are excluded:

- interest or the time-price differential;
- any premiums or other charges imposed in connection with a federal or state agency program for any guaranty or insurance that protects the creditor against the consumer's default or other credit loss (i.e., up-front and annual FHA premiums, VA funding fees, and USDA guarantee fees);
- premiums or other charges for any for guaranty or insurance that protects creditors against the consumer's default or other credit loss and IS NOT in connection with a federal or state agency program (i.e., private mortgage insurance (PMI) premiums) as follows:
 - if the premium or other charge is payable after account opening, the entire amount of such premium or other charge, or
 - if the premium or other charge is payable at or before account opening, the portion of any such premium or other charge that is not in excess of the permissible up-front mortgage insurance premium for FHA loans, but only if the premium or charge is refundable on a pro rata basis and the refund is automatically issued upon the notification of the satisfaction of the underlying mortgage loan. The permissible up-front mortgage insurance premiums for FHA loans are published in HUD Mortgagee Letters, available online at http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/letters/mortgagee
- bona fide third-party charges not retained by the creditor, loan originator, or an affiliate of either, unless the charge is required to be included under section 1026.32(b)(2)(i)(C), (iii), or (iv);
- up to two bona fide discount points payable

by the consumer in connection with the transaction, provided that the interest rate without any discount does not exceed

- the APOR by more than one percentage point; or
- if the transaction is secured by personal property, the average rate for a loan insured under Title I of the National Housing Act by more than 1 percentage point, or
- if no discount points have been excluded above, then up to 1 bona fide discount point payable by the consumer in connection with the transaction, provided that the interest rate without any discount does not exceed
- the APOR by more than 2 percentage points; or
- if the transaction is secured by personal property, the average rate for a loan insured under Title I of the National Housing Act by more than 2 percentage points.

NOTE: A bona fide discount point means an amount equal to 1 percent of the credit limit when the account is opened, paid by the consumer, that reduces the interest rate or time-price differential applicable to the transaction based on a calculation that is consistent with established industry practices for determining the amount of reduction in the interest rate or time-price differential appropriate for the amount of discount points paid by the consumer (§1026.32(b)(3)(ii)).

- all compensation paid directly or indirectly by a consumer or creditor to a loan originator (as defined in section 1026.36(a)(1) that can be attributed to the transaction at the time the interest rate is set unless
 - that compensation is paid by a consumer to a mortgage broker, as defined in section 1026.36(a)(2) and already has been included in points and fees under section 1026.33(b)(2)(i);
 - that compensation is paid by a mortgage broker as defined in section 1026.36(a)(2) to a loan originator that is an employee of the mortgage broker; or
 - that compensation is paid by a creditor to a loan originator that is an employee of the creditor, or
 - that compensation is paid by a retailer of manufactured homes to its employee.

NOTE: A person is not a loan originator if the person does not take a consumer credit application or offer or negotiate credit terms available from a creditor to that consumer based on the consumer's financial characteristics, but the person performs purely administrative or clerical tasks on behalf of a

person who does engage in such activities. An employee of a manufactured home retailer who does not take a consumer credit application, offer or negotiate credit terms, or advise a consumer on credit terms is not a loan originator. For purposes of section 1026.36(a), “credit terms” include rates, fees, or other costs, and a consumer’s financial characteristics include any factors that may influence a credit decision, such as debts, income, assets, or credit history.

- all items listed in section 1026.4(c)(7), other than amounts held for future taxes, unless ALL of the following conditions are met:
 - the charge is reasonable;
 - the creditor receives no direct or indirect compensation in connection with the charge; and
 - the charge is not paid to an affiliate of the creditor.
- premiums or other charges paid at or before account opening for any credit life, credit disability, credit unemployment, or credit property insurance, or for any other life, accident, health, or loss-of-income insurance for which the creditor is a beneficiary, or any payments directly or indirectly for any debt cancellation or suspension agreement or contract.
- the maximum prepayment penalty that may be charged or collected under the terms of the credit plan; and
- the total prepayment penalty incurred by the consumer if the consumer refinances an existing closed-end credit transaction with an open-end credit plan, or terminates an existing open-end credit plan in connection with obtaining new open-end credit with the current holder of the existing transaction or plan, a servicer acting on behalf of the current holder, or an affiliate of either.

In addition to the charges listed above, points and fees for open-end credit plans also include the following items:

- fees charged for participation in the credit plan, payable at or before account opening, as described in section 1026.4(c)(4); and
- any transaction fee that will be charged to draw funds on the credit line, as described in section 1026.32(b)(2)(viii).

Prepayment Penalty Definition—Section 1026.32(b)(6)

For closed-end credit transactions, a prepayment penalty is a charge imposed for paying all or part of the transaction’s principal before the date on which

the principal is due with limited exceptions.

For open-end credit plans, a prepayment penalty is a charge imposed by the creditor if the consumer terminates the credit plan prior to the end of its term.

NOTE: Waived, bona fide third-party charges that are later imposed if the closed-end transaction is prepaid or the consumer terminates the open-end credit plan sooner than 36 months after consummation or account opening are not considered prepayment penalties.

NOTE: For closed-end transactions insured by the Federal Housing Administration and consummated before January 21, 2015, interest charged consistent with the monthly interest accrual amortization method is not a prepayment penalty, so long as the interest is charged consistent with the monthly interest accrual amortization method used for those loans. See Comment 32(b)(6)-1(iv).

High-Cost Mortgage Disclosures— Section 1026.32(c)

In addition to the other disclosure requirements of Regulation Z, high-cost mortgages require certain additional information to be disclosed in conspicuous type size to consumers before consummation of the transaction or account opening. These disclosures include

- notice to the consumer using the required language in section 1026.32(c)(1);
- the annual percentage rate (§1026.32(c)(2));
- specified information concerning the regular or minimum periodic payment and the amount of any balloon payment, if permitted under the high-cost mortgage limitations in section 1026.32(d); (§1026.32(c)(3))
- for variable-rate transactions, a statement that the interest and monthly payment may increase, and the amount of the single maximum monthly payment based on the maximum interest rate required to be included in the contract (§1026.32(c)(4)); and
- the total amount borrowed for closed-end credit transactions or the credit limit for the plan when the account is opened for an open-end credit plan (§1026.32(c)(5)).

NOTE: For closed-end credit transactions, if the amount borrowed includes charges to be financed under section 1026.34(a)(10), this fact must be stated, grouped together with the disclosure of amount borrowed. The disclosure of the amount borrowed will be treated as accurate if it is not more than \$100 above or below the amount required to be disclosed.

High-Cost Mortgage Limitations— Section 1026.32(d)

Certain loan terms, including negative amortization, interest rate increases after default, and prepayment penalties are prohibited for high-cost mortgages. Others, including balloon payments and due-on-demand clauses, are restricted.

- Balloon payments, defined as payments that are more than two times a regular periodic payment, are generally prohibited for high-cost mortgages (§1026.32(d)(1)(i)). However, balloon payments are allowed in certain limited circumstances.
 - For closed-end transactions, balloon payments are permitted when (a) the loan has a payment schedule that is adjusted to seasonal or irregular income of the consumer; (b) the loan is a “bridge” loan made in connection with the purchase of a new dwelling and matures in 12 months or less; (c) the creditor is a small creditor operating predominantly in rural or underserved areas that meets the criteria set forth in section 1026.43(f) for small creditor rural or underserved balloon-payment qualified mortgages; or, (d) until January 10, 2016, the creditor is a small creditor that meets the criteria set forth in 1026.43(e)(6) for temporary balloon-payment qualified mortgages (§1026.32(d)(1)(ii)).
 - For an open-end credit plan where the terms of the plan provide for a draw period where no payment is required, followed by a repayment period where no further draws may be taken, the initial payment required after conversion to the repayment phase of the credit plan is not considered a “balloon” payment. However, if the terms of an open-end credit plan do not provide for a separate draw period and repayment period, the balloon payment limitation applies (§1026.32(d)(1)(iii)).
- Acceleration clauses or demand features are limited and may only permit creditors to accelerate and demand repayment of the entire outstanding balance of a high-cost mortgage if
 - there is fraud or material misrepresentation by the consumer in connection with the loan (§1026.32(d)(8)(i));
 - the consumer fails to meet the repayment terms of the agreement for any outstanding balance that results in a default on the loan (§1026.32(d)(8)(ii)); or
 - there is any action (or inaction) by the consumer that adversely affects the rights of the creditor’s security interest for the loan, such as the consumer failing to pay required taxes on the property (§1026.32(d)(8)(iii)) and comments 32(d)(8)(iii)-1 and -2).

Prohibited Acts or Practices in Connection with High-Cost Mortgages—Section 1026.34

In addition to the requirements in section 1026.32, Regulation Z imposes additional requirements for high-cost mortgages, several of which are discussed below.

Refinancing within One Year—Section 1026.34(a)(3)

A creditor or assignee cannot refinance a consumer’s high-cost mortgage into a second high-cost mortgage within the first year of the origination of the first loan, unless the second high-cost mortgage is in the consumer’s interest.

Repayment Ability for High-Cost Mortgages—Section 1026.34(a)(4)

Among other requirements, a creditor extending high-cost mortgage credit subject to section 1026.32 must not make such loans without regard to the consumer’s repayment ability as of consummation or account opening as applicable (§1026.34(a)(4)).

For closed-end credit transactions that are high-cost mortgages, section 1026.34(a)(4) requires a creditor to comply with the repayment ability requirements set forth in 1026.43.

For open-end credit plans that are high-cost mortgages, a creditor may not open a credit plan for a consumer where credit is or will be extended without regard to the consumer’s repayment ability as of account opening, including the consumer’s current and reasonably expected income, employment, assets other than the collateral, and current obligations, including any mortgage-related obligations.

- For the purposes of these open-end requirements, mortgage-related obligations include, among other things, property taxes, premiums and fees for mortgage-related insurance that are required by the creditor, fees and special assessments such as those imposed by a condominium association, and similar expenses required by another credit obligation undertaken prior to or at account opening and secured by the same dwelling that secures the high-cost mortgage transaction (§1026.34(a)(4)(i)).
- A creditor must also verify both current obligations and the amounts of income or assets that it relies on to determine repayment ability using W-2s, tax returns, payroll receipts, financial institution records, or other third-party docu-

ments that provide reasonably reliable evidence of the consumer's income or assets (§1026.34(a)(4)(ii)).

For open-end high-cost mortgages, a presumption of compliance is available but only if the creditor

- verifies the consumer's repayment ability as required under section 1026.34(a)(4)(ii));
- determines the consumer's repayment ability taking into account current obligations and mortgage-related obligations, using the largest required minimum periodic payment based on the assumptions that:
 - the consumer borrows the full credit line at account opening with no additional extensions of credit;
 - the consumer makes only required minimum periodic payments during the draw period and any repayment period; and
 - if the APR can increase, the maximum APR that is included in the contract applies to the plan at account opening and will apply during the draw and any repayment period (§1026.34(a)(4)(iii)(B)).
- assesses the consumer's repayment ability, taking into account either the ratio of total debts to income or the income the consumer will have after paying current obligations (§1026.34(a)(4)(iii)(C)).

NOTE: No presumption of compliance will be available for an open-end high-cost mortgage transaction in which the regular periodic payments, when aggregated, do not fully amortize the outstanding principal balance except for transactions with balloon payments permitted under section 1026.32(d)(1)(ii).

High-Cost Mortgage Pre-loan Counseling—Section 1026.34(a)(5)

Creditors that originate high-cost mortgages must receive written certification that the consumer has obtained counseling on the advisability of the mortgage from a counselor approved by HUD, or if permitted by HUD, a state housing finance authority (specific content for the certifications can be found in section 1026.34(a)(5)(iv)). Counseling must occur after the consumer receives a good faith estimate or initial TILA disclosure required by section 1026.40 (or, for transactions where neither of those disclosures are provided, the disclosures required by section 1026.32(c)). Additionally, counseling cannot be provided by a counselor who is employed by, or affiliated with, the creditor. A creditor may pay the fees for counseling but is prohibited from conditioning the payment of fees

upon the consummation of the mortgage transaction or, if the consumer withdraws his or her application, upon receipt of the certification. However, a creditor may confirm that a counselor provided counseling to the consumer prior to paying these fees. Finally, a creditor is prohibited from steering a consumer to a particular counselor.

Recommended Default—Section 1026.34(a)(6)

Creditors (and mortgage brokers) are prohibited from recommending or encouraging a consumer to default on an existing loan or other debt prior to, and in connection with, the consummation or account opening of a high-cost mortgage that refinances all or any portion of the existing loan or debt.

Loan Modification and Deferral Fees—Section 1026.34(a)(7)

Creditors, successors-in-interest, assignees, or any agents of these parties may not charge a consumer any fee to modify, renew, extend, or amend a high-cost mortgage, or to defer any payment due under the terms of the mortgage.

Late Fees—Section 1026.34(a)(8)

Late payment charges for a high-cost mortgage must be permitted by the terms of the loan contract or open-end agreement and may not exceed 4 percent of the amount of the payment that is past due. Late payment charges are permitted only if payment is not received by the end of the 15-day period beginning on the day the payment is due or, where interest on each installment is paid in advance, by the end of the 30-day period beginning on the day the payment is due.

Creditors are also prohibited from "pyramiding" late fees—that is, charging late payments if any delinquency is attributable only to a late payment charge that was imposed due to a previous late payment, and the payment otherwise is considered a full payment for the applicable period (and any allowable grace period). If a consumer fails to make a timely payment by the due date, then subsequently resumes making payments but has not paid all past due payments, the creditor can continue to impose late payment charges for the payments outstanding until the default is cured.

Fees for Payoff Statements—Section 1026.34(a)(9)

A creditor or servicer may not charge a fee for providing consumers (or authorized representa-

tives) with a payoff statement on a high-cost mortgage. Payoff statements must be provided to consumers within five business days after receiving the request for a statement. A creditor or servicer may charge a processing fee to cover the cost of providing the payoff statement by fax or courier only, provided that such fee may not exceed an amount that is comparable to fees imposed for similar services provided in connection with a non-high-cost mortgage and that a payoff statement be made available to the consumer by an alternative method without charge. If a creditor charges a fee for providing a payoff statement by fax or courier, the creditor must disclose the fee prior to charging the consumer and must disclose to the consumer that other methods for providing the payoff statement are available at no cost. Finally, a creditor is permitted to charge a consumer a reasonable fee for additional payoff statements during a calendar year in which four payoff statements have already been provided without charge other than permitted processing fees.

Reverse Mortgages—Section 1026.33

A reverse mortgage is a non-recourse transaction secured by the consumer's principal dwelling that ties repayment (other than upon default) to the homeowner's death or permanent move from, or transfer of the title of, the home. Special disclosure requirements apply to reverse mortgages.

Higher-Priced Mortgage Loans—Section 1026.35(a)

A mortgage loan subject to section 1026.35 (*higher-priced mortgage loan*) is a closed-end consumer credit transaction secured by the consumer's principal dwelling with an APR that exceeds the *average prime offer rate* for a comparable transaction as of the date the interest rate is set by

- 1.5 or more percentage points for loans secured by a first lien on a dwelling where the amount of the principal obligation at the time of consummation does not exceed the maximum principal obligation eligible for purchase by Freddie Mac;
- 2.5 or more percentage points for loans secured by a first lien on a dwelling, where the amount of the principal obligation at the time of consummation exceeds the maximum principal obligation eligible for purchase by Freddie Mac; or
- 3.5 or more percentage points for loans secured by a subordinate lien on a dwelling.

Average prime offer rate means an APR that is derived from average interest rates, points, and other loan pricing terms currently offered to con-

sumers by a representative sample of creditors for mortgage transactions that have low-risk pricing characteristics. The CFPB publishes average prime offer rates for a broad range of types of transactions in a table updated at least weekly, as well as the methodology it uses to derive these rates. These rates are available on the website of the Federal Financial Institutions Examination Council (FFIEC) at www.ffiec.gov/ratespread/newcalchelp.aspx.

Additionally, creditors extending mortgage loans subject to 1026.43(c) must verify a consumer's ability to repay as required by section 1026.43(c).

Finally, the regulation prohibits creditors from structuring a home-secured loan that does not meet the definition of open-end credit as an open-end plan to evade these requirements.

Higher-Priced Mortgage Loans Escrow Requirement—Section 1026.35(b)

In general, a creditor may not extend a higher-priced mortgage loan (including high-cost mortgages that also meet the definition of a higher-priced mortgage loan), secured by a first lien on a principal dwelling unless an escrow account is established before consummation for payment of property taxes and premiums for mortgage-related insurance required by the creditor.

An escrow account for a higher-priced mortgage loan need not be established for

- a transaction secured by shares in a cooperative,
- a transaction to finance the initial construction of a dwelling,
- a temporary or "bridge" loan with a term of 12 months or less, or
- a reverse mortgage subject to section 1026.33.

There is also a limited exemption that allows creditors to establish escrow accounts for property taxes only (rather than for both property taxes and insurance) for loans secured by dwellings in a "common interest community" under section 1026.35(b)(2)(ii), where dwelling ownership requires participation in a governing association that is obligated to maintain a master insurance policy insuring all dwellings (§1026.35(b)(2)(ii)).

An exemption to the higher-priced mortgage loan escrow requirement is available for first-lien higher-priced mortgage loans made by certain creditors that operate predominantly in "rural" or "underserved" areas. To make use of this exemption, a creditor must

1. have made, during any of the three preceding calendar years, over half its covered transac-

- tions in counties that meet the definition of “rural” or “underserved” as laid out in the regulation,¹⁵
2. together with any affiliates must not have made more than 500 covered transactions in the preceding calendar year,
 3. must have had less than \$2 billion in total assets as of the end of the preceding calendar year,¹⁶ and
 4. together with any affiliates must not maintain escrow accounts for any extensions of consumer credit secured by real property or a dwelling that it or its affiliate currently services. However, such creditors (and their affiliates) are permitted to offer an escrow account to accommodate distressed borrowers and may continue to maintain escrow accounts established to comply with the rule for applications received on or after April 1, 2010, and before January 1, 2014, without losing the exemption.

For first-lien higher-priced mortgage loans originated by a creditor that would not be required to establish an escrow account based on the above exemption, if that creditor has obtained a commitment for a higher-priced mortgage loan to be acquired by another company that is not eligible for the exemption, an escrow account must be established. Since an escrow account will be established for this loan, however, note that if the creditor that has obtained a commitment for the higher-priced mortgage loan to be acquired by a non-exempt company would like to remain eligible for the exemption above, neither the creditor nor its affiliates can service the loan on or beyond the second periodic payment under the terms of the loan.

A creditor or servicer may cancel an escrow account only upon the earlier of termination of the underlying loan, or a cancellation request from the consumer five years or later after consummation. However, a creditor or servicer is not permitted to cancel an escrow account, even upon request from the consumer, unless the unpaid principal balance of the higher-priced mortgage loan is less than 80 percent of the original value of the property securing the loan and the consumer is not currently delinquent or in default on the loan (§1026.35(b)(3)).

¹⁵. The regulation generally defines these two terms by reference to “urban influence codes” (for “rural”) and HMDA data (for “underserved”). To ease compliance, however, the CFPB will post on its public website a list of rural and underserved counties that creditors may rely on as a safe harbor. See comment 35(b)(2)(iv)-1.

¹⁶. The asset threshold will be adjusted automatically each year, based on the year-to-year change in the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers.

Higher-Priced Mortgage Loans Appraisal Requirement—Section 1026.35(c)¹⁷

General Requirements, Exception, and Safe Harbor

A creditor may not extend a higher-priced mortgage loan without first obtaining a written appraisal of the property to be mortgaged. The appraisal must be performed by a state-certified or licensed appraiser (defined in part as an appraiser who conducts the appraisal in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP) and the requirements applicable to appraisers in title IX of FIRREA and its implementing regulations). The appraisal must include a physical visit of the interior of the dwelling. The appraisal requirements do not apply to

- qualified mortgages (QM) under 12 CFR 1026.43 or under rules on qualified mortgages adopted by HUD or the VA, (or, if promulgated, by the USDA or Rural Housing Service (RHS)), including mortgages that meet the QM criteria for these rules and are insured, guaranteed, or administered by those agencies;
- an extension of credit equal to or less than the applicable threshold amount that is published in the official staff commentary to the regulation, which is adjusted every year as applicable to reflect increases in the Consumer Price Index for Urban Wage Earners and Clerical Workers;¹⁸
- a transaction secured by a mobile home, boat, or trailer;
- a transaction to finance the initial construction of a dwelling;
- a loan with maturity of 12 months or less, if the purpose of the loan is a “bridge” loan connected with the acquisition of a dwelling intended to become the consumer’s principal dwelling;
- a reverse mortgage transaction subject to 12 CFR 1026.33(a);
- a refinancing secured by a first lien, as defined in 12 CFR 1026.20(a) (except that the creditor need not be the original creditor or a holder or servicer of the original obligation), provided that the refinancing meets the following criteria:
 - the credit risk of the refinancing is retained by the person that held the credit risk of the existing obligation and there is no commit-

¹⁷. The higher-priced mortgage loans appraisal requirement was adopted pursuant to an interagency rulemaking conducted by the Board, the CFPB, the FDIC, FHFA, NCUA, and OCC. The Board codified the rule at 12 CFR 226.43, and the OCC codified the rule at 12 CFR part 34 and 12 CFR part 164. There is no substantive difference among these three sets of rules.

¹⁸. From January 1, 2015, through December 31, 2015, the threshold amount is \$25,500.

- ment, at consummation, to transfer the credit risk to another person; or, the refinancing is insured or guaranteed by the same federal government agency that insured or guaranteed the existing obligation;
- the regular periodic payments under the refinance loan do not
 - cause the principal balance to increase;
 - allow the consumer to defer repayment of principal; or
 - result in a balloon payment, as defined in 12 CFR 1026.18(s)(5)(i);
 - the proceeds from the refinancing are used solely to satisfy the existing obligation and amounts attributed solely to the costs of the refinancing;
 - a transaction secured by a manufactured home under the following conditions:¹⁹
 - If the transaction is for a new manufactured home and land, the exemption shall only apply to the requirement that the appraiser conduct a physical visit of the interior of the new manufactured home.
 - If the transaction is for a manufactured home and not land, for which the creditor obtains one of the following and provides a copy to the consumer no later than three business days prior to consummation of the transaction:
 - for a new manufactured home, the manufacturer's invoice for the manufactured home securing the transaction, provided that the date of manufacture is no earlier than 18 months prior to the creditor's receipt of the consumer's application for credit;
 - a cost estimate of the value of the manufactured home securing the transaction obtained from an independent cost service provider; or
 - a valuation, as defined in 12 CFR 1026.42 (b)(3), of the manufactured home performed by a person who has no direct or indirect interest, financial or otherwise, in the property or transaction for which the valuation is performed and has training in valuing manufactured homes.
 - Transactions secured by an existing (used) manufactured home and land are not exempt from the appraisal requirement.

¹⁹. Prior to July 18, 2015, appraisal requirements do not apply to transactions secured in whole or in part by a manufactured home (12 CFR 1026.35(c)(2)). This section describes how the exemption will work under an amendment to the rule that takes effect on July 18, 2015.

A creditor may obtain a safe harbor for compliance with section 1026.35(c)(3)(i) by ordering that the appraisal be completed in conformity with USPAP and the requirements applicable to appraisers in title IX of FIRREA and its implementing regulations, verifying that the appraiser is certified or licensed through the National Registry; and confirming that the written appraisal contains the elements listed in Appendix N of Regulation Z. In addition, the creditor must have no actual knowledge that the facts or certifications contained in the appraisal are inaccurate (§1026.35(c)(3)(ii)).

Additional Appraisals

The appraisal provisions in section 1026.35(c) also require creditors to obtain an additional written appraisal before extending a higher-priced mortgage loan in two instances:

- first, when the dwelling that is securing the higher-priced mortgage loan was acquired by the seller 90 or fewer days prior to the consumer's agreement to purchase the property and the price of the property has increased by more than 10 percent.
- additionally, when the dwelling was acquired by the seller between 91 and 180 prior to the consumer's agreement to purchase the property, and the price of the property has increased by more than 20 percent.

A creditor must obtain an additional interior appraisal meeting the same requirements as the first appraisal (written report by a certified or licensed appraiser in compliance with USPAP and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) based upon an interior property visit), unless the creditor can demonstrate, by exercising reasonable diligence, that the circumstances necessitating an additional appraisal do not apply. A creditor can meet the reasonable diligence requirement if it bases its determination on information contained in certain written source documents (such as a copy of the seller's recorded deed or a copy of a property tax bill). See appendix O. If, after exercising reasonable diligence, the creditor is unable to determine whether the circumstances necessitating an additional appraisal apply, the creditor must obtain an additional appraisal.

If the creditor is required to obtain an additional written appraisal, the two required appraisals must be conducted by different appraisers. Each appraisal obtained must include a physical visit of the interior of the dwelling. In instances where two appraisals are required, creditors are allowed to charge for only one of the two appraisals.

One of the two required written appraisals must

contain an analysis of the difference between the price at which the seller obtained the property and the price the consumer agreed to pay to acquire the property, an analysis of changes in market conditions between when the seller acquired the property and when the consumer agreed to purchase the property, and a review of improvements made to the property between the two dates.

The higher-priced mortgage loan additional appraisal requirements do not apply to the extension of credit that finances the acquisition of a property

- from a local, state, or federal government agency;
- from a person who acquired title to the property through foreclosure, deed-in-lieu of foreclosure, or other similar judicial or non-judicial procedures as a result of the person's exercise of rights as the holder of a defaulted mortgage;
- from a nonprofit entity as part of a local, state, or federal government program permitted to acquire single-family properties for resale from a person who acquired title through foreclosure, deed in lieu of foreclosure, or other similar judicial or non-judicial procedures;
- from a person who acquired title to the property by inheritance or by court order as a result of a dissolution of marriage, civil union, or domestic partnership, or of partition of joint or marital assets;
- from an employer or relocation agency in connection with the relocation of an employee;
- from a servicemember who received a deployment or permanent change of station order after the servicemember purchased the property;
- located in a federal disaster area if the requirements of title XI of FIRREA have been waived by the federal financial institutions regulatory agencies for as long as that waiver would apply; or
- located in a rural county as defined by the CFPB in section 1026.35(b)(2)(iv)(A).

Application Disclosures and Copy of Appraisal

Finally, creditors must provide consumers who apply for a loan covered by the appraisal requirements in section 1026.35(c) with a disclosure providing information relating to appraisals. A creditor must provide consumers with disclosures no later than the third business day after the creditor receives an application for a higher-priced mortgage loan, or no later than the third business day after the loan requested becomes a higher-priced mortgage loan. Additionally, a creditor must provide, at no cost to the consumer, a copy of each written appraisal performed in connection with a loan covered by the appraisal requirements in

section 1026.35(c) no later than three business days prior to consummation or, if the loan will not be consummated, no later than 30 days after the creditor determines that the loan will not be consummated.²⁰

Prohibited Acts or Practices in Connection with Credit Secured by a Consumer's Dwelling—Section 1026.36

Loan Originator—Section 1026.36(a)

The term "loan originator" means a person who, in expectation of direct or indirect compensation or other monetary gain or for direct or indirect compensation or other monetary gain, performs any of the following activities:

- takes an application, offers, arranges, assists a consumer in obtaining or applying to obtain, negotiates, or otherwise obtains or makes an extension of consumer credit for another person; or
- through advertising or other means of communication represents to the public that such person can or will perform any of these activities.

The term "loan originator" includes an employee, agent, or contractor of the creditor or loan originator organization if the employee, agent, or contractor meets this definition. The term "loan originator" also includes a creditor that engages in loan origination activities if the creditor does not finance the transaction at consummation out of the creditor's own resources, including by drawing on a bona fide warehouse line of credit or out of deposits held by the creditor.

The term "loan originator" does not include

- a person who performs purely administrative or clerical tasks on behalf of a person who takes applications or offers or negotiates credit terms;
- an employee of a manufactured home retailer who does not take a consumer credit application, offer or negotiate credit terms, or advise consumers on available credit terms;
- a person that performs only real estate brokerage activity and is licensed or registered in accordance with applicable state law, unless that person is compensated by a creditor or loan originator for a consumer credit transaction subject to section 1026.36;

20. Creditors may use the disclosure required under the Equal Credit Opportunity Act (ECOA) valuations rule to satisfy the disclosure requirements of the higher-priced mortgage loans appraisal rule for loans covered by both. After October 3, 2015, the new Loan Estimate model form appraisal language required by the TILA-RESPA Integrated Disclosure Rule (§1026.37(m)(1)(iii)) will meet the requirements of both the ECOA valuations rule (12 CFR 1002.14(a)(2)) and the higher-priced mortgage loans appraisal rule.

- a seller financer that meets the criteria established in sections 1026.36(a)(4) or (a)(5); or
- a servicer, or a servicer's employees, agents, and contractors who offer or negotiate the terms of a mortgage for the purpose of renegotiating, modifying, replacing, or subordinating principal of an existing mortgage where consumers are behind in their payments, in default, or have a reasonable likelihood of becoming delinquent or defaulting. This exception does not, however, apply to such persons if they refinance a mortgage or assign a mortgage to a different consumer.

An “individual loan originator” is a natural person who meets the definition of “loan originator.” Finally, a “loan originator organization” is any loan originator that is not an individual loan originator. A loan originator organization would include banks, thrifts, finance companies, credit unions, and mortgage brokers.

Prohibited Loan Originator Compensation: Payments Based on a Term of a Transaction—Section 1026.36(d)(1)

With limited exceptions, loan originators cannot receive (and no person can pay directly or indirectly), compensation in connection with closed-end consumer credit transactions secured by a dwelling based on a term of a transaction, the terms of multiple transactions, or the terms of multiple transactions by multiple individual loan originators. The loan originator compensation provisions do not apply to open-end home-equity lines of credit or to credit secured by a consumer’s interest in a timeshare plan described in 11 U.S.C. 101(53D).

A “term of a transaction” is any right or obligation of the parties to a credit transaction. The amount of credit extended is not a term of a transaction, provided that such compensation is based on a fixed percentage of the amount of credit extended (but may be subject to a minimum or maximum dollar amount).

NOTE: A review of whether compensation, which includes salaries, commissions, and any financial or similar incentive, is based on the terms of a transaction requires an objective analysis. If compensation would have been different if a transaction term had been different, then the compensation is prohibited. The regulation does not prevent compensating loan originators differently on different transactions, provided the difference is not based on a term of a transaction or on a proxy for a term of a transaction (a factor that consistently varies with a term or terms of the transaction over a

significant number of transactions and which the loan originator has the ability to manipulate).

An individual loan originator may receive (and a person may pay) compensation

- in the form of a contribution to a defined contribution plan that is a designated tax-advantage plan unless the contribution is tied to the terms of the individual’s transaction(s) (§1026.36(d)(1)(iii));
- in the form of a benefit under a defined benefit plan that is a designated tax-advantaged plan (§1026.36(d)(1)(iii));
- under a non-deferred profits-based compensation plan provided that
 - the compensation paid to an individual loan originator is not directly or indirectly based on the terms of the individual’s transaction(s); and
 - either
 - the compensation paid to the individual loan originator does not exceed 10 percent (in aggregate) of the individual loan originator’s total compensation corresponding to the time period for which the compensation under the non-deferred profits-based compensation plan is paid; or
 - the individual loan originator was the loan originator of 10 or fewer transactions during the 12 months preceding the date the compensation was determined (§1026.36(d)(1)(iv)).

For more information pertaining to permissible compensation, see the commentary to section 1026.36(d).²¹

Prohibited Loan Originator Compensation: Dual Compensation— Section 1026.36(d)(2)

Loan originators that receive compensation directly from consumers in consumer credit transactions secured by a dwelling, (except for open-end home-equity lines of credit or to loans secured by a consumer’s interest in a timeshare plan) may not receive additional compensation directly or indirectly from any other person in connection with that transaction (§1026.36(d)(1)(i)(A)(1)). This prohibition includes compensation received from a third-party to the transaction to pay for some or all of the consumer’s costs (§1026.36(d)(1)(i)(B)). Further, a person is prohibited from compensating a loan originator when that person “knows or has reason

²¹. In addition to the requirements listed here, section 1026.25(c) imposes specific record retention requirements for creditors and loan originator organizations that compensate loan originators.

to know" that the consumer has paid compensation to the loan originator (§1026.36(d)(2)(i)(A)(2)).

However, even if a loan originator organization receives compensation directly from a consumer, the organization can compensate the individual loan originator, subject to section 1026.36(d)(1) (§1026.36(d)(2)(i)(C)).

Prohibition on Steering—Section 1026.36(e)

Loan originators are prohibited from directing or "steering" consumers to loans based on the fact that the originator will receive greater compensation for the loan from the creditor than in other transactions the originator offered or could have offered to the consumer, unless the consummated transaction is in the consumer's interest. A loan originator complies with the prohibition on steering (but not the loan originator compensation provisions) by obtaining loan options from a significant number of the creditors with which the loan originator regularly does business and, for each loan type in which the consumer has expressed interest, presenting the consumer with loan options for which the loan originator believes in good faith the consumer likely qualifies, provided that the presented loan options include all of the following:

- the loan with the lowest interest rate;
- the loan with the lowest interest rate without certain enumerated risky features (such as prepayment penalties, negative amortization, or a balloon payment in the first seven years); and
- the loan with the lowest total dollar amount of discount points, origination points, or origination fees (or, if two or more loans have the same total dollar amount of discount points, origination points, or origination fees, the loan with the lowest interest rate that has the lowest total dollar amount of discount points, origination points, or origination fees).

The anti-steering provisions do not apply to open-end home-equity lines of credit or to loans secured by a consumer's interest in a timeshare plan.

Loan Originator Qualification Requirements—Section 1026.36(f)

Individual loan originators and loan originator organizations must, when required under state or federal law, be registered and licensed under those laws, including the Safe and Fair Enforcement for Mortgage Licensing Action of 2008 (SAFE Act).²² Loan originator organizations other than

government agencies or state housing finance agencies must

- comply with all applicable state law requirements for legal existence and foreign qualification (§1026.36(f)(1)); and
- ensure that each individual loan originator who works for the loan originator organization (e.g., an employee, under a brokerage agreement) is licensed or registered to the extent the individual is required to be licensed or registered under the SAFE Act prior to acting as a loan originator in a consumer credit transaction secured by a dwelling (§1026.36(f)(2)).

The requirements are different for loan originator organizations whose employees are not required to be licensed and are not licensed pursuant to 12 CFR section 1008.103 or state SAFE Act implementing laws (including employees of depository institutions and bona fide nonprofits). For their employees hired on or after January 1, 2014 (or hired before this date but not subject to any statutory or regulatory background standards at the time, or for any individual loan originators regardless of when hired that the organization believes, based on reliable information do not meet the qualification standards), loan originator employers must obtain before the individual acts as a loan originator in a consumer credit transaction secured by a dwelling

- a criminal background check through the Nationwide Mortgage Licensing System and Registry (NMLS) or, in the case of an individual loan originator who is not a registered loan originator under NMLS, a criminal background check from a law enforcement agency or commercial service (§1026.36(f)(3)(i)(A));
- a credit report from a consumer reporting agency (as defined in section 603(p) of the Fair Credit Reporting Act (FCRA)) secured, where applicable, in compliance with section 604(b) of FCRA (§1026.36(f)(3)(i)(B)); and
- information from the NMLS about any administrative, civil, or criminal findings by any government jurisdiction or, in the case of an individual loan originator who is not a registered loan originator under the NMLS, such information from the individual loan originator (§1026.36(f)(3)(i)(C)).

Based on the information obtained above and any other information reasonably available, the loan originator employer must determine for such an employee prior to allowing the individual to act as a loan originator in a consumer credit transaction

transactions secured by a dwelling except a loan that is secured by a consumer's interest in a timeshare plan described in 11 U.S.C. 101(53D). For purposes of 1026.36(f), a loan originator includes all creditors that engage in loan origination activities, not just those who table fund.

22. Section 1026.36(f) applies to closed-end consumer credit

secured by a dwelling

- that the individual has not been convicted of, or pleaded guilty or *nolo contendere* to, a felony in a domestic or military court during the preceding seven-year period or, in the case of a felony involving an act of fraud, dishonesty, a breach of trust, or money laundering, at any time (§1026.36(f)(3)(ii)(A)(1)); and

NOTE: Whether the conviction of a crime is considered a felony is determined by whether the conviction was classified as a felony under the law of the jurisdiction under which the individual is convicted. Additionally, a loan originator organization may employ an individual with a felony conviction (or a plea of *nolo contendere*) as a loan originator if that individual has received consent from the FDIC, or the FRB, as applicable, the NCUA, or the Farm Credit Administration under their own applicable statutory authority (§1026.36(f)(3)(iii)).

- has demonstrated financial responsibility, character, and general fitness such as to warrant a determination that the individual loan originator will operate honestly, fairly, and efficiently.

The loan originator organization must also provide periodic training to each such employee that covers federal and state legal requirements that apply to the individual loan originator's loan origination activities.

Name and NMLSR ID on Loan Documentation—Section 1026.36(g)

Section 1026.36(g) applies to closed-end consumer credit transactions secured by a dwelling except a loan that is secured by a consumer's interest in a timeshare plan described in 11 U.S.C. 101(53D). For purposes of 1026.36(g), a loan originator includes all creditors that engage in loan origination activities, not just those who table fund.

For consumer credit transactions secured by a dwelling, loan originator organizations must include certain identifying information on loan documentation provided to consumers. The loan documents must include the loan originator organization's name, NMLSR ID (if applicable), and the name of the individual loan originator that is primarily responsible for the origination as it appears in the NMLSR, as well as the individual's NMLSR ID. This information is required on credit applications, the Loan Estimate, the Closing Disclosure, the note or loan contract, and the documents securing an interest in the property.

Policies and Procedures to Ensure and Monitor Compliance—Section 1026.36(j)

Depository institutions (including credit unions) must establish and maintain written policies and procedures reasonably designed to ensure and monitor compliance of the depository institution, its employees, and its subsidiaries and their employees with the requirements of section 1026.36(d) (prohibited payments to loan originators), section 1026.36(e) (prohibition on steering), section 1026.36(f) (loan originator qualifications), and section 1026.36(g) (name and NMLSR ID on loan documents). The written policies and procedures must be appropriate to the nature, size, complexity, and scope of the mortgage lending activities of the depository and its subsidiaries (§1026.36(j)).

Prohibition on Mandatory Arbitration or Waivers of Certain Consumer Rights—Section 1026.36(h)

A contract or other agreement for a consumer credit transaction secured by a dwelling (including a home-equity line of credit secured by the consumer's principal dwelling) may not include terms that require mandatory arbitration or any other non-judicial procedure to resolve any controversy arising out of the transaction. Also, a contract or other agreement relating to such a consumer credit transaction may not be applied or interpreted to bar a consumer from bringing a claim in court under any provision of law for damages or other relief in connection with an alleged violation of any federal law. However, a creditor and a consumer could agree, after a dispute or claim under the transaction arises, to settle or use arbitration or other non-judicial procedure to resolve that dispute or claim.

Prohibition on Financing Credit Insurance—Section 1026.36(i)

Creditors are prohibited from "financing" (i.e., providing a consumer the right to defer payment beyond the monthly period in which the premium or fee is due), either directly or indirectly, premiums or fees for credit insurance in connection with a consumer credit transaction secured by a dwelling (including a home-equity line of credit secured by the consumer's principal dwelling). This prohibition includes financing fees for credit life, credit disability, credit unemployment, credit property insurance, or any other accident, loss of income, life, or health insurance or payment for debt cancellation or suspension. This prohibition does not apply to

credit unemployment insurance where the premiums are reasonable, the creditor receives no direct or indirect compensation in connection with the premiums, and the premiums are paid under a separate insurance contract and not to an affiliate of the creditor. This prohibition also does not apply to credit insurance where premiums or fees are "calculated" and paid in full "on a monthly basis" (i.e., determined mathematically by multiplying a rate by the actual monthly outstanding balance).

Negative Amortization Counseling— Section 1026.36(k)

A creditor may not extend a negative amortizing mortgage loan to a first-time borrower in connection with a closed-end transaction secured by a dwelling, other than a reverse mortgage or a transaction secured by a timeshare, unless the creditor receives documentation that the consumer has obtained homeownership counseling from a HUD certified or approved counselor. Additionally, a creditor extending a negative amortizing mortgage loan to a first-time borrower may not steer, direct, or require the consumer to use a particular counselor.

Loan Servicing Practices

Servicers of mortgage loans are prohibited from engaging in certain practices, such as pyramiding late fees. In addition, servicers are required to credit consumers' loan payments as of the date of receipt and provide a payoff statement within a reasonable time, not to exceed seven business days of a written request.

Payment Processing—Section 1026.36(c)(1)

For a consumer credit transaction secured by a consumer's principal dwelling, a loan servicer

- cannot fail to credit a periodic payment to the consumer's loan account as of the date of receipt, except in instances where the delay will not result in a charge to the consumer or in the reporting of negative information to a consumer reporting agency;

NOTE: For the purposes of section 1026.36(c) a periodic payment is "an amount sufficient to cover principal, interest, and escrow for any given billing cycle." If the consumer owes late fees, other fees, or non-escrow payments but makes a full periodic payment, the servicer must credit the periodic payment as of the date of receipt.

- cannot retain a partial payment (any amount less than a periodic payment) in a suspense or

unapplied payment account without disclosing to the consumer in the periodic statement (if required) the total amount(s) held in the suspense account and applying the payment to the balance upon accumulation of sufficient funds to equal a periodic payment.

If a servicer has provided written requirements for accepting payments in writing but then accepts payments that do not conform to the written requirements, the servicer must credit the payment as of five days after receipt.

Pyramiding of Late Fees—Section 1026.36(c)(2)

A servicer may not impose on the consumer any late fee or delinquency charge in connection with a payment, when the only delinquency is attributable to late fees or delinquency charges assessed on an earlier payment, and the payment is otherwise a periodic payment for the applicable period and is received on its due date or within any applicable courtesy period.

Providing Payoff Statements—Section 1026.36(c)(3)

For consumer credit transactions secured by a dwelling, including home-equity lines of credit under section 1026.40(a), a creditor, assignee, or servicer may not fail to provide, within a reasonable time, but no more than seven business days, after receiving a written request from the consumer or person acting on behalf of the consumer, an accurate statement of the total outstanding balance that would be required to pay the consumer's obligation in full as of a specific date.

NOTE: For purposes of section 1026.36(c)(3), when a creditor, assignee, or servicer is not able to provide the statement within seven business days because a loan is in bankruptcy or foreclosure, because the loan is a reverse mortgage or shared appreciation mortgage, or because of natural disasters or similar circumstances, the payoff statement must be provided within a reasonable time.

TILA-RESPA Integrated Disclosures— Sections 1026.37 and 1026.38

For most closed-end consumer mortgages, creditors must provide two disclosures, the Loan Estimate and the Closing Disclosure, to consumers for mortgage applications received on or after October 3, 2015. The Loan Estimate is a three-page form that provides disclosures to help consumers understand the key features, costs, and risks of the mortgage loan for which they are

applying. This form must be delivered or placed in the mail no later than three business days after the creditor receives a consumer's mortgage loan application. The Closing Disclosure is a five-page form that helps consumers understand all of the costs of the transaction. This form generally must be received by the consumer at least three business days before consummation. Both forms use similar language and design to make it easier for consumers to locate key information, such as the interest rate, monthly payments, and costs to close the loan.

The Loan Estimate form replaces the Good Faith Estimate designed by HUD under RESPA, and the "early" Truth in Lending disclosure designed by the Federal Reserve Board under TILA. The regulation and the Official Interpretations contain detailed instructions as to how each line on the Loan Estimate form should be completed. There are sample forms for different types of loan products. See CFPB's TILA-RESPA Integrated Disclosure, Guide to the Loan Estimate and Closing Disclosure forms (TILA-RESPA Guide to Forms) for a detailed, step-by-step walk-through for completing the Loan Estimate and the Closing Disclosure. The Loan Estimate form also incorporates new disclosures required by Congress under the Dodd-Frank Act.

The Closing Disclosure form replaces the HUD-1 for loan closing, which was designed by HUD under RESPA. It also replaces the revised Truth in Lending disclosure designed by the Board under TILA. The rule and the Official Interpretations contain detailed instructions as to how each line on the Closing Disclosure form should be completed. The Closing Disclosure form contains additional new disclosures required by the Dodd-Frank Act and a detailed accounting of the settlement transaction. See CFPB's TILA-RESPA Guide to Forms for a detailed, step-by-step walk-through for completing the Loan Estimate and the Closing Disclosure.

The rules on who provides the disclosures, timing, limits on when fees can be charged, early estimates, and limits on increases in charges are in 12 CFR 1026.19(e) and (f), described in subpart A.

Loan Estimate—Content of Disclosures for Certain Mortgage Transactions—Section 1026.37

Loan Estimate form required (§1026.37(o))

The Loan Estimate generally must provide consumers with a good faith estimate of credit costs and transaction terms, and satisfy timing and delivery requirements set forth in the rule.

For any transactions subject to 12 CFR 1026.19(e) that are federally related mortgage loans subject to

RESPA (which will include most mortgages), creditors must use form H-24, set forth in appendix H (§1026.37(o)(3)(i)). (See also §1024.2(b) for definition of federally related mortgage loan.)

For other loans subject to 12 CFR 1026.19(e) that are not federally related mortgage loans, the disclosures must be made with headings, content, and format substantially similar to form H-24 (§1026.37(o)(3)(ii)).

The disclosures may be provided to the consumer in electronic form, subject to compliance with the consumer consent and other applicable provisions of the Electronic Signatures in Global and National Commerce Act (15 U.S.C. 7001 *et seq.*) (§1026.37(o)(3)(iii)).

Information required on the Loan Estimate form. Most disclosures on the Loan Estimate form are required to be labeled using specific nomenclature, headings, and formatting. For example, the regulation requires that the form disclose the contract sale price, labeled "Sale Price" (or if there is no seller, the estimated value of the property, labeled "Prop. Value"). Further, in some instances, the regulation directs lines on the disclosure to be left blank where there is no charge (see, e.g., §1026.37(g)(2)(v)) or sets forth the maximum number of items that may be disclosed (see, e.g., §1026.37(g)(3)(v)). See the regulation, Form H-24, and the Regulation Z procedures for specific obligations regarding each required disclosure.

Rounding. Dollar amounts must be rounded to the nearest whole dollar where noted in the regulation, including adjustments after consummation for loan amount, interest rate, and periodic payment; and details about prepayment penalties and balloon payments, minimum and maximum amounts for principal and interest payments and range of payments, maximum mortgage insurance premiums, escrows, taxes and insurance and assessments, closing costs (loan costs and other costs), cash to close, and adjustable payment and comparisons (§1026.37(o)(4)(i)(A)).

The per diem amount for prepaid interest paid per day and the monthly amounts required to be disclosed for escrows of homeowner's insurance, mortgage insurance, or property taxes must not be rounded (§1026.37(o)(4)(i)(B)).

If an amount is required to be rounded but is composed of other amounts that are not required or permitted to be rounded, the unrounded amounts should be used to calculate the total, and the final sum should be rounded. Conversely, if an amount is required to be rounded and is composed of rounded amounts, the rounded amounts should be used to calculate the total (Comment 37(o)(4)-2).

Percentage amounts may not be rounded and should be disclosed up to two or three decimals, as

needed. These include the interest rate, adjustments after consummation (to the loan amount, interest rate, or periodic payment), points itemized under origination charges, adjustable interest rate and total interest percentage or “TIP.” The annual percentage rate must be disclosed up to three decimal places and is not rounded. If a percentage amount is a whole number, only the whole number should be disclosed, with no decimals (§1026.37(o)(4)(ii); Comment 37(o)(4)(ii)-1).

Page 1: General information, loan terms, projected payments, and costs at closing.

Page 1 of the Loan Estimate discloses general information about the creditor, the applicant(s), and the loan. It also includes a Loan Terms table with descriptions of applicable information about the loan, a Projected Payments table, a summary Costs at Closing table, and a link for consumers to obtain more information about loans secured by real property at a website maintained by the CFPB (§§1026.37(a)-(e)).

General information. Page 1 of the Loan Estimate requires the title “Loan Estimate” and the statement “Save this Loan Estimate to compare with your Closing Disclosure” (§1026.37(a)(1), (2)). The top of page 1 also requires the name and address of the creditor (§1026.37(a)(3)). A logo can be used for, and a slogan included along with, the creditor’s name and address, so long as the logo or slogan does not cause this information to exceed the space provided on Form H-24 for that information (§1026.37(o)(5)(iii)). If there are multiple creditors, only the name of the creditor completing the Loan Estimate should be used (comment 37(a)(3)-1). If a mortgage broker is completing the Loan Estimate, the mortgage broker should make a good faith effort to disclose the name and address of the creditor as required by 12 CFR 1026.19(e)(1)(i). However, if the name of the creditor is not yet known, this space may be left blank. (Comment 37(a)(3)-2).

Below the creditor information, the form requires the date the creditor mails or delivers the disclosures to the consumer; the name and mailing address of the consumer(s) applying for the credit; the address, including the zip code, of the property that secures or will secure the transaction, or if the address is unavailable, the location of such property, including a zip code; and the contract sale price (or if there is no seller, the estimated value of the property) (§1026.37(a)(4)-(6)).

On the top-right side of the first page, the form requires the loan term to maturity (stated in years or months, or both, as applicable; and loan purpose (purchase, refinance, construction or home-equity loan) (§1026.37(a)(8)-(9)). This section of the form also requires the product type (adjustable rate,

step rate, or fixed rate) and, preceding the type, any features that may change the periodic payment, including negative amortization, interest only, step payment, balloon payment, or seasonal payment features, as applicable. If the product has an adjustable or step rate, or a feature that may change the periodic payment, the product disclosure must also be preceded by a disclosure of the duration of any introductory rate or payment period, and the first adjustment period, as applicable (§1026.37(a)(10)). This section of the form also requires the loan type (conventional, FHA, VA, or other), and loan identification number (§1026.37(a)(11)-(12)). Further, there must be a statement of whether the interest rate is locked for a specific time, and if so, the date and time when that period ends. It must also include a statement that the interest rate, any points, and any lender credits may change unless the interest rate has been locked, and the date and time (including the applicable time zone) at which estimated closing costs expire (§1026.37(a)(13)).

Loan Terms table. The Loan Terms table follows the general information requirements on page 1 of the Loan Estimate. For the Loan Terms table, the creditor must disclose the loan amount (the amount of credit to be extended under the terms of the legal obligation), interest rate applicable to the transaction at consummation, and specified principal and interest payments (§1026.37(b)(1)-(3)). For each such element, the disclosure must answer the question, either affirmatively or negatively, whether the amount can increase after consummation. If the amount can increase, the loan must disclose additional information (§1026.37(b)(6)). The Loan Terms table must also include information about prepayment penalties and balloon payments.

Loan amount. If the loan amount may increase after consummation, the disclosure must include the maximum principal balance for the transaction and the due date of the last payment that may cause the principal balance to increase. The disclosure must also indicate whether the maximum principal balance is potential or is scheduled to occur under the terms of the legal obligation (§1026.37(b)(6)(i)).

Interest rate. If it is an adjustable rate transaction where the interest rate at consummation is not known, the disclosed rate is the fully indexed rate (which means the index value and margin at the time of consummation) (§1026.37(b)(2)). If the interest may increase after consummation, the creditor must disclose the frequency of interest rate adjustments, the date when the interest rate may first adjust, the maximum interest rate, and the first date when the interest rate can reach the maximum interest rate, followed by a reference to the adjustable rate table required by 12 CFR 1026.37(j)

in the Closing Cost Details section of the Loan Estimate. If the loan term may increase based on an interest rate adjustment, that fact must be included, as well as the maximum possible loan term determined in accordance with section 1026.37(a)(8) (§1026.37(b)(6)(ii)).

Principal and interest payment. The creditor must disclose the initial periodic payment that will be due under the terms of the legal obligation, immediately preceded by the applicable unit period, and a statement referring to the payment amount that includes any mortgage insurance and escrow payments that is required to be disclosed in the Projected Payments table (§1026.37(b)(3)). If the monthly principal and interest payment can increase after closing, the creditor must also disclose: the scheduled frequency of adjustments to the periodic principal and interest payment, the due date of the first adjusted principal and interest payment, the maximum possible periodic principal and interest payment, and the date when the periodic principal and interest payment may first equal the maximum principal and interest payment. If any adjustments to the principal and interest payment are not the result of a change to the interest rate, the creditor must reference the adjustable interest rate table disclosure required by 12 CFR 1026.37(i). If there is a period during which only interest is required to be paid, the disclosure must also state that fact and the due date of the last periodic payment of such period (§1026.37(b)(6)(iii)).

Prepayment penalties and balloon payments. The Loan Terms table must also state affirmatively or negatively whether the transaction includes a prepayment penalty (for these purposes, a charge imposed for paying all or part of a transaction's principal before the date on which the principal is due, other than a waived, bona fide third-party charge that the creditor imposes if the consumer prepays all of the transaction's principal sooner than 36 months after consummation) or a balloon payment (for these purposes, a payment that is more than two times a regular periodic payment) (§1026.37(b)(4) and (5)).

Projected Payments table. The Projected Payments table is located directly below the Loan Terms table on page 1 of the Loan Estimate. The Projected Payments table shows estimates of the periodic payments that the consumer will make over the life of the loan. Creditors must disclose estimates of the following periodic payment amounts in the Projected Payments table: periodic principal and interest (or range of periodic payments); mortgage insurance; estimated escrow; and estimated total monthly payment (§1026.37(c)(2)). Creditors must also disclose estimated taxes, insurance, and assessments, even if not paid with

escrow funds (and whether these items will be paid with funds from the consumer's escrow account) (§1026.37(c)(4)).

Generally, the creditor will show in one column the initial periodic payment (or range of payments if required). Depending on the features of the loan, subsequent periodic payments also may be required to be disclosed. However, no more than four separate periodic payments or ranges of payments may be disclosed, beginning with the initial periodic payment. Events that require disclosure of separate periodic payments or ranges include: changes to the periodic principal and interest payment, a scheduled balloon payment, an automatic termination of mortgage insurance or its equivalent, and the anniversary of the due date of the initial periodic payment or range of payments that immediately follows the occurrence of multiple events that change the periodic principal and interest. The regulation addresses how to disclose these events when the event occurs after the third separate periodic payment or range of payments disclosed (§1026.37(c)(1)).

Each separate payment or range of payments must be itemized according to the regulation, including the amount payable for principal and interest. The regulation provides instructions for itemizing payments that include an interest only payment, payments on loans with an adjustable interest rate, and payments on a loan that has both an adjustable interest rate and a negative amortization feature. Additionally, the regulation requires that each separate periodic payment or range of payments itemize the maximum corresponding payable for mortgage insurance premiums and the amount payable into escrow (with a statement that the amount disclosed may increase over time and a calculation of the total monthly payment) (§1026.37(c)(2)).

Below the estimated total monthly payment, the Projected Payments table discloses estimated taxes, insurance, and assessments. These are stated as a monthly amount and include a statement that the amount may increase over time. The creditor provides these estimates even if there will be no escrow account established for these costs. The table also requires a statement of whether the amount disclosed includes payments for property taxes or other amounts; a description of any such other amounts; and an indication of whether such amounts will be paid by the creditor using escrow account funds. It includes a statement that the consumer must separately pay the taxes, insurance, and assessments that are not paid by the creditor using escrow account funds, and a reference to the information disclosed under the subheading on the Loan Estimate titled "Initial Escrow Payment at Closing" (§1026.37(c)(4)).

The creditor estimates property taxes and homeowner's insurance using the taxable assessed value of the real property securing the transaction after consummation, including the value of any improvements on the property or to be constructed on the property, if known, whether or not such construction will be financed from the proceeds of the transaction, for property taxes, and the replacement costs of the property during the initial year after the transaction, for premiums or other charges for insurance against loss of or damage to property identified in 12 CFR 1026.4(b)(8) (§1026.37(c)(5)).

Costs at Closing table. This table, located at the bottom of page 1, provides disclosures on estimated Closing Costs and estimated Cash to Close (§1026.37(d)(1)). These disclosures offer the consumer a high-level summary of estimated closing costs and cash required to close (including closing costs) and reference the more detailed itemizations found on page 2 of the Loan Estimate (§§1026.37(d)(1)(i)(E) and (ii)(B)).

Items that are disclosed include an estimate of Total Closing Costs, as well as the key inputs making up this total: Loan Costs, Other Costs, and Lender Credits (and the fact that total closing costs include these amounts) (§1026.37(d)(1)(i)). These disclosures also provide a high-level summary of the estimated amount of cash required to close, which is also itemized more specifically on page 2 of the Loan Estimate (§1026.37(d)(1)(ii)). The regulation provides an optional alternative Cash to Close table for transactions that do not involve a seller. The creditor may alternatively disclose, using the label "Cash to Close," the cash to or from the consumer (pursuant to 1026.37(h)(2)(iv)), a statement of whether the disclosed estimated amount is due from or to the consumer, and a statement referring the consumer to the alternative Calculating Cash to Close table for transactions without a seller (pursuant to 1026.37(h)(2)) (§1026.37(d)(2)).

Page 2: Closing cost details

Page 2 of the Loan Estimate contains a good faith itemization of the "Loan Costs" and "Other Costs" associated with the loan (§1026.37(f) and (g)). Generally, Loan Costs are those costs paid by the consumer to the creditor and third-party providers of services the creditor requires to be obtained by the consumer during the origination of the loan (§1026.37(f)). Other Costs include taxes, governmental recording fees, and certain other payments involved in the real estate closing process (§1026.37(g)). Page 2 also includes an itemized "Calculating Cash to Close" table to show the consumer how the amount of cash needed at closing is calculated (§1026.37(h)). In addition, for transactions with adjustable monthly payments not

based on changes to the interest rate, page 2 must include an Adjustable Payment (AP) table with relevant information about how the monthly payments will change (§1026.37(i)). Further, for transactions with adjustable interest rates, page 2 must include an Adjustable Interest Rate (AIR) table with relevant information about how the interest rate will change (§1026.37(j)).

If state law requires additional disclosures, those additional disclosures may be made on a document whose pages are separate from, and not presented as part of, the Loan Estimate (Comments 37(f)(6)-1 and 37(g)(8)-1).

Loan Costs table. This table includes all loan costs associated with the transaction, broken down into an itemization of three types of costs:

- origination charges the consumer will pay to each creditor and loan originator for originating and extending credit (including separate itemization for points paid to the creditor to reduce the interest rate as both a percentage of the amount of credit extended and dollar amount) (up to 13 line items); the following items should be itemized separately in the Origination Charges subheading:
 - compensation paid directly by a consumer to a loan originator that is not also the creditor (Comments 37(f)(1)-2 and -5); or
 - any charge imposed to pay for a loan level pricing adjustment assessed on the creditor that is passed on to the consumer as a cost at consummation and not as an adjustment to the interest rate (Comment 37(f)(1)-5).
- services the consumer cannot shop for (items provided by persons other than the creditor or mortgage broker that the consumer cannot shop for and will pay for at settlement, such as appraisal fees and credit report fees) (up to 13 line items); and
- services the consumer can shop for (such as a pest inspection fee, survey fee, or closing agent fee) (up to 14 line items) (§1026.37(f)(2) and (3)).

Regarding origination fees, only charges paid directly by the consumer to compensate a loan originator are included in the itemization. Compensation of a loan originator paid indirectly by the creditor through the interest rate is not itemized (but is itemized on the Closing Disclosure; see below) (Comment 37(f)(1)-2).

NOTE: Items that are a component of title insurance must include the introductory description of "Title -" (§1026.37(f)(2)(i) and (g)(4)(i)).

NOTE: The disclosure of "lender credits," as identified in §1026.37(g)(6)(ii), is required by §1026.19(e)(1)(i). "Lender credits," as identified in

§1026.37(g)(6)(ii), represents the sum of non-specific lender credits and specific lender credits. Non-specific lender credits are generalized payments from the creditor to the consumer that do not pay for a particular fee on the disclosures provided pursuant to §1026.19(e)(1). Specific lender credits are specific payments, such as a credit, rebate, or reimbursement, from a creditor to the consumer to pay for a specific fee. Non-specific lender credits and specific lender credits are negative charges to the consumer (Comment 19(e)(3)(i) -5).

The sum of these amounts must be disclosed as Total Loan Costs. The regulation includes a required order and terminology for each item (§1026.37(f)(1)-(5)). If the creditor does not have enough lines for each subheading, it must disclose the remaining items as an aggregate number (§1026.37(f)(6)(i)). An addendum is not permitted for origination charges or charges the consumer cannot shop for that exceed the maximum number of lines but is permitted for services the consumer can shop for, provided the creditor appropriately references the addendum (§1026.37(f)(6)(ii)).

Other Costs table. The Other Costs table captures costs established by government action, determined by standard calculations applied to ongoing fixed costs, or based on an obligation incurred by the consumer independently of any requirement imposed by the creditor (Comment 37(g)-1). The table includes

- taxes and other governmental fees (recording fees and other taxes, and transfer taxes paid by the consumer, separately itemized);
- prepaids (amounts paid by the consumer before the first scheduled payment, such as homeowner insurance premiums, mortgage insurance premiums, prepaid interest, and property taxes, plus up to three additional line items);
- initial escrow payment at closing (items that the consumer will be expected to place into a reserve or escrow account at consummation to be applied to recurring periodic charges; these include homeowner's insurance, mortgage insurance, and property taxes, plus up to five additional line items); and
- other amounts the consumer is likely to pay (such as real estate agent commissions, up to five line items) (§1026.37(g)(1)-(4), Comment 37(g)(4)-4).

NOTE: Items that disclose any premiums paid for separate insurance, warranty, guarantee, or event-coverage products not required by the creditor must include the parenthetical description (optional) at the end of the label (§1026.37(g)(4)(ii)).

As with Loan Costs, the regulation includes a required order, terminology, and specific information regarding each Other Costs line item, such as

the applicable time period covered by the amount paid at consummation and the total amount to be paid. Items that disclose any premiums paid for separate insurance, warranty, guarantee, or event-coverage products not required by the creditor must include the parenthetical description (optional) at the end of the label (§1026.37(g)(4)(ii)). An addendum is not permitted; if the creditor does not have enough lines for each subheading, it must disclose the remaining items as an aggregate number (§1026.37(g)(8)). The sum of these amounts must be disclosed as a line item as Total Other Costs (§1026.37(g)(5)). Below this total, the sum of Total Loan Costs and Total Other Costs, less any lender credits (separately itemized), must be disclosed as a line item as Total Closing Costs (§1026.37(g)(6)).

Calculating Cash to Close table. The Calculating Cash to Close table shows the consumer how the amount of cash needed at closing is calculated (§1026.37(h)(1)). The creditor must itemize the total amount of cash or other funds that the consumer must provide at consummation. The itemization includes

- total closing costs (§1026.37(h)(1)(i));
- closing costs to be financed (i.e., paid out of loan proceeds, disclosed as a negative number) (§1026.37(h)(1)(ii));
- down payment and other funds from the borrower (in a purchase transaction, the difference between purchase price of property and principal amount of loan, disclosed as a positive number; in other transactions, estimated funds from the consumer—see “funds for the borrower” below) (§1026.37(h)(1)(iii));
- deposit (in a purchase transaction, the amount that is paid to the seller or held in trust or escrow by an attorney or other party under the terms of the agreement for the sale of the property, disclosed as a negative number, and labeled “deposit;” in all other transactions, the amount of \$0, labeled “deposit”) (§1026.37(h)(1)(iv));
- funds for the borrower (determined by subtracting the principal amount of the credit extended from the total amount of existing credit being satisfied, and if the amount is a positive number, disclosed as that number, but if the amount is \$0 or a negative number, it is disclosed as \$0) (§1026.37(h)(1)(v));
- seller credits (the amount the seller will pay for total loan costs and total other costs, to the extent known, disclosed as a negative number) (§1026.37(h)(1)(vi));
- adjustments and other credits (§1026.37(h)(1)(vii)).
- Estimated Cash to Close is calculated and

disclosed in the same table based on these amounts listed in 12 CFR 1026.37(h)(1)(i) to (vii) (§1026.37(h)(1)(viii)).

For transactions without a seller, the creditor can use the optional alternative table and provide, under the heading Closing Cost Details, the total amount of cash or other funds that must be provided by the consumer at consummation with an itemization of the following component amounts (1026.37(h)(2)):

- loan amount (disclosed under 1026.37(b)(1) (1026.37(h)(2)(i)))
- total closing costs (disclosed under 1026.37 (g)(6) (1026.37(h)(2)(ii)))
- payoffs and payments—the total amount of payoffs and payments to third parties not otherwise disclosed under 12 CFR 1026.37(f) and (g) (1026.37(h)(2)(iii))
- cash to or from consumer—the amount of cash or other funds due from or to the consumer and a statement of whether the disclosed estimated amount is due from or to the consumer, calculated by the sum of the loan amount, total closing costs and payoffs and payments under 12 CFR 1026.37(h)(2)(i)-(iii)), only to the extent that the sum is greater than zero and less than the total closing costs (1026.37(g)(6)) and labeled “Cash to Close” (1026.37(h)(2)(iv))
- closing costs financed—the sum of the amounts disclosed under 12 CFR 1026.37(h)(2)(i) and (iii) (loan amount and payoffs and payments), but only to the extent that the sum is greater than zero and less than the total closing costs (1026.37(g) (6)), labeled “Closing Costs Financed (Paid from your Loan Amount)” (1026.37(h)(2)(v))

Adjustable Payment (AP) table. This table is for transactions with adjustable monthly payments for reasons other than adjustments to the interest rate, or if the transaction is a seasonal payment product. The table provides consumers with relevant information about how the monthly payments will change. If the transaction does not contain such terms, the table may not be on the Loan Estimate (§1026.37(i); Comment 37(i)-1).

The AP table requires answers to the following questions:

- whether there are interest only payments, and, if so, the period during which the interest only payment would apply (§1026.37(i)(1));
- whether the amount of any periodic payment can be selected by the consumer as an optional payment and, if so, the period during which the consumer can select optional payments (§1026.37(i)(2));
- whether the loan is a step payment product and,

if so, the period during which the regular periodic payments are scheduled to increase (§1026.37 (i)(3));

- whether the loan is a seasonal payment product, and, if so, the period during which the periodic payments are not scheduled (§1026.37(i)(4)); and
- a subheading of monthly principal and interest payments, with specified information about the first payment change and amount; frequency of subsequent changes; and maximum periodic payment that may occur during the loan term (and first date the maximum is possible) (§1026.37(i)(5)).

Adjustable Interest Rate (AIR) table. For transactions with adjustable interest rates, an AIR table provides consumers with relevant information about how the interest rate will change (§1026.37(j)). The AIR table must be completed if the interest rate may increase after consummation. However, if the legal obligation does not permit the interest rate to adjust after consummation, this table is not permitted to appear on the Loan Estimate (§1026.37(j)(1); Comment 37(j)-1).

The AIR table includes the following information (§1026.37(j)):

- for non-step-rate products, the index upon which adjustments to the interest rate will be based and the margin that is added to the index to determine the interest rate (§1026.37(j)(1));
- for step rate products, the maximum amount of any adjustments to the interest rate that are scheduled and predetermined (§1026.37(j)(2));
- the initial interest rate at consummation (§1026.37 (j)(3));
- the minimum/maximum interest rate for the loan, after any introductory period expires (§1026.37(j) (4));
- the frequency of adjustments (first and subsequent adjustments) (§1026.37(j)(5)); and
- any limits on interest rate changes (§1026.37(j) (6)).

Page 3: Additional information about the loan

Page 3 of the Loan Estimate contains contact information, a Comparisons table, an Other Considerations table, and, if desired, a Signature Statement for the consumer to sign to acknowledge receipt (see §1026.37(k), (l), (m), and (n)).

Contact information. The top of page 3 includes the name and NMLSR or License ID number for the creditor and mortgage broker, if any; and name and NMLSR or License ID of individual loan officer

who is the primary contact for the consumer, along with that person's e-mail address and phone number (§1026.37(k)).

Comparisons table. The Comparisons table follows the contact information and allows consumers to compare loans. The creditor must provide the

- total dollar amount of principal, interest, mortgage insurance, and loan costs scheduled to be paid through the end of the 60th month after the due date of the first periodic payment;
- total dollar amount of principal scheduled to be paid through the end of the 60th month after the due date of the first periodic payment;
- annual percentage rate using that term and the abbreviation "APR" and expressed as a percentage; and
- total interest percentage that the consumer will pay over the life of the loan, expressed as a percentage of the amount of credit extended, using the term "Total Interest Percentage" and the abbreviation "TIP."

Each of these disclosures must be accompanied by a specified descriptive statement (§1026.37(l)).

Other Considerations. Below the Comparisons table is a section regarding "other considerations" about the loan. This section includes disclosures on appraisals, assumptions, whether homeowner's insurance is required, applicable late payment fees, a warning about refinancing, whether the creditor intends to service the loan or transfer servicing, liability after foreclosure, and an optional statement that a revised Loan Estimate can be provided up to 60 days prior to consummation when the loan is for new construction (§1026.37(m)).

The consumer is not required to sign the Loan Estimate. If the creditor adds a signature statement on page 3 of the Loan Estimate to confirm receipt by the consumer, it must use the model form language. If the creditor chooses not to use the confirm receipt table, it must include a statement that "You do not have to accept this loan because you have received this form or signed a loan application" (§1026.37(n)).

Closing Disclosure—Content of Disclosures for Certain Mortgage Transactions—Section 1026.38

Closing Disclosure Form Required (§1026.38(t)(3)(i))

The Closing Disclosure generally must contain the actual terms and costs of the transaction and must satisfy timing and delivery requirements set forth in the rule.

For any loans subject to 12 CFR 1026.19(f) that are federally related mortgage loans subject to RESPA (which will include most mortgages), creditors must use form H-25, set forth in appendix H (§1026.38(t)(3)(i)) (see also §1024.2(b) for definition of federally related mortgage loan).

For other loans subject to 12 CFR 1026.19(f) that are not federally related mortgage loans, the disclosures must contain the exact same information and be made with headings, content, and format substantially similar to form H-25 (§1026.38(t)(3)(ii)).

Information required on the Closing Disclosure. As with the Loan Estimate, most disclosures on the Closing Disclosure form are required to be labeled using specific nomenclature, headings, and formatting. Similarly, in some instances, the regulation directs lines on the disclosure to be left blank where there is no charge or sets forth the maximum number of items that may be disclosed. See the regulation, Form H-25, and the Regulation Z procedures for specific obligations regarding each required disclosure.

Rounding. Dollar amounts generally must not be rounded except where noted in the regulation (§1026.38(t)(4)(i)). If an amount must be rounded but is composed of other amounts that are not required or permitted to be rounded, the unrounded amounts should be used to calculate the total, and the final sum should be rounded. Conversely, if an amount is required to be rounded and is composed of rounded amounts, the rounded amounts should be used to calculate the total (Comment 38(t)(4)-2). Percentage amounts should not be rounded and are disclosed up to two or three decimals, as needed, except where noted in the regulation. If a percentage amount is a whole number, only the whole number should be disclosed, with no decimals (§1026.38(t)(4)(ii)).

Page 1: General Information, Loan Terms, Projected Payments, and Costs at Closing

General information, the Loan Terms table, the Projected Payments table, and the Costs at Closing table are disclosed on the first page of the Closing Disclosure (§1026.38(a), (b), (c), and (d)). These disclosures mirror the disclosures in the Loan Estimate, and there is a required statement to compare the document with the Loan Estimate (§1026.38(a)(2)).

Page 1 of the Closing Disclosure is similar, but not identical, to the Loan Estimate. Page 1 of the Closing Disclosure provides general closing, transaction, and loan information. It also includes a Loan Terms table with descriptions of applicable information about the loan, a Projected Payments table,

and a summary Costs at Closing table (§1026.38(a)-(d)).

General Information

The top of page 1 of the Closing Disclosure requires the title “Closing Disclosure” and a specified statement to compare the disclosure with the Loan Estimate (§1026.38(a)(1) and (2)). The top of page 1 also requires general closing, transaction, and loan information.

Closing information includes the date the Closing Disclosure was delivered to the consumer, closing date, (i.e., the date of consummation), the disbursement date, settlement agent conducting the closing, file number assigned by the settlement agent, property address or location, and sale price (or appraised property value if there is no seller) (§1026.38(a)(3)). For transactions without a seller for which the creditor has not obtained an appraisal, the creditor may disclose the estimated value of the property, using the estimate provided by the consumer at application or the estimate the creditor used to determine approval of the credit transaction (Comment 38(a)(3)(vii)-1).

Transaction information includes the borrower's name and mailing address, the seller's name and mailing address, and the name of the creditor making the disclosure (§1026.38(a)(4)).

Loan information includes the loan term, purpose, product, loan type, loan ID number (using the same number as on the Loan Estimate), and mortgage insurance case (MIC #), if required by the creditor (§1026.38(a)(5)). Other than the MIC #, this information is determined by the same definitions for those items on the Loan Estimate, updated to reflect the terms of the legal obligation at consummation (Comment 38(a)(5)-1).

Loan Terms Table

The Loan Terms table is located under the above described general information disclosures. The information for this table is the same as that required in the Loan Estimate under 12 CFR 1026.37(b), updated to reflect the terms of the legal obligation at consummation (§1026.38(b)).

Projected Payments Table

The Projected Payments table is located directly below the Loan Terms table on page 1 of the Closing Disclosure. The information for this table is generally the same as that required in the Loan Estimate under 12 CFR 1026.37(c)(1) through (4), updated to reflect the terms of the legal obligation at consummation (other than the reference to closing cost details required by §1026.37(c)(4)(vi)). The estimated escrow payments disclosed on the Closing Disclosure for transactions subject to RESPA are determined under the escrow account

analysis described in Regulation X, 12 CFR 1024.17. For transactions not subject to RESPA, estimated escrow payments may be determined under the escrow account analysis described in Regulation X, 12 CFR 1024.17 or in the manner set forth in 12 CFR 1026.37(c)(5). There is also a required reference to the detailed escrow account disclosures on page 4 of the Closing Disclosure (§1026.38(c)).

Costs at Closing Table

This table, located at the bottom of page 1, provides disclosures on Closing Costs and Cash to Close (§1026.38(d)). These disclosures offer the consumer a high-level summary of closing costs and reference the more detailed itemizations found on pages 2 and 3 of the Closing Disclosure (§1026.38(d)(1)(i)(E) and §1026.38(d)(1)(ii)(B)).

Items that are disclosed on the Cash at Closing table include Total Closing Costs, as well as the key inputs making up this total: Loan Costs and Other Costs, less Lender Credits (and the fact that total closing costs include these amounts) (§1026.38(d)(1)(i)). The table also discloses Cash Required to Close (§1026.38(d)(1)(ii)). For transactions without a seller, the creditor must use the alternative Calculating Cash to Close table when the alternative costs at closing table was used on the Loan Estimate (§1026.38(d)(2)).

Page 2: Closing Cost Details; Loan Costs and Other Costs

Page 2 of the Closing Disclosure contains an itemization of the “Loan Costs” and “Other Costs” associated with the loan (§1026.38(f), (g), and (h)). In each case, the amounts paid by the consumer, seller, and others are separately disclosed. For items paid by the consumer or seller, amounts that are paid at closing are disclosed in a column separately from amounts paid before closing (§1026.38(f)).

The number of items in the Loan Costs and Other Costs tables can be expanded and deleted to accommodate the disclosure of additional line items and to keep the Loan Costs and Other Costs tables on page 2 of the Closing Disclosure (§1026.38(t)(5)(iv)(A); Comment 38(t)(5)(iv)-2). However, items that are required to be disclosed even if they are not charged to the consumer (such as Points in the Origination Charges subheading) cannot be deleted (Comment 38(t)(5)(iv)-1).

Further, the Loan Costs and Other Costs tables can be disclosed on two separate pages of the Closing Disclosure, but only if the page cannot accommodate all of the costs required to be disclosed on one page (§1026.38(t)(5)(iv)(B); Comment 38(t)(5)(iv)-2). When used, these pages are

numbered page 2a and 2b (Comment 38(t)(5)(iv)-3). For an example of this permissible change to the Closing Disclosure, see form H-25(H) of appendix H to Regulation Z.

Loan Costs Table

All loan costs associated with the transaction are listed in a table under the heading "Loan Costs," with the items and amounts listed under four subheadings:

1. origination charges
2. services borrower did not shop for
3. services borrower did shop for
4. total loan costs (§1026.38(f)(1)-(5))

Items should generally be the same as disclosed on the Loan Estimate, updated to reflect the terms of the legal obligation at consummation, except as discussed below (§1026.38(f)).

Origination Charges. All loan originator compensation is disclosed as an origination charge, including compensation from the creditor to a third-party loan originator (which was not disclosed on the Loan Estimate). Compensation from the consumer to a third-party loan originator is designated as Borrower-Paid at Closing or before closing on the Closing Disclosure (§1026.38(f)(1); Comment 38(f)(1)-2). Compensation from the creditor to a third-party loan originator is designated as Paid by Others on the Closing Disclosure (comment 38(f)(1)-2). This line item must also disclose the name of the loan originator ultimately receiving the payment (§1026.38(f)(1)). A designation of "(L)" can be listed with the amount to indicate that the creditor pays the compensation at consummation. This is the same as the amount of third-party compensation included in points and fees for purposes of determining the consumer's ability to repay the loan. Compensation to individual loan originators is not calculated or disclosed on the Closing Disclosure (Comment 38(f)(1)-3).

Services the consumer did or did not shop for. The following are disclosed under "Services Borrower Did Not Shop For," regardless of where it was located on the Loan Estimate:

- items that the consumer could have shopped for, but did not
- when a consumer chooses a provider that is on the written list of providers for a service on the Loan Estimate (§1026.38(f)(2))

Items are re-alphabetized when an item is added to or removed from a particular subheading.

The amounts that are designated as Borrower-Paid at or before closing are subtotalled as Total Loan Costs (Borrower-Paid) (§1026.38(f)(5)). Amounts designated as Seller-Paid or Paid by

Others are not included in this subtotal (rather, they are included elsewhere in the Closing Cost Subtotal) (Comment 38(f)(5)-1; §1026.38(h)(2)).

Other Costs Table

Items should generally be the same as disclosed on the Loan Estimate, updated to reflect the terms of the legal obligation at consummation, except as discussed below (§1026.38(g)).

Taxes and other government fees. Itemized transfer taxes paid by the consumer and by the seller are disclosed, instead of just the sum total of transfer taxes to be paid by the consumer (§1026.38(g)(1)).

Prepays. An itemization of homeowner's insurance premiums, mortgage insurance premiums, prepaid interest, property taxes and a maximum of three additional items (see 1026.37(g)(2)), the name of the person ultimately receiving the payment or government entity assessing the property tax, and the total of all such itemized amounts that are designated Borrower-Paid at or before closing (§1026.38(g)(2)).

Initial escrow payment at closing. Property taxes paid during different time periods may be disclosed as separate items (§1026.38(g)(3)).

This section of the table also includes, as the last item disclosed, an Aggregate Adjustment calculated pursuant to Regulation X, 12 CFR 1024.17(d)(2) (§1026.38(g)(3)).

Other. This section of the table includes charges for services that are required or obtained in the real estate closing by the consumer, the seller, or other party, and the name of the person ultimately receiving the payment, even if not initially disclosed on the Loan Estimate (§1026.38(g)(4)). This includes all real estate brokerage fees, homeowner's or condominium association charges paid at consummation, home warranties, inspection fees, and other fees that are part of the real estate closing but not required by the creditor or not disclosed elsewhere on the Closing Disclosure (Comment 38(g)(4)-1). The amount of real estate commissions paid must be the total amount paid to any real estate brokerage as a commission, regardless of the identity of the party holding any earnest money deposit (Comment 38(g)(4)-4).

If there are costs that are a component of title insurance services, their label must begin with "Title -" and, if there are costs designated Borrower-Paid at or before closing for any premiums paid for separate insurance, warranty, guarantee, or event-coverage products, they must be labeled "(optional)" (§1026.38(g)(4)(i) and (ii)).

The sum of any of these amounts that are Borrower-Paid must be disclosed as a line item as

Total Other Costs (Borrower-Paid) (§1026.38(g)(5)). Below this total, the sum of Total Loan Costs and Total Other Costs (Borrower-Paid), less any lender credits (separately itemized), must be disclosed as a line item as Total Closing Costs (Borrower-Paid) (§§1026.38(g) and (h)).

Page 3: Calculating cash to close, summaries of transactions, and alternatives for transactions without a seller

Page 3 of the Closing Disclosure contains the Calculating Cash to Close table and Summaries of Transactions tables (§1026.38(i), (j), and (k)).

Calculating Cash to Close

The Calculating Cash to Close table permits the consumer to see what costs have changed from the Loan Estimate. This table contains nine items:

1. Total Closing Costs
2. Closing Costs Paid before Closing
3. Closing Costs Financed
4. Down Payment/Funds from Borrower
5. Deposit
6. Funds for Borrower
7. Seller Credits
8. Adjustments and other Credits
9. Total Cash to Close (§1026.38(ii))

The table has three columns that disclose (1) the amount for each item as it was disclosed on the Loan Estimate, (2) the final amount for the item, and (3) an answer to the question "Did this change?" (§1026.38(i)). Generally, the amounts disclosed in the Loan Estimate column will be the amounts disclosed on the Loan Estimate (or a revised Loan Estimate) (§1026.38(i)(1)(i), (3)(i), (4)(i), (5)(i), (6)(i), (7)(i), (8)(i), (9)(i)).

Funds from the borrower and funds for the borrower are determined by subtracting the principal amount of the credit extended (excluding the actual amount of the closing costs that are to be paid out of loan proceeds, if any, stated as a negative number, disclosed pursuant to 12 CFR 1026.38(i)(3)(ii)) from the total amount of all existing debt being satisfied in the real estate closing and disclosed as the amounts the consumer owes or is reimbursing to the seller under section 1026.38(j)(1)(v), (except for the amount of debt satisfied and disclosed as other costs in the closing costs details under section 1026.38(g)) (§§1026.38(i)(6)(iv) and (j)(1)(v)). If this amount is positive, it is disclosed as \$0 under the heading "Funds for Borrower." If this amount is a negative number, it is disclosed under the heading "Funds for Borrower" stated as a negative number, and \$0 must be disclosed under

"Funds from Borrower." If the amount is \$0, then \$0 must be disclosed under both the headings for "Funds from Borrower" and "Funds for Borrower" (§1026.38(i)(6)(iv)).

When amounts have changed, the disclosure must indicate where the consumer can find the amounts that have changed on the Loan Estimate. For example, if the Seller Credit amount changed, the creditor can indicate that the consumer should "See Seller Credits in Section L" (Comment 38(i)-3). Other examples of language for these items are found in example form H-25(B) in appendix H of Regulation Z.

Increases in total closing costs that exceed legal limits. When the increase in Total Closing Costs exceeds the legal limits on closing costs set forth in 12 CFR 1026.19(e)(3), the form must disclose a statement that an increase in closing costs exceeds the legal limits by the dollar amount of the excess in the "Did this change?" column (§1026.38(i)(1)(iii)(A)(3)). A statement directing the consumer to the Lender Credit on page 2 must also be included if a credit to the consumer at closing for the excess amount is provided by the creditor (Comment 38(i)(1)(iii)(A)-3). The dollar amount must be the sum of all excess amounts, taking into account the different methods of calculating excesses of the limitations on increases in closing costs under 12 CFR 1026.19(e)(3)(i) and (ii) (§1026.38(i)(1)(iii)(A)(3)).

Closing Costs Paid Before Closing. The amount disclosed in the Loan Estimate column for the "Closing Costs Paid Before Closing" item is \$0 (§1026.38(i)(2)(i)). The Final column should disclose the same amount designated as Borrower-Paid Before Closing in the Closing Costs Subtotals of the Other Costs table on page 2 of the Closing Disclosure. Under the subheading "Did this change?" if the amount disclosed here is different from the amount disclosed in the Loan Estimate, include a statement of that fact; and if it is equal to the amount disclosed on the Loan Estimate, include a statement of that fact (§1026.38(i)(2)(iii)).

Alternative Calculating Cash to Close Table

For transactions without a seller where the alternative Calculating Cash to Close table was used on the Loan Estimate, the Closing Disclosure must also use the alternative Calculating Cash to Close table under 12 CFR 1026.38(e). These items include

1. loan amount,
2. total closing costs,
3. closing costs paid before closing,
4. payoffs and payments,
5. cash to or from consumer, and

6. closing costs financed.

The table has three columns that disclose (1) the amount for each item as it was disclosed on the Loan Estimate, (2) the final amount for the item, and (3) an answer to the question “Did this change?” along with a statement of whether the amount increased, decreased or is equal to the amount disclosed in the Loan Estimate (§1026.38(e)). Generally, the amounts disclosed in the Loan Estimate column will be the Loan Amount, Total Closing Costs, Closing Costs Paid before Closing, and the Total Payoffs and Payments (§1026.38(e)(1)(i), (2)(i), (3)(i), (4)(i)).

Cash to or from the consumer is disclosed in the first two columns of the row labeled Cash to Close. The first column contains amounts disclosed in the Loan Estimate. The second column discloses the final amount due from or to the consumer, calculated by the sum of the amounts disclosed (pursuant to §1026.38(e)(1)(i), (2)(i), (3)(i), (4)(i)) as final Loan Amount, Total Closing Costs, Closing Costs Paid before Closing, and the Total Payoffs and Payments, disclosed as a positive number with the statement of whether the funds are due from or to the consumer (§1026.38(e)(5)).

Closing Costs Financed are disclosed in the third column of the row labeled Cash to Close in the Calculating Cash to Close table. This amount is calculated by the sum of the final Loan Amount (§1026.38(e)(1)(ii)) and the final Total Payoffs and Payments (§1026.38(e)(4)(ii)), but only to the extent that the sum is greater than zero and less than or equal to the sum of borrower paid closing costs (disclosed under §1026.38(h)(2)) designated Borrower-Paid Before Closing (§1026.38(e)(6)).

Summaries of Transactions Table

The Summaries of Transactions table contains required itemizations of the borrower's and the seller's transactions (§1026.38(j)-(k)). The table discloses amounts due from or payable to the consumer and seller at closing, as applicable (§1026.38(k)(1) and (2)). A separate Closing Disclosure can be provided to the consumer and the seller that does not reflect the other party's costs and credits by omitting specified disclosures on each separate Closing Disclosure (§1026.38(t)(5)(v),(vi),(ix)).

Additional pages may be attached to the Closing Disclosure to add lines to provide a complete listing of all items required to be shown on the Closing Disclosure and for customary recitals and information used locally in real estate closings (for example, breakdown of payoff figures, a breakdown of the consumer's total monthly mortgage payments, an accounting of debits received and check disbursements, a statement stating receipt of funds, applicable special stipulations between

consumer and seller, and the date funds are transferred) (Comment 38(j)-6).

Generally, the Summaries of Transactions table is similar to the Summary of Borrower's Transaction and Summary of Seller's Transaction tables on the HUD-1 Settlement Statement provided under Regulation X prior to the TILA-RESPA integrated disclosure rule taking effect. There are some modifications to the Closing Disclosure related to the handling of the disclosure of the consumer's deposit, the disclosure of credits, and specific guidance on other matters that may not have been clear in the HUD-1 instructions.

In transactions without a seller, the Seller-Paid column for Closing Costs may be deleted on page 2, and a Payoffs and Payments table may be substituted for the Summaries of Transactions table and placed before the alternative Calculating Cash to Close table on page 3 of the closing Disclosure (§1026.38(t)(5)(vii)(B)). For an example, see page 3 of form H-25(J) of appendix H to Regulation Z.

Borrower's Transaction

Amounts due from the borrower. The sale price of the property, sale price of any personal property included in the sale, and total amount of closing costs designated Borrower-Paid at Closing, calculated with lender credits as a negative number pursuant to sections 1026.38(h)(2) and (h)(3) (§1026.38(j)(1)(ii)-(iv)). The contract sale price of the property does not include the price of tangible personal property if the buyer and seller have agreed to a separate price for such items. Manufactured homes are not considered personal property for this disclosure (Comment 38(j)(1)(ii)-1).

Adjustments. This includes additional items that the seller has paid prior to the real estate closing, but reimbursed by the consumer at closing. These are items such as rent the consumer will collect after closing, a tenant's security deposit, or outstanding real estate property taxes where there is not a corresponding credit in the seller's transaction (Comments 38(j)(1)(v)-1 and -2).

Adjustments for items paid by seller in advance. The prorated amount of prepaid taxes due from the consumer to reimburse the seller, and the time periods. The taxes are labeled city/town taxes, county taxes, and/or assessments as appropriate (§1026.38(j)(1)(vi)-(ix)). If there are additional items paid by the seller and due from the consumer, they are also itemized. Examples include taxes paid in advance, flood or insurance premiums if the insurance is under the same policy, mortgage insurance for assumed loans, condominium assessments, fuel or supplies on hand, and ground rent paid in advance (Comment 38(j)(1)(x)-1).

Itemization of amounts already paid by or on behalf of borrower. These amounts are itemized in the second part of the Summary of Transactions table. These include the following:

- Deposits, and if there is no deposit, this line is left blank. If the deposit was reduced to pay closing charges prior to closing, the reduction should be shown in the Closing Cost Detail table designated as Borrower-Paid Before Closing (Comments 38(j)(2)(ii)-1 and -2).
- The loan amount is the construction or purchase loan amount for a structure or purchase of a new manufactured home that is real property. For construction loans or loans for manufactured homes that are real property under state law, the loan amount for the current transaction must be disclosed, and the sales price of the land and the construction cost or the price of the manufactured home should be disclosed separately (Comment 38(j)(2)(iii)-1).
- Existing loans assumed or taken subject to are itemized with the outstanding amount of any loans that the consumer is assuming or taking title subject to (Comment 38(j)(2)(iv)-1).
- If the seller is providing a lump sum at closing that is not otherwise itemized, to pay for loan costs and any other obligations of the seller to be paid directly to the consumer, this amount is labeled Seller Credit (§1026.38(j)(2)(v)). When the consumer receives a generalized credit from the seller for closing costs or where the seller (typically a builder) is making an allowance to the consumer for items to purchase separately, the amount of the credit must be disclosed. However, if the Seller Credit is attributable to a specific loan cost or other cost listed in the Closing Cost Details tables, that amount should be reflected in the Seller-Paid column in the Closing Cost Details tables.
- Any other obligations of the seller to be paid directly to the consumer, such as for issues identified at a walk-through of the property prior to closing, are disclosed here (Comments 38(j)(2)(v)-1 and -2).
- Other credits are itemized with a description and the amounts paid by or on behalf of the consumer, and not otherwise disclosed. Examples of other credits include credits from a real estate agent, subordinate financing proceeds, satisfaction of existing subordinate liens by consumer, transferred escrow balances, and gift funds (Comments 38(j)(2)(vi)-1 to -5).

Adjustments for items unpaid by seller include prorated unpaid taxes due from the seller to reimburse the consumer at closing, along with the time period and labeled city/town taxes, county taxes, and/or assessments as appropriate

(§§1026.38(j)(2)(vii)-(x)). If there are additional items that have not been paid and that the consumer is expected to pay after closing but which are attributable to the time prior to closing, they are itemized here (§1026.38(j)(2)(xi)). Examples include utilities used but not paid for by the seller, rent collected in advance, or interest on a loan assumption (Comment 38(j)(2)(xi)-1).

Calculation of the borrower's transaction is disclosed by including the Total Due from Borrower at Closing, the amount labeled Total Paid Already by or on Behalf of Borrower at Closing, if any, disclosed as a negative number, and a statement that the resulting amount is due from or to the consumer, and labeled Cash to Close (§1026.38(j)(3)).

Items paid outside of closing are costs that are not paid from closing funds but would otherwise be part of the borrower's transaction table should be marked as "P.O.C." for paid outside of closing. There must also be a statement of the party making the payment, such as the consumer, seller, loan originator, real estate agent, or any other person. For an example, see form H-25(D) of appendix H (Comment 38(j)(4)(i)-1).

Seller's Transaction

Amounts due to the seller include the sale price of the property, sale price of any personal property included in the sale, and a description and the amount of other items paid to the seller by the consumer pursuant to a contract, such as charges that were not disclosed on the Loan Estimate, or items paid by the seller prior to closing but reimbursed by the consumer at closing (§1026.38(k)(1)(ii)-(iv)).

Adjustments for items paid by seller in advance include the prorated amount of prepaid taxes due from the consumer to reimburse the seller, and the time periods. The taxes are labeled city/town taxes, county taxes, and/or assessments as appropriate. (§1026.38(k)(1)(v)-(viii)). If there are additional items paid by the seller and due from the consumer, they are also itemized (§1026.38(k)(1)(ix)).

Itemization of amounts due from seller at closing are itemized in the second part of the Summary of Transactions table. These include the amount of any deposits disbursed to the seller prior to closing and seller-paid closing costs. The itemization also includes the amount of any existing loans that the consumer is assuming and the amounts of any loan secured by a first lien or a second lien on the property that will be paid off. In addition, the itemization includes seller credits, an amount that the seller will provide at the closing as a lump sum, not otherwise itemized, to pay for loan costs and other costs and any other obligations of the seller to

be paid directly to the consumer. The amounts and a description of any and all other obligations required to be paid by the seller at closing are disclosed, including any lien-related payoffs, fees, or obligations (§§1026.38(k)(2)(ii)-(vii)).

Adjustments for items unpaid by seller include prorated unpaid taxes due from the seller to reimburse the consumer at closing, along with the time period and labeled city/town taxes, county taxes, and/or assessments as appropriate (§§1026.38(k)(2)(x)-(xii)). If there are additional items that have not been paid and that the consumer is expected to pay after closing but which are attributable to the time prior to closing, they are itemized here (§1026.38(k)(2)(xiii)).

Calculation of the seller's transaction is disclosed by including the Total Due to Seller at Closing, the amount labeled Total Due from Seller at Closing, if any, disclosed as a negative number, and a statement that the resulting amount is due from or to the seller, and labeled Cash (§1026.38(k)(3)).

Items paid outside of closing are costs that are not paid from closing funds but that would otherwise be part of the seller's transaction table should be marked as "P.O.C." for paid outside of closing. There must also be a statement of the party making the payment (§1026.38(k)(4)).

Page 4: Additional Information about This Loan

Page 4 of the Closing Disclosure groups several required loan disclosures together, generally using specified language, including

- information concerning future assumption of the loan by a subsequent purchaser required by 12 CFR 1026.37(m)(2) (§1026.38(l)(1));
- whether the legal obligation contains a demand feature that can require early payment of the loan (§1026.38(l)(2));
- the terms of the legal obligation that impose a fee for a late payment, including the amount of time that passes before a fee is imposed and the amount of such fee or how it is calculated (as required by 12 CFR 1026.37(m)(4)) (§1026.38(l)(3));
- whether the regular periodic payments can cause the principal balance of the loan to increase (i.e., whether there could be negative amortization) (§1026.38(l)(4));
- the creditor's policy regarding partial payments by the consumer (§1026.38(l)(5));
- a statement that the consumer is granting a security interest in the property (along with an identification of the property) (§1026.38(l)(6)); and

- specified information related to any escrow account held by the servicer, including specified estimated escrow costs over the first year after consummation (or a statement that an escrow account has not been established, with a description of specified estimated property costs during the first year after consummation) (§1026.38(l)(7)).

If the periodic principal and interest payment may change after consummation, other than due to a change in interest rate or where the loan is a seasonal payment product, page 4 of the Closing Disclosure must also include an Adjustable Payment (AP) table (§1026.38(m)). If the loan's interest rate may increase after consummation, page 4 of the Closing Disclosure must also include the Adjustable Interest Rate (AIR) table (§1026.38(n)). These are the tables required in the Loan Estimate at 12 CFR 1026.37(i) and (j), respectively, updated to reflect the terms of the loan at consummation.

Page 5: Loan Calculations, Other Disclosures, and Contact Information

Page 5 of the Closing Disclosure discloses a Loan Calculations table, as well as specified other disclosures, contact information for the CFPB for questions, and contact information for participants in the transaction, and if desired by the creditor, a signature table to confirm receipt of the Closing Disclosure (§1026.38(o)-(s)).

Loan Calculations Table

The Loan Calculations table discloses

- total of payments (total paid after all scheduled payments of principal, interest, mortgage insurance, and loan costs are made)
- finance charge
- amount financed
- annual percentage rate (APR)
- total interest percentage (TIP) (the total amount of interest paid over the loan term as a percentage of the loan amount) (§1026.38(o))

The APR and TIP amounts should be updated from the amounts disclosed on the Loan Estimate to reflect the terms of the legal obligation at consummation.

Other Disclosures Table

The Other Disclosures table requires a notice regarding the lender's obligation to provide a free copy of the appraisal (for higher-priced mortgage loans under 12 CFR 1026.35 and loans covered by the Equal Credit Opportunity Act); a specified warning about consequences of nonpayment under the contract, whether state law provides for

continued consumer liability after foreclosure, a statement concerning the consumer's ability to refinance the loan, and a statement concerning the extent that the interest on the loan can be included as a tax deduction by the consumer (§1026.38(p)).

Contact Information Table

For each of the lender, mortgage broker, real estate broker (buyer and seller), and settlement agent, the contact information table discloses the name, address, NMLS or state license ID (as applicable), contact name of an individual primary contact for the consumer (and NMLSR ID or license ID for that person), e-mail, and phone number (§1026.38(r)).

Notification of Sale or Transfer of Mortgage Loans—Section 1026.39

Notice of new owner—No later than 30 calendar days after the date on which a mortgage loan is acquired by or otherwise sold, assigned, or otherwise transferred²³ to a third party, the “covered person”²⁴ shall notify the consumer clearly and conspicuously in writing, in a form that the consumer may keep, of such transfer and include

- identification of the loan that was sold, assigned, or otherwise transferred
- name, address, and telephone number of the covered person
- date of transfer
- name, address, and telephone number of an agent or party having authority, on behalf of the covered person, to receive notice of the right to rescind and resolve issues concerning the consumer's payments on the mortgage loan
- location where transfer of ownership of the debt to the covered person is or may be recorded in public records or, alternatively, that the transfer of ownership has not been recorded in public records at the time the disclosure is provided
- at the option of the covered person, any other information regarding the transaction

This notice of sale or transfer must be provided for any consumer credit transaction that is secured

23. The date of transfer to the covered person may, at the covered person's option, be either the date of acquisition recognized in the books and records of the acquiring party or the date of transfer recognized in the books and records of the transferring party.

24. A “covered person” means any person, as defined in 12 CFR 1026.2(a)(22), that becomes the owner of an existing mortgage loan by acquiring legal title to the debt obligation, whether through a purchase, assignment, or other transfer, and who acquires more than one mortgage loan in any 12-month period. For purposes of this section, a servicer of a mortgage loan shall not be treated as the owner of the obligation if the servicer holds title to the loan or it is assigned to the servicer solely for the administrative convenience of the servicer in servicing the obligation. See 12 CFR 1026.39(a)(1).

by the principal dwelling of a consumer, as well as a closed-end consumer credit transaction secured by a dwelling or real property. Thus, it applies to both closed-end mortgage loans and open-end home-equity lines of credit. This notification is required of the covered person even if the loan servicer remains the same.

Regulation Z also establishes special rules regarding the delivery of the notice when there is more than one covered person. In a joint acquisition of a loan, the covered persons must provide a single disclosure that lists the contact information for all covered persons. However, if one of the covered persons is authorized to receive a notice of rescission and to resolve issues concerning the consumer's payments, the disclosure may state contact information only for that covered person. In addition, if the multiple covered persons each acquire a partial interest in the loan pursuant to separate and unrelated agreements, they may provide either a single notice or separate notices. Finally, if a covered person acquires a loan and subsequently transfers it to another covered person, a single notice may be provided on behalf of both of them, as long as the notice satisfies the timing and content requirements with respect to each of them.

In addition, there are three exceptions to the notice requirement to provide the notice of sale or transfer:

1. the covered person sells, assigns, or otherwise transfers legal title to the mortgage loan on or before the 30th calendar day following the date of transfer on which it acquired the mortgage loan;
2. the mortgage loan is transferred to the covered person in connection with a repurchase agreement that obligates the transferring party to repurchase the mortgage loan (unless the transferring party does not repurchase the mortgage loan); or
3. the covered person acquires only a partial interest in the mortgage loan and the agent or party authorized to receive the consumer's rescission notice and resolve issues concerning the consumer's payments on the mortgage loan does not change as a result of that transfer.

Mortgage transfer notices—partial payment policies. If a creditor or servicer is required by Regulation Z to provide mortgage transfer notices when the ownership of a mortgage loan is being transferred, the notice must include information related to the partial payment policy that will apply to the mortgage loan. This post-consummation partial payment disclosure is required for a closed-end consumer credit transaction secured by a dwelling or real property, other than a reverse

mortgage (§1026.39(a) and (d)).

The partial payment disclosure must include (§1026.39(d)(5))

- the heading “Partial Payment” over all of the following additional information
 - if periodic payments that are less than the full amount due are accepted, a statement that the covered person, using the term “lender,” may accept partial payments and apply such payments to the consumer’s loan;
 - if periodic payments that are less than the full amount due are accepted but not applied to a consumer’s loan until the consumer pays the remainder of the full amount due, a statement that the covered person, using the term “lender,” may hold partial payments in a separate account until the consumer pays the remainder of the payment and then apply the full periodic payment to the consumer’s loan;
 - if periodic payments that are less than the full amount due are not accepted, a statement that the covered person, using the term “lender,” does not accept any partial payments; and
 - a statement that, if the loan is sold, the new covered person, using the term “lender,” may have a different policy.

The text illustrating the disclosure in form H-25 may be modified to suit the format of the mortgage transfer notice (Comment 39(d)(5)-1).

Periodic Statements for Residential Mortgage Loans—Section 1026.41

Creditors, assignees, or servicers²⁵ of closed-end mortgages are generally required to provide consumers with periodic statements for each billing cycle unless the loan is a fixed-rate loan and the servicer provides the consumer with a coupon book meeting certain conditions. Periodic statements must be provided by the servicer within a reasonably prompt time after the payment is due, or at the end of any courtesy period provided by the servicer for the previous billing cycle. Delivering, e-mailing or placing the periodic statements in the mail within four days of the close of the courtesy period of the previous billing cycle is generally

²⁵ Creditors, assignees, and servicers are all subject to the requirements of section 1026.41, as applicable. Creditors, assignees, or servicers may decide among themselves which of them will provide the required disclosures. However, establishing a business relationship where one party agrees to provide disclosures on behalf of the other parties does not absolve all other parties from their legal obligations. However, a creditor or assignee that currently does not own the mortgage loan or mortgage servicing rights is not subject to the periodic statement requirement.

acceptable. However, periodic statements are not required for

- reverse mortgage transactions covered under section 1026.33;
- mortgage loans secured by a consumer’s interest in a timeshare plan;
- fixed-rate loans where the servicer currently provides consumers with coupon books that contain certain specified account information, contact information for the servicer, delinquency information (if applicable), and information that consumers can use to obtain more information about their account; and
- creditors, assignees, or servicers that meet the “small servicer” exemption.

NOTE: Sections 1026.41(e)(4)(ii) and (iii) define a “small servicer” and provide clarification how a small servicer will be determined. A small servicer is a servicer that: (1) services, together with any affiliates, 5,000 or fewer mortgage loans, for all of which it or an affiliate is the creditor or assignee; (2) meets the definition of a Housing Finance Agency under 24 CFR 266.5; or (3) is a nonprofit entity (defined in §1026.41(e)(4)(ii)(C)(1)) that services 5,000 or fewer mortgage loans, including any mortgage loans serviced on behalf of associated nonprofit entities (defined in §1026.41(e)(4)(ii)(C)(2)), for all of which the servicer or an associated nonprofit entity is the creditor. To determine whether a servicer is a small servicer, generally, a servicer should be evaluated based on the mortgage loans serviced by the servicer and any affiliate as of January 1 for the remainder of the calendar year. However, to determine small servicer status under the nonprofit small servicer definition, a nonprofit servicer should be evaluated based on the mortgage loans serviced by the servicer (and not those serviced by associated nonprofit entities) as of January 1 for the remainder of the calendar year. A servicer that ceases to qualify as a small servicer has the later of six months from the time it ceases to qualify or until the next January 1 to come into compliance with the requirements of section 1026.41. The following mortgage loans are not considered in determining whether the servicer qualifies as a small servicer: mortgage loans voluntarily serviced by the servicer for a creditor or assignee that is not an affiliate of the servicer and for which the servicer does not receive any compensation or fees; reverse mortgage transactions, and mortgage loans secured by consumers’ interests in timeshare plans.

- A servicer is exempt from the periodic statement requirements for a mortgage loan while the

consumer is a debtor in bankruptcy under Title 11 of the United States Code.

Servicers must provide consumers with the following information in the specified format on the periodic statements:

The Amount Due

- the payment due date, the amount of any late payment fee, the date that late payment fees will be assessed to the consumer's account if timely payment is not made, and the amount due, which must be shown more prominently than other disclosures on the page;

NOTE: If the transaction has multiple payment options, the amount due under each of the payment options must be provided.

- an explanation of the amount due, including the monthly payment amount with a breakdown of how much will be applied to principal, interest, and escrow, the total sum of any fees/charges imposed since the last statement, and any payment amount past due. Mortgage loans with multiple payment options must also have a breakdown of each payment option, along with information regarding how each payment option will impact the principal;

Past Payment Breakdown

- the total of all payments received since the last statement and the total of all payments received since the start of the calendar year, including, for each payment, a breakdown of how the payment(s) was applied to principal, interest, escrow, and/or fees and charges, and any amount held in a suspense or unapplied funds account (if applicable);

Transaction Activity

- a list of transaction activity (including dates, a brief description, and amount) for the current billing cycle, including any credits or debits that affect the current amount due, with the date, amount, and brief description of each transaction;

Partial Payment Information

- if a statement reflects a past partial payment held in a suspense or unapplied funds account, information explaining what the consumer must do to have the payment applied to the mortgage. Information must be on the front page or a separate page of the statement or separate letter;

Contact Information

- contact information for the servicer, including a toll-free telephone number and e-mail address (if applicable) that the consumer may use to obtain

information regarding the account. Contact information must be on the front page of the statement; and

Account Information

- account information, including the outstanding principal balance, the current interest rate, the date after which the interest rate may change if the loan is an ARM, and any prepayment penalty, as well as the web address for CFPB's or HUD's list of homeownership counselors or counseling organizations and the HUD toll-free telephone number to contact the counselors or counseling organizations.

Servicers must provide consumers that are more than 45 days delinquent on past payments additional information regarding their accounts on their periodic statements. These items must be grouped together in close proximity to each other and must include

- the date on which the consumer became delinquent;
- a notification of the possible risks of being delinquent, such as foreclosure and related expenses;
- an account history for either the previous six months or the period since the last time the account was current (whichever is shorter), which details the amount past due from each billing cycle and the date on which payments were credited to the account as fully paid;
- a notice stating any loss mitigation program that the consumer has agreed to (if applicable);
- a notice stating whether the servicer has initiated a foreclosure process;
- total payments necessary to bring the account current; and
- a reference to homeownership counseling information (see *Account Information* above).

The regulation does not prohibit adding to the required disclosures, as long as the additional information does not overwhelm or obscure the required disclosures. For example, while certain information about the escrow account (such as the account balance) is not required on the periodic statement, this information may be included.

The periodic statement may be provided electronically if the consumer agrees. The consumer must give affirmative consent to receive statements electronically.

For sample periodic statements, see appendix H-30.

Valuation Independence—Section 1026.42

Regulation Z seeks to ensure that real estate appraisers, and others preparing valuations, are free to use their independent professional judgment in assigning home values without influence or pressure from those with interests in the transactions. Regulation Z also seeks to ensure that appraisers receive customary and reasonable payments for their services. Regulation Z's valuation rules apply to creditors and settlement services providers for consumer credit transactions secured by the consumer's principal dwelling (covered transaction) and includes several provisions that protect the integrity of the appraisal process when a consumer's principal dwelling is securing the loan. In general, the rule prohibits "covered persons" from engaging in coercion, bribery, and other similar actions designed to cause anyone who prepares a valuation to base the value of the property on factors other than the person's independent judgment.²⁶ More specifically, Regulation Z

- prohibits coercion and other similar actions designed to cause appraisers to base the appraised value of properties on factors other than their independent judgment;
- prohibits appraisers and appraisal management companies hired by lenders from having financial or other interests in the properties or the credit transactions;
- prohibits creditors from extending credit based on appraisals if they know beforehand of violations involving appraiser coercion or conflicts of interest, unless the creditors determine that the values of the properties are not materially misstated;
- prohibits a person that prepares a valuation from materially misrepresenting the value of the consumer's principal dwelling, and prohibits a covered person other than the person that prepares valuations from materially altering a valuation. A misrepresentation or alteration is material if it is likely to significantly affect the value assigned to the consumer's principal dwelling;
- prohibits any covered person from falsifying a valuation or inducing a misrepresentation, falsification, or alteration of value;
- requires that creditors or settlement service providers that have information about appraiser misconduct file reports with the appropriate state licensing authorities if the misconduct is material

²⁶. This section applies to any consumer credit transaction secured by a dwelling. A "covered person" means a creditor with respect to a covered transaction. A "covered transaction" means an extension of consumer credit that is or will be secured by a dwelling, as defined in 12 CFR 1026.2(a)(19).

(i.e., likely to significantly affect the value assigned to the consumer's principal dwelling; and

- requires the payment of reasonable and customary compensation to appraisers who are not employees of the creditors or of the appraisal management companies hired by the creditors.

Minimum Standards for Transactions Secured by a Dwelling (Ability to Repay and Qualified Mortgages)—Section 1026.43

Minimum standards for transactions secured by a dwelling—Sections 1026.43(a), (g), (h)

Creditors originating certain mortgage loans are required to make a reasonable and good faith determination at or before consummation that a consumer will have the ability to repay the loan. The ability-to-repay requirement applies to most closed-end mortgage loans; however, there are some exclusions, including:

- home-equity lines of credit²⁷
- mortgages secured by an interest in a timeshare plan
- reverse mortgages
- a temporary bridge loan with a term of 12 months or less, such as a loan to finance the purchase of a new dwelling where the consumer plans to sell a current dwelling within 12 months or a loan to finance the initial construction of a dwelling
- a construction phase of 12 months or less of a construction-to-permanent loan
- an extension of credit made pursuant to a program authorized by sections 101 and 109 of the Emergency Economic Stabilization Act of 2008 (12 U.S.C. 5211; 5219).

NOTE: There are additional exclusions under 1026.43(a) that generally include extensions of credit by various state or federal government agencies or programs or by creditors with specific designations under such programs or extensions of credit that meet certain criteria and are extended by certain creditors that the IRS has determined are 501(c)(3) nonprofits. For a full list and criteria, please see 12 CFR 1026.43(a)(3)(iv)-(vii).

Generally, loans covered under this section (which, for purposes of the prepayment penalty provisions in section 1026.43(g), includes reverse mortgages and temporary loans otherwise excluded²⁸ from the ability-to-repay provisions) may

²⁷. For open-end credit transactions that are high-cost mortgages as defined in 12 CFR 1026.32, creditors are required to determine a borrower's ability to repay under section 1026.34.

²⁸. These include a temporary or "bridge" loan with a term of 12 months or less; a construction phase of 12 months or less of a

not have prepayment penalties; however, there are exceptions for certain fixed-rate and step-rate qualified mortgages that are not higher-priced mortgage loans (as defined in section 1026.35(a)), and only if otherwise permitted by law. For such mortgages, the prepayment penalties must be limited to the first three years of the loan and may not exceed 2 percent for the first two years and 1 percent for the third year. The creditor must offer the consumer an alternative loan without such penalties that the creditor has a good faith belief that the consumer likely qualifies for, with the same term, a fixed rate or step rate, substantially equal payments, and limited points and fees (see §1026.43(g)).

Ability to Repay—Section 1026.43(c)

Except as provided under section 1026.43(d) (refinancing of non-standard mortgages), (e) (qualified mortgages), and (f) (balloon payment qualified mortgages by certain creditors), creditors must consider the following eight underwriting factors when making a determination of the consumer's ability to repay:

1. the consumer's current or reasonably expected income or assets (excluding the value of the dwelling and any attached real property);
2. the consumer's current employment status if the creditor relies on the consumer's income in determining repayment ability;
3. the consumer's monthly payment for the mortgage loan;
4. the consumer's monthly payment on any simultaneous loan (i.e., a covered transaction or HELOC that is being consummated generally at the same or similar time) secured by the same dwelling that the creditor knows or has reason to know will be made, calculated in accordance with section 1026.43(c)(6);
5. the consumer's monthly payment for mortgage-related obligations, including property taxes;
6. the consumer's current debt obligations, alimony, and child support;
7. the consumer's monthly debt-to-income ratio or residual income, calculated in accordance with section 1026.43(c)(7); and
8. the consumer's credit history.

Creditors are required to verify this information using reasonably reliable third-party records, with

construction-to-permanent loan; or an extension of credit made pursuant to a program administered by a housing finance agency; by certain community development or nonprofit lenders, as specified in section 1026.43(a)(3)(v); or in connection with certain federal emergency economic stabilization programs (12 CFR 1026.43(a)(3)).

specific rules for verification of income or assets and employment status. In the case of the consumer's income or assets, the creditor must use third-party records that provide reasonably reliable evidence of such income or assets. Creditors may verify the information considered using the consumer's income tax return transcripts issued by the IRS, copies of tax returns filed by the consumer, W-2s or similar documentation, payroll statements, financial institution records, receipts from check-cashing or fund transfer services, and records from the consumer's employer or other specified records (§1026.43(c)(4)).

Regulation Z also provides rules for how creditors must apply certain underwriting factors when determining whether a consumer has the ability to repay the mortgage. For example, creditors must calculate the monthly payment for the covered transaction using the greater of the fully indexed rate or any introductory interest rate, and the monthly, fully amortizing payments that are substantially equal during the loan term. However, special rules apply to mortgages with a balloon payment, interest-only loans, and negative amortization loans due to the unique characteristics of the mortgage (§1026.43(c)(5)).

Finally, creditors may not evade the ability-to-repay requirements by structuring a closed-end loan secured by a dwelling as open-end credit that does not meet the definition of open-end credit plan.

Exemption from ATR Requirements for Refinancing of Non-standard Mortgages—Section 1026.43(d)

Section 1026.43(d) provides special rules for refinancing a "non-standard mortgage" into a "standard mortgage."

A "non-standard mortgage" is a covered transaction²⁹ as defined under section 1026.43(a) that is

- an adjustable rate mortgage with an introductory fixed interest rate for a period of one year or longer;
- an interest-only loan; or
- a negative amortization loan.

A "standard mortgage" is a covered transaction as defined under section 1026.43(a) with

29. A covered transaction is a consumer credit transaction that is secured by a dwelling, including any real property attached to the dwelling. A covered transaction is not a home-equity line of credit under section 1026.40; a mortgage secured by a consumer's interest in a timeshare plan; a reverse mortgage under section 1026.33; a temporary or "bridge" loan with a term of 12 months or less; a construction phase of 12 months or less of a construction-to-permanent loan; or an extension of credit made pursuant to a program administered by a housing finance agency; by certain community development or nonprofit lenders, as specified in section 1026.43(a)(3)(v); or in connection with certain federal emergency economic stabilization programs.

- periodic payments that do not cause the principal balance to increase, do not allow the consumer to defer repayment of the principal, or do not result in balloon payments;
- total points and fees that are not more than those allowed in section 1026.43(e)(3);
- a term that does not exceed 40 years;
- an interest rate that is fixed for the first five years of the loan; and
- proceeds that are used solely to pay off the outstanding principal on the non-standard mortgage and closing or settlement costs (that are required to be disclosed under RESPA).

Current holders of non-standard mortgages or their servicers (collectively referred to here as “holders”) can refinance non-standard mortgages into standard mortgages without considering a consumer’s ability to repay under section 1026.43(c), if certain conditions are met.

To qualify for the exemption from the ability-to-repay requirements, the standard mortgage must

- have a monthly payment that is “materially lower”³⁰ than the non-standard mortgage,
- the creditor must have received a written application from the consumer for the standard mortgage no later than two months after the non-standard mortgage is recast, and
- on the non-standard mortgage, consumers must have made no more than one payment more than 30 days late during the preceding 12 months and must have made no late payments more than 30 days late in the preceding six months of the holder receiving the application for a standard mortgage.

For non-standard loans consummated on or after January 10, 2014, that are refinanced into standard mortgages, the exemption from the ability-to-repay requirements for the refinancing is available only if the non-standard mortgage met the repayment ability requirements under section 1026.43(c) or the qualified mortgage requirements under section 1026.43(e) as applicable.

30. When comparing the payments, the holder must calculate the payment for the standard mortgage based on substantially equal, monthly, fully amortizing payments based on the maximum interest rate that may apply in the first five years. The holder must calculate the non-standard mortgage payment based on substantially equal, monthly, fully amortizing payments of principal and interest using

- the fully indexed rate as of a reasonable period of time before or after the date on which the creditor receives the consumer’s application for the standard mortgage;
- the term of the loan remaining as of the date on which the recast occurs, assuming all scheduled payments have been made up to the recast date and the payment due on the recast date is made and credited as of that date; and
- the remaining loan amount, which is calculated differently depending on whether the loan is an adjustable rate mortgage, interest-only loan, or negative amortization loan.

If these conditions are satisfied and if the holder has considered whether the standard mortgage is likely to prevent the consumer from defaulting on the non-standard mortgage once the loan terms are recast, the holder is not required to meet the ability-to-repay requirements in section 1026.43(c). Finally, holders refinancing a non-standard mortgage to a standard mortgage may offer consumers rate discounts and terms that are the same as (or better than) rate discounts and terms that the holder offers to new consumers, consistent with the holder’s documented underwriting practices and to the extent not prohibited by applicable laws. For example, a holder would comply with this requirement if it has documented underwriting practices that provide for offering rate discounts to consumers with credit scores above a certain threshold, even though the consumer would not normally qualify for that discounted rate.

Qualified Mortgages: Rebuttable Presumption and Safe Harbor—Section 1026.43(e)

The rule provides a presumption of compliance with the ability-to-repay requirements for creditors that originate certain types of loans called “qualified mortgages.” There are several categories of qualified mortgages, which are discussed below. Qualified mortgages afford creditors and assignees greater protection against liability under the ability-to-repay provisions. Qualified mortgages that are not higher-priced covered transactions receive a safe harbor under the ability-to-repay provisions, which means the presumption of compliance cannot be rebutted. A qualified mortgage is higher priced if the loan’s APR exceeds the APOR by 1.5 percentage points or more for first-lien loans that either fall within the general qualified mortgage definition or the temporary qualified mortgage definition for loans that are eligible to be purchased, guaranteed or insured by GSEs or federal agencies, and 3.5 percentage points for first-lien loans that fall within the small creditor balloon payment, temporary small creditor balloon payment, or small creditor portfolio qualified mortgage definitions, or for second-lien loans.

Generally, the safe harbor provides a conclusive presumption that the creditor made a good faith and reasonable determination of the consumer’s ability to repay. Qualified mortgages that are higher priced receive a rebuttable presumption of compliance rather than a safe harbor with the ability-to-repay provisions. This means that the loan is presumed to comply with the ability-to-repay provisions, but, for example, the consumer would have the opportunity to rebut that presumption in future ability-to-repay litigation.

For a qualified mortgage that is a higher-priced

covered transaction, the presumption of compliance is rebuttable by showing that at consummation, the consumer's income, debt obligations, alimony, child support, and monthly payments on the loan and mortgage-related obligations and simultaneous loans of which the creditor was aware at consummation would leave the consumer with insufficient residual income or assets (other than the value of the dwelling and real property) to meet living expenses (including recurring and material non-debt obligations that the creditor was aware of at consummation).

Requirements for Qualified Mortgages—Generally—Section 1026.43(e)(2) and (3)

Loans that are qualified mortgages under the general definition may not have negative amortization, interest-only payments, balloon payments, or terms exceeding 30 years. A qualified mortgage for loans greater than or equal to \$100,000 may not have points and fees paid by the consumer that exceed 3 percent of the total loan amount (although certain "bona fide discount points" are excluded for certain loans with pricing within prescribed ranges of APOR—the average prime offer rate). The rule provides guidance on calculating points and fees and thresholds for smaller loans.³¹

The rule also provides a period of time for a creditor or assignee to review a transaction's points and fees and, if points and fees exceed the applicable threshold, to pay the consumer the excess points and fees, along with interest on the excess points and fees (calculated using the contract interest rate). This cure is generally allowed within 210 days after consummation unless the consumer has instituted an action in connection with the loan, or notified the creditor, assignee, or servicer in writing that the points and fees exceed the applicable threshold, or the consumer is 60 days past due. To be eligible for a points and fees cure, the loan must meet all other applicable requirements to be a qualified mortgage and the creditor or assignee, as applicable, must maintain and follow policies and procedures for post-consummation review of points and fees and for making cure payments to consumers. This cure provision applies to the points and fees limits for all of the qualified mortgage types defined in Regulation Z.

The rule also provides underwriting criteria for qualified mortgages. Generally, the rule requires that monthly payments be calculated based on the highest payment that will apply in the first five years of the loan after the date on which the first periodic

31. The definition and calculation rules for points and fees are the same as those used to determine whether a closed-end mortgage is a HOEPA loan, discussed above at section 1026.32(b)(2).

payment is due and that the consumer have a total (or "back-end") debt-to-income ratio that is less than or equal to 43 percent. Appendix Q, drawing upon Federal Housing Administration guidelines, details the calculation of debt-to-income for these purposes. The rule also requires that the creditor consider and verify the consumer's current or reasonably expected income or assets and current debt obligations, alimony and child support, also in accordance with Appendix Q.

Temporary Category of Qualified Mortgages—Section 1026.43(e)(4)

Regulation Z provides a temporary category of qualified mortgages that—except with regard to matters that are wholly unrelated to ability to repay—satisfy the underwriting requirements of, and are therefore eligible to be purchased, guaranteed or insured by, either (1) the government-sponsored enterprises (GSEs) (Fannie Mae and Freddie Mac) while they operate under federal conservatorship or receivership; or (2) the U.S. Department of Housing and Urban Development, the U.S. Department of Veterans Affairs, the U.S. Department of Agriculture, or the Rural Housing Service. This temporary provision will phase out over time as the various federal agencies issue their own qualified mortgage rules³² or if GSE conservatorship ends, and in any event after seven years (January 10, 2021). These mortgages must satisfy certain requirements applicable to qualified mortgages, including prohibitions on negative-amortization, interest-only, and balloon payment features; maximum loan terms of 30 years; and points-and-fees restrictions. However, the flat 43 percent debt-to-income threshold for qualified mortgages does not apply.

Qualified Mortgage—Small Creditor Portfolio Loans—Section 1026.43(e)(5)

Mortgages that are originated and held in portfolio by certain small creditors are also qualified mortgages if they meet certain requirements.

These mortgages must generally satisfy the requirements applicable to qualified mortgages, including prohibitions on negative-amortization, balloon-payment, and interest-only features; maximum loan terms of 30 years; and points-and-fees restrictions. However, while the creditor must consider and verify the consumer's current or reasonably expected income or assets and current debt obligations, alimony, and child support, it may

32. This temporary QM rule does not apply to HUD loans or to VA loans because HUD issued its final QM rule, effective January 10, 2014 (78 Fed. Reg. 75215, December 11, 2013), and VA issued its interim final QM rule, effective May 9, 2014 (79 Fed. Reg. 26620, May 9, 2014).

do so without regard to the standards in Appendix Q. In addition, debt-to-income ratios must be considered and verified, but the 43 percent threshold for qualified mortgages under the general definition does not apply.

A small creditor that satisfies the exemption criteria in section 1026.35(b)(2)(iii)(B) and (C) is eligible to make small creditor portfolio qualified mortgages. (In contrast to section 1026.43(f), below, eligibility for this qualified mortgage category is not conditioned on the small creditor operating predominantly in a rural or underserved area). For a period of three years after consummation, the creditor may not transfer the loan, or the loan will lose its status as a qualified mortgage. The qualified mortgage status continues under section 1026.43(e)(5)(ii), however, if the creditor transfers the loan to another creditor that meets the requirements to be a small lender, or when the loan is transferred due to a capital restoration plan, bankruptcy, or state or federal governmental agency order, or if the mortgage is transferred pursuant to a merger or acquisition of the creditor. A qualified mortgage can be transferred after three years without losing its status.

Small Creditor Rural or Underserved Balloon-Payment Qualified Mortgages and Temporary Balloon-Payment Qualified Mortgages—Sections 1026.43(f) and 1026.43(e)(6)

Balloon-payment mortgages are qualified mortgages if they are originated and held in portfolio by small creditors operating predominantly in rural or underserved areas and meet certain other requirements. These mortgages must satisfy certain requirements applicable to qualified mortgages, including prohibitions on negative-amortization and interest-only features; maximum loan terms of 30 years; and points-and-fees restrictions. These loans must have a term of at least five years, a fixed interest rate, and meet certain basic underwriting standards; debt-to-income ratios must be considered and verified, but the 43 percent threshold for qualified mortgages under the general definition does not apply. The rule also requires that the creditor consider and verify the consumer's current or reasonably expected income or assets and current debt obligations, alimony, and child support, but without regard to the standards in Appendix Q. This category of qualified mortgage is not available for a loan that, at origination, is subject to a forward commitment to be acquired by a person that does not itself qualify for the category (under the requirements outlined in the next paragraph).

A small creditor that satisfies the exemption criteria in section 1026.35(b)(2)(iii)(A), (B), and (C)

(higher-priced mortgage escrow requirements) is eligible to make rural or underserved balloon-payment qualified mortgages. For a period of three years after consummation, the creditor may not transfer the loan, or it will lose its status as a qualified mortgage. The qualified mortgage status continues under section 1026.43(f)(2), however, if the creditor transfers the loan to another creditor that meets the requirements to be a small rural lender, or when the loan is transferred due to a capital restoration plan, bankruptcy, or state or federal governmental agency order, or if the mortgage is transferred pursuant to a merger or acquisition of the creditor. A qualified mortgage can be transferred after three years without losing its status.

There is also a temporary qualified mortgage definition for balloon-payment mortgages that would otherwise meet the requirements of section 1026.43 (f), but that are originated by small creditors that do not operate predominantly in rural or underserved areas. This category is applicable to covered transactions consummated on or before January 10, 2016.

Subpart F—Special Rules for Private Education Loans

Subpart F relates to private education loans. It contains rules on disclosures (§1026.46), the right to cancel the loan, (§1026.47), and limitations on changes in terms after approval and on co-branding in the marketing of private education loans (§1026.48).

Special Disclosure Requirements for Private Education Loans—Section 1026.46

The disclosures required under subpart F apply only to private education loans. Except where specifically provided otherwise, the requirements and limitations of subpart F are in addition to the requirements of the other subparts of Regulation Z.

A private education loan means an extension of credit that

- is not made, insured, or guaranteed under title IV of the Higher Education Act of 1965;
- is extended to a consumer expressly, in whole or part, for postsecondary educational expenses, regardless of whether the loan is provided by the educational institution that the student attends; and
- does not include open-end credit or any loan that is secured by real property or a dwelling.

A private education loan does not include an extension of credit in which the covered educa-

tional institution is the creditor if

- the term of the extension of credit is 90 days or less; or
- an interest rate will not be applied to the credit balance and the term of the extension of credit is one year or less, even if the credit is payable in more than four installments.

Content of Disclosures—Section 1026.47

Disclosure Requirements

This section establishes the content that a creditor must include in its disclosures to a consumer at three different stages in the private education loan origination process:

1. Application or Solicitation Disclosures—with any application or solicitation
2. Approval Disclosures—with any notice of approval of the private education loan
3. Final Disclosures—after the consumer accepts the loan. In addition, section 1026.48(d) requires that the disclosures must be provided at least three business days prior to disbursement of the loan funds.

Rights of the Consumer

The creditor must disclose that, if approved for the loan, the consumer has the right to accept the loan on the terms approved for up to 30 calendar days. The disclosure must inform the consumer that the rate and terms of the loan will not change during this period, except for changes to the rate based on adjustments to the index used for the loan and other changes permitted by law. The creditor must disclose that the consumer also has the right to cancel the loan, without penalty, until midnight of the third business day following the date on which the consumer receives the final disclosures.

Limitations on Private Educational Loans—Section 1026.48

This section contains rules and limitations on private education loans, including

- a prohibition on co-branding in the marketing of private education loans;
- rules governing the 30-day acceptance period and three business-day cancellation period and prohibition on disbursement of loan proceeds until the cancellation period has expired;
- the requirement that the creditor obtain a self-certification form from the consumer before consummation; and
- the requirement that creditors in preferred lender

arrangements provide certain information to covered educational institutions.

Co-branding Prohibited

Regulation Z prohibits creditors from using the name, emblem, mascot, or logo of a covered institution (or other words, pictures, or symbols readily identified with a covered institution) in the marketing of private education loans in a way that implies endorsement by the educational institution. Marketing that refers to an educational institution does not imply endorsement if the marketing includes a clear and conspicuous disclosure that is equally prominent and closely proximate to the reference to the institution that the educational institution does not endorse the creditor's loans, and that the creditor is not affiliated with the educational institution. There is also an exception in cases where the educational institution actually does endorse the creditor's loans, but the marketing must make a clear and conspicuous disclosure that is equally prominent and closely proximate to the reference to the institution that the creditor, and not the educational institution, is making the loan.

Subpart G—Special Rules Applicable To Credit Card Accounts and Open-End Credit Offered To College Students

Subpart G relates to credit card accounts under an open-end (not home-secured) consumer credit plan (except for 12 CFR 1026.57(c), which applies to all open-end credit plans). This subpart contains rules regarding credit and charge card application and solicitation disclosures (§1026.60). It also contains rules on evaluation of a consumer's ability to make the required payments under the terms of an account (§1026.51), limits the fees that a consumer can be required to pay (§1026.52), and contains rules on allocation of payments in excess of the minimum payment (§1026.53). It also sets forth certain limitations on the imposition of finance charges as the result of a loss of a grace period (§1026.54) and on increases in annual percentage rates, fees, and charges for credit card accounts (§1026.55), including the reevaluation of rate increases (§1026.59). This subpart prohibits the assessment of fees or charges for over-the-limit transactions unless the consumer affirmatively consents to the creditor's payment of over-the-limit transactions (§1026.56). This subpart also sets forth rules for reporting and marketing of college student open-end credit (§1026.57). Finally, it sets forth requirements for the Internet posting of credit card accounts under an open-end (not home-secured) consumer credit plan (§1026.58).

Evaluation of the Consumer's Ability to Pay—Section 1026.51

Regulation Z requires credit card issuers to consider a consumer's ability to pay before opening a new credit card account or increasing the credit limit for an existing credit card account. Additionally, the rule provides specific requirements that must be met before opening a new credit card account or increasing the credit limit on an existing account when the consumer is under the age of 21.

When evaluating a consumer's ability to pay, credit card issuers must perform a review of a consumer's income or assets and current obligations. Issuers are permitted, however, to rely on information provided by the consumer. The rule does not require issuers to verify a consumer's statements; a creditor may base its determination of ability to repay on facts and circumstances known to the card issuer (Comment 1026.51(a)(1) (i)-2). A card issuer may also consider information obtained through any empirically derived, demonstrably and statistically sound model that reasonably estimates a consumer's income or assets.

Issuers may consider any income and assets to which the consumer has a reasonable expectation of access or may limit their consideration to the consumer's independent income and assets. The rule also requires that issuers consider at least one of the following:

- the ratio of debt obligations to income
- the ratio of debt obligations to assets
- the income the consumer will have after paying debt obligations (i.e., residual income)

The rule also provides that it would be unreasonable for an issuer not to review any information about a consumer's income, assets, or current obligations, or to issue a credit card to a consumer who does not have any income or assets.

Because credit card accounts typically require consumers to make a minimum monthly payment that is a percentage of the total balance (plus, in some cases, accrued interest and fees), creditors are required to consider the consumer's ability to make the required minimum payments. Card issuers must also establish and maintain reasonable written policies and procedures to consider a consumer's income or assets and current obligations. Because the minimum payment is unknown at account opening, the rule requires that creditors use a reasonable method to estimate a consumer's minimum payment. The regulation provides a safe harbor for issuers to estimate the required minimum periodic payment if the card issuer

1. assumes utilization, from the first day of the billing cycle, of the full credit line that the issuer is considering offering to the consumer; and
2. uses a minimum payment formula employed by the issuer for the product the issuer is considering offering to the consumer or, in the case of an existing account, the minimum payment formula that currently applies to that account, provided that
 - a. if the minimum payment formula includes interest charges, the card issuer estimates those charges using an interest rate that the issuer is considering offering to the consumer for purchases or, in the case of an existing account, the interest rate that currently applies to purchases; and
 - b. if the applicable minimum payment formula includes mandatory fees, the card issuer must assume that such fees have been charged to the account.

Specific Requirements for Underage Consumers—Section 1026.51(b)(1)

Regulation Z prohibits the issuance of a credit card to a consumer who has not attained the age of 21 unless the consumer has submitted a written application and the creditor has

- information indicating that the underage consumer has an independent ability to make the required minimum payments on the account; or
- the signature of a cosigner, guarantor, or joint applicant who has attained the age of 21, who has the ability to repay debts (based on section 1026.51) incurred by the underage consumer in connection with the account, and who assumes joint liability for all debts or secondary liability for any debts incurred before the underage consumer attains 21 years of age.

For credit line increases:

- If an account was opened based on the underage consumer's independent ability to repay, in order to increase the consumer's credit line before he or she turns 21, the issuer either must determine that the consumer has an independent ability to make the required minimum payments at the time of the contemplated increase, or must obtain an agreement from a cosigner, guarantor, or joint applicant who is 21 or older and who has the ability to repay debts to assume liability for any debt incurred on the account.
- If the account was opened based on the ability of a cosigner over the age of 21 to pay, the issuer

must obtain written consent from that cosigner before increasing the credit limit.

Limitations of Fees—Section 1026.52

Limitations on Fees during First Year after Account Opening—Section 1026.52(a)

During the first year after account opening, issuers are prohibited from requiring consumers to pay fees (other than fees for late payments, returned payments, and exceeding the credit limit) that in the aggregate exceed 25 percent of the initial credit limit in effect when the account is opened. An account is considered open no earlier than the date on which the account may first be used by the consumer to engage in transactions.

NOTE: The 25 percent limitation on fees does not apply to fees assessed prior to opening the account.

Limitations on Penalty Fees—Section 1026.52(b)

TILA requires that penalty fees imposed by card issuers be reasonable and proportional to the violation of the account terms. Among other things, the regulation prohibits credit card issuers from charging a penalty fee of more than \$25 for paying late or otherwise violating the account's terms for the first violation (or \$35 for an additional violation of the same type during the same billing cycle or one of the next six billing cycles) unless the issuer determines that a higher fee represents a reasonable proportion of the costs it incurs as a result of that type of violation and reevaluates that determination at least once every 12 months.

Credit card issuers are banned from charging penalty fees that exceed the dollar amount associated with the consumer's violation of the terms or other requirements of the credit card account. For example, card issuers are no longer permitted to charge a \$39 fee when a consumer is late making a \$20 minimum payment. Instead, in this example, the fee cannot exceed \$20. The regulation also bans imposition of penalty fees when there is no dollar amount associated with the violation, such as "inactivity" fees based on the consumer's failure to use the account to make new purchases. It also prohibits issuers from charging multiple penalty fees based on a single late payment or other violation of the account terms.

Payment Allocation—Section 1026.53

When different rates apply to different balances on a credit card account, issuers are generally required to allocate payments in excess of the minimum payment first to the balance with the

highest APR and any remaining portion to the other balances in descending order based on the applicable APR.

For deferred interest programs, however, issuers must allocate excess payments first to the deferred interest balance during the last two billing cycles of the deferred interest period. In addition, during a deferred interest period, issuers are permitted (but not required) to allocate excess payments in the manner requested by the consumer.

For accounts with secured balances, issuers are permitted (but not required) to allocate excess payments to the secured balance if requested by the consumer.

Double-Cycle Billing and Partial Grace Period—Section 1026.54

Issuers are generally prohibited from imposing finance charges on balances for days in previous billing cycles as a result of the loss of a grace period. In addition, when a consumer pays some, but not all, of a balance prior to the expiration of a grace period, an issuer is prohibited from imposing finance charges on the portion of the balance that has been repaid.

Restrictions on Applying Increased Rates to Existing Balances and Increasing Certain Fees and Charges—Section 1026.55

Unless an exception applies, a card issuer must not increase an annual percentage rate or a fee or charge required to be disclosed under sections 1026.6(b)(2)(ii), (b)(2)(iii), or (b)(2)(xii) on a credit card account. There are some general exceptions to the prohibition against applying increased rates to existing balances and increasing certain fees or charges:

- a temporary or promotional rate or temporary fee or charge that lasts at least six months, and that is required to be disclosed under sections 1026.6(b)(2)(ii), (b)(2)(iii), or (b)(2)(xii), provided that the card issuer complied with applicable disclosure requirements. Fees and charges required to be disclosed under sections 1026.6(b)(2)(ii), (b)(2)(iii), or (b)(2)(xii) are periodic fees for issuance or availability of an open-end plan (such as an annual fee); a fixed finance charge (and any minimum interest charge) that exceeds \$1; or a charge for required insurance, debt cancellation, or debt suspension;
- the rate is increased due to the operation of an index available to the general public and not under the card issuer's control (i.e., the rate is a variable rate);

- the minimum payment has not been received within 60 days after the due date, provided that the card issuer complied with applicable disclosure requirements and adheres to certain requirements when a series of on time payments are received;
- the consumer successfully completes or fails to comply with the terms of a workout arrangement, provided that card issuer complied with applicable disclosure requirements and adheres to certain requirements upon the completion or failure of the arrangement; and
- the APR on an existing balance or a fee or charge required to be disclosed under sections 1026.6 (b)(2)(ii), (b)(2)(iii), or (b)(2)(xii) has been reduced pursuant to the Servicemembers Civil Relief Act (SCRA) or a similar federal or state statute or regulation. The creditor is permitted to increase the rate, fee, or charge once the SCRA ceases to apply, but only to the rate, fee, or charge that applied prior to the reduction.

Regulation Z's limitations on the application of increased rates and certain fees and charges to existing balances continue to apply when the account is closed, acquired by another institution through a merger or the sale of a credit card portfolio, or when the balance is transferred to another credit account issued by the same creditor (or its affiliate or subsidiary).

Issuers are generally prevented from increasing the APR applicable to new transactions or a fee or charge subject to sections 1026.6(b)(2)(ii), (b)(2)(iii), or (b)(2)(xii) during the first year after an account is opened. After the first year, issuers are permitted to increase the APRs that apply to new transactions or a fee or charge subject to sections 1026.6(b)(2)(ii), (b)(2)(iii), or (b)(2)(xii) so long as the creditor complies with the regulation's 45-day advance notice requirement (§1026.9).

Regulation Z's limitations on the application of increased rates to existing balances and limitations on the increase of certain fees or charges apply upon cessation of a waiver or rebate of interest, fees, or charges if the issuer promotes the waiver or rebate.

Fees for Transactions that Exceed the Credit Limit—Section 1026.56

Consumer consent requirement—Regulation Z requires an issuer to obtain a consumer's express consent (or opt in) before the issuer may impose any fees on a consumer's credit card account for making an extension of credit that exceeds the account's credit limit. Prior to providing such consent, the consumer must be notified by the issuer of any fees that may be assessed for an

over-the-limit transaction. If the consumer consents, the issuer is also required to provide written confirmation (or electronic confirmation if the consumer agrees) of the consumer's consent and a notice of the consumer's right to revoke that consent on the front page of any periodic statement that reflects the imposition of an over-the-limit fee.

Prior to obtaining a consumer's consent to the payment of over-the-limit transactions, the issuer must provide the consumer with a notice disclosing, among other things, the dollar amount of any charges that will be assessed for an over-the-limit transaction, as well as any increased rate that may apply if the consumer exceeds the credit limit. Issuers are prevented from assessing any over-the-limit fee or charge on an account unless the consumer consents to the payment of transactions that exceed the credit limit.

Prohibited practices—Even if the consumer has affirmatively consented to the issuer's payment of over-the-limit transactions, Regulation Z prohibits certain issuer practices in connection with the assessment of over-the-limit fees or charges. An issuer can only charge one over-the-limit fee or charge per billing cycle. In addition, an issuer cannot impose an over-the-limit fee on the account for the same transaction in more than three billing cycles. Furthermore, fees may not be imposed for the same transaction in the second or third billing cycle unless the consumer has failed to reduce the account balance below the credit limit by the payment due date in that cycle.

Regulation Z also prohibits unfair or deceptive acts or practices in connection with the manipulation of credit limits in order to increase over-the-limit fees or other penalty charges. Specifically, issuers are prohibited from engaging in three practices:

1. assessing an over-the-limit fee because the creditor failed to promptly replenish the consumer's available credit;
2. conditioning the amount of available credit on the consumer's consent to the payment of over-the-limit transactions (e.g., opting in to an over-the-limit service to obtain a higher credit limit); and
3. imposing any over-the-limit fee if the credit limit is exceeded solely because of the issuer's assessment of accrued interest charges or fees on the consumer's account.

Special Rules for Marketing to Students—Section 1026.57

Regulation Z establishes several requirements related to the marketing of credit cards and other open-end consumer credit plans to students at an institution of higher education. The regulation limits

a creditor's ability to offer a college student any tangible item to induce the student to apply for or participate in an open-end consumer credit plan offered by the creditor. Specifically, Regulation Z prohibits a card issuer from offering tangible items as an inducement:

- on the campus of an institution of higher education;
- near the campus of an institution of higher education; or
- at an event sponsored by or related to an institution of higher education.

A tangible item means physical items, such as gift cards, t-shirts, or magazine subscriptions, but does not include non-physical items such as discounts, reward points, or promotional credit terms. With respect to offers "near" the campus, the commentary to the regulation states that a location that is within 1,000 feet of the border of the campus is considered near the campus.

Regulation Z also requires card issuers to submit an annual report to the CFPB containing the terms and conditions of business, marketing, or promotional agreements with an institution of higher education or an alumni organization or foundation affiliated with an institution of higher education.

Online Disclosure of Credit Card Agreements—Section 1026.58

The regulation requires that issuers post credit card agreements on their websites and to submit those agreements to the CFPB for posting on a website maintained by the CFPB. There are three exceptions for when issuers are not required to provide statements to the CFPB:

1. the issuer has fewer than 10,000 open credit card accounts; or
2. the agreement currently is not offered to the public and the agreement is used only for one or more private-label credit card plans with credit cards usable only at a single merchant or group of affiliated merchants and that involves fewer than 10,000 open accounts; or
3. the agreement currently is not offered to the public and the agreement is for one or more plans offered to test a new product offered only to a limited group of consumers for a limited time that involves fewer than 10,000 open accounts.

Reevaluation of Rate Increases—Section 1026.59

For any rate increase imposed on or after January 1, 2009, that requires 45 days advance notice, the regulation requires card issuers to review the

account no less frequently than once each six months and, if appropriate based on that review, reduce the annual percentage rate. The requirement to reevaluate rate increases applies both to increases in annual percentage rates based on consumer-specific factors, such as changes in the consumer's creditworthiness, and to increases in annual percentage rates imposed based on factors that are not specific to the consumer, such as changes in market conditions or the issuer's cost of funds. If based on its review a card issuer is required to reduce the rate applicable to an account, the final regulation requires that the rate be reduced within 45 days after completion of the evaluation.

This review must consider either the same factors on which the increase was originally based or the factors the card issuer currently considers in determining the annual percentage rate applicable to similar new credit card accounts.

Liability and Defenses

Civil Liability—TILA Sections 129B, 129C, 130, and 131

If a creditor fails to comply with any requirements of the TILA, other than with the advertising provisions of chapter 3, it may be held liable to the consumer for

- actual damage, and
- cost of any successful legal action together with reasonable attorney's fees.

The creditor also may be held liable for any of the following:

- in an individual action, twice the amount of the finance charge involved;
- in an individual action relating to an open-end credit transaction that is not secured by real property or a dwelling, twice the amount of the finance charge involved, with a minimum of \$500 and a maximum of \$5,000 or such higher amount as may be appropriate in the case of an established pattern or practice of such failure;
- in an individual action relating to a closed-end credit transaction secured by real property or a dwelling, not less than \$400 and not more than \$4,000;
- in a class action, such amount as the court may allow (with no minimum recovery for each class member). However, the total amount of recovery in any class actions arising out of the same failure to comply by the same creditor cannot be more than \$1 million or 1 percent of the creditor's net worth, whichever is less.

A creditor that fails to comply with section 129 of TILA, 15 U.S.C. section 1639, (requirements for certain mortgages) may be held liable to the consumer for all finance charges and fees paid by the consumer unless the creditor demonstrates that the failure was not material. A mortgage originator that is not a creditor and that fails to comply with section 129B (requirements for mortgage loan originators) also may be liable to consumers for the greater of actual damages or an amount equal to three times the total amount of direct and indirect compensation or gain to the mortgage originator in connection with the loan, plus costs, including reasonable attorney's fees. In addition, TILA section 130(a) provides that a creditor may be liable for failure to comply with the ability-to-repay requirements of TILA section 129C(a) unless the creditor demonstrates that the failure to comply was not material.

Generally, civil actions that may be brought against a creditor may be maintained against any assignee of the creditor only if the violation is apparent on the face of the disclosure statement or other documents assigned, except where the assignment was involuntary. For high-cost mortgage loans (under section 1026.32(a)), any subsequent purchaser or assignee is subject to all claims and defenses that the consumer could assert against the creditor, unless the assignee demonstrates that it could not reasonably have determined that the loan was a high-cost mortgage loan subject to section 1026.32.

In specified circumstances, the creditor or assignee has no liability if it corrects identified errors within 60 days of discovering the errors and prior to the institution of a civil action or the receipt of written notice of the error from the obligor. Additionally, a creditor and assignee will not be liable for bona fide errors that occurred despite the maintenance of procedures reasonably adapted to avoid any such error.

Moreover, the TILA also provides consumers with the right to assert a violation of the TILA's anti-steering provisions or the ability-to-repay standards for residential mortgage loan requirements "as a matter of defense by recoupment or setoff" against a foreclosure action. In general, the amount of recoupment or setoff shall be equal to the amount that the consumer would be entitled to generally under 15 U.S.C. 1640(a) for a valid claim, plus the cost to the consumer of the action (including reasonable attorney's fees).

Refer to sections 129B, 129C, 130, and 131 of TILA for more information.

Criminal Liability—TILA Section 112

Anyone who willingly and knowingly fails to comply

with any requirement of the TILA will be fined not more than \$5,000 or imprisoned not more than one year, or both.

Administrative Actions— TILA Section 108

The TILA authorizes federal regulatory agencies to require financial institutions to make monetary and other adjustments to the consumers' accounts when the true finance charge or APR exceeds the disclosed finance charge or APR by more than a specified accuracy tolerance. That authorization extends to unintentional errors, including isolated violations (e.g., an error that occurred only once or errors, often without a common cause, that occurred infrequently and randomly).

Under certain circumstances, the TILA requires federal regulatory agencies to order financial institutions to reimburse consumers when understatement of the APR or finance charge involves

- patterns or practices of violations (e.g., errors that occurred, often with a common cause, consistently or frequently, reflecting a pattern with a specific type or types of consumer credit);
- gross negligence;
- willful noncompliance intended to mislead the person to whom the credit was extended.

Any proceeding that may be brought by a regulatory agency against a creditor may be maintained against any assignee of the creditor if the violation is apparent on the face of the disclosure statement or other documents assigned, except where the assignment was involuntary under section 131 (15 U.S.C. 1641).

Specific Defenses—TILA Section 108

Defense against Civil, Criminal, and Administrative Actions

A financial institution in violation of TILA may avoid liability by

- discovering the error before an action is brought against the financial institution, or before the consumer notifies the financial institution, in writing, of the error;
- notifying the consumer of the error within 60 days of discovery;
- making the necessary adjustments to the consumer's account, also within 60 days of discovery. (The consumer will pay no more than the lesser of the finance charge actually disclosed or the dollar equivalent of the APR actually disclosed.)

The above three actions also may allow the

financial institution to avoid a regulatory order to reimburse the customer.

An error is “discovered” if it is

- discussed in a final, written report of examination;
- identified through the financial institution’s own procedures;
- an inaccurately disclosed APR or finance charge included in a regulatory agency notification to the financial institution.

When a disclosure error occurs, the financial institution is not required to re-disclose after a loan has been consummated or an account has been opened. If the financial institution corrects a disclosure error by merely re-disclosing required information accurately, without adjusting the consumer’s account, the financial institution may still be subject to civil liability and an order to reimburse from its regulator.

The circumstances under which a financial institution may avoid liability under the TILA do not apply to violations of the Fair Credit Billing Act (chapter 4 of the TILA).

Additional Defenses against Civil Actions

The financial institution may avoid liability in a civil action if it shows by a preponderance of evidence that the violation was not intentional and resulted from a bona fide error that occurred despite the maintenance of procedures to avoid the error.

A bona fide error may include a clerical, calculation, computer malfunction, programming, or printing error. It does not include an error of legal judgment.

Showing that a violation occurred unintentionally could be difficult if the financial institution is unable to produce evidence that explicitly indicates it has an internal controls program designed to ensure compliance. The financial institution’s demonstrated commitment to compliance and its adoption of policies and procedures to detect errors before disclosures are furnished to consumers could strengthen its defense.

Statute of Limitations—TILA Sections 108, 129, 129B, 129C, 129D, 129E, 129F, 129G, 129H, and 130

In general, civil actions may be brought within one year after the violation occurred. For private education loans, civil actions may be brought within one year from the date on which the first regular payment of principal and interest is due. After that time, and if allowed by state law, the consumer may still assert the violation as a defense if a financial institution were to bring an action to collect the consumer’s debt.

A civil action for a violation of TILA section 129 (requirements for certain mortgages), 129B (residential mortgage loan origination), or 129C (minimum standards for residential mortgage loans) may be brought three years from the date of the occurrence of the violation (as compared to one year for most other TILA violations) (TILA section 130(e)).

Moreover, TILA provides that when a creditor, assignee, other holder or anyone acting on such a person’s behalf initiates a foreclosure action on, or any other action to collect the debt in connection with a residential mortgage loan, a consumer may assert a violation of TILA section 129B(c)(1) or (2) or 129C(a) “as a matter of defense by recoupment or set off” (TILA section 130(k)). There is no time limit on the use of this defense and the amount of recoupment or setoff is limited, with respect to the special statutory damages, to no more than three years of finance charges and fees.

Criminal actions and actions brought by regulators, are not subject to the general one-year statute of limitations. Actions brought by a state attorney general to enforce a violation of section 129, 129B, 129C, 129D, 129E, 129F, 129G, or 129H may be brought not later than three years after the date on which the violation occurs.

However, administrative enforcement actions under the policy guide involving erroneously disclosed APRs and finance charges may be subject to time limitations by the TILA. Those limitations range from the date of the last regulatory examination of the financial institution to as far back as 1969, depending on when loans were made, when violations were identified, whether the violations were repeat violations, and other factors.

There is no time limitation on willful violations intended to mislead the consumer. A general summary of the various time limitations that otherwise apply follows.

- For open-end credit, reimbursement applies to violations not older than two years.
- For closed-end credit, reimbursement is generally directed for loans with violations occurring since the immediately preceding examination.

Rescission Rights (Open-End and Closed-End Credit)—Sections 1026.15 & 1026.23

TILA provides that for certain transactions secured by the consumer’s principal dwelling, a consumer has three business days after becoming obligated on the debt to rescind the transaction. The right of rescission allows consumer(s) time to reexamine their credit agreements and cost disclosures and to reconsider whether they want to place their homes

at risk by offering it as security for the credit. A higher-priced mortgage loan (whether or not it is a HOEPA loan) having a prepayment penalty that does not conform to the prepayment penalty limitations (§§1026.32(c) and (d) and §1026.43(g), (subject to certain exclusions)) is also subject to a three-year right of rescission. Transactions exempt from the right of rescission include residential mortgage transactions (§1026.2(a)(24)) and refinancings or consolidations with the original creditor where no “new money” is advanced.

If a transaction is rescindable, consumers must be given a notice explaining that the creditor has a security interest in the consumer’s home, that the consumer may rescind, how the consumer may rescind, the effects of rescission, and the date the rescission period expires.

To rescind a transaction, a consumer must notify the creditor in writing by midnight of the third business day after the latest of three events:

1. consummation of the transaction,
2. delivery of material TILA disclosures, or
3. receipt³³ of the required notice of the right to rescind.

For purposes of rescission, business day means every calendar day except Sundays and the legal public holidays (§1026.2(a)(6)). The term “material disclosures” is defined in section 1026.23(a)(3) to mean the required disclosures of the APR, the finance charge, the amount financed, the total of payments, the payment schedule, and the disclosures and limitations referred to in section 1026.32(c) and (d) and 1026.43(g).

The creditor may not disburse any monies (except into an escrow account) and may not provide services or materials until the three-day rescission period has elapsed and the creditor is

^{33.} 12 CFR 1026.15(b) and 1026.23(b)(1) were amended to include the electronic delivery of the notice of the right to rescind. If a paper notice of the right to rescind is used, a creditor must deliver two copies of the notice to each consumer entitled to rescind. However, under the final rule on electronic delivery of disclosures if the notice is in electronic form, in accordance with the consumer consent and other applicable provisions of the E-Sign Act, only one copy to each customer is required.

reasonably satisfied that the consumer has not rescinded. If the consumer rescinds the transaction, the creditor must refund all amounts paid by the consumer (even amounts disbursed to third parties) and terminate its security interest in the consumer’s home.

A consumer may waive the three-day rescission period and receive immediate access to loan proceeds if the consumer has a “bona fide personal financial emergency.” The consumer must give the creditor a signed and dated waiver statement that describes the emergency, specifically waives the right, and bears the signatures of all consumers entitled to rescind the transaction. The consumer provides the explanation for the bona fide personal financial emergency, but the creditor decides the sufficiency of the emergency.

If the required rescission notice or material TILA disclosures are not delivered or if they are inaccurate, the consumer’s right to rescind may be extended from three days after becoming obligated on a loan to up to three years.

References

Laws

- 15 U.S.C. 1601 *et seq.* Truth in Lending Act (TILA)
- 15 U.S.C. 1666 *et seq.* Fair Credit Billing Act
- 15 U.S.C. 7001 *et seq.* Electronic Signatures in Global and National Commerce Act

Regulations

*Consumer Financial Protection Bureau
Regulation (12 CFR)*

Part 1026 Truth in Lending (Regulation Z)

Guides

CFPB compliance guides

TILA-RESPA Integrated Disclosure Guide to Forms

Regulation Z

Examination Objectives and Procedures

Truth in Lending³⁴ Examination Objectives

1. To appraise the quality of the financial institution's compliance management system for the Truth in Lending Act and Regulation Z (12 CFR part 1026).
2. To determine the reliance that can be placed on the financial institution's compliance management system, including internal controls and procedures performed by the person(s) responsible for monitoring the financial institution's compliance review function for the Truth in Lending Act and Regulation Z.
3. To determine the financial institution's compliance with the Truth in Lending Act and Regulation Z.
4. To initiate corrective action when policies or internal controls are deficient, or when violations of law or regulation are identified.
5. To determine whether the institution will be required to make adjustments to consumer accounts under the restitution provisions of the Truth in Lending Act.

General Procedures

1. Obtain information pertinent to the area of examination from the financial institution's compliance management system program (historical examination findings, complaint information, and significant findings from compliance review and audit).
2. Through discussions with management and review of the following documents, determine whether the financial institution's internal controls are adequate to ensure compliance in the area under review. Identify procedures used daily to detect errors/violations promptly. Also, review the procedures used to ensure compliance when changes occur (e.g., changes in interest rates, service charges, computation methods, and software programs).
 - organizational charts
 - process flowcharts
 - policies and procedures
 - loan documentation and disclosures
 - checklists/worksheets and review documents
 - computer programs

34. These reflect FFIEC-developed procedures.

3. Review compliance review and audit workpapers and determine whether
 - a. the procedures used address all regulatory provisions (see Transactional Testing section)
 - b. steps are taken to follow up on previously identified deficiencies
 - c. the procedures used include samples that cover all product types and decision centers
 - d. the work performed is accurate (through a review of some transactions)
 - e. significant deficiencies, and the root cause of the deficiencies, are included in reports to management/board
 - f. corrective actions are timely and appropriate
 - g. the area is reviewed at an appropriate interval
4. Review the financial institution's record retention practices to determine whether the required documentation or evidence of compliance is retained for at least
 - a. two years after the disclosures were required to be made or other action was required to be taken, other than for the advertising requirements, requirements for mortgages subject to sections 1026.19(e) and (f), and certain requirements for mortgages, which are described below (§1026.25(a));
 - b. three years after the later of the date of consummation, the date disclosures are required to be made, or the date action is required to be taken, for evidence of compliance with sections 1026.19(e)-(f) (regarding closed-end loans that are secured by real property and subject to those sections) other than as set forth in 4.c below (§1026.25(c)(1)(i));
 - c. five years after consummation for completed Closing Disclosure forms, and all documents related to these disclosures, as required by section 1026.19(f)(1)(i) or (f)(4)(i). If the loan is sold, transferred, or otherwise disposed of during that time, the creditor must provide a copy of the Closing Disclosure to the owner or servicer as part of the loan file transfer, who must retain the disclosure for the remainder of the five-year period (§1026.25(c)(1)(ii));
 - d. three years after the date of receipt of payment to show compliance with loan

- originator compensation requirements (§1026.25(c)(2));
- e. three years after consummation to show compliance with ability-to-repay minimum standards (§1026.43(c)-(f)) and prepayment penalty restrictions (§1026.43(g)) for loans secured by a dwelling (§1026.25(c)(3)).

Disclosure Forms

- Determine if the financial institution has changed any TILA disclosure forms or if there are forms that have not been previously reviewed for accuracy. If so:

Verify the accuracy of each disclosure by reviewing the following:

- credit card application/solicitation disclosures (§1026.60(b)-(e))
- HELOC disclosures (§§1026.40(d) and (e))
- initial disclosures (§1026.6) and, if applicable, additional HELOC disclosures (§1026.40)
- periodic statement disclosures (§1026.7)
- statement of billing rights and change in terms notice (§§1026.9(a),(b),(c) or (g))
- note and/or contract forms (including those furnished to dealers)
- Notice of Right to Rescind/Cancel (§§1026.15(b), 1026.23(b)(1)) and 1026.47(c)(4)
- Loan Estimate (§§1026.19(e) and 1026.37)
- Closing Disclosure (§§1026.19(f) and 1026.38)
- special information booklet (§1026.19(g))
- other closed-end credit transaction disclosures not subject to 12 CFR 1026.19(e) or (f) (§§1026.17(a) and 1026.18)
- ARM disclosures (§1026.19(b))
- high-cost mortgage disclosures (§1026.32(c))
- reverse mortgage disclosures (§1026.33(b))
- private education loan disclosures (§1026.47)

Closed-End Credit Disclosure Forms Review Procedures

Closed-end consumer credit transactions secured by real property, other than a reverse mortgage subject to section 1026.33, are subject to the disclosure, timing, and other requirements under the TILA-RESPA Integrated Disclosure rule. Thus, for most closed-end mortgages, including construction-only loans and loans secured by vacant land or by 25 or more acres, creditors must provide the Loan Estimate and the Closing Disclosure. There is a partial exemption in section 1026.3(h) from the requirement to provide the Loan Estimate and Closing Disclosure if the loan is (1) a

subordinate lien; (2) a loan for home buyer assistance, such as down payments or closing costs, rehabilitation loans, energy efficiency assistance, or foreclosure prevention; (3) a loan that does not require the payment of interest; (4) a loan for which repayment that is forgiven, deferred for 20 years, or deferred until the property is sold or is no longer the consumer's principal dwelling; and (5) a loan where the total costs of the transaction are less than 1 percent of the loan and include fees only for recording, application, and housing counseling. For those transactions, creditors must provide other applicable TILA disclosures.

NOTE: a creditor may not use the TILA-RESPA Integrated Disclosure (TRID) forms instead of the GFE, HUD-1, and Truth in Lending forms for transactions that continue to be covered by the remaining disclosure requirements of TILA or RESPA (e.g., reverse mortgages) or before the effective date of the TILA-RESPA Integrated Disclosure Rule (October 3, 2015) (§1026.19(e), (f)).

Closed-End Credit Disclosure Forms—For Transactions under 1026.19(e) and (f)

- For a closed-end credit transaction subject to sections 1026.19(e) and (f), determine whether the creditor provides disclosures required under section 1026.37 (Loan Estimate) and section 1026.38 (Closing Disclosure) (§§1026.19(e) and 1026.19(f)).
 - For loans subject to section 1026.19(e), determine whether the creditor provides the good faith disclosures in the form required by section 1026.37 and conforming to the Loan Estimate in appendix H (§§1026.19(e), 1026.37(o)).
 - For loans subject to section 1026.19(f), determine whether the creditor provides the Closing Disclosure in the form required by 1026.38 and conforming to the Closing Disclosure attached at appendix H (§§1026.19(f), 1027.38(t)).

NOTE: Use of the Loan Estimate and Closing Disclosure is mandatory for RESPA-covered transactions. For transactions not covered by RESPA, the Loan Estimate and Closing Disclosure may be considered a model form.

Loan Estimate—Section 1026.37(a) (Page 1 of the Loan Estimate)

- Loan Estimate.* Determine whether the disclosures required for the Loan Estimate are accurately completed and include the following disclosures on the first page (1026.37(a)).

Disclosures are detailed below according to the designations made on the Loan Estimate form:

- a. The statement: "Save this Loan Estimate to compare with your Closing Disclosure" (§1026.37(a)(2));
- b. *Name and address of creditor* (§1026.37(a)(3));
- c. *Date Issued* (§1026.37(a)(4));
- d. *Applicants* (§1026.37(a)(5));
- e. *Property*. The property address, including zip code (§1026.37(a)(6));
- f. *Sales Price/ Prop. Value* (estimated value where there is no seller) (§1026.37(a)(7));
- g. *Loan Term*. Stated in years, months, or both, as applicable (§1026.37(a)(8));
- h. *Purpose*. Loan purpose, categorized as "Purchase," "Refinance," or "Construction." All other loan purposes must be categorized as "Home-Equity Loan" (§1026.37(a)(9));
- i. *Product*. Product type, including the type of interest rate categorized as "Adjustable Rate," "Step Rate," or "Fixed Rate." This disclosure must be preceded by the type of feature that may change the consumer's periodic payment, such as "Negative Amortization," "Interest Only," "Step Payment," "Balloon Payment," or "Seasonal Payment," with the duration of any introductory rate or payment period and the first adjustment period if applicable (§§1026.37(a)(10)(i)-(iii));
- j. *Loan Type*. Categorized as "Conventional," "FHA," "VA," or "Other" (§1026.37(a)(11));
- k. *Loan Identification Number*. (§1026.37(a)(12)); and
- l. *Rate Lock*. A statement of whether the disclosed rate is locked for a specific period. If so, the date and time (including time zone) that the lock will expire, along with an accompanying statement that the interest rate, any points, and any lender credits may change unless the interest rate has been locked (§1026.37(a)(13)).

Loan Terms—Section 1026.37(b) (Page 1 of the Loan Estimate)

1. *Loan Terms*. Determine whether, under the heading "Loan Terms," all disclosures are completed and accurate (§1026.37(b)):
 - a. *Loan Amount* (§1026.37(b)(1));
 - b. *Interest Rate* (§1026.37(b)(2));
 - c. *Principal and Interest*. The applicable unit

period (i.e., bi-weekly, monthly, yearly) must precede the label "Principal and Interest" (§1026.37(b)(3));

- d. *Prepayment Penalty*. A statement of whether the loan contains a prepayment penalty, an affirmative or negative response to the question, the maximum amount of the prepayment penalty that may be imposed, and the date on which the penalty may no longer be applied (§§1026.37(b)(4), 1026.37(b)(7)(i)). If the date is disclosed (for an affirmative response), determine whether it is disclosed as the year in which the event occurs, counting from the date of consummation (§1026.37(b)(8)(iii));
- e. *Balloon Payment*. A statement of whether the loan contains a balloon payment, an affirmative or negative response to the question, the maximum amount of the balloon payment, and the due date of such payment (§§1026.37(b)(5), 1026.37(b)(7)(ii)). If the date is disclosed (for an affirmative response), determine whether it is disclosed as the year in which the event occurs, counting from the due date of the initial periodic payment (§1026.37(b)(8)(ii)); and
- f. Whether the loan amount, interest rate, or monthly principal and interest can increase after closing (§1026.37(b)(6)) and, if so, the information required by sections 1026.37(b)(6)(i)-(iii) and 1026.37(b)(8)(i)-(ii).

Projected Payments—Section 1026.37(c) (Page 1 of the Loan Estimate)

1. *Projected Payments*. Determine whether, under the heading "Projected Payments" (1026.37(c))
 - a. all required fields in the table are completed, follow the formatting and statement requirements, are accurate, and itemize the periodic payments or range of payments together with an itemized estimate of taxes, insurance, assessments, and payments to be made with escrow account funds (§§1026.37(c)(1)-(5));
 - b. each separate periodic payment or range of payments is itemized as follows (§1026.37(c)(2));
 - i. *Principal and Interest*. The amount payable for principal and interest, including the term "only interest" if the payment or range of payments includes any interest only payment (§1026.37(c)(2)(i));
 - A. *Adjustable Rate Loans*. The maximum principal and interest payment must be determined by assuming that the interest rate in effect throughout

- the loan term is the maximum possible interest rate. The minimum amounts must be determined by assuming that the interest rate in effect throughout the loan term is the minimum possible interest rate (§1026.37(c)(2)(i)(A));
- B. *Adjustable Rate and Negative Amortization Loans.* The maximum principal and interest amounts (after the loan term period for which the loan principal balance may increase) must be determined by assuming the maximum principal amount permitted under the terms of the legal obligation at the end of the loan term period. The minimum amounts must be determined by assuming that the interest rate in effect throughout the loan term is the minimum possible interest rate (§1026.37(c)(2)(i)(B));
- ii. *Mortgage Insurance.* The maximum amount payable for mortgage insurance premiums corresponding to the principal and interest payment disclosed (§1026.37(c)(2)(ii));
- iii. *Escrow.* The amount payable into an escrow account to pay some or all of the charges described in 1026.37(c)(2)(iii). If estimates are used for property taxes and homeowner's insurance, they must reflect (§1026.37(c)(5))
- A. the taxable assessed value of the real property securing the transaction after consummation, including the value of any improvements on the property or to be constructed on the property if known. The disclosure must be made whether or not such construction will be financed from the proceeds of the transaction for property taxes (§1026.37(c)(5)(i)); and
- B. the replacement costs of the property during the initial year after the transaction, defined as premiums or other charges for insurance against loss of or damage to property, or against liability arising out of ownership or use of property (§1026.37(c)(5)(ii));
- iv. *Total Monthly Payment.* The total periodic payment, calculated as the sums disclosed as the "Principal and Interest," "Mortgage Insurance," and "Escrow." (§1026.37(c)(2)(iv));
- NOTE: The headings noted for the Projected Payments table must be listed under the master heading "Payment Calculation" (§1026.37(c)(3)(i)).
- c. if the amount of a periodic monthly payment may change, additional, separate periodic payments or range of payments have been disclosed. Events requiring additional disclosure(s) include: (i) the change of the periodic principal and interest payment or range of such payments, (ii) a scheduled balloon payment, (iii) the automatic termination of mortgage insurance, or (iv) the anniversary of the due date of the initial periodic payment or range of payments immediately following the occurrence of a change in the principal and interest payment or range of such payments (§1026.37(c)(1)(i));
- d. the creditor has met the following in disclosing a range of payments (§1026.37(c)(1)(iii)):
- the creditor has disclosed both the minimum and maximum amount for both the principal and interest payment and the total periodic payment (§1026.37(c)(1)(iii));
 - the creditor has accurately disclosed a range of payments where multiple events are combined into a single range of payments in order to meet the requirement that only four disclosures may be made (§1026.37(c)(1)(iii)(A));
 - the creditor has accurately disclosed a range of payments where multiple events occur during a single year or an event occurs during the same year as the initial periodic payment or range of payments. If the event occurs during the same year as the initial periodic payment or range of payments, the creditor has disclosed the range that would apply during the year in which the events will occur (§1026.37(c)(1)(iii)(B));
 - the creditor has accurately disclosed a range of payments if the periodic principal and interest payment may adjust based on index rates at the time an interest rate adjustment may occur (§1026.37(c)(1)(iii)(C));
- e. the creditor has not disclosed more than four separate periodic payments or ranges of payments (§1026.37(c)(1)(ii)):
- If additional separate periodic payments or range of payments disclosures are required after the third separate periodic payment or range of payment disclosure, and the transaction does not involve a balloon payment, determine whether the creditor has disclosed the additional

- separate periodic payment or range of payments as a single fourth range of payments disclosure (§1026.37(c)(1)(ii));
- ii. If additional separate periodic payments or range of payments disclosures are required and the transaction involves a final balloon payment, determine whether the creditor has disclosed the additional separate periodic payment or range of payments as a single range of payments after the second separate periodic payment disclosure. Disclosure of the final balloon payment must appear as the final disclosure, under the heading “*Final Payment.*” (§§1026.37(c)(1)(ii)(A), 1026.37(c)(3)(iii)); and
 - iii. The automatic termination of mortgage insurance requires disclosure of an additional separate periodic payment or range of payments only if the total number of separate periodic payments or ranges of payments does not exceed three (§1026.37(c)(1)(ii)(B));
 - iv. Each separate periodic payment or range of payments must be disclosed under a subheading stating the years of the loan during which that payment or range of payments will apply. The years must be disclosed in sequence of whole years from the due date of the initial periodic payment (§1026.37(c)(3)(ii));
- NOTE:** See the Narrative for further discussion of requirements related to the Projected Payments table.
- f. *Taxes, Insurance, and Assessments.* Determine whether the creditor accurately discloses (§1026.37(c)(4))
- i. the sum of all mortgage-related obligations, expressed as a monthly amount, even if no escrow account for the payment of some or any of such charges will be established (§1026.37(c)(4)(ii));
- NOTE:** Mortgage-related obligations, as used here, takes the definition used in 1026.43(b)(8); however, it does not include amounts identified in 1026.4(b)(5). Amounts that must be disclosed as “Taxes, Insurance & Assessment” include premiums or other charges for credit life, accident, health, or loss-of-income insurance; premiums or other charges for insurance against loss of or damage to property, or against liability arising out of the ownership or use of property; or premiums or charges paid for debt cancellation or debt suspension coverage (§1026.43(b)(8)).
- ii. a statement that the mortgage-related obligations disclosed can increase over time (1026.37(c)(4)(iii)). If estimates are used for property taxes and homeowner’s insurance, they must reflect (§1026.37(c)(5))
 - A. the taxable assessed value of the real property securing the transaction after consummation, including the value of any improvements on the property or to be constructed on the property if known. The disclosure must be made whether or not such construction will be financed from the proceeds of the transaction for property taxes (§1026.37(c)(5)(i)); and
 - B. the replacement costs of the property during the initial year after the transaction for premiums or other charges for insurance against loss of or damage to property, or against liability arising out of ownership or use of property (§1026.37(c)(5)(ii));
 - iii. a statement of whether the mortgage-related obligations include payments for property taxes; premiums or other charges for insurance against loss of or damage to property, or against liability arising out of the ownership or use of property; or as otherwise identified by 1026.43(b)(8). The creditor must disclose whether the amounts will be paid by the creditor using escrow account funds (§1026.37(c)(4)(iv));
 - iv. a statement that the consumer must pay separately any mortgage-related obligations that are not paid by the creditor using escrow account funds (§1026.37(c)(4)(v));
 - v. a reference to the escrow account information contained on page 2 of the Loan Estimate, captioned “Initial Escrow Payment at Closing” (§1026.37(c)(4)(vi)).

Costs at Closing—Section 1026.37(d) (Page 1 of the Loan Estimate)

1. *Costs at Closing.* Determine whether, under the heading “Costs at Closing” the creditor discloses the Estimated Closing Costs (including Loan Costs and Other Costs, less Lender Credits) and the Estimated Cash to Close (including Closing Costs), based upon the calculations required by sections 1026.37(f), (g),

- and (h) (and found on page 2 of the Loan Estimate) (§1026.37(d)(1)).
2. *Optional Alternative Table for Transactions without a Seller.* Determine whether, for transactions that do not involve a seller, the creditor chose to use the alternative “Cash to Close” table. If so, determine whether the amount is calculated in accordance with section 1026.37(h)(2)(iv) (Calculating Cash to Close), includes a statement of whether the disclosed estimated amount is due from or to the consumer; and includes a statement referring the consumer to the alternative “Calculating Cash to Close” table pursuant to section 1026.37(h)(2) and the model form found in appendix H-24(G) (§1026.37(d)(2)).
- NOTE: See the Narrative for further discussion of requirements related to the Costs at Closing table.
- Website Disclosure—Section 1026.37(e) (Page 1 of the Loan Estimate)**
1. *Website Reference.* Determine whether the creditor discloses that the consumer may obtain general information and tools on the Bureau’s website and has included a link to the site specified in section 1026.37(e) (§1026.37(e)).
- Closing Cost Details: Loan Costs—Section 1026.37(f) (Page 2 of the Loan Estimate)**
1. *Loan Costs.* Determine on page 2 whether, under the heading “Loan Costs,” the creditor makes the following disclosures (§1026.37(f)):
- Origination charges.* Accurately itemized to reflect each amount and a subtotal of all amounts that the consumer will pay to each creditor and loan originator for originating and extending the credit. Determine whether the points paid to the creditor to reduce the interest rate are itemized separately, as both a percentage of the amount of credit extended and a dollar amount, and using the label “% of Loan Amount (Points).” Determine whether points paid is the first item listed. If points to reduce the interest rate are not paid, this disclosure must be left blank (§1026.37(f)(1));
 - Services You Cannot Shop For.* An accurate itemization, limited to 13 items, of each amount and subtotal of all amounts that the consumer will pay for settlement services that the consumer cannot shop for and that are provided by persons other than the creditor or mortgage broker. Determine whether the terms related to title insurance include “Title” as an introductory description (§1026.37(f)(2));
 - Services You Can Shop For.* An accurate itemization, limited to 14 items, of each amount and subtotal of all amounts that the consumer will pay for settlement services that the consumer can shop for and that are provided by persons other than the creditor or mortgage broker. Determine whether the terms related to title insurance include “Title” as an introductory description (§1026.37(f)(3));
 - Total Loan Costs.* An accurate sum of the subtotals required to be disclosed under 1026.37(f) as Origination Charges, Services You Cannot Shop For and Services You Can Shop For (§1026.37(f)(4)); and
 - Other than as noted in item 1a above, determine that items are ordered alphabetically by label under the applicable subheading. If there are more than the maximum allowable number of line items, determine that the remaining charges are disclosed in the aggregate in the last line as “Additional Charges” (§§1026.37(f)(5) and (f)(6)).
- Closing Cost Details: Other Costs—Section 1026.37(g) (Page 2 of the Loan Estimate)**
1. *Other Costs.* Determine whether the creditor makes the following disclosures (1026.37(g)):
- Taxes and Other Government Fees.* Accurately itemized to reflect amounts to be paid to state and local governments for taxes and other government fees, including subtotals for recording fees and other taxes. A separate line must be included for transfer taxes paid by the consumer. If not charged to the consumer, these fields must be left blank (§1026.37(g)(1));
 - Prepays.* Accurately itemized to reflect amounts to be paid by the consumer in advance of the first scheduled payment and the subtotals of all such amounts. The disclosures must follow the required order and include the number of months and the total dollar amount to be paid at consummation for homeowner’s insurance and mortgage insurance premiums; the prepaid interest to be paid at consummation, based on daily interest, number of days, interest rate, and the total to be collected; the number of months for which property taxes are to be paid; and the amount the consumer will pay at consummation. If any of these items are not charged to the consumer, the field must

- be left blank. A maximum of three additional items may be disclosed (including applicable time period covered by the payment at consummation and total to be paid) as Prepays (§1026.37(g)(2));
- c. *Initial Escrow Payment at Closing.* Accurately itemized to reflect the amounts that the consumer will be expected to place into an escrow account at consummation to be applied to recurring periodic charges and subtotals of all amounts. The disclosure must provide the amount escrowed each month, the number of months of escrow, and the total amount to be paid into the escrow account by the consumer at consummation. Homeowner's insurance premiums, mortgage insurance premiums, and property taxes must be separately subtotalized. If any of these items are not charged to the consumer, that field must be left blank. A maximum of five additional items may be disclosed as part of Initial Escrow Payment at Closing (§1026.37(g)(3));
 - d. *Other.* An accurate itemization of costs that the consumer is likely to pay, or has contracted with a person other than the creditor or loan originator to pay, at closing and of which the creditor is aware at the time of issuing the Loan Estimate. Determine whether the creditor has used a descriptive label for each such amount and provided the subtotal of all such amounts. Determine whether the terms related to title insurance include "Title" as an introductory description and whether the parenthetical description "(optional)" is used at the end of the label for items disclosing any premiums paid for separate insurance, warranty, guarantee, or event-coverage products. A maximum of five items may be disclosed as "Other" (§1026.37(g)(4));
 - e. *Total Other Costs.* An accurate sum of the subtotals for Taxes and Other Government Fees, Prepays, Initial Escrow Payment at Closing, and Other disclosed pursuant to sections 1026.37(g)(1) through (4) (§1026.37(g)(5));
 - f. *Total Closing Costs.* Accurate component amounts and sum of the following (§1026.37(g)(6)):
 - i. *D+I.* A sum of the Total Loan Costs and Total Other Costs (§1026.37(g)(6)(i)); and
 - ii. *Lender Credits.* The amount of any lender credits, disclosed as a negative number. If no such amount is disclosed, this line must be left blank (§1026.37(g)(6)(ii)).
- NOTE: The disclosure of "lender credits," as identified in §1026.37(g)(6)(ii), is required by §1026.19(e)(1)(i). "Lender credits," as identified in §1026.37(g)(6)(ii), represents the sum of non-specific lender credits and specific lender credits. Non-specific lender credits are generalized payments from the creditor to the consumer that do not pay for a particular fee on the disclosures provided pursuant to §1026.19(e)(1). Specific lender credits are specific payments, such as a credit, rebate, or reimbursement, from a creditor to the consumer to pay for a specific fee. Non-specific lender credits and specific lender credits are negative charges to the consumer (Comment 19(e)(3)(i)-5).
- g. Determine that items follow the alphabetical ordering and addenda restrictions of sections 1026.37(g)(7) and (g)(8).

Closing Cost Details: Calculating Cash to Close—Section 1026.37(h) (Page 2 of the Loan Estimate)

1. *Calculating Cash to Close.* Determine whether, under the heading "Calculating Cash to Close," the creditor has accurately disclosed the total amount of cash or other funds that must be provided by the consumer at consummation, itemized into the following component amounts (§1026.37(h)(1)):
 - a. *Total Closing Costs.* The amount must be disclosed as a positive number (§1026.37(h)(1)(i));
 - b. *Closing Costs Financed (Paid from your Loan Amount).* The amount of any closing costs to be paid out of loan proceeds, disclosed as a negative number (§1026.37(h)(1)(ii));
 - c. *Downpayment/Funds from Borrower.* Disclosed
 - i. for a purchase transaction, as the amount of the difference between the purchase price of the property and the principal amount of the loan, as a positive number;
 - ii. for all other transactions, as the estimated funds from the consumer determined in calculating "Funds for Borrower" under section 1026.37(h)(1)(v) (§1026.37(h)(1)(iii));
 - d. *Deposit.* Disclosed
 - i. for a purchase transaction, as the amount

- that is paid to the seller or held in trust or escrow by an attorney or other party under the terms of the agreement for the sale of the property, as a negative number;
- ii. for all other transactions, disclosed as \$0 (§1026.37(h)(1)(iv));
- e. *Funds for Borrower.* Disclosed as the amount of funds for the consumer, determined by subtracting the principal amount of the credit extended (excluding any amount disclosed as closing costs to be financed pursuant to section 1026.37(h)(1)(ii)) from the total amount of all existing debt being satisfied in the transaction (except to the extent the satisfaction of such existing debt is disclosed as Other Costs under section 1026.37(g)) (§1026.37(h)(1)(v)):
- i. if the calculation yields a positive number, that amount is disclosed under the heading "Down Payment/Funds from Borrower," (§1026.37(h)(1)(iii)(B)) and \$0 is disclosed under the heading "Funds for Borrower," under section 1026.37(h)(1)(v) (§1026.37(h)(1)(v)(A));
 - ii. if the calculation yields a negative amount, the creditor discloses that amount as a negative number under the heading "Funds for Borrower," (§1026.37(h)(1)(v)) and as \$0 under the heading "Down Payment/Funds from Borrower" under section 1026.37(h)(1)(iii)(B) (1026.37(h)(1)(v)(B));
 - iii. if the calculation yields "0," then \$0 is disclosed under both headings under sections 1026.37(h)(1)(iii)(B) and (h)(1)(v) (§1026.37(h)(1)(v)(C));
- f. *Seller Credits.* Determined by totaling the amount the seller will pay for Total Loan Costs under section 1026.37(f)(4) and Total Other Costs under section 1026.37(g)(5)), to the extent known. This must be disclosed as a negative number (§1026.37(h)(1)(vi));
- g. *Adjustments and Other Credits.* Determined by combining the Total Loan Costs (determined under section 1026.37(f)) and Total Other Costs (determined under 1026.37(g)) that are paid by persons other than the loan originator, creditor, consumer, or seller, together with any other amounts that are required to be paid by the consumer at closing pursuant to a purchase and sale contract. Must be disclosed as a negative number (§1026.37(h)(1)(vii)); and
- h. *Estimated Cash to Close.* The sum of the amounts of the components required for Calculating Cash to Close disclosed as under sections 1026.37(h)(1)(i) through (vii) (§1026.37(h)(1)(viii)).

Closing Cost Details: Alternative Calculating Cash to Close Table for Transactions without a Seller—Section 1026.37(h)(2) (Page 2 of the Loan Estimate)

1. *Alternative Calculating Cash to Close Table for Transactions without a Seller.* If the transaction does not involve a seller and the creditor has chosen to provide the optional Alternative Calculating Cash to Close table modeled in appendix H-24(G), determine whether the creditor accurately discloses the total amount of cash or other funds that must be provided by the consumer as consummation, itemized into the following component amounts (§1026.37(h)(2)):
 - a. *Loan Amount.* (§1026.37(h)(2)(i));
 - b. *Total Closing Costs.* Disclosed as a negative number (§1026.37(h)(2)(ii));
 - c. *Total Payoffs and Payments.* Disclosed as the total amount of payoffs and payments to be made to third parties that are not otherwise disclosed, as a negative number (§1026.37(h)(2)(iii));
 - d. *Cash to Close.* Disclosed as the amount of cash or other funds due from or to the consumer and a statement of whether the disclosed estimated amount is due from or to the consumer. The amount must be calculated as the sum of the amounts disclosed under "Loan Amount," "Total Closing Costs," and "Total Payoffs and Payments" (§1026.37(h)(2)(iv));
 - e. *Closing Costs Financed (Paid from your Loan Amount).* Disclosed as the sum of the amounts under "Loan Amount," and "Total Payoffs and Payments." The sum is disclosed only to the extent it is greater than "0," and it is less than or equal to the amount disclosed under "Total Closing Costs" (§1026.37(h)(2)(v)).

NOTE: If a creditor chooses to provide the optional Alternative Calculating Cash to Close table for transactions without a seller, the alternative table must also be used in the Closing Disclosure.

Closing Cost Details: Adjustable Payment (AP) Table—Section 1026.37(i) (Page 2 of the Loan Estimate)

1. *Adjustable Payment (AP) Table.* For loans where

the periodic principal and interest payment may change after consummation based on a factor other than an interest rate adjustment, or for seasonal payment products as described in section 1026.37(a)(10)(ii)(E), determine whether the creditor discloses a separate table under the master headings “Closing Cost Details” and “Adjustable Payment (AP) Table” that contains the following information and satisfies the following requirements:

NOTE: The AP table is not to appear where it is inapplicable because the payments after consummation change for reasons other than an adjustment to the interest rate.

- a. *Interest Only Payments.* The disclosure states yes or no to the question of whether the transaction is an interest only product under section 1026.37(a)(10)(ii)(B) and, if the answer is yes, the disclosure states the period during which interest only periodic payments are scheduled (§1026.37(i)(1));
- b. *Optional Payments.* The disclosure states yes or no to the question whether the terms of the legal obligation expressly provide that the consumer may elect to pay a specified periodic principal and interest payment in an amount other than the scheduled amount of the payment, and, if the answer is yes, the disclosure states the period during which the consumer may elect to make such payments (§1026.37(i)(2));
- c. *Step Payments.* The disclosure states yes or no to the question whether the transaction is a step payment product under section 1026.37(a)(10)(ii)(C) and, if the answer is yes, the disclosure states the period during which the regular periodic payments are scheduled to increase (§1026.37(i)(3));
- d. *Seasonal Payments.* The disclosure states yes or no to the question whether the transaction is a seasonal payment product under section 1026.37(a)(10)(ii)(E) and, if the answer is yes, the disclosure states the period during which periodic payments are not scheduled (§1026.37(i)(4));
- e. *Principal and Interest Payments.* This label is immediately preceded by the applicable unit period, and the disclosures must contain the following information:
 - i. the number of the payment of the first periodic principal and interest payment that may change under the terms of the legal obligation (counting from the first periodic payment due after consummation), and the amount or range of the periodic principal and interest payment

for such payment, labeled “First Change/Amount” (§1026.37(i)(5)(i));

- ii. the frequency of subsequent changes to the periodic principal and interest payment, labeled “Subsequent Changes” (§1026.37(i)(5)(ii)); and
- iii. the maximum periodic principal and interest payment that may occur during the term of the transaction, and the first periodic principal and interest payment that can reach such maximum, counting from the first periodic payment due after consummation, labeled “Maximum Payment” (§1026.37(i)(5)(iii)).

Closing Cost Details: Adjustable Interest Rate (AIR) Table—Section 1026.37(j) (Page 2 of the Loan Estimate)

1. *Adjustable Interest Rate (AIR) Table.* If the interest rate may increase after consummation, determine whether the creditor discloses, as a separate table under the master headings “Closing Cost Details” and “Adjustable Interest Rate (AIR) Table,” the following information and satisfies the following requirements (§1026.37(j)):

NOTE: The AIR table is not to appear where it is inapplicable because the interest rate does not adjust after consummation.

- a. *Index + Margin.* Disclosed if the interest rate may adjust and the product type is not a “Step Rate” under section 1026.37(a)(10)(i)(B). The disclosure must show the index upon which the adjustments to the interest rate are based and the margin that is added to the index to determine the interest rate (§1026.37(j)(1));
- b. *Interest Rate Adjustments.* If the product type is a “Step Rate” and not also an “Adjustable Rate” under section 1026.37(a)(10)(i)(A), the disclosure must show the maximum amount of any adjustments to the interest rate that are scheduled and predetermined (§1026.37(j)(2));
- c. *Initial Interest Rate.* The disclosure must show the initial interest rate at consummation of the loan transaction (§1026.37(j)(3));
- d. *Minimum and Maximum Interest Rates.* The disclosure must show the minimum and maximum interest rates for the loan, after any introductory period expires (§1026.37(j)(4));
- e. *Change Frequency.* The disclosure must show the month when the interest rate after consummation may first change, calculated

- from the date interest for the first scheduled periodic payment begins to accrue, labeled “First Change;” and the frequency of interest rate adjustments after the initial adjustment to the interest rate, labeled, “Subsequent Changes” (§1026.37(j));
- f. *Limits on Interest Rate Changes.* The disclosures must show the maximum possible change for the first adjustment of the interest rate after consummation, labeled “First Change;” and the maximum possible change for subsequent adjustments of the interest rate after consummation, labeled “Subsequent Changes” (§1026.37(j)).

Additional Information About This Loan—Section 1026.37(k) (Page 3 of the Loan Estimate)

1. *Additional Information About This Loan.* Determine whether the creditor accurately discloses contact and NMLSR information as follows:
- Lender/Mortgage Broker.* The name and “NMLS ID/License ID” for the creditor (“Lender”) and the mortgage broker, if any. If the creditor or mortgage broker has not been assigned an NMLSR ID, the license number or other unique identifier issued to the creditor or mortgage broker by the applicable jurisdiction or regulating body must be disclosed, with the abbreviation for the state of the applicable jurisdiction or regulatory body stated before the word “License” in the label, if any (§1026.37(k)(1));
 - Loan Officer.* The name and NMLSR ID of the individual loan officer of the creditor and the mortgage broker, if any, who is the primary contact for the consumer. If the individual loan officer has not been assigned an NMLSR ID, the license number or other unique identifier issued by the applicable jurisdiction or regulating body with which the loan officer is licensed and/or registered shall be disclosed, with the abbreviation for the state of the applicable jurisdiction or regulatory body stated before the word “License” in the label, if any (§1026.37(k)(2)); and
 - E-mail/Phone (respectively).* The e-mail address and telephone number of the loan officer (§1026.37(k)(3)).

Additional Information About This Loan: Comparisons—Section 1026.37(l) (Page 3 of the Loan Estimate)

1. *Comparisons.* Determine whether the creditor accurately discloses the following information for

comparison purposes and includes the statement “Use these measures to compare this loan with other loans” (§1026.37(l)):

- In 5 years* (§1026.37(l)(1));
 - the total principal, interest, mortgage insurance, and loan costs scheduled to be paid through the end of the 60th month after the due date of the first periodic payment, expressed as a dollar amount, along with the statement “Total you will have paid in principal, interest, mortgage insurance, and loan costs;” and
 - the principal scheduled to be paid through the end of the 60th month after the due date of the first periodic payment, expressed as a dollar amount, along with the statement “Principal you will have paid off;”
- Annual Percentage Rate (APR).* Expressed as a percentage, and the statement “Your costs over the loan term expressed as a rate. This is not your interest rate” (§1026.37(l)(2)); and
- Total Interest Percentage (TIP).* The total amount of interest that the consumer will pay over the life of the loan, expressed as a percentage of the amount of credit extended and the statement “The total amount of interest that you will pay over the loan term as a percentage of your loan amount” (§1026.37(l)(3)).

Additional Information About This Loan: Other Considerations—Section 1026.37(m) (Page 3 of the Loan Estimate)

1. *Other Considerations.* Determine whether the creditor accurately discloses the following (1026.37(m)):
- Appraisal.* For transactions subject to 15 U.S.C. 1639h or 1691(e), as implemented in this part or Regulation B, 12 CFR part 1002, respectively, a statement, labeled “Appraisal” that explains (§1026.37(m)(1))
 - the creditor may order an appraisal to determine the value of the property identified in section 1026.37(a)(6) and may charge the consumer for that appraisal;
 - the creditor will promptly provide the consumer a copy of any appraisal, even if the transaction is not consummated; and
 - the consumer may choose to pay for an

- additional appraisal of the property for the consumer's use;
- b. *Assumption.* A statement of whether a subsequent purchaser of the property may be permitted to assume the remaining loan obligation on its original terms (§1026.37(m)(2));
 - c. *Homeowner's Insurance.* At the option of the creditor, a statement that homeowner's insurance is required on the property and that the consumer may choose the insurance provider (§1026.37(m)(3));
 - d. *Late Payment.* A statement detailing any charge that may be imposed for a late payment, stated as a dollar amount or percentage charge of the late payment amount, and the number of days that a payment must be late to trigger the late payment fee (§1026.37(m)(4));
 - e. *Refinance.* The following statement: "Refinancing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to refinance this loan." (§1026.37(m)(5));
 - f. *Servicing.* A statement of whether the creditor intends to service the loan or transfer the loan to another servicer (§1026.37(m)(6));
 - g. *Liability after Foreclosure.* If the purpose of the credit transaction is to refinance an extension of credit as described in section 1026.37(a)(9)(ii), a brief statement that certain state law protections against liability for any deficiency after foreclosure may be lost, the potential consequences of the loss of such protections, and a statement that the consumer should consult an attorney for additional information (§1026.37(m)(7)); and
 - h. *Construction Loans.* In a transaction that involves a new construction, if the creditor reasonably expects settlement will occur more than 60 days after the Loan Estimate is issued and wishes to retain the option to provide a revised disclosure, a clear and conspicuous statement that a revised disclosure may be issued any time prior to 60 days before consummation (§1026.37(m)(8)).

Additional Information About This Loan: Confirm Receipt—Section 1026.37(n) (Page 3 of the Loan Estimate)

1. *Confirm Receipt.* If the creditor chooses to provide a signature statement, determine whether the creditor accurately provides the following: "By signing, you are only confirming that you have received this form. You do not

have to accept this loan because you have signed or received this form." If the creditor does not include a line for the consumer's signature, the creditor discloses the following statement (labeled "Loan Acceptance"): "You do not have to accept this loan because you have received this form or signed a loan application" (§1026.37(n)).

Form of Disclosures—Section 1026.37(o)

1. *Form of disclosures.*³⁵ Determine whether the creditor made the disclosures required by section 1026.37 clearly and conspicuously in writing, in a form that the consumer may keep, with disclosures grouped together and segregated from everything else, containing only the information required by 1026.37 (a) through (n), made in the same order, and positioned relative to the master headings, headings, subheadings, labels, and similar designations in the same manner, as shown in form H-24, set forth in appendix H (§§1026.37(o)(1) and (2)):
 - a. *Form H-24 required.* Determine whether, for a transaction subject to section 1026.19(e) that is a federally related mortgage loan, as defined in Regulation X, 12 CFR 1024.2, the creditor uses form H-24, set forth in appendix H (§1026.37(o)(3)(i)); or
 - b. *Substantially similar disclosures.* Determine whether the creditor makes the disclosures with headings, content, and format substantially similar to form H-24, set forth in appendix H for any other transaction subject to sections 1026.37 and (§1026.37(o)(3)(ii));
 - c. *Rounding—nearest dollar.* Determine whether the creditor accurately rounds the following figures to the nearest whole dollar disclosed pursuant to section 1026.37(o)(4)(i)(A):
 - i. the dollar amounts for Loan Terms required by section 1026.37(b)(6)-(7), (i.e., adjustments after consummation and details about prepayment penalty and balloon payments);
 - ii. the dollar amounts for Projected Payments or range of payments required by section 1026.37(c)(1)(iii) (i.e., minimum and maximum amounts of principal and interest for projected periodic payments or range of payments);
 - iii. the dollar amounts for Mortgage Insurance required to be disclosed by section

³⁵. Limited changes to the disclosure forms are permitted, including substitution of "monthly" with the applicable unit period, making disclosures in languages other than English, and the creditor's logo in the space allotted for the identification of the creditor (§1026.37(o)(5)).

- 1026.37(c)(2)(ii) (i.e., itemization of maximum amount of mortgage insurance premiums);
- iv. the dollar amounts for Escrow required to be disclosed by section 1026.37(c)(2)(iii);
 - v. the dollar amounts for Taxes, Insurance, and Assessments required to be disclosed by section 1026.37(c)(4)(ii);
 - vi. the dollar amounts for Loan Costs required to be disclosed by section 1026.37(f) (i.e., Origination Charges, Services You Cannot Shop For, Services You Can Shop For, and Total Loan Costs);
 - vii. the dollar amounts for Other Costs required by section 1026.37(g) (i.e., Taxes and Other Government Fees, Prepaids, Initial Escrow Payment at Closing, Other, Total Other Costs, and Total Closing Costs) except as noted for percentages;
 - viii. the dollar amounts for Calculating Cash to Close required to be disclosed by section 1026.37(h);
 - ix. the dollar amounts for the Adjustable Payment (AP) Table required to be disclosed by section 1026.37(i); and
 - x. the dollar amounts for Comparisons required to be disclosed by section 1026.37(l).
- d. *No rounding—dollars.* Determine that the creditor did not round the following (§1026.37(o)(4)(i)(A)):
- i. the per diem amount required by section 1026.37(g)(2)(iii) (prepaid interest paid per day); and
 - ii. the figures disclosed pursuant to section 1026.37(g)(3)(i)-(iii) (initial escrow payment at closing for homeowner's insurance, mortgage insurance, and property taxes) and section 1026.37(g)(3)(v) (additional escrow items).
- e. *Loan amount.* Determine that the creditor did not round the loan amount disclosed pursuant to section 1026.37(b)(1) and truncated whole numbers at the decimal point (§1026.37(o)(4)(i)(B)).
- f. *Total periodic payment.* Determine that the creditor accurately rounds the total periodic payment disclosed pursuant to section 1026.37(c)(2)(iv), if any of the component amounts of the figures disclosed pursuant to section 1026.37(o)(4)(i)(A) are rounded to the nearest whole dollar (§1026.37(o)(4)(i)(C)).
- g. *Percentages.* Determine that the creditor does not round the following percentage amounts and discloses them using up to the required number of decimal places (§1026.37(o)(4)(ii)):
- i. three decimal places. The Annual Percentage Rate (APR) disclosed pursuant to section 1026.37(l)(2) is disclosed up to three decimal places, and if the amount is a whole number, the amount is truncated at the decimal point;
 - ii. two or three decimal places. The following percentages are disclosed up to two or three decimal places, and if the amount is a whole number, the amount is truncated at the decimal point for
 - A. interest rate and adjustments after consummation, disclosed pursuant to sections 1026.37(b)(2) and (6);
 - B. points as a percentage of the loan amount, disclosed pursuant to section 1026.37(f)(1)(i);
 - C. percentage of prepaid interest to be paid per day, disclosed pursuant to section 1026.37(g)(2)(iii);
 - D. index + margin, initial interest rate, minimum/maximum interest rate, and limits on interest rate changes (as disclosed on the Adjustable Interest Rate (AIR) Table), disclosed pursuant to section 1026.37(j); and
 - E. total interest percentage, disclosed pursuant to section 1026.37(l)(3) (§1026.37(o)(4)(ii)).

Closing Disclosure—Section 1026.38(a)

1. Determine whether the disclosures required for the Closing Disclosure are accurately completed and include the statement: "This form is a statement of final loan terms and closing costs. Compare this document with your Loan Estimate." (§1026.38(a)(2))

Closing Information—Section 1026.38(a)(3) (Page 1 of the Closing Disclosure)

1. *Closing Information.* Determine whether all fields required by section 1026.38(a)(3) are complete and accurate:
 - a. *Date Issued.* Indicating the date disclosures are delivered (§1026.38(a)(3)(i));
 - b. *Closing Date.* (§1026.38(a)(3)(ii));
 - c. *Disbursement Date* (§1026.38(a)(3)(iii));

- d. *Settlement Agent* (§1026.38(a)(3)(iv));
- e. *File #*. Disclosing the identification number assigned to the transaction by the settlement agent (§1026.38(a)(3)(v));
- f. *Property*. The address or location of the property as disclosed in the Loan Estimate (§1026.38(a)(3)(vi)); and
- g. *Sale Price/Appraised Prop. Value*. For transactions where there is a seller, the sale price, and where there is no seller, the appraised property value (§§1026.38(a)(3)(vii)(A)-(B)). If the creditor disclosed an estimated value, the creditor must use the label “*Estimated Prop. Value*” (Comment 38(a)(3)(vii)-1).

Transaction Information—Section 1026.38(a)(4) (Page 1 of the Closing Disclosure)

- 1. *Transaction information*. Determine whether all fields required by section 1026.38(a)(4) are complete and accurate:
 - a. *Borrower*. The consumer’s name and mailing address (§1026.38(a)(4)(i));
 - b. *Seller*. Where applicable, the seller’s name and mailing address (§1026.38(a)(4)(ii));
 - c. *Lender*. The name of the creditor making the disclosure (§1026.38(a)(4)(iii)).

Loan Information—Section 1026.38(a)(5) (Page 1 of the Closing Disclosure)

- 1. *Loan Information*. Determine whether all fields required by 1026.38(5) are complete and accurate:
 - a. *Loan Term* (§1026.38(a)(5)(i));
 - b. *Purpose* (§1026.38(a)(5)(ii));
 - c. *Product* (§1026.38(a)(5)(iii));
 - d. *Loan Type* (§1026.38(a)(5)(iv));
 - e. *Loan ID #*. (§1026.38(a)(5)(v)); and
 - f. *MIC #*. The case number for any mortgage insurance policy, if required by the creditor (§1026.38(a)(5)(vi)).

Loan Terms—Section 1026.38(b) (Page 1 of the Closing Disclosure)

- 1. *Loan Terms*. Determine whether the creditor discloses, in a separate table labeled “*Loan Terms*,” the information required to be disclosed on the Loan Estimate under section 1026.37(b) reflecting the terms of the legal obligation at consummation (§1026.38(b)).

Projected Payments—Section 1026.38(c) (Page 1 of the Closing Disclosure)

- 1. *Projected Payments*. Determine whether the creditor discloses, in a separate table labeled “*Projected Payments*,” the projected payments or range of payments (in the same manner as required on the Loan Estimate under sections 1026.37(c)(1) through (4)(v)) reflecting the terms of the legal obligation at consummation. Determine whether the creditor referred to the Escrow Account disclosure required by section 1026.38 (l)(7) and calculated the estimated escrow payments (§1026.38(c)(1)-(2)):
 - a. for transactions subject to RESPA, under the escrow account analysis described in Regulation X, 12 CFR 1024.17 (§1026.38(c)(1)(i)); and
 - b. for transactions not subject to RESPA, either calculated under the escrow account analysis described in Regulation X, 12 CFR 1024.17 or in the manner set forth in section 1026.37(c)(5) (§1026.38(c)(1)(ii)).

Costs at Closing—Section 1026.38(d) (Page 1 of the Closing Disclosure)

- 1. *Costs at Closing*. Determine whether the creditor discloses
 - a. *Closing Costs*. Disclosed as the sum of the dollar amounts disclosed on page 2 of the Closing Disclosure, pursuant to sections 1026.38(f)(4) (Loan Costs), 1026.38(g)(5) (Other Costs), and 1026.38(h)(3) (Lender Credits), together with a statement referring the consumer to the disclosures on page 2 (§§1026.38(d)(i)(A)-(E));
 - b. *Cash to Close*. Disclosed as the sum of the dollar amounts calculated in accordance with the Calculating Cash to Close table (§1026.38(i)(9)(ii)), together with a statement referring the consumer to the disclosures on page 2 (§§1026.38(d)(ii)(A)-(B)); or
 - c. *Cash to Close (alternative for transactions without a seller)*. Disclosed as the amount calculated according to section 1026.38(e)(5)(ii), together with a statement of whether the amount is due from or to the consumer and a reference to the Alternative Calculating Cash to Close table required pursuant to section 1026.38(e) (§§1026.38(d)(2)(i)-(iii)).

Closing Cost Details: Loan Costs—Section 1026.38(f) (Page 2 of the Closing Disclosure)

- 1. *Loan Costs*. Determine whether the creditor disclosed all costs associated with the transac-

tion, with columns stating whether the charge was borrower-paid at or before closing, seller-paid at or before closing, or paid by others, under the following subheadings:

- a. *Origination Charges.* Itemized amounts paid for charges disclosed on the Loan Estimate (§1026.37(f)(1)) and the total of Borrower-Paid amounts paid at or before closing; together with
 - i. the compensation paid by the creditor to a third-party loan originator, and
 - ii. the name of the third-party loan originator receiving payment (§1026.38(f)(1));
- b. *Services Borrower Did Not Shop For.* Itemized costs for each settlement service the creditor required but did not allow the consumer to shop for, with name of recipient, amount, and total costs designated Borrower-Paid at or before closing. Items listed in the Loan Estimate (§1026.37(f)(3)) are disclosed here if the consumer was provided a written list of settlement service providers under section 1026.19(e)(1)(vi)(C), and the consumer selected a settlement service provider from that written list (§1026.38(f)(2));
- c. *Services Borrower Did Shop For.* Itemized costs for each service required by the creditor, that the consumer shopped for in accordance with section 1026.19(e)(1)(vi)(A), with the amount, the name of recipient, and the total costs designated as Borrower-Paid at or before closing. If these items were disclosed on the Loan Estimate pursuant to section 1026.37(f)(3), they are disclosed here if the consumer was provided a written list of settlement service providers and did not select a settlement service provider from that written list (§1026.38(f)(3));
- d. *Total Loan Costs (Borrower-Paid).* The sum of the amounts disclosed under section 1026.38(f)(5) as Borrower-Paid for the origination charge, services the borrower did not shop for, and services the borrower did shop for (§1026.38(f)(4));
- e. *Loan Costs Subtotals.* Calculation of the total borrower-paid costs at or before closing, showing each subtotal for the origination charge, services the borrower did not shop for, and services the borrower did shop for (§1026.38(f)(5)).

Closing Cost Details: Other Costs—Section 1026.38(g) (Page 2 of the Closing Disclosure)

1. *Other Costs.* Determine whether the creditor

disclosed all costs associated with the transaction (other than those disclosed in the “Loan Costs” table) with columns stating whether the charge was borrower-paid at or before closing, seller-paid at or before closing, or paid by others, including

- a. *Taxes and Other Government Fees.* All taxes and government fees to be paid by the borrower at or before closing, including recording fees and transfer taxes, accurately itemized. Determine that the itemized transfer tax is accompanied by the name of the government entity assessing the transfer tax (§§1026.38(g)(1)(i)-(ii));
- b. *Prepays.* Accurately itemized prepaid charges described in the borrower’s Loan Estimate as required by section 1026.37(g)(2); the name of the person ultimately receiving the prepaid payment or the government entity assessing the property tax charged; and the total of all amounts designated as Borrower-Paid at or before closing (§1026.38(g)(2));
- c. *Initial Escrow Payment at Closing.* Accurate itemizations of each escrow amount required at closing as described on the borrower’s Loan Estimate pursuant to section 1026.37(g)(3) (e.g., homeowner’s insurance, mortgage insurance, property taxes, etc.), applicable aggregate adjustments pursuant to 12 CFR 1024.17(d)(2), and the total of all amounts designated as Borrower-Paid at or before closing (§1026.38(g)(3));
- d. *Other.* All charges, accurately itemized, for services required or related to the borrower’s transaction that are in addition to the charges disclosed in the Loan Costs table (§1026.38(f)) and in the preceding sections of the Other Costs table (§§1026.38(g)(1)-(3)), for services required or obtained in the real estate closing by the consumer, the seller, or other party and the name of the person ultimately receiving the payment; and the total of all such itemized amounts that are designated Borrower-Paid at or before closing, with the applicable designations for items that are optional or are components of title insurance services (§§1026.38(g)(4)(i)-(ii));
- e. *Total Other Costs (Borrower-Paid).* Accurately totaled and disclosed sum of all amounts disclosed as borrower-paid (§1026.38(g)(5));
- f. *Other Costs Subtotals.* Accurately added individual subtotals in the “Closing Cost Details—Other Costs” table disclosed under

section 1026.38(g)(1)-(4) to produce the total (§1026.38(g)(6)).

Closing Cost Details: Total Closing Costs—Section 1026.38(h) (Page 2 of the Closing Disclosure)

1. *Total Closing Costs (Borrower-Paid).* Determine whether the creditor

- a. follows the description, labeling, and ordering requirements for this table (§1026.38(h)(4)); and
- b. accurately discloses the following closing costs totals:
 - i. *Total Closing Costs (borrower-paid).* The sum of subtotals for Closing Costs (§1026.38(h)(2)) and Lender Credits (§1026.38(h)(3)) (i.e., the following two items in this list) (§1026.38(h)(1));
 - ii. *Closing Costs Subtotals.* Consisting of the sum of “Loan Cost Subtotals” (§1026.38(f)(5) and the “Other Costs Subtotals” (§1026.38(g)(6)), designated as Borrower-Paid at or before closing; and the sum of costs paid at and before closing by the seller or other parties (as disclosed pursuant to sections 1026.38(f) and (g)) (§1026.38(h)(2));
 - iii. *Lender Credits.* For general credits from the creditor for closing costs (as described in section 1026.37(g)(6)(ii), shown as a negative number, and designated as Borrower-Paid at closing (1026.38(h)(3)).

NOTE: Credits that are for specific charges should be reflected in the Paid by Others column in the Closing Cost Details table (with a notation of “(L)” for lender permitted) under sections 1026.38(f) and (g) (§1026.38(h)(3); Comment 38(h)(3)-1).

A. If a refund is provided pursuant to section 1026.19(f)(2)(v), determine whether the creditor has provided a statement explaining that the refund (the amount described in the Loan Estimate under section 1026.37(g)(6)(ii)) includes a credit for the amount that exceeds the limitations on increases in closing costs under section 1026.19(e)(3), and the amount of such credit.

Calculating Cash to Close—Section 1026.38(i) (Page 3 of the Closing Disclosure)

1. *Calculating Cash to Close.* Determine whether the creditor, for each of the following items, accurately includes the amount from the Loan Estimate, compared to the amount disclosed in the “Final” column, and provides the necessary answer to the question “Did This Change?” (with items in the latter column disclosed more prominently than other disclosures) (§§1026.38(i)(1)(i)-(iii)):

- a. *Total Closing Costs.* The Total Closing Costs on the Calculating Cash to Close table of the Loan Estimate disclosed under section 1026.37(h)(1)(i) compared to the final “Total Closing Costs” disclosed under section 1026.38(h)(1), and
 - i. if the amounts are different (unless due to rounding), the creditor has provided (§§1026.38(i)(1)(i)-ii)
 - A. a statement of that fact (§1026.38(i)(1)(iii)(A)(1));
 - B. if the difference in the “Total Closing Costs” is attributable to differences in itemized charges that are included in either or both subtotals, a statement that the consumer should see the Total Loan Costs (under section 1026.38(f)(4)) and Total Other Costs (under section 1026.38(g)(5)) subtotals (together with references to such disclosures), as applicable (§1026.38(i)(1)(A)(2)); and
 - C. if the increase exceeds the limitations on increases in closing costs under section 1026.19(e)(3), a statement that such increase exceeds the legal limits by the dollar amount of the excess, and if any refund is provided pursuant to section 1026.19(f)(2)(v), a statement directing the consumer to the disclosure required under section 1026.38(h)(3). The dollar amount must equal the sum total of all excesses of the limitations on increases in closing costs under section 1026.19(e)(3), taking into account the different methods of calculating excesses of the limitations on increases in closing costs under sections 1026.19(e)(3)(i) and (ii) (§1026.38(i)(1)(iii)(A)(3)).
 - ii. if the amount disclosed under section

1026.38(i)(1)(ii) (i.e., amount in the Final column) is equal to the amount disclosed under section 1026.38(i)(1)(i) (i.e., amount copied over from the Loan Estimate), a statement of that fact (§1026.38(i)(1)(iii)(B)).

- b. *Closing Costs Paid Before Closing.* Under the subheading "Loan Estimate," the dollar amount "\$0," compared to the final amount of "Total Closing Costs" disclosed under section 1026.38(h)(2) and designated as Borrower-Paid before closing, stated as a negative number (§§1026.38(i)(2)(i)-(iii)), and
 - i. if these amounts are different (unless the difference is due to rounding), the creditor has provided a statement of that fact, along with a statement that the consumer paid such amounts prior to consummation of the transaction (§1026.38(i)(2)(iii)(A)); or if the amount disclosed under section 1026.38(i)(2)(ii) (i.e., amount in the Final column) is equal to the amount disclosed under section 1026.38(i)(2)(i) (i.e., \$0), a statement of that fact (§1026.38(i)(2)(iii)(B));
 - c. *Closing Costs Financed (Paid from your Loan Amount).* Under the subheading "Loan Estimate," the amount disclosed on Calculating Cash to Close table on the Loan Estimate under section 1026.37(h)(1)(ii), compared to the actual amount of the closing costs that are to be paid out of loan proceeds, if any, stated as a negative number (§§1026.38(i)(3)(i)-(iii)); and
 - i. if the amounts are different (unless the difference is due to rounding), a statement of that fact, along with a statement that the consumer included the closing costs in the loan amount, which increased the loan amount (§1026.38(i)(3)(iii)(A)); or
 - ii. if the amount disclosed under section 1026.38(i)(3)(ii) (i.e., amount in the Final column) is equal to the amount disclosed pursuant to section 1026.38(i)(3)(i) (i.e., amount copied over from the Loan Estimate), a statement of that fact (§1026.38(i)(3)(iii)(B)).
 - d. *Down Payment/Funds from Borrower.* For purchase transactions, under the subheading "Loan Estimate," the Down Payment/ Funds from Buyer amount disclosed on the Calculating Cash to Close table on the Loan Estimate under section 1026.37(h)(1)(iii), compared to the difference between the purchase price of the property and the principal amount of the credit extended,
- stated as a positive number in the "Final" column. For transactions that are not purchases, the amount in the "Final" column is determined according to section 1026.38(i)(6)(iv), discussed below (§§1026.38(i)(4)(i)-(ii)):
- i. if the amount disclosed under section 1026.38(i)(4)(ii) (i.e., amount in the Final column) is different, unless due to rounding, from the amount disclosed under section 1026.38(i)(4)(i) (i.e., amount copied over from the Loan Estimate), a statement of that fact, along with a statement that the consumer increased or decreased this payment and can see further details in the "Summaries of Transactions" table (§1026.38(i)(4)(iii)(A)); or
 - ii. if the amount disclosed under section 1026.38(i)(4)(ii) is equal to the amount disclosed under section 1026.38(i)(4)(i), a statement of that fact (§1026.38(i)(4)(iii)(B)).
- e. *Deposit.* Under the subheading "Loan Estimate," the Deposit amount disclosed on the Calculating Cash to Close table on the Loan Estimate under section 1026.37(h)(1)(iv), compared to the amount listed as "Deposit" on the Summaries of Transactions table on the Closing Document pursuant to section 1026.38(j)(2)(ii), stated as a negative number (§1026.38(i)(5)(i)-(ii)), and
 - i. if the amounts are different, unless due to rounding, a statement of that fact, along with a statement that the consumer increased or decreased this payment, as applicable, and that the consumer should see the details disclosed under section 1026.38(j)(2)(ii) (i.e., in section L in the Summaries of Transactions table) (§1026.38(i)(5)(iii)(A)); or
 - ii. if the amount disclosed under section 1026.38(i)(5)(ii) (i.e., amount in the Final column) is equal to the amount disclosed under section 1026.38(i)(5)(i) (i.e., amount copied over from the Loan Estimate), a statement of that fact (§1026.38(i)(5)(iii)(B)).
 - f. *Funds for Borrower.* Under the subheading "Loan Estimate," the amount disclosed on the Calculating Cash to Close table on the Loan Estimate under section 1026.37(h)(1)(v), compared to the amount listed in the Final column calculated pursuant to section 1026.38(i)(6)(iv) (NOTE: see next item for calculation); (§§1026.38(i)(6)(i)-(iii)), and
 - i. If the amounts are different, unless due

- to rounding, a statement of that fact, along with a statement that the consumer's available funds from the loan amount have increased or decreased, as applicable (§1026.38(i)(6)(iii)(A)); or
- ii. If the amount disclosed under section 1026.38(i)(6)(ii) (i.e., amount in the Final column) is equal to the amount disclosed under section 1026.38(i)(6)(i) (i.e., amount copied over from the Loan Estimate), a statement of that fact (§1026.38(i)(6)(iii)(B)).
- g. *Funds for Borrower.* Determine whether the creditor accurately calculates the "Funds for Borrower" for non-purchase transactions and the final "Funds for Borrower" by subtracting the principal amount of the credit extended (excluding any amount disclosed pursuant to section 1026.38(i)(3)(ii)) from the total amount of all existing debt being satisfied in the real estate closing disclosed on the Summaries of Transactions table pursuant to section 1026.38(j)(1)(v) (except to the extent the satisfaction of such existing debt is disclosed under section 1026.38(g)) (§1026.38(i)(6)(iv)), and
- i. if the calculation yields a positive number, it is disclosed as described above in the Final Down Payment/Funds from Borrower column under section 1026.38(i)(4)(ii)(B), and \$0 is disclosed as described above in the Final Funds for Borrower column under 1026.38(i)(6)(ii) (§1026.38(i)(6)(iv)(A));
 - ii. if the calculation under section 1026.38(i)(6)(iv) yields a negative number, it is disclosed under section 1026.38(i)(6)(ii), as a negative number in the Final Funds for Borrower column described above, and \$0 is disclosed as described above in the Final Down Payment/Funds from Borrower column under section 1026.38(i)(4)(ii)(B) (§1026.38(i)(6)(iv)(B));
 - iii. if the calculation under section 1026.38(i)(6)(iv) yields \$0, then \$0 is disclosed in both the Final Down Payment/Funds from Borrower column under section 1026.38(i)(4)(ii)(B) and in the Final Funds for Borrower column described above under section 1026.38(i)(6)(ii) (§1026.38(i)(6)(iv)(C)).
- h. *Seller Credits.* Under the subheading "Loan Estimate," the amount disclosed on the Calculating Cash to Close table on the Loan Estimate under section 1026.37(h)(1)(vi), compared to the amount listed pursuant to section 1026.38(j)(2)(v), stated as a negative number (§1026.38(i)(7)(i)-(ii)), and
- i. if the amounts are different, unless due to rounding, a statement of that fact, along with a statement that the consumer should see the details disclosed under section 1026.38(j)(2)(v) (i.e., in section L in the Summaries of Transactions table) (§1026.38(i)(7)(iii)(A)), or
 - ii. if the amount disclosed under section 1026.38(i)(7)(ii) (i.e., amount in the Final column) is equal to the amount disclosed under section 1026.38(i)(7)(i) (i.e., amount copied over from the Loan Estimate), a statement of that fact (§1026.38(i)(7)(iii)(B)).
- i. *Adjustments and Other Credits.* Under the subheading "Loan Estimate," the amount disclosed on the Calculating Cash to Close table on the Loan Estimate under section 1026.37(h)(1)(vii), compared to the amount listed pursuant to section 1026.38(j)(1)(iii) and (v) through (x) (see exam procedures below on Itemization of Amounts Due From Borrower) reduced by the total of the amounts disclosed under sections 1026.38(j)(2)(vi) through (xi) (see exam procedures below on Itemization of Amounts Already Paid By or On Behalf of Borrower) (§§1026.38(i)(8)(i)-(ii));
- i. if the amounts are different, unless due to rounding, statement of that fact, along with a statement that the consumer should see the details disclosed under sections 1026.38(j)(1)(iii) and (v) through (x) and (j)(2)(vi) through (xi) (i.e., in sections K and L in the Summaries of Transactions table) (§1026.38(i)(8)(iii)(A)); or
 - ii. If the amount disclosed under section 1026.38(i)(8)(ii) (i.e., amount in the Final column) is equal to the amount disclosed under section 1026.38(i)(8)(i) (i.e., amount copied over from the Loan Estimate), a statement of that fact (§1026.38(i)(8)(iii)(B)).
- j. *Cash to Close.* Under the subheading "Loan Estimate," the amount disclosed on the Calculating Cash to Close table on the Loan Estimate under section 1026.37(h)(1)(viii), compared to the amount listed pursuant to sections 1026.38(i)(1) through (i)(8), and each disclosed more prominently than the

other disclosures in this section (§§1026.38(i)(9)(i)-(ii)).

Alternative Cash to Close Table for Transactions without a Seller—Section 1026.38(e) (Page 3 of the Closing Disclosure)

1. Determine whether, for transactions without a seller, the creditor uses the alternative table in the Loan Estimate (§1026.37(h)(2)), and if so, determine whether the creditor provides, instead of the table described in section 1026.38(i), a separate table, “Calculating Cash to Close,” with the statement “Use this table to see what has changed from your Loan Estimate.” Determine whether the table includes
 - a. *Loan Amount.* Disclosed on the Loan Estimate under section 1026.37(b)(1) and the final loan amount disclosed under section 1026.38(b), disclosed more prominently than other disclosures in this section, with the question “Did this change?” If the amounts are different (unless due to rounding), a statement of that fact along with a statement of whether this amount increased or decreased. If there is no change, a statement of that fact (§§1026.38(e)(1)(i)-(iii)).
 - b. *Total Closing Costs.* Disclosed on the Loan Estimate under section 1026.37(h)(2)(ii) and the final Total Closing Costs disclosed under section 1026.38(h)(1), disclosed as a negative number and disclosed more prominently than other disclosures, with the question “Did this change?” If there is no change, a statement of that fact (§1026.38(e)(2)). If the amounts are different (unless due to rounding)
 - i. a statement of that fact;
 - ii. if there is a change because of differences in itemized charges that are included in either or both subtotals, a statement that the consumer should look at the Total Loan Costs and Total Other Costs subtotals disclosed below, together with references to those disclosures (§1026.38(e)(2)(iii)(A)(2)); and
 - iii. if the increase exceeds the legal limits for increases in closing costs under section 1026.19(e)(3); a statement of that fact, the dollar amount of the excess; and, if any refund is provided, a reference to the disclosure required for including the refund in a lender credit under section 1026.38(h)(3) (§1026.38(e)(2)(A)(3)).
 - c. *Closing Costs Paid before Closing.* Disclosed under the subheading “Loan Esti-
- mate,” the amount of \$0; and under the subheading “Final,” any amount designated as Borrower-Paid before closing under section 1026.38(h)(2), disclosed as a positive number. Determine whether these disclosures are disclosed more prominently than other disclosures, with the question “Did This Change?” If so (unless the difference is due to rounding), a statement of that fact. If there is no change, a statement of that fact (§1026.38(e)(3)).
 - i. if the amount disclosed under section 1026.38(e)(3)(ii) is different than the amount disclosed under section 1026.38(e)(3)(i), unless due to rounding, a statement of that fact along with a statement that the consumer paid such amounts prior to consummation (§1026.38(e)(3)(iii)(A)); or
 - ii. if the amount disclosed under section 1026.38(e)(3)(ii) is equal to the amount disclosed under section 1026.38(e)(3)(i), a statement of that fact (§1026.38(e)(3)(iii)(B)).
- d. *Total Payoffs and Payments.* Includes the total payoffs and payments disclosed on the Loan Estimate under section 1026.37(h)(2)(iii) and the final total amount of payoffs and payments made to third parties not otherwise disclosed under section 1026.38(t)(5)(vii)(B), to the extent known, disclosed as a negative number. Determine whether these disclosures are disclosed more prominently than other disclosures with the question “Did This Change?” If so (unless the difference is due to rounding), a statement of that fact. If there is no change, a statement of that fact (§1026.38(e)(4)).
 - i. if the amount disclosed under section 1026.38(e)(4)(ii) is different than the amount disclosed under section 1026.38(e)(4)(i) (unless the difference is due to rounding), a statement that the consumer included the closing costs in the loan amount, which increased the loan amount, along with a reference to the “Payoffs and Payments” table that may be added pursuant to section 1026.38(t)(5)(viii)(B)) (§1026.38(e)(4)); or
 - ii. if the amount disclosed under section 1026.38(e)(4)(ii) is equal to the amount disclosed under section 1026.38(e)(4)(i), a statement of that fact (§1026.38(e)(4)(iii)(B)).
- e. *Cash to Close.* The estimated Cash to Close disclosed on the Loan Estimate, along with the statement of whether the estimated

- amount is due from or to the consumer, and a disclosure of the final amount due from or to the consumer (§§1026.38(e)(5)(i)-(ii)).
- f. *Closing Costs Financed (Paid from your Loan Amount).* Disclosed as the sum of the amounts disclosed under sections 1026.38 (e)(1)(ii) and (e)(4)(ii) (i.e., the amounts in the Final Column of the Loan Amount and Total Payoffs and Payments). However, the amount is disclosed only to the extent that the sum is greater than zero and less than or equal to the sum disclosed under section 1026.38 (h)(1) (Total Closing Costs) minus the sum disclosed under section 1026.38(h)(2) designated as Borrower-Paid before closing (§1026.38(e)(6)).

Summaries of Transactions: Borrower's Transaction—Section 1026.38(j) (Page 3 of the Closing Disclosure)

Borrower's Transaction—Itemization of Amounts Due from Borrower at Closing (Page 3 of the Closing Disclosure)

1. *Due from Borrower at Closing.* Determine whether the creditor accurately discloses the total amount due from the consumer at closing, calculated as the sum of items required to be disclosed by sections 1026.38(j)(1)(ii) through (x) (i.e., the items described in this procedure), excluding items paid from funds other than closing funds as described in section 1026.38(j)(4)(i). Determine whether the creditor completes the summary of the borrower's transaction as follows (§1026.38(j)(1)):

 - a. *Sale Price of Property.* The amount of the contract sales price of the property being sold in a purchase real estate transaction, excluding the price of any tangible personal property if the consumer and seller have agreed to a separate price for such items (§1026.38(j)(1)(ii));
 - b. *Sale Price of Any Personal Property Included in Sale.* The amount of the sales price of any tangible personal property excluded from the contract sales price pursuant to section 1026.38(j)(1)(ii) (§1026.38(j)(1)(iii));
 - c. *Closing Costs Paid at Closing.* The total amount of closing costs disclosed that are designated Borrower-Paid at closing, calculated pursuant to sections 1026.38(h)(2) and (h)(3) (see procedure above regarding Closing Costs Subtotals) (§1026.38(j)(1)(iv));
 - d. a description and the amount of any additional items that the seller has paid prior to the real estate closing, but reimbursed by the consumer at the real estate closing, and a

description and the amount of any other items owed by the consumer at the real estate closing not otherwise disclosed pursuant to sections 1026.38(f), (g), or (j) (§1026.38(j)(1)(v));

- e. the description "Adjustments for Items Paid by Seller in Advance" (§1026.38(j)(1)(vi));
- f. *City/Town Taxes.* The prorated amount of any prepaid taxes due from the consumer to reimburse the seller at the real estate closing, and the time period corresponding to that amount (§1026.38(j)(1)(vii));
- g. *County Taxes.* The prorated amount of any prepaid taxes due from the consumer to reimburse the seller at the real estate closing, and the time period corresponding to that amount (§1026.38(j)(1)(viii));
- h. *Assessments.* The prorated amount of any prepaid assessments due from the consumer to reimburse the seller at the real estate closing, and the time period corresponding to that amount (§1026.38(j)(1)(ix)); and
- i. a description and the amount of any additional items paid by the seller prior to the real estate closing that are due from the consumer at the real estate closing (§1026.38(j)(1)(x)).

Borrower's Transaction—Itemization of Amounts Paid Already by or on Behalf of Borrower at Closing (Page 3 of the Closing Disclosure)

1. *Paid Already by or on Behalf of Borrower at Closing.* Determine whether the creditor accurately discloses the sum of the amounts disclosed in sections 1026.38(j)(2)(ii) through (xi) (i.e., the items described in this procedure), excluding items paid from funds other than closing funds as described in section 1026.38(j)(4)(i). Determine whether the creditor accurately completes the summary of borrower's transaction as follows (§1026.38(j)(2)(i)):

 - a. *Deposit.* Any amount that is paid to the seller or held in trust or escrow by an attorney or other party under the terms of the agreement for the sale of the property (§1026.38(j)(2)(ii));
 - b. *Loan Amount.* The amount of the consumer's new loan amount or first user loan as disclosed pursuant to section 1026.38(b) (§1026.38(j)(2)(iii));
 - c. *Existing Loan(s) Assumed or Taken Subject To.* The amount of any existing loans that the consumer is assuming, or any loans subject

- to which the consumer is taking title to the property (§1026.38(j)(2)(iv));
- d. *Seller Credit.* The total amount of money that the seller will provide at the real estate closing as a lump sum not otherwise itemized to pay for loan costs as determined by section 1026.38(f) and other costs as determined by section 1026.38(g) and any other obligations of the seller to be paid directly to the consumer (§1026.38(j)(2)(v));
 - e. *Other Credits.* A description and amount of other items paid by or on behalf of the consumer and not otherwise disclosed pursuant to sections 1026.38(f), (g), (h), and (j)(2) (§1026.38(j)(2)(vi));
 - f. the description “Adjustments for Items Unpaid by Seller” (§1026.38(j)(2)(vii));
 - g. *City/Town Taxes.* The prorated amount of any unpaid taxes due from the seller to reimburse the consumer at the real estate closing, and the time period corresponding to that amount (§1026.38(j)(2)(viii(ix));
 - h. *County Taxes.* The prorated amount of any unpaid taxes due from the seller to reimburse the consumer at the real estate closing, and the time period corresponding to that amount (§1026.38(j)(2)(ix));
 - i. *Assessments.* The prorated amount of any unpaid assessments due from the seller to reimburse the consumer at the real estate closing, and the time period corresponding to that amount (§1026.38(j)(2)(x)); and
 - j. a description and the amount of any additional items which have not yet been paid and which the consumer is expected to pay after the real estate closing, but which are attributable in part to a period of time prior to the real estate closing (§1026.38(j)(2)(xi)).

Borrower’s Transaction—Calculation of Borrower’s Transaction (Page 3 of the Closing Disclosure)

1. *Calculation.* Determine whether the creditor accurately discloses the total amount due from, and already paid by, the consumer at closing by the following calculation (§1026.38(j)(3)):
 - a. *Total Due from Borrower at Closing.* The amount disclosed in the Closing Disclosure, on the line captioned “Due from Borrower at Closing” (§1026.38(j)(3)(i));
 - b. *Total Paid Already by or on Behalf of Borrower at Closing.* The amount disclosed in the Closing Disclosure, on the line captioned “Paid Already by or on Behalf of Borrower at Closing,” if any, disclosed as a negative number (§1026.38(j)(3)(ii)); and
 - c. *Cash to Close.* A statement that the disclosed amount is due from or to the consumer, and the amount due from or to the consumer at the real estate closing, calculated by the sum of the amounts disclosed as the “Total Due from Borrower at Closing” and “Total Paid Already by or on Behalf of Borrower at Closing” (§1026.38(j)(3)(iii)).
2. *Paid Outside of Closing.* Determine whether the creditor discloses other costs that are not paid out of closing costs but would otherwise be disclosed; describes the funds as “Paid Outside of Closing” or the abbreviation “P.O.C.,” and includes the name of the party making the payment (§1026.38(j)(4)(i)).

NOTE: For purposes of section 1026.38(j), “closing funds” means funds collected and disbursed at real estate closing (§1026.38(j)(4)(ii)).

Summaries of Transactions: Seller’s Transaction—Section 1026.38(k) (Page 3 of the Closing Disclosure)

Seller’s Transaction—Itemization of Amounts Due to Seller at Closing (Page 3 of the Closing Disclosure)

1. *Due to Seller at Closing.* Determine whether the creditor accurately discloses the total amount due to the seller at the real estate closing, calculated as the sum of items required to be disclosed pursuant to sections 1026.38(k)(1)(ii) through (ix) (i.e., the items in this procedure), excluding items paid from funds other than closing funds as described in section 1026.38(k)(4)(i). Determine whether the creditor accurately completes the summary of seller’s transaction as follows (§1026.38(k)(1)(i)):

- a. *Sale Price of Property.* The amount of the contract sales price of the property being sold, excluding the price of any tangible personal property if the consumer and seller have agreed to a separate price for such items (§1026.38(k)(1)(ii));
- b. *Sale Price of Any Personal Property Included in Sale.* The amount of the sales price of any tangible personal property excluded from the contract sales price pursuant to section 1026.38(k)(1)(ii) (§1026.38(k)(1)(iii));
- c. a description and the amount of other items paid to the seller by the consumer pursuant to the contract of sale or other agreement, such as charges that were not disclosed pursuant to section 1026.37 on the Loan Estimate or items paid by the seller prior to

- the real estate closing but reimbursed by the consumer at the real estate closing (§1026.38(k)(1)(iv));
- d. the description “Adjustments for Items Paid by Seller in Advance” (§1026.38(k)(1)(v));
 - e. *City/Town Taxes.* The prorated amount of any prepaid taxes due from the consumer to reimburse the seller at the real estate closing, and the time period corresponding to that amount (§1026.38(k)(1)(vi));
 - f. *County Taxes.* The prorated amount of any prepaid taxes due from the consumer to reimburse the seller at the real estate closing, and the time period corresponding to that amount §1026.38(k)(1)(vii);
 - g. *Assessments.* The prorated amount of any unpaid assessments due from the consumer to reimburse the seller at the real estate closing, and the time period corresponding to that amount (§1026.38(k)(1)(viii)); and
 - h. a description and the amount of additional items paid by the seller prior to the real estate closing that are reimbursed by the consumer at the real estate closing (§1026.38(k)(1)(ix)).

Seller’s Transaction—Itemization of Amounts Due from Seller at Closing (Page 3 of the Closing Disclosure)

1. *Due from Seller at Closing.* Determine whether the creditor accurately discloses the sum of the amounts disclosed in sections 1026.38(k)(2)(ii) through 1026.38(k)(2)(xiii) (i.e., the items in this procedure), excluding items paid from funds other than closing funds described in section 1026.38(k)(4)(i). Determine whether the creditor accurately completes the summary of the seller’s transaction as follows (§1026.38(k)(2)(i)):
 - a. *Excess Deposit.* The amount of any excess deposit disbursed prior to closing, (§1026.38(k)(2)(ii));
 - b. *Closing Costs Paid at Closing.* The amount of closing costs designated Seller-Paid at closing and disclosed pursuant to section 1026.38(h)(2) (§1026.38(k)(2)(iii));
 - c. *Existing Loan(s) Assumed or Taken Subject To.* The amount of any existing loans assumed or taken subject to by the consumer (§1026.38(k)(2)(iv));
 - d. *Payoff of First Mortgage Loan.* The amount of a first lien loan secured by the property being sold that will be paid off at closing (§1026.38(k)(2)(v));
 - e. *Payoff of Second Mortgage Loan.* The amount of any loan secured by a second lien on the

property that will be paid off as part of the real estate closing (§1026.38(k)(2)(vi));

- f. *Seller Credit.* The total amount of seller funds to be provided at closing as a lump sum that has not otherwise been itemized to pay for loan costs as determined by section 1026.38(f) and other costs as determined by section 1026.38(g) and any other obligations of the seller to be paid directly to the consumer (§1026.38(k)(2)(vii));
- g. a description and amount of all other items paid to be paid by the seller at closing, including any lien-related payoffs, fees, or obligations (§1026.38(k)(2)(viii));
- h. the description “Adjustments for Items Unpaid by Seller” (§1026.38(k)(2)(ix));
- i. *City/Town Taxes.* The prorated amount of unpaid taxes due from the seller to reimburse the consumer at the real estate closing, and the time period corresponding to that amount (§1026.38(k)(2)(x));
- j. *County Taxes.* The prorated amount of any unpaid taxes due from the seller to the consumer at the real estate closing, and the time period corresponding to that amount (§1026.38(k)(2)(xi));
- k. *Assessments.* The prorated amount of any unpaid assessments due from the seller to reimburse the consumer at the real estate closing, and the time period corresponding to that amount (§1026.38(k)(2)(xii)); and
- l. a description and the amount of any additional items which have not yet been paid and which the consumer is expected to pay after the real estate closing, but which are attributable in part to a period of time prior to the real estate closing (§1026.38(k)(2)(xiii)).

Seller’s Transaction—Calculation of Seller’s Transaction (Page 3 of the Closing Disclosure)

1. *Calculation.* Determine whether the creditor accurately discloses the total amount due to and from the seller at closing by the following calculation (§1026.38(k)(3)):
 - a. *Total Due to Seller Closing.* The amount disclosed in the Closing Disclosure, on the line captioned “Due from Seller at Closing” (§1026.38(k)(3)(i));
 - b. *Total Due from Seller at Closing.* The amount disclosed in the Closing Disclosure on the line captioned “Due from Seller at Closing,” disclosed as a negative number (§1026.38(k)(3)(ii));
 - c. *Cash.* A statement that the disclosed amount

is due from or to the seller and the amount due, calculated by the sum of the amounts disclosed as the “Total Due to Seller at Closing” and “Total Due from Seller at Closing” (§1026.38(k)(3)(iii)).

Seller’s Transaction—Items Paid Outside of Closing Funds (Page 3 of Closing Disclosure)

1. Determine whether the creditor discloses other costs that are not paid out of closing funds but would otherwise be disclosed in the Summaries of Transactions: Seller’s Transaction table; describing the funds as “Paid Outside of Closing” or the abbreviation “P.O.C.” and including the name of the party making the payment (§1026.38 (k)(4)(i)).

NOTE: For purposes of section 1026.38(k), “closing funds” means funds collected and disbursed at real estate closing (§1026.38(k)(4) (ii)).

Payoffs and Payments Table for Transactions Without a Seller—Section 1026.38(t)(5)(vii)(B) (Page 3 of the Closing Disclosure)

1. *Payoff and Payments.* For transactions without a seller, determine whether a creditor, using an optional modified Closing Disclosure (as illustrated by form H-25(J) in appendix H), has provided alternative tables for Cash to Close, pursuant to section 1026.38(d)(2), and for Calculating Cash to Close pursuant to section 1026.38(e), and that the creditor itemizes the amounts of payments made at consummation to other parties from the credit extended to the consumer or funds provided by the consumer in connection with the transaction, including designees of the consumer, the payees, and a description of the purpose of such disbursements under the subheading “To,” and the total amount of such payments (§1026.38(t)(5)(vii) (B)).

Additional Information About This Loan: Loan Disclosures—Section 1026.38(l) (Page 4 of the Closing Disclosure)

1. *Loan Disclosures.* Determine whether the creditor accurately provides the required disclosures (§1026.38(l)):
 - a. *Assumption.* Whether the loan obligations may be assumed by a subsequent purchaser (§1026.38(l)(1));
 - b. *Demand Feature.* Whether the legal obligation includes a demand feature, and, if it

does, a reference to the note or other loan contract for details (§1026.38(l)(2));

- c. *Late Payment.* The dollar amount or percentage charge of any fee designated as a late payment (information required on the Loan Estimate by section 1026.37(m)(4)) and the number of days after which such a charge will be triggered (§1026.38(l)(3));
- d. *Negative Amortization (Increase in Loan Amount).* Whether the regular period payments may cause the principal balance to increase, and
 - i. if the regular periodic payments do not cover all of the interest due, the creditor provides a statement that the borrower’s principal balance will increase, such balance will likely become larger than the original loan amount, and increases in such balance lower the consumer’s equity in the property; and
 - ii. if the consumer may make regular periodic payments that do not cover all of the interest due, the creditor provides a statement that, if the consumer chooses a monthly payment option that does not cover all of the interest due, the principal balance may become larger than the original loan amount and the increases in the principal balance lower the consumer’s equity in the property (§§1026.38(l)(4)(i)-(ii)).
- e. *Partial Payments.* Whether the creditor that accepts less than the full amount due has provided a statement that the “lender,” (using that label) may accept partial payments and apply such payments to the consumer’s loan, and
 - i. if periodic payments that are less than the full amount due are accepted but not applied to a consumer’s loan until the consumer pays the remainder of the full amount due, a statement that the lender may hold partial payments in a separate account until the consumer pays the remainder of the payment and then apply the full periodic payment to the consumer’s loan;
 - ii. if periodic payments that are less than the full amount due are not accepted, the lender does not accept any partial payments; and
 - iii. a statement that, if the loan is sold, the new lender may have a different policy (§§1026.38(l)(5)(i)-(iv)).
- f. *Security Interest.* Whether the creditor states that the consumer is granting a security

- interest in the property securing the transaction, and that the borrower may lose the property if required payments are not made or otherwise fails to satisfy the requirements of the legal obligation. Determine that the creditor has included the property address and zip code (§1026.38(l)(6));
- g. *Escrow Account.* Whether the creditor states whether it has established, will establish, or will not establish an escrow account for the consumer in connection with the loan transaction at or before consummation;
- under the reference “*For now,*”
- A. whether the creditor provides a statement that an escrow account may also be called an impound or trust account; whether the creditor has established or will establish, at or before consummation, an escrow account in connection with the transaction for the costs that will be paid using escrow account funds; that the creditor may be liable for penalties and interest if it fails to make a payment for any cost for which the escrow account is established; and that the consumer would have to pay such costs directly in the absence of the escrow account (§§1026.38(l)(7)(i) and (l)(7)(i)(A)). Whether, if an escrow account is or will be established, the creditor accurately discloses the following items based upon the escrow analysis required under 12 CFR 1024.17, in tabular form:
- the total amount that the consumer will be required to pay into the account over the first year after consummation for the payment of the charges described in section 1026.37(c)(4)(ii) together with a descriptive name of each such charge calculated as the Monthly Escrow Payment multiplied by the number of periodic payments scheduled to be made to the escrow account during the first year after consummation (§1026.38(l)(7)(i)(A)(1));
 - the estimated amount for taxes, insurance, and assessments that the consumer is likely to pay during the first year after consummation, as described in section 1027.37(c)(4)(ii), that are known to the creditor and that will not be paid using escrow account funds, labeled “Non-Escrowed Property Costs over Year 1,” together with a descriptive name of each such charge and a statement that the consumer may have to pay other costs that are not listed (§1026.38(l)(7)(i)(A)(2));
 - the total amount disclosed and a reference to the disclosure made on the Closing Disclosure under the heading “Other Costs, Initial Escrow Payment at Closing,” pursuant to section 1026.38(g)(3), and a statement that the payment is a cushion for the escrow account, labeled “Initial Escrow Payment” (§1026.38(l)(7)(i)(A)(3));
 - the amount the consumer will be required to pay into the escrow account with each periodic payment during the first year after consummation for payment of the charges described in the Loan Estimate pursuant to section 1026.37(c)(4)(ii), labeled “Monthly Escrow Payment” (§1026.38(l)(7)(i)(A)(4)).
- ii. *No Escrow.* If an escrow account will not be established for the consumer, determine whether there is a statement that the consumer will not have an escrow account; the reason why an escrow account will not be established; a statement that the consumer must pay all property costs, such as taxes and homeowner’s insurance, directly; a statement that the consumer may contact the creditor to inquire about the availability of an escrow account; and a table, titled “No Escrow” that itemizes the estimated total amount the consumer will pay directly for charges described in the Loan Estimate under section 1026.37(c)(4)(ii) during the first year after consummation that are known to the creditor; and a statement that, without an escrow account, the consumer must pay the identified costs, possibly in one or two large payments, labeled “Property Costs over Year 1;” along with the amount of any fee the creditor imposes on the consumer for not establishing an escrow account in connection with the transaction, labeled “Escrow Waiver Fee” (§1026.38(l)(7)(i)(B)).

- A. Under the reference "In the future," determine whether the creditor has disclosed (§1026.38(l)(7)(ii))
- (1) a statement that the consumer's property costs may change and that, as a result, the consumer's escrow payment may change (§1026.38(l)(7)(ii)(A));
 - (2) a statement that the consumer may be able to cancel any escrow account that has been established but that the consumer is responsible for directly paying all property costs in the absence of an escrow account (§1026.38(l)(7)(ii)(B)); and
 - (3) a description of the consequences if the consumer fails to pay property costs, including the actions that a state or local government may take if property taxes are not paid and the actions the creditor may take if the consumer does not pay some or all property costs, such as adding amounts to the loan balance, adding an escrow account to the loan, or purchasing a property insurance policy on the consumer's behalf that may be more expensive and provide fewer benefits than what the consumer could obtain directly (§1026.38(l)(7)(ii)(C)).

**Additional Information About This Loan:
Adjustable Payment (AP) Table—Section
1026.38(m) (Page 4 of the Closing
Disclosure)**

1. *Adjustable Payment (AP) Table.* Determine whether the creditor provides the AP disclosure required for the Loan Estimate under section 1026.37(i) (§1026.38(m)).

**Additional Information About This Loan:
Adjustable Interest Rate (AIR)
Table—Section 1026.38(n) (Page 4 of
the Closing Disclosure)**

1. *Adjustable Interest Rate (AIR) Table.* Determine whether the creditor provides the AIR disclosures required for the Loan Estimate by section 1026.37(j) (§1026.38(n)).

**Loan Calculations—Section 1026.38(o)
(Page 5 of the Closing Disclosure)**

1. *Loan Calculations.* Determine whether the credi-

tor provides a separate table and accurately discloses the following information (§1026.38(o)):

- a. *Total of Payments.* Expressed as a dollar amount, and a statement that the disclosure is the total the consumer will have paid after making all payments of principal, interest, mortgage insurance, and loan costs, as scheduled (§1026.38(o)(1));
- b. *Finance Charge.* Expressed as a dollar amount, and the statement "The dollar amount the loan will cost you." The finance charge and other disclosures affected by the disclosed finance charge (including the amount financed and the annual percentage rate) is accurately calculated if the amount disclosed as the finance charge
 - i. is understated by no more than \$100; or
 - ii. is greater than the amount required to be disclosed (§1026.38(o)(2)).
- c. *Amount Financed.* Expressed as a dollar amount, with the following statement: "The loan amount available after paying your up-front finance charge" (§1026.38(o)(3));
- d. *Annual Percentage Rate (APR).* Expressed as a percentage, with the following statement: "Your costs over the loan term expressed as a rate. This is not your interest rate." (§1026.38(o)(4));
- e. *Total Interest Percentage (TIP).* Expressed as a percentage, with the following statement: "The total amount of interest that you will pay over the loan term as a percentage of your loan amount" (§1026.38(o)(5)).

**Other Disclosures—Section 1026.38(p)
(Page 5 of the Closing Disclosure)**

1. *Other Disclosures.* Determine whether the creditor accurately provides the following disclosures:
 - a. *Appraisal.* For transactions subject to 15 U.S.C. 1639h or 1691(e), as implemented in this part or Regulation B, 12 CFR part 1002, respectively, under the subheading "Appraisal" (§1026.38(p)(1)):
 - i. if there was an appraisal of the property in connection with the loan, the creditor is required to provide the consumer with a copy at no additional cost to the consumer at least three days prior to consummation (§1026.38(p)(1)(i)); and
 - ii. if the consumer has not yet received a copy of the appraisal, the consumer should contact the creditor using the

- information disclosed in the Closing Disclosure (§1026.38(p)(1)(ii)).
- b. *Contract Details.* A statement that the consumer should refer to the appropriate loan document and security instrument for information about nonpayment, what constitutes a default under the legal obligation, circumstances under which the creditor may accelerate the maturity of the obligation, and prepayment rebates and penalties (§1026.38(p)(2)).
 - c. *Liability after Foreclosure.* A brief statement of whether, and the conditions under which, the consumer may remain responsible for any deficiency after foreclosure under applicable state law, a brief statement that certain protections may be lost if the consumer refinances or incurs additional debt on the property, and a statement that the consumer should consult an attorney for additional information (§1026.38(p)(3)).
 - d. *Refinance.* The statement required on the Loan Estimate by section 1026.37(m)(5) that “Refinancing this loan will depend on your future financial situation, the property value, and market conditions. You may not be able to refinance this loan” (§1026.38(p)(4)).
 - e. *Tax Deductions.* A statement that, if the extension of credit exceeds the fair market value of the property, the interest on the portion of the credit extension that is greater than the fair market value of the property is not tax deductible for federal income tax purposes and a statement that the consumer should consult a tax adviser for further information (§1026.38(p)(5)).
 - f. *Loan Acceptance.* If the creditor does not provide a line for the consumer’s signature, the creditor must include with the other disclosures the same statement required in the Loan Estimate that “You do not have to accept this loan because you have received this form or signed a loan application.” This is the same requirement as in the Loan Estimate under section 1026.37(n)(2) (§1026.38(s)(2)).

Questions Notice—Section 1026.38(q) (Page 5 of the Closing Disclosure)

1. *Questions.* Determine whether the creditor provides a separate questions notice. The creditor must include a prominent question mark, a statement directing the consumer to use the contact information for questions, and a reference to CFPB’s website for more information and to submit a complaint, and a link to

www.consumerfinance.gov/mortgage-closing/ (§§1026.38(q)(1)-(3)).

Contact Information—Section 1026.38(r) (Page 5 of the Closing Disclosure)

1. *Contact Information.* Determine whether the creditor provides the required contact information for each lender, mortgage broker, consumer’s real estate broker, seller’s real estate broker, and settlement agent participating in the transaction; the name of the person, address, NMLSR ID number, or if none, state and license ID; the name of the natural person who is the primary contact for the consumer at each entity, identified as “Contact,” along with that person’s contact NMLS ID or contact license ID, e-mail address, and phone number (§§1026.38(r)(1)-(7)).

Confirm Receipt—Section 1026.38(s) (Page 5 of the Closing Disclosure)

1. *Confirm Receipt.* Determine whether, if the creditor chooses to provide a signature statement, the creditor discloses, above the signature line, the statement “By signing, you are only confirming that you have received this form. You do not have to accept this loan because you have signed or received this form” (§1026.38(s)(1)).

NOTE: If the creditor does not provide a line for the consumer’s signature, the creditor must include the following statement, labeled “Loan Acceptance.” “You do not have to accept this loan because you have received this form or signed a loan application” (§1026.38(s)(2)).

Form of Disclosures—Section 1026.38(t)

1. Determine whether the creditor follows the format and content of form H-25, set forth in appendix H, changes formatting only if there is an exception, including acceptable modifications in appendix H for transactions without a seller, and complies with the following rounding rules for dollar amounts and percentages:
 - a. *Rounding—nearest dollar.* The following dollar amounts are rounded to the nearest whole dollar:
 - i. the dollar amounts for Loan Terms (required to be disclosed by section 1026.38(b)) that are required to be rounded by section 1026.37(o)(4)(i)(A) when disclosed under sections 1026.37(b)(6) and (7) (i.e., adjustments after consummation and details about prepayment penalty and balloon payments);

- ii. the dollar amounts for projected payments or range of payments required by section 1026.38(c) that are required to be rounded by section 1026.37(o)(4)(i)(A) when disclosed under section 1026.37(c)(1)(iii) (i.e., minimum and maximum amounts of principal and interest for projected periodic payments or range of payments);
 - iii. the dollar amounts required to be disclosed by section 1026.38(e) (Alternative Calculating Cash to Close table for transactions without a seller) and section 1026.38(i) (Calculating Cash to Close table) under the subheading “Loan Estimate;”
 - iv. the dollar amounts required to be disclosed by section 1026.38(m) (adjustable payment table); and
 - v. the dollar amounts required to be disclosed by section 1026.38(c) (projected payments) that are required to be rounded by section 1026.37(o)(4)(i)(C) when disclosed under section 1026.37(c)(2)(iv) (i.e., total monthly payment).
- b. *Percentages.* The percentage amounts disclosed under sections 1026.38(b) (i.e., loan terms), (f)(1)(i) (i.e., origination charges), (g)(2)(iii) (i.e., prepaids), (l)(3) (i.e., late payment), (n) (i.e., adjustable interest rate table), and (o)(5) (i.e., total interest percentage or TIP) are not rounded and are disclosed up to two or three decimal places. The percentage amount required to be disclosed under section 1026.38(o)(4) (APR) is not rounded and is disclosed up to three decimal places. Amounts that are whole numbers are disclosed truncated at the decimal point.
- c. *Loan amount.* The dollar amount of the loan amount (required to be disclosed by section 1026.38(b) as required by section 1026.37(b)(1)) is disclosed as an unrounded number, except that if the amount is a whole number, then the amount disclosed is truncated at the decimal point (§§1026.38(t)(1)-(5)).

Closed-End Transactions Not Subject to 1026.19(e) and (f)—Forms Review and Timing Requirements

Closed-End Credit Disclosure Forms—for Transactions Other Than Under 1026.19(e) and (f)—General

1. Determine that the disclosures are clear, con-

spicuous, and grouped together or segregated as required, in a form the consumer may keep.

- a. For loans subject to section 1026.18(s), the terms “Finance Charge” and “Annual Percentage Rate” and corresponding rates or amounts should be more conspicuous than other terms, except for the creditor’s identity (§1026.17(a)(2)).
 - b. For reverse mortgages subject to section 1024.33 in Regulation X, the disclosures required under section 1026.33(b).
 - c. For private student loans, the term “Annual Percentage Rate” and corresponding rate must be less conspicuous than the term “finance charge” and the corresponding amount, as well as less conspicuous than the interest rate, the notice of the right to cancel, and creditor’s identity (§1026.17(a)(2)).
2. For a closed-end transaction not subject to sections 1026.19(e) and (f), determine whether the disclosures are accurately completed and include the following disclosures as applicable.
- a. identity of the creditor (§1026.18(a))
 - b. amount financed (§1026.18(b))
 - c. itemization of amount financed (§1026.18(c))
 - d. brief description of the APR (§1026.18(e))
 - e. variable-rate information (§§1026.18(f)(1) or (2))
 - f. payment schedule (§1026.18(g))
 - g. brief description of the total of payments (§1026.18(h))
 - h. demand feature (§1026.18(i))
 - i. description of total sales price in a credit sale (§1026.18(j))
 - j. prepayment penalties or rebates (§1026.18(k))
 - k. late payment amount or percentage (§1026.18(l))
 - l. description for security interest (§1026.18(m))
 - m. insurance conditions for finance charge exclusions (§§1026.4(d) and 1026.18(n))
 - n. statement concerning certain security interest charges (§§1026.4(e) and 1026.18(o))
 - o. statement referring to the contract (§1026.18(p))
 - p. statement regarding assumption of the note (§1026.18(q))
 - q. statement regarding required deposits (§1026.18(r))

- r. interest rate and payment summary for mortgage transactions (§1026.18(s))
- 3. Determine that for transactions other than transactions subject to sections 1026.19(e) and (f), the creditor discloses the number, amounts, and timing of payments scheduled to repay the obligation (other than for a transaction that is subject to section 1026.18(s)³⁶ (§1026.18(g)).
- 4. For a closed-end transaction secured by real property or a dwelling (other than a transaction subject to sections 1026.19(e) and (f)), determine that the creditor discloses the following information about the interest rate and payments, as applicable (§1026.18(s)):
 - a. Interest Rates
 - i. *for a fixed-rate mortgage*, the interest rate at consummation (§1026.18(s)(2)(i)(A));
 - ii. *for an adjustable-rate or step-rate mortgage* (§1026.18(s)(2)(i)(B));
 - A. the interest rate at consummation and the period of time until the first interest rate adjustment may occur, labeled as the “introductory rate and monthly payment;”

NOTE: As set forth in Comment 18(s)-1, if periodic payments are not due monthly, the creditor should use the appropriate term, such as “quarterly” or “annually.”

- B. the maximum interest rate that may apply during the first five years after the date on which the first regular periodic payment will be due and the earliest date on which that rate may apply, labeled as “maximum during first five years;” and
- C. the maximum interest rate that may apply during the life of the loan and the earliest date on which that rate may apply, labeled as “maximum ever.”
- iii. *for a loan that provides for payment increases occurring without regard to an interest rate adjustment*³⁷ (as described in section 1026.18(s)(3)(i)(B)), the interest rate in effect at the time the first such payment increase is scheduled to occur and the date on which the increase will occur, labeled as “first adjustment” if the

36. For example, home construction loans that are secured by real property or a dwelling are subject to section 1026.18(s) and not section 1026.18 (g). See Comment App. D-6 of Regulation Z.

37. Note: this category includes interest-only loans, as set forth in Comment §1026.18(s)(2)(i)(C)-1.

loan is an adjustable-rate mortgage or, otherwise, labeled as “first increase”³⁸ (§1026.18(s)(2)(i)(C)).

- iv. *for a negative amortization loan*³⁹ (§1026.18(s)(2)(ii)):
 - A. the interest rate at consummation and, if it will adjust after consummation, the length of time until it will adjust, and the label “introductory” or “intro;”
 - B. the maximum interest rate that could apply when the consumer must begin making fully amortizing payments under the terms of the legal obligation;
 - C. if the minimum required payment will increase before the consumer must begin making fully amortizing payments, the maximum interest rate that could apply at the time of the first payment increase and the date the increase is scheduled to occur; and
 - D. if a second increase in the minimum required payment may occur before the consumer must begin making fully amortizing payments, the maximum interest rate that could apply at the time of the second payment increase and the date the increase is scheduled to occur.
- v. *Introductory rate for an amortizing adjustable-rate mortgage*, if the interest rate at consummation is less than the fully indexed rate, the following (placed in a box directly beneath the table required by section 1026.18(s)(1) in a format substantially similar to Model Clause H-4(l) in the regulation’s appendix H):
 - A. the interest rate that applies at consummation and the period of time for which it applies;
 - B. a statement that, even if market rates do not change, the interest rate will increase at the first adjustment and a designation of the place in sequence of the month or year, as applicable, of such rate adjustment (e.g., “in the third year”); and
 - C. the fully-indexed rate.

38. Because model forms and clauses published by the CFPB are safe harbors, this rate may also be labeled “Maximum Ever,” pursuant to §1026.18(s)(2)(i)(B)(3).

39. The term “negative amortization loan” means a loan, other than a reverse mortgage subject to section 1026.33 that provides for a minimum periodic payment that covers only a portion of the accrued interest, resulting in negative amortization (§1026.18(s)(7)(v)).

b. Payments for Amortizing Loans

- i. *Principal and interest payments.* If all periodic payments will be applied to accrued interest and principal, for each interest rate disclosed under section 1026.18(s)(2)(i) (§1026.18(s)(3)(i))
 - A. the corresponding periodic principal and interest payment, labeled as “principal and interest;”
 - B. if the periodic payment may increase without regard to an interest rate adjustment, the payment that corresponds to the first such increase and the earliest date on which the increase could occur;
 - C. if an escrow account is established, an estimate of the amount of taxes and insurance, including any mortgage insurance payable with each periodic payment; and
 - D. the sum of the amounts disclosed under sections 1026.18(s)(3)(i)(A) and (C) or (s)(3)(i)(B) and (C), as applicable, labeled as “total estimated monthly payment.”
- ii. *Interest-only payments.* If the loan is an interest-only loan, for each interest rate disclosed under section 1026.18(s)(2)(i), the corresponding periodic payment and (§1026.18(s)(3)(ii)):
 - A. if the payment will be applied to only accrued interest, the amount applied to interest, labeled as “interest payment,” and a statement that none of the payment is being applied to principal;
 - B. if the payment will be applied to accrued interest and principal, an itemization of the amount of the first such payment applied to accrued interest and to principal, labeled as “interest payment” and “principal payment,” respectively;
 - C. the escrow information described in section 1026.18(s)(3)(i)(C); and
 - D. the sum of all amounts required to be disclosed under sections 1026.18(s)(3)(ii)(A) and (C) or (s)(3)(ii)(B) and (C), as applicable, labeled as “total estimated monthly payment.”
- iii. *Payments for negative amortization loans.* If the loan is a negative amortization loan (1026.18(s)(4))
 - A. the minimum periodic payment required until the first payment increase or interest rate increase, corresponding to the interest rate disclosed under section 1026.18(s)(2)(ii)(A);
 - B. the minimum periodic payment that would be due at the first payment increase and the second, if any, corresponding to the interest rates described in sections 1026.18(s)(2)(ii)(C) and (D);
 - C. a statement that the minimum payment pays only some interest, does not repay any principal, and will cause the loan amount to increase;
 - D. the fully amortizing periodic payment amount at the earliest time when such a payment must be made, corresponding to the interest rate disclosed under section 1026.18(s)(2)(ii)(B); and
 - E. if applicable, in addition to the payments in sections 1026.18(s)(4)(i) and (ii), for each interest rate disclosed under section 1026.18(s)(2)(ii), the amount of the fully amortizing periodic payment, labeled as the “full payment option,” and a statement that these payments pay all principal and all accrued interest.

NOTE: The information in sections 1026.18(s)(2)-(4) must be disclosed in the form of a table with no more than five columns, and with headings and format substantially similar to Model Clause H-4(E), H-4(F), H-4(G), or H-4(H) in appendix H of the regulation. The table should contain only the information required in sections 1026.18(s)(2)-(4), be placed in a prominent location, and be in a minimum 10-point font (§1026.18(s)(1)).

- iv. *Balloon payments.* For loans with balloon payments (defined as a payment that is more than two times a regular periodic payment) (§1026.18(s)(5))
 - A. except as provided below, the balloon payment is disclosed separately from other periodic payments disclosed in the table (i.e., is outside the table and in a manner substantially similar to Model Clause H-4(J) in appendix H to the regulation);
 - B. if the balloon payment is scheduled to occur at the same time as another payment required to be disclosed in

- the table, the balloon payment must be disclosed in the table.
5. For a closed-end transaction secured by real property or a dwelling (other than a transaction that is subject to sections 1026.19(e) and (f)) that is a negative amortization loan, determine that the following information is disclosed (in close proximity to the table required in section 1026.18(s)(1), with headings, content, and format substantially similar to Model Clause H-4(G) in appendix H to this part) (§1026.18(s)(6)):
 - a. the maximum interest rate, the shortest period of time in which such interest rate could be reached, the amount of estimated taxes and insurance included in each payment disclosed, and a statement that the loan offers payment options, two of which are shown; and
 - b. the dollar amount of the increase in the loan's principal balance if the consumer makes only the minimum required payments for the maximum possible time and the earliest date on which the consumer must begin making fully amortizing payments, assuming that the maximum interest rate is reached at the earliest possible time.
 6. For a closed-end transaction secured by real property or a dwelling (other than a transaction that is subject to sections 1026.19(e) and (f)), determine that the creditor disclosed a statement that there is no guarantee the consumer can refinance the transaction to lower the interest rate or periodic payments (§1026.18(t)(1)).
- NOTE:** The statement required by section 1026.18(t)(1) should be in a form substantially similar to Model Clause H-4(K) in appendix H to the regulation (§1026.18(t)(2)).
7. Determine all variable-rate loans (other than a transaction that is subject to sections 1026.19(e) and (f)) with a maturity greater than one year, secured by a principal dwelling are given the following disclosures at the time of application (§1026.19):
 - a. Consumer Handbook on Adjustable Rate Mortgages or substitute
 - b. statement that interest rate payments and or terms can change
 - c. the index/formula and a source of information
 - d. explanation of the interest rate/payment determination and margin
 - e. statement that the consumer should ask for the current interest rate and margin
 - f. statement that the interest rate is discounted, if applicable
 - g. frequency of interest rate and payment changes
 - h. rules relating to all changes
 - i. either a historical example based on 15 years, or the initial rate and payment with a statement that the periodic payment may substantially increase or decrease together with a maximum interest rate and payment
 - j. explanation of how to compute the loan payment, giving an example
 - k. demand feature, if applicable
 - l. statement of content and timing of adjustment notices
 - m. statement that other variable-rate loan program disclosures are available, if applicable
8. Determine that for any closed-end adjustable-rate mortgage (other than a transaction that is subject to sections 1026.19(e) and (f)) with a maturity date greater than one year and secured by a principal dwelling, the creditor, assignee, or servicer provides the following initial rate adjustment disclosures (for disclosure timing requirements, see *Timing Requirements* below) (§1026.20(d)(2)):
 - a. the date of the disclosure;
 - b. an explanation that under the terms of the consumer's adjustable rate mortgage, the time frame that the current rate has been in effect, when the current rate is scheduled to expire, the effective date of the new rate, when additional future interest rate adjustments are scheduled to occur and any other changes to loan terms, features, and options taking effect on the same date, and how the rate change may affect the payment and other loan terms;
 - c. a table explaining the current interest rate and payment, the new interest rate and payment, and the date the first new payment is due;
- NOTE:** For interest-only and negative amortization adjustable-rate mortgages, the table must include how the current and new rates and payment will be allocated to interest, principal, and escrow (if applicable). See section 1026.20(d)(2)(iii)(C) for more on payment allocation disclosure requirements.
- d. an explanation of how the interest rate is determined, including the specific index or formula used and a source of information about that index or formula, and the type and

- amount of any adjustment, including a margin and an explanation that a margin is the addition of a certain number of percentage points to the index;
- e. Any limits on the interest rate or payment increases at each interest rate adjustment and over the life of the loan (as applicable), including the extent to which such limits result in the creditor, assignee, or servicer foregoing any increase in the interest rate and the earliest date that such foregone interest rate increases may apply to future interest rate adjustments, subject to those limits;
 - f. an explanation of how the new payment was determined, including the index or formula used to determine the new interest rate;
 - g. any adjustments to the index or formula used to determine the new payment, such as the addition of a margin;
 - h. the expected loan balance on the date of the interest rate adjustment;
 - i. the remaining loan term expected on the date of the interest rate adjustment and any changes to the term that may have occurred due to the interest rate change;
 - j. if an estimated rate payment is provided, a statement that another disclosure with the actual interest rate will be provided to the consumer between two and four months prior to the first payment at the adjusted level is due, and that the creditor is using an estimated rate;
 - k. If applicable, a statement that the new payment will not be allocated to pay loan principal and will not reduce the loan balance. If the new payment will result in negative amortization, a statement that the new payment will not be allocated to pay loan principal and that only part of the interest will be paid, which will add to the loan balance. If the new payment will result in negative amortization as a result of the interest rate adjustment, the statement must set forth the payment required to fully amortize the remaining balance at the new interest rate over the remainder of the loan term;
 - l. a statement indicating the circumstances under which any prepayment penalty may be imposed, the time period during which it may be imposed, and a statement that the consumer may contact the servicer for additional information, including the maximum amount of the penalty that may be charged to the consumer;
 - m. a telephone number of the creditor, assignee, or servicer to call if the consumer anticipates not being able to make the new payment;
 - n. a statement listing alternatives that consumers may pursue if they anticipate not being able to make the new payment;
 - o. a web address to access either the CFPB or the Department of Housing and Urban Development's (HUD) approved list of homeownership counselors and counseling organizations, the HUD toll-free number to access the HUD list of homeownership counselors and counseling organizations, and the Bureau website to access state housing finance authorities' contact information.
9. Determine that for any closed-end adjustable-rate mortgage (other than a transaction that is subject to sections 1026.19(e) and (f)) with a maturity date greater than one year, secured by a principal dwelling, the creditor, assignee, or servicer provides the following rate adjustment disclosures for rate adjustments with a corresponding payment change (for disclosure timing requirements see Timing Requirements below) (§1026.20(c)):
- NOTE: A creditor, assignee or servicer subject to the Fair Debt Collection Practices Act (FDCPA) that has received the consumer's notification to cease communication pursuant to FDCPA section 805(c) is exempt from this requirement.
- a. an explanation that under the terms of the consumer's adjustable rate mortgage, the time frame that the current rate has been in effect is ending and the interest rate and payment will change, the effective date of the new rate, when additional future interest rate adjustments are scheduled to occur and any other changes to loan terms, features, and options taking effect on the same date, such as the expiration of interest-only or payment-option features; a table explaining the current interest rate and payment, the new interest rate and payment, and the date the first new payment is due;
- NOTE: For interest-only and negatively amortizing payments, the table must include how the current and new rates and payment will be allocated to interest, principal, and escrow (if applicable). See section 1026.20 (d)(2)(iii)(C) for more on payment allocation disclosure requirements.
- b. an explanation of how the interest rate is determined, including the specific index or formula used and a source of information

- about that index or formula, and the type and amount of any adjustment, including a margin and an explanation that a margin is the addition of a certain number of percentage points to the index, and any application of previously foregone interest rate increases from past rate adjustments;
- c. any limits on the interest rate or payment increases at each interest rate adjustment and over the life of the loan (as applicable), including the extent to which such limits result in the creditor, assignee, or servicer foregoing any increase in the interest rate and the earliest date that such foregone interest rate increases may apply to future interest rate adjustments, subject to those limits;
 - d. an explanation of how the new payment is determined, including the index or formula used to determine the new interest rate;
 - e. any adjustments to the index or formula used to determine the new payment, such as the addition of a margin or the application of any previously foregone interest rate increases from past interest rate adjustments;
 - f. the expected loan balance on the date of the interest rate adjustment;
 - g. the remaining loan term expected on the date of the interest rate adjustment and any changes to the term that may have occurred due to the interest rate change;
 - h. if applicable, a statement that the new payment will not be allocated to pay loan principal and will not reduce the loan balance. If the new payment will result in negative amortization, a statement that the new payment will not be allocated to pay loan principal and that only part of the interest will be paid, which will add to the loan balance. If the new payment will result in negative amortization as a result of the interest rate adjustment, the statement must set forth the payment required to fully amortize the remaining balance at the new interest rate over the remainder of the loan term;
 - i. a statement indicating the circumstances under which any prepayment penalty may be imposed, the time period during which it may be imposed, and a statement that the consumer may contact the servicer for additional information, including the maximum amount of the penalty that may be charged to the consumer;

NOTE: Model and sample disclosures H-4(D)(1) through (4) containing all neces-

sary information can be found in appendix H. The disclosures required under section 1026.20(c) and (d) generally should be in the form of a table and in the same order as, and with headings and format substantially similar to, the model disclosures (§§1026.20 (c)(3) and (d)(3)).

NOTE: When examining a creditor, an assignee, or a servicer that continues to own the loan, if the entity states that another entity has the obligation to provide the disclosures, examiners should determine whether the entity takes steps to ensure that the other party (the creditor, assignee, or servicer, as applicable) is complying with the obligation to provide the disclosures.

High-Cost Mortgages—Section 1026.32

1. Determine that the disclosures required for high-cost mortgage transactions (§1026.32) clearly and conspicuously include the items below (§1026.32(c), see Form H-16 in appendix H):
 - a. the required statement “You are not required to complete this agreement merely because you have received these disclosures or have signed a loan application. If you obtain this loan, the lender will have a mortgage on your home. You could lose your home, and any money you have put into it, if you do not meet your obligations under the loan.”;
 - b. the APR;
 - c. amount of the regular monthly (or other periodic) payment and the amount of any balloon payment. The regular payment should include amounts for voluntary items, such as credit life insurance or debt-cancellation coverage, only if the consumer has previously agreed to the amount (see the commentary to §1026.32(c)(3));
 - d. statement that the interest rate may increase and monthly payment may increase, and the amount of the single maximum monthly payment, based on the maximum interest rate allowed under the contract, if applicable;
 - e. the amount borrowed. For a closed-end mortgage, the amount borrowed is the total amount borrowed, as reflected by the face amount of the note; and where the amount borrowed includes premiums or other charges for optional credit insurance or debt-cancellation coverage (grouped together with the amount borrowed), that fact shall be stated. For an open-end credit plan,

the amount borrowed is the credit limit for the plan when the account is opened.

Escrow Cancellation Notice—Section 1026.20(e)(1)

1. *Escrow cancellation notice.* For a closed-end loan secured by a first lien on real property or a dwelling (other than a reverse mortgage) where an escrow account (as defined under section 1024.17(b)) is cancelled, determine whether (§1026.20(e))
 - a. the creditor or servicer provided an Escrow Closing Notice with the following clearly and conspicuously disclosed (§1026.20(e)(1)):
 - i. a statement informing the consumer of the date on which the consumer will no longer have an escrow account;
 - ii. a statement that an escrow account may also be called an impound or trust account;
 - iii. a statement of the reason why the escrow account will be closed;
 - iv. a statement that without an escrow account, the consumer must pay all property costs, such as taxes and homeowner's insurance, directly, possibly in one or two large payments a year; and
 - v. a table, titled "Cost to you," that contains an itemization of the amount of any fee the creditor or servicer imposes on the consumer in connection with the closure of the consumer's escrow account, labeled "Escrow Closing Fee," and a statement that the fee is for closing the escrow account (§1026.20(e)(2)(i));
 - vi. information under the reference "In the future" that includes (§1026.20(e)(2)(ii))
 - A. a statement of the consequences if the consumer fails to pay property costs, including the actions that a state or local government may take if property taxes are not paid and the actions the creditor or servicer may take if the consumer does not pay some or all property costs, such as adding amounts to the loan balance, adding an escrow account to the loan, or purchasing a property insurance policy on the consumer's behalf that may be more expensive and provide fewer benefits than a policy that the consumer could obtain directly (§1026.20(e)(2)(ii)(A));
 - B. a statement with a telephone number that the consumer can use to request additional information about the cancellation of the escrow account (§1026.20(e)(2)(ii)(B));
 - C. a statement of whether the creditor or servicer offers the option of keeping the escrow account open and, as applicable, a telephone number the consumer can use to request that the account be kept open (§1026.20(e)(2)(ii)(C)); and
 - D. a statement of whether there is a cut-off date by which the consumer can request that the account be kept open (§1026.20(e)(2)(ii)(D)).
2. *Form.* The disclosure meets the formatting requirements of section 1026.20(e)(4) and is substantially similar to model form H-29 in appendix H (§1026.20(e)(4)).
3. *Timing.* The creditor or servicer ensures that the consumer receives the Escrow Closing Notice in the following time periods:
 - i. if the cancellation is upon the consumer's request, no later than three business days before the closure of the consumer's escrow account (§1026.20(e)(5)(i));
 - ii. if cancellation is other than upon the consumer's request, no later than 30 business days before the closure of the consumer's escrow account (§1026.20(e)(5)(ii)).

NOTE: If the disclosures are not provided in person, the consumer is considered to have received the disclosures three business days after they are delivered or placed in the mail (§1026.20(e)(5)(iii)).

Notice of Transfer—Section 1026.39

1. For any open-end loan secured by a principal dwelling or for any closed-end mortgage loan secured by a dwelling or real property that was sold, assigned, or otherwise transferred to the covered person, determine that the covered person notifies the borrower clearly and conspicuously in writing, in a form that the consumer may keep of such transfer, including (§1026.39)
 - a. an identification of the loan that was sold, assigned, or otherwise transferred;
 - b. the name, address, and telephone number of the covered person who owns the mortgage loan;
 - c. the date of transfer (either the date of acquisition recognized in the books and records of the covered person or that of the transferring party) identified by the covered person;

- d. the name, address, and telephone number of an agent or party having authority, on behalf of the covered person, to receive notice of the right to rescind and resolve issues concerning the consumer's payments on the mortgage loan;
- e. where transfer of ownership of the debt to the covered person is or may be recorded in public records or, alternatively, that the transfer of ownership has not been recorded in public records at the time the disclosure is provided; and
- f. at the option of the covered person, any other relevant information regarding the transaction;
- g. if there are multiple covered persons, contact information for each of them, unless one of them has been authorized to receive the consumer's notice of the right to rescind and resolve issues concerning the consumer's payments on the loan.
- h. If the loan is a closed-end consumer mortgage loan secured by a dwelling or real property, other than a reverse mortgage transaction subject to section 1026.33 of this part, the following information about the covered person's partial payment policy, under the subheading "Partial Payment":
 - i. if periodic payments that are less than the full amount due are accepted, a statement that the covered person, using the term "lender," may accept partial payments and apply such payments to the consumer's loan;
 - ii. if periodic payments that are less than the full amount due are accepted but not applied to a consumer's loan until the consumer pays the remainder of the full amount due, a statement that the covered person, using the term "lender," may hold partial payments in a separate account until the consumer pays the remainder of the payment and then apply the full periodic payment to the consumer's loan;
 - iii. if periodic payments that are less than the full amount due are not accepted, a statement that the covered person, using the term "lender," does not accept any partial payments; and
 - iv. a statement that, if the loan is sold, the new covered person, using the term "lender," may have a different policy.

NOTE: The format of the disclosure illustrated by form H-25 of appendix H

may be used (for the information required to be disclosed by section 1026.38(l)(5)). The text on that form may be modified to suit the format of the covered person's disclosure under section 1026.39. Any modifications must be appropriate and not affect the substance, clarity, or meaningful sequence of the disclosure (Comment 1026.39(d) (5)-1).

NOTE: This notice of sale or transfer must be provided for any consumer credit transaction that is secured by the principal dwelling of a consumer, except as noted above. This notification is required of the covered person even if the loan servicer remains the same. In addition, if more than one consumer is liable on the obligation, the covered person may mail or deliver the disclosure notice to any consumer who is primarily liable. And, if an acquisition involves multiple covered persons who each acquire a partial interest in the loan pursuant to separate and unrelated agreements, each covered person has a duty to ensure that disclosures related to its acquisition are accurate and provided in a timely manner unless an exception in section 1026.39(c) applies. The parties may, but are not required to, provide a single notice that satisfies the timing and content requirements applicable to each covered person (Comment 1026.39(b) (5)-2).

Private Education Loans—Section 1026.46—1026.48

1. For private education loans subject to subpart F, ensure that the required disclosures are accurate (§1026.47) and contain the following information:
 - a. Application or solicitation disclosures disclose the following:
 - i. interest rate, including
 - A. rate or range, and if the rate depends in part on a determination of the borrower's creditworthiness or other factors, a statement to that effect;
 - B. whether rate is fixed or variable;
 - C. if rate may increase after consummation, any limitations, or lack thereof, and if the limitation is imposed by law, that fact. Also, the creditor must state that the consumer's actual rate may

- be higher or lower than that disclosed, if applicable; and
- D. whether the rate will typically be higher if the loan is not co-signed or guaranteed.
- ii. fees and default or late payment costs;
- iii. repayment terms, including
- A. term of the loan, which is the period during which regularly scheduled payments of principal and interest will be due;
- B. deferral options, or if consumer does not have the option to defer, that fact;
- C. for each available deferral option applicable, information as to
- (1) whether interest will accrue during deferral period; and
- (2) if interest accrues, whether payment of interest may be deferred and added to the principal balance; and
- D. a statement that, if the consumer files bankruptcy, the consumer may still be required to repay the loan.
- iv. cost estimates, based on an example of the total cost of the loan, calculated using
- A. the highest interest rate and including all applicable finance charges;
- B. an amount financed of \$10,000, or \$5,000, if the creditor offers loans less than \$10,000; and
- C. calculated for each payment option.
- v. eligibility (e.g., any age or school enrollment eligibility requirements);
- vi. alternatives to private education loans, including
- A. a statement that the consumer may qualify for federal student loans;
- B. the interest rates available for each program available under title IV of the Higher Education Act of 1965, and whether the rate is variable or fixed;
- C. a statement that the consumer may obtain additional information regarding student federal financial assistance from his school or U.S. Department of Education, including an appropriate website; and
- D. a statement that a covered educational institution may have school specific educational loan benefits and terms not detailed in the loan disclosure forms.
- vii. a statement that if the loan is approved, that the loan will be available for 30 days and the terms will not change, except for changes to the interest rate in the case of a variable rate and other changes permitted by law;
- viii. a statement that before consummation, the borrower must complete a self-certification form obtained from the student's institution of higher education.
- b. For approval disclosures, the following information is required under section 1026.47(b):
- i. interest rate, information, including
- A. interest rate applicable to the loan;
- B. whether the interest rate is variable or fixed; and
- C. if the interest rate may increase after consummation, any limitations on the rate adjustments, or lack thereof.
- ii. fees and default or late payment costs, including
- A. an itemization of the fees or range of fees required to obtain the loan; and
- B. any fees, changes to the interest rate, and adjustments to principal based on the consumer's defaults or late payments.
- iii. repayment terms, including
- A. principal amount;
- B. term of the loan;
- C. a description of the payment deferral option chosen by the consumer, if applicable, and any other payment deferral options that the consumer may elect at a later time;
- D. any payments required while the student is enrolled at the educational institution, based on the deferral option chosen by the consumer;
- E. amount of any unpaid interest that will accrue while the student is enrolled in school, based upon the deferral option chosen by the consumer;
- F. a statement that if the consumer files for bankruptcy, that the consumer may still be required to pay back the loan;
- G. an estimate of the total amount of payments calculated based upon
- (1) the interest rate applicable to the

- loan (compliance with section 1026.18(h) constitutes compliance with this requirement);
- (2) the maximum possible rate of interest for the loan, or, if a maximum rate cannot be determined, a rate of 25 percent;
 - (3) if a maximum rate cannot be determined, the estimate of the total amount for repayment must include a statement that there is no maximum rate and that the total amount for repayment disclosed is an estimate.
- H. the maximum monthly payment based on the maximum rate of interest for the loan, or, if a maximum rate of interest cannot be determined, a rate of 25 percent. If a maximum cannot be determined, a statement that there is no maximum rate and that the monthly payment amount disclosed is an estimate and will be higher if the applicable interest rate increases.
- iv. alternatives to private education loans, including
- A. a statement that the consumer may qualify for federal student loans;
 - B. the interest rates available for each program available under title IV of the Higher Education Act of 1965, and whether the rate is variable or fixed; and
 - C. a statement that the consumer may obtain additional information regarding student federal financial assistance from his school or U.S. Department of Education, including an appropriate website.
- v. a statement that the consumer may accept the terms of the loan until the acceptance period under section 1026.48(c)(1) has expired. The statement must include
- A. the specific date on which the acceptance period expires, based on the date upon which the consumer receives the disclosures required under this subsection for the loan;
 - B. the method or methods by which the consumer may communicate the acceptance (written, oral, or by electronic means; and
 - C. a statement that except for changes to the interest rate and other changes permitted by law, the rates and the terms of the loan may not be changed by the creditor during the 30-day acceptance period.
- c. After the consumer has accepted the loan in accordance with section 1026.48(c)(1), final disclosures must disclose the information required under section 1026.47(c) and the following:
- i. interest rate, including
 - A. interest rate applicable to the loan;
 - B. whether the interest rate is variable or fixed; and
 - C. if the interest rate may increase after consummation, any limitations on the rate adjustments, or lack thereof.
 - ii. fees and default or late payment costs, including
 - A. an itemization of the fees or range of fees required to obtain the loan; and
 - B. any fees, changes to the interest rate, and adjustments to principal based on the consumer's defaults or late payments.
 - iii. repayment terms, including
 - A. principal amount;
 - B. term of the loan;
 - C. a description of the payment deferral option chosen by the consumer, if applicable, and any other payment deferral options that the consumer may elect at a later time;
 - D. any payments required while the student is enrolled at the educational institution, based on the deferral option chosen by the consumer;
 - E. amount of any unpaid interest that will accrue while the student is enrolled in school, based upon the deferral option chosen by the consumer;
 - F. a statement that if the consumer files for bankruptcy, that the consumer may still be required to pay back the loan;
 - G. an estimate of the total amount of payments calculated based upon
 - (1) the interest rate applicable to the loan (compliance with section 1026.18(h) constitutes compliance with this requirement);
 - (2) the maximum possible rate of

- interest for the loan, or, if a maximum rate cannot be determined, a rate of 25 percent;
- (3) if a maximum rate cannot be determined, the estimate of the total amount for repayment must include a statement that there is no maximum rate and that the total amount for repayment disclosed is an estimate.
- H. the maximum monthly payment based on the maximum rate of interest for the loan, or, if a maximum rate of interest cannot be determined, a rated of 25 percent. If a maximum cannot be determined, a statement that there is no maximum rate and that the monthly payment amount disclosed is an estimate and will be higher if the applicable interest rate increases.
- iv. in a text more conspicuous than any other required disclosure, except for the finance charge, the interest rate, and the creditor's identify the following disclosures:
- A. a statement that the consumer has the right to cancel the loan, without penalty, at any time before the midnight of the third business day following the date on which the consumer receives the final loan disclosures. The statement must include the specific date on which the cancellation period expires and that the consumer may cancel by that date (§1026.47(c)(4)(i));
- B. a statement that the loan proceeds will not be disbursed until the cancellation period expires (§1026.47(c)(4)(ii));
- C. the method or methods by which the consumer may cancel (§1026.47(c)(4)(ii)); and
- D. if the creditor permits cancellation by mail, the statement specifying that the consumer's mailed request will be deemed timely if placed in the mail not later than the cancellation date specified on the disclosures (§1026.47(c)(4)(ii)).
2. Determine that the creditor made the applicable disclosures in writing, in a form that the consumer may keep, except (§1026.5(a)(1)(ii))
- the following disclosures need not be written: disclosures under section 1026.6(b)(3) of charges that are imposed as part of an open-end (not home-secured) plan that are not required to be disclosed under section 1026.6(b)(2) and related disclosures of charges under section 1026.9(c)(2)(iii)(B); disclosures under section 1026.9(c)(2)(vi); disclosures under section 1026.9(d) when a finance charge is imposed at the time of the transaction; and disclosures under section 1026.56(b)(1)(i);
 - the following disclosures need not be in a retainable form: disclosures that need not be written under section 1026.5(a)(1)(ii)(A); the alternative summary billing-rights statement under section 1026.9(a)(2); the credit and charge card renewal disclosures required under section 1026.9(e); the payment requirements under section 1026.10(b), except as provided in section 1026.7(b)(13); home-equity disclosures under section 1026.40(d); and disclosures for credit and charge card applications and solicitations under section 1026.60;
 - the disclosures required by this subpart may be provided to the consumer in electronic form, subject to compliance with the consumer consent and other applicable provisions of the Electronic Signatures in Global and National Commerce Act (E-Sign Act) (15 U.S.C. 7001 *et seq.*). The disclosures required by sections 1026.60, 1026.40, and 1026.16 may be provided to the consumer in electronic form without regard to the consumer consent or other provisions of the E-Sign Act in the circumstances set forth in those sections.
3. Determine that the terminology used in providing the disclosures required by section 1026.5 is consistent (§1026.5(a)(2)(i)).
4. Determine that, for home-equity plans subject to section 1026.40, the terms *finance charge* and *annual percentage rate (APR)*, when required to be disclosed with a corresponding amount or percentage rate, shall be more conspicuous than any other required disclosure. The terms need not be more conspicuous when used for periodic statement disclosures under section 1026.7(a)(4) and for advertisements under section 1026.16 (§1026.5(a)(2)(ii)).
5. Determine that, if disclosures are required to be presented in a tabular format pursuant to section 1026.5(a)(3), that the term *penalty APR* shall be

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- Determine that the creditor made the disclosures clearly and conspicuously (§1026.5(a)).

used, as applicable (§1026.5(a)(2)(iii)).

NOTE: The term *penalty APR* need not be used in reference to the annual percentage rate that applies with the loss of a promotional rate, assuming the annual percentage rate that applies is not greater than the annual percentage rate that would have applied at the end of the promotional period; or if the annual percentage rate that applies with the loss of a promotional rate is a variable rate, the annual percentage rate is calculated using the same index and margin as would have been used to calculate the annual percentage rate that would have applied at the end of the promotional period. If credit insurance or debt cancellation or debt suspension coverage is required as part of the plan, the term *required* shall be used and the program shall be identified by its name. If an annual percentage rate is required to be presented in a tabular format pursuant to paragraph (a)(3)(i) or (a)(3)(iii) of this section, the term *fixed*, or a similar term, may not be used to describe such rate unless the creditor also specifies a time period that the rate will be fixed and the rate will not increase during that period, or if no such time period is provided, the rate will not increase while the plan is open.

Credit and Charge Card Application and Solicitation Disclosures—Section 1026.60

1. Determine that the credit card solicitation or application disclosures were made clearly and conspicuously on or with a solicitation or an application (§1026.60).
2. For the disclosures in sections 1026.60(b)(1) through (5) (except for (b)(1)(iv)(B) and (b)(7) through (15), determine that the creditor made the disclosures required for sections 1026.60(c), (d)(2), (e)(1), and (f) in the form of a table with headings, content, and format substantially similar to the applicable tables found in G-10 in appendix G (§1026.60(a)(2)(i)).
3. Determine that the table required by section 1026.60(a)(2)(i) contains only the information required or permitted by that section. If the creditor provides other information, determine that such information appears outside the table (§1026.60(a)(2)(ii)).
4. Determine that the disclosures required by sections 1026.60(b)(1)(iv)(B), (b)(1)(iv)(C), and (b)(6) are placed directly beneath the table required by section 1026.60(a)(2)(i) (§1026.60(a)(2)(iii)).
5. When a tabular format is required, determine

that the following disclosures are disclosed in bold text (§1026.60(a)(2)(iv)):

- a. annual percentage rate required to be disclosed pursuant to paragraph (b)(1) of this section,
- b. introductory rate required to be disclosed pursuant to paragraph (b)(1)(ii) of this section,
- c. rate that will apply after a premium initial rate expires required to be disclosed under paragraph (b)(1)(iii) of this section, and
- d. fee or percentage amounts or maximum limits on fee amounts required to be disclosed pursuant to paragraphs (b)(2), (b)(4), (b)(8) through (b)(13).

NOTE: Bold text shall not be used for the amount of any periodic fee disclosed pursuant to paragraph (b)(2) of this section that is not an annualized amount, and other APRs or fee amounts disclosed in the table (§1026.60(a)(2)(iv)).

6. Determine that the card issuer discloses, on or with an solicitation or application (§1026.60(b)):
 - a. *Annual percentage rate.* Each periodic rate that may be used to compute the finance charge on an outstanding balance for purchases, a cash advance, or a balance transfer, expressed as an annual percentage rate. When more than one rate applies for a category of transactions, determine that the range of balances to which each rate is applicable is also disclosed (§1026.60(b)(1)).

NOTE: The APR for purchases disclosed pursuant to section 1026.60(b)(1) shall be in at least 16-point type, except for the following: Oral disclosures of the annual percentage rate for purchases, or a penalty rate that may apply upon the occurrence of one or more specific events.

- i. *Variable-rate information.* If a rate is a variable rate, determine that the card issuer discloses the fact that the rate may vary and how the rate is determined. Determine that the card issuer identifies the type of index or formula that is used in setting the rate. Determine that the value of the index and the amount of the margin that are used to calculate the variable rate are not disclosed in the table. Determine further that any applicable limitations on rate increases are not included in the table (§1026.60(b)(1)(i)).

- ii. *Discounted initial rate.* If the initial rate is an introductory rate, determine that the card issuer discloses in the table the introductory rate, the time period during which the introductory rate will remain in effect, and the term “introductory” or “intro” in immediate proximity to the introductory rate. Determine further that the card issuer discloses, as applicable, either the variable or fixed rate that would otherwise apply to the account (§1026.60(b)(1)(ii)).
 - iii. *Premium initial rate.* If the initial rate is temporary and is higher than the rate that will apply after the temporary rate expires, determine that the card issuer discloses the premium initial rate and the time period during which the premium initial rate will remain in effect. Determine that the premium initial rate for purchases is in at least 16-point type. Determine that the issuer discloses in the table the rate that will apply after the premium initial rate expires, in at least 16-point type (§1026.60(b)(1)(iii)).
 - iv. *Penalty rates.* Except as for provided introductory rate or employee preferential rate requirements (discussed below), if a rate may increase as a penalty for one or more events specified in the account agreement, such as a late payment or an extension of credit that exceeds the credit limit, determine that the card issuer discloses the increased rate that may apply, a brief description of the event or events that may result in the increased rate, and a brief description of how long the increased rate will remain in effect (§1026.60(b)(1)(iv)(A)).
 - v. *Introductory rate.* If the issuer discloses an introductory rate in the table or in any written or electronic promotional materials accompanying applications or solicitations (and subject to paragraph (c) or (e) of section 1026.60), determine that the issuer briefly discloses, directly beneath the table, the circumstances, if any, under which the introductory rate may be revoked, and the type of rate that will apply after the introductory rate is revoked (§1026.60(b)(1)(iv)(B)).
 - vi. *Employee preferential rates.* If the issuer discloses in the table a preferential APR for which only employees of the card issuer, employees of a third party, or other individuals with similar affiliations with the card issuer or third party are eligible, determine that the issuer briefly discloses directly beneath the table the circumstances under which such preferential rate may be revoked and the rate that will apply after such preferential rate is revoked (§1026.60(b)(1)(iv)(C)).
 - vii. *Rates that depend on consumer's creditworthiness.* If a rate cannot be determined at the time disclosures are given because the rate depends, at least in part, on a later determination of the consumer's creditworthiness, determine that the card issuer discloses the specific rates or the range of rates that could apply and a statement that the rate for which the consumer may qualify at account opening will depend on the consumer's creditworthiness, and other factors if applicable (§1026.60(b)(1)(v)).

NOTE: If the rate that depends, at least in part, on a later determination of the consumer's creditworthiness is a penalty rate, as described in section 1026.60(b)(1)(iv), the card issuer at its option may disclose the highest rate that could apply, instead of disclosing the specific rates or the range of rates that could apply (§1026.60(b)(1)(v)).
 - viii. *APRs that vary by state.* Determine that the card issuer does not list annual percentage rates for multiple states in the table. Note, however, that issuers imposing annual percentage rates that vary by state may, at the issuer's option, disclose in the table: the specific annual percentage rate applicable to the consumer's account, or the range of the annual percentage rates, if the disclosure includes a statement that the annual percentage rate varies by state and refers the consumer to a disclosure provided with the table where the annual percentage rate applicable to the consumer's account is disclosed (§1026.60(b)(1)(vi)).
- b. *Fees for issuance or availability.* Determine that the card issuer discloses any annual or other periodic fee, expressed as an annualized amount, or any other fee that may be imposed for the issuance or availability of a credit or charge card, including any fee based on account activity or inactivity (§1026.60(b)(2)).
 - c. *Fixed finance charge; minimum interest charge.* Determine that the creditor discloses any fixed finance charge that could be imposed during a billing cycle, as well as a brief description of that charge. Determine

- that the creditor discloses any minimum interest charge if it exceeds \$1.00 that could be imposed during a billing cycle, and a brief description of the charge (§1026.60(b)(3)).
- d. *Transaction charge.* Determine that the creditor discloses any transaction charge imposed for the use of the card for purchases (§1026.60(b)(4)).
 - e. *Grace period.* Determine that the issuer discloses the date by which or the period within which any credit extended for purchases may be repaid without incurring a finance charge due to a periodic interest rate and any conditions on the availability of the grace period. If no grace period is provided, determine that this fact is disclosed. In disclosing in the tabular format a grace period that applies to all types of purchases, determine that the issuer uses the phrase "How to Avoid Paying Interest on Purchases" as the heading for the row describing the grace period. If a grace period is not offered on all types of purchases, in disclosing this fact in the tabular format, determine that the issuer uses the phrase "Paying Interest" as the heading for the row describing this fact.
- NOTE: If the length of the grace period varies, the card issuer may disclose the range of days, the minimum number of days, or the average number of days in the grace period, if the disclosure is identified as a range, minimum, or average (§1026.60(b)(5)).
- f. *Balance computation method.* Determine that the creditor disclosed the name of the balance computation method that is used to determine the balance on which the finance charge is computed, or an explanation of the method used if it is not listed. In determining which balance computation method to disclose, the creditor should have assumed that the credit extended will not be repaid within any grace period (§1026.60(b)(6)).
- NOTE: Disclosures required by section 1026.60(b)(6) must be placed directly beneath the table.
- g. *Statement on charge card payments.* Determine that the creditor discloses a statement that charges incurred by use of the charge card are due when the periodic statement is received (§1026.60(b)(7)).
 - h. *Cash advance fee.* Determine that the creditor disclosed any fee imposed for an extension of credit in the form of cash or its equivalent (§1026.60(b)(8)).
 - i. *Late payment fee.* Determine that the creditor disclosed any fee imposed for a late payment (§1026.60(b)(9)).
 - j. *Over-the-limit fee.* Determine that the creditor disclosed any fee imposed for exceeding the credit limit (§1026.60(b)(10)).
 - k. *Balance transfer fee.* Determine that the creditor disclosed any fee imposed to transfer a balance (§1026.60(b)(11)).
 - l. *Returned payment fee.* Determine that the creditor disclosed any fee imposed for a returned payment (§1026.60(b)(12)).
 - m. *Required insurance, debt cancellation, or debt suspension coverage.* Determine that the fee imposed required insurance, debt cancellation, or suspension coverage is disclosed if the insurance, debt cancellation, or coverage is required as part of the plan (§1026.60(b)(13)).
 - n. *Available credit.* Determine whether total of required fees for the issuance or availability of credit and/or security deposit debited to the account at account opening equal or exceed 15 percent of minimum credit limit for the account. If so, determine that the creditor disclosed, as applicable, the available credit remaining after the fees and/or security deposit are debited to the account (§1026.60(b)(14)).
 - o. *Website reference.* For issuers of credit cards that are not charge cards, determine that the creditor disclosed a reference to the website established by the CFPB and a statement that the consumers may obtain on the website information about shopping for and using credit cards (§1026.60(b)(15)).

Requirements for Home-Equity Plans—Section 1026.40

1. Determine that the following home-equity disclosures were made clearly and conspicuously, at the time of application (§1026.40):
 - a. home-equity brochure
 - b. statement that the consumer should retain a copy of the disclosure
 - c. statement of the time the specific terms are available
 - d. statement that terms are subject to change before the plan opens
 - e. statement that the consumer may receive a full refund of all fees
 - f. statement that the consumer's dwelling secures the credit

- g. statement that the consumer could lose the dwelling
 - h. creditors right to change, freeze, or terminate the account
 - i. statement that information about conditions for adverse action are available upon request
 - j. payment terms including the length of the draw and repayment periods, how the minimum payment is determined, the timing of payments, and an example based on \$10,000 and a recent APR
 - k. a recent APR imposed under the plan and a statement that the rate does not include costs other than interest (fixed-rate plans only)
 - l. itemization of all fees paid to creditor
 - m. estimate of any fees payable to third parties to open the account and a statement that the consumer may receive a good faith itemization of third-party fees
 - n. statement regarding negative amortization, as applicable
 - o. transaction requirements
 - p. statement that the consumer should consult a tax advisor regarding the deductibility of interest and charges under the plan
 - q. for variable-rate home-equity plans, disclose the following:
 - i. that the APR, payment, or term may change
 - ii. the APR excludes costs other than interest
 - iii. identify the index and its source
 - iv. how the APR will be determined
 - v. statement that the consumer should request information on the current index value, margin, discount, premium, or APR
 - vi. statement that the initial rate is discounted and the duration of the discount, if applicable
 - vii. frequency of APR changes
 - viii. rules relating to changes in the index, APR, and payment amount
 - ix. lifetime rate cap and any annual caps, or a statement that there is no annual limitation
 - x. the minimum payment requirement, using the maximum APR, and when the maximum APR may be imposed
 - xi. a historical example, based on a \$10,000 balance, reflecting all significant plan terms
 - xii. statement that rate information will be provided on or with each periodic statement.
2. For home-equity plans subject to section 1026.40, determine that the terms finance charge and annual percentage rate, when required to be disclosed with a corresponding amount or percentage rate, are more conspicuous than any other required disclosure.
- NOTE: The terms need not be more conspicuous when used for periodic statement disclosures under section 1026.7(a)(4) and for advertisements under section 1026.16 (§1026.5(a)(2)(ii)).

Account Opening Initial Disclosures— Section 1026.6

- 1. The following requirements apply only to home-equity plans subject to the requirements of section 1026.40. Determine that the creditor discloses, as applicable (§1026.6(a)):
 - a. *Finance charge.* The circumstances under which a finance charge will be imposed and an explanation of how it will be determined, including: a statement of when finance charges begin to accrue, and an explanation of whether or not any time period exists within which any credit extended may be repaid without incurring a finance charge; a disclosure of each periodic rate that may be used to compute the finance charge, the range of balances to which it is applicable, and the corresponding annual percentage rate; an explanation of the method used to determine the balance on which the finance charge may be computed; and, an explanation of how the amount of any finance charge will be determined, including a description of how any finance charge other than the periodic rate will be determined (§1026.6(a)(1)).
If a creditor offers a variable-rate plan, determine that the creditor discloses: the circumstances under which the rate(s) may increase, any limitations on the increase, and the effect(s) of an increase. When different periodic rates apply to different types of transactions, determine that the types of transactions to which the periodic rates shall apply shall also be disclosed (§1026.6(a)(1)).
 - b. *Other charges.* The amount of any charge other than a finance charge that may be

- imposed as part of the plan, or an explanation of how the charge will be determined (§1026.6(a)(2)).
- c. *Home-equity plan information.* The following disclosures, as applicable (§1026.6(a)(3))
 - i. a statement of the conditions under which the creditor may take certain action, as described in section 1026.40(d)(4)(i), such as terminating the plan or changing the terms
 - ii. the payment information described in sections 1026.40(d)(5)(i) and (ii) for both the draw period and any repayment period
 - iii. a statement that negative amortization may occur as described in section 1026.40(d)(9)
 - iv. a statement of any transaction requirements as described in section 1026.40(d)(10)
 - v. a statement regarding the tax implications as described in section 1026.40(d)(11)
 - vi. a statement that the annual percentage rate imposed under the plan does not include costs other than interest as described in sections 1026.40(d)(6) and (d)(12)(ii)
 - vii. the variable-rate disclosures described in sections 1026.40(d)(12)(viii), (d)(12)(x), (d)(12)(xi), and (d)(12)(xii), as well as the disclosure described in section 1026.40(d)(5)(iii), unless the disclosures provided with the application were in a form the consumer could keep and included a representative payment example for the category of payment option chosen by the consumer
 - d. *Security interests.* The fact that the creditor has or will acquire a security interest in the property purchased under the plan, or in other property identified by item or type (§1026.6(a)(4)).
 - e. *Statement of billing rights.* A statement that outlines the consumer's rights and the creditor's responsibilities under sections 1026.12(c) and 1026.13 and that is substantially similar to the statement found in Model Form G-3 or, at the creditor's option, G-3(A), in appendix G to this part (§1026.6(a)(5)).
2. For open-end (not home-secured) plans, determine that the creditor provided the account-opening disclosures specified in section 1026.6(b)(2)(i) through (b)(2)(v) (except for sections 1026.6(b)(2)(i)(D)(2) and (b)(2)(vii) through (b)
- (2)(xiv) in the form of a table with the headings, content, and format substantially similar to any of the applicable tables in G-17 in appendix G (§1026.6(b)(1)).
3. For open-end (not home-secured) plans, determine that the following disclosures are disclosed in bold text (§1026.6(b)(1)(i)):
 - a. any APR required to be disclosed pursuant to section 1026.6(b)(2)(i);
 - b. any introductory rate permitted to be disclosed pursuant to paragraph (b)(2)(i)(B) or required to be disclosed under paragraph (b)(2)(i)(F) of this section;
 - c. any rate that will apply after a premium initial rate expires permitted to be disclosed pursuant to paragraph (b)(2)(i)(C) or required to be disclosed pursuant to paragraph (b)(2)(i)(F); and
 - d. any fee or percentage amounts or maximum limits on fee amounts disclosed pursuant to paragraphs (b)(2)(ii), (b)(2)(iv), (b)(2)(vii) through (b)(2)(xii).
 4. Determine that bold text is not used for: the amount of any periodic fee disclosed pursuant to paragraph (b)(2) of this section that is not an annualized amount and other annual percentage rates or fee amounts disclosed in the table (§1026.6(b)(1)(i)).
 5. Determine that only the information required or permitted by sections 1026.6(b)(2)(i) through (b)(2)(v) (except for (b)(2)(i)(D)(2)) and (b)(2)(vii) through (b)(2)(xiv) are provided in the table. Disclosures required by paragraphs (b)(2)(i)(D)(2), (b)(2)(i)(D)(3), (b)(2)(vi), and (b)(2)(xv) of this section shall be placed directly below the table required by section 1026.6(b)(1) (§1026.6(b)(1)(ii)).
- NOTE:** Disclosures required by sections 1026.6(b)(3) through (b)(5) that are not otherwise required to be in the table and other information may be presented with the account agreement or account-opening disclosure statement, provided such information appears outside the required table.
6. For creditors that impose fees referred to in sections 1026.6(b)(2)(vii) through (b)(2)(xi) that vary by state and that provide the disclosures required by section 1026.6(b) in person at the time the open-end (not home-secured) plan is established in connection with financing the purchase of goods or services determine that the creditor discloses in the account-opening table either
 - a. the specific fee applicable to the consumer's account, or

- b. the range of fees, a statement that the amount of the fee varies by state, and a reference to the account agreement or other disclosure provided with the account-opening table where the amount of the fee applicable to the consumer's account is disclosed (§1026.6(b)(1)(iii)).
- NOTE: A creditor is not permitted to list fees for multiple states in the account-opening summary table (§1026.6(b)(1)(iii)).
- c. If the amount of any fee required to be disclosed under this section is determined on the basis of a percentage of another amount, the percentage used and the identification of the amount against which the percentage is applied may be disclosed instead of the amount of the fee (§1026.6(b)(1)(iv)).
7. The following requirements apply to open-end (not home-secured) plans. Determine that the creditor discloses in the appropriate format, as applicable
- a. *Annual percentage rate.* Each periodic rate that may be used to compute the finance charge on an outstanding balance for purchases, a cash advance, or a balance transfer, expressed as an APR. When more than one rate applies for a category of transactions, determine that the creditor discloses the range of balances to which each rate is applicable. Ensure that the APR for purchases disclosed pursuant to this paragraph is in at least 16-point type, except for a penalty rate that may apply upon the occurrence of one or more specific events (§1026.6(b)(2)(i)).
 - b. *Variable-rate information.* If the rate is a variable rate, determine that the creditor also disclosed the fact that the rate may vary and how the rate is determined (i.e., identify the type of index or formula used in setting the rate) (§1026.6(b)(2)(i)(A)).
 - c. *Discounted initial rate.* If the initial rate is an introductory rate, determine that the creditor disclosed that the rate would otherwise apply to the account. Where the rate is not tied to an index or formula, determine that the creditor disclosed the rate that will apply after the introductory rate expires. For a variable-rate account, determine that the creditor disclosed a rate based on the applicable index or formula in accordance with the accuracy requirements (§1026.6(b)(2)(i)(B)).
 - d. *Premium initial rate.* If the initial rate is temporary and is higher than the rate that will apply after the temporary rate expires, determine that the creditor disclosed the premium initial rate. Determine that the premium rate for purchases is in at least 16-point type (§1026.6(b)(2)(i)(C)).
 - e. *Penalty rates.* Except for introductory rates and employee preferential rates (discussed below), if the rate is a penalty rate, determine that the creditor disclosed as part of the APR disclosure the increased rate that may apply, a brief description of the event or events that may result in the increased rate, and a brief description of how long the increased rate will remain in effect (§1026.6(b)(2)(i)(D)(1)).
 - f. *Introductory rates.* If the creditor discloses in the table an introductory rate, as that term is defined in section 1026.16(g)(2)(ii), determine that the creditor briefly disclosed directly beneath the table the circumstances under which the introductory rate may be revoked, and the rate that will apply after the introductory rate is revoked (§1026.6(b)(2)(i)(D)(2)).
 - g. *Employee preferential rates.* If the creditor discloses in the table a preferential APR for which only employees of the creditor, employees of a third party, or other individuals with similar affiliations with the creditor or third party are eligible, determine that the creditor briefly disclosed directly beneath the table the circumstances under which the preferential rate may be revoked, and the rate that will apply after the preferential rate is revoked (§1026.6(b)(2)(i)(D)(3)).
 - h. *Point of sale where APRs vary by state or based on creditworthiness.* If the creditor imposes an APR that varies by state or based on the consumer's creditworthiness and provides required disclosures in person at the time the open-end (not home-secured) plan is established in connection with financing the purchase of goods or services, determine that the creditor discloses either (§1026.6(b)(2)(i)(E))
 - i. the specific APR applicable to the consumer's account, or
 - ii. the range of the APRs, if the disclosure includes a statement that the APR varies by state or will be determined based on the consumer's creditworthiness and refers the consumer to the account agreement or other disclosure provided with the account-opening table where the AP applicable to the consumer's account is disclosed. De-

- termine that the creditor does not list APRs for multiple states in the account opening table.
- i. *Credit card accounts under an open-end (not home-secured) consumer credit plan.* Determine that the issuer discloses in the table (§1026.6(b)(2)(i)(F))
 - i. any introductory rate, and
 - ii. any rate that would apply upon expiration of a premium initial rate.
 - j. *Fees for issuance or availability.* Determine that the credit disclosed any annual or periodic fee that may be imposed for the issuance or availability of an open-end plan (including any fee based on account activity or inactivity), how frequently the fee will be imposed, and the annualized amount of the fee (§1026.6(b)(2)(ii)).
 - k. *Fixed finance charge and minimum interest charge.* Determine that the creditor disclosed any fixed finance charge and any minimum interest charge if it exceeds \$1.00 that could be imposed during a billing cycle, and a brief description of the charge (§1026.6(b)(2)(iii)).
 - l. Determine that the creditor disclosed any non-periodic fee that relates to opening the plan. A creditor must disclose that the fee is a one-time fee (§1026.6(b)(2)(ii)(B)).
 - m. *Transaction charges.* Determine that the creditor discloses any transaction charge imposed by the creditor for use of the open-end plan for purchases (§1026.6(b)(2)(iv)).
 - n. *Grace period.* The date by which or the period within which any credit extended may be repaid without incurring a finance charge due to a periodic interest rate and any conditions on the availability of the grace period. If no grace period is provided, that fact must be disclosed. If the length of the grace period varies, the creditor may disclose the range of days, the minimum number of days, or the average number of the days in the grace period, if the disclosure is identified as a range, minimum, or average. In disclosing in the tabular format a grace period that applies to all features on the account, the phrase "How to Avoid Paying Interest" shall be used as the heading for the row describing the grace period. If a grace period is not offered on all features of the account, in disclosing this fact in the tabular format, the phrase "Paying Interest" shall be used as the heading for the row describing this fact (§1026.6(b)(2)(v)).
 - o. *Balance computation method.* Determine that the creditor disclosed in the account opening disclosures the name of the balance computation method that is used to determine the balance on which the finance charge is computed for each feature, or an explanation of the method used if it is not listed, along with a statement that an explanation of the methods required by section 1026.6(b)(4)(i)(D). In determining which balance computation method to disclose, the creditor should have assumed that the credit extended will not be repaid within any grace period (§1026.6(b)(2)(vi)).
 - p. *Cash advance fee.* Determine that the creditor disclosed any fee imposed for an extension of credit in the form of cash or its equivalent (§1026.6(b)(2)(vii)).
 - q. *Late payment fee.* Determine that the creditor disclosed any fee imposed for a late payment (§1026.6(b)(2)(viii)).
 - r. *Over-the-limit fee.* Determine that the creditor disclosed any fee imposed for exceeding the credit limit (§1026.6(b)(2)(ix)).
 - s. *Balance transfer fee.* Determine that the creditor disclosed any fee imposed to transfer a balance (§1026.6(b)(2)(x)).
 - t. *Returned payment fee.* Determine that the creditor disclosed any fee imposed for a returned payment (§1026.6(b)(2)(xi)).
 - u. *Required insurance, debt cancellation, or debt suspension coverage.* Determine that the fee imposed for required insurance, debt cancellation, or suspension coverage is disclosed if the insurance, debt cancellation, or coverage is required as part of the plan. Creditors must also cross reference additional information about the insurance or coverage as applicable (§1026.6(b)(2)(xii)).
 - v. *Available credit.* Determine whether total of required fees for the issuance or availability of credit and/or security deposit debited to the account at account opening equal or exceed 15 percent of the credit limit for the account. If so, determine that the creditor disclosed, as applicable, the available credit remaining after the fees and/or security deposit are debited to the account (§1026.6(b)(2)(xiii)).

- w. *Website reference.* For issuers of credit cards that are not charge cards, determine that the creditor disclosed a reference to the website established by the CFPB and a statement that the consumers may obtain on the website information about shopping for and using credit cards (§1026.6(b)(2)(xiv)).
 - x. *Billing error rights reference.* Determine that the creditor disclosed a statement that information about consumers' right to dispute transactions is included in the account-opening disclosures (§1026.6(b)(2)(xv)).
 - y. *Charges and finance charges.* For charges imposed as part of open-end (not home-secured) plan, the circumstances under which the charge may be imposed, including the amount of the charge or explanation of how the charge is determined. For finance charges, a statement of when finance charges begin to accrue, including an explanation of whether or not any time period exists within which any credit extended may be repaid without incurring a finance charge. If such a time period is provided, a creditor may, at its option and without disclosure, impose no finance charge when payment is received after the time period's expiration (§1026.6(b)(3)(i)).
 - z. *Disclosure of rates for open-end (not home-secured) plans.* Determine that the creditor disclosed, as applicable, for each periodic rate that may be used to calculate interest (§1026.6(b)(4)(i)):
 - i. the rate (expressed as a periodic rate and a corresponding APR),
 - ii. the range of balances to which the rate is applicable,
 - iii. the type of transaction to which the periodic rate applies,
 - iv. an explanation of the method used to determine the balance to which the rate is applied.
 - aa. *Variable-rate accounts.* For interest rate changes that are tied to increases in an index or formula (variable-rate accounts) determine that the following are specifically set forth in the account agreement (§1026.6(b)(4)(ii)):
 - i. the fact that the annual percentage rate may increase
 - ii. how the rate is determined, including the margin
 - iii. the circumstances under which the rate may increase
 - iv. the frequency with which the rate may increase
 - v. any limitation on the amount the rate may change
 - vi. the effect(s) of an increase
 - vii. except as specified in paragraph (b)(4)(ii)(H) of this section, a rate is accurate if it is a rate as of a specified date and this rate was in effect within the last 30 days before the disclosures are provided
- bb. *Rate changes not due to index or formula.* For interest rate changes that are specifically set forth in the account agreement and not tied to increases in an index or formula, determine that the creditor discloses (§1026.6(b)(4)(iii)):
- i. the initial rate (expressed as a periodic rate and a corresponding APR)
 - ii. how long the initial rate will remain in effect and the specific events that cause the initial rate to change
 - iii. the rate (expressed as a periodic rate and a corresponding APR) that will apply when the initial rate is no longer in effect and any limitation on the time period the new rate will remain in effect
 - iv. the balances to which the new rate will apply
 - v. the balances to which the current rate at the time of the change will apply
- cc. *Voluntary credit insurance, debt cancellation, or debt suspension.* Determine that the creditor disclosed the applicable disclosures if the creditor offers optional credit insurance, debt cancellation, or debt suspension coverage (§1026.6(b)(5)(i)).
- dd. *Security interests.* Determine that the creditor disclosed the fact that the creditor has or will acquire a security interest in the property purchased under the plan, or in other property identified by item or type (§1026.6(b)(5)(ii)).
- ee. *Statement of billing rights.* Determine that the creditor disclosed a statement that outlines the consumer's rights and the creditor's responsibilities (§1026.6(b)(5)(iii)).

Periodic Statement Disclosures—Section 1026.7

1. Rules affecting home-equity plans. For home-equity plans subject to the requirements of

section 1026.40, determine that the creditor disclosed on the periodic statement items 1 through 10 below (§1026.7(a)):

NOTE: The requirements of section 1026.7(a) apply only to home-equity plans subject to the requirements of section 1026.40. Alternatively, a creditor subject to the rules affecting home-equity plans may, at its option, comply with any of the requirements of section 1026.7(b); however, any creditor that chooses not to provide a disclosure under section 1026.7(a)(7) must comply with section 1026.7(b)(6).

- a. *Previous balance.* The account balance outstanding at the beginning of the billing cycle (§1026.7(a)(1)).
- b. *Identification of transactions.* An identification of each credit transaction in accordance with section 1026.8 (1026.7(a)(2)).
- c. *Credits.* Any credit to the account during the billing cycle, including the amount and the date of crediting. The date need not be provided if a delay in accounting does not result in any finance or other charge (§1026.7(a)(3)).
- d. *Periodic rates.* Each periodic rate that may be used to compute the finance charge, the range of balances to which it is applicable, and the corresponding annual percentage rate. If different periodic rates apply to different types of transactions, the types of transactions to which the periodic rates apply shall also be disclosed. For variable-rate plans, the fact that the periodic rate(s) may vary (§1026.7(a)(4)).

NOTE: If no finance charge is imposed when the outstanding balance is less than a certain amount, the creditor is not required to disclose that fact, or the balance below which no finance charge will be imposed.

NOTE: Further, an annual percentage rate that differs from the rate that would otherwise apply and is offered only for a promotional period need not be disclosed except in periods in which the offered rate is actually applied.

- e. *Balance on which finance charge computed.* The amount of the balance to which a periodic rate was applied and an explanation of how that balance was determined. When a balance is determined without first deducting all credits and payments made during the billing cycle, the fact and the amount of the credits and payments shall be disclosed (§1026.7(a)(5)).

- f. *Amount of finance charge and other charges* (§1026.7(a)(6))

- i. *Finance charges.* The amount of any finance charge debited or added to the account during the billing cycle, using the term finance charge. Determine that the components of the finance charge are individually itemized and identified to show the amount(s) due to the application of any periodic rates and the amounts(s) of any other type of finance charge.

NOTE: If there is more than one periodic rate, the amount of the finance charge attributable to each rate need not be separately itemized and identified (§1026.7(a)(6)(i)).

- ii. *Other charges.* The amounts, itemized and identified by type, of any charges other than finance charges debited to the account during the billing cycle (§1026.7(a)(6)(ii)).

NOTE: Creditors may comply with paragraphs (a)(6) of section 1026.7, or with paragraph (b)(6) of section 1026.7, at their option.

- g. *Annual percentage rate.* At a creditor's option, when a finance charge is imposed during the billing cycle, the annual percentage rate(s) determined under section 1026.14(c) using the term annual percentage rate (§1026.7(a)(7)).
- h. *Grace period.* The date by which or the time period within which the new balance or any portion of the new balance must be paid to avoid additional finance charges (§1026.7(a)(8)).

- i. *Address for notice of billing errors.* The address to be used for notice of billing errors. Alternatively, the address may be provided on the billing rights statement permitted by section 1026.9(a)(2) (§1026.7(a)(9)).
- j. *Closing date of billing cycle; new balance.* The closing date of the billing cycle and the account balance outstanding on that date (§1026.7(a)(10)).

2. *Rules affecting open-end (not home-secured) plans.* The requirements of paragraph (b) of this section (1 through 14 below) apply only to plans other than home-equity plans subject to the requirements of section 1026.40. For applicable plans, determine that the creditor discloses on the periodic statement (§1026.7(b)):

- a. *Previous balance.* The account balance outstanding at the beginning of the billing cycle (§1026.7(b)(1)).
- b. *Identification of transactions.* An identification of each credit transaction in accordance with section 1026.8 (§1026.7(b)(2)).
- c. *Credits.* Any credit to the account during the billing cycle, including the amount and the date of crediting. The date need not be provided if a delay in crediting does not result in any finance or other charge (§1026.7(b)(3)).
- d. *Periodic rates.* Each periodic rate that may be used to compute the interest charge expressed as an annual percentage rate and using the term Annual Percentage Rate, along with the range of balances to which it is applicable (§1026.7(b)(4)).

NOTE: If no interest charge is imposed when the outstanding balance is less than a certain amount, the creditor is not required to disclose that fact, or the balance below which no interest charge will be imposed. The types of transactions to which the periodic rates apply shall also be disclosed. For variable-rate plans, the fact that the APR may vary; and a promotional rate, as that term is defined in section 1026.16(g)(2)(i), is required to be disclosed only in periods in which the offered rate is actually applied.

- e. *Balance on which finance charge computed.* The amount of the balance to which a periodic rate was applied and an explanation of how that balance was determined, using the term *Balance Subject to Interest Rate* (§1026.7(b)(5)).
- f. *Charges imposed.* The amounts of any charges imposed as part of a plan as stated in section 1026.6(b)(3), grouped together, in proximity to transactions identified under paragraph (b)(2) of this section, substantially similar to Sample G-18(A) in appendix G to this part (§1026.7(b)(6)).
 - i. *Interest.* Finance charges attributable to periodic interest rates, using the term *Interest Charge*, must be grouped together under the heading *Interest Charged*, itemized and totaled by type of transaction, and a total of finance charges attributable to periodic interest rates, using the term *Total Interest*, must be disclosed for the statement period and calendar year to date, using a format substantially similar to Sample G-18(A).
 - ii. *Fees.* Charges imposed as part of the plan other than charges attributable to

periodic interest rates must be grouped together under the heading *Fees*, identified consistent with the feature or type, and itemized, and a total of charges, using the term *Fees*, must be disclosed for the statement period and calendar year to date, using a format substantially similar to Sample G-18(A).

- g. *Change-in-terms and increased penalty rate summary for open-end (not home-secured) plans.* Creditors that provide a change-in-terms notice required by section 1026.9(c), or a rate increase notice required by section 1026.9(g), on or with the periodic statement, must disclose the information in sections 1026.9(c)(2)(iv)(A) and (c)(2)(iv)(B) (if applicable) or section 1026.9(g)(3)(i) on the periodic statement in accordance with the format requirements in section 1026.9(c)(2)(iv)(D), and section 1026.9(g)(3)(ii). See Forms G-18(F) and G-18(G) (§1026.7(b)(7)).
- h. *Grace period.* The date by which or the time period within which the new balance or any portion of the new balance must be paid to avoid additional finance charges. If such a time period is provided, a creditor may, at its option and without disclosure, impose no finance charge if payment is received after the time period's expiration (§1026.7(b)(8)).
- i. *Address for notice of billing errors.* The address to be used for notice of billing errors. Alternatively, the address may be provided on the billing rights statement permitted by section 1026.9(a)(2) (§1026.7(b)(9)).
- j. *Closing date of billing cycle; new balance.* The closing date of the billing cycle and the account balance outstanding on that date disclosed in accordance with section 1026.7(b)(13) (§1026.7(b)(10)).
- k. *Due date; late payment costs.* With the exception of periodic statements provided solely for charge cards and periodic statements provided for a charged-off account where payment of the entire account balance is due immediately, determine that the creditor disclosed (in accordance with section 1026.7(b)(13)) for a credit card account under an open-end (not home-secured) consumer credit plan
 - i. the due date for a payment (the due date must be the same day of the month for each billing cycle) (§1026.7(b)(11)(i)(A));
 - ii. the amount of any late payment fee and any increased periodic rate(s) (expressed as an annual percentage rate (s)) that may be imposed on the account

as a result of a late payment. If a range of late payment fees may be assessed, verify that the card issuer either states a range of fees or the highest fee and an indication that the fee imposed could be lower (§1026.7(b)(11)(i)(B)).

NOTE: If the rate may be increased for more than one feature or balance, the card issuer may state the range of rates or the highest rate that could apply and at the issuer's option an indication that the rate imposed could be lower.

NOTE: Further, with the exception of the negative or no amortization disclosures required by section 1026.7(b)(12)(ii), the repayment disclosures in section 1026.7(b)(12) (as listed in step 12 below) are not required for

- iii. charge card accounts that require payment of outstanding balances in full at the end of each billing cycle;
 - iv. a billing cycle immediately following two consecutive billing cycles in which the consumer paid the entire balance in full, had a zero outstanding balance or had a credit balance; and
 - v. a billing cycle where paying the minimum payment due for that billing cycle will pay the entire outstanding balance on the account for that billing cycle.
- I. Given those exceptions above, determine that the card issuer disclosed on the periodic statement section 1026.7(b)(12):
- i. the following statement with a bold heading: “**Minimum Payment Warning:** If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance” (§1026.7(b)(12)(i)(A));
 - ii. the minimum payment repayment estimate, as described in appendix M1 to this part.

NOTE: If the minimum payment repayment estimate is less than two years, determine that the card issuer disclosed the estimate in months. Otherwise, the estimate must be disclosed in years and rounded to the nearest whole year (§1026.7(b)(12)(i)(B)).

- iii. the minimum payment total cost estimate, as described in appendix M1 to this part, rounded to the nearest whole dollar or to the nearest cent, at the card issuer's option (§1026.7(b)(12)(i)(C));

iv. a statement that the minimum payment repayment estimate and the minimum payment total cost estimate are based on the current outstanding balance shown on the periodic statement. A statement that the minimum payment repayment estimate and the minimum payment total cost estimate are based on the assumption that only minimum payments are made and no other amounts are added to the balance (§1026.7(b)(12)(i)(D));

v. a toll-free telephone number where the consumer may obtain from the card issuer information about credit counseling services (§1026.7(b)(12)(i)(E)); and

vi. the disclosures required for section 1026.7(b)(12)(i)(F)(1):

A. the estimated monthly payment for repayment in 36 months, as described in appendix M1 to this part. The estimated monthly payment for repayment in 36 months must be rounded to the nearest whole dollar or to the nearest cent, at the card issuer's option (§1026.7(b)(12)(i)(F)(1)(i));

B. a statement that the card issuer estimates that the consumer will repay the outstanding balance shown on the periodic statement in three years if the consumer pays the estimated monthly payment for three years (§1026.7(b)(12)(i)(F)(1)(ii));

C. the total cost estimate for repayment in 36 months, as described in appendix M1 to this part. The total cost estimate for repayment in 36 months must be rounded to the nearest whole dollar or to the nearest cent, at the card issuer's option (§1026.7(b)(12)(i)(F)(1)(iii)); and

D. the savings estimate for repayment in 36 months, as described in appendix M1 to this part. The savings estimate for repayment in 36 months must be rounded to the nearest whole dollar or to the nearest cent, at the card issuer's option (§1026.7(b)(12)(i)(F)(1)(iv)).

NOTE: The disclosures (A through D above) required for section 1026.7(b)(12)(i)(F)(1) do not apply to a periodic statement in any of the following circumstances:

- (1) the minimum payment repayment

- estimate that is disclosed on the periodic statement pursuant to paragraph (b)(12)(i)(B) of this section after rounding is three years or less;
- (2) the estimated monthly payment for repayment in 36 months, as described in appendix M1 to this part, rounded to the nearest whole dollar or nearest cent that is calculated for a particular billing cycle is less than the minimum payment required for the plan for that billing cycle; and
- (3) a billing cycle where an account has both a balance in a revolving feature where the required minimum payments for this feature will not amortize that balance in a fixed amount of time specified in the account agreement and a balance in a fixed repayment feature where the required minimum payment for this fixed repayment feature will amortize that balance in a fixed amount of time specified in the account agreement which is less than 36 months.
- vii. If negative or no amortization occurs when calculating the minimum payment estimate as described in appendix M1, determine that the card issuer provides the following disclosures on each periodic statement instead of the disclosures set forth in section 1026.7(b)(12)(i) (1026.7(b)(12)(ii)):
- A. **“Minimum Payment Warning:** Even if you make no more charges using this card, if you make only the minimum payment each month we estimate you will never pay off the balance shown on this statement because your payment will be less than the interest charged each month” (§1026.7(b)(12)(ii)(A));
- B. “If you make more than the minimum payment each period, you will pay less in interest and pay off your balance sooner” (§1026.7(b)(12)(ii)(B));
- C. the estimated monthly payment for repayment in 36 months rounded to the nearest whole dollar or to the nearest cent, at the creditor’s option (§1026.7(b)(12)(ii)(C));
- D. a statement that the card issuer estimates that the consumer will re-pay the outstanding balance shown on the periodic statement in three years if the consumer pays the estimated monthly payment each month for three years (§1026.7(b)(12)(ii)(D)); and
- E. a toll-free telephone number where the consumer may obtain from the card issuer information about credit counseling services consistent with section 1026.7(b)(12)(iv) (§1026.7(b)(12)(ii)(E)).
- viii. Verify that the items required to be disclosed, as addressed in the procedures in step 12 above (required by section 1026.7(b)(12)) are disclosed in accordance with the format requirements of section 1026.7(b)(13) and are substantially similar to the samples provided in appendix G of Regulation Z.
- ix. Determine that a card issuer provides (to the extent available from the United States Trustee or a bankruptcy administrator) through the disclosed toll-free telephone number the name, street address, telephone number, and website address for at least three organizations that have been approved by the United States Trustee or a bankruptcy administrator to provide credit counseling services in either the state in which the billing address for the account is located or the state specified by the consumer (§1026.7(b)(12)(iv)(A)).
- x. Determine that the card issuer at least annually updates the credit counseling information it discloses for consistency with the information available from the United States Trustee or a bankruptcy administrator (§1026.7(b)(12)(iv)(B)).
- m. Determine that the card issuer provided periodic statement disclosures according to the following format requirements (§1026.7(b)(13)):
- i. the due date is disclosed on the front of the first page of the periodic statement and that the amount of the late payment fee and the APR(s) are stated in close proximity thereto;
- ii. the ending balance and the repayment disclosures (required by paragraph (b)(12) of section 1026.7 are disclosed closely proximate to the minimum payment due;
- iii. the due date, late payment fee and APR, ending balance, minimum payment due,

and repayment disclosures are grouped together.

NOTE: Sample G-18(D) in appendix G of Regulation Z sets forth an example of how these terms may be grouped.

- n. For accounts with an outstanding balance subject to a deferred interest or similar program, determine that the creditor disclosed the date by which that outstanding balance must be paid in full in order to avoid the obligation to pay finance charges on such balance on the front of any page of each periodic statement issued during the deferred interest period beginning with the first periodic statement issued during the deferred interest period that reflects the deferred interest or similar transaction. The disclosure provided pursuant to this paragraph must be substantially similar to Sample G-18(H) in appendix G to this part (§1026.7(b)(14)).

Subsequent Disclosure Requirements—Section 1026.9

1. Determine whether the creditor mailed or delivered the billing rights statement at least once per calendar year, at intervals of not less than 6 months or more than 18 months, customers and whether the institution used the short-form notice with each periodic statement (§1026.9(a)(1)).

NOTE: As an alternative to the annual billing rights statement (§1026.9(a)(1)), the creditor may mail or deliver, on or with each periodic statement, a statement substantially similar to Model Form G-4 or Model Form G-4(A) in appendix G to this part, as applicable. Creditors offering home-equity plans subject to the requirements of section 1026.40 may use either Model Form, at their option (§1026.9(a)(2)).

2. If, 30 days after mailing or delivering the account-opening disclosures under sections 1026.6(a)(1) or (b)(3)(ii)(A), the creditor adds a credit feature or furnishes a credit access device (other than as a renewal, resupply, or the original issuance of a credit card, or except with regard to checks that access a credit card account) on the same finance charge terms, determine that the creditor discloses, before the consumer uses the feature or device for the first time, that it is for use in obtaining credit under the terms previously disclosed (§1026.9(b)(1)).
3. Determine that, except with regard to checks that access a credit card account, whenever a

credit feature is added or a credit access device is mailed or delivered to the consumer, and the finance charge terms for the feature or device differ from disclosures previously given, the disclosures required by sections 1026.6(a)(1) or (b)(3)(ii)(A) that are applicable to the added feature or device are given before the consumer uses the feature or device for the first time (§1026.9(b)(2)).

4. *Checks that access a credit card account.* For open-end plans not subject to the requirements of section 1026.40, if checks that can be used to access a credit card account are provided more than 30 days after account-opening disclosures under section 1026.6(b) are mailed or delivered, or are provided within 30 days of the account-opening disclosures and the finance charge terms for the checks differ from the finance charge terms previously disclosed, determine that the creditor discloses on the front of the page containing the checks the following terms in the form of a table with the headings, content, and form substantially similar to Sample G-19 in appendix G to this part (§1026.9(b)(3)):
 - a. If a promotional rate applies to the checks, determine that the creditor discloses
 - i. the promotional rate and the time period during which the promotional rate will remain in effect (§1026.9(b)(3)(i)(A)(1));
 - ii. the type of rate that will apply (such as whether the purchase or cash advance rate applies) after the promotional rate expires, and the annual percentage rate that will apply after the promotional rate expires. For a variable-rate account, a creditor must disclose an annual percentage rate based on the applicable index or formula in accordance with the accuracy requirements set forth in paragraph (b)(3)(ii) of this section (§1026.9(b)(3)(i)(A)(2)); and
 - iii. the date, if any, by which the consumer must use the checks in order to qualify for the promotional rate. If the creditor will honor checks used after such date but will apply an annual percentage rate other than the promotional rate, the creditor must disclose this fact and the type of annual percentage rate that will apply if the consumer uses the checks after such date (§1026.9(b)(3)(i)(A)(3)).
 - b. If any APR required to be disclosed pursuant to section 1026.9(b)(3)(i) is a variable rate, determine that the creditor also disclosed the fact that the rate may vary and

how the rate is determined. Determine that the creditor identified the type of index or formula used in setting the rate. Determine that the creditor does not disclose the value of the index and the amount of the margin that are used to calculate the variable rate in the table and that any applicable limitations on rate increases are not included in the table (§1026.9(b)(3)(iii)).

- c. If no promotional rate applies to the checks, determine that the creditor discloses
 - i. the type of rate that will apply to the checks and the applicable annual percentage rate. For a variable-rate account, a creditor must disclose an annual percentage rate based on the applicable index or formula in accordance with the accuracy requirements set forth in section 1026.9(b)(3)(ii) (§1026.9(b)(3)(i)(B)(1)).
- d. Determine that the creditor discloses
 - i. any transaction fees applicable to the checks disclosed under section 1026.6 (b)(2)(iv) (§1026.9(b)(3)(i)(C));
 - ii. whether or not a grace period is given within which any credit extended by use of the checks may be repaid without incurring a finance charge due to a periodic interest rate. When disclosing whether there is a grace period, the phrase "How to Avoid Paying Interest on Check Transactions" shall be used as the row heading when a grace period applies to credit extended by the use of the checks. When disclosing the fact that no grace period exists for credit extended by use of the checks, the phrase "Paying Interest" shall be used as the row heading (§1026.9(b)(3)(i)(D)).

NOTE: The disclosures in section 1026.9(b)(3)(i) must be accurate as of the time the disclosures are mailed or delivered. A variable APR is accurate if it was in effect within 60 days of when the disclosures are mailed or delivered (§1026.9(b)(3)(ii)).

5. Determine, for home-equity plans subject to the requirements of section 1026.40
 - a. whenever any term required to be disclosed under section 1026.6(a) is changed or the required minimum periodic payment is increased, the creditor mailed or delivered written notice of the change at least 15 days prior to the effective date of the change. If the consumer agreed to the

change, determine that notice was provided before the change went into effect (§1026.9(c)(1)(i)).

- b. if the creditor prohibits additional extensions of credit or reduces the credit limit that the creditor mailed or delivered notice of the action not later than three business days after such action is taken. The notice must contain the specific reasons for the action (§1026.9(c)(1)(iii)).

NOTE: Notice is not required when the change involves a reduction of any component of a finance charge or other charge or when the change results from an agreement involving a court proceeding (§1026.9 (c)(1)(ii)).

6. For plans other than home-equity plans subject to the requirements of section 1026.40, except as provided in sections 1026.9(c)(2)(i)(B), (c) (2)(iii), and (c)(2)(v), when a significant change in account terms as described in section 1026.9(c)(2)(ii) is made, determine that the creditor provides a written notice of the change at least 45 days prior to the effective date of the change to each consumer who may be affected (§1026.9(c)(2)(i)(A)).
7. The 45-day timing requirement, however, does not apply if the consumer has agreed to a particular change as described in section 1026.9(c)(2)(i)(B). For these instances, however, determine that the creditor provided a notice in accordance with the timing requirements of section 1026.9(c)(2)(i)(B) (§1026.9(c) (2)(i)(A)).
8. For open-end (not home-secured) plans, determine that increases in the rate applicable to a consumer's account due to delinquency, default or as a penalty described in section 1026.9(g) that are not due to a change in the contractual terms of the consumer's account are disclosed pursuant to section 1026.9(g) instead of section 1026.9(c)(2) (§1026.9(c)(2) (i)(A)).
9. When a notice of change in terms is required, determine that it is mailed or delivered no later than the effective date of the change, if the consumer agrees to the particular change. Section 1026.9(c)(2)(i)(B) applies only when a consumer substitutes collateral or when the creditor can advance additional credit only if a change relatively unique to that consumer is made, such as the consumer's providing additional security or paying an increased minimum payment amount (§1026.9(c)(2)(i)(B)).

NOTE: The 45-day timing requirements discussed in step f above does not apply in certain narrow circumstances, as described in section 1026.9(c)(2)(i)(B). The following are not considered agreements between the consumer and the creditor for purposes of section 1026.9(c)(2)(i)(B):

- a. the consumer's general acceptance of the creditor's contract reservation of the right to change terms;
 - b. the consumer's use of the account (which might imply acceptance of its terms under state law);
 - c. the consumer's acceptance of a unilateral term change that is not particular to that consumer, but rather is of general applicability to consumers with that type of account; and,
 - d. the consumer's request to reopen a closed account or to upgrade an existing account to another account offered by the creditor with different credit or other features (§1026.9(c)(2)(i)(B)).
10. The 45-day advance notice requirement applies to changes to the following terms (§1026.9 (c)(2)(ii)):
- a. APR increase, including each periodic rate that may be used to compute the finance charge on outstanding balances for purchases, a cash advance, or a balance transfer (such rates may include any discounted initial rate, premium initial rate, or penalty rate that may be applied to the account);
 - i. variable-rate information;
 - ii. discounted or premium initial rates;
 - iii. penalty rates;
 - b. fees for issuance or availability, including any fee based upon account activity or inactivity;
 - c. fixed finance charge or minimum interest charge, if it exceeds \$1.00;
 - d. transaction charge for purchases;
 - e. grace period;
 - f. balance computation method;
 - g. cash advance fee;
 - h. late payment fee;
 - i. over-the-limit fee;
 - j. balance transfer fee;
 - k. returned payment fee;

- i. required insurance, debt cancellation, or debt suspension coverage; and
 - m. increase in required minimum periodic payment, or the acquisition of a security interest.
11. Except as provided in section 1026.9(c)(2)(vi), if a creditor increases any component of a charge, or introduces a new charge, required to be disclosed under section 1026.6(b)(3) that is not a significant change in account terms as described in paragraph (c)(2)(ii) of this section, determine that the creditor either (§1026.9(c)(2)(iii))
 - a. complies with the requirements of section 1026.9(c)(2)(i), or
 - b. provides notice of the amount of the charge before the consumer agrees to or becomes obligated to pay the charge, at a time and in a manner that a consumer would be likely to notice the disclosure of the charge, either in writing or orally.
12. Ensure that the written change-in-terms notice contains the following disclosures (§1026.9(c)(2)(iv)(A)):
 - a. a summary of the changes made to terms required by sections 1026.6(b)(1) and (b)(2) or section 1026.6(b)(4), a description of any increase in the required minimum payment, and a description of any security interests being acquired by the creditor;
 - b. a statement that changes are being made to the account;
 - c. for accounts other than credit card accounts under an open-end (not home-secured) consumer credit plan subject to section 1026.9(c)(2)(iv)(B), a statement indicating that the consumer has the right to opt out of the changes, if applicable, and a reference to the opt-out right provided in the notice, if applicable;
 - d. the date the changes will become effective;
 - e. if applicable, a statement that the consumer may find additional information about the summarized changes, and other changes, in the notice;
 - f. in the case of a rate change, other than a penalty rate, a statement that if a penalty rate currently applies to the consumer's account, the new rate described in the notice will not apply to the consumer's account until the consumer's account balances are no longer subject to the penalty rate;

- g. if the change in terms being disclosed is an increase in the APR, the balances to which the increased rate will apply. If applicable, creditors should disclose a statement identifying the balances to which the current rate will apply as of the effective date of the change;
 - h. if the change in terms being disclosed is an increase in an annual percentage rate for a credit card account under an open-end (not home-secured) consumer credit plan, a statement of no more than four principal reasons for the rate increase, listed in their order of importance.
- NOTE: The disclosed reasons must accurately describe the principal factors actually considered by the card issuer in increasing the rate (Comment 1026.9(c)(2)(iv)-11).
13. In addition to the disclosures in section 1026.9(c)(2)(iv)(A), if a card issuer makes a significant change in account terms on a credit card account under an open-end (not home-secured) consumer credit plan, determine that the creditor provides the following information on the notice provided pursuant to section 1026.9(c)(2)(i) (1026.9(c)(2)(iv)(B)):
- NOTE: This information is not required to be provided in the case of an increase in the required minimum periodic payment, an increase in a fee as a result of a reevaluation of a determination made under section 1026.52(b)(1)(i) or an adjustment to the safe harbors in section 1026.52(b)(1)(ii) to reflect changes in the Consumer Price Index, a change in an annual percentage rate applicable to a consumer's account, an increase in a fee previously reduced consistent with 50 U.S.C. app. 527 (Servicemembers Civil Relief Act) or similar federal or state statute or regulation if the amount of the increased fee does not exceed the amount of that fee prior to the reduction, or when the change results from the creditor not receiving the consumer's required minimum periodic payment within 60 days after the due date for that payment.
- a. a statement that the consumer has the right to reject the change or changes prior to the effective date of the changes, unless the consumer fails to make a required minimum periodic payment within 60 days after the due date for that payment;
 - b. instructions for rejecting the change or changes, and a toll-free telephone number that the consumer may use to notify the creditor of the rejection; and
- c. if applicable, a statement that if the consumer rejects the change or changes, the consumer's ability to use the account for further advances will be terminated or suspended.
14. *Changes resulting from failure to make minimum periodic payment within 60 days from due date for credit card accounts under an open-end (not home-secured) consumer credit plan.* For a credit card account under an open-end (not home-secured) consumer credit plan (§1026.9(c)(2)(iv)(C)):
- a. If the significant change required to be disclosed pursuant to section 1026.9(c)(2)(i) of this section is an increase in an annual percentage rate or a fee or charge required to be disclosed under sections 1026.6(b)(2)(ii), (b)(2)(iii), or (b)(2)(xii) based on the consumer's failure to make a minimum periodic payment within 60 days from the due date for that payment, determine that the notice provided pursuant to paragraph (c)(2)(i) of this section states that the increase will cease to apply to transactions that occurred prior to or within 14 days of provision of the notice, if the creditor receives six consecutive required minimum periodic payments on or before the payment due date, beginning with the first payment due following the effective date of the increase.
 - b. If the significant change required to be disclosed pursuant to section 1026.9(c)(2)(i) is an increase in a fee or charge required to be disclosed under sections 1026.6(b)(2)(ii), (b)(2)(iii), or (b)(2)(xii) based on the consumer's failure to make a minimum periodic payment within 60 days from the due date for that payment, determine that the notice provided pursuant to section 1026.9(c)(2)(i) also states the reason for the increase.
15. Determine that the summary of changes described in section 1026.9(c)(2)(iv)(A)(1) is in a tabular format (except for a summary of any increase in the required minimum periodic payment, a summary of a term required to be disclosed under section 1026.6(b)(4) that is not required to be disclosed under section 1026.6(b)(1) and (b)(2), or a description of any security interest being acquired by the creditor), with headings and format substantially similar to any of the account-opening tables found in G-17 in appendix G. Determine that the table discloses the changed term and information relevant to the change, if that relevant information is required by section 1026.6(b)(1) and (b)(2). Determine that the new

- terms are described in the same level of detail as required when disclosing the terms under section 1026.6(b)(2) (§1026.9(c)(2)(iv)(D)(1)).
16. If a notice required by section 1026.9(c)(2)(i) (change in terms) is included on or with a periodic statement, determine that the information described in section 1026.6(c)(2)(iv)(A)(1) is disclosed on the front of any page of the statement. Determine that the summary of changes described in section 1026.9(c)(2)(iv)(A)(1) immediately follows the information described in section 1026.9(c)(2)(iv)(A)(2) through section 1026.9(c)(2)(iv)(A)(7) and, if applicable, sections 1026.9(c)(2)(iv)(A)(8), 1026.9(c)(2)(iv)(B), and 1026.9(c)(2)(iv)(C), and is substantially similar to the format shown in Sample G-20 or G-21 in appendix G to this part (§1026.9(c)(2)(iv)(D)(2)).
 17. If a notice required by section 1026.9(c)(2)(i) is not included on or with a periodic statement, determine that the information described in section 1026.9(c)(2)(iv)(A)(1) is disclosed on the front of the first page of the notice or segregated on a separate page from other information given with the notice (§1026.9(c)(2)(iv)(D)(3)).
- NOTE: The summary of changes required to be in a table pursuant to paragraph (c)(2)(iv)(A)(1) of this section may be on more than one page, and may use both the front and reverse sides, so long as the table begins on the front of the first page of the notice and there is a reference on the first page indicating that the table continues on the following page.
18. Determine that the summary of changes described in section 1026.9(c)(2)(iv)(A)(1) immediately follows the information described in section 1026.9(c)(2)(iv)(A)(2) through section 1026.9(c)(2)(iv)(A)(7) and, if applicable, sections 1026.9(c)(2)(iv)(A)(8), (c)(2)(iv)(B), and (c)(2)(iv)(C), of this section, and is substantially similar to the format shown in Sample G-20 or G-21 in appendix G to this part (§1026.9(c)(2)(iv)(D)(3)).
 19. For open-end plans (other than home-equity plans subject to the requirements of section 1026.40), note that a creditor is not required to provide notice under this section if (§1026.9(c)(2)(v))
 - a. the change involves
 - i. charges for documentary evidence;
 - ii. a reduction of any component of a finance or other charge;
 - iii. a suspension of future credit privileges (except as provided in section 1026.9(c)(2)(vi))
- (c)(2)(vi) of this section) or termination of an account or plan;
- iv. when the change results from an agreement involving a court proceeding;
 - v. when the change is an extension of the grace period; or
 - vi. the change is applicable only to checks that access a credit card account and the changed terms are disclosed on or with the checks in accordance with section 1026.9(b)(3) (§1026.9(c)(2)(v)(A));
- b. the change is an increase in an APR upon the expiration of a specified period of time, provided that (§1026.9(c)(2)(v)(B))
 - i. prior to commencement of that period, the creditor disclosed in writing to the consumer, in a clear and conspicuous manner, the length of the period and the APR or fee that would apply after expiration of the period;
 - ii. the disclosure of the length of the period and the APR or fee that would apply after expiration of the period are set forth in close proximity and in equal prominence to the first listing of the disclosure of the rate or fee that applies during the specified period of time; and
 - iii. the APR or fee that applies after that period does not exceed the rate disclosed pursuant to section 1026.9(c)(2)(v)(B)(1) or, if the rate disclosed pursuant to section 1026.9(c)(2)(v)(B)(1) was a variable rate, the rate following any such increase is a variable rate determined by the same formula (index and margin) that was used to calculate the variable rate disclosed pursuant to section 1026.9(c)(2)(v)(B)(1);
 - c. the change is an increase in a variable APR in accordance with a credit card or other account agreement that provides for changes in the rate according to operation of an index that is not under the control of the creditor and is available to the general public (§1026.9(c)(2)(v)(C)); or
 - d. the change is an increase in an APR, a fee or charge required to be disclosed under sections 1026.6(b)(2)(ii), (b)(2)(iii), (b)(2)(viii), (b)(2)(ix) or (b)(2)(xii), or the required minimum periodic payment due to the completion of a workout or temporary hardship arrangement by the consumer or the consumer's failure to comply with the terms of such an arrangement, provided that (§1026.9(c)(2)(v)(D))

- i. the APR or fee or charge applicable to a category of transactions or the required minimum periodic payment following any such increase does not exceed the rate or fee or charge or required minimum periodic payment that applied to that category of transactions prior to commencement of the arrangement or, if the rate that applied to a category of transactions prior to the commencement of the workout or temporary hardship arrangement was a variable rate, the rate following any such increase is a variable rate determined by the same formula (index and margin) that applied to the category of transactions prior to commencement of the workout or temporary hardship arrangement; and
 - ii. the creditor has provided the consumer, prior to the commencement of such arrangement, with a clear and conspicuous disclosure of the terms of the arrangement (including any increases due to such completion or failure). This disclosure must generally be provided in writing. However, a creditor may provide the disclosure of the terms of the arrangement orally by telephone, provided that the creditor mails or delivers a written disclosure of the terms of the arrangement to the consumer as soon as reasonably practicable after the oral disclosure is provided.
20. For open-end plans that are not subject to the requirements of section 1026.40, if a creditor decreases the credit limit on the account, determine that advance notice of the decrease is provided before an over-the-limit fee or a penalty rate can be imposed solely as a result of the consumer exceeding the newly decreased credit limit. Determine that notice is provided in writing or orally at least 45 days prior to imposing the over-the-limit fee or penalty rate and that it states that the credit limit on the account has been or will be decreased (§1026.9(c)(2)(vi)).
21. Determine that the disclosures contained in sections 1026.60(b)(1) through (b)(7) are provided if the account is renewed and (1) the card issuer imposes an annual or other periodic fee for the renewal or (2) the card issuer has changed or amended any term of the account required to be disclosed under sections 1026.6(b)(1) and (b)(2) that has not previously been disclosed to the consumer. Additionally, the disclosure provided upon renewal must disclose how and when the cardholder may terminate the credit to avoid paying the renewal fee, if any (§1026.9(e)).
22. For plans other than home-equity plans subject to the requirements of section 1026.40 (except as provided in section 1026.9(g)(4)), determine that the creditor provides a written notice to each consumer who may be affected when (§1026.9(g)(1))
 - a. a rate is increased due to the consumer's delinquency or default; or
 - b. a rate is increased as a penalty for one or more events specified in the account agreement, such as making a late payment or obtaining an extension of credit that exceeds the credit limit.
23. Whenever any notice is required to be given pursuant to paragraph (g)(1) of this section, determine that the creditor provided written notice of the increase in rates at least 45 days prior to the effective date of the increase. The notice must be provided after the occurrence of the events described in sections 1026.9(g)(1)(i) and (g)(1)(ii) that trigger the imposition of the rate increase (§1026.9(g)(2)).
24. If a creditor is increasing the rate due to delinquency or default or as a penalty, determine that the creditor provided the following information on the notice sent pursuant to section 1026.9(g)(1) (§1026.9(g)(3)(i)(A)):
 - a. a statement that the delinquency or default rate or penalty rate, as applicable, has been triggered;
 - b. the date on which the delinquency or default rate or penalty rate will apply;
 - c. the circumstances under which the delinquency or default rate or penalty rate, as applicable, will cease to apply to the consumer's account, or that the delinquency or default rate or penalty rate will remain in effect for a potentially indefinite time period;
 - d. a statement indicating to which balances the delinquency or default rate or penalty rate will be applied;
 - e. if applicable, a description of any balances to which the current rate will continue to apply as of the effective date of the rate increase, unless a consumer fails to make a minimum periodic payment within 60 days from the due date for that payment; and
 - f. for a credit card account under an open-end (not home-secured) consumer credit plan, a statement of no more than four principal reasons for the rate increase, listed in their order of importance.

NOTE: The disclosed reasons must accurately describe the principal factors actually considered by the card issuer in increasing the rate (Comment 1026.9(g)-7).

25. For a credit card account under an open-end (not home-secured) consumer credit plan, if the rate increase required to be disclosed pursuant to paragraph (g)(1) of this section is an increase pursuant to section 1026.55(b)(4) based on the consumer's failure to make a minimum periodic payment within 60 days from the due date for that payment, determine that the notice provided pursuant to paragraph (g)(1) of this section also states that the increase will cease to apply to transactions that occurred prior to or within 14 days of provision of the notice, if the creditor receives six consecutive required minimum periodic payments on or before the payment due date, beginning with the first payment due following the effective date of the increase (§1026.9(g)(3)(i)(B)).
26. If a notice required by section 1026.9(g)(1) (*Increase in rates due to delinquency or default or as a penalty*) is included on or with a periodic statement, determine that the disclosure described in paragraph (g)(3)(i) is in the form of a table and provided on the front of any page of the periodic statement, above the notice described in paragraph (c)(2)(iv) of this section if that notice is provided on the same statement (§1026.9(g)(3)(ii)(A)).
27. If a notice required by section 1026.9(g)(1) (increase in rates) is not included on or with a periodic statement, determine that the information described in section 1026.9(g)(3)(i) is disclosed on the front of the first page of the notice. Ensure that only information related to the increase in the rate to a penalty rate is included with the notice.
28. *Exception for decreases in the credit limit.* If a creditor does not provide the 45-day notice under section 1026.9(g)(1) prior to increasing the rate for obtaining an extension of credit that exceeds the credit limit, determine that the creditor provides at least 45 days in advance of

imposing the penalty rate a notice, in writing, that includes (§1026.9(g)(4))

- a. a statement that the credit limit on the account has or will be decreased;
- b. the date on which the penalty rate will apply, if the outstanding balance exceeds the credit limit as of that date;
- c. a statement that the penalty rate will not be imposed on that date, if the outstanding balance does not exceed the credit limit as of that date;
- d. the circumstances under which the penalty rate, if applied, will cease to apply to the account, or that the penalty rate, if applied, will remain in effect for a potentially indefinite period of time;
- e. a statement indicating to which balances the penalty rate may be applied; and
- f. if applicable, a description of any balances to which the current rate will continue to apply as of the effective date of the rate increase, unless the consumer fails to make a minimum periodic payment within 60 days from the due date for that payment.

In addition to this notice, determine that the creditor does not increase the applicable rate to the penalty rate if the outstanding balance does not exceed the credit limit on the date set forth in the notice (§1026.9(g)(4)(ii)).

29. If a notice provided pursuant to section 1026.9(g)(4)(i) is included on or with a periodic statement, determine that the information described in section 1026.9(g)(4)(i) is in the form of a table and provided on the front of any page of the periodic statement (§1026.9(g)(4)(iii)(A)); or,
30. If a notice required by section 1026.9(g)(4)(i) is not included on or with a periodic statement, determine that the information described in section 1026.9(g)(4)(i) is disclosed on the front of the first page of the notice. Determine that only information related to the reduction in credit limit is included with the notice, except that this notice may be combined with a notice described in sections 1026.9(c)(2)(iv) or (g)(1) (§1026.9(g)(4)(iii)(B)).
31. When the consumer is given the right to reject a significant change to an account term prior to the effective date of the change, determine whether the consumer was given the option to reject the change by notifying the creditor of

- the rejection before the effective date of the change (§1026.9(h)(1)).
32. If the creditor was notified of the rejection of a significant change to an account term, determine that the creditor did not
- apply the charge to the account;
 - impose a fee or charge or treat the account as in default solely as a result of the rejection; or
 - require repayment of the balance on the account using a method that is LESS beneficial to the consumer than one of the following methods:
 - the method of repayment for the account on the date on which the creditor was notified of the rejection;
 - an amortization period of not less than five years, beginning no earlier than the date on which the creditor was notified of the rejection; or
 - a required minimum periodic payment that includes a percentage of the balance that is equal to no more than twice the percentage required on the date on which the creditor was notified of the rejection (§1026.9(h)(2)).
- NOTE: These requirements do not apply if the creditor has not received the consumer's required minimum periodic payment within 60 days after the due date for that payment and the creditor has provided timely change in terms disclosures (§1026.9(h)(3)).
33. Determine that a statement of the maximum interest rate that may be imposed during the term of the obligation is made for any dwelling-secured loan in which the APR may increase during the plan (§1026.30(b)).
34. For any open-end mortgage loan (credit transaction that is secured by the principal dwelling of a consumer) that was sold, assigned, or otherwise transferred to the covered person, determine that the covered person notifies the borrower in writing of such transfer, including (§1026.39)
- an identification of the loan that was sold, assigned, or otherwise transferred;
 - the name, address, and telephone number of the covered person who owns the mortgage loan;
 - the date of transfer (either the date of acquisition recognized in the books and records of the covered person or that of the transferring party) identified by the covered person;
- d. the name, address, and telephone number of an agent or party having authority, on behalf of the covered person, to receive notice of the right to rescind and resolve issues concerning the consumer's payments on the mortgage loan;
- e. where transfer of ownership of the debt to the covered person is or may be recorded in public records or, alternatively, that the transfer of ownership has not been recorded in public records at the time the disclosure is provided;
- f. at the option of the covered person, any other relevant information regarding the transaction; and
- g. if there are multiple covered persons, contact information for each of them, unless one of them has been authorized to receive the consumer's notice of the right to rescind and resolve issues concerning the consumer's payments on the loan (§§1026.39(d)-(e)).
- NOTE: This notice of sale or transfer must be provided for any consumer credit transaction that is secured by the principal dwelling of a consumer. This notification is required by the covered person even if the loan servicer remains the same. In addition, if more than one consumer is liable on the obligation, the covered person may mail or deliver the disclosure notice to any consumer who is primarily liable. And, if an acquisition involves multiple covered persons who each acquire a partial interest in the loan pursuant to separate and unrelated agreements, each covered person has a duty to ensure that disclosures related to its acquisition are accurate and provided in a timely manner unless an exception in section 1026.39(c) applies. The parties may, but are not required to, provide a single notice that satisfies the timing and content requirements applicable to each covered person (Comment 1026.39(b)(5)-2).

Disclosure Requirements for Over-the-Limit Transactions—Section 1026.56

- Determine that the oral, written or electronic

"opt-in" notice includes all of the following applicable items (and not any information not specified in or otherwise permitted) (§1026.56(e)(1)):

- a. *Fees.* The dollar amount of any fees or charges assessed by the card issuer on a consumer's account for an over-the-limit transaction;
 - b. *APR(s).* Any increased periodic rate(s) (expressed as an APR(s)) that may be imposed on the account as a result of an over-the-limit transaction; and
 - c. *Disclosure of opt-in right.* An explanation of the consumer's right to affirmatively consent to the card issuer's payment of over-the-limit transactions, including the method(s) by which the consumer may consent.
2. Determine that the written notice informing the consumer of the right to revoke consent following the assessment of an over-the-limit fee or charge describes that right, including the method(s) by which the consumer may revoke consent (§1026.56(e)(2)).

Reverse Mortgage Forms Review Procedures (Both Open- and Closed-End)

1. Determine that the disclosures required for reverse mortgage transactions are substantially similar to the model form in appendix K and include the items below (§1026.33):
 - a. a statement that the consumer is not obligated to complete the reverse mortgage transaction merely because he or she has received the disclosures or signed an application;
 - b. a good faith projection of the total cost of the credit expressed as a table of "total annual loan cost rates" including payments to the consumer, additional creditor compensation, limitations on consumer liability, assumed annual appreciation, and the assumed loan period;
 - c. an itemization of loan terms, charges, the age of the youngest borrower, and the appraised property value;
 - d. an explanation of the table of total annual loan costs rates.

NOTE: Forms that include or involve current transactions, such as change in terms notices, periodic billing statements, rescission notices, and billing error communications, are verified for accuracy when the file review worksheets are completed.

Timing Requirements

1. *Timing Requirements—Open-End Credit.* Review financial institution policies, procedures, and systems to determine, either separately or when completing the actual file review, whether the applicable disclosures listed below are furnished when required by Regulation Z. Take into account products that have different features, such as closed-end loans or credit card accounts that are fixed or variable rate.
 - a. *Credit card application and solicitation disclosures.* On or with the application (§1026.60(b)).
 - b. *HELOC disclosures.* At the time the application is provided or within three business days under certain circumstances (§1026.40(b)).
 - c. *Open-end credit initial disclosures.* Before the first transaction is made under the plan (§1026.5(b)(1)).
 - d. *Cardholder agreement.* Verify that the card issuer sends to the cardholder or otherwise make available to the cardholder a copy of the cardholder's agreement in electronic or paper form no later than 30 days after the issuer receives the cardholder's request (§1026.58(e)(1)(ii)). Determine that the issuer has adequate procedures for ensuring that this requirement is met.
 - e. *Periodic statement disclosures for open-end credit under section 1026.7.* Required if at the end of a billing cycle, the account has a debit or credit balance of \$1 or more or if a finance charge has been imposed (§1026.5(b)(2)(i)). Also, the creditor must adopt reasonable procedures designed to ensure that periodic statements for credit card accounts are mailed or delivered at least 21 days prior to the payment due date and the date on which any grace period expires (for non-credit card open-end credit, there is a 21 day rule if there is a grace period and a 14-day rule if there is no grace period) (§1026.5(b)(2)(ii)(B)(2)).
 - f. *Statement of billing rights.* At least once per year (§1026.9(a)).
 - g. *Supplemental credit devices.* Before the first transaction under the plan (§1026.9(b)).
 - h. *Open-end credit change in significant terms as a result of a change in contractual terms.* Forty-five days prior to the effective change date (§1026.9(c)(2)).
 - i. *Open-end change in terms or rates due to delinquency or default or as a penalty.* Forty-five days prior to the effective change date (§1026.9(g)).

- j. *Finance charge imposed at time of transaction.* Prior to imposing any fee (§1026.9(d)).
 - k. *Disclosures upon renewal of credit or charge card.* Thirty days or one billing cycle, whichever is less before the delivery of the periodic statement on which the renewal fee is charged, or at least 30 days prior to the scheduled renewal date if the creditor has changed or amended any term required to be disclosed under sections 1026.6(b)(1) and (b)(2) that has not previously been disclosed to the consumer (§1026.9(e)).
 - l. *Change in credit account insurance provider.* Certain information 30 days before the change in provider occurs and certain information 30 days after the change in provider occurs. The institution may provide a combined disclosure 30 days before the change in provider occurs (§1026.9(f)).
2. *Timing Requirements—Closed-End Credit Secured by a Dwelling*
- a. Closed-end credit disclosures for transactions not subject to sections 1026.19(e) and (f) must be made before consummation (§1026.17(b)).
 - b. *Disclosures for reverse mortgages.* Several disclosure timing requirements apply to reverse mortgages subject to section 1026.33 and RESPA:
 - i. Determine whether the creditor provides early TIL disclosures within three business days after receiving the consumer's written application. The creditor is required to deliver or mail the early disclosures no later than three business days after receiving the consumer's application and at least seven business days before consummation (§§1026.19(a)(1)(i) and (iii) and 1026.19(a)(2)(i)). No fees may be charged before the consumer receives the early disclosures except for credit report fees (§1026.19(a)). If the APR stated in the early disclosures is not considered accurate under section 1026.22 when compared to the APR at consummation, determine whether the creditor provided corrected disclosures of all changed terms, including the APR, that the consumer received no later than the third business day before consummation and that the creditor delivered or placed in the mail the corrected disclosures not later than the seventh business day before consummation (§§1026.19(a)(2)(i) and (ii)).
 - ii. Determine whether the creditor provides

the disclosures required pursuant to section 1026.33 (and found in paragraph d of the model form in appendix K) either three days prior to consummation (for a closed-end transaction) or prior to the first transaction (for an open-end credit plan) (§1026.31(c)(2)).

NOTE: For closed-end credit transactions secured by a dwelling not subject to the TILA-RESPA rule, the prohibition on charging fees (other than credit report fees) before the consumer receives the early TIL disclosure is more limited than the prohibition for closed-end credit transactions secured by a dwelling that are subject to TILA-RESPA (§1026.19(a)). For TILA-RESPA closed-end transactions, creditors are prohibited from charging fees (other than credit report fees) prior to receipt of disclosures and an intent to proceed with the transaction (§1026.19(e)(2)).

- c. *Disclosures for high-cost mortgages.* Three business days prior to consummation or account opening. If such disclosures became inaccurate due to a change by the creditor, ensure that the creditor provided new, accurate disclosures no later than three business days prior to consummation or account opening (§1026.31(c)(1)).
- d. Disclosures for initial rate change to an adjustable-rate mortgage securing a principal dwelling (other than a transaction subject to sections 1026.19(e) and (f)) with terms of more than one year:
 - i. For adjustable-rate mortgages, creditors, assignees, or servicers are generally required to provide information regarding the first interest rate change to consumers between 210 and 240 days prior to the date the first payment at the new rate is due;

NOTE: If the first payment change occurs within the first 210 days, creditors, assignees, or servicers are required to provide the disclosure at consummation (§1026.20(d)).

NOTE: When examining a creditor that continues to own the loan, an assignee, or a servicer, if the entity states that another entity has the obligation to provide the disclosures, examiners should determine whether the entity takes steps to ensure that the other party

- (the creditor, assignee, or servicer, as applicable) is complying with the obligation to provide the disclosures.
- e. Additional disclosures for adjustable-rate mortgages securing a principal dwelling (other than a transaction subject to sections 1026.19(e) and (f)) with a term of more than one year, where a rate change affects the amount of payment
 - i. for adjustable-rate mortgages where the payment changes with a rate change, disclosures must be provided to consumers between 60 and 120 days before the first payment at the new rate is due;
 - ii. for adjustable-rate mortgages where the payment change is caused by a rate change that is uniformly scheduled every 60 days (or more frequently), disclosures must be provided to consumers between 25 and 120 days before the first payment at the new rate;
 - iii. for adjustable-rate mortgages originated prior to January 10, 2015, where the interest rate and payment are calculated based on an index that is available less than 45 days prior to the change, disclosures must be provided between 25 and 120 days before the first payment at the new rate is due; and
 - iv. for adjustable-rate mortgages where the payment adjustment occurs within 60 days of consummation and the new interest rate after adjustment provided at consummation was an estimate, disclosure are required as soon as practicable, but no later than 25 days prior to the first payment at the new rate is due (§1026.20(c)).
 - f. *Notice of new creditor.* On or before the 30th calendar day following the acquisition (§1026.39).
 - g. For private education loans subject to Sub-part F (§1026.46), determine that
 - i. application or solicitation disclosures were provided on or with any application or solicitation (§1026.46(d)(1)(i));
 - ii. approval disclosures were provided before consummation on or with any notice of approval provided to the consumer (§1026.46(d)(2)); and
 - iii. final disclosures were provided after the consumer accepts the loan and at least three business days prior to disbursing the private education loan funds (§1026.46(d)(3)).
 - h. Determine that the issuer provides a written over-the-limit notice prior to the assessment of any over-the-limit fee or charge on a consumer's account (§1026.56(d)(1)(i)).
 - i. Determine that, if a consumer consents to the card issuer's payment of any over-the-limit transaction by oral or electronic means, the card issuer provides the required written notice immediately prior to obtaining that consent (§1026.56(d)(1)(ii)).
 - j. Determine that the notice confirming the consumer's consent is provided no later than the first periodic statement sent after the consumer has consented to the card issuer's payment of over-the-limit transactions. The creditor must not assess an over-the-limit fee on the consumer's account without first providing written confirmation (§1026.56(d)(2)).
 - k. Determine that the notice providing the consumer notice in writing of the right to revoke consent following the assessment of an over-the-limit fee or charge is provided on the front of any page of each periodic statement that reflects the assessment of an over-the-limit fee or charge on a consumer's account (§1026.56(d)(3)).
 - l. For home-equity plans subject to the requirements of section 1026.40, whenever any term required to be disclosed under section 1026.6(a) is changed or the required minimum periodic payment is increased, determine that the creditor mails or delivers written notice of the change to each consumer who may be affected. Determine that the notice is mailed or delivered at least 15 days prior to the effective date of the change. If the change has been agreed to by the consumer, determine that the notice is given before the effective date of the change (§1026.9(c)(1)(i)).

m. *Notice to restrict credit.* For home-equity plans subject to the requirements of section 1026.40, if the creditor prohibits additional extensions of credit or reduces the credit limit pursuant to sections 1026.40(f)(3)(i) or (f)(3)(vi), determine that the creditor mails or delivers written notice of the action to each consumer who will be affected not later than three business days after the action is taken and contains specific reasons for the action. If the creditor requires the consumer to request reinstatement of credit privileges, determine that the notice states that fact (§1026.9(c)(1)(iii)).

Mortgage Loans Secured by Real Property—Early Disclosures (Loan Estimates)—Section 1026.19(e)

Provision of Disclosures

1. For closed-end consumer loans secured by real property, other than a reverse mortgage subject to section 1026.33, determine whether the creditor provides the consumer with good faith estimates on the Loan Estimate (§1026.37) or if the creditor satisfies its obligation by ensuring that a mortgage broker providing the Loan Estimate complied with all requirements of section 1026.19(e).

NOTE: *Partial exemption.* The special disclosure requirements of section 1026.19(e) do not apply if the loan is (1) a subordinate lien; (2) a loan for buyer assistance such as down payments or closing costs, rehabilitation loans, energy efficiency assistance, or foreclosure prevention; (3) a loan that does not require the payment of interest; (4) a loan for which repayment that is forgiven, deferred for 20 years, or deferred until the property is sold or is no longer the consumer's principal dwelling; or (5) a loan where the total costs of the transaction are less than 1 percent of the loan and include fees only for recording, application, and housing counseling. In addition to these requirements, the creditor must comply with other requirements of Regulation Z, including the disclosures in section 1026.18 (§1026.3(h)).

Timing

1. Determine whether the creditor delivers or places in the mail the Loan Estimate not later than the third business day after receiving the consumer's application. As defined in section 1026.2(a)(3), an application consists of the submission for purposes of obtaining an extension of credit of the consumer's name, income, Social Security number to obtain a credit report, the property address, an estimate of the value of

the property, and the mortgage loan amount sought (§1026.19(e)(1)(iii)(A)).

NOTE: When a consumer uses an online application system that allows the information to be saved, the timing requirements for the Loan Estimate are not triggered until the application is submitted.

2. Determine whether the creditor delivers or places in the mail the Loan Estimate not later than the seventh business day before consummation (other than for transactions secured by a consumer's interest in a timeshare plan) (§1026.19(e)(1)(iii)(B)).

NOTE: Business day is defined differently for purposes of sections 1026.19(e)(1)(iii)(A) and (B). For section 1026.19(e)(1)(iii)(A), business day is defined based on whether the creditor's offices are open to the public for carrying on substantially all of its business functions on that day. For section 1026.19(e)(1)(iii)(B), a business day is all days except Sundays and federal holidays (§1026.2(a)(6)).

3. Determine whether the consumer waived the waiting period before consummation under section 1026.19(e)(1)(iii)(B) by providing a dated written statement describing a bona fide personal financial emergency, specifically modifying or waiving the waiting period, and signed by all the consumers who are primarily liable on the obligation (§1026.19(e)(1)(v)).

NOTE: Preprinted forms for this purpose are prohibited.

Shopping for Settlement Service Providers

1. Determine whether a creditor permits a consumer to shop for a settlement service and, if so, identifies the settlement services the consumer is permitted to shop for. If so, determine whether the creditor provides a written list identifying at least one available provider for each settlement service for which the consumer may shop and stating that the consumer may choose a different provider for that service. Determine that the creditor provides the written list separately from initial Loan Estimate but in accordance with the same timing requirements (§1026.19(e)(1)(vi)).

Pre-disclosure Activity

1. *Fee restriction.* Determine that the creditor does not charge any fees before the consumer receives the Loan Estimate and before the consumer indicated to the creditor an intent to proceed with the transaction, except for bona fide and reasonable credit report fees (§1026.19(e)(2)(i)(A)).

2. *Disclaimer on early estimates.* Determine whether a creditor that provides a consumer with a written estimate of terms or costs specific to that consumer before the consumer receives the Loan Estimate clearly and conspicuously states on the first page in no smaller than 12-point font "Your actual rate, payment, and costs could be higher. Get an official Loan Estimate before choosing a loan," and that the estimate does not use a format or content substantially similar to the Loan Estimate (form H-24 or H-25 of appendix H) (§1026.19(e)(2)(ii)).
3. *Verification of information.* Determine whether the creditor requires a consumer to submit documents verifying information related to the consumer's application before providing the creditor provides the Loan Estimate (§1026.19(e)(2)(iii)).

Permissible Variations

1. Determine whether the creditor disclosed estimated closing costs in good faith and consistent with the best information reasonably available to the creditor at the time the disclosures are provided. The estimated closing costs are in good faith if the amount charged to the consumer at closing does not exceed the estimated closing costs disclosed on the Loan Estimate, unless the following exceptions apply (§1026.19(e)(3)):

Ten Percent Cumulative Increase Permitted

1. Estimates for third-party services or a recording fee are in good faith if
 - a. the aggregate charges do not exceed the aggregate estimate for those charges by more than 10 percent (§1026.19(e)(3)(ii)(A));
 - b. the third-party service charge is not paid to the creditor or affiliate of the creditor (§1026.19(e)(3)(ii)(B)); and
 - c. the creditor permits the consumer to shop for the third-party service (§1026.19(e)(3)(ii)(C)).

Variations Permitted for Certain Charges

1. An estimate of the following is in good faith if it is consistent with the best information reasonably available to the creditor at the time it is disclosed, regardless of whether the amount paid by the consumer exceeds the amount disclosed in the Loan Estimate (§1026.19(e)(3)(iii)):
 - a. prepaid interest (§1026.19(e)(3)(iii)(A));
 - b. property insurance premiums (§1026.19(e)(3)(iii)(B));

- c. amounts placed into an escrow, impound, reserve, or similar account (§1026.19(e)(3)(iii)(C));
- d. charges paid to third-party service providers the consumer selected that are not on the list provided by the creditor (§1026.19(e)(3)(iii)(D)); and
- e. charges paid for third-party services not required by the creditor. These charges may be paid to affiliates of the creditor (§1026.19(e)(3)(iii)(E)).

Revised Loan Estimates

1. Determine whether the creditor provides a revised estimate of a charge for any of the following reasons (§1026.19(e)(3)(iv)):
 - a. *Changed circumstances.* Changed circumstances that cause the estimated settlement charges to increase or, in the case of estimated charges identified in section 1026.19(e)(3)(ii), cause the aggregate amount of such charges to increase by more than 10 percent (§1026.19(e)(3)(iv)(A)). For purposes of this and the following procedure, "changed circumstance" means
 - i. an extraordinary event beyond the control of any interested party or other unexpected event specific to the consumer or transaction (§1026.19(e)(3)(iv)(A)(1)),
 - ii. information specific to the consumer or transaction that the creditor relied upon when providing the Loan Estimate and that was inaccurate or changed after the disclosures were provided (§1026.19(e)(3)(iv)(A)(2)), or
 - iii. new information specific to the consumer or transaction that the creditor did not rely on when providing the original Loan Estimate (§1026.19(e)(3)(iv)(A)(3)).
 - b. *Changed circumstance affecting eligibility.* The consumer is ineligible for an estimated charge previously disclosed because a changed circumstance affected the consumer's creditworthiness or the value of the security for the loan (§1026.19(e)(3)(iv)(B)).
 - c. *Revisions requested by the consumer.* The consumer requests revisions to the credit terms or the settlement that cause an estimated charge to increase (§1026.19(e)(3)(iv)(C)).
 - d. *Interest rate dependent charges.* The points or lender credits change because the interest rate was not locked when the Loan Estimate was provided (§1026.19(e)(3)(iv)(D)).

2. Determine whether, within three business days after the interest rate is locked, the creditor provides a revised version of the Loan Estimate to the consumer with the revised interest rate, the points disclosed pursuant to section 1026.37 (f)(1), lender credits, and any other interest rate dependent charges and terms.
3. Determine whether the consumer indicated an intent to proceed with the transaction more than 10 business days after the Loan Estimate is provided (§1026.19(e)(3)(iv)(E)).
4. Determine whether a creditor issuing a revised Loan Estimate in a new construction loan states clearly and conspicuously that at any time prior to 60 days before consummation, the creditor may issue revised disclosures (§1026.19(e)(3)(iv)(F)).

Provision and Receipt of Revised Disclosures

1. Determine whether the creditor provides a revised Loan Estimate within three business days of receiving information sufficient to establish a reason for a revised estimate and not later than four business days prior to consummation (§1026.19(e)(4)).

NOTE: If not provided to the consumer in person, the revised disclosure is considered to have been received three business days after the creditor delivers or places the revised disclosure in the mail (§1026.19(e)(4)).

Special Information Booklet at Time of Application

1. For purchase loans using the Loan Estimate and Closing Disclosure, determine whether the creditor mailed or delivered a copy of the special information booklet titled "Your Home Toolkit," which was designed by the CFPB to replace the "Shopping for Your Home Loan: Settlement Cost Booklet." The booklet is required by Regulation Z (1026.19(g)) as well as section 5 of RESPA and section 12 CFR 1024.6 of Regulation X. The booklet must be delivered or placed in the mail within three business days after receiving the consumer's application for a purchase transaction, unless the creditor denies the application before the end of the three-business-day period.

NOTE: If the consumer uses a mortgage broker, the mortgage broker must provide the special information booklet and the creditor need not do so (§1026.19(g)).

Mortgage Loans Secured by Real Property—Final Disclosures (Closing Disclosures)—Section 1026.19(f)

Provision of Closing Disclosures

1. Determine whether, for closed-end consumer loans secured by real property, other than a reverse mortgage subject to section 1026.33 or loans otherwise excepted under section 1026.3 (h), the creditor provides the consumer with the Closing Disclosure (§1026.38), reflecting the actual terms of the transaction (§1026.19(f)(1)(i)).

NOTE: There is a partial exemption in section 1026.3(h) from the requirement to provide the Loan Estimate and Closing Disclosure if the loan is (1) a subordinate lien; (2) a loan for buyer assistance such as down payments or closing costs, rehabilitation loans, energy efficiency assistance, or foreclosure prevention; (3) a loan that does not require the payment of interest; (4) a loan for which repayment that is forgiven, deferred for 20 years, or deferred until the property is sold or is no longer the consumer's principal dwelling; and (5) a loan where the total costs of the transaction are less than 1 percent of the loan and include fees only for recording, application and housing counseling. For those transactions, creditors must comply with all other applicable portions of TILA, including the disclosure requirements required pursuant to section 1026.18.

2. Determine whether the creditor ensures that the consumer receives the Closing Disclosure no later than three business days before consummation (except for transactions secured by a timeshare, which the creditor must ensure the consumer receives no later than consummation) (§1026.19(f)(1)(ii)).

NOTE: If the creditor mails the disclosure six business days prior to consummation, it can assume that it was received three business days after sending, and therefore three business days prior to consummation (§1026.19(f)(1)(iii); see Comment 19(f)(1)(iii)). "Business day" for purposes of the Closing Disclosure is the rescission-based business day definition and means all calendar days except Sundays and legal public holidays (§§1026.2(a)(6), 1026.19(f)(1)(ii)(A)).

3. Determine whether the consumer waived the waiting period before consummation by provid-

ing a dated written statement describing a bona fide personal financial emergency, specifically modifying or waiving the waiting period and signed by all the consumers who are primarily liable on the obligation (§1026.19(f)(1)(iv)).

NOTE: Preprinted forms for this purpose are prohibited (§1026.19(f)(1)(iv)).

4. If a settlement agent provides the consumer with the Closing Disclosure, determine whether the creditor ensures that the disclosures were provided in accordance with section 1026.19(f) (§1026.19(f)(1)(v)).

Subsequent Changes

1. Determine whether the creditor provides a corrected Closing Disclosure where a disclosure has become inaccurate before consummation, so that the consumer receives a corrected Closing Disclosure at or before consummation. Determine whether the creditor permits the consumer to inspect the corrected disclosure during the business day prior to consummation.

NOTE: The corrected Closing Disclosure must be completed to set forth items known to the creditor at the time of this inspection but may omit from inspection items related only to the seller's transaction (§1026.19(f)(2)(i)).

2. Determine whether the creditor provides a corrected Closing Disclosure and a new three-business-day waiting period before consummation if
 - a. the APR disclosed in the Loan Estimate under section 1026.38(o)(4) becomes inaccurate, as defined in section 1026.22 (§1026.19(f)(2)(ii)(A));
 - b. the loan product is changed, causing the information disclosed in the Loan Estimate under section 1026.38(a)(5)(iii) to become inaccurate (§1026.19(f)(2)(ii)(B)); or
 - c. a prepayment penalty is added, causing the statement regarding a prepayment penalty required under section 1026.38(b) to become inaccurate (§1026.19(f)(2)(ii)(C)).
3. Determine whether, when an event in connection with the settlement causes the Closing Disclosure to become inaccurate during the 30-day period following consummation, and that inaccuracy results in a change to an amount actually paid by the consumer from the amount disclosed, the creditor delivers or places in the mail corrected disclosures not later than 30 days from receiving the information to establish that the event occurred (§1026.19(f)(2)(iii)).

NOTE: A creditor does not violate section

1026.19(f)(1)(i) if the disclosures contain non-numeric clerical errors, provided the creditor delivers or places in the mail corrected disclosures no later than 60 days after consummation (§1026.19(f)(2)(iv)).

4. Determine whether the creditor charged the consumer for any amounts that exceeded the estimated charges beyond the applicable permissible variations set forth in section 1026.19 (e)(3)(i) (no variation permitted for the charge) and (ii) (charge subject to a 10 percent aggregate limit). For any such charges, determine if the creditor refunds the excess amounts no later than 60 days after consummation and delivers or places in the mail corrected disclosures reflecting the refund no later than 60 days after consummation (§1026.19(f)(2)(v)).

Charges Disclosed

1. Determine whether the creditor or settlement service provider imposes a charge on the consumer for more than the settlement service provider actually received. If the creditor charges the average charge for settlement services, determine whether the creditor meets the following:
 - a. the average charge is no more than the average amount paid for that service by or on behalf of all consumers and sellers for a class of transactions (§1026.19(f)(3)(ii)(A));
 - b. the class of transactions is defined by appropriate period of time, geographic area, and type of loan (§1026.19(f)(3)(ii)(B));
 - c. the same average charge is used for every transaction within the class (§1026.19(f)(3)(ii)(C)); and
 - d. the average charge is not used for any type of insurance or any charge based on the loan amount or property value, and is not otherwise prohibited by law (§1026.19(f)(3)(ii)(D)).

Transactions Involving a Seller

1. Determine whether the settlement agent provides the seller with the Closing Disclosure no later than the day of consummation and, if during the 30-day period following consummation, an event in connection with the settlement of the transaction occurs that causes disclosures to become inaccurate and the inaccuracy results in a change to the amount actually paid by the seller from that disclosed under section 1026.19(f)(4)(i), the settlement agent has delivered or placed in the mail corrected disclosures not later than 30 days after receiving information sufficient to establish that such an event has occurred (§1026.19(f)(4)).

No Fee

1. Determine whether a creditor or servicer imposes a fee on any person as part of settlement costs or otherwise for preparing or delivering Closing Disclosures (§1026.19(f)(5)).

Electronic Disclosures

1. Assess compliance for an institution's electronic disclosure requirements.

E-Sign Act

1. Disclosures may be provided to the consumer in electronic form, subject to compliance with the consumer consent and other applicable provisions of the Electronic Signatures in Global and National Commerce Act (E-Sign Act) (15 U.S.C. 7001 *et seq.*). The E-Sign Act does not mandate that institutions or consumers use or accept electronic records or signatures. It permits institutions to satisfy any statutory or regulatory requirements by providing the information electronically after obtaining the consumer's affirmative consent. Before consent can be given, consumers must be provided with the following information:

- a. any right or option to have the information provided in paper or non-electronic form;
 - b. the right to withdraw the consent to receive information electronically and the consequences, including fees, of doing so;
 - c. the scope of the consent (for example, whether the consent applies only to a particular transaction or to identified categories of records that may be provided during the course of the parties' relationship);
 - d. the procedures to withdraw consent and to update information needed to contact the consumer electronically; and
 - e. the methods by which a consumer may obtain, upon request, a paper copy of an electronic record after consent has been given to receive the information electronically and whether any fee will be charged.
2. The consumer must consent electronically or confirm consent electronically in a manner that "reasonably demonstrates that the consumer can access information in the electronic form that will be used to provide the information that is the subject of the consent." After the consent, if an institution changes the hardware or software requirements such that a consumer may be prevented from accessing and retaining information electronically, the institution must notify the consumer of the new requirements and must allow the consumer to withdraw consent without charge.

3. If the financial institution makes its disclosures available to consumers in electronic form, determine that the forms comply with the appropriate sections—§1026.5(a)(1); §1026.15(b); §1026.16(c); §1026.17(a)(1); §1026.17(g); §1026.19(c); §1026.23(b)(1); §1026.24(d); §1026.31(b); §1026.40(a)(3); and §1026.60(a)(2)(v).
4. Card issuers may provide credit card agreements in electronic form under section 1026.58(d) and (e) without regard to the consumer notice and consent requirements of section 101(c) of the E-Sign Act (§1026.58(f)).

Annual Report to the CFPB—Section 1026.57

1. If the card issuer was a party to one or more college credit card agreements in effect at any time during a calendar year, verify that the card issuer submits to the CFPB an annual report regarding those agreements in the form and manner prescribed by the CFPB (§1026.57(d)(1)).

NOTE: A college credit card agreement is any business, marketing, or promotional agreement between a card issuer and an institution of higher education (or an affiliated alumni organization or foundation) in connection with which credit cards are issued to college students at that institution of higher education (§1026.57(a)(5)).

2. The annual report to the CFPB must include the following (§1026.57(d)(2)):
 - a. identifying information about the card issuer and the agreements submitted, including the issuer's name, address, and identifying number (such as an RSSD ID number or tax identification number);
 - b. a copy of any college credit card agreement to which the card issuer was a party that was in effect at any time during the period covered by the report;
 - c. a copy of any memorandum of understanding in effect at any time during the period covered by the report between the card issuer and an institution of higher education or affiliated organization that directly or indirectly relates to the college credit card agreement or that controls or directs any obligations or distribution of benefits between any such entities;
 - d. the total dollar amount of any payments pursuant to a college credit card agreement from the card issuer to an institution of higher education or affiliated organization during

- the period covered by the report, and the method or formula used to determine such amounts;
- e. the total number of credit card accounts opened pursuant to any college credit card agreement during the period covered by the report; and
 - f. the total number of credit card accounts opened pursuant to any such agreement that were open at the end of the period covered by the report.
3. If the card issuer is subject to reporting, determine if the card issuer submits its annual report for each calendar year to the CFPB by the first business day on or after March 31 of the following calendar year (§1026.57(d)(3)).

The Submission of Agreements to the CFPB—Section 1026.58(c)

1. For card issuers that issue credit cards under a credit card account under an open-end (not home-secured) consumer credit plan, determine that the card issuer makes quarterly submissions to the CFPB in the form and manner specified by the CFPB that contain
 - a. identifying information about the card issuer and the agreements submitted, including the issuer's name, address, and identifying number (such as an RSSD ID number or tax identification number) (§1026.58(c)(1)(i));
 - b. the credit card agreements that the card issuer offered to the public as of the last business day of the preceding calendar quarter that the card issuer has not previously submitted to the CFPB (§1026.58(c)(1)(ii));
 - c. any credit card agreement previously submitted to the CFPB that was amended during the preceding calendar quarter and that the card issuer offered to the public as of the last business day of the preceding calendar quarter as described in section 1026.58(c)(3) (§1026.58(c)(1)(iii)); and
 - d. notification regarding any credit card agreement previously submitted to the CFPB that the issuer is withdrawing, as described in sections 1026.58(c)(4), (c)(5), (c)(6), and (c)(7) (§1026.58(c)(1)(iv)).
2. Verify that quarterly submissions were sent to the CFPB no later than the first business day on or after January 31, April 30, July 31, and October 31, of each year (§1026.58(c)(1)).
3. If a credit card agreement that previously has been submitted to the CFPB is amended, verify

that the card issuer submits the entire amended agreement to the CFPB, in the form and manner specified by the CFPB, by the first quarterly submission deadline after the last day of the calendar quarter in which the change became effective (§1026.58(c)(3)).

NOTE: If a credit card agreement has been submitted to the CFPB, the agreement has not been amended and the card issuer continues to offer the agreement to the public, no additional submission regarding that agreement is required.

4. If a card issuer no longer offers to the public a credit card agreement that previously has been submitted to the CFPB, ensure that the card issuer notifies the CFPB by the first quarterly submission deadline after the last day of the calendar quarter in which the issuer ceased to offer the agreement (§1026.58(c)(4)).

NOTE: A card issuer is not required to submit any credit card agreements to the CFPB if the card issuer had fewer than 10,000 open credit card accounts as of the last business day of the calendar quarter (§1026.58(c)(5)(i)).

5. If an issuer that previously qualified for the *de minimis* exception ceases to qualify, determine that the card issuer begins making quarterly submissions to the CFPB no later than the first quarterly submission deadline after the date as of which the issuer ceased to qualify (§1026.58(c)(5)(ii)).
6. If a card issuer that did not previously qualify for the *de minimis* exception qualifies for the *de minimis* exception, determine that the card issuer continues to make quarterly submissions to the CFPB until the issuer notifies the CFPB that the card issuer is withdrawing all agreements it previously submitted to the CFPB (§1026.58(c)(5)(iii)).
7. A card issuer is not required to submit to the CFPB a credit card agreement if, as of the last business day of the calendar quarter, the agreement is offered for accounts under one or more private label credit card plans each of which has fewer than 10,000 open accounts and is not offered to the public other than for accounts under such a plan (§1026.58(c)(6)(i)).

NOTE: A private label credit card is one that is usable only at a single merchant or affiliated group of merchants. A private label credit card plan is all private label credit card accounts issued by a particular issuer with credit cards

- usable at the same single merchant or affiliated group of merchants (§1026.58(b)(8)).
8. If an agreement that previously qualified for the private label credit card exception ceases to qualify, determine that the card issuer submits the agreement to the CFPB no later than the first quarterly submission deadline after the date as of which the agreement ceased to qualify (§1026.58(c)(6)(ii)).
 9. If an agreement that did not previously qualify for the private label credit card exception qualifies for the exception, determine that the card issuer continues to make quarterly submissions to the CFPB with respect to that agreement until the issuer notifies the CFPB that the agreement is being withdrawn (§1026.58(c)(6)(iii)).

NOTE: A card issuer is not required to submit to the CFPB a credit card agreement if, as of the last business day of the calendar quarter, the agreement is offered as part of a product test offered to only a limited group of consumers for a limited period of time, is used for fewer than 10,000 open accounts, and is not offered to the public other than in connection with such a product test (§1026.58(c)(7)(i)).
 10. If an agreement that previously qualified for the product testing exception ceases to qualify, determine that the card issuer submits the agreement to the CFPB no later than the first quarterly submission deadline after the date as of which the agreement ceased to qualify (§1026.58(c)(7)(ii)).
 11. If an agreement that did not previously qualify for the product testing exception qualifies for the exception, determine that the card issuer continues to make quarterly submissions to the CFPB with respect to that agreement until the issuer notifies the CFPB that the agreement is being withdrawn (§1026.58(c)(7)(iii)).
 12. Verify that each agreement contains the provisions of the agreement and the pricing information in effect as of the last business day of the preceding calendar quarter (§1026.58(c)(8)(i)(A)).
 13. Verify that agreements do not include any personally identifiable information relating to any cardholder, such as name, address, telephone number, or account number (§1026.58(c)(8)(i)(B)).
 14. Verify that agreements are presented in a clear and legible font (§1026.58(c)(8)(i)(D)).
 15. Verify that pricing information is set forth in a single addendum to the agreement that contains only the pricing information (§1026.58(c)(8)(ii)(A)).
- NOTE: With respect to information other than the pricing information that may vary between cardholders depending on creditworthiness, state of residence, or other factors, issuers may, but are not required to, include that information in a single addendum (the optional variable terms addendum) to the agreement separate from the pricing addendum (§1026.58(c)(8)(iii)).
16. If pricing information varies from one cardholder to another depending on the cardholder's creditworthiness or state of residence or other factors, verify that the pricing information is disclosed either by setting forth all the possible variations (such as purchase APRs of 13 percent, 15 percent, 17 percent, and 19 percent) or by providing a range of possible variations (such as purchase APRs ranging from 13 percent to 19 percent) (§1026.58(c)(8)(ii)(B)).
 17. If a rate included in the pricing information is a variable rate, verify that the issuer identifies the index or formula used in setting the rate and the margin (§1026.58(c)(8)(ii)(C)).

NOTE: The value of the rate and the value of the index are not required to be disclosed.
 18. If rates vary from one cardholder to another, verify that the issuer discloses such rates by providing the index and the possible margins (such as the prime rate plus 5 percent, 8 percent, 10 percent, or 12 percent) or range of margins (such as the prime rate plus from 5 to 12 percent) (§1026.58(c)(8)(ii)(C)).
 19. Determine that issuers do not provide provisions of the agreement or pricing information in the form of change-in-terms notices or riders (other than the pricing information addendum and the optional variable terms addendum) (§1026.58(c)(8)(iv)).
 20. Determine that changes in provisions or pricing information are integrated into the text of the agreement, the pricing information addendum or the optional variable terms addendum, as appropriate (§1026.58(c)(8)(iv)).

The Posting of Agreements Offered to the Public—Section 1026.58(d)

1. Determine that the card issuer posts and maintains on its publicly available website the credit card agreements that the issuer is required to submit to the CFPB under section 1026.58(c) (§1026.58(d)(1)).
2. With respect to an agreement offered solely for

- accounts under one or more private-label credit card plans (and the issuer does not post and maintain the agreements on its publicly available website), determine that the issuer posts and maintains the agreement on the publicly available website of at least one of the merchants where cards issued under each private-label credit card plan with 10,000 or more open accounts may be used (§1026.58(d)(1)).
3. Verify that agreements posted pursuant to section 1026.58(d) conform to the form and content requirements for agreements submitted to the CFPB specified in section 1026.58(c)(8) (§1026.58(d)(2)).
 4. Determine that agreements are posted in an electronic format that is readily usable by the general public (§1026.58(d)(3)).
 5. Verify that agreements are placed in a location on its website that is prominent and readily accessible by the public and accessible without submission of personally identifiable information (§1026.58(d)(3)).
 6. Determine that the card issuer updates the agreements posted on its website at least as frequently as the quarterly schedule required for submission of agreements to the CFPB under section 1026.58(c) (§1026.58(d)(4)).

NOTE: If the issuer chooses to update the agreements on its website more frequently, the agreements posted on the issuer's website may contain the provisions of the agreement and the pricing information in effect as of a date other than the last business day of the preceding calendar quarter.

The Posting of Agreements for “Open” Accounts—Section 1026.58(e)

1. With respect to any open (i.e., the cardholder can obtain extensions or there is an outstanding balance on the account that has not been charged off) credit card account, determine that the card issuer either
 - a. posts and maintains the cardholder's agreement on its website; or
 - b. promptly provides a copy of the cardholder's agreement to the cardholder upon the cardholder's request.
 2. If the card issuer makes an agreement available upon request, ensure that the issuer provides the cardholder with the ability to request a copy of the agreement both by
 - a. using the issuer's website, such as by clicking on a clearly identified box to make the request (§1026.58(e)(1)(ii)), and
- b. calling a readily available telephone line the number for which is displayed on the issuer's website and clearly identified as to purpose (§§1026.58(e)(1)(ii) and (e)(2)).
 3. If an issuer does not maintain a website from which cardholders can access specific information about their individual accounts, determine that the issuer makes agreements available upon request by providing the cardholder with the ability to request a copy of the agreement by calling a readily available telephone line, the number for which is (§1026.58(e)(2))
 - a. displayed on the issuer's website and clearly identified as to purpose, or
 - b. included on each periodic statement sent to the cardholder and clearly identified as to purpose.
 4. Verify that the card issuer sends to the cardholder or otherwise make available to the cardholder a copy of the cardholder's agreement in electronic or paper form no later than 30 days after the issuer receives the cardholder's request (§1026.58(e)(1)(ii)).
 5. Determine that agreements posted on the card issuer's website or made available upon the cardholder's request conform to the form and content requirements for agreements submitted to the CFPB specified in section 1026.58(c)(8) (§1026.58(e)(3)(i)).
 6. If the card issuer posts an agreement on its website or otherwise provides an agreement to a cardholder electronically, verify that the agreement is posted or provided in an electronic format that is readily usable by the general public and is placed in a location that is prominent and readily accessible to the cardholder (§1026.58(e)(3)(ii)).
 7. If agreements posted or otherwise provided contain personally identifiable information relating to the cardholder, such as name, address, telephone number, or account number, ensure that the issuer takes appropriate measures to make the agreement accessible only to the cardholder or other authorized persons (§1026.58(e)(3)(iii)).
 8. Determine that agreements posted or otherwise provided set forth the specific provisions and pricing information applicable to the particular cardholder (§1026.58(e)(3)(iv)).
 9. Determine that provisions and pricing information are complete and accurate as of a date no more than 60 days prior to (§1026.58(e)(3)(iv))
 - a. the date on which the agreement is posted on the card issuer's website under section 1026.58(e)(1)(i);

- b. the date the cardholder's request is received under section 1026.58(e)(1)(ii) or (e)(2).

NOTE: Card issuers may provide credit card agreements in electronic form under sections 1026.58(d) and (e) without regard to the consumer notice and consent requirements of section 101(c) of the Electronic Signatures in Global and National Commerce Act (E-Sign Act) (15 U.S.C. 7001 *et seq.*) (§1026.58(f)).

Advertising (Open- and Closed-End)

1. For open- and closed-end loans, sample advertising copy, including any electronic advertising, since the previous examination and verify that the terms of credit are accurate, clear, balanced, and conspicuous. If triggering terms are used, determine that the required disclosures are made (§§1026.16 and 1026.24).

a. For advertisements for closed-end credit

- i. if a rate of finance charge was stated, determine that it was stated as an APR;
- ii. if an APR will increase after consummation, verify that a statement to that fact is made;
- iii. determine whether there are deceptive or misleading statements or practices.

- b. Determine that the creditor does not offer college students any tangible item to induce such students to apply for or open an open-end consumer credit plan offered by such creditor, if such offer is made

- i. on the campus of an institution of higher education;
- ii. near the campus of an institution of higher education; or
- iii. at an event sponsored by or related to an institution of higher education (§1026.57 (c)).

- c. If an open-end credit advertisement refers to an APR as "fixed" (or similar term), determine (1) that the advertisement also specifies a time period that the rate will be fixed and (2) that the rate will not increase during that period (§1026.16(f)).

- d. If an open-end credit advertisement used the word "fixed" or a similar word and no time period is specified in which the rate will be fixed, determine that the rate will not increase while the plan is open (§1026.16(f)).

- e. For any advertisement of an open-end (not home-secured) plan, if an APR or fee that may be applied to the account is an introductory rate or introductory fee, deter-

mine that the term *introductory* or *intro* is in immediate proximity to each listing of the introductory rate or introductory fee in a written or electronic advertisement (§1026.16 (g)(3)).

- f. For any advertisement of an open-end (not home-secured) plan, if any APR or fee that may be applied to the account is a promotional rate under section 1026.16(g)(2)(i) or any fee that may be applied to the account is a promotional fee under section 1026.16(g)(2)(iv), determine that the following information is stated in a clear and conspicuous manner in the advertisement (§1026.16(g)(4)):
- i. when the promotional rate or promotional fee will end and
 - ii. the annual percentage rate that will apply after the end of the promotional period.

NOTE: If such rate is variable, determine that the annual percentage rate complies with the accuracy standards in sections 1026.60(c)(2), (d)(3), (e)(4), or 1026.16(b)(1)(ii), as applicable. If such rate cannot be determined at the time disclosures are given because the rate depends at least in part on a later determination of the consumer's creditworthiness, determine that the advertisement discloses the specific rates or the range of rates that might apply (§1026.16 (g)(4)(ii)). Further, if the promotional rate or fee is stated in a written or electronic advertisement, determine that the information in sections 1026.16 (g)(4)(i), and, as applicable, (g)(4)(ii), or (g)(4)(iii) are also stated in a prominent location closely proximate to the first listing of the promotional rate or promotional fee.

- g. If a deferred interest offer is advertised for an open-end account not subject to section 1026.40, determine that the deferred interest period is stated in a clear and conspicuous manner in the advertisement. If the phrase "no interest" or similar term regarding the possible avoidance of interest obligations under the deferred interest program is stated, determine that the term "if paid in full" is also stated in a clear and conspicuous manner preceding the disclosure of the deferred interest period in the advertisement. If the deferred interest offer is included in a written or electronic advertisement, determine that the deferred interest period and, if applicable, the term "if paid in full" are stated in immediate proximity to each statement of "no

- interest," "no payments," "deferred interest," "same as cash," or similar term regarding interest or payments during the deferred interest period (§1026.16(h)(3)).
- h. If any deferred interest offer is advertised for an open-end account not subject to section 1026.40, determine that the (h)(4)(i) and (h)(4)(ii) language (of section 1026.16(h)(4)) is stated in the advertisement and is similar to Sample G-24 in appendix G. If the deferred interest offer is included in a written or electronic advertisement, determine that this information is stated in a prominent location closely proximate to the first statement of "no interest," "no payments," "deferred interest," "same as cash," or similar term regarding interest or payments during the deferred interest period (§1026.16(h)(4)).
- NOTE:** The requirements in section 1026.16(h)(4) apply to any advertisement of an open-end credit plan not subject to section 1026.40 (requirements for home-equity plans) section 1026.16(h)(1). However, the requirements do not apply to an envelope or other enclosure in which an application or solicitation is mailed, or to a banner advertisement or pop-up advertisement linked to an application or solicitation provided electronically (§1026.16(h)(5)).
- Transactional Testing***
- NOTE:** When verifying APR accuracies, use the OCC's APR calculation model or other calculation tool acceptable to your regulatory agency.
1. Review the financial institution's closed-end and open-end transactions to ensure accuracy and completeness.
- Closed-End Credit Transactional Testing Procedures***
1. For each type of closed-end loan being tested, determine the accuracy of the disclosures by comparing the disclosures to the contract and other financial institution documents (§1026.17).
 2. Determine whether the required disclosures were made before consummation of the transaction and ensure the presence and accuracy of the items below, as applicable (§1026.18).
 - a. creditor and loan originator name with Nationwide Mortgage Licensing System and Registry (NMLS) IDs on required documents as required under section 1026.36
 - b. amount financed
 - c. itemization of the amount financed (RESPA GFE may substitute)
 - d. finance charge
 - e. APR
 - f. variable-rate information as follows for loans not secured by a principal dwelling or secured by a principal dwelling with terms of one year or less:
 - i. circumstances which permit rate increase
 - ii. limitations on the increase (periodic or lifetime)
 - iii. effect of the increase
 - iv. hypothetical example of new payment terms that would result from an increase
 - g. payment schedule including the number, amount, and timing of payments
 - h. total of payments
 - i. demand feature
 - j. total sale price (credit sale)
 - k. prepayment
 - l. late payment
 - m. security interest
 - n. insurance and debt cancellation
 - o. certain security interest charges
 - p. contract reference
 - q. assumption policy
 - r. required deposit
 - s. interest rate and payment summary for mortgage transactions
 - t. no-guarantee-to-refinance statement
3. For adjustable-rate mortgages, verify that the creditor, assignee, or servicer provides disclosures in connection with the initial interest rate adjustment pursuant to the contract and for rate changes that result in corresponding changes in payment.
 4. For adjustable-rate mortgages, verify that the creditor, assignee, or servicer includes the appropriate content (as identified in the Closed-End Credit Disclosure Forms Review Procedures section above).
 5. For adjustable-rate mortgages, verify that the creditor, assignee, or servicer provides the disclosures consistent with timing requirements (see Timing Requirements section of the procedures above).
- NOTE:** The accuracy of the adjusted interest rates and indexes should be verified by

comparing them with the contract and early disclosures. Refer to the Additional Variable Rate Testing section of these examination procedures.

6. Determine, for each type of closed-end rescindable loan being tested, the appropriate number of copies of the rescission notice are provided to each person whose ownership interest is or will be subject to the security interest. The creditor must deliver two copies of the notice of right to rescind to each consumer entitled to rescind. The rescission notice must disclose the items below (§1026.23(b)(1)).
 - a. security interest taken in the consumer's principal dwelling
 - b. consumer's right to rescind the transaction
 - c. how to exercise the right to rescind, with a form for that purpose, designating the address of the creditor's place of business
 - d. effects of rescission
 - e. date the rescission period expires
7. Ensure funding was delayed until the rescission period expired (§1026.23(c)).
8. Determine if the consumer has waived the three-day right to rescind since the previous examination. If applicable, test rescission waivers (§1026.23(e)).
9. Determine whether the maximum interest rate in the contract is disclosed for any consumer credit contract secured by a dwelling if the APR may increase after consummation (§1026.30 (a)).
10. For private student loans with a right to cancel, review cancellation requests to determine if they were properly handled (§1026.47(c)).

Minimum Standards for Transactions Secured by a Dwelling—Section 1026.43

1. Determine whether the financial institution is a creditor that originates covered transactions. Covered transactions are transactions secured by a dwelling, including any real property attached to a dwelling. They do not include: home-equity lines of credit; timeshare loans (except for the prepayment penalty provisions in section 1026.43(g)); reverse mortgages; temporary, "bridge," or construction loans of 12 months or less; renewable or non-renewable construction loans of 12 months or less that are a part of a construction-to-permanent transaction; or an extension of credit under a program administered by a Housing Finance Agency (defined in 24 CFR 266.5), by community

development or nonprofit lenders specified in section 1026.43(a)(3)(v), or in connection with certain federal emergency economic stabilization programs (§1026.43(a)).

2. Determine if a loan is a streamline refinance under section 1026.20(a) and Commentary 1026.20(a) and whether it qualifies under section 1026.43(d), below.

Refinancing Non-standard Mortgages—Section 1026.43(d)

1. Determine whether a creditor that has refinanced a non-standard mortgage defined in section 1026.43(d)(i) (an ARM with an introductory rate fixed for a year or more, an interest-only loan, or a negative amortization loan) into a standard mortgage as defined in section 1026.43(d)(ii) has considered whether the standard mortgage likely will prevent a default by the consumer once the loan is recast. In addition, determine that the following conditions are met (§1026.43(d)(3)):
 - a. At the time of the refinance, the creditor for the standard mortgage is the current holder of the existing non-standard mortgage or the servicer acting on behalf of the current holder (§1026.43(d)(2)(i));
 - b. The monthly payment for the standard mortgage is materially lower (a payment reduction of 10 percent or more is sufficient) than the monthly payment for the non-standard mortgage using the payment calculation rules in section 1026.43(d)(5) (§1026.43(d)(2)(ii));
 - c. The creditor received the consumer's written application for the standard mortgage no later than two months after the non-standard mortgage had recast (§1026.43(d)(2)(iii));
 - d. The consumer had made no more than one payment more than 30 days late on the non-standard mortgage during the 12 months immediately before the creditor receives the consumer's written application for the standard mortgage (§1026.43(d)(2)(iv));
 - e. The consumer had made no payments more than 30 days late during the six months immediately before the creditor received the consumer's written application for the standard mortgage (§1026.43(d)(2)(v)); and
 - f. If the non-standard mortgage was consummated on or after January 10, 2014, the non-standard mortgage was made in accordance with the ability to repay or the qualified mortgage requirements (§§1026.43(c) or (e)) (§1026.43(d)(vi)).

Ability to Repay—Section 1026.43(c)

NOTE: For all covered transactions, except streamline refinances, creditors must make a good faith determination that the consumer will have a reasonable ability to repay the loan, and must verify the information upon which it relied. A creditor can meet this obligation by complying with the ability-to-repay requirement in section 1026.43(c) or by making qualified mortgages under sections 1026.43(e) and (f) (which limit certain risky loan features and practices), which are presumed to satisfy the ability-to-repay requirements.

1. Determine whether the creditor makes a reasonable and good faith determination at or before consummation that the consumer will have a reasonable ability to repay the loan according to its terms, based (except as otherwise provided for loans under sections 1026.43(d), (e), and (f) for refinancing non-standard to standard mortgages, qualified mortgages, and certain balloon qualified mortgages respectively), at a minimum, on the criteria set forth below (§1026.43(c)(1)).
2. Determine whether the creditor considered the following, at a minimum, in determining the consumer's ability to repay (§1026.43(c)(2)):
 - a. the consumer's current or reasonably expected income or assets (other than the value of the dwelling, including any real property attached to the dwelling, that secures the loan) (§1026.43(c)(2)(i));
 - b. if the creditor relies on employment income, the consumer's current employment status (§1026.43(c)(2)(ii));
 - c. the consumer's monthly payment on the covered transaction, calculated in accordance with section 1026.43(c)(5) (§1026.43(c)(2)(iii)) (see "Monthly Payment Calculation" below);
 - d. the consumer's monthly payment on any simultaneous loan that the creditor knows or has reason to know will be made, calculated in accordance with section 1026.43(c)(6) (§1026.43(c)(2)(iv));
 - e. the consumer's monthly payment for mortgage-related obligations (§1026.43(c)(2)(v));
 - f. the consumer's current debt obligations, alimony, and child support (§1026.43(c)(2)(vi));
 - g. the consumer's monthly debt-to-income ratio or residual income in accordance with sections 1026.43(c)(7), (c)(2)(vii), and (c)(2)(viii)); and

- h. the consumer's credit history (§1026.43(c)(2)(viii)).

3. Determine whether the creditor verified the information it relied upon when considering the eight factors listed above using reasonably reliable third-party records, except that special rules apply for verification of income or assets, employment, and current debt obligations that are not shown on the consumer's credit report.

Income and Assets, Employment, and Debt Obligations

1. Determine that the creditor verified the information that it relied on using reliable third-party records except that
 - a. a creditor may verify a consumer's employment status orally if the creditor prepares a written record of the information obtained orally (§1026.43(c)(3)(ii)); and
 - b. a creditor that relies on a credit report to verify a consumer's current obligations need not independently verify obligations that the consumer lists on the application that are not in the consumer's credit report (§1026.43(c)(3)(iii)).
2. Determine whether the creditor verified the income or assets it relied upon, by using third-party records that provide reasonably reliable evidence, (§1026.43(c)(4)) such as
 - a. a tax-return transcript issued by the Internal Revenue Service (IRS) (§1026.43(c)(4));
 - b. copies of tax returns the consumer filed with the IRS or a state taxing authority (§1026.43(c)(4)(i));
 - c. IRS form W-2s or similar IRS forms used for reporting wages or tax withholding (§1026.43(c)(4)(ii));
 - d. payroll statements, including military Leave and Earnings Statements; (1026.43(c)(4)(iii))
 - e. financial institution records (§1026.43(c)(4)(iv));
 - f. records from the consumer's employer or a third party that obtained information from the employer (§1026.43(c)(4)(v));
 - g. records from a federal, state, or local government agency stating the consumer's income from benefits or entitlements (§1026.43(c)(4)(vi));
 - h. receipts from the consumer's use of check cashing services (§1026.43(c)(4)(vii)); and
 - i. receipts from the consumer's use of a funds transfer service (§1026.43(c)(4)(viii)).

3. For employment status, if the creditor orally verified employment status, determine whether the creditor prepared a written record of the information obtained orally (§1026.43(c)(3)(ii)).

Monthly Payment Calculation

1. For purposes of 2c under "Ability to Repay" above, determine whether the creditor calculated the monthly payment (except for balloon payment, interest-only and negative amortization loans) by using
 - a. the fully indexed rate or any introductory interest rate, whichever is greater; and monthly, fully amortizing payments that are substantially equal (§1026.43(c)(5));
 - b. for a loan with a balloon payment
 - i. the maximum payment scheduled during the first five years after the date on which the first regular periodic payment will be due for a loan that is not a higher-priced covered transaction as defined under section 1026.43(b)(4) (§1026.43(c)(5)(ii)(A)(1)); or
 - ii. the maximum payment in the payment schedule, including any balloon payment, for a higher-priced covered transaction (§1026.43(c)(5)(ii)(A)(2)).
 - c. for an interest-only loan
 - i. the fully indexed rate or any introductory interest rate, whichever is greater; and
 - ii. substantially equal, monthly payments of principal and interest that will repay the loan amount over the term of the loan remaining as of the date the loan is recast (§1026.43(c)(5)(ii)(B)).
 - d. for a negative amortization loan
 - i. the fully indexed rate or any introductory interest rate, whichever is greater; and
 - ii. substantially equal, monthly payments of principal and interest that will repay the maximum loan amount as defined in section 1026.43(b)(7) over the term of the loan remaining as of the date the loan is recast (§1026.43(c)(5)(ii)(C)).

Monthly Payment Calculation for Simultaneous Loans

1. Determine whether the creditor calculated the monthly payment on any simultaneous loan that was used to determine the consumer's repayment ability, including any mortgage-related obligations, as follows:
 - a. for a simultaneous loan that is a covered

transaction, by using the payment calculation rules for covered transactions, described above (§1026.43(c)(6)(i)); or

- b. for a home-equity line of credit, by using the periodic payment required under the terms of the plan and the amount of credit drawn at or before consummation of the covered transaction (§1026.43(c)(6)(ii)).

Monthly Debt-to-Income Ratio or Residual Income

1. When a creditor considers the consumer's monthly debt-to-income ratio, determine whether the creditor considered the ratio of the consumer's total monthly debt obligations to the consumer's total monthly income (§1026.43(c)(7)(ii)(A)).
 - a. Total monthly debt obligations means the total of: the monthly payment on the covered transaction (as required by §1026.43(c)(2)(iii) and (c)(5)), simultaneous loans (as required by §1026.43(c)(2)(iv) and (c)(6)), mortgage-related obligations (as required by §1026.43(c)(2)(v)), and current debt obligations, alimony, and child support (as required by §1026.43(c)(2)(vi)).
 - b. Total monthly income means the total of the consumer's current or reasonably expected income, including any income from assets (as required by §1026.43(c)(2)(i) and (4)).
2. If a creditor considers the consumer's monthly residual income, determine whether the creditor considered the consumer's remaining income after subtracting the consumer's total monthly debt obligations from the consumer's total monthly income (§1026.43(c)(7)(ii)(B)). Total monthly debt obligations and total monthly income are defined in sections 1026.43(c)(7)(i)(A) and (B).

Qualified Mortgages—Section 1026.43(e)

1. Determine whether the creditor has complied with the ability-to-repay requirements of section 1026.43(c) by making a loan that is a qualified mortgage, including a higher-priced qualified mortgage, under the general qualified mortgage definition in section 1026.43(e) or by making loans that are qualified mortgages because they are made pursuant to rules promulgated by HUD or the VA pursuant to 15 U.S.C. §1639c(b) for loans insured or guaranteed loans by those agencies (§1026.43(e)).⁴⁰

41. HUD issued its final QM rule, effective January 10, 2014 (78 Fed. Reg. 75215, December 11, 2013), and the VA issued its interim final QM rule, effective May 9, 2014 (79 Fed. Reg. 26620,

2. Except as provided in sections 1026.43(e)(4), (5), (6), or (f) (all discussed below), a qualified mortgage is a covered transaction
- a. that provides for regular, substantially equal, periodic payments, except for the effect any interest rate change after consummation has on adjustable-rate mortgages or step-rate mortgages (§1026.43(e)(2)(i)) that do not
 - i. result in an increase of the principal balance (§1026.43(e)(2)(i)(A)), or
 - ii. allow balloon payments or deferment of principal payments (except for balloon-payment qualified mortgages described in sections 1026.43(f) and (e)(6)); (§§1026.43(e)(2)(i)(B) and (C)).
 - b. for which the loan term does not exceed 30 years (§1026.43(e)(2)(ii));
 - c. for which the total points and fees as defined in §1026.32(b)(1)(i)
 - i. do not exceed the applicable thresholds of (§1026.43(e)(2)(iii) and (3)):
 - A. \$100,000 or over: 3 percent of the total loan amount (§1026.32(b)(4)(i));
 - B. \$60,000 or over but less than \$100,000: \$3,000;
 - C. \$20,000 or over but less than \$60,000: 5 percent of the total loan amount;
 - D. \$12,500 or over but less than \$20,000: \$1,000; or
 - E. less than \$12,500: 8 percent of the total loan amount.
- NOTE: These numbers will be annually adjusted for inflation on January 1.
- ii. For transactions consummated on or before January 10, 2021, if the creditor or assignee determined after consummation that the points and fees exceeded the applicable threshold, the loan is not precluded from being a qualified mortgage if
 - A. the loan otherwise meets the requirements of sections 1026.43(e)(2), (e)(4), (e)(5), (e)(6), or (f), as applicable;
 - B. the creditor or assignee paid to the consumer certain amounts, described below, within 210 days after consummation and prior to any of the following events:
 - (1) the consumer institutes an action in connection with the loan;
- (2) the consumer provides a written notice to the creditor, assignee, or servicer that the transaction's total points and fees exceed the applicable threshold; or
- (3) the consumer becomes 60 days past due on the legal obligation; and
- C. the amount paid to the consumer is not less than the sum of the following:
- (1) the dollar amount by which the transaction's total points and fees exceeds the applicable limit, and
 - (2) Interest on the amount of excess points and fees, calculated using the contract interest rate applicable during the period from consummation until the payment is made to the consumer; and
 - D. the creditor or assignee, as applicable, maintains and follows policies and procedures for post-consummation review of points and fees for making the above-described payments to consumers (§§1026.43(e)(3)(iii) and (iv)).
- NOTE: The points and fees cure provision applies to the points and fees limits for all of the qualified mortgage types defined in Regulation Z.
- d. for which the creditor underwrites the loan, taking into account the monthly payment for mortgage-related obligations, using (§1026.43(e)(2)(iv)):
 - i. the maximum interest rate that may apply during the first five years after the date on which the first regular periodic payment will be due; and
 - ii. periodic payments of principal and interest that will repay either
 - A. the outstanding principal balance over the remaining term of the loan. This should be calculated as of the date the interest rate adjusts to the maximum interest rate that may apply during the first five years after the date on which the first regular periodic payment will be due, assuming the consumer will have made all required payments as due prior to that date; or
 - B. the loan amount over the loan term;
 - e. for which the creditor considers and verifies

May 9, 2014).

- at or before consummation the following (§1026.43(e)(2)(v)):
- i. the consumer's current or reasonably expected income or assets other than the value of the dwelling (including any real property attached to the dwelling) that secures the loan, in accordance with Appendix Q and sections 1026.43(c)(2)(i) and (c)(4); and
 - ii. the consumer's current debt obligations, alimony, and child support in accordance with Appendix Q and sections 1026.43(c)(2)(vi) and (c)(3); and
 - f. for which the ratio of the consumer's total monthly debt to total monthly income at the time of consummation does not exceed 43 percent. For purposes of section 1026.43(e)(2)(vi), the ratio of the consumer's total monthly debt to total monthly income is determined (§1026.43(e)(2)(vi))
 - i. in accordance with the standards in Appendix Q (§1026.43(e)(2)(vi)(A)), except
 - ii. the creditor calculates the consumer's monthly payment on (§1026.43(e)(2)(vi)(B))
 - A. the covered transaction, including the monthly payment for mortgage-related obligations, in accordance with section 1026.43(e)(2)(iv) (see also a.4 above); and
 - B. any simultaneous loan that the creditor knows or has reason to know will be made, in accordance with sections 1026.43(c)(2)(iv) and (c)(6) (see also 2h in "Ability to Repay" above).

Temporary Category of Qualified Mortgages⁴¹—Section 1026.43(e)(4)

1. Determine whether the creditor has complied with the ability-to-repay requirements of section 1026.43(c) by making loans that
 - a. meet the requirements of sections 1026.43(e)(2)(i) through (iii) (i.e., have substantially equal, periodic payments; restrictions on loan features; a maximum 30-year term; and points and fees— generally limited to a 3 percent threshold); and are

42. The temporary QM rule does not apply to HUD loans or to VA loans because they are qualified mortgages pursuant to 12 U.S.C. §1639c(b)(3)(B)(ii)(I)-(II), which authorizes HUD and the VA to promulgate QM rules. HUD issued its final QM rule, effective January 10, 2014 (78 Fed. Reg. 75215, December 11, 2013), and the VA issued its interim final QM rule, effective May 9, 2014 (79 Fed. Reg. 26620, May 9, 2014).

- b. eligible (except with regard to matters wholly unrelated to ability to repay) to be purchased, guaranteed, or insured by the listed federal government sponsored entities or agencies.⁴²

Small Creditor Portfolio Loan Qualified Mortgage—Section 1026.43(e)(5)

1. Determine whether a creditor has complied with the ability-to-repay requirements of section 1026.43(c) by making a qualified mortgage as follows:
 - a. The creditor satisfies the creditor requirements of sections 1026.35(b)(2)(iii)(B), and (C), which require that (§1026.43(e)(5)(D))
 - i. during the preceding calendar year, the creditor, together with its affiliates, originated 500 or fewer first-lien covered transactions; and
 - ii. as of the end of the preceding calendar year, the creditor had total assets of less than \$2 billion (this threshold will adjust annually).

NOTE: This category of qualified mortgages does not require a small creditor to operate predominantly in a rural or underserved area.

- b. The creditor makes a loan that meets the requirements for a qualified mortgage in section 1026.43(e)(2), other than section 1026.43(e)(2)(vi), and without regard to the standards in Appendix Q (§1026.43(e)(5)(A)); and

NOTE: This means, among other things, that the loan does not have negative amortization, interest-only, or balloon payment features (§1026.43(e)(2)(i)); has a loan term of 30 years or less (§1026.43(e)(2)(ii)); points and fees are under certain thresholds (generally 3 percent) (§1026.43(e)(2)(iii)); and the creditor underwrites the loan, taking into

43. Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac), operating under the conservatorship or receivership of the Federal Housing Finance Agency pursuant to section 1367(a) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 U.S.C. 4617(a)); or any limited-life regulatory entity succeeding the charter of either the Fannie Mae or Freddie Mac pursuant to §1367(i) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 U.S.C. 4617(i)); the U.S. Department of Housing and Urban Development under the National Housing Act; U.S. Department of Veterans Affairs; the U.S. Department of Agriculture pursuant to 42 U.S.C. 1472(h); or the Rural Housing Service. This provision expires on the effective date of a rule issued by each respective agency pursuant to its authority under TILA §129C(b)(3)(ii) to define a qualified mortgage. These special rules in §1026.43(e)(4) are available only for covered transactions consummated on or before January 10, 2021.

- account the monthly payment for mortgage related obligations (§1026.43(e)(2)(iv)). Further, the creditor considers and verifies at or before consummation: the consumer's current or reasonably expected income or assets other than the value of the dwelling (including any real property attached to the dwelling) that secures the loan, in accordance with the general repayment ability standards; and the consumer's current debt obligations, alimony, and child support in accordance with the general repayment ability standards (§1026.43(e)(5)(B)).
- c. Considers at or before consummation, the consumer's monthly debt-to-income ratio or residual income and verifies the debt obligations and income used to determine that ratio in accordance with the repayment ability requirements of section 1026.43(c)(7), except that the calculation of the payment for determining the consumer's total monthly debt obligations in section 1026.43(c)(7) (i)(A) is determined in accordance with section 1026.43(e)(2)(iv) (based on the maximum interest rate in the first five years after the date the first periodic payment is due) instead of section 1026.43(c)(5) (fully indexed rate) (§1026.43(e)(5)(B));
 - d. The loan was not subject to a forward commitment at consummation, except to a person that satisfies the requirements of sections 1026.35(b)(2)(iii) (B) and (C) (i.e., small creditors) (§1026.43(e)(5)(C)).
2. Determine whether the small creditor portfolio mortgage does not have a qualified mortgage status because it was subject to a forward commitment at consummation, or the creditor has transferred it in any circumstances other than where the transfer was
 - a. three years or more after consummation;
 - b. to a creditor that satisfies the requirements of section 1026.43(e)(5)(i)(D) of this section (i.e., small creditors under sections 1026.35 (b)(2)(iii)(B) and (C));
 - c. made pursuant to a capital restoration plan or other action under 12 U.S.C. 1831o, or to actions or instructions of a conservator, receiver, or bankruptcy trustee, or to orders by or agreements with a state or federal governmental agency with jurisdiction to examine the creditor; or
 - d. made pursuant to a merger of the creditor and another person or the acquisition of the creditor by another person, or the creditor's acquisition of another person (§1026.43(e)(5)(ii)).

NOTE: If a small creditor portfolio qualified mortgage has lost its qualified mortgage status, the creditor must have complied with the general ability-to-repay requirements under section 1026.43(c).

Balloon-Payment Qualified Mortgages Made by Certain Small Creditors— Section 1026.43(f)

1. Determine whether a creditor has complied with the ability-to-repay requirements of section 1026.43(c) by making a qualified mortgage that provides for a balloon payment as follows:
 - a. The creditor satisfies the creditor requirements of sections 1026.35(b)(2)(iii)(A), (B), and (C), which require that (§1026.43(f)(1)(vi))
 - i. during any of the three preceding calendar years, the creditor extended more than 50 percent of its first-lien covered transactions on properties that are located in "rural" or "underserved" counties;
 - ii. during the preceding calendar year, the creditor, together with its affiliates, originated 500 or fewer first-lien covered transactions; and
 - iii. as of the end of the preceding calendar year, the creditor had total assets of less than \$2 billion (this threshold will adjust annually).
 - b. The creditor makes a loan that meets the requirements for a qualified mortgage in sections 1026.43(e)(2)(i)(A) (substantially equal payments or ARMs or step-rate mortgages that do not increase the principal balance), (e)(2)(ii) (loan term 30 years or less), (e)(2)(iii) (points and fees under certain thresholds), and (e)(2)(v) (income, assets, and obligations are considered and verified), but without regard to the standards in Appendix Q (§1026.43(f)(1)(iv)(A));
 - c. The creditor determines that the consumer can make all of the scheduled payments under the loan and the monthly payments for all mortgage-related obligations (excluding the balloon payment) from the consumer's current or reasonably expected income or assets (other than the dwelling that secures the loan) (§1026.43(f)(1)(ii));
 - d. The creditor considers at or before consummation, the consumer's monthly debt-to-income ratio or residual income and verifies the debt obligations and income used to determine that ratio in accordance with the

repayment ability requirements of section 1026.43(c)(7), except that the calculation of the payment for determining the consumer's total monthly debt obligations in section 1026.43(c)(7)(i)(A) is based on the scheduled payments for the balloon-payment qualified mortgage in accordance with section 1026.43(f)(1)(iv)(A), together with the consumer's monthly payments for all mortgage-related obligations other than the balloon payment (§1026.43(f)(1)(iii));

- e. The legal obligation provides for
 - i. scheduled payments that are substantially equal, calculated using an amortization period that does not exceed 30 years, with
 - ii. an interest rate that does not increase over the term of the loan, and
 - iii. a loan term of five years or longer (§§1026.43(f)(1)(iv)(A)-(C)).
 - f. The loan was not subject to a forward commitment at consummation, except to a person that satisfies the requirements of sections 1026.35(b)(2)(iii)(A), (B), and (C) (i.e., small creditors serving rural or underserved counties).
2. Determine whether the balloon-payment qualified mortgage does not have qualified mortgage status because it was subject to a forward commitment at consummation, or the creditor has transferred it in any circumstances other than where the transfer was
 - a. three years or more after consummation;
 - b. to a creditor that satisfies the requirements of section 1026.43(f)(1)(vi) of this section (i.e., meets the definition of sections 1026.35(b)(2)(iii)(A)-(C), establishing criteria for small creditors serving rural or underserved counties);
 - c. made pursuant to a capital restoration plan or other action under 12 U.S.C. 1831o, or to actions or instructions of a conservator, receiver or bankruptcy trustee, or to orders by or agreements with a state or federal governmental agency with jurisdiction to examine the creditor; or
 - d. due to a merger of the creditor with another person or the acquisition of the creditor by another person or another person by the creditor (§1026.43(f)(2)(i) and (iv)).

NOTE: If a balloon-payment qualified mortgage has lost its qualified mortgage status, the creditor must have complied with the

general ability-to-repay requirements under section 1026.43(c).

Temporary Balloon-Payment Qualified Mortgages Made by Small Creditors—Section 1026.43(e)(6)

1. Determine whether a creditor has complied with the ability-to-repay requirements of section 1026.43(c) by making a qualified mortgage that meets the requirements of the small creditor balloon-payment qualified mortgage definition in section 1026.43(f) (above), except that the creditor requirement in section 1026.35(b)(2)(iii)(A) (operate predominantly in a rural or underserved area) does not apply.

NOTE: This temporary qualified mortgage category applies only to loans that are consummated on or before January 10, 2016.

Prepayment Penalties—Section 1026.43(g)

1. Determine whether a mortgage is a covered transaction (which excludes HELOCs and time-shares but, for purposes of the prepayment penalty provisions, includes reverse mortgages, temporary loans, and loans made by certain community development, nonprofit, and other lenders otherwise excluded from ability-to-repay provisions under section 1026.43(a)). If yes, then the loan may not have a prepayment penalty unless
 - a. it is a qualified mortgage under sections 1026.43(e)(2), (e)(4), (e)(5), (e)(6), or (f);
 - b. the prepayment penalty is otherwise allowed by law;
 - c. the mortgage has an APR that cannot increase after consummation; and
 - d. the loan is not a higher-priced mortgage loan, as defined in section 1026.35(a) (§1026.43(g)(1)).

NOTE: Covered transactions are generally prohibited from having prepayment penalties unless certain conditions are met.

2. Determine if the prepayment penalty improperly exceeds the following percentages of the outstanding balance prepaid:
 - a. 2 percent during the first two years following consummation;
 - b. 1 percent during the third year following consummation; and
 - c. 0 percent thereafter (§1026.43(g)(2)).

3. Determine whether a creditor offering a consumer a mortgage with a prepayment penalty has also offered the consumer an alternative without a prepayment penalty and the alternative (§1026.43(g)(3))
 - a. has an APR that cannot increase after consummation and has the same type of interest rate (fixed or step rate) as the loan with a prepayment penalty;
 - b. has the same loan term as the loan with a prepayment penalty;
 - c. satisfies the periodic payment conditions under section 1026.43(e)(2)(i);
 - d. satisfies the points and fees conditions under section 1026.43(e)(2)(iii), based on the information known to the creditor at the time of the offer; and
 - e. is a loan for which the creditor has a good faith belief that the consumer likely qualifies, based on the information known to the creditor at the time the creditor offers the loan without a prepayment penalty (§1026.43(g)(3)).
4. Determine whether a creditor offering a loan with a prepayment penalty through a mortgage broker
 - a. presents the mortgage broker an alternative covered transaction without a prepayment penalty that satisfies the requirements of section 1026.43(g)(3) (see 3 above); and
 - b. establishes by agreement that the mortgage broker must present to the consumer an alternative covered transaction without a prepayment penalty offered by the creditor that satisfies the requirements of section 1026.43(g) (see 3 above) or another creditor, if the other creditor offers a lower interest rate or a lower total dollar amount of discount points and origination points or fees (§1026.43(g)(4)).
5. Determine whether a creditor that is a loan originator, as defined in section 1026.36(a)(1), who presents a covered transaction with a prepayment penalty offered by another person to whom the loan would be assigned after consummation also presents the consumer an alternative covered transaction without a prepayment penalty that satisfies the requirements of section 1026.43(g), offered by the assignee or another person offering a lower interest rate or a lower total dollar amount of origination discount points and points or fees (§1026.43(g)(5)).

Evasion of Minimum Standards for Loans Secured By a Dwelling—Section 1026.43(h)

1. Determine whether the creditor has structured credit secured by a dwelling that does not meet the definition of open-end credit in section 1026.2(a)(20) as an open-end plan to evade the requirements for minimum standards for loans secured by a dwelling.

High-Cost Mortgages, Reverse Mortgages, and Higher-Priced Mortgages Loans—Sections 1026.32, 1026.33, and 1026.35

1. Determine whether the financial institution originates consumer credit transactions subject to Subpart E of Regulation Z; specifically, high-cost mortgages (§1026.32), reverse mortgages (§1026.33), and “higher-priced mortgage loans” (§1026.35).
2. In addition to reviewing high-cost mortgages, reverse mortgages, and higher-priced mortgage loans for compliance with requirements in other subparts of Regulation Z (for example, disclosure timing requirements under section 1026.19 (a)), review such mortgages to ensure the following:
 - a. Required disclosures are provided to consumers in addition to, not in lieu of, the disclosures contained in other subparts of Regulation Z (§1026.31(a)).
 - b. Disclosures are clear and conspicuous, in writing, and in a form that the consumer may keep (§1026.31(b)).
 - c. Disclosures are furnished at least three business days prior to consummation or account opening of a high-cost mortgage or a closed-end reverse mortgage transaction (or at least three business days prior to the first transaction under an open-end reverse mortgage) (§1026.31(c)).
 - d. Disclosures reflect the terms of the legal obligation between the parties (§1026.31(d)).
 - e. If the transaction involves more than one creditor, that only one creditor provided the disclosures. Where the obligation involves multiple consumers, ensure that the disclosures were provided to any consumer who is primarily liable on the obligation. Further, for rescindable transactions, verify that the dis-

- closures were provided to each consumer who has the right to rescind (§1026.31(e)).
- f. The APR is accurately calculated and disclosed in accordance with the requirements and within the tolerances allowed in section 1026.22 for closed-end credit transactions and section 1026.6(a) for open-end credit plans (§1026.31(g)).
3. For high-cost mortgages (§1026.32), ensure that, in addition to other required disclosures, the creditor discloses the following at least three business days prior to consummation or account opening (see model disclosure at app. H-16):
- notice containing the prescribed language (§1026.32(c)(1));
 - the APR (§1026.32(c)(2));
 - regular payment and balloon payment (§1026.32(c)(3));
 - for a closed-end credit transaction, the amount of regular loan payment and the amount of any balloon payment. The disclosed regular payment should be treated as accurate if it is based on an amount borrowed that is deemed accurate under section 1026.32(c)(5) (§1026.32(c)(3)).
- e. For an open-end credit plan
- an example showing the first minimum periodic payment for the draw period, the first minimum periodic payment for any repayment period, and the balance outstanding at the beginning of any repayment period (§1026.32(c)(3)(ii)(A)).
- NOTE: The example must be based on the assumption that the consumer borrows the full credit line at account opening and does not obtain any additional extensions of credit, that the consumer makes only the minimum periodic payments during the draw period and any repayment period, and that the APR used to calculate the example payments remains the same during the draw period and any repayment period. Creditors must provide the minimum period payment example based on the APR, except that if an introductory APR applies, the creditor must use the rate that will apply to the plan after the introductory rate expires (§1026.32(c)(3)(ii)(A)-(C)).
- if the credit contract provides for a balloon payment, a disclosure of that fact and an example showing the amount of the balloon payment based on the assumptions described in the note above. (§1026.32(c)(3)(ii)(B));
- iii. a statement that the example payments show the first minimum periodic payments at the current annual percentage rate if the consumer borrows the maximum credit available when the account is opened and does not obtain any additional extensions of credit, or substantially similar statement (§1026.32(c)(3)(ii)(C));
- iv. a statement that the example payments are not the consumer's actual payments and that the actual minimum periodic payments will depend on the amount the consumer borrows, the interest rate applicable to that period, and whether the consumer pays more than the required minimum periodic payment, or a substantially similar statement (§1026.32(c)(3)(ii)(D)).
- f. For variable-rate transactions, a statement that the interest rate and monthly payment may increase, and the amount of the single maximum monthly payment allowed under the contract based on the maximum rate required to be disclosed under section 1026.30 (§1026.32(c)(4)).
- g. For a closed-end credit transaction, the total amount the consumer will borrow (the face amount of the note) and if this amount includes financed charges that are not prohibited under section 1026.34(a)(10), that fact. This disclosure should be treated as accurate if within \$100 of the actual amount borrowed. For an open-end credit plan, the credit limit for the plan when the account is opened (§1026.32(c)(5)).
4. For high-cost mortgages (§1026.32), ensure that the creditor follows these additional rules concerning the disclosures required by section 1026.32(c):
- Determine if a new disclosure is required if, subsequent to providing the additional disclosure but prior to consummation or account opening, the creditor changes any terms that make the disclosures inaccurate. For example, if a consumer finances the payment of premiums or other charges as permitted under section 1026.34(a)(10) and, as a result, the monthly payment differs from the payment previously disclosed, redisclosure is required and a new three-day waiting period applies (§1026.31(c)(1)(i)).
 - Determine if a creditor provides new disclosures by telephone when the consumer initiates a change in terms, then prior to or at consummation or account opening the creditor must provide new written disclosures and

- both parties must sign a statement that these new disclosures were provided by telephone at least three days prior to consummation or account opening (§1026.31(c)(1)(ii)).
- c. If a consumer waives the right to a three-day waiting period to meet a bona fide personal financial emergency, the consumer's waiver must be a dated written statement (not a pre-printed form) describing the emergency and bearing the signature of all the consumers entitled to the waiting period (a consumer can waive only after receiving the required disclosures and prior to consummation or account opening) (§1026.31(c)(1)(iii)).
5. For high-cost mortgages (§1026.32) determine that the creditor has not included any of the following loan terms:
 - a. a payment schedule that provides for a balloon payment (with exceptions) (§1026.32(d)(1)(i)-(iii));
 - b. negative amortization (§1026.32(d)(2));
 - c. advance payments from the proceeds of more than two periodic payments (§1026.32(d)(3));
 - d. increased interest rate after default (§1026.32(d)(4));
 - e. a rebate of interest, arising from a loan acceleration due to default, calculated by a method less favorable than the actuarial method (§1026.32(d)(5));
 - f. prepayment penalty as defined in section 1026.32(b)(6);
 - g. a due-on-demand clause that permits the creditor to terminate the loan in advance of maturity and accelerate the balance, except in cases of fraud or material misrepresentation by the consumer, failure by the consumer to meet the repayment terms of the agreement for any outstanding balance, or action or inaction by the consumer that adversely affects the creditor's security interest in the loan (§1026.32(d)(8)).
 6. For high-cost mortgages under section 1026.32, determine that the creditor is not engaged in the following acts and practices:
 - a. *Home improvement contracts*—Paying a contractor under a home improvement contract from the proceeds of a mortgage unless certain conditions are met (§1026.34(a)(1)).
 - b. *Notice to assignee*—Selling or otherwise assigning a high-cost mortgage without furnishing the required statement to the purchaser or assignee (§1026.34(a)(2)).
 - c. *Refinancing within one year of extending credit*—Within one year of making a high-cost mortgage, a creditor may not refinance any high-cost mortgage to the same consumer into another high-cost mortgage that is not in the consumer's interest. This also applies to assignees that hold or service the high-cost mortgage. Commentary to section 1026.34(a)(3) has examples applying the refinancing prohibition and addressing "consumer's interest" (§1026.34(a)(3)).
- credit*—Within one year of making a high-cost mortgage, a creditor may not refinance any high-cost mortgage to the same consumer into another high-cost mortgage that is not in the consumer's interest. This also applies to assignees that hold or service the high-cost mortgage. Commentary to section 1026.34(a)(3) has examples applying the refinancing prohibition and addressing "consumer's interest" (§1026.34(a)(3)).
- d. *Extending high-cost mortgage credit without regard to the consumer's repayment ability.* (Temporary or bridge loans with a term of 12 months or less are exempt from this requirement) (§1026.34(a)(4)):
 - i. For closed-end credit transactions that are high-cost mortgages, ensure the creditor is complying with the repayment ability requirements set forth in section 1026.43.
 - ii. For open-end credit plans that are high-cost mortgages, ensure the creditor is not extending credit without regard to the consumer's repayment ability as of account opening, including the consumer's current and reasonably expected income, current obligations, assets other than collateral, and employment. A creditor must determine repayment ability for open-end high-cost mortgages by verifying
 - A. amounts of income or assets that it relies on to determine repayment ability, including expected income or assets, by the consumer's IRS form W-2, tax returns, payroll receipts, financial institution records, or other third-party documents that provide reasonably reliable evidence of the consumer's income or assets;
 - B. the consumer's current obligations, including any mortgage-related obligations that are required by another credit obligation undertaken prior to or at account opening and secured by the same dwelling that secures the high-cost mortgage.
 - iii. Alternatively, determine whether the creditor complies with the repayment ability requirement by
 - A. verifying repayment ability as described above;
 - B. determining the consumer's repayment ability by using the largest required minimum periodic payment based on the assumptions that

- (1) the consumer borrows the full credit line at account opening with no additional extensions of credit;
 - (2) the consumer makes only required minimum periodic payments during the draw period and any repayment period;
 - (3) if the annual percentage rate can increase during the plan, the maximum percentage rate that is included in the contract; and
- C. assessing the consumer's repayment ability, taking into account at least one of the following: the ratio of total debt obligations to income (including any mortgage-related obligations that are required by another credit obligation undertaken prior to or at account opening and are secured by the same dwelling that secures the high-cost mortgage transaction or the income the consumer will have after paying debt obligations) (§1026.34(a)(4)).
- e. *Pre-loan counseling*—Determine whether the creditor extending a high-cost mortgage received written certification confirming that the consumer received approved home ownership counseling after receiving the initial GFE or, for open-end credit plans, the initial TILA disclosure required by section 1026.40, or if neither of those disclosures are provided, after receiving the disclosures required by section 1026.32(c) (§1026.34(a)(5)). Requirements include
 - i. verify that home ownership counseling was not provided by an employee or affiliate of the creditor;
 - ii. if the creditor paid fees associated with homeownership counseling, confirm that the payment was not contingent upon the consumer obtaining the high-cost mortgage or receipt of a counseling certification; and
 - iii. verify that the counseling certificate contains the name of the consumer, date of counseling, name and address of the counselor, and statements required by section 1026.34(a)(5)(iv).
7. *Late fees*—For high-cost mortgages, confirm that late payment charges are disclosed in the terms of the loan contract or open-end credit agreement and that such fees do not exceed 4 percent of the amount past due. No such charge may be imposed more than once for a single late payment (§1026.34(a)(8)).
- Higher-Priced Mortgage Loans: Appraisals*⁴³
1. For higher-priced mortgage loans secured by principal dwelling that are not exempt under section 1026.35(c)(2), determine whether, before consummation, the creditor obtained a written appraisal from a state-licensed or certified appraiser that included a physical visit to the interior of the dwelling (§1026.35(c)(3)).

NOTE: Section 1026.35(c)(2) exempts several types of loans from the appraisal requirements, including qualified mortgages under section 1026.43.
 2. Determine whether the creditor is deemed to comply with the requirement by
 - a. ordering that the appraiser perform the appraisal in conformity with the Uniform Standards of Professional Appraisal Practice and title XI of FIRREA and any implementing regulations (§1026.35(c)(3)(ii)(A));
 - b. verifying through the National Registry that the appraiser who signed the appraiser's certification was a certified or licensed appraiser in the state in which the appraised property is located as of the date the appraiser signed the appraiser's certification (§1026.35(c)(3)(ii)(B));
 - c. confirming that the appraisal includes elements set forth in appendix N (§1026.35(c)(ii)(3)(C));
 - d. having no actual knowledge contrary to the facts or certifications contained in the written appraisal.
 3. Assess whether the creditor exercised reasonable diligence in determining if a second interior appraisal was necessary. A creditor can exercise reasonable diligence by basing its determination on written source documents such as
 - a. a copy of the recorded deed from the seller
 - b. a copy of a property tax bill
 - c. a copy of any owner's title insurance policy obtained by the seller
 - d. a copy of the RESPA settlement statement from the seller's acquisition

44. The higher-priced mortgage loans appraisal requirement was adopted pursuant to an interagency rulemaking conducted by the Board, the CFPB, the FDIC, FHFA, NCUA and OCC. The Board codified the rule at 12 CFR 226.43, and the OCC codified the rule at 12 CFR part 34 and 12 CFR part 164. There is no substantive difference among these three sets of rules.

- e. a property sales history report or title report from a third-party reporting service
 - f. sales price data recorded in multiple listing services
 - g. tax assessment records or transfer tax records obtained from local governments
 - h. a written appraisal performed in compliance with section 1026.35(c)(3)(i) for the same transaction
 - i. a copy of a title commitment report detailing the seller's ownership of the property
 - j. a property abstract (§1026.35(c)(4)(i) and (vi); see appendix O)
4. For higher-priced mortgage loans that are not exempt under section 1026.35(c)(2) or section 1026.35(c)(4)(vii), determine whether an additional written interior appraisal from a state certified or licensed appraiser was both required and performed because the seller acquired the property 180 days or less before the consumer's purchase agreement, and the sales price increased greater than
- a. 10 percent over the previous purchase price, if acquired 90 or fewer days prior to the consumer's purchase agreement (§1026.35(c)(4)(i)(A)); or
 - b. 20 percent over the previous purchase price, if acquired 91 to 180 days prior to the consumer's purchase agreement (§1026.35(C)(4)(i)(B)).

NOTE: Section 1026.35(c)(4)(vii) provides for eight exemptions from the second appraisal requirement, such as for extensions of credit to finance the acquisition of property from a local, state, or federal government agency.

5. For higher-priced mortgage loans (that are not exempt under section 1026.35(c)(2) or section 1026.35(c)(4)(vii)) where the creditor is required to obtain a second interior appraisal:
- a. Confirm that the creditor obtained an appraisal from a different state certified or licensed appraiser than the one who conducted the first appraisal (§1026.35(c)(4)(ii)).
 - b. Confirm that the creditor charged the consumer for only one of the appraisals (§1026.35(c)(4)(v)).

NOTE: Reviewing the HUD-1 may assist in identifying whether a second appraisal fee was charged to the consumer.

- c. For higher-priced mortgage loans that are not exempt under section 1026.35(c)(2), determine that the creditor provided a written

disclosure in a timely manner informing consumers that an appraisal may be necessary and that there is a cost associated with the appraisal, as specified in section 1026.35(c)(5).

- i. Disclosures must be provided to consumers within three business days after receipt of an application for a higher-priced mortgage loan. A creditor can meet this requirement by placing the disclosure in the mail within three business days after receipt of the application for a higher-priced mortgage loan (§1026.35(c)(5)(ii)).
- ii. If the loan becomes a higher-priced mortgage loan during the application process, but after initial receipt of the application, a creditor has three business days from the time the loan became a higher priced mortgage loan to provide the necessary disclosure (§1026.35(c)(5)(ii)).
- d. Confirm that the creditor provided consumers with a free copy of any written appraisal performed in connection with a higher-priced mortgage loan that is not exempt under section 1026.35(c)(2) (§1026.35(c)(6)).
- i. Determine whether the creditor is providing consumers with a copy of their appraisal(s) no later than three business days prior to consummation of the loan (§1026.35(c)(6)(ii)(A)); or
- ii. If the loan is not consummated, determine whether the creditor is providing consumers with a copy of the appraisal(s) within 30 days after determining that the loan will not be consummated (§1026.35(c)(6)(ii)(B)).

NOTE: The creditor can satisfy this disclosure requirement by providing the disclosure required in Regulation B, 12 CFR 1002.14(a)(2), related to a free copy of the appraisal (§1026.35(c)(5)). However, unlike the waiver provision in Regulation B, a consumer may not waive the timing requirement to receive a copy of the appraisal under section 1026.35(c)(6)(i). In addition, the creditor must use the earliest applicable timing requirement to comply with each regulation's appraisal/valuation disclosure requirements.

Higher-Priced Mortgage Loans: Escrow Accounts

1. For most higher-priced mortgage loans secured

- by a first lien on a principal dwelling escrow accounts must be established before consummation for property taxes and premiums for mortgage-related insurance required by the creditor (§1026.35(b)(1)).
2. For higher-priced mortgage loans where the creditor did not establish an escrow account, determine whether the transaction or the creditor would fall into an exemption (§1026.35(b)(2)).
- Is the transaction secured by shares in a cooperative (§1026.35(b)(2)(i)(A));
 - Is the transaction to finance the initial construction of the dwelling (§1026.35(b)(2)(i)(B));
 - Is the transaction a temporary or “bridge” loan with a term less than 12 months (§1026.35(b)(2)(i)(C));
 - Is the transaction a reverse mortgage transaction under section 1026.33 (§1026.35(b)(2)(i)(D));
- NOTE: There is a limited exemption for transactions secured by a dwelling in a condominium, planned unit development, or other “common interest community” where a dwelling ownership requires participation in a governing association that is obligated to maintain a master insurance policy insuring all dwellings. In these common interest communities, creditors must maintain an escrow account for the payment of taxes only (§1026.35(b)(2)(ii)).
- Does the creditor, or loan originator, qualify for an exemption under sections 1026.35(b)(2)(iii)(A)-(D):
 - During any of the three preceding calendar years, it made over half its covered transactions in counties that meet the definition of “rural” or “underserved” as laid out in section 1026.35(b)(2)(iv);
 - Together with any affiliates, it did not make more than 500 covered transactions in the preceding calendar year;
 - It had less than \$2 billion in total assets as of the end of the preceding calendar year; and
 - Neither the creditor nor its affiliate maintains an escrow account of the type described in section 1026.35(b)(1) for any extension of consumer credit secured by real property or a dwelling that the creditor or its affiliate currently services, other than
 - escrow accounts established for first-lien higher-priced mortgage loans on or after April 1, 2010, and before January 1, 2014; or
- B. escrow accounts established after consummation as an accommodation to distressed consumers to assist such consumers in avoiding default or foreclosure.
- NOTE: The asset threshold will adjust automatically each year, based on the year-to-year change in the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers, not seasonally adjusted, for each 12-month period ending in November, with rounding to the nearest million dollars (see Comment 35(b)(2)(iii)-1.iii for the current threshold).
3. *Evasion of requirements:* Ensure that the creditor does not structure a higher-priced mortgage loan as an open-end plan (“spurious open-end credit”) to evade the requirements of Regulation Z (§1026.35(d)).
- ### Prohibited Payments to Loan Originators—Section 1026.36(d) and (e)
1. Determine that, in connection with a closed-end consumer credit transaction secured by a dwelling,⁴⁴ no loan originator receives and no person pays to a loan originator, directly or indirectly, compensation⁴⁵ that is based on:
- NOTE: The term “loan originator” means, a person who, in expectation of direct or indirect compensation or other monetary gain or for direct or indirect compensation or other monetary gain: takes an application, offers, arranges, assists a consumer in obtaining or applying to obtain, negotiates, or otherwise obtains or makes an extension of consumer credit for another person; or through advertising or other means of communication represents to the public that such person can or will perform any of these activities. The term “loan originator” includes an employee, agent, or contractor of the creditor or loan originator organization if the employee, agent, or contractor meets this definition. The term “loan originator” also includes a creditor that engages in loan origination activities if the creditor does not finance the transaction at consummation out of the creditor’s own

45. Sections 1026.36(d) and (e) do not apply to a home-equity line of credit subject to section 1026.40 or to a loan that is secured by a consumer’s interest in a timeshare plan described in 11 U.S.C. 101(53D) (§1026.36(b)).

46. Compensation includes salaries, commissions, and any financial or similar incentive, such as an annual or periodic bonus or awards of merchandise, services, trips, or similar prizes. See 12 CFR §1026.36(a)(3) and Comment 1026.36(a)-5.

resources, including by drawing on a bona fide warehouse line of credit or out of deposits held by the creditor.

NOTE: A person is not a loan originator who does not take a consumer credit application or offer or negotiate credit terms available from a creditor to that consumer based on the consumer's financial characteristics, but who performs purely administrative or clerical tasks on behalf of a person who does engage in such activities. An employee of a manufactured home retailer who does not take a consumer credit application, offer or negotiate credit terms, or advise a consumer on credit terms is not a loan originator. For purposes of section 1026.36(a), "credit terms" include rates, fees or other costs, and a consumer's financial characteristics include any factors that may influence a credit decision, such as debts, income, assets, or credit history.

- a. a term of a transaction, the terms of multiple transactions by an individual loan originator, or the terms of multiple transactions by multiple individual loan originators; or

NOTE: For purposes of section 1026.36(d)(1) only, a "term of a transaction" is any right or obligation of the parties to a credit transaction. The amount of credit extended is not a term of a transaction or a proxy for a term of a transaction, provided that compensation received by or paid to a loan originator, directly or indirectly, is based on a fixed percentage of the amount of credit extended; however, such compensation may be subject to a minimum or maximum dollar amount (§1026.36(d)(1)(ii)).

- b. a proxy⁴⁶ for a term of a transaction (§1026.36(d)(1)(i)).
2. Determine that a loan originator that receives a contribution to a defined contribution, tax-advantaged plan that meets the applicable requirements of the Internal Revenue Code does not receive a contribution that is directly or indirectly based on the terms of the individual loan originator's transactions (§1026.36(d)(1)(iii)).
3. Determine whether an individual loan originator receives compensation pursuant to a non-deferred, profits-based compensation plan only if
 - a. the compensation paid to an individual loan

47. A factor that is not itself a term of a transaction is a proxy for a term of the transaction if the factor consistently varies with that term over a significant number of transactions, and the loan originator has the ability, directly or indirectly, to add, drop, or change the factor in originating the transaction (§1026.36(d)(1)(i)).

originator is not directly or indirectly based on the terms of that individual loan originator's transactions that are subject to section 1026.36(d); and

- b. at least one of the following conditions is satisfied:
 - i. the compensation paid to an individual loan originator does not, in the aggregate, exceed 10 percent of the individual loan originator's total compensation corresponding to the time period for which the compensation under the non-deferred profits-based compensation plan is paid; or
 - ii. the individual loan originator was a loan originator for 10 or fewer transactions consummated during the 12-month period preceding the date of the compensation determination.

Prohibition on Dual Compensation

1. If any loan originator receives compensation directly from a consumer in a closed-end consumer credit transaction secured by a dwelling, determine that (§1026.36(d)(2))
 - a. no loan originator receives compensation, directly or indirectly, from any person other than the consumer in connection with the transaction (§1026.36(d)(2)(i)(A)(1)) except that a loan originator organization may receive compensation from a consumer and pay compensation to its individual loan originator; and
 - b. no person who knows or has reason to know of the consumer-paid compensation to the loan originator (other than the consumer) pays any compensation to a loan originator, directly or indirectly, in connection with the transaction (§1026.36(d)(2)(i)(A)(2)).

NOTE: Loan originator organizations are permitted to compensate their employees if the organization receives compensation directly from a consumer, subject to the prohibition on payments to loan originators in section 1026.36(d)(1).

Prohibition on Steering

1. Determine that, in connection with a consumer credit transaction secured by a dwelling, a loan originator does not direct or "steer" a consumer to consummate a transaction based on the fact that the originator will receive greater compensation from the creditor in that transaction than in other transactions the originator offered or could have offered to the consumer, unless the consummated transaction is in the consumer's interest (§1026.36(e)(1)).

NOTE: The rule provides a safe harbor to facilitate compliance with the prohibition on steering in section 1026.36(e)(1). The loan originator is deemed to comply with the anti-steering prohibition if the consumer is presented with loan options that meet all of the following conditions for each type of transaction in which the consumer expressed an interest:⁴⁷

- a. The loan originator obtains loan options from a significant number of the creditors with which the originator regularly does business and, for each type of transaction in which the consumer expressed an interest, presents the consumer with loan options that include (§1026.36(e)(3)(i))
 - i. the loan with the lowest interest rate (§1026.36(e)(3)(i)(A));
 - ii. the loan with the lowest interest rate without negative amortization, a prepayment penalty, interest-only payments, a balloon payment in the first seven years of the life of the loan, a demand feature, shared equity, or shared appreciation; or, in the case of a reverse mortgage, a loan without a prepayment penalty, or shared equity or shared appreciation (§1026.36(e)(3)(i)(B)); and
 - iii. the loan with the lowest total dollar amount of discount points, origination points, or origination fees (or, if two or more loans have the same total dollar amount of discount points, origination points or origination fees, the loan with the lowest interest rate that has the lowest total dollar amount of discount points, origination points, or origination fees) (§1026.36(e)(3)(i)(C)).
- b. The loan originator has a good faith belief that the options (presented to the consumer that are set forth, above) are loans for which the consumer likely qualifies (§1026.36(e)(3)(ii)).
- c. For each type of transaction, if the originator presents to the consumer more than three loans, the originator highlights the loans that satisfy options 1.i, 1.ii, and 1.iii above (§1026.36(e)(3)(iii)).

NOTE: If the requirements set forth in section 1026.36(e) are met, the loan originator can, without steering, present fewer than three loans (§1026.36(e)(4)).

48. The term "type of transaction" refers to whether: (1) a loan has an APR that cannot increase after consummation, (2) a loan has an APR that may increase after consummation, or (3) a loan is a reverse mortgage (§1026.36(e)(2)).

Loan Originator Qualifications⁴⁸ and Documentation—Section 1026.36(f)

1. Determine whether the loan originator organization complies with all applicable state law requirements for legal existence and foreign qualification (§1026.36(f)(1)).
2. Determine whether the loan originator organization ensures that individual loan originators who work for it (e.g., employees, under a brokerage agreement) are licensed or registered as required by the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE Act), its implementing regulations (12 CFR 1007 and 1008), and any state SAFE Act law (§1026.36(f)(2)).
3. For individual loan originators who are its employees and who are not required to be licensed and are not licensed as a loan originator under section 1008.103 or state SAFE Act implementing law, determine whether the loan originator organization, prior to allowing the individual to act as a loan originator
 - a. obtained a copy of the individual's background check through the Nationwide Mortgage Licensing System and Registry (NMLS) or a criminal background check from a law enforcement agency or commercial service (§1026.36(f)(3)(i)(A));
 - b. obtained a credit report from a consumer reporting agency in compliance with FCRA section 604(b) (§1026.36(f)(3)(i)(B));
 - c. obtained information from the NMLS, or from the individual as applicable, about administrative, civil, or criminal findings against the individual (§1026.36(f)(3)(i)(C));
 - d. determined on the basis of obtained information or any other information reasonably available that the individual has not been convicted of, plead guilty or *nolo contendere* to a felony in a domestic or military court during the preceding seven year period (§1026.36(f)(3)(ii)(A)(1));
 - e. determined on the basis of obtained information or any other information reasonably available that the individual has not been convicted of, plead guilty or *nolo contendere* to a felony involving an act of fraud, dishonesty, breach of trust, or money laundering, at any time (§1026.36(f)(3)(ii)(A)(1));
 - f. confirmed that if the individual has a felony conviction and is employed as an individual loan originator, that the FDIC (or FRB, as applicable), NCUA, or Farm Credit Adminis-

49. For the purposes of sections 1026.36(f) and (g), all creditors are loan originators.

- tration has provided consent to employ the individual under their own statutory authorities (§1026.36(f)(ii)(A)(2)(iii));
- g. confirmed that the individual demonstrated financial responsibility, character, and general fitness such as to warrant a determination that the individual loan originator will operate honestly, fairly, and efficiently (§1026(f)(3)(ii)(B));
 - h. provides periodic training covering federal and state law requirements that apply to the individual loan originator's loan origination activities (§1026.36(f)(3)(iii)).

NOTE: Paragraph (c) only applies to an individual loan originator hired on or after January 1, 2014 (or an individual loan originator the loan originator organization hired before this date but for whom there were no applicable statutory or regulatory background standards in effect at the time of hire or used to screen the individual), or an individual loan originator regardless of when hired who, based on reliable information known to the loan originator organization, likely does not meet the qualification standards.

4. Verify that the loan originator organization and individual loan originator include their names and NMLSR IDs on all required loan documentation, including (§1026.36(g))
 - a. the credit application;
 - b. the disclosures required by sections 1026.19(e) and (f);
 - c. the note or loan contract; and
 - d. the security instrument.

Policies and Procedures for Depository Institutions to Ensure and Monitor Compliance—Section 1026.36(j)

1. Verify that loan originator organizations that are depositories (including credit unions) have established and maintain written policies and procedures reasonably designed (i.e., appropriate to the nature, size, complexity, and scope of the mortgage lending activities of the depository and its subsidiaries) to ensure that the depository, its subsidiaries and their collective employees comply with the loan originator requirements of sections 1026.36(d)-(g) (§1026.36(j)).

Prohibition on Mandatory Arbitration Clauses and Waiver of Certain Consumer Rights—Section 1026.36(h)

1. Verify that the contract or other agreement for a consumer credit transaction secured by a dwelling (including a home-equity line of credit secured by the consumer's principal dwelling) does not include terms that require arbitration or any other non-judicial procedure to resolve any controversy or settle any claims arising out of the transaction (§1026.36(h)(1)).
2. Verify that the contract or other agreement relating to a consumer credit transaction secured by a dwelling (including a home-equity line of credit secured by the consumer's principal dwelling) has not been applied or interpreted to bar a consumer from bringing a claim in court pursuant to any provision of law for damages or other relief in connection with any alleged violation of any federal law (§1026.36(h)(2)).

Prohibition on Financing Credit Insurance—Section 1026.36(i)

1. Determine that the creditor does not finance, directly or indirectly, premiums or fees for credit insurance (including credit life, credit disability, credit unemployment, or credit property insurance, or any other accident, loss-of-income, life, or health insurance or direct or indirect payment for debt cancellation/suspension) on the transaction secured by a dwelling (including a home-equity line of credit secured by a principal dwelling) (§1026.36(i)).

NOTE: Credit unemployment insurance is not subject to this prohibition where the premiums are reasonable, the creditor receives no direct or indirect compensation in connection with the premiums, and the premiums are paid under a separate insurance contract and are not paid to an affiliate of the creditor. Additionally, this prohibition does not apply to credit insurance that is paid in full monthly.

Negative Amortization Counseling—Section 1026.36(k)

1. Verify that the creditor received documentation that first-time borrowers received pre-loan counseling from a HUD certified or approved counselor on each negative amortizing mortgage

loan to prior to originating the loan (§1026.36(k)).

NOTE: This restriction does not apply to reverse mortgages covered under section 1026.33 or transactions secured by a timeshare plan. For more information, please see the commentary to section 1026.36(k).

Servicing Requirements for Certain Home Mortgages Subject to Subpart E

1. Determine whether the creditor, assignee, or servicer provides consumers with reasonably prompt periodic statements for closed-end loans secured by a dwelling (§1026.41).

NOTE: This requirement does not apply to reverse mortgages under section 1026.33; timeshare plans; fixed-rate loans where the servicer currently provides consumers with coupon books that contain account payment, fees, and contact information specified under section 1026.41(e)(3); small servicers under section 1026.41(e)(4); or, as specified in section 1026.41(e)(5), for mortgages while the consumer is a debtor in bankruptcy under Title 11 of the US Code. A small servicer is defined as (1) a servicer that, together with any affiliates, services 5,000 or fewer loans, for all of which the servicer or any affiliate is the creditor or assignee; (2) a servicer that is a housing finance agency under 24 CFR 226.5; or (3) a nonprofit entity (defined in section 1026.41(e)(4)(ii)(C)(1)) that services 5,000 or fewer mortgage loans, including any mortgage loans serviced on behalf of associated nonprofit entities (defined in section 1026.41(e)(4)(ii)(C)(2)), for all of which the servicer or an associated nonprofit is the creditor. Small servicer status is generally based on the loans serviced by the servicer and any affiliates as of January 1 for the remainder of the year. However, to determine small servicer status under the nonprofit small servicer definition, a nonprofit servicer should be evaluated based on the mortgage loans serviced by the servicer (and not those serviced by associated nonprofit entities) as of January 1 for the remainder of the calendar year. Servicers that cease to qualify as a small servicer will have the later of six months after the date they ceased to qualify, or until the next January 1 to come into compliance.

NOTE ALSO: When examining a creditor or assignee that continues to own the loan, or a servicer, if the entity states that another entity has the obligation to provide the disclosures, examiners should determine whether the exam-

ined entity takes steps to ensure that the other party (a creditor, assignee, or servicer) is complying with the obligation to provide the disclosures.

2. Verify that the periodic statements contain
 - a. the payment due date; the amount of any late payment fee, and the date on which that fee will be imposed; and the amount due (the latter shown more prominently than other disclosures on the page and, if the transaction has multiple payment options, the amount due under each of the payment options), grouped together in close proximity to each other and located at the top of the first page (§1026.41(d)(1));
 - b. the monthly payment amount, including a breakdown of how it will be applied to principal, interest, and escrow, and if a mortgage loan has multiple payment options along with information regarding how each payment will affect the principal, a breakdown of each of the payment options; the total sum of any fees or charges imposed since the last statement; and any payment amount past due, grouped together in close proximity to each other and located at the top of the first page (§1026.41(d)(2));
 - c. the total of all payments received since the last statement, including a breakdown showing how the payment was applied to principal, interests, escrow, fees, and charges, and any amount sent to a suspense or unapplied funds account grouped together in close proximity to each other and located at the top of the first page (§1026.41(d)(3)(i));
 - d. the total of all payments received for the calendar year, including a breakdown of how those payments were applied to principal, interest, escrow, fees, and charges and any amount currently held in a suspense or unapplied funds account, grouped together in close proximity to each other and located at the top of the first page (§1026.41(d)(3)(ii));
 - e. a list of transaction activity that occurred since the last statement, including the date, amount, and brief description of the transaction. Transaction activity includes any activity that caused a credit or debit to the amount currently due (§1026.41(d)(4));
 - f. for statements where a partial payment was received and the creditor or servicer held the partial payment in a suspense or unapplied funds account, information explaining what must be done for the funds to

- be applied to the balance, located on the front page or a separate page of the statement or in a separate letter (§1026.41(d)(5));
- g. a toll-free number, and if applicable, an e-mail address, that consumers may use to obtain account information located on the front page (§1026.41(d)(6));
 - h. the amount of the outstanding principal balance (§1026.41(d)(7)(i));
 - i. the current interest rate for the mortgage (§1026.41(d)(7)(ii));
 - j. the date that the interest may change (if applicable) (§1026.41(d)(7)(iii));
 - k. information regarding whether the loan contains a prepayment penalty (§1026.41(d)(7)(iv));
 - l. the web address to the CFPB or HUD's list of homeownership counselors or counseling organizations and HUD's toll-free telephone number to obtain contact information for counselors or counseling organizations (§1026.41(d)(7)(v));
 - m. for consumers more than 45 days delinquent, creditors, assignees, or servicers also must provide on the first page or on a separate page of the statement or in a separate letter
 - i. the date that the consumer's account became delinquent (§1026.41(d)(8)(i));
 - ii. a notification of the possible risks, such as foreclosure, and expenses that may occur if the consumer does not become current (§1026.41(d)(8)(ii));
 - iii. an account history showing the shorter of the previous six months or from the time the account was last current, the amount of payment that is past due from each billing cycle (§1026.41(d)(8)(iii));
- NOTE:** If any payment was accepted as a full payment, the creditor or servicer must show that the payment was credited to the consumer's account and the date that the payment was credited.
- iv. a notice indicating any loss mitigation program that the consumer has agreed to (§1026.41(d)(8)(iv));
 - v. a notice of whether the servicer has initiated foreclosure proceedings (§1026.41(d)(8)(v));
 - vi. the total payment amount needed to bring the account current (§1026.41(d)(8)(vi)); and
 - vii. a reference to homeownership counseling information required under section 1026.41(d)(7)(v) (§1026.41(d)(8)(vii)).
3. For high-cost mortgages, ensure the creditor or servicer does not charge any fee to modify, renew, extend, or amend a high-cost mortgage, or to defer any payment due under the terms of the mortgage (§1026.34(a)(7)).
 4. For high-cost mortgages, determine whether the creditor or servicer charged a late payment greater than 4 percent of the payment past due (§1026.34(a)(8)(i)).
 5. For high-cost mortgages, determine that the creditor or servicer did not impose any late fee or delinquency charge in connection with a payment, when the only delinquency was attributable to late fees or delinquency charges assessed on an earlier payment, and the payment is otherwise a full payment for the applicable period and is paid on its due date or within any applicable grace period (§1026.34(a)(8)(iii)).
 6. For high-cost mortgages, determine whether the creditor or servicer assessed any fees for providing consumers with a payoff statement related to the high-cost mortgage (§1026.34(a)(9)).
- NOTE:** Creditors or servicers are permitted to assess a processing fee if the payoff statement is provided by courier or by fax, the fee is comparable to fees for similar services provided for non-high-cost mortgages, and the creditor or servicer discloses that payoff statements are available by an alternative method free of charge. Additionally, within a calendar year, if the creditor or servicer has already provided four payoff statements in compliance with section 1026.34(a)(9), it may assess fees for additional statements.
7. For high-cost mortgages, determine that the creditor or servicer is providing payoff statements within five business days after receiving a request from the consumer (or consumer's authorized representative) (§1026.34(a)(9)(v)).
 8. For higher-priced mortgage loans that are subject to the escrow account requirements, ensure the creditor or servicer maintains the consumer's escrow account for a minimum of five years after consummation of the loan, unless (§1026.35(b)(3))
 - a. the creditor or servicer terminated the

- escrow account upon termination of the underlying debt obligation (§1026.35(b)(3)(i)(A)); or
- b. the creditor or servicer terminated the escrow account upon request from the consumer, no earlier than five years after consummation of the loan (§1026.35(b)(3)(i)(B)).

NOTE: Upon request from the consumer, the creditor or servicer must verify that the unpaid principal balance of the higher-priced mortgage loan is less than 80 percent of the original value of the property securing the loan and that the consumer is not delinquent or in default on the loan, prior to cancelling the escrow account (§1026.35(b)(3)(ii)).

- 9. For consumer credit transactions secured by a consumer's principal dwelling, determine that the creditor or servicer credited consumer's periodic payments as of the date the payment was received or ensured that any delay in crediting did not result in any charge to the consumer or in the reporting of any negative information to a consumer reporting agency (§§1026.34(a)(8)-(9) and 1026.36(c)(1)(i)).
- 10. For consumer credit transactions secured by a consumer's principal dwelling, determine whether the creditor or servicer uses a suspense or unapplied payment account for partial payments.
 - a. For creditors or servicers that use suspense or unapplied payment accounts for consumers' partial payments, verify that the creditor or servicer discloses to consumers that amount held in the suspense account on the periodic statement required by section 1026.41(d)(3) if one is required (§1026.36(c)(1)(ii)(A)); and
 - b. Verify that creditors or servicers credit a periodic payment to the consumer's account once the amount in the suspense account equals a periodic payment (§1026.36(c)(1)(ii)(B)).
- 11. For consumer credit transactions secured by a consumer's principal dwelling, and for creditors or servicers that accept non-conforming payments from consumers, verify that the creditor or servicer credited the non-conforming payment to the consumer's account as of five days after receipt of the payment (§1026.36(c)(1)(iii)).
- 12. Determine whether there were any of the following prohibited acts or practices in connection with credit secured by a consumer's principal dwelling (§1026.36(c)):

- a. Imposing on the consumer any late fee or delinquency charge in connection with a payment, when the only delinquency was attributable to late fees or delinquency charges assessed on an earlier payment, and the payment is otherwise a periodic payment for the applicable period and is received on its due date or within any applicable courtesy period (§1026.36(c)(2)); or

- 13. For consumer credit transactions secured by a dwelling (including a home-equity line of credit secured by a dwelling), verify that the creditor, assignee, or servicer provided, within a reasonable time, but no later than seven business days after receiving a written request from the consumer or person acting on behalf of the consumer, an accurate statement of the total outstanding balance that would be required to pay the consumer's obligation in full as of a specific date except when a delay is because a loan is in bankruptcy or foreclosure, the loan is a reverse or shared appreciation mortgage, or because of a natural disaster, in which case the payoff statement must be provided within a reasonable period of time (§§1026.36(b) and (c)(3)).

Valuation Independence

- 1. Determine that the covered person did not attempt to directly or indirectly cause the value assigned to the consumer's principal dwelling to be based on any factor other than the independent judgment of a person that prepares valuations. Examples of such attempts include (§1026.42(c))
 - a. seeking to influence a person that prepares a valuation to report a minimum or maximum value for the consumer's principal dwelling;
 - b. withholding or threatening to withhold timely payment to a person that prepares a valuation or performs valuation management functions because the person does not value the consumer's principal dwelling at or above a certain amount;
 - c. implying to a person that prepares valuations that current or future retention of the person depends on the amount at which the person estimates the value of the consumer's principal dwelling;
 - d. excluding a person that prepares a valuation from consideration for future engagement because the person reports a value for the consumer's principal dwelling that does not meet or exceed a predetermined threshold; and

- e. conditioning the compensation paid to a person that prepares a valuation on consummation of the covered transaction.
- 2. Determine that the valuation does not materially misrepresent the value of the consumer's principal dwelling (§1026.42(c)(2)(i)).

NOTE: A misrepresentation is material if it is likely to significantly affect the value assigned to the consumer's principal dwelling. A bona fide error shall not be a misrepresentation.

- 3. Determine that a valuation was not falsified or materially altered (§1026.42(c)(2)(ii)).

NOTE: An alteration is material if it is likely to significantly affect the value assigned to the consumer's principal dwelling.

- 4. Determine that the covered person does not induce a person to materially misrepresent or falsify the value of a consumer's principal dwelling (in violation of section 1026.42(c)(2)(i) or (ii)) (§1026.42(c)(2)(iii)).
- 5. Prohibition on conflicts of interest: To the extent applicable, determine that the person who prepared the valuations or performed the valuation management functions for a covered transaction did not have a direct or indirect interest, financial or otherwise, in the property or transaction for which the valuation is or will be performed (§1026.42(d)(1)(i)).

NOTE: No person violates this section solely because that the person is an employee or affiliate of the creditor, or provides a settlement service in addition to preparing valuations or performing valuation management functions, or based solely on the fact that the person's affiliate performs another settlement service, as long as the conditions discussed below ((f), (g), and (h)) are met. If they are not met, whether the conflicts of interest provisions are violated by the above persons or entities depends on all of the facts and circumstances. In other words, the conditions in (f), (g), and (h) are a safe harbor, but not required.

- 6. For any consumer credit transaction secured by the consumer's principal dwelling in which the creditor had assets of more than \$250 million as of December 31 for both of the past two calendar years, determine that a person subject to section 1026.42(d)(1)(i) who is employed by or affiliated with the creditor does not have a conflict of interest in violation of section 1026.42(d)(1)(i) based solely on the person's employment or affiliate relationship with the creditor if (§1026.42(d)(2))
 - a. the compensation of the person preparing a

valuation or performing valuation management functions is not based on the value arrived at in any valuation;

- b. the person preparing a valuation or performing valuation management functions reports to a person who is not part of the creditor's loan production function, as defined in section 1026.42(d)(5)(i), and whose compensation is not based on the closing of the transaction to which the valuation relates; and
- c. no employee, officer, or director in the creditor's loan production function, as defined in section 1026.42(d)(5)(i), is directly or indirectly involved in selecting, retaining, recommending, or influencing the selection of the person to prepare a valuation or perform valuation management functions, or to be included in or excluded from a list of approved persons who prepare valuations or perform valuation management functions.
- 7. For any covered transaction in which the creditor had assets of \$250 million or less as of December 31 for either of the past two calendar years, determine that a person subject to section 1026.42(d)(1)(i) who is employed by or affiliated with the creditor does not have a conflict of interest in violation of section 1026.42(d)(1)(i) based solely on the person's employment or affiliate relationship with the creditor if (§1026.42(d)(3))
 - a. the compensation of the person preparing a valuation or performing valuation management functions is not based the value arrived at in any valuation; and
 - b. the creditor requires that any employee, officer, or director of the creditor who orders, performs, or reviews a valuation for a covered transaction abstain from participating in any decision to approve, not approve, or set the terms of that transaction.
- 8. For any covered transaction, determine that a person who prepares a valuation or performs valuation management functions in addition to performing another settlement service for the transaction, or whose affiliate performs another settlement service for the transaction, does not have a conflict of interest in violation of section 1026.42(d)(1)(i) as a result of the person or the person's affiliate performing another settlement service for the transaction if (§1026.42(d)(4))
 - a. the creditor had assets of more than \$250 million as of December 31 for both of the past two calendar years and the conditions in paragraph (d)(2)(i)-(iii) are met; or

- b. the creditor had assets of \$250 million or less as of December 31 for either of the past two calendar years and the conditions in paragraph (d)(3)(i)-(ii) are met.
- 9. If the creditor did know at or before consummation of a violation of sections 1026.42(c) or (d) in connection with a valuation, determine that the creditor did not extend credit based on the valuation, unless the creditor documented that it acted with reasonable diligence to determine that the valuation did not materially misstate or misrepresent the value of the consumer's principal dwelling (§1026.42(e)).

NOTE: For purposes of section 1026.42(e), a valuation materially misstates or misrepresents the value of the consumer's principal dwelling if the valuation contains a misstatement or misrepresentation that affects the credit decision or the terms on which credit is extended.

- 10. Customary and reasonable compensation. For any covered transaction, determine that the creditor and its agents compensated a fee appraiser for performing appraisal services at a rate that is customary and reasonable for comparable appraisal services performed in the geographic market of the property being appraised (§1026.42(f)(1)).

NOTE: For purposes of section 1026.42(f), "agents" of the creditor do not include any fee appraiser as defined in section 1026.42(f)(4)(i). An agent could be an appraisal management company to which the creditor has outsourced the valuation function.

- 11. If the creditor reasonably believes an appraiser has not complied with the Uniform Standards of Professional Appraisal Practice or ethical or professional requirements for appraisers under applicable state or federal statutes or regulations, determine that the creditor referred the matter within a reasonable period of time to the appropriate state agency if the failure to comply is material (§1026.42(g)(1)).

NOTE: For purposes of section 1026.42(g), a failure to comply is material if it is likely to significantly affect the value assigned to the consumer's principal dwelling.

Open-End Credit Transactional Testing Procedures

- 1. For each open-end credit product tested, determine the accuracy of the disclosures by comparing the disclosure with the contract and other financial institution documents (§1026.5 (c)).
- 2. Review the financial institution's policies, procedures, and practices to determine whether it provides appropriate disclosures for creditor-initiated direct mail applications and solicitations to open charge card accounts, telephone applications and solicitations to open charge card accounts, and applications and solicitations made available to the general public to open charge card accounts (§§1026.60(b), (c), and (d)).
- 3. Determine for all home-equity plans with a variable rate that the APR is based on an independent index. Further, ensure home-equity plans are terminated or terms changed only if certain conditions exist (§1026.40(f)).
- 4. Determine that, if any consumer rejected a home-equity plan because a disclosed term changed before the plan was opened, all fees were refunded. Verify that non-refundable fees were not imposed until three business days after the consumer received the required disclosures and brochure (§§1026.40(g) and (h)).
- 5. Review consecutive periodic billing statements for each major type of open-end credit activity offered (overdraft and home-equity lines of credit, credit card programs, etc.). Determine whether disclosures were calculated accurately and are consistent with the initial disclosure statement furnished in connection with the accounts (or any subsequent change in terms notice) and the underlying contractual terms governing the plan(s).
- 6. Determine whether the consumer was given notice of the right to reject the significant change, with the exception of
 - a. an increase in the required minimum periodic payment (§1026.9(c)(2)(iv)(B));
 - b. a change in the APR (§1026.9(c)(2)(iv)(B));
 - c. a change in the balance computation method necessary to comply with section 1026.54, which sets forth certain limitations on the imposition of finance charges as a result of a loss of a grace period; or
 - d. increase in fee pursuant to evaluation under section 1026.52 or adjustment to safe harbors;
 - e. increase in fees previously reduced under SCRA;
 - f. when the change results from the creditor not receiving the required minimum periodic payment within 60 days after the due date for that payment (§1026.9(c)(2)(iv)(B)).
- 7. Determine that the creditor did not increase the rate applicable to the consumer's account to

- the penalty rate if the outstanding balance did not exceed the credit limit on the date set forth in the notice (§1026.9(g)(4)).
8. Determine, for each type of open-end rescindable loan being tested, the appropriate number of copies of the rescission notice are provided to each person whose ownership interest is or will be subject to the security interest and perform the procedures 12, 13, and 14 under Closed-End Credit section (§§1026.15(b), (c) and (e)).
 9. Additional variable-rate testing: Verify that when accounts were opened or loans were consummated that loan contract terms were recorded correctly in the financial institution's calculation systems (e.g., its computer). Determine the accuracy of the following recorded information:
 - a. index value,
 - b. margin and method of calculating rate changes,
 - c. rounding method, and
 - d. adjustment caps (periodic and lifetime).
 10. Using a sample of periodic disclosures for open-end variable-rate accounts (e.g., home-equity accounts) and closed-end rate change notices for adjustable rate mortgage loans:
 - a. Compare the rate-change date and rate on the credit obligation to the actual rate-change date and rate imposed.
 - b. Determine that the index disclosed and imposed is based on the terms of the contract (example: the weekly average of one-year Treasury constant maturities, taken as of 45 days before the change date) (§§1026.7(a) and 1026.20(c)(2)).
 - c. Determine that the new interest rate is correctly disclosed by adding the correct index value with the margin stated in the note, plus or minus any contractual fractional adjustment (§§1026.7(g) and 1026.20 (c)(1)).
 - d. Determine that the new payment disclosed (§1026.20(c)(4)) was based on an interest rate and loan balance in effect at least 25 days before the payment change date (consistent with the contract) (§1026.20(c)).

Crediting a Consumer's Account— Section 1026.10

1. Ensure that the creditor credits payment to a consumer's account as of the date of receipt, except when a delay in crediting does not result in a finance charge or other charge (§1026.10(a)).

2. If a creditor specifies requirements for payments, determine that they are reasonable and enable most consumers to make conforming payments (§1026.10(b)).
3. Except as provided by section 1026.10(b)(4) (ii), if a creditor specifies, on or with the periodic statement, requirements for the consumer to follow in making payments as permitted under section 1026.10, but accepts a payment that does not conform to the requirements, determine that the payment is credited within five days of receipt (§1026.10(b)(4)(i)).
4. If the creditor promotes a method for making payments, determine that the creditor considers such payments conforming payments in accordance with section 1026.10(b) and that they are credited to the consumer's account as of the date of receipt, except when a delay in crediting does not result in a finance charge or other charge (§1026.10(b)(4)(ii)).
5. If the creditor sets a cut-off time for payments to be received by mail, by electronic means, by telephone, or in person, verify that the cut-off time is 5 p.m. or later on the payment due date at the location specified by the creditor for the receipt of such payments (§1026.10(b)(2)(ii)).
6. For in-person payments on a credit card account under an open-end (not home-secured) consumer credit plan at a financial institution branch or office that accepts such payments, a card issuer shall not impose a cut-off time earlier than the close of business for any such payments made in person at any branch or office of the card issuer at which such payments are accepted. However, a card issuer may impose a cut-off time earlier than 5 p.m. for such payments, if the close of business of the branch or office is earlier than 5 p.m. (§1026.10(b)(3)(i)).
7. If a creditor fails to credit a payment as required and imposes a finance or other charge, ensure that the creditor credits the charge(s) to the consumer's account during the next billing cycle (§1026.10(c)).
8. If (due to a weekend or holiday, for example) a creditor does not receive or accept payments by mail on the due date for payments, determine that the creditor treats as timely a payment received on the next business day (§1026.10(d)(1)).

NOTE: If a creditor accepts or receives payments made on the due date by a method other than mail, such as electronic or telephone payments, the creditor is not required to treat a payment made by that method on the next business day as timely.

9. For credit card accounts under an open-end (not home-secured) consumer credit plan, determine that the creditor does not impose a separate fee to allow consumers to make a payment by any method, such as mail, electronic, or telephone payments, unless such payment method involves an expedited service by a customer service representative of the creditor (§1026.10(e)).

NOTE: For purposes of section 1026.10(e), the term "creditor" includes a third party that collects, receives, or processes payments on behalf of a creditor.

10. If a card issuer makes a material change in the address for receiving payments or procedures for handling payments, and such change causes a material delay in the crediting of a payment to a consumer's account during the 60-day period following the date on which such change took effect, ensure that the card issuer does not impose any late fee or finance charge for a late payment on the credit card account during the 60-day period following the date on which the change took effect (§1026.10(f)).

Treatment of Credit Balances, Account Termination—Section 1026.11

1. Determine institution's treatment of credit balances. Specifically, if the account's credit balance is in excess of \$1, the institution must take the actions listed below (§1026.11):
 - a. credit the amount to the consumer's account, and
 - b. either
 - i. refund any part of the remaining credit balance within seven business days from receiving a written request from the consumer; or
 - ii. if no written request is received and the credit remains for more than six months, make a good faith effort to refund the amount of the credit to the consumer by cash, check, money order, or credit to a deposit account of the consumer. No further action is required if the consumer's current location is not known to the creditor and cannot be traced through the consumer's last known address or telephone number.
2. Determine that institution has not terminated an account prior to its expiration date solely because the consumer did not incur a finance charge. However, a creditor is not prohibited from closing an account that, for three consecutive months, no credit has been extended (such

as by purchase, cash advance, or balance transfer) and the account has had no outstanding balance (§1026.11(b)).

3. Determine that, for credit card accounts under an open-end (not home-secured) consumer credit plan, the card issuer has adopted reasonable written policies and procedures designed to ensure that an administrator of an estate of a deceased account holder can determine the amount of and pay any balance on the account in a timely manner (§1026.11(c)(1)(i)).

NOTE: This does not apply to the account of a deceased consumer if a joint account holder remains on the account.

4. Ensure that, upon request by the administrator of an estate, the card issuer provides the administrator with the amount of the balance on a deceased consumer's account in a timely manner (§1026.11(c)(2)(i)).

NOTE: Providing the amount of the balance on the account within 30 days of receiving the request is deemed to be timely.

5. Verify that, after receiving a request from the administrator of an estate for the amount of the balance on a deceased consumer's account, the card issuer does not impose any fees on the account (such as a late fee, annual fee, or over-the-limit fee) or increase any annual percentage rate, except as provided by section 1026.55(b)(2) (i.e., due to the operation of an index) (§1026.11(c)(3)(i)).
6. Determine that, if payment in full of the disclosed balance, pursuant to section 1026.11(c)(2), is received within 30 days after disclosure, the card issuer waives or rebates any additional finance charge due to a periodic interest rate (§1026.11(c)(3)(ii)).

Special Credit Card Provisions and Billing Error Resolution—Sections 1026.12 and 13

1. Review a sample of billing error resolution files and a sample of consumers who have asserted a claim or defense against the financial institution for a credit card dispute regarding property or services. Verify the following (§§1026.12 and 1026.13):
 - a. credit cards are issued only upon request;
 - b. liability for unauthorized credit card use is limited to \$50;
 - c. disputed amounts are not reported delinquent unless remaining unpaid after the dispute has been settled;

- d. offsetting credit card indebtedness is prohibited; and
- e. errors are resolved within two complete billing cycles.

Ability to Make the Required Minimum Payments—Section 1026.51

1. Determine that the card issuer does not open a credit card account for a consumer under an open-end (not home-secured) consumer credit plan, or increase any credit limit applicable to such account, unless the card issuer considers the ability of the consumer to make the required minimum periodic payments under the terms of the account based on the consumer's income or assets and current obligations (§1026.51(a)(1)(i)).
2. Verify that the card issuer establishes and maintains reasonable written policies and procedures to consider a consumer's income or assets and current obligations. Reasonable policies and procedures to consider a consumer's ability to make the required payments include a consideration of at least one of the following (§1026.51(a)(1)(ii)):
 - a. the ratio of debt obligations to income;
 - b. the ratio of debt obligations to assets; or
 - c. the income the consumer will have after paying debt obligations.

NOTE: Reasonable written policies and procedures may include treating any income and assets to which the consumer has a reasonable expectation of access as the consumer's income or assets, or may be limited to consideration to the consumer's independent income and assets.

3. Confirm that the card issuer does not issue a credit card to a consumer who does not have any income or assets, and that the credit does not issue a credit card without reviewing any information about a consumer's income, assets, or current obligations (§1026.51(a)(1)(ii)).

NOTE: A card issuer may consider the consumer's income or assets based on information provided by the consumer, in connection with the credit card account or any other financial relationship the card issuer or its affiliates has with the consumer, subject to any applicable information-sharing rules, and information obtained through third parties, subject to any applicable information-sharing rules. A card issuer may also consider information obtained through any empirically derived, demonstrably

and statistically sound model that reasonably estimates a consumer's income or assets (Comment 1026.51(a)-5).

4. Determine that the card issuer uses a reasonable method for estimating the minimum periodic payments the consumer would be required to pay under the terms of the account (§1026.51(a)(2)(i)).
5. A card issuer's estimate of the minimum periodic payment is compliant (i.e., receives the benefit of a safe harbor) if it uses the following method (§1026.51(a)(2)(ii)):
 - a. the card issuer assumes utilization, from the first day of the billing cycle, of the full credit line that the issuer is considering offering to the consumer; and
 - b. the card issuer uses a minimum payment formula employed by the issuer for the product the issuer is considering offering to the consumer or, in the case of an existing account, the minimum payment formula that currently applies to that account, provided that
 - i. if the applicable minimum payment formula includes interest charges, the card issuer estimates those charges using an interest rate that the issuer is considering offering to the consumer for purchases or, in the case of an existing account, the interest rate that currently applies to purchases; and
 - ii. if the applicable minimum payment formula includes mandatory fees, the card issuer must assume that such fees have been charged to the account.
6. Rules affecting young consumers: If the card issuer opens a credit card account under an open-end (not home-secured) consumer credit plan for a consumer less than 21 years old, verify that the issuer requires that such consumers
 - a. submit a written application; and
 - b. either possess an independent ability to make the required minimum periodic payments on the proposed extension of credit in connection with the account under section 1026.51(b)(1)(i)) or provide a signed agreement of a cosigner, guarantor, or joint applicant who is at least 21 years old who has the ability to make the required minimum periodic payments on such debts, and be either jointly liable with the consumer for any debt on the account, or secondarily liable for any debt on the account incurred by the consumer before the consumer has attained

- the age of 21 pursuant to sections 1026.51(b)(1)(ii)(A) and (B).
7. If a credit card account was opened for such consumer without a cosigner, guarantor, or joint applicant pursuant to section 1026.51(b)(1), determine that the issuer does not increase the credit limit on the account before the consumer turns 21 unless
- at the time of the contemplated increase, the consumer has an independent ability to make the required minimum periodic payments; or
 - a cosigner, guarantor, or joint accountholder who is at least 21 years old and has the ability to make the required minimum periodic payments agrees in writing to assume liability for any debt incurred on the account (§1026.51(b)(2)(i)).
8. If a credit card account was opened for such a consumer with a cosigner, guarantor, or joint applicant pursuant to section 1026.51(b)(1)(ii), determine that the issuer does not increase the credit limit on such account before the consumer attains the age of 21 unless the cosigner, guarantor, or joint accountholder who assumed liability at account opening agrees in writing to assume liability on the increase (§1026.51(b)(2)).

Limitations on Fees—Section 1026.52

- During the first year after the opening of a credit card account under an open-end (not home-secured) consumer credit plan, determine whether the card issuer required the consumer to pay covered fees in excess of the 25 percent of the credit limit in effect when the account is opened (§1026.52(a)(1)).

NOTE: The 25 percent limitation on fees does not apply to fees assessed prior to opening the account.

NOTE ALSO: An account is considered opened no earlier than the date on which the account may first be used by the consumer to engage in transactions.

Covered fees include (Comment 1026.52(a)(2)-1)

- fees for the issuance or availability of credit, including any fees based on account activity or inactivity;
- fees for insurance, debt cancellation or debt suspension coverage, if the insurance or debt cancellation or suspension coverage is required by the terms of the account;

- fees the consumer is required to pay to engage in transactions using the account, such as:
 - cash advance fees;
 - balance transfer fees;
 - foreign transaction fees; and
 - fees for using the account for purchases.
- fees the consumer is required to pay for violating the terms of the account, except to the extent they are specifically excluded (see below);
- fixed finance charges; and
- minimum charges imposed if a charge would otherwise have been determined by applying a periodic interest rate to a balance except for the fact that such charge is smaller than the minimum.

NOTE: Section 1026.52(a) does not authorize the imposition or payment of fees or charges otherwise prohibited by law (§1026.52(a)(3)).

- Fees not covered by this limitation include (§1026.52(a)(2)(i))
 - late payment fees, over-the-limit fees, and returned-payment fees; or
 - fees that the consumer is not required to pay with respect to the account, such as
 - an expedited payment fee;
 - fees for optional services like travel insurance;
 - fees for reissuing a lost or stolen card; or
 - statement reproduction fees.
- Review penetration rates of various optional services to determine if they are truly optional and therefore not covered by the 25 percent limitation.
- Ensure that the card issuer does not impose a fee for violating the terms or other requirements of a credit card account under an open-end (not home-secured) consumer credit plan unless the dollar amount of the fee is consistent with sections 1026.52(b)(1) and (b)(2) (§1026.52(b)).
- Determine that a card issuer imposes a fee for violating the terms or other requirements of a credit card account under an open-end (not home-secured) consumer credit plan only if the

- dollar amount of the fee is consistent with either section 1026.52(b)(1)(i) or section 1026.52(b)(1)(ii) (§1026.52(b)(1)).
6. *Cost determination.* A card issuer may impose a fee for a particular violation (e.g., late payment) if the card issuer has determined that the fee represents a reasonable proportion of the total costs incurred by the issuer as a result of that type of violation. If a card issuer is relying on a cost determination instead of the safe harbors (see below), review (§1026.52(b)(1)(i))
 - a. the number of violations of a particular type experienced by the card issuer during a prior period of reasonable length (e.g., a 12-month period)
 - b. the costs incurred by the card issuer during that period as a result of those violations. Losses and associated costs (including the cost of holding reserves against potential losses and the cost of funding delinquent accounts) must be excluded from this analysis;
 - c. if used by the card issuer when making its determination:
 - i. the number of fees imposed by the card issuer as a result of the type of violation during the period that the issuer reasonably estimates it will be unable to collect;
 - ii. reasonable estimates for an upcoming period of changes in the number of violations of the relevant type, the resulting costs, and the number of fees that the card issuer will be unable to collect;
 - d. if applicable, whether the items in paragraph 1-3 have been reevaluated by the card issuer at least once during the prior 12 months. If as a result of the reevaluation the card issuer determines that a lower fee represents a reasonable proportion of the total costs incurred by the card issuer as a result of that type of violation, determine that the card issuer begins imposing the lower fee within 45 days after completing the reevaluation.
 7. *Safe harbors.* A card issuer may impose a fee for violating the terms or other requirements of the account if the dollar amount of the fee does not exceed, as applicable (§1026.52(b)(1)(ii)(A)-(C)):
 - a. \$25.00,
 - b. \$35.00 if the card issuer previously imposed a fee pursuant to section 1026.52(b)(1)(ii)(A) for a violation of the same type that occurred during the same billing cycle or one of the next six billing cycles, or
 - c. 3 percent of the delinquent balance on a charge card account that requires payment of outstanding balances in full at the end of each billing cycle if the card issuer has not received the required payment for two or more consecutive billing cycles.
- NOTE:** The dollar amounts in paragraphs 1 and 2 above will be adjusted annually by the CFPB to the extent that changes in the Consumer Price Index warrant an increase or decrease of a whole dollar.
8. Determine that the card issuer does not impose a fee for violating the terms or other requirements of a credit card account under an open-end (not home-secured) consumer credit plan that exceeds the dollar amount associated with the violation (§1026.52(b)(2)(i)(A)).
 9. Determine that a card issuer does not impose a fee for violating the terms or other requirements of a credit card account under an open-end (not home-secured) consumer credit plan when there is no dollar amount associated with the violation. For purposes of section 1026.52(b)(2)(i), there is no dollar amount associated with the following violations (§1026.52(b)(2)(i)(B)):
 - a. transactions that the card issuer declines to authorize,
 - b. account inactivity, and
 - c. the closure or termination of an account.
 10. Determine that the card issuer does not impose more than one fee for violating the terms or other requirements of a credit card account under an open-end (not home-secured) consumer credit plan based on a single event or transaction (§1026.52(b)(2)(ii)).

Allocation of Payments—Section 1026.53

1. Determine whether, when a consumer makes a payment in excess of the required minimum periodic payment, the card issuer allocates the excess amount

- a. first to the balance with the highest APR, and
 - b. any remaining portion to the other balances in descending order based on the applicable APR.
2. For balances on a credit card account subject to a deferred interest or similar program, determine whether the card issuer allocated any amount paid by the consumer in excess of the required minimum periodic payment
 - a. consistent with the general requirement discussed in (a) above, except that, during the two billing cycles immediately preceding expiration of the deferred interest period, the excess amount must have been allocated first to the balance subject to the deferred interest or similar program and any remaining portion allocated to any other balances consistent with section 1026.53(a) (§1026.53 (b)(1)(i)), or
 - b. in the manner requested by the consumer (§1026.53(b)(1)(ii)).
 3. When a balance on a credit card account is secured, the card issuer may at its option allocate any amount paid by the consumer in excess of the required minimum periodic payment to that balance if requested by the consumer (§1026.53(b)(2)).

Loss of a Grace Period—Section 1026.54

1. Determine whether the card issuer imposed finance charges as a result of the loss of a grace period on a credit card account under an open-end (not home-secured) consumer credit plan based on
 - a. balances for days in billing cycles that precede the most recent billing cycle, a prohibited practice; or
 - b. any portion of a balance subject to a grace period that was repaid prior to the expiration of the grace period (§1026.54).
2. With respect to the prohibition in 1b above, issuers are not required to follow any specific methodology, but an issuer is in compliance if it applies the consumer's payment to the balance subject to the grace period and calculates interest charges on the amount of the balance that remains unpaid (Comment 1026.54(a)(1)-5).Exceptions: This rule does not apply to adjustments to the finance charge as a result of
 - a. the resolution of a dispute under section 1026.12, unauthorized use, or section 1026.13, billing error; or
 - b. the return of a payment.

Limitations on Increasing Annual Percentage Rates, Fees, and Charges—Section 1026.55

1. With respect to a credit card account under an open-end (not home-secured) consumer credit plan, determine that the card issuer did not increase an APR or fee or charge required to be disclosed under sections 1026.6(b)(2)(ii) (fee for issuance or availability (e.g., an annual fee)), (b)(2)(iii) (fixed finance charge or minimum interest charge), or (b)(2)(xii) (fee for required insurance, debt cancellation, or debt suspension coverage), unless as permitted by one of the six exceptions:
 - a. temporary rate, fee, or charge exception;
 - b. variable-rate exception;
 - c. advance notice exception;
 - d. delinquency exception;
 - e. workout and temporary hardship arrangement; and
 - f. Servicemembers Civil Relief Act exception (§1026.55(a)-(b)).
2. To assess whether the temporary rate, fee, or charge exception applies (§1026.55(b)(1)), determine whether
 - a. the card issuer increased the APR, fee, or charge upon the expiration of a specified period of six months or longer; and
 - b. prior to the commencement of that period, the card issuer disclosed in writing to the consumer, in a clear and conspicuous manner, the length of the period and the APR, fee, or charge that would apply after expiration of the period.
3. If the temporary rate exception applies, determine that the card issuer
 - a. did not apply an APR, fee, or charge to transactions that occurred prior to the period that exceeds the APR, fee, or charge that applied to those transactions prior to the period;
 - b. provided the required notice, but did not apply an APR, fee, or charge (to transactions that occurred within 14 days after provision of the notice) that exceeds the APR, fee, or charge that applied to that category of transactions prior to provision of the notice; and
 - c. did not apply an annual percentage rate to transactions that occurred during the period that exceeds the increased APR, fee, or charge.
4. If the variable-rate exception applies (§1026.55

- (b)(2)), determine that the card issuer did not increase an APR unless
- the increase in the APR is due to an increase in the index; and
 - the annual percentage rate varies according to an index that is not under the card issuer's control and is available to the general public.
- NOTE: For purposes of qualifying under this exception, an index is considered under the card issuer's control if the card issuer applies a minimum rate or floor below which the rate cannot decrease. However, because there is no disadvantage to consumers, issuers are not prevented from setting a maximum rate or ceiling (Comment 1026.55(b)(2)-2(ii)).
- If the advance notice exception applies (§1026.55(b)(3)), determine that the card issuer
 - did not apply that increased APR, fee, or charge to transactions that occurred prior to provision of the notice;
 - did not apply the increased APR, fee, or charge to transactions that occurred prior to or within 14 days after provision of the notice; and
 - did not increase the APR, fee, or charge during the first year after the account is opened.
 - If the delinquency exception applies (§1026.55(b)(4)), determine that the card issuer:
 - disclosed in a clear and conspicuous manner in the required notice a statement of the reason for the increase; and
 - will cease the increase if the card issuer receives six consecutive required minimum periodic payments on or before the payment due date, beginning with the first payment due following the effective date of the increase.
 - If the delinquency exception applies and the card issuer received six consecutive required minimum periodic payments on or before the payment due date beginning with the first payment due following the effective date of the increase, determine that the card issuer reduces any APR, fee, or charge (increased pursuant to the delinquency exception) to the original APR, fee, or charge that applied prior to the increase with respect to transactions that occurred prior to or within 14 days after provision of the required notice.
 - If the workout and temporary hardship arrangement exception applies (§1026.55(b)(5)), determine that
 - prior to commencement of the arrangement (except as provided in section 1026.9(c)(2)(v)(D)) the card issuer provided the consumer with a clear and conspicuous written disclosure of the terms of the arrangement (including any increases due to the completion or failure of the arrangement); and
 - upon the completion or failure of the arrangement, the card issuer did not apply to any transactions that occurred prior to commencement of the arrangement an APR, fee, or charge that exceeds the APR, fee, or charge that applied to those transactions prior to commencement of the arrangement.
 - If the Servicemembers Civil Relief Act exception applies (§1026.55(b)(6)), determine that the card issuer increased the APR, fee, or charge only after 50 U.S.C. app. 527 or a similar federal or state statute or regulation no longer applied. Further, determine that the issuer did not apply to any transactions that occurred prior to the decrease an APR, fee, or charge that exceeded the APR, fee, or charge that applied to those transactions prior to the decrease.
 - For protected balances (§1026.55(c)), determine that the card issuer did not require repayment using a method that is less beneficial to the consumer than one of the following methods:
 - the method of repayment for the account before the effective date of the increase;
 - an amortization period of not less than five years, beginning no earlier than the effective date of the increase; or
 - a required minimum periodic payment that includes a percentage of the balance that is equal to no more than twice the percentage required before the effective date of the increase.
 - If a card issuer promotes the waiver or rebate of finance charges due to a periodic interest rate or fees or charges (§§1026.6(b)(2)(ii), (b)(2)(iii), or (b)(2)(xii)) and applies the waiver or rebate to a credit card account under an open-end (not home-secured) consumer credit plan, any cessation of the waiver or rebate on that account constitutes an increase in an annual percentage rate, fee, or charge for purposes of section 1026.55.

Requirements for Over-the-Limit Transactions—Section 1026.56

1. *Joint relationships.* Determine that, if two or more consumers are jointly liable on a credit card account under an open-end (not home-secured) consumer credit plan, the card issuer treats the affirmative consent of any of the joint consumers as affirmative consent for that account. Similarly, determine that the card issuer treats a revocation of consent by any of the joint consumers as revocation of consent for that account (§1026.56(f)).
2. Notwithstanding a consumer's affirmative consent to a card issuer's payment of over-the-limit transactions, determine that the card issuer does not (§1026.56(j))
 - a. impose more than one over-the-limit fee or charge on a consumer's credit card account per billing cycle, and, in any event, only if the credit limit was exceeded during the billing cycle. In addition, the card issuer may not impose an over-the-limit fee or charge on the consumer's credit card account for more than three billing cycles for the same over-the-limit transaction where the consumer has not reduced the account balance below the credit limit by the payment due date for either of the last two billing cycles;

NOTE: There is an exception to the latter prohibition if another over-the-limit transaction occurred in the last two billing cycles.

- b. impose an over-the-limit fee or charge solely because of the card issuer's failure to promptly replenish the consumer's available credit following the crediting of the consumer's payment following the crediting of the consumer's payment under section 1026.10;
- c. condition the amount of a consumer's credit limit on the consumer affirmatively consenting to the card issuer's payment of over-the-limit transactions if the card issuer assesses a fee or charge for such service;
- d. impose an over-the-limit fee or charge for a billing cycle if a consumer exceeds a credit limit solely because of fees or interest charged by the card issuer (defined as charges imposed as part of the plan under section 1026.6(b)(3)) to the consumer's account during that billing cycle.

Reevaluation of Rate Increases—Section 1026.59

1. If a card issuer increases an APR that applies to a credit card account under an open-end (not home-secured) consumer credit plan,

based on the credit risk of the consumer, market conditions, or other factors, or increased such a rate on or after January 1, 2009, and 45 days' advance notice of the rate increase is required pursuant to section 1026.9 (c)(2) or (g), determine that the card issuer (§1026.59(a)(1))

- a. evaluates the factors described in section 1026.59(d); and
 - b. based on its review of such factors, reduces the APR applicable to the consumer's account, as appropriate.
2. If a card issuer is required to reduce the rate applicable to an account pursuant to section 1026.59(a)(1), determine that the card issuer reduces the rate not later than 45 days after completion of the evaluation described in section 1026.59(a)(1) (§1026.59(a)(2)(i)).

NOTE: Any reduction in an APR required pursuant to section 1026.59(a)(1) of this section shall apply to (§1026.59(a)(2)(ii))

- a. any outstanding balances to which the increased rate described in section 1026.59(a)(1) has been applied; and
 - b. new transactions that occur after the effective date of the rate reduction that would otherwise have been subject to the increased rate.
3. Determine that the card issuer has reasonable written policies and procedures in place to conduct the review described in section 1026.59(a) (§1026.59(b)).
 4. Determine that a card issuer that is subject to section 1026.59(a) conducts the review described in section 1026.59(a)(1) not less frequently than once every six months after the rate increase (§1026.59(c)).
 5. Except as provided in section 1026.59(d)(2), determine that the card issuer reviews either (§1026.59(d)(1))
 - a. the factors on which the increase in an APR was originally based; or
 - b. the factors that the card issuer currently considers when determining the APRs applicable to similar new credit card accounts under an open-end (not home-secured) consumer credit plan.
 6. For rate increases imposed between January 1, 2009, and February 21, 2010, determine that an issuer considered the factors described in section 1026.59(d)(1)(ii) when conducting the first two reviews required under section 1026.59(a), unless the rate increase subject to section 1026.59(a) was based solely upon factors

- specific to the consumer, such as a decline in the consumer's credit risk, the consumer's delinquency or default, or a violation of the terms of the account (§1026.59(d)(2)).
7. If an issuer increases a rate applicable to a consumer's account pursuant to section 1026.55(b)(4) based on the card issuer not receiving the consumer's required minimum periodic payment within 60 days after the due date, note that the issuer is not required to perform the review described in section 1026.59(a) prior to the sixth payment due date after the effective date of the increase. However, if the APR applicable to the consumer's account is not reduced pursuant to section 1026.55(b)(4)(ii), determine that the card issuer performs the review described in section 1026.59(a). Determine that the first such review occurs no later than six months after the sixth payment due following the effective date of the rate increase (§1026.59(e)).
 8. The obligation to review factors described in sections 1026.59(a) and (d) ceases to apply (§1026.59(f))
 - a. if the issuer reduces the APR applicable to a credit card account under an open-end (not home-secured) consumer credit plan to the rate applicable immediately prior to the increase, or, if the rate applicable immediately prior to the increase was a variable rate, to a variable rate determined by the same formula (index and margin) that was used to calculate the rate applicable immediately prior to the increase; or
 - b. if the issuer reduces the APR to a rate that is lower than the rate described in section 1026.59(f)(1) of this section.
 9. Except as provided in section 1026.59(g)(2), section 1026.59 applies to credit card accounts that have been acquired by the card issuer from another card issuer (§1026.59(g)).
 10. Determine that a card issuer that complies with this section by reviewing the factors described in section 1026.59(d)(1)(i) reviews the factors considered by the card issuer from which it acquired the accounts in connection with the rate increase (§1026.59(g)(1)).
 - a. Except as provided in section 1026.59(g)(2)(iii), determine that the card issuer con-
 - ducts reviews described in section 1026.59(a) for rate increases that are imposed as a result of its review under this paragraph.
 - b. Except as provided in section 1026.59(g)(2)(iii), note that the card issuer is not required to conduct reviews in accordance with section 1026.59(a) for any rate increases made prior to the card issuer's acquisition of such accounts.
 - c. Note that if as a result of the card issuer's review, an account is subject to, or continues to be subject to, an increased rate as a penalty, or due to the consumer's delinquency or default, the requirements of section 1026.59(a) apply.
- Servicemembers Civil Relief Act exception:* Note that the requirements of Section 1026.59 do not apply to increases in an APR that was previously decreased pursuant to the Servicemembers Civil Relief Act (50 U.S.C. app. 527), provided that such a rate increase is made in accordance with section 1026.55(b)(6) (§1026.59(h)(1)).
- Charged-off accounts exception:* Note that the requirements of section 1026.59 do not apply to accounts that the card issuer has charged off in accordance with loan-loss provisions (§1026.59(h)(2)).
- NOTE: Appendix G to part 1026 is amended by revising Forms G-10(B), G-10(C), G-10(E), G-17(B), G-17(C), G-18(B), G-18(D), G-18(F), G-18(G), G-20, G-21, G-22, G-25(A), and G-25(B).

Administrative Enforcement

1. If there is non-compliance involving understated finance charges or understated APRs subject to reimbursement under the FFIEC Policy Guide on Reimbursement (policy guide)
 - a. document the date on which the administrative enforcement of the TILA policy statement would apply for reimbursement purposes by determining the date of the preceding examination;
 - b. if the non-compliance involves indirect (third-party paper) disclosure errors and affected consumers have not been reimbursed;
 - c. prepare comments, discussing the need for improved internal controls to be included in the report of examination;
 - d. notify your supervisory office for follow up with the regulator that has primary responsibility for the original creditor;
 - e. if the non-compliance involves direct credit

- i. make an initial determination whether the violation is a pattern or practice;
- ii. calculate the reimbursement for the loans or accounts in an expanded sample of the identified population;
- iii. estimate the total impact on the population based on the expanded sample;
- iv. inform management that reimbursement may be necessary under the law and the policy guide, and discuss all substantive facts including the sample loans and calculations;
- v. inform management of the financial institution's options under section 130 of the TILA for avoiding civil liability and of its option under the policy guide and section 108 (e)(6) of the TILA for avoiding a regulatory agency's order to reimburse affected borrowers.

HIGH-COST MORTGAGE (Section 1026.32) WORKSHEET

Borrower's name _____ Loan number _____

COVERAGE	Yes	No
Is the transaction secured by the consumer's principal dwelling? [§ 1026.2(a)(19), § 1026.32(a)(1)]		

If the answer is No, STOP HERE. The transaction is not a high-cost mortgage.**Is the transaction:**

1. A reverse mortgage transaction [§ 1026.32(a)(2)(i)]		
2. A transaction to finance the initial construction of a dwelling [§ 1026.32(a)(2)(ii)]		
3. A transaction originated and financed by a Housing Finance Agency [§ 1026.32(a)(2)(iii)]		
4. A transaction originated under the USDA's rural development section 502 direct loan program [§ 1026.32(a)(2)(iv)]		

If the answer is Yes in Box 1, 2, 3, or 4, STOP HERE. If No, continue to Test 1, APR.**TEST 1: APR**

A. Determine the APR for testing high-cost mortgage coverage:	
1. For fixed-rate transactions, calculate the APR using the interest rate in effect on the date the interest rate for the transaction was set.	
2. For transactions where the interest rate varies with an index, use the greater of the introductory interest rate (if any) or the fully-indexed rate (i.e., the interest rate that results from adding the maximum margin permitted at any time during the term of the transaction to the value of the index rate in effect on the date the interest rate for the transaction was set).	
3. For transactions where the interest rate may or will vary other than in accordance with an index, such as in a step-rate loan, use the maximum rate that the applicant may pay during the term of the transaction. [§1026.32(a)(3)]	
B. Determine the Average Prime Offer Rate (APOR):	
Determine the APOR for a comparable transaction as of the last rate lock on the transaction. Determine the APOR for a HELOC by identifying the most closely comparable closed-end transaction. APOR tables are published at www.ffiec.gov/ratespread/aportables.htm . [§1026.32(a)(1)(i) and comments 32(a)(1)(i)-1 through -3]	
C. Add one of the following amounts to APOR (Box B), as applicable:	
1. 6.5 percentage points for most first-lien transactions; 2. 8.5 percentage points for first-lien transactions secured by personal property (e.g., manufactured housing titled as personal property, RVs, houseboats) where the loan amount is less than \$50,000; or 3. 8.5 percentage points for subordinate-lien transactions [§1026.32(a)(1)(i)(A)-(C)]	

Yes No

D. Is Box A greater than Box C?		
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If Yes, the transaction is a high-cost mortgage. If No, continue to Test 2, Points and Fees.

HIGH-COST MORTGAGE (Section 1026.32) WORKSHEET—continued**TEST 2: POINTS AND FEES¹****STEP 1: Identify all charges payable in connection with the transaction and known at or before consummation or account opening.****A. Items included in the finance charge (§1026.4(a) and (b)), except for the following:**

- Interest, including per-diem interest, and time-price differential;
 - All federal or state government-sponsored MIPs, e.g., up-front and annual FHA premiums, VA funding fees, and USDA guarantee fees;
 - All monthly or annual PMI premiums;
 - Up-front PMI premiums if the premiums are refundable on a prorated basis and the refund is automatically issued upon loan satisfaction. However, include any portion of the PMI premium that exceeds the up-front MIP for FHA loans;
 - Bona fide third-party charges not retained by the creditor, loan originator, or an affiliate of either, unless specifically required to be included under Boxes A-H;² and
 - Up to 1 or 2 bona fide discount points, if eligible.³
- [§1026.32(b)(1)(i) (closed-end); §1026.32(b)(2)(i) (open-end)]

Finance Charge Items	Amount	Subtotals
Origination Charge/Points (unless excluded as bona fide)		
Mortgage Broker Fee		
Application Fee (if not charged to all applicants)		
Loan Administration Fee		
Rate-Lock Fee		
Commitment Fee		
Underwriting Fee		
Loan-Level Price Adjustments (LLPAs) (if paid upfront)		
Non-refundable Up-Front PMI Premiums in Excess of Up-Front MIP for FHA loans		
Other Fees Included in the Finance Charge		
Subtotal		
B. Loan originator compensation —Include all compensation paid directly or indirectly by a consumer or creditor to a loan originator (§1026.36(a)(1)) that can be attributed to the transaction at the time the rate is set, but exclude: <ul style="list-style-type: none"> – payments by consumers to mortgage brokers that were counted under Box A; – compensation paid by a creditor or mortgage broker to a loan originator employee; and – compensation paid by a manufactured home retailer to its employee. [§1026.32(b)(1)(ii) (closed-end); §1026.32(b)(2)(ii) (open-end)]		
Subtotal		

1. Test 2, Step 1, Boxes A-F and I (i.e., calculating points and fees for closed-end transactions) and Test 2, Step 2, Box A (i.e., calculating total loan amount for closed-end transactions) are the same tests used for the points and fees calculation for qualified mortgages.
2. Bona fide third-party charges not retained by creditor or loan originator, or an affiliate of either are excluded, unless these charges are included as PMI premiums, real estate-related fees, or credit-related insurance premiums. [§ 1026.32(b)(1)(i)(D)]
3. Discount points are bona fide if two conditions are met:

- 1) They must buy down the interest rate from the pre-discount rate, and 2) They must do so by an amount consistent with industry norms. The number of bona fide discount points that may be excluded depends on the pre-discount rate on the loan. Up to 2 bona fide discount points may be excluded if the interest rate before payment of those discount points did not exceed APOR by more than 1 percentage point. Up to 1 bona fide discount point may be excluded if the interest rate before payment of the discount point did not exceed APOR by more than 2 percentage points. [§§ 1026.32(b)(1)(i)(E)-(F); 1026.32(b)(3)]

HIGH-COST MORTGAGE (Section 1026.32) WORKSHEET—continued

C. Certain nonfinance charges under §1026.4(c)(7) —Include fees only if the amount of the fee is unreasonable, or the creditor receives direct or indirect compensation from the charge, or the charge is paid to an affiliate of the creditor. [§1026.32(b)(1)(iii) (closed-end); §1026.32(b)(2)(iii) (open-end)]		
Title Examination		
Title Insurance		
Property Survey		
Document Preparation Charge		
Notary and Credit Report		
Appraisal		
Fee for “Initial” Flood Hazard Determination		
Pest Inspection		
Any Other Fees Under §1026.4(c)(7)		
Subtotal		
D. Premiums or other charges for optional or required insurance payable at or before consummation or account opening [§1026.32(b)(1)(iv) (closed-end); §1026.32(b)(2)(iv) (open-end)]		
Credit Life		
Credit Disability		
Credit Unemployment		
Credit Property		
Any Other Life, Accident, Health, Loss-of-Income Insurance (if creditor is a beneficiary)		
Debt Cancellation or Suspension		
Subtotal		
E. Maximum prepayment penalty [§1026.32(b)(1)(v) (closed-end); §1026.32(b)(2)(v) (open-end)]		
Subtotal		
F. For a refinance transaction with the current holder, its servicer, or an affiliate of either, prepayment penalty paid in connection with terminating prior transaction [§1026.32(b)(1)(vi) (closed-end); §1026.32(b)(2)(vi) (open-end)]		
Subtotal		
G. For open-end transactions, participation fees payable at or before account opening [§1026.32(b)(2)(vii)]		
Subtotal		
H. For open-end transactions, per-transaction fee charged for drawing on credit line (assume at least one) [§1026.32(b)(2)(viii)]		
Subtotal		
I. Total Points & Fees: Add subtotals for A–F (Closed-End) A–H (Open-End)		

HIGH-COST MORTGAGE (Section 1026.32) WORKSHEET—continued**STEP 2: Determine the total loan amount [(§ 1026.32(b)(4)]**

A. Closed-end transaction	
1. Determine the amount financed <ul style="list-style-type: none"> – The full amount of principal repayable under the terms of the note or other loan contract – <u>Minus:</u> Prepaid finance charges (§1026.2(a)(23)) – <u>Equals:</u> Amount Financed 	
2. Deduct from the Amount Financed costs that are included in points and fees under Step 1, Boxes C, D, or F	
3. Total loan amount (1 minus 2)	
B. Open-end transaction	
1. Credit limit for the plan when the account is opened	

STEP 3: Perform high-fee cost calculation

Determine which points and fees threshold applies according to the note amount (threshold cut-offs are adjusted annually for inflation) (§1026.32(a)(1)(ii)(A)-(B)) <i>(use the dollar amount corresponding to the year of origination or account opening)</i>		
Transactions for \$20,000 or more (2014)		
A. Calculate 5 percent of the total loan amount (Step 2, Box A (closed-end) or Box B (open-end))		
B. Total points & fees (Step 1, Box I)		
C. Does Box B exceed Box A?	Yes	No
Transactions for less than \$20,000 (2014)		
A. Calculate 8 percent of the total loan amount (Step 2, Box A (closed-end) or Box B (open-end))		
B. Annually adjusted dollar amount (§1026.32(a)(1)(ii)(B)) <i>2014: \$1,000 (use the dollar amount corresponding to the year of origination or account opening)</i>		
C. Total points & fees (Step 1, Box I)		
D. Does Box C exceed the lesser of Box A or Box B?	Yes	No

If Yes, the transaction is a high-cost mortgage. If No, continue to Test 3, Prepayment Penalty.

HIGH-COST MORTGAGE (Section 1026.32) WORKSHEET—continued**TEST 3—PREPAYMENT PENALTY**

STEP 1: Determine whether the transaction has a prepayment penalty (\$1026.32(b)(6)(i)-(ii))	Yes	No
If No, STOP HERE, the transaction is not a high-cost mortgage. If Yes, continue to Step 2.		
STEP 2: Determine the amount and duration of any prepayment penalty⁴		
A. Can prepayment penalties be imposed for longer than 36 months after consummation or account opening?	Yes	No
B. Can prepayment penalties exceed 2 percent of the amount prepaid?	Yes	No

If Yes, the transaction is a high-cost mortgage and is in violation of the prohibition against prepayment penalties for high-cost mortgages (\$1026.32(d)(6)). If No, the transaction is not a high-cost mortgage.

4. If the creditor used an accounting method whereby it kept unearned interest charged for any period between payoff and the end of the month, this would be a prepayment penalty under the rule. In this case, the maximum prepayment penalty would be the maximum amount of interest that could be charged for the "phantom" (post-payoff) accrual period. For this purpose, the

examiner would need to assume that the consumer makes the final payoff on the day of the month that yields the longest period of post-payoff interest that could be charged under the terms of the credit contract and is charged interest for the entire month, and that amount would be the maximum unearned interest prepayment penalty.

Fair Debt Collection Practices Act

Background

The Fair Debt Collection Practices Act (FDCPA) (15 USC 1692 et seq.), which became effective in March 1978, was designed to eliminate abusive, deceptive, and unfair debt collection practices. It also protects reputable debt collectors from unfair competition and encourages consistent state action to protect consumers from abuses in debt collection.

Coverage

Debt That Is Covered

The FDCPA applies only to the collection of debt incurred by a consumer primarily for personal, family, or household purposes. It does not apply to the collection of corporate debt or debt owed for business or agricultural purposes.

Debt Collectors That Are Covered

The FDCPA defines a *debt collector* as any person who regularly collects, or attempts to collect, consumer debts for another person or institution or uses some name other than its own when collecting its own consumer debts. The definition includes, for example, an institution that regularly collects debts for an unrelated institution, such as an institution that, under a reciprocal service arrangement, solicits the help of another in collecting a defaulted debt from a customer who has moved.

Debt Collectors That Are Not Covered

An institution is not considered a debt collector under the FDCPA when it collects

- Another institution's debts in isolated instances
- Its own debts under its own name
- Debts it originated and then sold but continues to service (for example, mortgage and student loans)
- Debts that were not in default when they were obtained
- Debts that were obtained as security for a commercial credit transaction (for example, accounts receivable financing)
- Debts incidental to a bona fide fiduciary relationship or escrow arrangement (for example, a debt held in the institution's trust department or mortgage loan escrow for taxes and insurance)

- Debts, regularly, for other institutions to which it is related by common ownership or corporate control

Other debt collectors that are not covered by the FDCPA include

- Officers or employees of an institution who collect debts owed to the institution in the institution's name
- Legal-process servers

Communications in Connection with Debt Collection

Definition of *Consumer*

For communications with a consumer or third party in connection with the collection of a debt, the term *consumer* is defined to include the borrower's spouse, parent (if the borrower is a minor), guardian, executor, or administrator.

When, Where, and with Whom Communication Is Permitted

Communicating with Consumers

A debt collector may not communicate with a consumer at any unusual time (generally before 8:00 a.m. or after 9:00 p.m. in the consumer's time zone) or at any place that is inconvenient to the consumer, unless the consumer or a court of competent jurisdiction has given permission for such contacts. A debt collector may not contact the consumer at his or her place of employment if the collector has reason to believe the employer prohibits such communications.

If the debt collector knows that the consumer has retained an attorney to handle the debt and can easily ascertain the attorney's name and address, all contacts must be with that attorney, unless the attorney is unresponsive or agrees to allow direct communication with the consumer.

Ceasing Communication with Consumers

When a consumer refuses, in writing, to pay a debt or requests that the debt collector cease further communication, the collector must cease all further communication, except to advise the consumer that

- The collection effort is being stopped

- Certain specified remedies ordinarily invoked may be pursued or, if appropriate, that a specific remedy will be pursued
- Mailed notices from the consumer are official when they are received by the debt collector

Communicating with Third Parties

The only third parties that a debt collector may contact when trying to collect a debt are

- The consumer
- The consumer's attorney
- A consumer reporting agency (if permitted by local law)
- The creditor
- The creditor's attorney
- The debt collector's attorney

The consumer or a court of competent jurisdiction may, however, give the debt collector specific permission to contact other third parties. In addition, a debt collector who is unable to locate a consumer may ask a third party for the consumer's home address, telephone number, and place of employment (location information). The debt collector must give his or her name and must state that he or she is confirming or correcting information about the consumer's location. Unless specifically asked, the debt collector may not name the collection firm or agency or reveal that the consumer owes any debt.

No third party may be contacted more than once unless the collector believes that the information from the first contact was wrong or incomplete and that the third party has since received better information, or unless the third party specifically requests additional contact.

Contact with any third party by postcard, letter, or telegram is allowed only if the envelope or content of the communication does not indicate the nature of the collector's business.

Validation of Debts

A debt collector must provide the consumer with certain basic information. If that information was not in the initial communication and if the consumer has not paid the debt five days after the initial communication, all of the following information must be sent to the consumer in written form:

- The amount of the debt
- The name of the creditor to whom the debt is owed
- Notice that the consumer has thirty days to dispute the debt before it is assumed to be valid

- Notice that upon such written dispute, the debt collector will send the consumer a verification of the debt or a copy of any judgment
- If the original creditor is different from the current creditor, notice that if the consumer makes a written request for the name and address of the original creditor within the thirty-day period, the debt collector will provide that information

If, within the thirty-day period, the consumer disputes in writing any portion of the debt or requests the name and address of the original creditor, the collector must stop all collection efforts until he or she mails the consumer a copy of a judgment or verification of the debt, or the name and address of the original creditor, as applicable.

Prohibited Practices

Harassing or Abusive Practices

A debt collector, in collecting a debt, may not harass, oppress, or abuse any person. Specifically, a debt collector may not

- Use or threaten to use violence or other criminal means to harm the physical person, reputation, or property of any person
- Use obscene, profane, or other language that abuses the hearer or reader
- Publish a list of consumers who allegedly refuse to pay debts, except to a consumer reporting agency or to persons meeting the requirements of section 603(f) or 604(3) of the FDCPA
- Advertise a debt for sale to coerce payment
- Annoy, abuse, or harass persons by repeatedly calling their telephone number or allowing their telephone to ring continually
- Make telephone calls without properly identifying himself or herself, except as allowed to obtain location information

False or Misleading Representations

A debt collector, in collecting a debt, may not use any false, deceptive, or misleading representation. Specifically, a debt collector may not

- Falsely represent or imply that he or she is vouched for, bonded by, or affiliated with the United States or any state, including the use of any badge, uniform, or similar identification
- Falsely represent the character, amount, or legal status of the debt, or of any services rendered, or compensation he or she may receive for collecting the debt
- Falsely represent or imply that he or she is an attorney or that communications are from an attorney

- Threaten to take any action that is not legal or intended
- Falsely represent or imply that nonpayment of any debt will result in the arrest or imprisonment of any person or the seizure, garnishment, attachment, or sale of any property or wages of any person, unless such action is lawful and intended by the debt collector or creditor
- Falsely represent or imply that the sale, referral, or other transfer of the debt will cause the consumer to lose a claim or a defense to payment, or become subject to any practice prohibited by the FDCPA
- Falsely represent or imply that the consumer committed a crime or other conduct to disgrace the consumer
- Communicate, or threaten to communicate, false credit information or information that should be known to be false, including not identifying disputed debts as such
- Use or distribute written communications made to look like or falsely represent documents authorized, issued, or approved by any court, official, or agency of the United States or any state if the appearance or wording would give a false impression of the document's source, authorization, or approval
- Use any false representation or deceptive means to collect or attempt to collect a debt or to obtain information about a consumer
- Fail to disclose in the initial written communication with the consumer, and the initial oral communication if it precedes the initial written communication, that the debt collector is attempting to collect a debt and that any information obtained will be used for that purpose. In addition, the debt collector must disclose in subsequent communications that the communication is from a debt collector. (These disclosures do not apply to a formal pleading made in connection with a legal action.)
- Falsely represent or imply that accounts have been sold to innocent purchasers for value
- Falsely represent or imply that documents are legal process
- Use any name other than the true name of the debt collector's business, company, or organization
- Falsely represent or imply that documents are not legal-process forms or do not require action by the consumer
- Falsely represent or imply that the debt collector operates or is employed by a consumer reporting agency

Unfair Practices

A debt collector may not use unfair or unconscionable means to collect or attempt to collect a debt. Specifically, a debt collector may not

- Collect any interest, fee, charge, or expense incidental to the principal obligation unless it was authorized by the original debt agreement or is otherwise permitted by law
- Accept a check or other instrument postdated by more than five days, unless he or she notifies the consumer, in writing, of any intention to deposit the check or instrument; the notice must be made no more than ten nor less than three business days before the date of deposit
- Solicit a postdated check or other postdated payment instrument to use as a threat or to institute criminal prosecution
- Deposit or threaten to deposit a postdated check or other postdated payment instrument before the date on the check or instrument
- Cause communication charges, such as charges for collect telephone calls and telegrams, to be made to any person by concealing the true purpose of the communication
- Take or threaten to repossess or disable property when the creditor has no enforceable right to the property or does not intend to do so, or if, under law, the property may not be taken, repossessed, or disabled
- Use a postcard to contact a consumer about a debt

Multiple Debts

If a consumer owes several debts that are being collected by the same debt collector, payments must be applied according to the consumer's instructions. No payment may be applied to a disputed debt.

Legal Actions by Debt Collectors

A debt collector may file a lawsuit to enforce a security interest in real property only in the judicial district in which the real property is located. Other legal actions may be brought only in the judicial district in which the consumer lives or in which the original contract creating the debt was signed.

Furnishing Certain Deceptive Forms

No one may design, compile, or furnish any form that creates the false impression that someone other than the creditor (for example, a debt collector) is participating in the collection of a debt.

Civil Liability

A debt collector who fails to comply with any provision of the FDCPA is liable for

- Any actual damages sustained as a result of that failure
- Punitive damages as allowed by the court:
 - In an individual action, up to \$1,000
 - In a class action, up to \$1,000 for each named plaintiff and an award to be divided among all members of the class of an amount up to \$500,000 or 1 percent of the debt collector's net worth, whichever is less
- Costs and a reasonable attorney's fee in any such action

In determining punitive damages, the court must consider the nature, frequency, and persistency of the violations and the extent to which they were intentional. In a class action, the court must also consider the resources of the debt collector and the number of persons adversely affected.

Defenses

A debt collector is not liable for a violation if a preponderance of the evidence shows that the violation was not intentional and was the result of a bona fide error that arose despite procedures reasonably designed to avoid any such error. The collector is also not liable if he or she, in good faith, relied on an advisory opinion of the Federal Trade Commission, even if the ruling is later amended, rescinded, or determined to be invalid for any reason.

Jurisdiction and Statute of Limitations

Action against debt collectors for violations of the FDCPA may be brought in any appropriate U.S. district court or other court of competent jurisdiction. The consumer has one year from the date on which the violation occurred to start such an action.

Administrative Enforcement

The Federal Trade Commission (FTC) is the primary enforcement agency for the FDCPA. The various financial regulatory agencies enforce the FDCPA for the institutions they supervise. Neither the FTC nor any other agency may issue regulations governing the collection of consumer debts by debt collectors. The FTC may, however, issue advisory opinions under the Federal Trade Commission Act on the meaning and application of the FDCPA.

Relation to State Law

The FDCPA preempts state law only to the extent that a state law is inconsistent with the FDCPA. A state law that is more protective of the consumer is not considered inconsistent with the FDCPA.

Exemption for State Regulation

The FTC may exempt certain classes of debt collection practices from the requirements of the FDCPA if the FTC has determined that state laws impose substantially similar requirements and that there is adequate provision for enforcement.

Fair Debt Collection Practices Act

Examination Objectives and Procedures

EXAMINATION OBJECTIVES

1. To determine the adequacy of the institution's internal procedures and controls to ensure consistent compliance with the FDCPA
2. To determine if the institution complies with the requirements of the FDCPA in collecting or attempting to collect third-party consumer debts

EXAMINATION PROCEDURES

The following procedures are to be completed through interviews with personnel knowledgeable about and directly engaged in the institution's collection activities and through reviews of any written collection procedures, reciprocal collection agreements, collection letters, dunning notices, envelopes, scripts used by collection personnel, validation notices, individual collection files, complaint files, and other relevant records.

1. Determine if the institution is a debt collector under the FDCPA.

2. Determine if the institution has established internal procedures and controls to ensure compliance with the FDCPA.
3. If the institution has acted or is acting as a debt collector under the FDCPA, determine if the institution has
 - a. Communicated with the consumer or third parties in any prohibited manner
 - b. Furnished the written validation notice within the required time period and otherwise complied with applicable validation requirements
 - c. Used any harassing, abusive, unfair, or deceptive collection practice prohibited by the FDCPA
 - d. Collected any amount not expressly authorized by the agreement creating the debt or by state law
 - e. Applied all payments received as instructed and, where no instruction was given, applied payments only to undisputed debts
 - f. Filed suit in an authorized forum if the institution sued to collect the debt

Fair Debt Collection Practices Act Examination Checklist

1. Is the institution aware of the circumstances in which the FDCPA applies, and, as appropriate, has it established internal procedures and controls to ensure compliance with the FDCPA?	Yes	No
2. Has the institution acted as a “debt collector” under the FDCPA by either		
a. Regularly attempting to collect defaulted consumer debts owed to others or	Yes	No
b. Attempting to collect its own consumer debts in a name other than its own	Yes	No
If the answers to questions 2a and 2b are “no,” the institution has not acted as a debt collector under the FDCPA and the examiner should not complete the remainder of the checklist.		
3. In attempting to collect consumer debts as a “debt collector” under the FDCPA, did the institution		
a. Communicate with the consumer or any third party in a prohibited manner	Yes	No
b. Adhere to the required debt-validation procedure	Yes	No
c. Use any harassing, abusive, unfair, or deceptive practice or means	Yes	No
d. Collect any more than authorized by the debt instrument or state law	Yes	No
e. Properly apply any payment received in the case of multiple debts owed by the same consumer	Yes	No
f. Bring legal action only in a judicial district permitted under the FDCPA	Yes	No

Homeowners Protection Act

Background

The Homeowners Protection Act of 1998 became effective in July 1999. The act, also known as the PMI Cancellation Act, addresses the difficulties homeowners have experienced in canceling private mortgage insurance (PMI) coverage. It establishes provisions for the cancellation and termination of PMI,¹ sets forth disclosure and notification requirements, and requires the return of unearned premiums.

Historically, lenders have viewed an 80 percent loan-to-value (LTV) ratio (and a corresponding 20 percent down payment) as a prudent standard for making consumer real estate loans. This ratio has served to ensure that the borrower had enough of an interest in the property to continue to make the payments and, in the event the borrower was unable to make the payments, that the lender had sufficient equity available to cover lender foreclosure costs.

As housing prices increased (and the corresponding down payment amounts increased), saving for a sufficient down payment became difficult for many prospective homeowners. To further the goal of making homeownership attainable for more Americans, lenders began to look for ways to balance the increasing demand for home loans with the risks inherent in providing loans that fell outside the 80 percent LTV standard. PMI, which is activated only if the borrower defaults on the loan, helps address a lender's risk by covering the difference between the amount a borrower has available to put down and the amount suggested by the standard 20 percent down payment rule. In effect, PMI helps mitigate a lender's risk on loans for which the down payment is less than 20 percent of the sales price or, for a refinancing, when the amount financed is greater than 80 percent of the appraised value.

PMI protects lenders from the risk of default and foreclosure. It allows prospective buyers who cannot, or choose not to, make a significant down payment to obtain mortgage financing at an affordable rate. It is used extensively to facilitate "high-ratio" loans (generally, loans for which the loan-to-value ratio exceeds 80 percent). With PMI, the lender is able to recover the costs associated

with the resale of foreclosed property as well as the accrued interest payments and the fixed costs, such as taxes and insurance policies, paid before the resale. Once the consumer's loan balance falls within the 80 percent LTV ratio, PMI is no longer needed. Excessive PMI coverage provides little extra protection for a lender and does not benefit the borrower.

Before implementation of the act, many homeowners experienced problems in canceling PMI. In some instances, lenders may have agreed to terminate coverage when the borrower's equity reached 20 percent, but the policies and procedures used for canceling or terminating PMI coverage varied widely among lenders. Homeowners had limited recourse when lenders refused to cancel their PMI coverage. Even homeowners in the few states that had laws pertaining to PMI cancellation or termination noted difficulties in canceling or terminating their PMI policies. The act protects homeowners by prohibiting life-of-loan PMI coverage for borrower-paid PMI products and establishing uniform procedures for the cancellation and termination of PMI policies.

Scope and Effective Date

The act applies primarily to *residential mortgage transactions*, defined as mortgage loan transactions consummated on or after July 29, 1999, the purpose of which is to finance the acquisition, initial construction, or refinancing² of a single-family dwelling that serves as a borrower's primary residence.³ It also includes provisions relating to annual written disclosures for *residential mortgages*, defined as mortgages, loans, or other evidences of a security interest created with respect to a single-family dwelling that is the borrower's primary residence. Condominiums, townhouses, and cooperative or mobile homes are considered single-family dwellings covered by the act.

The act's requirements vary depending on whether the mortgage

- Is a residential mortgage or a residential mortgage transaction
- Is defined as high risk (either by the lender, in the

1. The act does not apply to mortgage insurance made available under the National Housing Act, title 38 of the U.S. Code, or title V of the Housing Act of 1949, including mortgage insurance on loans made by the Federal Housing Administration and guarantees on mortgage loans made by the Veterans Administration.

2. For purposes of this discussion, *refinancing* means the refinancing of a loan any portion of which is intended to provide financing for the acquisition or initial construction of a single-family dwelling that serves as a borrower's primary residence.

3. For purposes of this discussion, *junior mortgages* that provide financing for the acquisition, initial construction, or refinancing of a single-family dwelling that serves as a borrower's primary residence are covered.

- case of nonconforming loans, or by Fannie Mae or Freddie Mac, in the case of conforming loans)
- Has a fixed rate or an adjustable rate
 - Is covered by borrower-paid or lender-paid private mortgage insurance

Cancellation and Termination of PMI: Non-High-Risk Residential Mortgage Transactions

Borrower-Requested Cancellations

A borrower may initiate cancellation of PMI coverage by submitting a written request to the servicer. The servicer must take action to cancel PMI when

- The principal balance of the loan
 - Is first scheduled to reach 80 percent of the “original value”⁴ (regardless of the outstanding balance), based on
 - The initial amortization schedule (in the case of a fixed-rate loan)
 - The amortization schedules (in the case of an adjustable-rate loan) or
 - Reaches 80 percent of the “original value,” based on actual payments
- The borrower has a good payment history⁵
- The borrower satisfies any requirement of the mortgage holder for
 - Evidence of a type established in advance that the value of the property has not declined below the original value and
 - Certification that the borrower’s equity in the property is not subject to a subordinate lien

Once PMI is canceled, the servicer may not require further PMI payments or premiums more than thirty days after the later of (1) the date on which the written request was received or (2) the date on which the borrower satisfied the mortgage holder’s evidence and certification requirements, described above.

Automatic Termination

A servicer must automatically terminate PMI for residential mortgage transactions on the earliest date that both

- The principal balance of the mortgage is first

4. *Original value* is defined as the lesser of the sales price of the secured property, as reflected in the purchase contract, or the appraised value at the time of loan consummation.

5. A borrower has a good payment history if he or she (1) has not made a payment that was sixty days or more past due within the first twelve months of the last two years prior to the cancellation date or (2) has not made a payment that was thirty days or more past due within twelve months of the cancellation date.

scheduled to reach 78 percent of the original value of the secured property (based solely on the initial amortization schedule, in the case of a fixed-rate loan, or on the amortization schedules, in the case of an adjustable-rate loan, regardless of the outstanding balance) and

- The borrower is current on mortgage payments.

If PMI is terminated, the servicer may not require further payments or premiums of PMI more than thirty days after (1) the termination date or (2) the date following the termination date on which the borrower becomes current on the payments, whichever is sooner.

There is no provision in the automatic-termination section of the act, as there is in the borrower-requested PMI cancellation section, that protects the lender against declines in property value or subordinate liens. The automatic-termination provisions make no reference to good payment history (as prescribed in the borrower-requested provisions) but state only that the borrower must be *current* on mortgage payments.

Final Termination

If PMI coverage on a residential mortgage transaction was not canceled at the borrower’s request or by the automatic-termination provision, the servicer must terminate PMI coverage by the first day of the month following the date that is the midpoint of the loan’s amortization period if, on that date, the borrower is current on the payments required by the terms of the mortgage.

The servicer may not require further payments or premiums of PMI more than thirty days after PMI is terminated.

Exclusions

The cancellation and termination provisions apply only to residential mortgage transactions for which the borrower pays the PMI. The provisions do not apply to those for which someone other than the borrower makes the payments.

Return of Unearned Premiums

The servicer must return all unearned PMI premiums to the borrower within forty-five days after cancellation or termination of PMI coverage. Within thirty days after notification by the servicer of cancellation or termination of PMI coverage, a mortgage insurer must return to the servicer any amount of unearned premiums it is holding, to permit the servicer to return such premiums to the borrower.

Exceptions to Cancellation and Termination of PMI: High-Risk Residential Mortgage Transactions

The borrower-requested cancellation at 80 percent LTV and the automatic termination at 78 percent LTV requirements do not apply to high-risk loans. However, high-risk loans are subject to final termination and are divided into two categories—conforming (Fannie Mae- and Freddie Mac-defined high-risk loans) and nonconforming (lender-defined high-risk loans).

Conforming Loans

Conforming loans are loans that have an original principal balance not exceeding Freddie Mac's limit for conforming loans.⁶ Fannie Mae and Freddie Mac are authorized under the act to establish a category of residential mortgage transactions that are not subject to the act's requirements for borrower-requested cancellation or automatic termination due to the high risk associated with them.⁷ Such transactions are, however, subject to the final-termination provision of the act. As such, PMI on a conforming high-risk loan must be terminated by the first day of the month following the date that is the midpoint of the loan's initial amortization schedule (in the case of a fixed-rate loan) or amortization schedules (in the case of an adjustable-rate loan) if, on that date, the borrower is current on the loan. If the borrower is not current on that date, PMI must be terminated when the borrower does become current.

Nonconforming Loans

Nonconforming loans are residential mortgage transactions that have an original principal balance exceeding Freddie Mac's and Fannie Mae's conforming loan limit. Lender-defined high-risk loans are not subject to the act's requirements for borrower-requested cancellation or automatic termination. However, if a residential mortgage transaction is a lender-defined high-risk loan, PMI must be terminated on the date on which the principal balance of the mortgage—based solely on the initial amortization schedule (in the case of a fixed-rate loan) or the amortization schedules (in the case of an adjustable-rate loan) for that mortgage—is first scheduled to reach 77 percent of the original value of the property securing the loan, regardless of the outstanding balance for that mortgage on that date.

Like conforming loans that are determined by Freddie Mac and Fannie Mae to be high risk, a residential mortgage transaction that is a lender-defined high-risk loan is subject to the final-termination provision of the act.

Basic Disclosure and Notice Requirements Applicable to Residential Mortgage Transactions and Residential Mortgages

At the time of consummation of a residential mortgage transaction, the lender must give the borrower certain disclosures that describe the borrower's rights with regard to PMI cancellation and termination. The requirements for initial disclosures vary depending on whether the transaction is a fixed-rate mortgage, an adjustable-rate mortgage, or a high-risk loan. Borrowers must also be given certain annual and other notices concerning PMI cancellation and termination. Borrowers may not be charged for any disclosure required by the act.

Initial Disclosures for Fixed-Rate Residential Mortgage Transactions

When PMI is required for non-high-risk fixed-rate mortgages, the lender must provide to the borrower at the time the transaction is consummated

- A written initial amortization schedule and
- A written notice that discloses
 - The borrower's right to request cancellation of PMI and, based on the initial amortization schedule, the date on which the loan balance is scheduled to reach 80 percent of the original value of the property;
 - The borrower's right to request cancellation on an earlier date, if actual payments bring the loan balance to 80 percent of the original value of the property sooner than the date based on the initial amortization schedule;
 - That PMI will automatically terminate when the LTV ratio reaches 78 percent of the original value of the property, and the date on which that is projected to occur (based on the initial amortization schedule); and
 - That the act provides for exemptions to the cancellation and automatic-termination provisions for high-risk mortgages, and whether these exemptions apply to the borrower's loan.

6. The limit for 2005 was \$359,650.

7. As of the date of this publication Fannie Mae and Freddie Mac have not established such a category.

Initial Disclosures for Adjustable-Rate Residential Mortgage Transactions

When PMI is required for non-high-risk adjustable-rate mortgages, the lender must provide to the borrower, at the time the transaction is consummated, a written notice that discloses

- The borrower's right to request cancellation of PMI on (1) the date on which the loan balance is first scheduled to reach 80 percent of the original value of the property based on the amortization schedules or (2) the date on which the balance actually reaches 80 percent of the original value of the property based on actual payments. The notice must also state that the servicer will notify the borrower when either (1) or (2) occurs.
- That PMI will automatically terminate when the loan balance is first scheduled to reach 78 percent of the original value of the property based on the amortization schedules. The notice must also state that the borrower will be notified when PMI is terminated (or that termination will occur when the borrower becomes current on payments).
- That there are exemptions to the cancellation and automatic-termination provisions for high-risk mortgages, and whether such exemptions apply to the borrower's loan

Initial Disclosures for High-Risk Residential Mortgage Transactions

When PMI is required for high-risk residential mortgage transactions, the lender must provide to the borrower a written notice stating that PMI will not be required beyond the date that is the midpoint of the loan's amortization schedule if, on that date, the borrower is current on the payments as required by the terms of the loan. The lender must provide this notice at consummation. The lender need not provide disclosure of the termination at 77 percent LTV for lender-defined high-risk mortgages.

Annual Disclosures for Residential Mortgage Transactions

For all residential mortgage transactions, including high-risk mortgages for which PMI is required, the servicer must provide to the borrower an annual written statement that sets forth the rights of the borrower to cancel and terminate PMI and the address and telephone number that the borrower may use to contact the servicer to determine whether the borrower may cancel PMI.

Disclosures for Existing Residential Mortgages

For residential mortgages consummated before the act took effect (on July 29, 1999), if PMI was required, the servicer must provide to the borrower an annual written statement that

- States that PMI may be canceled with the consent of the lender or in accordance with state law and
- Provides the servicer's address and telephone number so that the borrower can contact the servicer to determine whether the borrower may cancel PMI.

Notification upon Cancellation or Termination of PMI Relating to Residential Mortgage Transactions

General Requirements

Not later than thirty days after PMI relating to a residential mortgage transaction is canceled or terminated, the servicer must notify the borrower in writing that

- PMI has terminated and the borrower no longer has PMI and
- No further premiums, payments, or other fees are due or payable by the borrower in connection with PMI.

Notice of Grounds, and Timing of Notice

If a servicer determines that a borrower in a residential mortgage transaction does not qualify for cancellation or automatic termination of PMI, the servicer must provide to the borrower a written notice of the grounds relied on for making that determination. If an appraisal was used in making the determination, the servicer must give the results of the appraisal to the borrower. If a borrower does not qualify for cancellation, the notice must be provided not later than thirty days following the later of (1) the date the borrower's request for cancellation was received or (2) the date on which the borrower satisfied any of the mortgage holder's evidence and certification requirements. If the borrower does not meet the requirements for automatic termination, the notice must be provided not later than thirty days following the scheduled termination date.

Disclosure Requirements for Lender-Paid Mortgage Insurance

Definitions

- *Borrower-paid mortgage insurance (BPMI)*—PMI that is required in connection with a residential mortgage transaction, the payments for which are made by the borrower
- *Lender-paid mortgage insurance (LPMI)*—PMI that is required in connection with a residential mortgage transaction, the payments for which are made by a person other than the borrower
- *Loan commitment*—A prospective lender's written confirmation of its approval of a prospective borrower's application for a residential mortgage loan (including any applicable closing conditions)

Initial Notice

In the case of LPMI that is required in connection with a residential mortgage transaction, the lender must provide a written notice to the borrower not later than the date on which a loan *commitment* is made. The written notice must advise the borrower of the differences between LPMI and BPMI by notifying the borrower that LPMI

- Differs from BPMI because it cannot be canceled by the borrower or automatically terminated as provided under the act,
- Usually results in a mortgage having a higher interest rate than it would in the case of BPMI, and
- Terminates only when the mortgage is refinanced, paid off, or otherwise terminated.

The notice must also contain

- A statement that both LPMI and BPMI have benefits and disadvantages,
- A generic analysis of the costs and benefits of a mortgage in the case of LPMI versus BPMI over a ten-year period, assuming prevailing interest and property appreciation rates, and
- A statement that LPMI may be tax deductible for purposes of federal income taxes, if the borrower itemizes expenses for that purpose.

Notice at Termination Date

Not later than thirty days after the termination date that would apply in the case of BPMI, the servicer must provide to the borrower a written notice indicating that the borrower may wish to review financing options that could eliminate the requirement for LPMI in connection with the mortgage.

Fees for Disclosures

As stated previously, no fee or other cost may be imposed on borrowers for the disclosures and notifications that lenders and servicers are required to give them.

Civil Liability

Liability Dependent on Type of Action

Servicers, lenders, and mortgage insurers that violate the act are liable to borrowers as follows:

- *Individual action*—In the case of individual borrowers,
 - Actual damages (including interest accruing on such damages),
 - Statutory damages not to exceed \$2,000,
 - Costs of the action, and
 - Reasonable attorney's fees.

• *Class action*

In the case of a class action suit against a defendant that is subject to section 10 of the act (that is, an entity regulated by a federal banking agency, the NCUA, or the Farm Credit Administration),

- Such statutory damages as the court may allow up to the lesser of \$500,000 or 1 percent of the liable party's net worth,
- Costs of the action, and
- Reasonable attorney's fees.

In the case of a class action suit against a defendant that is not subject to section 10 of the act (that is, an entity not regulated by a federal banking agency, NCUA, or the Farm Credit Administration),

- Actual damages (including interest accruing on such damages),
- Statutory damages up to \$1,000 per class member but not to exceed the lesser of \$500,000 or 1 percent of the liable party's gross revenues,
- Costs of the action, and
- Reasonable attorney's fees.

Statute of Limitations

A borrower must bring an action under the act within two years after the borrower discovers the violation.

Mortgage-Servicer Liability Limitation

A servicer is not liable for its failure to comply with the requirements of the act if the servicer's failure to

comply is due to the mortgage insurer's or lender's failure to comply with the act.

Federal Preemption

For residential mortgage transactions, the provisions of the act supersede state laws, except for those states that had PMI laws in effect as of January 2, 1998.⁸ Laws in these states are preempted only to the extent that they are less protective than the act. These states were permitted two years from the date of enactment (that is, until July 29, 2000) to amend their laws in light of the provisions of the act.

The provisions of the act also supersede any conflicting provision contained in any agreement relating to the servicing of a residential mortgage loan entered into by Fannie Mae, Freddie Mac, or

any private investor or note holder (or any successor thereto).

Enforcement

The act directs the federal banking agencies to enforce the act under 12 USC 1818 or any other authority conferred upon the agencies by law. The agencies are required to

- Notify applicable lenders or servicers of any failure to comply with the act,
- Require the lender or servicer, as applicable, to correct the borrower's account to reflect the date on which PMI should have been canceled or terminated under the act, and
- Require the lender or servicer, as applicable, to return unearned PMI premiums to a borrower who paid premiums after the date on which the borrower's obligation to pay PMI premiums ceased under the act.

8. Eight states (California, Colorado, Connecticut, Maryland, Massachusetts, Minnesota, Missouri, and New York) had PMI laws in effect prior to January 2, 1998. See 144 Cong. Rec. 5,432 (daily ed. July 14, 1998; statement by Rep. LaFalce).

Homeowners Protection Act Examination Objectives and Procedures

EXAMINATION OBJECTIVES

1. To determine the financial institution's compliance with the Homeowners Protection Act of 1998 (HOPA)
2. To assess the quality of the financial institution's policies and procedures for implementing the HOPA
3. To determine the reliance that can be placed on the financial institution's internal controls and procedures for monitoring the institution's compliance with the HOPA
4. To initiate corrective action when violations of HOPA are identified or when policies or internal controls are deficient

EXAMINATION PROCEDURES

1. Through discussions with management and review of available information, determine if the institution's internal controls are adequate to ensure compliance with the Homeowners Protection Act. Consider the following:
 - a. Organization charts
 - b. Process flow charts
 - c. Policies and procedures
 - d. Loan documentation
 - e. Checklists
 - f. Training
 - g. Computer program documentation
2. Review any compliance audit materials, including workpapers and reports, to determine whether
 - a. The institution's procedures address all applicable provisions of the HOPA
 - b. Steps are taken to follow up on previously identified deficiencies
 - c. The procedures used include samples covering all product types and decision centers
 - d. The compliance audit work performed is accurate
 - e. Significant deficiencies and their causes are included in reports to management and to the board of directors
 - f. Corrective action is taken in a timely and appropriate manner
 - g. The frequency of compliance review is appropriate

3. Complete the HOPA worksheet by reviewing disclosure and notification forms and the financial institution's policies and procedures. As applicable, the forms should include
 - Initial disclosures for (1) fixed-rate mortgages, (2) adjustable-rate mortgages, (3) high-risk loans, and (4) lender-paid mortgage insurance
 - Annual notices for (1) fixed- and adjustable-rate mortgages and high-risk loans and (2) existing residential mortgages
 - Notices of (1) cancellation, (2) termination, (3) grounds for not canceling PMI, (4) grounds for not terminating PMI, (5) cancellation date for adjustable-rate mortgages, and (6) termination date for lender-paid mortgage insurance
4. Confirm that borrowers are not charged for any required disclosures or notifications. (§ 7 of the HOPA)
5. Obtain and review a sample of recent written requests from borrowers to cancel their PMI on non-high-risk residential mortgage transactions. Verify that the insurance was canceled on either (1) the date on which the principal balance of the loan was first scheduled to reach 80% of the original value of the property based on the initial amortization schedule (in the case of a fixed-rate loan) or the amortization schedules (in the case of an adjustable-rate loan) or (2) the date on which the principal balance of the loan actually reached 80% of the original value of the property based on actual payments, if all the applicable provisions in section 3(a) of the HOPA were satisfied (that is, good payment history and, if required by the lender, evidence that the value of the mortgaged property did not decline, and certification that the borrower's equity was unencumbered by a subordinate lien). (§ 3(a))
6. Obtain and review a sample of non-high-risk PMI residential mortgage transactions. Verify that PMI was terminated, based on the initial amortization schedule (in the case of a fixed-rate loan) or the amortization schedules (in the case of an adjustable-rate loan), on the date on which the principal balance of the loan was first scheduled to reach 78% of the original value of the mortgaged property, assuming that the borrower was current, or on the earliest date thereafter on which the borrower became current. (§ 3(b))

7. Obtain a sample of PMI-covered residential mortgage transactions (including high-risk loans, if any) that have reached the midpoint of their amortization period. Determine whether PMI was terminated by the first day of the following month if the loan was current. If the loan was not current at the midpoint, determine that PMI was terminated by the first day of the month following the day the loan became current. If at the time of the examination a loan at the midpoint is not current, determine whether the financial institution is monitoring the loan and has systems in place to ensure that PMI is terminated when the borrower becomes current. (§§ 3(c) and 3(f)(2))
8. Determine if the financial institution has made any lender-defined high-risk residential mortgage transactions. If so, select a sample of these transactions and verify that PMI was canceled, based on the initial amortization schedule (in the case of a fixed-rate loan) or the amortization schedules (in the case of an adjustable-rate loan), on the date on which the principal balance of the loan was scheduled to reach 77% of the original value of the mortgaged property. (§ 3(f)(1)(B))
9. Obtain a sample of loans that have had PMI canceled or terminated. For PMI loans canceled upon the borrower's request, determine that the financial institution did not require any PMI payments beyond 30 days of the borrower's satisfying the evidence and certification requirements to cancel PMI. (§ 3(d)(1)) For PMI loans that received automatic termination or final termination, determine that the financial institution did not require any PMI payments beyond 30 days of termination. (§§ 3(d)(2) and 3(d)(3))
10. Using the samples in steps 5, 6, and 7, determine if the financial institution returns unearned premiums, if any, to the borrower within 45 days after cancellation or termination of PMI. (§ 3(e)(1))

Conclusions

11. Summarize all violations.
12. If the violation (or violations) noted represents a pattern or practice, determine the root cause by identifying weaknesses in internal controls, compliance review, training, management oversight, or other factors.
13. Identify action needed to correct violations and weaknesses in the institution's compliance system, as appropriate.
14. Discuss findings with the institution's management, and obtain a commitment for corrective action.
15. Determine if enforcement action is appropriate. If so, contact appropriate Reserve Bank personnel for guidance. Section 10(c) of the act contains a provision requiring restitution of unearned PMI premiums.

Homeowners Protection Act Worksheet

1. For *fixed-rate* residential mortgage transactions, does the lender provide, at consummation, written initial disclosures that include the following?
 - a. A written amortization schedule (§ 4(a)(1)(A)(i)) Yes No N/A
 - b. A notice that the borrower may submit a written request to cancel PMI as of the date that, based on the initial amortization schedule, the principal balance is first scheduled to reach 80% of the original value of the mortgaged property, regardless of the outstanding balance of the mortgage; or such earlier date that, based on actual payments, the principal balance actually reaches 80% of the original value of the mortgaged property, and provided that the borrower has a good payment history and has satisfied the lender's requirements that the value of the mortgaged property has not declined and is unencumbered by subordinate liens (§§ 4(a)(1)(A)(ii)(I) and 4(a)(1)(A)(ii)(II)) Yes No N/A
 - c. The specific date, based on the initial amortization schedule, on which the loan balance is scheduled to reach 80% of the original value of the mortgaged property (§ 4(a)(1)(A)(ii)(I)) Yes No N/A
 - d. A notice that PMI will automatically terminate on the date that, based on the amortization schedule and regardless of the outstanding balance of the mortgage, the principal balance is first scheduled to reach 78% of the original value of the mortgaged property, provided that the loan is current (§ 4(a)(1)(A)(ii)(III)) Yes No N/A
 - e. The specific date the loan balance is scheduled to reach 78% LTV (§ 4(a)(1)(A)(ii)(III)) Yes No N/A
 - f. Notice that exemptions to the borrower's right to cancel PMI and automatic PMI termination exist for high-risk loans, and whether such exemptions apply (§ 4(a)(1)(A)(ii)(IV)) Yes No N/A
2. For *adjustable-rate* residential mortgage transactions, does the lender provide, at consummation, written initial disclosures that include a notice that
 - a. The borrower may submit a written request to cancel PMI as of the date that, based on the amortization schedule(s) and regardless of the outstanding balance of the mortgage, the principal balance is first scheduled to reach 80% of the original value of the mortgaged property; or such earlier date that, based on actual payments, the principal balance actually reaches 80% of the original value of the mortgaged property and the borrower has a good payment history and has satisfied the lender's requirements that the value of the mortgaged property has not declined and is unencumbered by subordinate liens (§ 4(a)(1)(B)(i)) Yes No N/A
 - b. The servicer will notify the borrower when the cancellation date is reached, that is, when the loan balance represents 80% of the original value of the mortgaged property (§ 4(a)(1)(B)(i)) Yes No N/A
 - c. PMI will automatically terminate when the loan balance is first scheduled to reach 78% of the original value of the mortgaged property, regardless of the outstanding balance of the mortgage, and the loan is current (§ 4(a)(1)(B)(ii)) Yes No N/A
 - d. On the termination date the borrower will be notified of the termination or the fact that PMI will be terminated when the loan is brought current (§ 4(a)(1)(B)(ii)) Yes No N/A

e. Exemptions to the borrower's right to cancel PMI and automatic PMI termination exist for high-risk loans, and whether such exemptions apply (§ 4(a)(1)(B)(iii))	Yes	No	N/A
3. Does the lender have established standards regarding the type of evidence it requires borrowers to provide to demonstrate that the value of the mortgage property has not declined, and are they provided when a request for cancellation occurs?	Yes	No	N/A
4. For high-risk residential mortgage transactions (as defined by the lender or Fannie Mae or Freddie Mac), does the lender provide, at consummation, written initial disclosures that PMI will not be required beyond the midpoint of the amortization period of the loan, if the loan is current? (§ 4(a)(2))	Yes	No	N/A
5. If the financial institution acts as servicer for residential mortgage transactions, does it provide an annual written statement to the borrowers explaining their rights to cancel or terminate PMI and an address and telephone number where the servicer can be contacted to determine whether they may cancel PMI? (§ 4(a)(3)) (Note: This disclosure may be included on the RESPA annual escrow account disclosure or the IRS interest payment disclosures.)	Yes	No	N/A
6. If the financial institution acts as servicer, does it provide an annual written statement to each borrower who entered into a residential mortgage prior to July 29, 1999, that includes <ul style="list-style-type: none"> a. A statement that PMI may, under certain circumstances, be canceled by the borrower with the consent of the lender or in accordance with applicable state law (§ 4(b)(1)) b. An address and telephone number that the borrower may use to contact the servicer to determine whether the borrower may cancel the PMI (§ 4(b)(2)) 	Yes	No	N/A
(Note: This disclosure may be included on the RESPA annual escrow account disclosure or the IRS interest payment disclosure.)	Yes	No	N/A
7. If the financial institution acts as servicer for residential mortgage transactions, does it provide borrowers written notice within 30 days after the date of cancellation or termination of PMI that the borrower no longer has PMI and that no further PMI payments or related fees are due? (§ 5(a))	Yes	No	N/A
8. If the financial institution services residential mortgage transactions, does it return all unearned PMI premiums to the borrower within 45 days of either termination upon the borrower's request or automatic termination under the HOPA? (§ 3(e))	Yes	No	N/A
9. If the financial institution acts as servicer for residential mortgage transactions, does it provide borrowers written notice of the grounds it relied on (including the results of any appraisal) to deny a borrower's request for PMI cancellation no later than 30 days after the date the request is received or the date on which the borrower satisfies any evidence and certification requirements established by the lender, whichever is later? (§§ 5(b)(1) and 5(b)(2)(A))	Yes	No	N/A
10. If the financial institution acts as servicer for residential mortgage transactions, does it provide borrowers written notice of the grounds it relied on (including the results of any appraisal) in refusing to automatically terminate PMI not later than 30 days after the scheduled termination date? (§ 5(b)(2)(B))	Yes	No	N/A

(Note: The scheduled termination date is reached when, based on the initial amortization schedule (in the case of a fixed-rate loan) or the amortization schedules (in the case of an adjustable-rate loan), the principal balance of the loan is first scheduled to reach 78% of the original value of the mortgaged property, assuming that the borrower is current on that date, or the earliest date thereafter on which the borrower becomes current.)

11. If the financial institution acts as a servicer for adjustable-rate residential mortgage transactions, does it notify borrowers that the cancellation date has been reached? (§ 4(a)(1)(B)(i))	Yes	No	N/A
12. If the financial institution acts as a servicer for adjustable-rate residential mortgage transactions, does it notify the borrowers on the termination date that PMI has been canceled or will be canceled as soon as the borrower is current on loan payments? (§ 4(a)(1)(B)(ii))	Yes	No	N/A
13. If the financial institution requires “lender paid mortgage insurance” (LPMI) for residential mortgage transactions, does it provide a written notice to a prospective borrower on or before the loan commitment date that includes the following?			
a. A statement that LPMI differs from borrower-paid mortgage insurance (BPMI) in that the borrower may not cancel LPMI, while BPMI is subject to cancellation and automatic termination under the HOPA (§ 6(c)(1)(A))	Yes	No	N/A
b. A statement that LPMI usually results in a mortgage with a higher interest rate than BPMI (§ 6(c)(1)(B)(i))	Yes	No	N/A
c. A statement that LPMI terminates only when the transaction is refinanced, paid off, or otherwise terminated (§ 6(c)(1)(B)(ii))	Yes	No	N/A
d. A statement that both LPMI and BPMI have benefits and disadvantages, and a generic analysis reflecting the differing costs and benefits of each over a 10-year period, assuming prevailing interest and property appreciation rates (§ 6(c)(1)(C))	Yes	No	N/A
e. A statement that LPMI may be tax deductible on federal income taxes if the borrower itemizes expenses for that purpose (§ 6(c)(1)(D))	Yes	No	N/A
14. If the lender requires LPMI for residential mortgage transactions and the financial institution acts as servicer, does it notify the borrower in writing within 30 days of the termination date that would have applied, if it were a BPMI transaction, that the borrower may wish to review financing options that could eliminate the requirement for PMI? (§ 6(c)(2))	Yes	No	N/A
15. Does the financial institution prohibit borrower-paid fees for the disclosures and notifications required under the HOPA? (§ 7)	Yes	No	N/A

Homeownership Counseling

Background

Section 106(c)(5) of the Housing and Urban Development Act of 1968 (12 USC 1701x(c)(5)) provides for homeownership counseling notification by creditors to eligible homeowners. The act has been amended at various times, most recently in November 2001 when the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act of 2002 (Pub. L. 107-73) was enacted.¹ Section 205 of that act repealed the previous sunset provision.

Applicability

All creditors that service loans secured by a mortgage or lien on a single-family residence (home loans) are subject to the homeownership counseling notification requirements. Home loans include conventional mortgage loans and loans insured by the Department of Housing and Urban Development (HUD).

Requirements

Notice Requirements

A creditor must provide notification of the availability of homeownership counseling to a homeowner who is eligible for counseling and who fails to pay any amount by the due date under the terms of the home loan.²

Eligibility

A homeowner is eligible for counseling if

- The loan is secured by the homeowner's principal residence,
- The home loan is not assisted by the Farmers Home Administration, and

1. Section 577 of the National Affordable Housing Act of 1990 (Pub. L. 101-625) extended the homeownership counseling provisions to September 30, 1992; section 162 of the Housing and Community Development Act of 1992 (Pub. L. 102-550) extended the provisions to September 30, 1994; and section 594 of the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Act of 1999 (Pub. L. 105-276) extended the provisions to September 30, 2000.

2. The FFIEC Consumer Compliance Task Force has requested clarification from HUD on HUD's current position regarding notice requirements related to first-time homebuyers. The interagency examination procedures included in this chapter are currently limited to determining compliance with the act's notice provisions related to delinquent borrowers. However, should a response from HUD to the task force indicate that notices to first-time homebuyers should be provided under the act, the examination procedures will be expanded to cover notices to first-time homebuyers.

- The homeowner is, or is expected to be, unable to make payments, correct a home loan delinquency within a reasonable time, or resume full home loan payments due to a reduction in the homeowner's income because of
 - An involuntary loss of, or reduction in, the homeowner's employment, the homeowner's self-employment, or income from the pursuit of the homeowner's occupation or
 - Any similar loss or reduction experienced by any person who contributes to the homeowner's income.

Contents of Notice

The notice must

- Notify the homeowner of the availability of any homeownership counseling offered by the creditor and
- Provide either a list of HUD-approved nonprofit homeownership counseling organizations or the toll-free number HUD has established through which a list of such organizations can be obtained.³

Timing of Notice

The notice must be given to a delinquent homeowner borrower no later than forty-five days after the date on which the homeowner becomes delinquent. If, within the forty-five-day period, the borrower brings the loan current again, no notification is required.

Definitions

For purposes of these requirements, the following definitions apply:

- *Creditor*—A person or entity that is servicing a home loan on behalf of itself or another person or entity
- *Home loan*—A loan secured by a mortgage or lien on residential property
- *Homeowner*—A person who is obligated under a home loan
- *Residential property*—A single-family residence, including a single-family unit in a condominium project, a membership interest and occupancy agreement in a cooperative housing project, and a manufactured home and the lot on which the home is situated

3. The toll-free number is 1-800-569-4287.

Homeownership Counseling Examination Objectives and Procedures

EXAMINATION OBJECTIVES

To determine whether the financial institution has established procedures regarding homeownership counseling notification requirements in order to ensure that it is in compliance with the provisions of section 106(c)(5) of the Housing and Urban Development Act of 1968.

homeownership counseling offered by the creditor and (2) the availability of any homeownership counseling by nonprofit organizations approved by HUD, or the toll-free telephone number through which the homeowner can obtain a list of such organizations.

EXAMINATION PROCEDURES

1. Determine if the financial institution is informing eligible homeowners, within 45 days of initial loan default, of (1) the availability of any

Homeownership Counseling Examination Checklist

1. Does the financial institution notify eligible homeowners, within 45 days of initial loan default, of any homeownership counseling the institution (creditor) provides?
2. Does the financial institution provide eligible homeowners with the names of nonprofit organizations approved by HUD or the toll-free telephone number to call to obtain a list of such organizations?

Yes No

Yes No

Regulation X

Real Estate Settlement Procedures Act

The Real Estate Settlement Procedures Act of 1974 (RESPA) (12 U.S.C. 2601 *et seq.*) (the act) became effective on June 20, 1975. The act requires lenders, mortgage brokers, or servicers of home loans to provide borrowers with pertinent and timely disclosures regarding the nature and costs of the real estate settlement process. The act also prohibits specific practices, such as kickbacks, and places limitations upon the use of escrow accounts. The Department of Housing and Urban Development (HUD) originally promulgated Regulation X, which implements RESPA.

Congress has amended RESPA significantly since its enactment. The National Affordable Housing Act of 1990 amended RESPA to require detailed disclosures concerning the transfer, sale, or assignment of mortgage servicing. It also requires disclosures for mortgage escrow accounts at closing and annually thereafter, itemizing the charges to be paid by the borrower and what is paid out of the account by the servicer.

In October 1992, Congress amended RESPA to cover subordinate lien loans.

Congress, when it enacted the Economic Growth and Regulatory Paperwork Reduction Act of 1996,¹ further amended RESPA to clarify certain definitions including “controlled business arrangement,” which was changed to “affiliated business arrangement.” The changes also reduced the disclosures under the mortgage servicing provisions of RESPA.

In 2008, HUD issued a RESPA Reform Rule (73 Fed. Reg. 68204, November 17, 2008) that included substantive and technical changes to the existing RESPA regulations and different implementation dates for various provisions. Substantive changes included a standard Good Faith Estimate form and a revised HUD-1 Settlement Statement that were required as of January 1, 2010. Technical changes, including streamlined mortgage servicing disclosure language, elimination of outdated escrow account provisions, and a provision permitting an “average charge” to be listed on the Good Faith Estimate and HUD-1 Settlement Statement, took effect on January 16, 2009. In addition, HUD clarified that all disclosures required by RESPA are permitted to be provided electronically, in accordance with the Electronic Signatures in Global and National Commerce Act (E-Sign).²

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), Pub. L.

111-203 (July 10, 2010) granted rulemaking authority under RESPA to the Consumer Financial Protection Bureau (CFPB) and, with respect to entities under its jurisdiction, generally granted authority to the CFPB to supervise for and enforce compliance with RESPA and its implementing regulations.³ In December 2011, the CFPB restated HUD’s implementing regulation at 12 CFR part 1024 (76 Fed. Reg. 78978) (December 20, 2011).

On January 17, 2013, the CFPB issued a final rule to amend Regulation X (78 Fed. Reg. 10695) (February 14, 2013). The final rule implemented certain provisions of Title XIV of the Dodd-Frank Act and included substantive and technical changes to the existing regulations. Substantive changes included modifying the servicing transfer notice requirements and implementing new procedures and notice requirements related to borrowers’ error resolution requests and information requests. The amendments also included new provisions related to escrow payments; force-placed insurance; general servicing policies, procedures, and requirements; early intervention; continuity of contact; and loss mitigation. The amendments are effective as of January 10, 2014.

On July 10, 2013, September 13, 2013, and October 22, 2014, the CFPB issued final rules to further amend Regulation X (78 Fed. Reg. 44685 (July 24, 2013), 78 Fed. Reg. 60381 (October 1, 2013), and 79 Fed. Reg. 65299 (November 3, 2014)). The final rules included substantive and technical changes to the existing regulations, including revisions to provisions on the relation to state law of Regulation X’s servicing provisions, to the loss mitigation procedure requirements, and to the requirements relating to notices of error and information requests. On October 15, 2013, the CFPB issued an interim final rule to further amend Regulation X (78 Fed. Reg. 62993) (October 23, 2013) to exempt servicers from the early intervention requirements in certain circumstances. The Regulation X amendments are effective as of January 10, 2014.

The amendments issued on January 17, 2013; July 10, 2013; September 13, 2013; October 15, 2013; and October 22, 2014, are collectively referred to in this document as the “2013-2014 Amendments.”

On December 31, 2013, the CFPB published final rules implementing sections 1098(2) and

1. Pub. L. 104-208, Div. A., Title II § 2103 (c), September 30, 1996.

2. 15 U.S.C. 7001 *et seq.*

3. Dodd-Frank Act secs. 1002(12)(M), 1024(b)-(c), and 1025 (b)-(c); 1053; 12 U.S.C. 5481(12)(M), 5514(b)-(c), and 5515 (b)-(c).

1100A(5) of the Dodd-Frank Act, which direct the CFPB to publish a single, integrated disclosure for mortgage transactions, which includes mortgage disclosure requirements under the Truth in Lending Act (TILA) and sections 4 and 5 of RESPA. These amendments are referred to in this document as the “TILA-RESPA Integrated Disclosure Rule” or “TRID,” and are applicable to covered closed-end mortgage loans for which a creditor or mortgage broker receives an application on or after October 3, 2015.⁴ As a result, Regulation Z now houses the integrated forms, timing, and related disclosure requirements for most closed-end consumer mortgage loans.

The new integrated disclosures are not used to disclose information about reverse mortgages, home equity lines of credit (HELOCs), chattel-dwelling loans such as loans secured by a mobile home or by a dwelling that is not attached to real property (i.e., land), or other transactions not covered by the TILA-RESPA Integrated Disclosure rule. The final rule also does not apply to loans made by a creditor who makes five or fewer mortgages in a year. Creditors originating these types of mortgages must continue to use, as applicable, the Good Faith Estimate, HUD-1 Settlement Statement, and Truth in Lending disclosures.

Subpart A—General Provisions

Coverage—12 CFR 1024.5(a)

RESPA is applicable to all “federally related mortgage loans,” except as provided under 12 CFR 1024.5(b) and 1024.5(d), discussed below. “Federally related mortgage loans” are defined as loans (other than temporary loans), including refinancings, that satisfy the following two criteria:

- *First*, the loan is secured by a first or subordinate lien on residential real property, located within a state, upon which either
 - a one-to-four family structure is located or is to be constructed using proceeds of the loan (including individual units of condominiums and cooperatives); or
 - a manufactured home is located or is to be constructed using proceeds of the loan.
- *Second*, the loan falls within one of the following categories:
 - loans made by a lender,⁵ creditor,⁶ dealer;⁷

4. The effective date for the TILA RESPA Integrated Disclosure rule was extended from August 1, 2015, to October 3, 2015, by a final rule issued July 21, 2015, and published in the *Federal Register* on July 24, 2015 (80 FR 43911).

5. A lender includes financial institutions either regulated by, or whose deposits or accounts are insured by, any agency of the federal government.

6. A creditor is defined in sec. 103(g) of the Consumer Credit

- loans made or insured by an agency of the federal government;
- loans made in connection with a housing or urban development program administered by an agency of the federal government;
- loans made and intended to be sold by the originating lender or creditor to Federal National Mortgage Association (FNMA), Government National Mortgage Association (GNMA), or Federal Home Loan Mortgage Corporation (FHLMC) (or its successor); or
- loans that are the subject of a home equity conversion mortgage or reverse mortgage issued by a lender or creditor subject to the regulation.

“Federally related mortgage loans” are also defined to include installment sales contracts, land contracts, or contracts for deeds on otherwise qualifying residential property if the contract is funded in whole or in part by proceeds of a loan made by a lender, specified federal agency, dealer or creditor subject to the regulation.

Exemptions—12 CFR 1024.5(b)

The following transactions are exempt from coverage:

- a loan primarily for business, commercial or agricultural purposes (definition identical to Regulation Z, 12 CFR 1026.3(a)(1));
- a temporary loan, such as a construction loan. (The exemption does not apply if the loan is used as, or may be converted to, permanent financing by the same financial institution or is used to finance transfer of title to the first user of the property.) If the lender issues a commitment for permanent financing, it is covered by the regulation.
- any construction loan with a term of two years or more is covered by the regulation, unless it is made to a bona fide contractor. “Bridge” or “swing” loans are not covered by the regulation.
- a loan secured by vacant or unimproved property where no proceeds of the loan will be used to construct a one-to-four family residential structure. If the proceeds will be used to locate a manufactured home or construct a structure within two years from the date of settlement, the loan is covered.

Protection Act (15 U.S.C. 1602(g)). RESPA covers any creditor that makes or invests in residential real estate loans aggregating more than \$1 million per year.

7. Dealer is defined in Regulation X to mean a seller, contractor, or supplier of goods or services. Dealer loans are covered by RESPA if the obligations are to be assigned before the first payment is due to any lender or creditor otherwise subject to the regulation.

- an assumption, unless the mortgage instruments require lender approval for the assumption and the lender approves the assumption.
- a conversion of a loan to different terms which are consistent with provisions of the original mortgage instrument, as long as a new note is not required, even if the lender charges an additional fee for the conversion.⁸
- a bona fide transfer of a loan obligation in the secondary market. (However, the mortgage servicing requirements of subpart C, 12 CFR 1024.30-41, still apply.) Mortgage broker transactions that are table funded (the loan is funded by a contemporaneous advance of loan funds and an assignment of the loan to the person advancing the funds) are not secondary market transactions and therefore are covered by RESPA. Similarly, neither the creation of a dealer loan or consumer credit contract, nor the first assignment of such loan or contract to a lender, is a secondary market transaction.

Partial Exemptions for Certain Mortgage Loans—12 CFR 1024.5(d)

Most closed-end mortgage loans are exempt from the requirement to provide the Good Faith Estimate, HUD-1 settlement statement, and application servicing disclosure requirements of 12 CFR 1024.6, 1024.7, 1024.8, 1024.10, and 1024.33(a). Instead, these loans are subject to disclosure, timing, and other requirements under TILA and Regulation Z. Specifically, the aforementioned provisions do not apply to a federally related mortgage loan that

- is subject to the special disclosure (TILA-RESPA Integrated Disclosure) requirements for certain consumer credit transactions secured by real property set forth in Regulation Z, 12 CFR 1026.19(e), (f), and (g); or

⁸. 12 CFR 1024.5(b)(6).

Summary of Applicable Disclosure Requirements

Use TILA-RESPA Integrated Disclosures (See Regulation Z)

- most closed-end mortgage loans, including
 - construction-only loans
 - loans secured by vacant land or by 25 or more acres

- is subject to the partial exemption under 12 CFR 1026.3(h) (i.e., certain no-interest loans secured by subordinate liens made for the purpose of down payment or similar home buyer assistance, property rehabilitation, energy efficiency, or foreclosure avoidance or prevention. (12 CFR 1026.3 (h))

Note that a creditor may not use the TILA-RESPA Integrated Disclosure forms instead of the GFE, HUD-1, and Truth in Lending forms for transactions that continue to be covered by TILA or RESPA that require those disclosures (e.g., reverse mortgages).

Subpart B—Mortgage Settlement and Escrow Accounts

Examiners should note that certain provisions in subpart B (12 CFR 1024.6, 1024.7, 1024.8, and 1024.10) are applicable only to limited categories of mortgage loans. See the discussion of 12 CFR 1024.5(d) above.

Special Information Booklet—12 CFR 1024.6

For mortgage loans that are not subject to the TILA-RESPA Integrated Disclosure rule (see 12 CFR 1026.19(e), (f) and (g)),⁹ a loan originator¹⁰ is required to provide the borrower with a copy of the Special Information Booklet at the time a written application is submitted or no later than three business days after the application is received. If the application is denied before the end of the three-business-day period, the loan originator is

⁹. Note: The Special Information Booklet may also be required under 12 CFR 1026.19(g) for those closed-end mortgage loans subject to the TILA-RESPA Integrated Disclosure Rule. A discussion of those requirements is located in the Regulation Z examination procedures.

¹⁰. A "loan originator" is defined as a lender or mortgage broker. 12 CFR 1024.2(b).

Continue to use existing TIL, RESPA Disclosures (as applicable)

- HELOCs (subject to disclosure requirements under Regulation Z, 12 CFR 1026.40)
- reverse mortgages¹ (subject to existing TIL and GFE disclosures)
- chattel-secured mortgages (i.e., mortgages secured by a mobile home or by a dwelling that is not attached to real property, such as land) (subject to existing TIL disclosures, and not RESPA)

But note: In both cases, there is a partial exemption from these disclosures under 12 CFR 1026.3(h) for loans secured by subordinate liens and associated with certain housing assistance loan programs for low- and moderate-income persons.

¹ Open-end reverse mortgages receive open-end disclosures, rather than GFEs or HUD-1s.

not required to provide the booklet. If the borrower uses a mortgage broker, the broker rather than the lender, must provide the booklet.

The booklet does not need to be provided for refinancing transactions, closed-end subordinate lien mortgage loans and reverse mortgage transactions, or for any other federally related mortgage loan not intended for the purchase of a one-to-four family residential property (12 CFR 1024.6(a)(3)).

A loan originator that complies with Regulation Z (12 CFR 1026.40) for open-end home equity plans (including providing the brochure entitled "What You Should Know About Home Equity Lines of Credit" or a suitable substitute) is deemed to have complied with this section.

NOTE: The Special Information Booklet may also be required under 12 CFR 1026.19(g) for those closed-end mortgage loans subject to the TILA-RESPA Integrated Disclosure Rule. A discussion of those requirements is located in the Regulation Z examination procedures.

Good Faith Estimate (GFE) of Settlement Costs—12 CFR 1024.7 Standard GFE Required

For closed-end reverse mortgages, a loan originator is required to provide a consumer with the standard GFE form that is designed to allow borrowers to shop for a mortgage loan by comparing settlement costs and loan terms. (See GFE form at appendix C to 12 CFR part 1024.)

Overview of the Standard GFE

The first page of the GFE includes a summary of loan terms and a summary of estimated settlement charges. It also includes information about key dates such as when the interest rate for the loan quoted in the GFE expires and when the estimate for the settlement charges expires. The second page discloses settlement charges as subtotals for 11 categories of costs. The third page provides a table explaining which charges can change at settlement, a trade-off table showing the relationship between the interest rate and settlement charges, and a shopping chart to compare the costs and terms of loans offered by different originators.

GFE Application Requirements

- The loan originator must provide the standard GFE to the borrower within three business days of receipt of an application for a mortgage loan. A

loan originator is not required to provide a GFE if before the end of the three-business-day period, the application is denied or the borrower withdraws the application.

- An application can be in writing or electronically submitted, including a written record of an oral application.
- A loan originator determines what information it needs to collect from a borrower and which of the collected information it will use in order to issue a GFE. Under the regulations, an "application" includes at least the following six pieces of information:
 - (1) the borrower's name;
 - (2) the borrower's gross monthly income;
 - (3) the borrower's Social Security number (e.g., to enable the loan originator to obtain a credit report);
 - (4) the property address;
 - (5) an estimate of the value of the property; and
 - (6) the mortgage loan amount sought. In addition, a loan originator may require the submission of any other information it deems necessary.
- A loan originator will be presumed to have relied on such information prior to issuing a GFE and cannot base a revision of a GFE on that information unless it changes or is later found to be inaccurate.
- While the loan originator may require the borrower to submit additional information beyond the six pieces of information listed above in order to issue a GFE, it cannot require, as a condition of providing the GFE, the submission of supplemental documentation to verify the information provided by the borrower on the application. However, a loan originator is not prohibited from using its own sources to verify the information provided by the borrower prior to issuing the GFE. The loan originator can require borrowers to provide verification information after the GFE has been issued in order to complete final underwriting.
- For dealer loans, the loan originator is responsible for providing the GFE directly or ensuring that the dealer provides the GFE.
- For mortgage brokered loans, either the lender or the mortgage broker must provide a GFE within three business days after a mortgage broker receives either an application or information sufficient to complete an application. The lender is responsible for ascertaining whether the GFE

has been provided. If the mortgage broker has provided the GFE to the applicant, the lender is not required to provide an additional GFE.

- A loan originator is prohibited from charging a borrower any fee in order to obtain a GFE unless the fee is limited to the cost of a credit report.

GFE Not Required for Open-End Lines of Credit—12 CFR 1024.7(h)

A loan originator that complies with Regulation Z (12 CFR 1026.40) for open-end home equity plans is deemed to have complied with 12 CFR 1024.7.

Availability of GFE Terms—12 CFR 1024.7(c)

Regulation X does not establish a minimum period of availability for which the interest rate must be honored. The loan originator must determine the expiration date for the interest rate of the loan stated on the GFE. In contrast, Regulation X requires that the estimated settlement charges and loan terms listed on the GFE be honored by the loan originator for at least 10 business days from the date the GFE is provided. The period of availability for the estimated settlement charges and loan terms as well as the period of availability for the interest rate of the loan stated on the GFE must be listed on the GFE in the “important dates” section of the form.

After the expiration date for the interest rate of the loan stated on the GFE, the interest rate and the other rate related charges, including the charge or credit for the interest rate chosen, the adjusted origination charges and the per diem interest can change until the interest rate is locked.

Key GFE Form Contents—12 CFR 1024.7(d)

The loan originator must ensure that the required GFE form is completed in accordance with the instructions set forth in appendix C of 12 CFR part 1024.

First Page of GFE

- The first page of the GFE discloses identifying information such as the name and address of the “loan originator,” which includes the lender or the mortgage broker originating the loan. The “purpose” section indicates what the GFE is about and directs the borrower to the Truth in Lending disclosures and HUD’s website for more information. The borrower is informed that only the borrower can shop for the best loan and that the borrower should compare loan offers using the shopping chart on the third page of the GFE.

- The “important dates” section requires the loan originator to state the expiration date for the interest rate for the loan provided in the GFE as well as the expiration date for the estimate of other settlement charges and the loan terms not dependent upon the interest rate.
- While the interest rate stated on the GFE is not required to be honored for any specific period of time, the estimate for the other settlement charges and other loan terms must be honored for at least 10 business days from when the GFE is provided.
- In addition, the form must state how many calendar days within which the borrower must go to settlement once the interest rate is locked (rate lock period). The form also requires disclosure of how many days prior to settlement the interest rate would have to be locked, if applicable.
- The “summary of your loan” section requires disclosure of the initial loan amount; loan term; initial interest rate; initial monthly payment for principal, interest, and any mortgage insurance; whether the interest rate can rise, and if so, the maximum rate to which it can rise over the life of the loan, and the period of time after which the interest rate can first change; whether the loan balance can rise if the payments are made on time and if so, the maximum amount to which it can rise over the life of the loan; whether the monthly amount owed for principal, interest, and any mortgage insurance can rise even if payments are made on time, and if so, the maximum amount to which the monthly amount owed can ever rise over the life of the loan; whether the loan has a prepayment penalty, and if so, the maximum amount it could be; and whether the loan has a balloon payment, and if so, the amount of such payment and in how many years it will be due. Specific instructions are provided with respect to closed-end reverse mortgages.

- The “escrow account information” section requires the loan originator to indicate whether the loan does or does not have an escrow account to pay property taxes or other property-related charges. In addition, this section also requires the disclosure of the monthly amount owed for principal, interest, and any mortgage insurance. Specific instructions are provided with respect to closed-end reverse mortgages.
- The bottom of the first page includes subtotals for the adjusted origination charges and charges for all other settlement charges listed on page two, along with the total estimated settlement charges.

Second Page of GFE

The second page of the GFE requires disclosure of all settlement charges. It provides for the estimate

of total settlement costs in 11 categories discussed below. The adjusted origination charges are disclosed in “Block A” and all other settlement charges are disclosed in “Block B.” The amounts in the blocks are to be added to arrive at the “total estimated settlement charges,” which is required to be listed at the bottom of the page.

Disclosure of Adjusted Origination Charge (Block A)

Block A addresses disclosure of origination charges, which include all lender and mortgage broker charges. The “adjusted origination charge” results from the subtraction of a “credit” from the “origination charge” or the addition of a “charge” to the origination charge.

- Block 1—the origination charges, which include lender processing and underwriting fees and any fees paid to a mortgage broker.

Origination charge note: This block requires the disclosure of all charges that all loan originators involved in the transaction will receive for originating the loan (excluding any charges for points). A loan originator may not separately charge any additional fees for getting the loan such as application, processing or underwriting fees. The amount in Block 1 is subject to zero tolerance, i.e., the amount cannot change at settlement.

- Block 2—a “credit” or “charge” for the interest rate chosen.

Credit or charge for the interest rate chosen note:

Transaction involving a mortgage broker. For a transaction involving a mortgage broker,¹¹ Block 2 requires disclosure of a “credit” or charge (points) for the specific interest rate chosen. The credit or charge for the specific interest rate chosen is the net payment to the mortgage broker (i.e., the sum of all payments to the mortgage broker from the lender, including payments based on the loan amount, a flat rate or any other compensation, and in a table funded transaction, the loan amount less the price paid for the loan by the lender.)

When the net payment to the mortgage broker from the lender is positive, there is a “credit” to the borrower and it is entered as a negative amount. For example, if the lender pays a yield spread premium to a mortgage broker for the loan set forth

in the GFE, the payment must be disclosed as a “credit” to the borrower for the particular interest rate listed on the GFE (reflected on the GFE at Block 2, checkbox 2). The term “yield spread premium” is not featured on the GFE or the HUD-1 Settlement Statement.

Points paid by the borrower for the interest rate chosen must be disclosed as a “charge” (reflected on the GFE at Block 2, third checkbox). A loan cannot include both a charge (points) and a credit (yield spread premium).

Transaction not involving a mortgage broker. For a transaction without a mortgage broker, a lender may choose not to separately disclose any credit or charge for the interest rate chosen for the loan in the GFE. If the lender does not include any credit or charge in Block 2, it must check the first checkbox in Block 2 indicating that “The credit or charge for the interest rate you have chosen is included in ‘our origination charge’ above.” Only one of the boxes in Block 2 may be checked, as a credit and charge cannot occur together in the same transaction.

Disclosure of Charges for All Other Settlement Services (Block B)

Block B is the sum of charges for all settlement services other than the origination charges.

- Block 3—required services by providers selected by the lender such as appraisal and flood certification fee
- Block 4—title service fees and the cost of lender’s title insurance
- Block 5—owner’s title insurance
- Block 6—other required services for which the consumer may shop
- Block 7—government recording charges
- Block 8—transfer tax charges
- Block 9—initial deposit for escrow account
- Block 10—daily interest charges
- Block 11—homeowner’s insurance charges

Third Page of GFE

The third page of the GFE includes the following information:

- a tolerance chart identifying the charges that can change at settlement (see discussion on tolerances below);
- a trade-off table that requires the loan originator to provide information on the loan described in the GFE and at the loan originator’s option, information about alternative loans (one with lower settlement charges but a higher interest

11. The 2008 RESPA Reform Rule changed the definition of “mortgage broker” to mean a person or entity (not an employee of a lender) that renders origination services and serves as an intermediary between a lender and a borrower in a transaction involving a federally related mortgage loan, including such person or entity that closes the loan in its own name and table funds the transaction. The definition will also apply to a loan correspondent approved under 24 CFR 202.8 for Federal Housing Administration (FHA) programs. The definition would also include an “exclusive agent” who is not an employee of the lender.

- rate and one with a lower interest rate but higher settlement charges);
- a shopping chart that allows the consumer to fill in loan terms and settlement charges from other lenders or brokers to use to compare loans; and
 - language indicating that some lenders may sell the loan after settlement but that any fees the lender receives in the future cannot change the borrower's loan or the settlement charges.

Tolerances on Settlement Costs— 12 CFR 1024.7(e) and (i)

The 2008 RESPA Reform Rule established “tolerances” or limits on the amount actual settlement charges can vary at closing from the amounts stated on the GFE. The rule established three categories of settlement charges and each category has different tolerances. If, at settlement, the charges exceed the charges listed on the GFE by more than the permitted tolerances, the loan originator may cure the tolerance violation by reimbursing to the borrower the amount by which the tolerance was exceeded, at settlement or within 30 calendar days after settlement.

Tolerance Categories

- *Zero tolerance category.* This category of fees is subject to a zero tolerance standard. The fees estimated on the GFE may not be exceeded at closing. These fees include
 - the loan originator's own origination charge, including processing and underwriting fees;
 - the credit or charge for the interest rate chosen (i.e., yield spread premium or discount points) while the interest rate is locked;
 - the adjusted origination charge while the interest rate is locked; and
 - state/local property transfer taxes.
- *Ten percent tolerance category.* For this category of fees, while each individual fee may increase or decrease, the sum of the charges at settlement may not be greater than 10 percent above the sum of the amounts included on the GFE. This category includes fees for
 - loan originator required settlement services, where the loan originator selects the third-party settlement service provider;
 - loan originator required services, title services, required title insurance and owner's title insurance when the borrower selects a third-party provider identified by the loan originator; and
 - government recording charges.

- *No tolerance category.* The final category of fees is not subject to any tolerance restriction. The amounts charged for the following settlement services included on the GFE can change at settlement and the amount of the change is not limited:
 - loan originator required services where the borrower selects his or her own third-party provider;
 - title services, lender's title insurance, and owner's title insurance when the borrower selects his or her own provider;
 - initial escrow deposit;
 - daily interest charges; and
 - homeowner's insurance.

Identification of Third-Party Settlement Service Providers

When the loan originator permits a borrower to shop for one or more required third-party settlement services and select the settlement service provider for such required services, the loan originator must list in the relevant block on page two of the GFE the settlement service and the estimated charge to be paid to the provider of each required service. In addition, the loan originator must provide the borrower with a written list of settlement service providers for those required services on a separate sheet of paper at the time the GFE is provided.

Binding GFE—12 CFR 1024.7(f)

The loan originator is bound, within the tolerances provided, to the settlement charges and terms listed on the GFE provided to the borrower, unless a new GFE is provided prior to settlement (see discussion below on changed circumstances). This also means that if a lender accepts a GFE issued by a mortgage broker, the lender is subject to the loan terms and settlement charges listed in the GFE, unless a new GFE is issued prior to settlement.

Changed Circumstances—12 CFR 1024.2(b), 1024.7(f)(1) and (f)(2)

- Changed circumstances are defined as
- acts of God, war, disaster, or other emergency;
 - information particular to the borrower or transaction that was relied on in providing the GFE that changes or is found to be inaccurate after the GFE has been provided;

- new information particular to the borrower or transaction that was not relied on in providing the GFE; or
- other circumstances that are particular to the borrower or transaction, including boundary disputes, the need for flood insurance, or environmental problems.

Changed circumstances do not include the borrower's name, the borrower's monthly income, the property address, an estimate of the value of the property, the mortgage loan amount sought, and any information contained in any credit report obtained by the loan originator prior to providing the GFE, unless the information changes or is found to be inaccurate after the GFE has been provided. In addition, market price fluctuations by themselves do not constitute changed circumstances.

Changed circumstances affecting *settlement costs* are those circumstances that result in increased costs for settlement services such that the charges at settlement would exceed the tolerances or limits on those charges established by the regulations.

Changed circumstances affecting the *loan* are those circumstances that affect the borrower's eligibility for the loan. For example, if underwriting and verification indicate that the borrower is ineligible for the loan provided in the GFE, the loan originator would no longer be bound by the original GFE. In such cases, if a new GFE is to be provided, the loan originator must do so within three business days of receiving information sufficient to establish changed circumstances. The loan originator must document the reason that a new GFE was provided and must retain documentation of any reasons for providing a new GFE for no less than three years after settlement.

None of the information collected by the loan originator prior to issuing the GFE may later become the basis for a "changed circumstance" upon which it may offer a revised GFE, unless: (1) it can demonstrate that there was a change in the particular information, or (2) that the information was inaccurate, or (3) that it did not rely on that particular information in issuing the GFE. A loan originator has the burden of demonstrating nonreliance on the collected information but may do so through various means, including through a documented record in the underwriting file or an established policy of relying on a more limited set of information in providing GFEs.

If a loan originator issues a revised GFE based on information previously collected in issuing the original GFE and "changed circumstances," it must document the reasons for issuing the revised GFE, such as its nonreliance on such information or the inaccuracy of such information.

Borrower Requested Changes— 12 CFR 1024.7(f)(3)

If a borrower requests changes to the mortgage loan identified in the GFE that change the settlement charges or the terms of the loan, the loan originator may provide a revised GFE to the borrower. If a revised GFE is provided, the loan originator must do so within three business days of the borrower's request.

Expiration of Original GFE— 12 CFR 1024.7(f)(4)

If a borrower does not express an intent to continue with an application within 10 business days after the GFE is provided, or such longer time provided by the loan originator, the loan originator is no longer bound by the GFE.

Interest Rate Dependent Charges and Terms—12 CFR 1024.7(f)(5)

If the interest rate has not been locked by the borrower, or a locked interest rate has expired, all interest rate-dependent charges on the GFE are subject to change. The charges that may change include the charge or credit for the interest rate chosen, the adjusted origination charges, per diem interest, and loan terms related to the interest rate. However, the loan originator's origination charge (listed in Block 1 of page 2 of the GFE) is not subject to change, even if the interest rate floats, unless there is another changed circumstance or borrower-requested change.

If the borrower later locks the interest rate, a new GFE must be provided showing the revised interest rate dependent charges and terms. All other charges and terms must remain the same as on the original GFE, unless changed circumstances or borrower-requested changes result in increased costs for settlement services or affect the borrower's eligibility for the specific loan terms identified in the original GFE.

New Home Purchases— 12 CFR 1024.7(f)(6)

In transactions involving new home purchases, where settlement is expected to occur more than 60 calendar days from the time a GFE is provided, the loan originator may provide the GFE to the borrower with a clear and conspicuous disclosure stating that at any time up until 60 calendar days prior to closing, the loan originator may issue a revised GFE. If the loan originator does not provide such a disclosure, it cannot issue a revised GFE except as otherwise provided in Regulation X.

Volume-Based Discounts

The 2008 RESPA Reform Rule did not formally address the legality of volume-based discounts. However, HUD indicated in the preamble to the rule that discounts negotiated between loan originators and other settlement service providers, where the discount is ultimately passed on to the borrower in full, is not, depending on the circumstances of a particular transaction, a violation of Section 8 of RESPA.¹²

Uniform Settlement Statement (HUD-1 OR HUD-1A)—12 CFR 1024.8

For closed-end reverse mortgages, the person conducting the settlement (settlement agent) must provide the borrower with a HUD-1 Settlement Statement at or before settlement that clearly itemizes all charges imposed on the buyer and the seller in connection with the settlement. The 2008 RESPA Reform rule included a revised HUD-1/1A Settlement Statement form that is required as of January 1, 2010. The HUD-1 is used for transactions in which there is a borrower and seller. For transactions in which there is a borrower and no seller (refinancings and subordinate lien loans), the HUD-1 may be completed by using the borrower's side of the settlement statement. Alternatively, the HUD-1A may be used.

However, no settlement statement is required for home equity plans subject to TILA and Regulation Z, appendix A to 12 CFR 1024 contains the instructions for completing the forms.

Key 2008 RESPA Reform Enhancements to the HUD-1/1A Settlement Statement

While the 2008 RESPA Reform Rule did not include any substantive changes to the first page of the HUD-1/1A form, there were changes to the second page of the form to facilitate comparison between the HUD-1/1A and the GFE. Each designated line on the second page of the revised HUD-1/1A includes a reference to the relevant line from the GFE.

With respect to disclosure of "no cost" loans where "no cost" refers only to the loan originator's fees (see section L, subsection 800 of the HUD-1 form), the amounts shown for the "origination charge" and the "credit or charge for the interest rate chosen" should offset, so that the "adjusted origination charge" is zero.

In the case of a "no cost" loan where "no cost" encompasses loan originator and third-party fees,

all third-party fees must be itemized and listed in the borrower's column on the HUD-1/1A. These itemized charges must be offset with a negative adjusted origination charge (line 803) and recorded in the columns.

To further facilitate comparability between the forms, the revised HUD-1 includes a third page (second page of the HUD-1A) that allows borrowers to compare the loan terms and settlement charges listed on the GFE with the terms and charges listed on the closing statement. The first half of the third page includes a comparison chart that sets forth the settlement charges from the GFE and the settlement charges from the HUD-1 to allow the borrower to easily determine whether the settlement charges exceed the charges stated on the GFE. If any charges at settlement exceed the charges listed on the GFE by more than the permitted tolerances, the loan originator may cure the tolerance violation by reimbursing to the borrower the amount by which the tolerance was exceeded. A borrower will be deemed to have received timely reimbursement if the financial institution delivers or places the payment in the mail within 30 calendar days after settlement.

Inadvertent or technical errors on the settlement statement are not deemed to be a violation of Section 4 of RESPA if a revised HUD-1/1A is provided to the borrower within 30 calendar days after settlement.

The second half of the third page sets forth the loan terms for the loan received at settlement in a format that reflects the summary of loan terms on the first page of the GFE, but with additional loan related information that would be available at closing. The note at the bottom of the page indicates that the borrower should contact the lender if the borrower has questions about the settlement charges or loan terms listed on the form.

Section 1024.8(b) and the instructions for completing the HUD-1/1A Settlement Statement provide that the loan originator shall transmit sufficient information to the settlement agent to allow the settlement agent to complete the "loan terms" section. The loan originator must provide the information in a format that permits the settlement agent to enter the information in the appropriate spaces on the HUD-1/1A, without having to refer to the loan documents.

Average Charge Permitted

As of January 16, 2009, an average charge may be stated on the HUD-1/1A if such average charge is computed in accordance with 12 CFR 1024.8(b)(2). All settlement service providers, including loan originators, are permitted to list the average charge for a settlement service on the HUD-1/1A Settle-

12. 73 Fed. Reg. 68204, 68232 (November 17, 2008).

ment Statement (and on the GFE) rather than the exact cost for that service.

The method of determining the average charge is left up to the settlement service provider. The average charge may be used as the charge for any third-party vendor charge, not for the provider's own internal charges. The average charge also cannot be used where the charge is based on the loan amount or the value of the property.

The average charge may be used for any third-party settlement service, provided that the total amounts received from borrowers for that service for a particular class of transactions do not exceed the total amounts paid to providers of that service for that class of transactions. A class of transactions may be defined based on the period of time, type of loan, and geographic area. If an average charge is used in any class of transactions defined by the loan originator, then the loan originator must use the same average charge for every transaction within that class. The average charge must be recalculated at least every six months.

A settlement service provider that uses an average charge for a particular service must maintain all documents that were used to calculate the average charge for at least three years after any settlement in which the average charge was used.

Printing and Duplication of the Settlement Statement—12 CFR 1024.9

Financial institutions have numerous options for layout and format in reproducing the HUD-1 and HUD-1A that do not require prior CFPB approval such as size of pages; tint or color of pages; size and style of type or print; spacing; printing on separate pages, front and back of a single page, or on one continuous page; use of multicopy tear-out sets; printing on rolls for computer purposes; addition of signature lines; and translation into any language. Other changes may be made only with the approval of the CFPB.

One-Day Advance Inspection of the Settlement Statement—12 CFR 1024.10

For closed-end reverse mortgages, and upon request by the borrower, the HUD-1 or HUD-1A must be completed and made available for inspection during the business day immediately preceding the day of settlement, setting forth those items known at that time by the person conducting the closing.

Delivery—12 CFR 1024.10(a) and (b)

The completed HUD-1 or HUD-1A must be mailed

or delivered to the borrower, the seller (if there is one), the lender (if the lender is not the settlement agent), and/or their agents at or before settlement. However, the borrower may waive the right of delivery by executing a written waiver at or before settlement. The HUD-1 or HUD-1A shall be mailed or delivered as soon as practicable after settlement if the borrower or borrower's agent does not attend the settlement.

Retention—12 CFR 1024.10(e)

A lender must retain each completed HUD-1 or HUD-1A and related documents for five years after settlement, unless the lender disposes of its interest in the mortgage and does not service the mortgage. If the loan is transferred, the lender shall provide a copy of the HUD-1 or HUD-1A to the owner or servicer of the mortgage as part of the transfer. The owner or servicer shall retain the HUD-1 or HUD-1A for the remainder of the five-year period.

Prohibition of Fees for Preparing Federal Disclosures—12 CFR 1024.12

For loans subject to RESPA, no fee may be charged for preparing the Settlement Statement or the Escrow Account statement or any disclosures required by the Truth in Lending Act.

Prohibition against Kickbacks and Unearned Fees—12 CFR 1024.14

Any person who gives or accepts a fee, kickback, or thing of value (payments, commissions, gifts, tangible item, or special privileges) for the referral of settlement business is in violation of Section 8(a) of RESPA. Any person who gives or accepts any portion, split, or percentage of a charge for real estate settlement services, other than for services actually performed, is in violation of Section 8(b) of RESPA. Appendix B of Regulation X provides guidance on the meaning and coverage of the prohibition against kickbacks and unearned fees.

RESPA Section 8(b) is not violated when a single party charges and retains a settlement service fee, and that fee is unearned or excessive.

Penalties and Liabilities

Civil and criminal liability is provided for violating the prohibition against kickbacks and unearned fees including

- civil liability to the parties affected, equal to three times the amount of any charge paid for such settlement service

- the possibility that the costs associated with any court proceeding together with reasonable attorney's fees could be recovered
- a fine of not more than \$10,000 or imprisonment for not more than one year or both

Affiliated Business Arrangements— 12 CFR 1024.15

If a loan originator (or an associate)¹³ has either an affiliate relationship or a direct or beneficial ownership interest of more than 1 percent in a provider of settlement services and the loan originator directly or indirectly refers business to the provider it is an affiliated business arrangement. An affiliated business arrangement is not a violation of Section 8 of RESPA and of 12 CFR 1024.14 of Regulation X if the following conditions are satisfied.

Prior to the referral, the person making each referral has provided to each person whose business is referred an Affiliated Business Arrangement Disclosure Statement (appendix D of Regulation X). This disclosure shall specify the following:

- the nature of the relationship (explaining the ownership and financial interest) between the provider and the loan originator, and
- the estimated charge or range of charges generally made by such provider.

This disclosure must be provided on a separate piece of paper either at the time of loan application, or with the GFE, or at the time of the referral.

The loan originator may not require the use of such a provider, with the following exceptions: the institution may require a buyer, borrower, or seller to pay for the services of an attorney, credit reporting agency, or real estate appraiser chosen by the institution to represent its interest. The loan originator may only receive a return on ownership or franchise interest or payment otherwise permitted by RESPA.

Title Companies—12 CFR 1024.16

Sellers that hold legal title to the property being sold are prohibited from requiring borrowers, either directly or indirectly, as a condition to selling the property, to use a particular title company.

13. An associate includes a corporation or business entity that controls, is controlled by, or is under common control with the institution; an employer, officer, director, partner, franchisor, or franchisee of the institution; or anyone with an arrangement with the institution that enables the person to refer settlement business and benefit financially from the referrals (12 U.S.C. 2602(8)).

Escrow Accounts—12 CFR 1024.17

On October 26, 1994, HUD issued its final rule changing the accounting method for escrow accounts, which was originally effective April 24, 1995. The rule establishes a national standard accounting method, known as aggregate accounting. The final rule also established formats and procedures for initial and annual escrow account statements.

The amount of escrow funds that can be collected at settlement or upon creation of an escrow account is restricted to an amount sufficient to pay charges, such as taxes and insurance, that are attributable to the period from the date such payments were last paid until the initial payment date. Throughout the life of an escrow account, the servicer may charge the borrower a monthly sum equal to 1/12 of the total annual escrow payments that the servicer reasonably anticipates paying from the account. In addition, the servicer may add an amount to maintain a cushion no greater than 1/6 of the estimated total annual payments from the account.

Escrow Account Analysis—12 CFR 1024.17(c)(2) and (3) and 12 CFR 1024.17(k)

Before establishing an escrow account, a servicer must conduct an analysis to determine the periodic payments and the amount to be deposited. The servicer shall use an escrow disbursement date that is on or before the deadline to avoid a penalty and may make annual lump sum payments to take advantage of a discount.

Transfer of Servicing—12 CFR 1024.17(e)

If the new servicer changes either the monthly payment amount or the accounting method used by the old servicer, then it must provide the borrower with an initial escrow account statement within 60 days of the date of transfer. When the new servicer provides an initial escrow account statement, it shall use the effective date of the transfer of servicing to establish the new escrow account computation year. In addition, if the new servicer retains the monthly payments and accounting method used by the old servicer, then the new servicer may continue to use the same computation year established by the old servicer or it may choose a different one, using a short year statement.

Shortages, Surpluses, and Deficiency Requirements—12 CFR 1024.17(f)

The servicer shall conduct an annual escrow account analysis to determine whether a surplus, shortage, or deficiency exists as defined under 12 CFR 1024.17(b).

If the escrow account analysis discloses a surplus, the servicer shall, within 30 days from the date of the analysis, refund the surplus to the borrower if the surplus is greater than or equal to \$50. If the surplus is less than \$50, the servicer may refund such amount to the borrower or credit such amount against the next year's escrow payments. These provisions apply as long as the borrower's mortgage payment is current at the time of the escrow account analysis.

If the escrow account analysis discloses a shortage of less than one month's escrow payments, then the servicer has three possible courses of action:

- the servicer may allow the shortage to exist and do nothing to change it;
- the servicer may require the borrower to repay the shortage amount within 30 days; or
- the servicer may require the borrower to repay the shortage amount in equal monthly payments over at least a 12-month period.

If the shortage is more than or equal to one month's escrow payment, then the servicer has two possible courses of action:

- the servicer may allow the shortage to exist and do nothing to change it; or
- the servicer may require the borrower to repay the shortage in equal monthly payments over at least a 12-month period.

If the escrow account analysis discloses a deficiency, then the servicer may require the borrower to pay additional monthly deposits to the account to eliminate the deficiency.

If the deficiency is less than one month's escrow account payment, then the servicer;

- may allow the deficiency to exist and do nothing to change it;
- may require the borrower to repay the deficiency within 30 days; or
- may require the borrower to repay the deficiency in two or more equal monthly payments.

If the deficiency is greater than or equal to one month's escrow payment, the servicer may allow the deficiency to exist and do nothing to change it, or require the borrower to repay the deficiency in two or more equal monthly payments.

These provisions apply as long as the borrower's mortgage payment is current at the time of the escrow account analysis.

A servicer must notify the borrower at least once during the escrow account computation year if a shortage or deficiency exists in the account.

Initial Escrow Account Statement—12 CFR 1024.17(g)

After analyzing each escrow account, the servicer must submit an initial escrow account statement to the borrower at settlement or within 45 calendar days of settlement for escrow accounts that are established as a condition of the loan.

The initial escrow account statement must include the monthly mortgage payment; the portion going to escrow; itemize estimated taxes, insurance premiums, and other charges; the anticipated disbursement dates of those charges; the amount of the cushion; and a trial running balance.

Annual Escrow Account Statement—12 CFR 1024.17(i)

A servicer shall submit to the borrower an annual statement for each escrow account within 30 days of the completion of the computation year. The servicer must conduct an escrow account analysis before submitting an annual escrow account statement to the borrower.

The annual escrow account statements must contain the account history; projections for the next year; current mortgage payment and portion going to escrow; amount of past year's monthly mortgage payment and portion that went into the escrow account; total amount paid into the escrow account during the past year; amount paid from the account for taxes, insurance premiums, and other charges; balance at the end of the period; explanation of how the surplus, shortage, or deficiency is being handled; and, if applicable, the reasons why the estimated low monthly balance was not reached.

Short-Year Statements—12 CFR 1024.17(i)(4)

Short-year statements can be issued to end the escrow account computation year and establish the beginning date of the new computation year. Short-year statements may be provided upon the transfer of servicing and are required upon loan payoff. The statement is due to the borrower within 60 days after receiving the pay-off funds.

Timely Payments—12 CFR 1024.17(k)

The servicer must pay escrow disbursements by

the disbursement date. In calculating the disbursement date, the servicer must use a date on or before the deadline to avoid a penalty and may make annual lump sum payments to take advantage of a discount. The 2013–14 Amendments include a requirement that a servicer may not purchase force-placed insurance unless it is unable to disburse funds from the borrower's escrow account to maintain the borrower's hazard insurance. A servicer is unable to disburse funds only if the servicer has a reasonable basis to believe that either the borrower's property is vacant or the borrower's hazard insurance has terminated for reasons other than nonpayment. A servicer is not unable to disburse funds from the borrower's escrow account solely because the account is deficient. If a servicer advances funds to an escrow account to ensure that the borrower's hazard insurance premium charges are paid in a timely manner, a servicer may seek repayment from the borrower for the funds the servicer advanced, unless otherwise prohibited by applicable law.

The 2013–14 Amendments include a limited exemption from the restriction on force-placed insurance purchases for small servicers. Subject to the requirements of 12 CFR 1024.37, small servicers may purchase force-placed insurance and charge the borrower for the cost of that insurance if the cost to the borrower is less than the amount the small servicer would need to disburse from the borrower's escrow account to ensure timely payment of the borrower's hazard insurance premium charges.

An institution qualifies as a small servicer if either

- the institution services, together with any affiliates, 5,000 or fewer mortgage loans, as that term is used in 12 CFR 1026.41(a)(1), for all of which the institution (or an affiliate) is the creditor or assignee;
- the institution is a Housing Finance Agency, as defined in 24 CFR 266.5 (12 CFR 1026.41(e)(4)(ii)); or
- the institution is a nonprofit entity (defined in 12 CFR 1026.41(e)(4)(ii)(C)(1)) that services 5,000 or fewer mortgage loans, including any mortgage loans serviced on behalf of associated nonprofit entities (defined in 12 CFR 1026.41(e)(4)(ii)(C)(2)), for all of which the servicer or an associated nonprofit entity is the creditor.

The determination as to whether a servicer qualifies as a small servicer is generally made based on the mortgage loans, as that term is used in 12 CFR 1026.41(a)(1), serviced by the servicer and any affiliates as of January 1 for the remainder of that calendar year. However, to determine small servicer status under the nonprofit small servicer

definition, a nonprofit servicer should be evaluated based on the mortgage loans serviced by the servicer (and not those serviced by associated nonprofit entities) as of January 1 for the remainder of the calendar year. A servicer that ceases to qualify as a small servicer will have six months from the time it ceases to qualify or until the next January 1, whichever is later, to comply with any requirements for which a servicer is no longer exempt. The following mortgage loans are not considered in determining whether a servicer qualifies as a small servicer: (a) mortgage loans voluntarily serviced by the servicer for a creditor or assignee that is not an affiliate of the servicer and for which the servicer does not receive any compensation, (b) reverse mortgage transactions, and (c) mortgage loans secured by consumers' interests in timeshare plans (12 CFR 1026.41(e)(4)(iii)).

List of Homeownership Counseling Organizations—12 CFR 1024.20

For any application for a federally related mortgage loan, as that term is defined in 12 CFR 1024.2 subject to the exemptions in 12 CFR 1024.5(b) (except for applications for reverse mortgages or timeshare loans), the lender must provide a loan applicant with a clear and conspicuous written list of homeownership counseling services in the loan applicant's location, no later than three business days after a lender, mortgage broker, or dealer receives an application or information sufficient to complete an application. The list is available on a website maintained by the CFPB or from data made available by the CFPB or HUD. Lenders must make sure that the list of homeownership counseling services was obtained no earlier than 30 days before they provide it to the applicant. This list may be combined with other disclosures (unless otherwise prohibited by Regulation X or Regulation Z). A mortgage broker or dealer that receives a loan application, or for whom it prepares an application, may provide the list, in which case the lender is not required to provide an additional list, though in all cases the lender remains responsible for ensuring that the list is provided to the applicant. The list may be provided in person, by mail, or other means. The list may be provided in electronic form, subject to compliance with the consumer consent and other applicable provisions of E-Sign.

If, before the three-day period ends, the lender denies the application or the applicant withdraws it, the lender does not have to provide the list. If the transaction involves more than one lender, the lenders should agree on which of them will provide the list. If there is more than one applicant, the list can go to any one of them that has primary liability on the loan.

Subpart C—Mortgage Servicing

Scope—12 CFR 1024.30

Except as otherwise noted below, the provisions of Subpart C—Mortgage Servicing, 12 CFR 1024.30-41, apply to any mortgage loan, as that term is defined in 12 CFR 1024.31.

Definitions—12 CFR 1024.31

The 2013–14 Amendments added several definitions that are applicable to Subpart C—Mortgage Servicing, 12 CFR 1024.30-41. Among other definitions, amended Regulation X provides that “mortgage loan” means “any federally related mortgage loan, as that term is defined in 12 CFR 1024.2 subject to the exemptions in 12 CFR 1024.5(b), but does not include open-end lines of credit (home equity plans).” Thus, the term “mortgage loan” includes (but is not limited to) refinancing transactions, whether secured by a senior or subordinate lien.

General Disclosure Requirements— 12 CFR 1024.32

Disclosure Requirements—12 CFR 1024.32(a)

Disclosures required under 12 CFR 1024.30-41 must be clear and conspicuous, in writing, and in a form that a recipient may keep. The disclosures may be provided in electronic form, subject to consumer consent and the provisions of E-Sign,¹⁴ and a servicer may use commonly accepted or readily understandable abbreviations. Disclosures may be made in a language other than English, provided that they are made in English upon a recipient's request.

Additional Information, Disclosures Required by other Laws—12 CFR 1024.32(b)

Servicers may include additional information in disclosures required under 12 CFR 1024.30-41 or combine these disclosures with any disclosure required by other law unless doing so is expressly prohibited by 12 CFR 1024.30-41, by other applicable law (such as the Truth in Lending Act or Truth in Savings Act), or by the terms of an agreement with a federal or state regulatory agency.

Mortgage Servicing Transfer Disclosures—12 CFR 1024.33

The disclosures related to the transfer of mortgage servicing generally are required for any mortgage

loan, as that term is defined in 12 CFR 1024.31, except that the servicing disclosure statement required under 12 CFR 1024.33(a) is required only for reverse mortgage transactions.

Servicing Disclosure Statement—12 CFR 1024.33(a)

A lender, mortgage broker who anticipates using table funding, or dealer in a first-lien dealer loan that receives an application for a reverse mortgage transaction is required to provide the servicing disclosure statement to the borrower within three days (excluding legal public holidays, Saturdays, and Sundays) after receipt of the application. The disclosure statement must advise whether the servicing of the mortgage loan may be assigned, sold, or transferred to any other person at any time. A model disclosure statement is set forth in appendix MS-1.

If the institution denies the borrower's application within the three-day period, it is not required to provide the disclosure statement.

Notices of Transfer of Loan Servicing— 12 CFR 1024.33(b)

When any mortgage loan, as that term is defined in 12 CFR 1024.31, is assigned, sold or transferred, the transferor (former servicer) generally must provide a disclosure at least 15 days before the effective date of the transfer. Generally, a transfer of servicing notice from the transferee (new servicer) must be provided not more than 15 days after the effective date of the transfer. Generally, both notices may be combined into one notice if delivered to the borrower at least 15 days before the effective date of the transfer. Notices provided at the time of settlement satisfy the timing requirements.

The disclosure must include

- the effective date of the transfer
- the name, address, and toll-free or collect-call telephone number for an employee or department of the transferee servicer that can be contacted by the borrower to obtain answers to servicing transfer inquiries
- the name, address, and toll-free or collect-call telephone number for an employee or department of the transferor servicer that can be contacted by the borrower to obtain answers to servicing transfer inquiries
- the date on which the transferor servicer will cease accepting payments relating to the loan, and the date on which the transferee servicer will begin to accept such payments. The dates must be either the same or consecutive dates.

14. 15 U.S.C. 7001 *et seq.*

- whether the transfer will affect the terms or the availability of optional insurance and any action the borrower must take to maintain such coverage
- a statement that the transfer does not affect the terms or conditions of the mortgage (except as directly related to servicing)

The 2013–14 amendments modified the disclosure in Appendix MS-2 that servicers may use to comply with the mortgage servicing transfer disclosure.

The following transfers are not considered an assignment, sale, or transfer of mortgage loan servicing for purposes of this requirement if there is no change in the payee, address to which payment must be delivered, account number, or amount of payment due:

- transfers between affiliates;
- transfers resulting from mergers or acquisitions of servicers or subservicers; and
- transfers between master servicers, when the subservicer remains the same.

Additionally, the Federal Housing Administration (FHA) is not required to provide a notice of transfer to the borrower where a mortgage insured under the National Housing Act is assigned to FHA.

Borrower Payments during Transfer of Servicing—12 CFR 1024.33(c)

During the 60-day period beginning on the date of transfer, no late fee or other penalty can be imposed on a borrower who has made a timely payment to the transferor servicer (former servicer). Additionally, if the transferor servicer (former servicer) receives any incorrect payments on or after the effective date of the transfer, the transferor servicer must either transfer the payment to the transferee servicer (new servicer) or return the payment and inform the payor of the proper recipient of the payment.

Timely Escrow Payments and Treatment of Escrow Account Balances—12 CFR 1024.34

Servicers must comply with requirements concerning the treatment of escrow funds, which apply to any mortgage loan, as that term is defined in 12 CFR 1024.31.

If the terms of a mortgage loan require the borrower to make payments to the servicer for deposit into an escrow account to pay taxes, insurance premiums, and other charges, the servicer shall make payments from the escrow account in a timely manner. A payment is made in a timely manner if it is made on or before the deadline

to avoid a penalty.

Generally, the servicer must return any amounts remaining in escrow within the servicer's control within 20 days (excluding legal public holidays, Saturdays, and Sundays) after the borrower pays the mortgage loan in full, unless the borrower and servicer agree to credit the remaining funds towards an escrow account for certain new mortgage loans. The rule does not prohibit servicers from netting any funds remaining in an escrow account against the outstanding balance of the borrower's mortgage loan.

Error Resolution Procedures—12 CFR 1024.35

Servicers must comply with error resolution procedures that are triggered when a borrower submits an error notice to the servicer. The requirements set forth in 12 CFR 1024.35 apply to any mortgage loan, as that term is defined in 12 CFR 1024.31.

The CFPB has issued an advisory opinion clarifying that, because borrowers initiate the error resolution process, a servicer's communications with a borrower regarding an error notice are not subject to the "cease communication" provision of the Fair Debt Collection Practices Act (FDCPA) unless the borrower specifically withdraws the request for action regarding the error.¹⁵

Notice of Error—12 CFR 1024.35(a)

An error notice must be in writing and identify the borrower's name, information that allows the servicer to identify the borrower's account, and the alleged error. A qualified written request that asserts an error relating to the servicing of a mortgage loan is an error notice, and the servicer must comply with all of the error notice requirements with respect to such qualified written request.

The commentary clarifies that a servicer should not rely solely on the borrower's description of a submission to determine whether it is an error notice, an information request, or both. For example, a borrower may submit a letter titled "Notice of Error" that indicates that the borrower wants to receive the information set forth in an annual escrow account statement and asserts an error for the servicer's failure to provide that statement. Such a letter could be both an error notice and an information request, and the servicer must evaluate whether the letter fulfills the substantive requirements of an error notice, information request, or both.

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Scope of Error Resolution—12 CFR 1024.35(b)

The error resolution procedures apply to the following alleged errors:

- failure to accept a payment that complies with the servicer's written requirements
- failure to apply an accepted payment to principal, interest, escrow, or other charges as required by the mortgage loan and applicable law
- failure to credit a payment to the borrower's account as of the date the servicer received it, as required by 12 CFR 1026.36(c)(1)
- failure to pay taxes, insurance premiums, or other charges by the due date, as required by 12 CFR 1024.34(a)
- failure to refund an escrow account balance within 20 days (excluding legal public holidays, Saturdays, and Sundays) after the borrower pays the mortgage loan in full, as required by 12 CFR 1024.34(b)
- imposition of a fee or charge without a reasonable basis to do so
- failure to provide an accurate payoff balance amount upon the borrower's request, as required by 12 CFR 1026.36(c)(3)
- failure to provide accurate information to a borrower regarding loss mitigation options and foreclosure, as required by 12 CFR 1024.39
- failure to transfer accurate and timely information relating to servicing to a transferee servicer
- making the first notice or filing for a judicial or non-judicial foreclosure process before the time periods allowed by 12 CFR 1024.41(f) and (j)
- moving for foreclosure judgment or order of sale or conducting a foreclosure sale in violation of 12 CFR 1024.41(g) or (j)
- any other error relating to the servicing of a borrower's mortgage loan

The commentary gives examples of errors not covered by 12 CFR 1024.35(b), such as errors relating to: (i) the origination of a mortgage loan; (ii) the underwriting of a mortgage loan; (iii) a subsequent sale or securitization of a mortgage loan; and (iv) a determination to sell, assign, or transfer the servicing of a mortgage loan (unless it concerns the failure to transfer accurate and timely information relating to the servicing of the borrower's mortgage loan account to a transferee servicer).

Contact Information—12 CFR 1024.35(c)

If the servicer establishes an address to which borrowers must send error notices, the servicer

must provide written notice of the address to the borrower with specified content. The commentary states that the servicer must also include this address on the following communications: (i) any periodic statement or coupon book required under 12 CFR 1026.41; (ii) any website the servicer maintains in connection with the servicing of the loan; and (iii) any notice required pursuant to 12 CFR 1024.39 (early intervention) or 12 CFR 1024.41 (loss mitigation) that includes contact information for assistance. The servicer must use the same address for receiving information requests under 12 CFR 1024.36(b) and provide written notice to the borrower before changing the address to which the borrower must send error notices.

Acknowledgement of Receipt—12 CFR 1024.35(d)

The servicer generally must provide a written acknowledgment to the borrower within five days (excluding legal public holidays, Saturdays, and Sundays) after receiving the error notice.

Response to an Error Notice—12 CFR 1024.35(e)

A servicer generally has 30 days (excluding legal public holidays, Saturdays, and Sundays) from receipt of the error notice to investigate and respond to the notice, except that a servicer may extend this period by an additional 15 days (excluding legal public holidays, Saturdays, and Sundays) if, prior to the expiration of the original 30-day period, it notifies the borrower in writing of the extension and the reasons for it.

A servicer must respond within seven days (excluding legal public holidays, Saturdays, and Sundays) if the alleged error is a failure to provide an accurate payoff balance amount, and a servicer must respond by the earlier of 30 days (excluding legal public holidays, Saturdays, and Sundays) or the date of a foreclosure sale if the error involves either (i) making the first notice or filing for a judicial or non-judicial foreclosure process before the time periods allowed by 12 CFR 1024.41(f) or (j), or (ii) moving for foreclosure judgment or order of sale or conducting a foreclosure sale in violation of 12 CFR 1024.41(g) or (j).

In response to the notice of error, the servicer must either correct the error or conduct a reasonable investigation and determine that no error occurred. The servicer must also send a written response to the borrower that accomplishes one of the following:

- If the servicer corrects the alleged error. The servicer must advise the borrower of the correction and when the correction took effect, and

provide contact information, including phone number, for further assistance;

- *If the servicer determines that it committed an error or errors different than or in addition to those identified by the borrower.* The servicer must correct the error and advise the borrower of the correction and when the correction took effect, and provide contact information, including phone number, for further assistance; or
- *If the servicer determines after a reasonable investigation that no error occurred.* The servicer must state that it determined that no error occurred, the reasons for its determination, and the borrower's right to request documents relied upon by the servicer in reaching its determination and how the borrower can make such a request, and provide contact information, including phone number, for further assistance. If the borrower requests those documents, the servicer generally must provide them within 15 days (excluding legal public holidays, Saturdays, and Sundays) at no cost to the borrower. The servicer need not provide documents that constitute confidential, proprietary, or privileged information.

As a part of its investigation of the asserted error, the servicer may request supporting documentation from the borrower, but the servicer must conduct a reasonable investigation even if the borrower does not provide supporting documentation.

Early Correction or Error Asserted before Foreclosure Sale—12 CFR 1024.35(f)

A servicer is not required to provide the five-day acknowledgement notice (12 CFR 1024.35(d)) or the response notice (12 CFR 1024.35(e)) if either

- the servicer corrects the asserted errors and notifies the borrower of the correction within five days (excluding legal public holidays, Saturdays, and Sundays) after receiving the error notice; or
- the servicer receives the error notice seven or fewer days before a foreclosure sale and the asserted error concerns the timing of the foreclosure process under 12 CFR 1024.35(b)(9) or (10). In this instance, the servicer must make a good faith attempt to respond to the borrower, either orally or in writing, and either correct the error or state the reason the servicer has determined that no error occurred.

Requirements Not Applicable—12 CFR 1024.35(g)

A servicer does not need to provide the five-day acknowledgement notice (12 CFR 1024.35(d)), provide the response notice (12 CFR 1024.35(e)),

or refrain from providing adverse information to credit reporting agencies for 60 days (12 CFR 1024.35(i)) if the servicer reasonably determines any of the following apply:

- *Duplicative notice of error.* The asserted error is substantially the same as a previously asserted error for which the servicer complied with the obligation to respond, unless the borrower provides new and material information to support the asserted error. New and material information is information that is reasonably likely to change the servicer's prior determination about the error;
- *Overbroad notice of error.* The error notice is overbroad if the servicer cannot reasonably determine the specific alleged error. The commentary provides examples of overbroad notices, including those that assert errors regarding substantially all aspects of the mortgage loan (including origination, servicing, and foreclosure), notices that resemble legal pleadings and demand a response to each numbered paragraph, or notices that are not reasonably understandable or contain voluminous tangential information such that a servicer cannot reasonably identify from the notice any error that requires a response. Note that if a servicer concludes an error notice as submitted is overbroad, the servicer must still provide a five-day acknowledgement notice and a subsequent response to the extent the servicer can identify an appropriate error notice within the submission; or
- *Untimely notice of error.* The error notice is sent more than one year after either the mortgage loan was discharged or the servicer receiving the notice of error transferred the mortgage loan to another servicer. For purposes of this provision, a mortgage loan is discharged when both the debt and all corresponding liens have been extinguished or released, as applicable.

If a servicer determines that any of these three exceptions apply, it must provide written notice to the borrower within five days (excluding legal public holidays, Saturdays, and Sundays) after making that determination, including the basis relied upon.

Payment Requirements Prohibited—12 CFR 1024.35(h)

A servicer may not charge a fee or require a borrower to make any payments as a condition to responding to an error notice.

Effect on Servicer Remedies—12 CFR 1024.35(i)

In the 60-day period after receiving an error notice, a servicer may not furnish adverse information to

any consumer reporting agency regarding any payment that is the subject of the error notice.

Requests for Information—12 CFR 1024.36

Servicers must follow certain procedures in response to a borrower's written request for information with respect to the borrower's mortgage loan. The request must include the borrower's name, information that allows the servicer to identify the borrower's account, and the requested information related to the borrower's mortgage loan. The request can be from the borrower or the borrower's agent; a servicer may undertake reasonable procedures to determine if an alleged agent has authority from the borrower to act as the borrower's agent. A qualified written request that requests information relating to the servicing of a mortgage loan is an information request, and the servicer must comply with all of the information request requirements with respect to such a qualified written request.

The requirements set forth in 12 CFR 1024.36 apply to any mortgage loan, as that term is defined in 12 CFR 1024.31.

The CFPB has issued an advisory opinion clarifying that, because borrowers initiate requests for information, a servicer's communications with a borrower regarding such a request for information are not subject to the FDCPA's "cease communication" provision, unless the borrower specifically withdraws the information request.¹⁶

Contact Information—12 CFR 1024.36(b)

If the servicer establishes an address to which borrowers must send information requests, the servicer must provide written notice of the address to the borrower with specified information. The commentary states that the servicer must also include this address on the following communications: (i) any periodic statement or coupon book required under 12 CFR 1026.41, (ii) any website the servicer maintains in connection with the servicing of the loan, and (iii) any notice required pursuant to 12 CFR 1024.39 (early intervention) or 12 CFR 1024.41 (loss mitigation) that includes contact information for assistance. The servicer must use the same address for receiving error notices under 12 CFR 1024.35(b) and provide written notice to the borrower before changing the address to which the borrower must send information requests.

¹⁶. CFPB Bulletin 2013-12.

Acknowledgement of Receipt—12 CFR 1024.36(c)

The servicer generally must provide a written acknowledgment to the borrower within five days (excluding legal public holidays, Saturdays, and Sundays) after receiving the information request.

Response to Information Request—12 CFR 1024.36(d)

A servicer generally must respond in writing to an information request within 30 days (excluding legal public holidays, Saturdays, and Sundays) of receipt, except that a servicer may extend this period by an additional 15 days (excluding legal public holidays, Saturdays, and Sundays) if, prior to the expiration of the original 30-day period, it notifies the borrower in writing of the extension and the reasons for it. A servicer must respond within 10 days (excluding legal public holidays, Saturdays, and Sundays) after receiving the request, if the borrower requested the identity or contact information for the owner or assignee of a mortgage loan.

The servicer must respond in writing by either

- providing the requested information and contact information, including phone number, for further assistance; or
- conducting a reasonable search for the information and advising the borrower that the servicer has determined that the requested information is not available to it, the basis for the servicer's determination, and contact information, including phone number, for further assistance.

Information is not available if it is not in the servicer's control or possession, or the servicer cannot retrieve it in the ordinary course of business through reasonable efforts. The commentary gives examples of when information is or is not available.

Early Response—12 CFR 1024.36(e)

The five-day receipt acknowledgement (12 CFR 1024.36(c)) and the response (12 CFR 1024.36(d)) requirements do not apply if the servicer provides the requested information and contact information, including phone number, for further assistance within five days (excluding legal public holidays, Saturdays, and Sundays) after receiving the information request.

Requirement Not Applicable—12 CFR 1024.36(f)

The five-day receipt acknowledgement (12 CFR 1024.36(c)) and the response notice (12 CFR 1024.36(d)) requirements also do not apply if the servicer reasonably determines any of the following

exceptions apply:

- The information requested is substantially the same information that the borrower previously requested.
- The information requested is confidential, proprietary, or privileged.
- The information requested is not directly related to the borrower's mortgage loan account. The commentary provides examples of irrelevant information, including information related to the servicing of mortgage loans other than the borrower's loan and investor instructions or requirements for servicers regarding the negotiation or approval of loss mitigation options.
- The information request is overbroad or unduly burdensome. A request is overbroad if the borrower requests that the servicer provide an unreasonable volume of documents or information. A request is unduly burdensome if a diligent servicer could not respond within the time periods set forth in 12 CFR 1024.36(d)(2) or would incur costs (or have to dedicate resources) that would be unreasonable in light of the circumstances. The commentary provides examples of overbroad or unduly burdensome requests, such as requests that seek documents relating to substantially all aspects of mortgage origination, mortgage servicing, mortgage sale or securitization, and foreclosure, as well as requests that require servicers to provide information in a specific format or seek information that is not reasonably likely to assist the borrower. If an information request as submitted is overbroad or unduly burdensome, the servicer must still provide the five-day acknowledgment of receipt and subsequent response if the servicer can reasonably identify an appropriate information request within the submission.
- The information request is sent more than one year after either the mortgage loan was discharged or the servicer receiving the information request transferred the mortgage loan to another servicer. For purposes of this provision, a mortgage loan is discharged when both the debt and all corresponding liens have been extinguished or released, as applicable.

If a servicer determines that any of these five exceptions apply, it must provide written notice to the borrower within five days (excluding legal public holidays, Saturdays, and Sundays) after making that determination, including the basis relied on.

Payment Requirement Limitations—12 CFR 1024.36(g)

A servicer generally may not charge a fee, or

require a borrower to make any payment that may be owed on a borrower's account, as a condition of responding to an information request. A servicer may charge for providing a beneficiary notice under applicable state law, if such a fee is not otherwise prohibited by applicable law.

Force-Placed Insurance—12 CFR 1024.37

Servicers must comply with restrictions on obtaining and assessing charges and fees for force-placed insurance, defined as hazard insurance that a servicer obtains on behalf of the owner or assignee to insure the property securing the mortgage loan (but does not include (i) flood insurance required by the Flood Disaster Protection Act of 1973, (ii) hazard insurance obtained by a borrower but renewed by the borrower's servicer in accordance with 12 CFR 1024.17(k)(1), (2), or (5), or (iii) hazard insurance obtained by a borrower but renewed by the borrower's servicer with the borrower's agreement). The requirements set forth in 12 CFR 1024.37 apply to any mortgage loan, as that term is defined in 12 CFR 1024.31.

The CFPB has issued an advisory opinion clarifying that, because the Dodd-Frank Act specifically mandates certain disclosures regarding force-placed insurance without any mention of the FDCPA's "cease communication" provisions, a servicer acting as a debt collector does not violate the FDCPA's "cease communication" provision by providing the notices required under 12 CFR 1024.37.¹⁷

Requirements before Charging for Force-Placed Insurance—12 CFR 1024.37(b), (c), (d)

Servicers may not assess charges or fees for force-placed insurance unless the servicer satisfies four requirements.

First, the servicer must have a reasonable basis to believe that the borrower has failed to maintain required hazard insurance. The commentary states that information about a borrower's hazard insurance received by the servicer from the borrower, the borrower's insurance provider, or the borrower's insurance agent, may provide a servicer with a reasonable basis. If a servicer receives no such information, the servicer may satisfy the reasonable basis standard if the servicer acts with reasonable diligence to ascertain the borrower's hazard insurance status and does not receive evidence of hazard insurance.

Second, the servicer must mail or deliver an

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initial written notice to the borrower at least 45 days before assessing a charge or fee related to force-placed insurance. The servicer's notice must identify the following:

- the date of the notice;
- the servicer's name and mailing address;
- the borrower's name and mailing address;
- a statement requesting that the borrower provide hazard insurance information for the borrower's property and identifying the property by its physical address;
- a statement that the borrower's hazard insurance has expired or is expiring, that the servicer lacks evidence that the borrower has hazard insurance coverage past the expiration date, and if applicable, identifies the type of hazard insurance lacking;
- a statement that hazard insurance is required on the borrower's property and that the servicer has purchased or will purchase insurance at the borrower's expense;
- a request that the borrower promptly provide the servicer with insurance information;
- a description of the requested insurance information and how the borrower may provide such information, and if applicable, that the requested information must be in writing;
- a statement that the insurance coverage the servicer has purchased or will purchase may cost significantly more than, and provide less coverage than, hazard insurance purchased by the borrower;
- the servicer's phone number for borrower inquiries; and
- a statement advising that the borrower review additional information provided in the same transmittal (if applicable).

Other than the specific statements listed above, the servicer cannot provide any information on the initial notice, though the servicer can provide additional information on separate pages of paper contained in the same mailing. Certain information must be provided in bold text. Appendix MS-3(A) contains a form notice that servicers may use.

Third, the servicer must send a reminder notice at least 30 days after the initial notice is mailed or delivered and at least 15 days before the servicer assesses charges or fees. If the servicer has previously received no hazard insurance information in response to the initial notice, the reminder notice must contain the date of the reminder notice and all of the other information provided in the initial notice, as well as (i) advise that it is a second and final notice, and (ii) identify the annual cost of

force-placed insurance, or if unknown, a reasonable estimate of that cost.

If the servicer has received hazard insurance information but not evidence that the coverage has been in place continuously, the reminder notice must identify the following:

- the date of the notice;
- the servicer's name and mailing address;
- the borrower's name and mailing address;
- a statement requesting that the borrower provide hazard insurance information for the borrower's property and that identifies the property by its physical address;
- the servicer's phone number for borrower inquiries;
- a statement advising that the borrower review additional information provided in the same transmittal (if applicable);
- a statement that it is the second and final notice;
- the annual cost of force-placed insurance, or if unknown, a reasonable estimate of that cost;
- a statement that the servicer has received the hazard insurance information that the borrower provided;
- a request that the borrower provide the missing information; and
- a statement that the borrower will be charged for insurance the servicer purchases during the time period in which the servicer cannot verify coverage.

Other than the specific statements listed above, the servicer cannot provide any additional information on the reminder notice, though the servicer can provide additional information on separate pages of paper contained in the same transmittal. Certain information must be provided in bold text. Appendix MS-3 contains sample reminder notices at forms MS-3(B) and MS-3(C). If a servicer receives new information about a borrower's hazard insurance after the required written notice has been put into production, the servicer is not required to update the notice if the written notice was put into production a reasonable time prior to the servicer delivering the notice to the borrower or placing the notice in the mail.

Fourth, by the end of the 15-day period after the servicer sends the reminder notice, the servicer must not have received evidence that the borrower has had required hazard insurance continuously in place. As evidence, the servicer may require a copy of the borrower's hazard insurance policy declaration page, the borrower's insurance certificate, the borrower's insurance policy, or other similar forms of written confirmation.

Renewing Force-Placed Insurance—12 CFR 1024.37(e)

A servicer must comply with two requirements before assessing charges or fees on a borrower to renew or replace existing force-placed insurance.

First, the servicer must provide 45-day advance written notice. This renewal notice must provide the following information:

- the date of the renewal notice;
- the servicer's name and mailing address;
- the borrower's name and mailing address;
- a request that the borrower update the hazard insurance information and that identifies the property by its physical address;
- a statement that the servicer previously purchased force-placed insurance at the borrower's expense because the servicer did not have evidence that the borrower had hazard insurance coverage;
- a statement that the force-placed insurance is expiring or has expired and that the servicer intends to renew or replace it because hazard insurance is required on the property;
- a statement that the insurance coverage the servicer has purchased or will purchase may cost significantly more than, and provide less coverage than, hazard insurance purchased by the borrower, and identifying the annual cost (or if unknown, a reasonable estimate) of force-placed insurance;
- a statement that if the borrower purchases hazard insurance, the borrower should promptly advise the servicer;
- a description of the requested insurance information and how the borrower may provide such information, and if applicable, that the requested information must be in writing;
- the servicer's telephone number for borrower inquiries; and
- a statement advising the borrower to review additional information provided in the same transmittal (if applicable).

Other than the specific statements listed above, the servicer cannot provide any additional information on the renewal notice, though the servicer can provide additional information on separate pages of paper contained in the same transmittal. Certain information must be provided in bold text. Appendix MS-3(D) contains a form notice that servicers may use.

Second, by the end of the 45-day notice period, the servicer must not have received evidence demonstrating that the borrower has purchased

required hazard insurance coverage.

Notwithstanding these two requirements, if not prohibited by state or other applicable law, if the servicer receives evidence that the borrower lacked insurance for some period of time after the existing force-placed insurance expired, the servicer may promptly assess a premium charge or fee related to renewing or replacing the existing force-placed insurance for that period of time.

The servicer must mail or deliver the renewal notice before each anniversary of purchasing force-placed insurance, though the servicer need not send the renewal notice more than once per year.

Mailing the Notices—12 CFR 1024.37(f)

If the servicer mails the initial notice, the reminder notice, or the renewal notice, the servicer must use at least first-class mail.

Canceling Force-Placed Insurance—12 CFR 1024.37(g)

If the servicer receives evidence that the borrower has had required hazard insurance coverage in place, then the servicer has 15 days to cancel the force-placed insurance, refund force-placed insurance premium charges and fees for the period of overlapping insurance coverage, and remove all force-placed charges and fees from the borrower's account for that period.

Limitations on Force-Placed Insurance—12 CFR 1024.37(h)

All charges that a servicer assesses on a borrower related to force-placed insurance must be bona fide and reasonable, except for charges subject to state regulation and charges authorized by the Flood Disaster Protection Act of 1973. A bona fide and reasonable charge is one that is reasonably related to the servicer's cost of providing the service and is not otherwise prohibited by law.

General Servicing Policies, Procedures, and Requirement—12 CFR 1024.38

Servicers must maintain policies and procedures reasonably designed to achieve certain servicing-related objectives, and are subject to requirements regarding record retention and the ability to create servicing files.

These requirements apply to any mortgage loan, as that term is defined in 12 CFR 1024.31, except that they do not apply to (i) small servicers, (ii) reverse mortgage transactions, as that term is defined in 12 CFR 1024.31, or (iii) mortgage loans

for which the servicer is a qualified lender. As noted above, an institution qualifies as a small servicer if it either (a) services, together with any affiliates, 5,000 or fewer mortgage loans, as that term is defined in 12 CFR 1026.41(a)(1), for all of which the institution (or an affiliate) is the creditor or assignee, (b) is a Housing Finance Agency, as defined in 24 CFR 266.5, or (c) is a nonprofit entity (defined in 12 CFR 1026.41(e)(4)(ii)(C)(1)) that services 5,000 or fewer mortgage loans, including any mortgage loans serviced on behalf of associated nonprofit entities (defined in 12 CFR 1026.41(e)(4)(ii)(C)(2)), for all of which the servicer or an associated nonprofit entity is the creditor.¹⁸

Qualified lenders are those defined to be qualified lenders under the Farm Credit Act of 1971 and the Farm Credit Administration's accompanying regulations set forth at 12 CFR 617.7000 *et seq.*¹⁹

*Reasonable Policies and Procedures—
12 CFR 1024.38(a)*

Servicers must maintain policies and procedures reasonably designed to meet the objectives identified in 12 CFR 1024.38(b). Servicers may determine the specific policies and procedures they will adopt and the methods for implementing them in light of the size, nature, and scope of the servicers' operations, including, for example, the volume and aggregate unpaid principal balance of mortgage loans serviced, the credit quality (including the default risk) of the mortgage loans serviced, and the servicer's history of consumer complaints. "Procedures" refer to the servicer's actual practices for achieving the objective.

Objectives—12 CFR 1024.38(b)

Servicers are required to maintain policies and procedures that are reasonably designed to achieve the following objectives.

1. Accessing and providing timely and accurate information. The servicer's policies and procedures must be reasonably designed to ensure that the servicer can
 - a. provide accurate and timely disclosures to the borrower;
 - b. investigate, respond to, and make corrections in response to borrowers' complaints. These policies and procedures must be

18. The definition of small servicer is set forth at 12 CFR 1026.41(e)(4)(ii).

19. 12 CFR 617.7000 defines a qualified lender as (i) a system institution (except a bank for cooperatives) that extends credit to a farmer, rancher, or producer or harvester of aquatic products for any agricultural or aquatic purpose and other credit needs of the borrower, and (ii) other financing institutions with respect to loans discounted or pledged under section 1.7(b)(1)(B) of the Farm Credit Act.

reasonably designed to ensure that the servicer can promptly obtain information from service providers to facilitate investigation and correction of errors resulting from actions of service providers;

- c. provide a borrower with accurate and timely information and documents in response to the borrower's request for information with respect to the borrower's mortgage loan;
- d. provide owners and assignees of mortgage loans with accurate information and documents about all the mortgage loans that they own. This includes information about a servicer's evaluations of borrowers for loss mitigation options and a servicer's loss mitigation agreements with borrowers, including loan modifications. Such information includes, for example: (a) a loan modification's date, terms, and features; (b) the components of any capitalized arrears; (c) the amount of any servicer advances; and (d) any assumptions regarding the value of property used in evaluating any loss mitigation options;
- e. submit documents or filings required for a foreclosure process, including documents or filings required by a court, that reflect accurate and current information and that comply with applicable law;
- f. upon notification of a borrower's death, promptly identify and facilitate communication with the borrower's successor in interest concerning the secured property.

2. *Properly evaluating loss mitigation applications.* The servicer's policies and procedures must be reasonably designed to ensure that the servicer can

- a. provide accurate information regarding loss mitigation options available to the borrower from the owner or assignee of the borrower's loan;
- b. identify specifically all loss mitigation options available to a borrower from the owner or assignee of the borrower's mortgage loan. This includes identifying, with respect to each owner or assignee all of the loss mitigation options the servicer may consider when evaluating a borrower, as well as the criteria the servicer should apply for each option. The policies and procedures should be reasonably designed to address how the servicer will apply any specific thresholds for eligibility for particular loss mitigation options established by an owner or assignee of a mortgage loan (e.g., if the owner requires that a particular option be limited to a certain percentage of loans, then the policies and

- procedures must be reasonably designed to determine in advance how the servicer will apply that threshold). The policies and procedures must be reasonably designed to ensure that such information is readily accessible to the servicer's loss mitigation personnel.
- c. provide the loss mitigation personnel assigned to the borrower's mortgage loan with prompt access to all of the documents and information that the borrower submitted in connection with a loss mitigation option;
 - d. identify the documents and information a borrower must submit to complete a loss mitigation application, and facilitate compliance with the notice required pursuant to 12 CFR 1024.41(b)(2)(i)(B);
 - e. in response to a complete loss mitigation application, properly evaluate the borrower for all eligible loss mitigation options pursuant to any requirements established by the owner or assignee of the mortgage loan, even if those requirements are otherwise beyond the requirements of 12 CFR 1024.41. For example, an owner or assignee may require that the servicer review a loss mitigation application submitted less than 37 days before a foreclosure sale or re-evaluate a borrower who has demonstrated a material change in financial circumstances.
3. *Facilitating oversight of, and compliance by, service providers.* The servicer's policies and procedures must be reasonably designed to ensure that the servicer can
- a. provide appropriate personnel with access to accurate and current documents and information concerning service providers' actions;
 - b. facilitate periodic reviews of service providers;
 - c. facilitate the sharing of accurate and current information regarding the status of any evaluation of a borrower's loss mitigation application and any foreclosure proceeding among appropriate servicer personnel, including the loss mitigation personnel assigned the borrower's mortgage loan, and appropriate service provider personnel, including service provider personnel responsible for handling foreclosure proceedings.
4. *Facilitating transfer of information during servicing transfers.*
- a. *Transferor Servicer.* The servicer's policies and procedures must be reasonably designed to ensure that when it transfers a mortgage loan to another servicer, it (i) timely and accurately transfers all information and documents in its possession and control related to a transferred mortgage loan to the transferee servicer, and (ii) transfers the information and documents in a form and manner that ensures their accuracy and that allows the transferee to comply with the terms of the mortgage loan and applicable law. For example, where data are transferred electronically, a transferor servicer must have policies and procedures reasonably designed to ensure that data can be properly and promptly boarded by a transferee servicer's electronic systems. The information that must be transferred includes information reflecting the current status of discussions with the borrower concerning loss mitigation options, any loss mitigation agreements entered into with the borrower, and analysis the servicer performed with respect to potential recovery from a non-performing mortgage loan.
 - b. *Transferee Servicer.* The servicer's policies and procedures must be reasonably designed to ensure that when it receives a mortgage loan from another servicer, it can (i) identify necessary documents or information that may not have been transferred, and (ii) obtain such documentation or information from the transferor servicer. The servicer's policies and procedures must also be reasonably designed to address obtaining missing information regarding loss mitigation from the transferor servicer before attempting to obtain it from the borrower. For example, if a servicer receives information indicating that a borrower has made payments consistent with a trial or permanent loan modification but the servicer has not received information about the actual modification, the servicer must have policies and procedures reasonably designed to identify whether any such modification agreement exists and to obtain any such agreement from the transferor servicer.
5. *Informing borrowers of the written error resolution and information request procedures.*
- a. The servicer must have policies and procedures reasonably designed to inform borrowers of the procedures for submitting written error notices under 12 CFR 1024.35 and written information requests under 12 CFR 1024.36. A servicer may comply with these requirements by informing borrowers of these procedures by notice (mailed or delivered electronically) or a website. For example, a servicer may comply with this provision by including a statement in the 12 CFR 1026.41

periodic statement advising borrowers that they have certain rights under federal law related to resolving errors and requesting information, that they may learn more about their rights by contacting the servicer, and directing borrowers to a website.

- b. A servicer's policies and procedures also must be reasonably designed to ensure that the servicer provides borrowers who are dissatisfied with the servicer's response to oral complaints or information requests with information about submitting a written error notice or written information request.
- c. The commentary addresses the circumstance in which a borrower incorrectly submits an error notice to any address given to the borrower in connection with the submission of a loss mitigation application or continuity of contact. A servicer's policies and procedures must be reasonably designed to ensure that the servicer informs a borrower of the correct procedures for submitting written error notices under such circumstances, including the correct address. Alternatively, the servicer could redirect the error notice to the correct address.

Standard Requirements—12 CFR 1024.38(c)

Servicers must also retain certain records and maintain particular documents in a manner that facilitates compiling such documents and data into a servicing file.

Record Retention—12 CFR 1024.38(c)(1)

Servicers must retain records that document any actions the servicer took with respect to a borrower's mortgage loan account until one year after the loan is discharged or the servicer transfers servicing for the mortgage loan. Servicers may use any retention method that reproduces records accurately (such as computer programs) and that ensures that a servicer can access the records easily (such as a contractual right to access records another entity holds).

Servicing File—12 CFR 1024.38(c)(2)

Servicers must maintain the following documents and data in a manner that facilitates compiling such documents and data into a servicing file within five days: a schedule of all credits and debits to the account (including escrow accounts and suspense accounts), a copy of the security instrument establishing the lien securing the mortgage, any notes created by servicer personnel concerning communications with the borrower, a report of the data fields created by the servicer's electronic systems relating to the borrower's account (if

applicable), and copies of any information or documents provided by the borrower in connection with error notices or loss mitigation.

For purposes of this section, a report of data fields relating to a borrower's account means a report listing the relevant data fields by name, populated with any specific data relating to the borrower's account. Examples of such data fields include fields used to identify the terms of the borrower's mortgage loan, the occurrence of automated or manual collection calls, the evaluation of borrower for a loss mitigation option, the owner or assignee of a mortgage loan, and any credit reporting history.

These requirements apply only to information created on or after January 10, 2014.

Early Intervention Requirements for Certain Borrowers—12 CFR 1024.39

Servicers must engage in certain efforts to contact delinquent borrowers. These requirements apply to only those mortgage loans, as that term is defined in 12 CFR 1024.31, that are secured by the borrower's principal residence. The requirements do not apply to (i) small servicers; (ii) reverse mortgage transactions, as that term is defined in 12 CFR 1024.31; or (iii) mortgage loans for which the servicer is a qualified lender.

As noted above, an institution qualifies as a small servicer if it either (a) services, together with any affiliates, 5,000 or fewer mortgage loans, as that term is used in 12 CFR 1026.41(a)(1), for all of which the institution (or an affiliate) is the creditor or assignee; (b) is a Housing Finance Agency, as defined in 24 CFR 266.5; or (c) is a nonprofit entity (defined in 12 CFR 1026.41(e)(4)(ii)(C)(1)) that services 5,000 or fewer mortgage loans, including any mortgage loans serviced on behalf of associated nonprofit entities (defined in 12 CFR 1026.41(e)(4)(ii)(C)(2)), for all of which the servicer or an associated nonprofit entity is the creditor.²⁰ Qualified lenders are those defined to be qualified lenders under the Farm Credit Act of 1971 and the Farm Credit Administration's accompanying regulations set forth at 12 CFR 617.7000 *et seq.* For purposes of this section, a borrower who is performing under a loss mitigation agreement is not considered delinquent and is not covered by this section.

Live Contact—12 CFR 1024.39(a)

Servicers must make good faith efforts to establish live contact with a borrower no later than the 36th day of delinquency. Promptly after establishing live

20. The definition of small servicer is set forth at 12 CFR 1026.41(e)(4)(ii).

contact, the servicer must inform the borrower of any loss mitigation options, if appropriate. The commentary states that “[d]elinquency begins on the day a payment sufficient to cover principal, interest, and, if applicable, escrow for a given billing cycle is due and unpaid.” Borrowers are not delinquent if they are performing according to the terms of a loss mitigation plan, but they become delinquent if and when they fail to make a payment required under such a plan.

The commentary also states that good faith efforts to establish live contact consist of “reasonable steps under the circumstances,” and these efforts “may include telephoning the borrower on more than one occasion or sending written or electronic communication encouraging the borrower to establish live contact with the servicer.”

It is within the servicer’s reasonable discretion to determine whether it is appropriate under the circumstances to inform a borrower of any loss mitigation options. Examples of a servicer making a reasonable determination include a servicer informing a borrower about loss mitigation options after the borrower notifies the servicer during live contact of a material adverse change in financial circumstances that is likely to cause a long-term delinquency for which loss mitigation options may be available, or a servicer not providing information about loss mitigation options to a borrower who has missed a January 1 payment and notified the servicer that the full late payment will be transmitted to the servicer by February 15.

Written Notice—12 CFR 1024.39(b)

Servicers must send a borrower a written notice within 45 days after the borrower becomes delinquent. The written notice must encourage the borrower to contact the servicer, provide the servicer’s telephone number and address to access assigned loss mitigation personnel, describe examples of loss mitigation options that may be available (if applicable), provide loss mitigation application instructions or advise how to obtain more information about loss mitigation options such as contacting the servicer (if applicable), and list either the CFPB’s or HUD’s website to access a list of homeownership counselors or counseling organization and HUD’s toll-free number to access homeownership counselors or counseling organizations.

Appendix MS-4 contains model clauses at MS-4 (A), MS-4(B), and MS-4(C).

A servicer is not required to provide the written notice under this section to a borrower more than once in any 180-day period. Accordingly, using the above example, a servicer who provided the written notice to the borrower within 45 days after

the borrower became delinquent on January 1 would not be required to send another written notice if the borrower failed to make the February 1 payment.

Conflicts with other Law—12 CFR 1024.39(c)

Servicers are not required to comply with the live contact and written notice requirements if doing so would violate applicable law. Thus, for example, a servicer does not need to communicate with borrowers in a way that would be inconsistent with bankruptcy law.

Exemptions—12 CFR 1024.39(d)

Section 1024.39(d) exempts servicers from the early intervention requirements in two situations.

1. *Borrowers in bankruptcy.* A servicer is exempt from the early intervention requirements for a mortgage loan while the borrower is a debtor under the Bankruptcy Code (11 U.S.C. 101 *et seq.*).
 - a. *Obligation to resume post-bankruptcy.* With respect to any portion of the mortgage debt that is not discharged through bankruptcy, a servicer must resume compliance with the early intervention requirement after the first delinquency that follows the earliest of the following: (i) the borrower’s bankruptcy case is dismissed; (ii) the borrower’s bankruptcy case is closed; or (iii) the borrower receives a general discharge of debts under the Bankruptcy Code. However, a servicer is not required to communicate with a borrower in any way that would violate applicable bankruptcy law or a court order in a bankruptcy case, and a servicer may adapt the early intervention requirement in any manner believed necessary. A servicer also is not required to comply with the early intervention requirement for any portion of the mortgage debt that was discharged under the Bankruptcy Code or if a bankruptcy case is revived.
 - b. *Joint obligors.* The bankruptcy exception applies if two or more borrowers are joint obligors with primary liability on a mortgage loan and any one of the borrowers is in bankruptcy. For example, if a husband and wife jointly own a home and the husband files for bankruptcy, the servicer is exempt from the early intervention requirements as to both the husband and wife.
2. *FDCPA “cease communication” request.* A servicer subject to the FDCPA with respect to the borrower is exempt from the early intervention requirements with respect to a mortgage loan for

which the borrower has sent a “cease communication” notification pursuant to FDCPA section 805(c) (15 U.S.C. 1692c(c)).

Continuity of Contact—12 CFR 1024.40

Servicers must maintain policies and procedures to facilitate continuity of contact between the borrower and the servicer.

These requirements apply to only those mortgage loans, as that term is defined in 12 CFR 1024.31, that are secured by the borrower’s principal residence. The requirements do not apply to (i) small servicers, (ii) reverse mortgage transactions, as that term is defined in 12 CFR 1024.31, or (iii) mortgage loans for which the servicer is a qualified lender.

As noted above, an institution qualifies as a small servicer if it either (a) services, together with any affiliates, 5,000 or fewer mortgage loans, for all of which the institution (or an affiliate) is the creditor or assignee; (b) is a Housing Finance Agency, as defined in 24 CFR 266.5; or (c) is a nonprofit entity (defined in 12 CFR 1026.41(e)(4)(ii)(C)(1)) that services 5,000 or fewer mortgage loans, including any mortgage loans serviced on behalf of associated nonprofit entities (defined in 12 CFR 1026.41 (e)(4)(ii)(C)(2)), for all of which the servicer or an associated nonprofit entity is the creditor.²¹

Qualified lenders are those defined to be qualified lenders under the Farm Credit Act of 1971 and the Farm Credit Administration’s accompanying regulations set forth at 12 CFR 617.7000 *et seq.*

General Continuity of Contact Policies and Procedures—12 CFR 1024.40(a)

Servicers must have policies and procedures that are reasonably designed to assign personnel (one or more persons) to a delinquent borrower at the time the servicer provides the borrower with the written notice required under 12 CFR 1024.39(b), and in any event, not later than the 45th day of the borrower’s delinquency. The assigned personnel should be available by telephone to answer the borrower’s questions and assist the borrower with available loss mitigation options until the borrower makes two consecutive timely payments under a permanent loss mitigation agreement. If the borrower contacts the assigned personnel and does not receive an immediate live response, the servicer must have policies and procedures reasonably designed to ensure the servicer can provide a live response in a timely manner.

²¹ The definition of small servicer is set forth at 12 CFR 1026.41(e)(4)(ii).

Functions of Servicer Personnel—12 CFR 1024.40(b)

The servicer must also maintain policies and procedures reasonably designed to ensure that the assigned personnel can perform certain functions, including: providing the borrower with accurate information about (1) loss mitigation options available to the borrower from the owner or assignee of the borrower’s loan, (2) actions the borrower must take to be evaluated for such options, including the steps the borrower needs to take to submit a complete loss mitigation application and appeal a denial of a loan modification option (if applicable), (3) the status of any loss mitigation application the borrower has submitted, (4) the circumstances under which the servicer may refer the borrower’s account to foreclosure, and (5) any loss mitigation deadlines.

The servicer must also have policies and procedures reasonably designed to ensure that assigned personnel are able to (1) timely retrieve a complete record of the borrower’s payment history and all written information the borrower has provided to the servicer (or prior servicers) in connection with a loss mitigation application, (2) provide these documents to other people required to evaluate the borrower for loss mitigation options, if applicable, and (3) provide the borrower with information about submitting an error notice or information request under 12 CFR 1024.35 or 12 CFR 1024.36.

Loss Mitigation Procedures—12 CFR 1024.41

Servicers must comply with certain loss mitigation procedures. The procedures differ depending on how far in advance of foreclosure a borrower submits a loss mitigation application. Regulation X does not impose a duty on a servicer to provide any borrower with any specific loss mitigation option.

The requirements set forth in 12 CFR 1024.41 apply to only those mortgage loans, as that term is defined in 12 CFR 1024.31, that are secured by the borrower’s principal residence. Except as noted below in 12 CFR 1024.41(j), the requirements do not apply to (i) small servicers, (ii) reverse mortgage transactions, as that term is defined in 12 CFR 1024.31, or (iii) mortgage loans for which the servicer is a qualified lender.

As noted above, an institution qualifies as a small servicer if it either (a) services, together with any affiliates, 5,000 or fewer mortgage loans, as that term is used in 12 CFR 1026.41(a)(1), for all of which the institution (or an affiliate) is the creditor or assignee; (b) is a Housing Finance Agency, as defined in 24 CFR 266.5; or (c) is a nonprofit entity

(defined in 12 CFR 1026.41(e)(4)(ii)(C)(1)) that services 5,000 or fewer mortgage loans, including any mortgage loans serviced on behalf of associated nonprofit entities (defined in 12 CFR 1026.41(e)(4)(ii)(C)(2)), for all of which the servicer or an associated nonprofit entity is the creditor.²² Qualified lenders are those defined to be qualified lenders under the Farm Credit Act of 1971 and the Farm Credit Administration's accompanying regulations set forth at 12 CFR 617.7000 *et seq.*

The CFPB has issued an advisory opinion clarifying that, because borrowers submit loss mitigation applications to servicers, a servicer's communications with a borrower regarding such a loss mitigation application are not subject to the FDCPA's "cease communication" provision unless the borrower specifically withdraws the request for action on the loss mitigation application.²³

Receipt of a Loss Mitigation Application—12 CFR 1024.41(b)

A servicer that receives a loss mitigation application at least 45 days before a foreclosure sale must take two steps.

First, the servicer must promptly review the application to determine if it is complete. An application is complete when it contains all the information the servicer requires from the borrower in evaluating applications for loss mitigation options.

Second, the servicer must notify the borrower in less than five days (excluding legal public holidays, Saturdays, and Sundays) that it has received the application and state whether it is complete or incomplete. If the application is incomplete, the notice must advise (i) what additional documents or information are needed and (ii) a reasonable deadline by which the borrower must submit them. A reasonable deadline is generally one of the following that maximizes the borrower's loss mitigation protections, except when that deadline would make it impracticable to permit the borrower sufficient time to obtain and submit the needed information (such as requesting a borrower to submit documentation in less than seven days): (a) the date by which any document or information submitted by the borrower will be stale or invalid, (b) the 120th day of the borrower's delinquency, (c) 90 days before a foreclosure sale, or (d) 38 days before a foreclosure sale. Servicers must exercise reasonable diligence in obtaining documents and information to complete an incomplete loss mitigation application (e.g., promptly contacting the borrower to obtain missing information or determin-

ing whether information exists in the servicer's files already that may provide the information missing from the borrower's application).²⁴

A loss mitigation application includes oral inquiries by the borrower where the borrower provides the information a servicer would evaluate in connection with a loss mitigation application. A loss mitigation application is considered expansively and includes any request by a borrower that the servicer determines whether the borrower is "pre-qualified" for a loss mitigation program by evaluating the borrower against preliminary criteria.

A loss mitigation application does not include oral inquiries about loss mitigation options where the borrower does not provide any information that the servicer would use to evaluate an application, including where the borrower requests information only about the application process but does not provide any information to the servicer.

If a servicer has informed a borrower that the application was complete (or identified particular information needed to complete the application), and the servicer subsequently determines that additional information or corrected documents are required, the servicer must promptly request such information or documents from the borrower and treat the application as complete under 12 CFR 1024.41(f)(2) and (g) until the borrower is given a reasonable opportunity to complete the application.

Calculating Time Periods and Determining Protections—12 CFR 1024.41(b)(3)

Section 1024.41 provides borrowers certain protections depending on whether the servicer received a complete loss mitigation application at least a specified number of days before a foreclosure sale. See, e.g., 12 CFR 1024.41(c)(1) (37 days); 12 CFR 1024.41(e) and (h) (90 days). These time periods are calculated as of the date the servicer receives a complete loss mitigation application. Thus, scheduling or rescheduling a foreclosure sale after the servicer receives the complete loss mitigation application will not affect the borrower's protections.

24. When a borrower is complying with a payment forbearance program offered on the basis of an incomplete loss mitigation application, reasonable diligence would involve notifying the borrower that the borrower is being offered a payment forbearance program based on an evaluation of an incomplete loss mitigation application, and that the borrower has the option of completing the application to receive a full evaluation for all loss mitigation options available to the borrower. If a servicer provides such a notification, the borrower remains in compliance with the payment forbearance program, and the borrower does not request any further assistance, the servicer could suspend reasonable diligence efforts until near the end of the payment forbearance program. Near the end of the program, and prior to the end of the payment forbearance period, it may be necessary for the servicer to contact the borrower to determine if the borrower wishes to complete the application and proceed with a full loss mitigation evaluation.

22. The definition of small servicer is set forth at 12 CFR 1026.41(e)(4)(ii).

23. CFPB Bulletin 2013-12.

If no foreclosure sale is scheduled as of the date the servicer receives a complete loss mitigation application, the application is considered received more than 90 days before a foreclosure sale.

Evaluation of a Loss Mitigation Application—12 CFR 1024.41(c)

Evaluation of a Timely Complete Loss Mitigation Application—12 CFR 1024.41(c)(1)

A servicer that receives a complete loss mitigation application more than 37 days before a foreclosure sale must take two steps within 30 days:

- *First*, the servicer must evaluate the borrower for all loss mitigation options available to the borrower from the owner or investor of the borrower's mortgage loan. The criteria on which a servicer offers or does not offer a loss mitigation option need not meet any particular standard. Nonetheless, a servicer's failure to follow requirements imposed by an owner or investor may demonstrate the servicer's failure to comply with the 12 CFR 1024.38(b)(2)(v) requirement that the servicer must maintain policies and procedures that are reasonably designed to ensure that the servicer can properly evaluate a borrower for all loss mitigation options for which the borrower may be eligible pursuant to any requirements established by the mortgage loan's owner or assignee; and
- *Second*, the servicer must provide the borrower with a written notice stating which loss mitigation options, if any, the servicer will offer to the borrower. The notice must state the amount of time the borrower has to accept or reject an offered loss mitigation option pursuant to 12 CFR 1024.41(e), and, if applicable, that the borrower has the right to appeal a denial of a loan modification option as well as the time period and any requirements for making an appeal pursuant to 12 CFR 1024.41(h).

Evaluation of Incomplete Loss Mitigation Application—12 CFR 1024.41(c)(2)(i)–(iii)

With two exceptions, a servicer may not offer a loss mitigation option based on an evaluation of an incomplete application.

1. *Reasonable Time Exception*. If the servicer has exercised reasonable diligence in obtaining documents and information to complete the application but the application still remains incomplete for a significant period of time without further progress by the borrower, the servicer may evaluate an incomplete application and offer the borrower a loss mitigation option. What qualifies as a significant period of time may depend on the timing of the foreclosure process. For example, 15 days may be a more significant

period of time if the borrower is less than 50 days before a foreclosure sale than if the borrower is less than 120 days delinquent. The requirements in 12 CFR 1024.41 do not apply to this evaluation, and it is not considered an evaluation of a complete loss mitigation application for purposes of determining whether a request for a loss mitigation evaluation is duplicative under 12 CFR 1024.41(i).

2. *Short-Term Forbearance Plan Exception*. A short-term forbearance program allows a borrower to forgo making certain payments or portions of payments due over a period of no more than six months. A servicer may offer such a short-term payment forbearance program to a borrower based upon an evaluation of an incomplete loss mitigation application. If the borrower is performing pursuant to such a forbearance program, a servicer may not make the first notice or filing required by applicable law for any judicial or non-judicial foreclosure process, and it may not move for foreclosure judgment or an order of sale or conduct a foreclosure sale. The servicer must also comply with the remaining loss mitigation procedures requirement in 12 CFR 1024.41 regarding incomplete applications, such as exercising reasonable diligence in obtaining documents and information to complete the application.²⁵ Additionally, if the borrower completes the loss mitigation application, the servicer must comply with all of the loss mitigation procedure requirements in 12 CFR 1024.41.

The commentary explains that a servicer may offer loss mitigation options to borrowers who have not submitted a loss mitigation application. Further, a servicer may offer loss mitigation options to borrowers who have submitted incomplete loss mitigation applications, so long as that offer is not based upon an evaluation of information contained in the incomplete application.

Facially Complete Applications—12 CFR 1024.41(c)(2)(iv)

A loss mitigation application is facially complete if either (i) the servicer's initial notice under 12 CFR 1024.41(b) advised the borrower that the application was complete, or (ii) the servicer's initial notice under 12 CFR 1024.41(b) requested additional information from the borrower to complete the application and the borrower submitted such additional information.

If the servicer later discovers that additional information or corrections to a previously submitted document are required to complete the facially

25. For an explanation of "reasonable diligence," see the above discussion in connection with the receipt of loss mitigation applications under 12 CFR 1024.41(b).

complete application, the servicer must promptly request the missing information or corrected documents and treat the application as complete for purposes of 12 CFR 1024.41(f)(2) and (g) until the borrower is given a reasonable opportunity to complete the application. A reasonable opportunity depends on the particular facts and circumstances, but must provide the borrower sufficient time to gather the necessary information and documents.

If the borrower completes the application within this period, the application is considered complete as of the date it was actually complete for purposes of 12 CFR 1024.41(c), and the application is considered complete as of the date it was facially complete for purposes of 12 CFR 1024.41(d), (e), (f)(2), (g), and (h).

If the borrower does not complete the application within this period, the application is considered incomplete.

Denial of any Loss Mitigation Option— 12 CFR 1024.41(d)

If the servicer denies a loss mitigation application for any trial or permanent loan modification option, the notice provided to the borrower must also state the servicer's specific reason or reasons for denying each trial or permanent loan modification option, and, if applicable, that the borrower was not evaluated on other criteria. Certain disclosures are required when a servicer denies an application for the following reasons or using the following procedures:

- *Investor criteria and use of a waterfall.*
 - If the servicer denies a loan modification option based upon investor criteria, the servicer must identify the owner or assignee of the mortgage loan and the specific criteria that the borrower failed to satisfy.
 - When an owner or assignee has established an evaluation criteria that sets an order ranking for evaluation of loan modification options (commonly known as a “waterfall”) and a borrower has qualified for a particular loan modification option in the waterfall, it is sufficient for the servicer to inform the borrower, with respect to other loan modification options ranked below any such option offered to a borrower, that the investor's requirements include the use of such a waterfall, and that an offer of a loan modification option necessarily results in a denial for any other loan modification options below the option for which the borrower is eligible in the ranking.
- *Net present value calculation.* If the denial was based upon a net present value calculation, the servicer must disclose the inputs used in the calculation.
- *Reasons listed.* The following applies if the servicer uses a hierarchy of eligibility criteria and, after reaching the first criterion that causes a denial, does not evaluate whether the borrower would have satisfied the remaining criteria. In this instance, the servicer need only (i) provide the specific reason or reasons why the borrower was actually rejected and (ii) notify the borrower that the borrower was not evaluated on other criteria. A servicer is not required to determine or disclose whether a borrower would have been denied based on other criteria if the servicer did not actually evaluate these additional criteria.

Borrower Response—12 CFR 1024.41(e)

A servicer offering a loss mitigation option must provide the borrower with a minimum period of time to accept or reject the option, depending on when the servicer receives a complete application. If the application was complete 90 days or more before a foreclosure sale, the servicer must give the borrower at least 14 days to decide. If it was complete fewer than 90 but more than 37 days before a foreclosure sale, the servicer must give the borrower at least seven days to decide.

A borrower's failure to respond on time can be treated as a rejection of the loss mitigation options, with two exceptions. First, a borrower who is offered a trial loan modification plan and submits payments that would have been owed under that plan before the deadline for accepting must be given a reasonable time to fulfill any remaining requirements of the servicer for acceptance of the trial loan modification plan. Second, a servicer must give a borrower who has a pending appeal until 14 days after the servicer provides notice of its determination regarding resolution of that appeal to decide whether to accept any offered loss mitigation option.

Prohibition on Foreclosure Referral—12 CFR 1024.41(f)

A servicer cannot make the first foreclosure notice or filing for any judicial or non-judicial process until (i) the borrower is more than 120 days delinquent, (ii) the foreclosure is based on a borrower's violation of a due-on-sale clause, or (iii) the servicer is joining a subordinate lienholder's foreclosure action. The commentary states that whether a document qualifies as the first notice or filing depends on the foreclosure process at issue:

- *Judicial foreclosure.* Where foreclosure procedure requires a court action or proceeding, the first notice or filing is the earliest document required to be filed with a court or other judicial body to commence the action or proceeding. Depending on the particular foreclosure process, examples of these documents could be a complaint, petition, order to docket, or notice of hearing;
- *Non-judicial foreclosure—recording or publication requirement.* Where foreclosure procedure does not require an action or court proceeding (such as under a power of sale), the first notice or filing is the earliest document required to be recorded or published to initiate the foreclosure process; or
- *Non-judicial foreclosure—no recording or publication requirement.* Where foreclosure procedure does not require an action or court proceeding, and also does not require any document to be recorded or published, the first notice or filing is the earliest document that establishes, sets, or schedules a date for the foreclosure sale.

The commentary further states that a document provided to the borrower but not initially required to be filed, recorded, or published is not considered the first notice or filing on the sole basis that the documents must later be included as an attachment accompanying another document that is required to be filed, recorded, or published to carry out a foreclosure.

If a borrower submits a complete loss mitigation application before the 120th day of delinquency or before the servicer makes the first foreclosure notice or filing, then the servicer cannot make the first foreclosure notice or filing unless one of the following occurs: (i) the servicer sends a notice to the borrower stating that the borrower is ineligible for any loss mitigation option and if an appeal is available, either the borrower did not timely appeal, or the appeal has been denied; (ii) the borrower rejects all the offered loss mitigation options; or (iii) the borrower fails to perform under a loss mitigation agreement.

Prohibition on Foreclosure Sale—12 CFR 1024.41(g)

If a borrower submits a complete loss mitigation application after the servicer has made the first foreclosure notice or filing but more than 37 days before a foreclosure sale, the servicer cannot conduct a foreclosure sale or move for foreclosure judgment or sale unless one of the following occurs: (i) the servicer sends a notice to the borrower stating that the borrower is ineligible for any loss mitigation option and the appeal process is inapplicable, the borrower did not timely appeal,

or the appeal has been denied; (ii) the borrower rejects all the offered loss mitigation options; or (iii) the borrower fails to perform under a loss mitigation agreement.

Appeal Process—12 CFR 1024.41(h)

A borrower has the right to appeal a servicer's denial of a loss mitigation application for any trial or permanent loan modification available to the borrower if the borrower submitted a complete application 90 days or more before a foreclosure sale (or during the pre-foreclosure period set forth in 12 CFR 1024.41(f)). The borrower must commence the appeal within 14 days after the servicer provides the notice stating the servicer's determination of which loss mitigation options, if any, it will offer to the borrower.

Within 30 days of the borrower making the appeal, the servicer must provide a notice to the borrower stating: (i) whether it will offer the borrower a loss mitigation option based on the appeal, and (ii) if applicable, how long the borrower has to accept or reject this loss mitigation option or a previously offered loss mitigation option. If the servicer offers a loss mitigation option after an appeal, the servicer must provide the borrower at least 14 days to decide whether to accept the offered loss mitigation option.

The servicer's personnel who evaluated the borrower's application cannot also evaluate the appeal, although personnel who supervised the initial evaluation may evaluate the appeal so long as they were not directly involved in the initial evaluation.

Duplicative Requests—12 CFR 1024.41(i)

A servicer is required to comply with these loss mitigation procedures for only a single complete loss mitigation application for a borrower's mortgage loan account.

Small Servicer Requirements—12 CFR 1024.41(j)

A small servicer cannot make the first foreclosure notice or filing required by any judicial or non-judicial foreclosure process until (i) the borrower is more than 120 days delinquent, (ii) the foreclosure is based on a borrower's violation of a due-on-sale clause, or (iii) the servicer is joining a subordinate lienholder's foreclosure action. If the borrower is performing according to the terms of a loss mitigation agreement, a small servicer also cannot make the first foreclosure notice or filing, move for a foreclosure judgment or order of sale, or conduct a foreclosure sale.

REFERENCES

Laws

12 U.S.C. 2601 *et seq.* Real Estate Settlement Procedures Act

Regulations

Consumer Financial Protection Bureau Regulation (12 CFR)

Part 1024 Real Estate Settlement Procedures Act (Regulation X)

Resources

TILA-RESPA Integrated Disclosure Rule – Compliance Guide (http://files.consumerfinance.gov/f/201409_cfpb_tila-respa-integrated-disclosure-rule_compliance-guide.pdf)

TILA-RESPA Integrated Disclosure Rule – Guide to Forms (http://files.consumerfinance.gov/f/201409_cfpb_tila-respa-integrated-disclosure-guide-to-form.pdf)

Regulation X

Real Estate Settlement Procedures Act²⁵

Examination Objectives

- To determine if the financial institution has established policies and procedures to ensure compliance with the Real Estate Settlement Procedures Act (RESPA) and Regulation X.
- To determine whether the financial institution engages in any practices prohibited by RESPA or Regulation X, such as kickbacks, payment or receipt of referral fees or unearned fees, or excessive escrow assessments.
- To determine if the Special Information Booklet, Good Faith Estimate, Uniform Settlement Statement (Form HUD-1 or HUD 1A), mortgage servicing transfer disclosures, and other required disclosures are in a form that complies with Regulation X, are properly completed, and provided to borrowers, as applicable, within prescribed time periods.
- To determine if the institution is submitting the required initial and annual escrow account statements to borrowers as applicable, properly administering escrow accounts, and otherwise complying with requirements and limitations on escrow account arrangements.
- To determine whether the institution is responding to borrower error notices relating to the servicing of their mortgage loans in compliance with the provisions of Regulation X.
- To determine whether the institution is responding to borrower inquiries for information relating to the servicing of their mortgage loans in compliance with the provisions of Regulation X.
- To determine whether the institution is providing proper notices to borrowers of mortgage loans before assessing charges or fees for force-placed insurance and refunding charges and fees in appropriate cases as RESPA and Regulation X require.
- To determine whether the institution complies with Regulation X's record management requirements.
- To determine whether the institution is following Regulation X's early intervention and continuity of contact requirements, as applicable.
- To determine whether the institution is complying with Regulation X's loss mitigation procedures, as applicable.

26. These reflect FFIEC-developed procedures.

Examination Procedures

Each examination should be risk-based and may not require an examiner to address all of the procedures below. In addition, each supervising agency may have its own supervisory strategy that will dictate which examination procedures are required to be completed.

If the financial institution has loans covered by RESPA, determine whether the institution's policies, practices, and procedures ensure compliance with RESPA and Regulation X.

General Procedures

1. Review the types of loans covered by RESPA, applicable exemptions, loan policies, and operating procedures in connection with federally related mortgage loans. 12 CFR 1024.5 provides RESPA's general coverage and applicable exemptions, though other RESPA and Regulation X provisions include additional exemptions.
2. Assess whether mortgage personnel are knowledgeable about the requirements of RESPA and Regulation X.
3. Determine whether the loan disclosure and timing requirements of Regulation X (rather than Regulation Z, 12 CFR 1026.19(e) and (f)) apply to the loans being reviewed (generally for closed-end reverse mortgages).
4. Review the Special Information Booklet, good faith estimate (GFE) form, Uniform Settlement Statement form (HUD-1 or HUD-1A), and mortgage servicing transfer disclosure forms for compliance with the requirements of Regulation X. Review standardized and model forms and clauses in the appendixes to the regulation.
5. Review the affiliated business arrangement disclosure form for compliance with the requirements of Regulation X. Review standardized and model forms and clauses in the appendixes to the regulation.
6. If electronic disclosures are provided, determine whether the institution has policies and procedures to provide electronic delivery in accordance with the Electronic Signatures in Global and National Commerce Act (E-Sign).
7. Through reviewing written loan policies and operating procedures in connection with

federally related mortgage loans that are not partially exempt under 12 CFR 1024.5(d) (i.e., reverse mortgages) and by discussing them with institution personnel, or through other appropriate methods, determine whether the financial institution has policies and procedures that address the following:

- the information that will be collected from applicants in connection with issuing a GFE, and what information will be relied on to issue a GFE
 - provision of a revised GFE in the event of changed circumstances, both in the course of a new home purchase and in other kinds of transactions
 - to cure a tolerance violation by reimbursing the borrower the amount by which the tolerance was exceeded within 30 calendar days from date of settlement
 - to cure a technical or inadvertent error on the HUD-1/1A by providing a revised settlement statement to the borrower within 30 calendar days of settlement
8. Through interviews with mortgage lending personnel or other appropriate methods, determine
- the identity of persons or entities referring federally related mortgage loan business;
 - the nature of services provided by referral sources, if any;
 - settlement service providers used by the institution; and
 - any providers whose services are required by the institution.
9. Through interviews with mortgage lending personnel or other appropriate methods, assess how the institution complies with the general servicing policies and procedures required by Regulation X, as applicable, including
- how and for how long the institution maintains documentation and information related to a mortgage loan account and the institution's process for aggregating such information into a servicing file within five days;
 - how the institution determines whether to engage third-party service providers, including the criteria the institution considers to evaluate potential service providers;
 - how the institution monitors the performance of third-party service providers;
 - how the institution ensures that it receives all necessary documentation and informa-

tion concerning mortgage loan files that are transferred to it by another institution; and

- how the institution ensures that it sends all necessary documentation and information concerning mortgage loan files to another institution when it transfers files to that institution.

Subpart B—Mortgage Settlement and Escrow Accounts

Special Information Booklet—12 CFR 1024.6

10. For mortgages that are not subject to the TILA RESPA Disclosure Rule under 12 CFR 1026.19(e) and (f), other than reverse mortgages, determine through appropriate methods such as discussions with management and reviewing credit files whether the Special Information Booklet, if required, is provided within three business days after the financial institution or broker receives a written application for a loan (12 CFR 1024.6(a)(1)).

NOTE: The Special Information Booklet may be required under 12 CFR 1026.19(g) for closed-end mortgage loans subject to the TILA-RESPA Integrated Disclosure rule.

Good Faith Estimate—12 CFR 1024.7

11. For closed-end reverse mortgages (see 12 CFR 1024.5(d)), determine whether the financial institution provides a good faith estimate of charges for settlement services, if required, within three business days after receipt of a written application (12 CFR 1024.7(a)).
12. Review the Good Faith Estimate to determine if it appears exactly as set forth in appendix C to part 1024.
13. Review a sample of loan files that include GFEs to determine the following:
- whether the financial institution followed GFE application requirements
 - whether the institution provided revised GFEs to applicants when warranted due to changed circumstances
 - if the institution provided a revised GFE to the applicant due to changed circumstances, determine whether the institution followed regulatory requirements for issuing a revised GFE due to changed circumstances
 - whether the GFE was completed as re-

quired in the regulations and instructions (12 CFR 1024.7 and appendix C to 12 CFR part 1024) and whether it included the following information:

- interest rate expiration date;
- settlement charges expiration date;
- rate lock period;
- number of days before settlement the interest rate must be locked, if applicable;
- summary of loan information;
- escrow account information;
- estimates for settlement charges; and
- left-hand column on trade-off table completed for loan in the GFE.
- whether, for no cost loans, all third-party fees paid by the financial institution are itemized and listed in the appropriate blocks on the second page of the GFE
- whether a separate sheet was provided with the GFE that identifies the settlement service providers for the services listed on the GFE

Uniform Settlement Statement Form (HUD-1 and HUD-1A)—12 CFR 1024.8

14. Using the same sample of loan files as used for the review of the GFE (i.e., for reverse mortgages), review the Uniform Settlement Statement (HUD-1 or HUD-1A, as appropriate) (12 CFR 1024.8 and appendix A to 12 CFR Part 1024) to determine whether
 - charges are properly itemized in accordance with the instructions for completion of the HUD-1 or HUD-1A (appendix A to 12 CFR Part 1024);
 - all charges paid by the borrower and the seller are itemized and include the name of the recipient (12 CFR 1024.8(b), appendix A);
 - Average charges for settlement services are calculated in accordance with 12 CFR 1024.8(b)(2); and
 - charges required by the financial institution but paid outside of closing are itemized on the settlement statement, marked as “paid outside of closing” or “P.O.C.,” but not included in cost totals (12 CFR 1024.8(b); appendix A).
15. If the financial institution conducts the settlement, determine whether
 - the borrower, upon request, is allowed to inspect the HUD-1 or HUD-1A at least one

business day prior to settlement (12 CFR 1024.10(a));

- the HUD-1 or HUD-1A is provided to the borrower and seller at or before settlement (except where the borrower has waived the right to delivery and in the case of exempt transactions) (12 CFR 1024.10(b)); or
- in cases where the right to delivery is waived or the transaction is exempt, the HUD-1/1A is mailed as soon as practicable after settlement (12 CFR 1024.10(b), (c), and (d)).

16. Determine whether, in the case of an inadvertent or technical error on the HUD-1/1A, the financial institution provides a revised HUD-1/1A to the borrower within 30 calendar days after settlement (12 CFR 1024.8(c)).
17. Review the HUD-1 or HUD-1A form prepared in connection with each GFE reviewed to determine if the amount stated for any itemized service exceeds the amount shown on the GFE for that service. If the amount stated on the HUD-1 exceeds the amount shown on the GFE and such overcharge violates the tolerance for that category of settlement services, determine whether the financial institution cured the tolerance violation by reimbursing to the borrower the amount by which the tolerance was exceeded, at settlement or within 30 calendar days from date of settlement (12 CFR 1024.7(i)).
18. Determine whether HUD-1 and HUD-1A forms are retained for five years after settlement if the institution retains its interest in the mortgage and/or services. If the financial institution disposes of its interest in the mortgage and does not service the loan, determine whether the HUD-1 or HUD-1A form is transferred to the new asset owner with the loan file (12 CFR 1024.10(e)).

Homeownership Counseling Organization List—12 CFR 1024.20

19. Determine whether the lender (or a mortgage broker or dealer) provided a clear and conspicuous written list of homeownership counseling services in the applicant's location no later than three business days after the lender, mortgage broker, or dealer received the application or information sufficient to complete an application (for RESPA-covered loans except for reverse mortgages or timeshare loans) (12 CFR 1024.20(a) and (c)). The written list does not need to be provided if, within the three-business-day

period, the lender denies the application or the applicant withdraws it (12 CFR 1024.20(a)(5)).

20. Determine whether the lender obtained the list from either the website maintained by the CFPB or data made available by the CFPB or HUD for lenders complying with this requirement, no earlier than 30 days prior to the time it was provided to the applicant (12 CFR 1024.20(a)).

No Fees for RESPA Disclosures—
12 CFR 1024.12

21. Determine whether the financial institution charges a fee specifically for preparing and distributing the HUD-1 forms, escrow statements or documents required under the Truth in Lending Act (12 CFR 1024.12).
22. If any fee is charged before providing a GFE in a reverse mortgage transaction, determine whether such fee is limited to the cost of a credit report (12 CFR 1024.7(a)(4)).

Purchase of Title Insurance—12 CFR
1024.16

23. When the financial institution owns the property being sold, determine whether it requires that title insurance be purchased from a particular company (12 CFR 1024.16).

Payment or Receipt of Referral or
Unearned Fees—12 CFR 1024.14

24. Through interviews with institution management and reviews of audits, policies, and procedures or other appropriate methods, determine if management is aware of the prohibition against payment and receipt of any fee, kickback, or thing of value in return for the referral of settlement services business (12 CFR 1024.14).
25. Through interviews with institution management and reviews of audits, policies, and procedures or other appropriate methods, determine if management is aware of the prohibition against unearned fees where a charge for settlement services is divided between two or more parties.
26. Through interviews with institution management and personnel, file reviews, review of: good faith estimates and HUD-1 or HUD-1A (for closed-end reverse mortgages), the TILA-RESPA Integrated Disclosures (for other closed-end mortgages secured by a dwelling), or other appropriate methods, determine if federally related mortgage loan transactions are referred to the institution by brokers, affiliates, or other parties. Also,

identify persons or entities to which the institution refers settlement services business in connection with a federally related mortgage transaction.

- Identify the types of services rendered by the broker, affiliate, or service provider.
- By a review of the institution's general ledger or otherwise determine if fees were paid to the institution or any parties identified.
- Determine whether any fees paid or received by the institution are for goods or facilities actually furnished or services actually performed and are not kickbacks or referral fees (12 CFR 1024.14(b)). This includes payments by the institution to an affiliate or the affiliate's employees in connection with real estate settlements.
- In cases where a fee is split between the institution and one or more other parties, determine whether each party actually performed services for that fee (12 CFR 1024.14(c)). This includes payments by the institution to an affiliate or the affiliate's employees in connection with real estate settlements.

Affiliated Business Arrangements—
12 CFR 1024.15

27. Determine from the TILA-RESPA Integrated Disclosures (or the HUD-1 or HUD-1A for reverse mortgages) and from interviews with institution management, or through other appropriate methods, if the institution referred a borrower to a settlement service provider with which the institution was affiliated or in which the institution had a direct or beneficial ownership interest of more than 1 percent (hereinafter, an "affiliated business arrangement").
28. If the financial institution had an affiliated business arrangement, determine whether the affiliated business arrangement disclosure statement (appendix D to part 1024) was provided as required by 12 CFR 1024.15(b)(1).
29. Other than an attorney, credit reporting agency, or appraiser representing the lender, if the financial institution referred a borrower to a settlement service provider, determine whether the institution required the use of the provider (12 CFR 1024.15(b)(2)).
30. Determine if compensation received by the lender in connection with an affiliated business arrangement is limited to a return on an

ownership interest or other amounts permissible under RESPA (12 CFR 1024.15(b)(3)).

Escrow Accounts—12 CFR 1024.17

If the institution maintains escrow accounts in connection with a federally related mortgage loan, complete the following procedures.

31. Determine whether the institution performed an initial escrow analysis (12 CFR 1024.17(c)(2)) and provided the initial escrow statement required by 12 CFR 1024.17(g). The statement must contain the following:
 - amount of monthly payment;
 - portion of the monthly payment being placed in escrow;
 - charges to be paid from the escrow account during the first 12 months;
 - disbursement dates; and
 - amount of cushion.
32. Determine if the statement was given to the borrower at settlement or within 45 days after the escrow account was established. This statement may be incorporated into the HUD-1 statement (12 CFR 1024.17(g)(1) and (2)).
33. Determine whether the institution performs an annual analysis of the escrow account (12 CFR 1024.17(c)(3) and (7), and 1024.17(i)).
34. Determine whether the annual escrow account statement is provided to the borrower within 30 days of the end of the computation year (12 CFR 1024.17(i)).
35. Determine if the annual escrow statement contains the following:
 - amount of monthly mortgage payment and portion placed in escrow;
 - amount of past year's monthly mortgage payment and portion that went into escrow;
 - total amount paid into escrow during the past computation year;
 - total amount paid out of escrow account during same period for taxes, insurance, and other charges;
 - balance in the escrow account at the end of the period;
 - how a surplus, shortage, or deficiency is to be paid/handled; and
 - if applicable, the reason why the estimated low monthly balance was not reached (12 CFR 1024.17(i)(1)).
36. Determine whether monthly escrow pay-

ments following settlement are within the limits of 12 CFR 1024.17(c).

Force-Placed Insurance

12 CFR 1024.17(k)(5) includes requirements with respect to borrowers who had established an escrow account for the payment of hazard insurance. The provision contains a limited exception for small servicers. 12 CFR 1026.41(e)(4)(ii) provides that an institution qualifies as a small servicer if it either (a) services, together with any affiliates, 5,000 or fewer mortgage loans, as that term is used in 12 CFR 1026.41(a)(1), for all of which the institution (or an affiliate) is the creditor or assignee; (b) is a Housing Finance Agency, as defined in 24 CFR 266.5 (§1026.41(e)(4)(ii)); or (c) is a nonprofit entity (defined in §1026.41(e)(4)(ii)(C)(1)) that services 5,000 or fewer mortgage loans, including any mortgage loans serviced on behalf of associated nonprofit entities (defined in §1026.41(e)(4)(ii)(C)(2)), for all of which the servicer or an associated nonprofit entity is the creditor.

To determine whether a servicer is a small servicer, generally, a servicer should be evaluated based on the mortgage loans serviced by the servicer and any affiliate as of January 1 for the remainder of the calendar year. However, to determine small-servicer status under the nonprofit small-servicer definition, a nonprofit servicer should be evaluated based on the mortgage loans serviced by the servicer (and not those serviced by associated nonprofit entities) as of January 1 for the remainder of the calendar year. A servicer that ceases to qualify as a small servicer has the later of six months from the time it ceases to qualify or until the next January 1 to come into compliance with the requirements of 12 CFR 1026.41.

The following mortgage loans are not considered in determining whether a servicer qualifies as a small servicer: (a) mortgage loans voluntarily serviced by the servicer for a creditor or assignee that is not an affiliate of the servicer and for which the servicer does not receive any compensation or fees, (b) reverse mortgage transactions, and (c) mortgage loans secured by consumers' interests in timeshare plans (12 CFR 1026.41(e)(4)(iii)).

The procedures related to 12 CFR 1024.38 discuss the definition of smaller servicer in greater detail. In addition, the procedures related to 12 CFR 1024.34 and 1024.37 may be applicable to escrow accounts and fees or charges for force-placed insurance.

37. If the institution purchased force-placed insurance for a borrower who had established an escrow account for the payment of hazard insurance, determine whether the institution was permitted to do so under 12

CFR 1024.17(k)(5). Under that provision, an institution may not purchase force-placed insurance unless (i) the borrower was more than 30 days delinquent and (ii) the institution was unable to disburse funds from the escrow account to ensure that the borrower's hazard insurance premium charges were paid in a timely manner.

An institution is unable to disburse funds if it has a reasonable basis to believe that either (a) the borrower's property is vacant or (b) the borrower's hazard insurance has terminated for reasons other than nonpayment of the premium charges. An institution is not unable to disburse funds from the borrower's escrow account solely because the account has insufficient funds for paying hazard insurance premium charges (12 CFR 1024.17(k)(5)(ii)).

38. *Small servicer exception.* Notwithstanding the above, a small servicer may charge borrowers for force-placed insurance. If the institution is a small servicer and charged borrowers for force-placed insurance, determine whether the cost to each borrower of the force-placed insurance was less than the amount the institution would have needed to disburse from the borrower's escrow account to ensure that hazard insurance charges were paid in a timely manner (12 CFR 1024.17(k)(5)(iii)).

Subpart C—Mortgage Servicing

Applicability: Except as otherwise noted below, the provisions of Subpart C—Mortgage Servicing, 12 CFR 1024.30-41, apply to any mortgage loan, as that term is defined in 12 CFR 1024.31.

Mortgage Servicing Transfer Disclosures—12 CFR 1024.33

Reverse Mortgage Disclosure Statement

Complete the following if the institution received an application for a reverse mortgage loan, as defined in 12 CFR 1024.31.

39. Determine whether the lender, mortgage broker who anticipates using table funding, or dealer in a first-lien dealer loan provided a proper servicing disclosure statement to the borrower within three days (excluding legal public holidays, Saturdays, and Sundays) after receipt of the application. The disclosure statement must advise whether the servicing of the mortgage loan may be assigned, sold, or transferred to any other person at any time. A model disclosure statement is set forth in appendix MS-1 (12 CFR 1024.33(a)).

Additionally, the disclosure statement is not required if the institution denied the application within the three-day period.

Transfers of Mortgage Servicing Rights—Disclosures

Complete the following if the institution has transferred or received mortgage servicing rights. The following are generally not considered transfers: (1) transfers between affiliates; (2) transfers resulting from mergers or acquisitions of servicers or subservicers; and (3) transfers between master servicers, when the subservicer remains the same. Additionally, the Federal Housing Administration (FHA) is not required to provide a notice of transfer to the borrower where a mortgage insured under the National Housing Act is assigned to the FHA (12 CFR 1024.33(b)).

40. If the institution has *transferred* mortgage servicing rights, determine whether notice to the borrower was given at least 15 days prior to the transfer (12 CFR 1024.33(b)(3)). This notice may be combined with the transferee's notice (discussed below) into one notice if delivered to the borrower at least 15 days before the effective date of the transfer. Notices provided at the time of settlement satisfy the timing requirements.
41. If the institution has *received* mortgage servicing rights, determine whether notice was given to the borrower within 15 days after the transfer (12 CFR 1024.33(b)(3)). This notice may be combined with the transferor's notice (discussed above) into one notice if delivered to the borrower at least 15 days before the effective date of the transfer. Notices provided at the time of settlement satisfy the timing requirements.
42. Determine whether the notice sent by the institution includes the following information (12 CFR 1024.33(b)(4)). Sample language for the notice of transfer is contained in appendix MS-2 to 12 CFR part 1024.
- the effective date of the transfer;
 - the name, address, and toll-free or collect-call telephone number for an employee or department of the transferee servicer that can be contacted by the borrower to obtain answers to servicing transfer inquiries;
 - the name, address, and toll-free or collect-call telephone number for an employee or department of the transferor servicer that can be contacted by the borrower to obtain answers to servicing transfer inquiries;
 - the date on which the transferor servicer will cease accepting payments relating to

- the loan and the date on which the transferee servicer will begin to accept such payments. The dates must either be the same or consecutive dates;
- whether the transfer will affect the terms or the availability of optional insurance and any action the borrower must take to maintain such coverage; and
 - a statement that the transfer does not affect the terms or conditions of the mortgage (except as directly related to servicing) (appendix MS-2 to 12 CFR part 1024).
43. Determine whether the notice by the transferor and transferee was sent to the borrower's address listed in the mortgage loan documents, unless the borrower notified the institution of a new address pursuant to the institution's requirements (12 CFR part 1024, supp. I., comment 1024.33(b)(3)-1).

Transfers of Mortgage Servicing Rights—Treatment of Post-Transfer Payments

Complete the following if the institution has transferred or received mortgage servicing rights.

- 44. If the borrower sent any payments to the transferor servicer within the 60 days following a transfer of servicing rights, determine whether the institution imposed late fees or otherwise treated such payments as late (12 CFR 1024.33(c)(1)).
- 45. If the borrower sent any payments to the transferor servicer within the 60 days following a transfer of servicing rights, determine whether the transferor servicer either (a) forwarded the payment to the transferee servicer or (b) returned the payment and informed the payor of the proper recipient of the payment (12 CFR 1024.33(c)(2)).

Timely Escrow Payments and Treatment of Escrow Account Balances—12 CFR 1024.34

Complete the following if the terms of a borrower's mortgage loan, as defined in 12 CFR 1024.31, require the borrower to make payments to the institution for deposit into an escrow account to pay taxes, insurance premiums, and other charges for the mortgaged property.

- 46. Determine whether the institution made payments from the escrow account in a timely manner (12 CFR 1024.34). A "timely manner" means on or before the deadline to avoid a

penalty, as governed by the requirements in 12 CFR 1024.17(k).

47. Determine whether the institution returned amounts remaining in escrow within 20 days (excluding legal public holidays, Saturdays, and Sundays) after the borrower paid the mortgage loan in full (12 CFR 1024.34(b)). The institution does not need to return this amount if it and the borrower agree to credit the remaining funds towards an escrow account for certain new mortgage loans.

Error Resolution Procedures—12 CFR 1024.35

Complete the following based upon a review of a sample of mortgage loan (as defined in 12 CFR 1024.31) files that included error notices from borrowers or through other appropriate methods.

Address for Error Notices

- 48. If the institution designates an address or addresses to which borrowers must send error notices, complete the following:
 - Determine whether the institution provided written notice of the address to the borrower, along with a statement that the borrower must use that address to assert errors (12 CFR 1024.35(c)).
 - Determine whether the institution also provided that address to the borrower in each of the following three types of communications:
 - any periodic statement or coupon book required under 12 CFR 1026.41;
 - any website the institution maintains in connection with the servicing of the loan; and
 - any notice required pursuant to 12 CFR 1024.39 (early intervention) or .41 (loss mitigation) that includes contact information for assistance (12 CFR part 1024, supp. I., comment 1024.35(c)-2).
 - Determine whether the institution designated the same address for receiving information requests pursuant to 12 CFR 1024.36(b) (12 CFR 1024.35(c)).
 - If the institution establishes an electronic method for submitting error notices that is its exclusive online intake process, determine whether this electronic process was in addition to, and not in lieu of, any process for receiving error notices by mail (12 CFR part 1024, supp. I., comment 1024.35(c)-4).

49. If the institution does not establish a specific address to which to send error notices, determine whether the institution responds to error notices sent to any of its offices (12 CFR part 1024, supp. I., comment 1024.35(c)-1).

Acknowledgement of Error Notices

50. Determine whether

- the institution properly acknowledged the error notice by providing written acknowledgement of the error notice to the borrower within five days (excluding legal public holidays, Saturdays, and Sundays) after receiving an error notice (12 CFR 1024.35(d)); or
- acknowledgment was not required because
 - the institution corrected the errors asserted and notified the borrower in writing within five days (excluding legal public holidays, Saturdays, and Sundays) of receiving the error notice (12 CFR 1024.35(f));
 - the institution determined that it was not required to respond and provided written notice, with the basis for its decision not to take any action, to the borrower within five days (excluding legal public holidays, Saturdays, and Sundays) after making that determination (12 CFR 1024.35(g)); or
 - the error notice related to violations of certain loss mitigation procedures under 12 CFR 1024.35(b)(9) or (10) and was received by the institution seven or fewer days before a foreclosure sale. With respect to such error notices, the institution must make a good faith attempt to respond orally or in writing to the borrower and either correct the error or state the reason the institution determined that no error occurred (12 CFR 1024.35(f)(2)).

Response to Error Notices

51. Determine whether

- the institution properly responded to a borrower's written error notice by
 - correcting the errors identified by the borrower as well as any different or additional errors that were discovered during the investigation and providing written notice to the borrower of the corrections, the date the corrections

took effect, and contact information for further assistance; or

- conducting a reasonable investigation and providing the borrower with a written notice stating that the institution has determined that no error occurred, the reasons for its determination, the borrower's right to request documents relied upon by the institution in reaching its determination and how to do so, and contact information for further assistance (12 CFR 1024.35(e)); AND
- undertaking one of the above within the following time frames:
 - if the alleged error was a failure to provide an accurate payoff balance amount, the institution responded within seven days (excluding legal public holidays, Saturdays, and Sundays) (12 CFR 1024.35(e)(3)(A));
 - if the alleged error was either (1) making the first notice or filing for a judicial or non-judicial foreclosure process in violation of 12 CFR 1024.41(f) or (j), or (2) moving for foreclosure judgment or order of sale or conducting a foreclosure sale in violation of 12 CFR 1024.41(g) or (j), the institution responded by the earlier of 30 days (excluding legal public holidays, Saturdays, and Sundays) or the date of a foreclosure sale (12 CFR 1024.35(e)(3)(B)). However, if the institution received the error notice seven or fewer days before a foreclosure sale, the institution is not required to respond in writing but must nevertheless make a good faith attempt to respond orally or in writing to the borrower and either correct the error or state the reason the institution determined that no error occurred (12 CFR 1024.35(f)(2));
 - for all other alleged errors, the institution responded within 30 days (excluding legal public holidays, Saturdays, and Sundays) unless, prior to the expiration of that 30-day period, the institution extended the time for responding by an additional 15 days (excluding legal public holidays, Saturdays, and Sundays) by notifying the borrower in writing of the extension and the reasons for it (12 CFR 1024.35(e)(3)); OR
- the above responses were not required because

- the institution corrected the errors asserted and notified the borrower in writing within five days (excluding legal public holidays, Saturdays, and Sundays) of receiving the error notice (12 CFR 1024.35(f));
 - the institution determined that it was not required to respond and provided written notice, with the basis for its decision not to take any action, to the borrower within five days (excluding legal public holidays, Saturdays, and Sundays) after making that determination (12 CFR 1024.35(g)); or
 - the error notice related to violations of certain loss mitigation procedures under 12 CFR 1024.35(b)(9) or (10) and was received by the institution seven or fewer days before a foreclosure sale. With respect to such error notices, the institution must make a good faith attempt to respond orally or in writing to the borrower and either correct the error or state the reason the institution determined that no error occurred (12 CFR 1024.35(f)(2)).
- the error notice was overbroad. An error notice is overbroad if the institution cannot reasonably determine from the error notice the specific error that has occurred on a borrower's account; or
 - the error notice was untimely. An error notice is untimely if it is delivered to the institution more than one year after either (i) the institution transferred servicing responsibility to another institution, or (ii) the mortgage loan was discharged (12 CFR 1024.35(g)(1)). A mortgage loan is discharged when both the debt and all corresponding liens have been extinguished or released, as applicable.

Asserted Errors Related to Non-bona Fide Fees

54. If the borrower asserted that the institution charged a fee without a reasonable basis to do so, determine whether the institution in fact had a reasonable basis to impose the fee (12 CFR 1024.35(b)(5)). An institution lacks a reasonable basis to impose fees that are not bona fide, such as (i) a late fee for a payment that was not late, (ii) a charge for a service that a service provider did not actually provide, (iii) a default management fee for borrowers who are not delinquent, or (iv) a charge for force-placed insurance that is not permitted by 12 CFR 1024.37 (12 CFR Part 1024, supp. I., comment 1024.35(b)-2).

Impermissible Fees and Conditions and other Restrictions

55. Determine whether the institution conditioned its investigation of the asserted error on the borrower providing supporting documentation (12 CFR 1024.35(e)(2)(i)).
56. Determine whether the institution determined that no error occurred because the borrower failed to provide any requested information without conducting a reasonable investigation (12 CFR 1024.35(e)(2)(ii)).
57. Determine whether the institution charged a fee or required the borrower to make any payments as a condition to responding to an error notice (12 CFR 1024.35(h)).
58. Determine whether the institution furnished adverse information to any consumer reporting agency regarding a payment that was the subject of an error notice within 60 days after receiving the notice (12 CFR 1024.35(i)).

Determination that No Error Occurred

52. If the institution stated that no error occurred and the borrower requested supporting documentation, determine whether the institution provided the documents that it relied upon to determine that no error occurred within 15 days (excluding legal public holidays, Saturdays, and Sundays) (12 CFR 1024.35(e)(4)). If the institution withheld documents that constituted confidential, proprietary, or privileged information, determine whether it provided written notification to the borrower within 15 days (excluding legal public holidays, Saturdays, and Sundays) (12 CFR 1024.35(e)(4)).

Determination that No Response Was Required

53. If the institution determined that it was exempt from the requirement to respond, determine whether the institution reasonably determined that one of the following three exemptions applied:
- the error asserted is substantially the same as an error previously asserted by the borrower for which the institution complied with 12 CFR 1024.35(d) and (e), unless the borrower provides new and material information to support the error;

Requests for Information—12 CFR 1024.36

Complete the following based upon a review of a sample of mortgage loan (as defined in 12 CFR 1024.31) files that included information requests from borrowers or other appropriate methods.

Address for Information Requests

59. If the institution designates an address or addresses to which borrowers must send information requests, complete the following:

- Determine whether the institution provided written notice of the address to the borrower, along with a statement that the borrower must use that address to request information (12 CFR 1024.36(b)).
- Determine whether the institution also provided that address to the borrower in each of the following three communications:
 - any periodic statement or coupon book required under 12 CFR 1026.41;
 - any website the institution maintains in connection with the servicing of the loan; and
 - any notice required pursuant to 12 CFR 1024.39 (early intervention) or .41 (loss mitigation) that includes contact information for assistance (12 CFR part 1024, supp. I., comment 1024.36(c)-2).
- Determine whether the institution designated the same address for receiving information requests pursuant to 12 CFR 1024.35(c) (12 CFR 1024.36(b)).
- If the institution establishes an electronic method for submitting information requests that is its exclusive online intake process, determine whether this electronic process was in addition to, and not in lieu of, any process for receiving information requests by mail (12 CFR Part 1024, supp. I., comment 1024.36(c)-4).
- 60. If the institution does not establish a specific address to which to send information requests, determine whether the institution responds to information requests sent to any of its offices (12 CFR part 1024, supp. I., comment 1024.36(b)-1).

Acknowledgement of Information Requests

61. Determine whether

- the institution properly acknowledged the information request by providing written acknowledgement to the borrower within

five days (excluding legal public holidays, Saturdays, and Sundays) after receiving the information request (12 CFR 1024.36(c)); or

- acknowledgement was not required because
 - the institution provided the borrower with the information requested and contact information (including telephone number) for further assistance within five days (excluding legal public holidays, Saturdays, and Sundays) (12 CFR 1024.36(e)); or
 - the institution determined that it was not required to respond and provided written notice with the basis for its determination not to respond to the request to the borrower within five days (excluding legal public holidays, Saturdays, and Sundays) after making that determination (12 CFR 1024.36(f)).

Response to Information Requests

62. Determine whether

- the institution properly responded to the information request by
 - providing the requested information and contact information for further assistance (12 CFR 1024.36(d)(1)(i)); or
 - conducting a reasonable search for the requested information and providing the borrower with a written notice advising the borrower that the institution has determined that the requested information is not available to it, the basis for the institution's determination, and contact information for further assistance (12 CFR 1024.36(d)(1)(ii)). Information is not available to the institution if the information is not in the institution's control or possession or if it cannot be retrieved in the ordinary course of business through reasonable efforts such as, for example, if electronic back-up media is not normally accessible to the institution's personnel and would take an extraordinary effort to identify and restore. Information stored offsite but which personnel can access upon request is available to the institution; AND
 - undertaking one of the above within the following time frames:
 - if the borrower requested the identity of or contact information for the

- owner or assignee of a mortgage loan, responding within 10 days (excluding legal public holidays, Saturdays, and Sundays);
- for all other information requests, responding within 30 days (excluding legal public holidays, Saturdays, and Sundays) unless, prior to the expiration of that 30-day period, the institution extended the time for responding by an additional 15 days (excluding legal public holidays, Saturdays, and Sundays) by notifying the borrower in writing of the extension and the reasons for it (12 CFR 1024.36(d));
- OR
- the above responses were not required because
 - the institution provided the borrower with the information requested and contact information (including telephone number) for further assistance within five days (excluding legal public holidays, Saturdays, and Sundays) (12 CFR 1024.36(e)); or
 - the institution determined that it was not required to respond and provided written notice with the basis for its determination not to respond to the request to the borrower within five days (excluding legal public holidays, Saturdays, and Sundays) after making that determination (12 CFR 1024.36(f)(2)).
- Information Requests Regarding the Identity or Contact Information of the Owner or Assignee of a Mortgage Loan*
63. If the information requested is the identity or contact information of the owner or assignee of a mortgage loan, determine whether the institution complied by identifying the person on whose behalf the institution receives payments (12 CFR part 1024, supp. I., comment 1024.36(a)-2). For example, if the owner is a trust, then the institution should identify the trust as the owner and provide the trustee's contact information.
- Determination that No Response Was Required*
64. If the institution determined that it was exempt from the requirement to respond, determine whether the institution reasonably determined that one of the following five exemptions applied:
 - the information requested is substantially the same as information the borrower previously requested for which the institution has already complied with the requirements for responding to written information requests (12 CFR 1024.36(f)(1)(i));
 - the information requested is confidential, proprietary, or privileged (12 CFR 1024.36(f)(1)(ii));
 - the information requested is not directly related to the borrower's mortgage loan account (12 CFR 1024.36(f)(1)(iii));
 - the information request is overbroad or unduly burdensome. A request is overbroad if the borrower requests that the institution provide an unreasonable volume of documents or information. A request is unduly burdensome if a diligent institution could not respond within the time periods set forth in 12 CFR 1024.46(d)(2) or would incur costs (or have to dedicate resources) that would be unreasonable in light of the circumstances (12 CFR 1024.36(f)(1)(iv)); or
 - the information request is sent more than one year after either the mortgage loan balance was discharged or the institution transferred the mortgage loan to another servicer (12 CFR 1024.36(f)(1)(v)). A mortgage loan is discharged when both the debt and all corresponding liens have been extinguished or released, as applicable.

Determination that Information Request Was Overbroad

65. If the institution determined that a submitted request was overbroad or unduly burdensome, determine whether the institution could reasonably have identified a valid information request in the submission and whether the institution did so (12 CFR 1024.36(f)(1)(iv)).

Impermissible Fees and Conditions

66. Determine whether the institution charged a fee, or required a borrower to make any payment that was owed on the borrower's account, as a condition of responding to an information request (12 CFR 1024.36(g)).

Force-Placed Insurance—12 CFR 1024.37

Applicability: Servicers must comply with restrictions on purchasing, renewing, and assessing fees for "force-placed insurance," which is defined as

hazard insurance that a servicer obtains on behalf of the owner or assignee to insure the property securing the mortgage loan (but does not include (i) flood insurance required by the Flood Disaster Protection Act of 1973; (ii) hazard insurance obtained by a borrower but renewed by the borrower's servicer in accordance with 12 CFR 1024.17(k)(1), (2), or (5); or (iii) hazard insurance obtained by a borrower but renewed by the borrower's servicer at its discretion with the borrower's agreement).

The provisions of 12 CFR 1024.37 define when an institution may assess fees on borrowers related to force-placed insurance. These provisions apply to any mortgage loan, as that term is defined in 12 CFR 1024.31.

Assessing Charges or Fees Related to Force-Placed Insurance

Complete the following if the institution assessed a charge or fee on a borrower related to force-placed insurance.

Reasonable Basis

67. Determine whether the institution had a reasonable basis to believe that the borrower has failed to comply with the mortgage loan contract's requirement to maintain hazard insurance (12 CFR 1024.37(b)). An institution's "reasonable basis" may be based upon information about a borrower's hazard insurance, which the institution receives from the borrower; the borrower's insurance provider; or the borrower's insurance agent. If the institution receives no such information, the institution may satisfy the "reasonable basis" standard if it acts with reasonable diligence to ascertain the borrower's hazard insurance status and does not receive evidence of hazard insurance. A servicer that complies with the initial and reminder notice requirements (below) has acted with reasonable diligence (12 CFR part 1024, supp. I, comment 1024.37(b)-1).

Initial Notice

68. Determine whether the institution provided the initial written notice to the borrower at least 45 days before assessing a fee or charge (12 CFR 1024.37(c)).
69. Determine whether the initial notice included the following information (12 CFR 1024.37 (c)). Sample language for the initial notice is contained in appendix MS-3(A) to 12 CFR part 1024.
- the date of the notice;
 - the institution's name and mailing address;

- the borrower's name and mailing address;
- a statement that requests the borrower provide hazard insurance information for the borrower's property and that identifies the property by its physical address;
- a statement that the borrower's hazard insurance has expired or is expiring (as applicable), that the institution lacks evidence that the borrower has hazard insurance coverage past the expiration date, and (if applicable) that identifies the type of hazard insurance lacking;
- a statement that hazard insurance is required on the borrower's property and that the institution has purchased or will purchase insurance at the borrower's expense;
- a request that the borrower promptly provide the institution with insurance information;
- a description of the requested insurance information, how the borrower may provide such information, and (if applicable) that the requested information must be in writing;
- a statement that the insurance coverage the institution has purchased or will purchase may cost significantly more than, and provide less coverage than, hazard insurance purchased by the borrower;
- the institution's phone number for borrower inquiries; and
- a statement advising that the borrower review additional information provided in the same transmittal (if applicable).

70. Determine whether the initial notice was in the correct form. The notice must provide certain information in bold text and, other than the specific statements listed above, the institution cannot provide any information on the initial notice (though the institution can provide additional information on separate pages of paper contained in the same transmittal) (12 CFR 1024.37(c)(3)-(4)). A sample notice is contained in appendix MS-3(A) to 12 CFR part 1024.

Reminder Notice

71. If the institution received no hazard insurance information or did not receive evidence of continuous coverage, determine whether the institution provided a reminder notice (i) at least 30 days after mailing or delivering the initial notice and (ii) at least 15 days before assessing any charges or fees for force-placed insurance (12 CFR 1024.37(d)(1)).

72. For borrowers who *did not provide* hazard insurance information, determine whether the reminder notice (i) contains the date of the reminder notice and all of the other information provided in the initial notice; (ii) advises that it is a second and final notice; and (iii) identifies the annual cost of force-placed insurance or, if unknown, a reasonable estimate (12 CFR 1024.37(d)(2)(i)). Sample language for the reminder notice is contained in appendix MS-3(B) to 12 CFR part 1024.
73. When the institution receives hazard insurance information but does *not receive* evidence of *continuous coverage*, determine whether the reminder notice includes the following information (12 CFR 1024.37(d)(2)(ii)). Sample language for the reminder notice is contained in appendix MS-3(C) to 12 CFR part 1024.
- the date of the reminder notice;
 - the institution's name and mailing address;
 - the borrower's name and mailing address;
 - a statement requesting that the borrower provide hazard insurance information for the borrower's property and that identifies the property by its physical address;
 - the institution's phone number for borrower inquiries;
 - a statement advising that the borrower review additional information provided in the same transmittal (if applicable);
 - a statement that it is the second and final notice;
 - the annual cost of force-placed insurance, or if unknown, a reasonable estimate;
 - a statement that the institution has received the hazard insurance information that the borrower provided;
 - a request that the borrower provide the missing information; and
 - a statement that the borrower will be charged for insurance the institution purchases for the time period in which the institution cannot verify coverage.
74. Determine whether the reminder notice was in the correct form. The notice must provide certain information in bold text and, other than the specific statements listed above, the institution cannot provide any information on the reminder notice (though the institution can provide additional information on separate pages of paper contained in the same transmittal) (12 CFR 1024.37(d)(3)-(4)).
- Sample notices are contained in appendix MS-3(B) and (C) to 12 CFR part 1024.
75. Determine whether, by the end of the 15-day period after the institution sent the reminder notice, the borrower provided evidence that it has had hazard insurance that complies with the loan contract continuously in place. As evidence, the institution may require a copy of the borrower's hazard insurance policy declaration page, the borrower's insurance certificate, the borrower's insurance policy, or other similar forms of written confirmation (12 CFR 1024.37(c)(1)(iii) and 12 CFR part 1024, supp. I, comment 1024.37(c)(1)(iii)-2).

Assessing Charges or Fees for Renewing or Replacing Force-Placed Insurance

If the institution assessed a charge or fee on a borrower for renewing or replacing force-placed insurance, complete the following.

76. Determine whether the institution provided a written renewal notice to the borrower at least 45 days before assessing any fee or charge (12 CFR 1024.37(e)(1)(i)).
77. Determine whether the renewal notice includes the following information (12 CFR 1024.37(e)(2)). Sample language for the renewal of force-placed insurance notice is contained in appendix MS-3(D) to 12 CFR part 1024.
- the date of the renewal notice;
 - the institution's name and mailing address;
 - the borrower's name and mailing address;
 - a statement that requests the borrower to update the hazard insurance information for the borrower's property and that identifies the property by its physical address;
 - a statement that the institution previously purchased force-placed insurance at the borrower's expense because the institution did not have evidence that the borrower had hazard insurance coverage;
 - a statement that the force-placed insurance has expired or is expiring, as applicable, and that the institution intends to renew or replace it because hazard insurance is required on the property;
 - a statement that the insurance coverage the institution has purchased or will purchase may cost significantly more than, and provide less coverage than, insurance purchased by the borrower, and identify-

- ing the annual premium cost of force-placed insurance or a reasonable estimate;
- a statement that if the borrower purchases hazard insurance, the borrower should promptly provide the institution with insurance information;
 - a description of the requested insurance information and how the borrower may provide such information, and if applicable, that the requested information must be in writing;
 - the institution's telephone number for borrower inquiries; and
 - a statement advising the borrower to review additional information provided in the same mailing (if applicable).
78. Determine whether the renewal notice was in the correct form. The notice must provide certain information in bold text and, other than the specific statements listed above, the institution cannot provide any information on the renewal notice (though the institution can provide additional information on separate pages of paper contained in the same transmittal) (12 CFR 1024.37(e)(3)-(4)). A sample notice is contained in appendix MS-3(D) to 12 CFR part 1024.
79. Determine whether in the 45 days after sending the renewal notice the institution received evidence demonstrating that the borrower had purchased hazard insurance coverage (12 CFR 1024.37(e)(1)(ii)). As evidence, the institution may require a copy of the borrower's hazard insurance policy declaration page, the borrower's insurance certificate, the borrower's insurance policy, or other similar forms of written confirmation.

General Mailing Requirements, Canceling Force-Placed Insurance, and Bona Fide and Reasonable Fee Requirements

80. If the institution mailed any of the written initial, reminder, or renewal notices (12 CFR 1024.37(c)(1)(i), (c)(1)(ii), or (e)(1)), determine whether the servicer used a class of mail not less than first-class mail (12 CFR 1024.27(f)).
81. If the institution received evidence that the borrower had required hazard insurance coverage in place, determine whether the institution did the following within 15 days:
- canceled the force-placed insurance;
 - refunded force-placed insurance premi-

ums charges and fees for the period of overlapping coverage; and

- removed all force-placed charges and fees from the borrower's account for the period of overlapping coverage (12 CFR 1024.37(g)).

82. Determine whether all fees or charges assessed on the borrower related to force-placed insurance are bona fide and reasonable (except for charges subject to state regulation and charges authorized by the Flood Disaster Protection Act of 1973). A "bona fide and reasonable charge" is one that is reasonably related to the institution's cost of providing the service and is not otherwise prohibited by law (12 CFR 1024.37(h)).

General Servicing Policies, Procedures, and Requirements—12 CFR 1024.38

Applicability: The general servicing policies, procedures, and requirements apply to all mortgage loans, as that term is defined in 12 CFR 1024.31, except that the requirements do not apply to (i) small servicers, as that term is defined in 12 CFR 1026.41(e);²⁷ (ii) reverse mortgage transactions, as that term is defined in 12 CFR 1026.33(a); and (iii) qualified lenders, as defined under the Farm Credit Act of 1971 and accompanying regulations.

Policies and Procedures—Accessing and Providing Timely and Accurate Information

83. Determine whether the institution has policies and procedures that are reasonably designed to ensure that it has access to and provides timely and accurate information (12 CFR 1024.38(a) and (b)(1)). This includes policies and procedures that are reasonably designed to ensure the following:

- providing accurate and timely disclosures to the borrower;
- investigating, responding to, and making

27. An institution qualifies as a small servicer if it either (a) services, together with any affiliates, 5,000 or fewer mortgage loans, as that term is used in 12 CFR 1026.41(a)(1), for all of which the institution (or an affiliate) is the creditor or assignee; (b) is a Housing Finance Agency, as defined in 24 CFR 266.5 (12 CFR 1026.41(e)(4)(ii)); or (c) is a nonprofit entity (defined in 12 CFR 1026.41(e)(4)(ii)(C)(1)) that services 5,000 or fewer mortgage loans, including any mortgage loans serviced on behalf of associated nonprofit entities (defined in 12 CFR 1026.41(e)(4)(ii)(C)(2)), for all of which the servicer or an associated nonprofit entity is the creditor. The following mortgage loans are not considered in determining whether a servicer qualifies as a small servicer: (a) mortgage loans voluntarily serviced by the servicer for a creditor or assignee that is not an affiliate of the servicer and for which the servicer does not receive any compensation or fees, (b) reverse mortgage transactions, and (c) mortgage loans secured by consumers' interests in timeshare plans (12 CFR 1026.41(e)(4)(iii)).

- corrections in response to borrowers' complaints, including promptly obtaining information from service providers to investigate and if applicable correct errors resulting from actions of service providers;
- providing borrowers with accurate and timely information and documents in response to borrower requests for information with respect to the borrower's mortgage loan;
 - providing owners and assignees of mortgage loans with accurate and current information and documents about all the mortgage loans they own, including information about the institution's evaluations of borrowers for loss mitigation options and loss mitigation agreements with borrowers;
 - submitting accurate and current information and documents that comply with applicable law during the foreclosure process; and
 - upon learning of a borrower's death, promptly communicating with the borrower's successor in interest concerning the secured property.

Policies and Procedures—Proper Evaluation of Loss Mitigation Applications

84. Determine whether the institution has policies and procedures that are reasonably designed to ensure that its personnel properly evaluate loss mitigation applications (12 CFR 1024.38(a) and (b)(2)). This includes policies and procedures that are reasonably designed to ensure the following:
- providing accurate information regarding available loss mitigation options from the owner or assignee of the borrower's loan;
 - identifying with specificity all loss mitigation options for which a borrower may be eligible, including identifying, with respect to each owner or assignee, all of the loss mitigation options the institution may consider when evaluating a borrower, as well as the criteria the institution should apply for each option;
 - providing the loss mitigation personnel assigned to the borrower's mortgage loan pursuant to 12 CFR 1026.40 with prompt access to all of the documents and information that the borrower submitted in connection with a loss mitigation option;
 - identifying the documents and information a borrower must submit to complete a loss mitigation application; and

- in response to a complete loss mitigation application, properly evaluating the borrower for all eligible loss mitigation options pursuant to any requirements established by the owner or assignee of the mortgage loan, even if those requirements are otherwise beyond the requirements of 12 CFR 1024.41.

Policies and Procedures—Oversight of Servicer Providers

85. Determine whether the institution has policies and procedures that are reasonably designed to facilitate oversight of, and compliance by, service providers (12 CFR 1024.38(a) and (b)(3)). This includes policies and procedures that are reasonably designed to ensure the following:
- providing appropriate personnel with access to accurate and current documents and information concerning the service providers' actions;
 - facilitating periodic reviews of service providers; and
 - facilitating the sharing of accurate and current information regarding the status of a borrower's loss mitigation application and any foreclosure proceeding among appropriate institution personnel, including the loss mitigation personnel assigned to the borrower's mortgage loan, and appropriate service provider personnel, including service provider personnel responsible for handling foreclosure proceedings.

Policies and Procedures—Transfer of Information

86. Determine whether the institution has policies and procedures that are reasonably designed to facilitate the transfer of information during servicing transfers (12 CFR 1024.38(a) and (b)(4)). This includes policies and procedures that are reasonably designed to ensure the following:
- for a transferor servicer, the timely and accurate transfer of all information and documents in its possession and control related to a transferred mortgage loan to the transferee servicer in a manner that ensures its accuracy and that allows the transferee to comply with the terms of the mortgage loan and applicable law, including any information about the status of any loss mitigation agreements or discussions with the borrower and any analysis per-

- formed with respect to potential recovery from non-performing mortgage loans; and
- for a transferee servicer, identifying necessary documents or information that may not have been transferred, obtaining such missing documentation or information from the transferor servicer (for documents and information related to loss mitigation, the transferee's policies and procedures must address obtaining missing documents from the transferor servicer before attempting to obtain such documents from the borrower).

Policies and Procedures—Notifying Borrowers of Error Notice and Information Request Procedures

87. Determine whether the institution has policies and procedures that are reasonably designed to inform borrowers of procedures for submitting written error notices and written information requests (12 CFR 1024.38(a) and (b)(5)). This includes policies and procedures reasonably designed to ensure that the institution informs borrowers who are dissatisfied with the institution's response to oral complaints or information requests of the procedures for submitting written error notices under 12 CFR 1024.35 and written information requests under 12 CFR 1024.36.

Records Maintenance—Accurate Records

88. For any mortgage loan, determine if the institution is retaining accurate records that document actions with respect to the mortgage loan account (which includes any mortgage loan that has been transferred or paid in full). The institution must retain these records until one year after the loan is discharged or the institution transfers servicing for the mortgage loan to a transferee servicer. (12 CFR 1024.38(c)(1)).

Records Maintenance—Facilitating Aggregation of Information

89. For documents or information created on or after January 10, 2014, determine whether the institution maintains the following five items for each mortgage loan file in a manner that allows the institution to aggregate these items into a servicing file within five days:
- a schedule of all credits and debits to the account (including escrow accounts and suspense accounts);

- a copy of the security instrument that establishes the lien securing the mortgage loan;
- any notes created by institution personnel reflecting communications with the borrower concerning the account;
- a report of the data fields relating to the borrower's account created by the institution's electronic systems (if applicable); and
- copies of any information or documents provided by the borrower to the institution in connection with written error notices or loss mitigation (12 CFR 1024.38(c)(2)).

Early Intervention Requirements for Certain Borrowers—12 CFR 1024.39

Applicability: The early intervention requirements apply to only those mortgage loans, as that term is defined in 12 CFR 1024.31, that are secured by the borrower's principal residence (12 CFR 1024.30(c)(2)). The requirements do not apply to (i) small servicers, as that term is defined in 12 CFR 1026.41(e);²⁸ (ii) reverse mortgage transactions, as that term is defined in 12 CFR 1026.33(a); and (iii) qualified lenders, as defined under the Farm Credit Act of 1971 and accompanying regulations (12 CFR 1024.30(b)). Additionally, institutions are not required to comply with the live contact and written notice requirements if doing so would violate applicable law (12 CFR 1024.39(c)). Finally, institutions are exempted from the early intervention requirements (i) as to borrowers who are in bankruptcy,²⁹ and (ii) if the institution is subject to

²⁸ An institution qualifies as a small servicer if it either (a) services, together with any affiliates, 5,000 or fewer mortgage loans, as that term is used in 12 CFR 1026.41(a)(1), for all of which the institution (or an affiliate) is the creditor or assignee, (b) is a Housing Finance Agency, as defined in 24 CFR 266.5 (12 CFR 1026.41(e)(4)(ii)); or (c) is a nonprofit entity (defined in 12 CFR 1026.41(e)(4)(ii)(C)(1)) that services 5,000 or fewer mortgage loans, including any mortgage loans serviced on behalf of associated nonprofit entities (defined in 12 CFR 1026.41(e)(4)(ii)(C)(2)), for all of which the servicer or an associated nonprofit entity is the creditor. The following mortgage loans are not considered in determining whether a servicer qualifies as a small servicer: (a) mortgage loans voluntarily serviced by the servicer for a creditor or assignee that is not an affiliate of the servicer and for which the servicer does not receive any compensation or fees, (b) reverse mortgage transactions, and (c) mortgage loans secured by consumers' interests in timeshare plans (12 CFR 1026.41(e)(4)(iii)).

²⁹ With respect to any portion of the mortgage debt that is not discharged through bankruptcy, a servicer must resume compliance with the early intervention requirement after the first delinquency that follows the earliest of the following: (i) the borrower's bankruptcy case is dismissed, (ii) the borrower's bankruptcy case is closed, or (iii) the borrower receives a general discharge of debts under the Bankruptcy Code (11 U.S.C. 101 *et seq.*). However, a servicer is not required to communicate with a borrower in any way that would violate applicable bankruptcy law or a court order in a bankruptcy case, and a servicer may adapt the early intervention requirement in any manner believed necessary. A servicer also is not required to comply with the early

the Fair Debt Collection Practices Act (FDCPA) and the borrower has sent an FDCPA “cease communication” notification with respect to the mortgage loan (12 CFR 1024.39(d)).

Complete the following for any delinquent borrowers (which, for purposes of 12 CFR 1024.39, do not include borrowers performing as agreed under a loss mitigation agreement).

Live Contact

90. Determine whether the institution made good faith efforts to establish live contact with the borrower within 36 days after each time the borrower became delinquent (12 CFR 1024.39(a)). A delinquency begins each time a borrower fails to make a payment sufficient to cover principal, interest, and (if applicable) escrow for a given billing cycle.
91. After the institution established live contact, determine whether the institution promptly informed the borrower of loss mitigation options, if appropriate (as determined based on the institution’s reasonable discretion) (12 CFR 1024.39(a)).

Written Notice

92. Determine whether the institution sent a written notice to the borrower within 45 days after the borrower became delinquent (12 CFR 1024.39(b)(1)). The institution does not need to send the notice to a borrower more than once in a 180-day period.
93. Determine whether the notice included the following items (12 CFR 1024.39(b)(2)). Sample language for the notice is contained in appendix MS-4(A), MS-4(B), and MS-4(C) to 12 CFR part 1024.
 - a statement encouraging the borrower to contact the institution;
 - the telephone number to access assigned loss mitigation personnel;
 - a brief description of examples of loss mitigation options that may be available to the borrower (if applicable);
 - loss mitigation application instructions or instructions as to how to obtain more information about loss mitigation options

intervention requirement for any portion of the mortgage debt that was discharged under the Bankruptcy Code or if a bankruptcy case is revived (12 CFR 1024.39(d)).

The bankruptcy exception applies if two or more borrowers are joint obligors with primary liability on a mortgage loan and any one of the borrowers is in bankruptcy. For example, if a husband and wife jointly own a home and the husband files for bankruptcy, the servicer is exempt from the early intervention requirements as to both the husband and wife (12 CFR part 1024, supp. I., comment 1024.39(d)(1-3)).

(such as by contacting the institution), if applicable; and

- either the CFPB’s or HUD’s website to access homeownership counselors or counseling organizations list and HUD’s toll-free number to access homeownership counselors or counseling organizations.

Continuity of Contact—12 CFR 1024.40

Applicability: The continuity of contact requirements apply to only those mortgage loans, as that term is defined in 12 CFR 1024.31, that are secured by the borrower’s principal residence (12 CFR 1024.30(c)(2)). The requirements do not apply to (i) small servicers, as that term is defined in 12 CFR 1026.41(e);³⁰ (ii) reverse mortgage transactions, as that term is defined in 12 CFR 1026.33(a); and (iii) qualified lenders, as defined under the Farm Credit Act of 1971 and accompanying regulations (12 CFR 1024.30(b)).

94. Determine whether the institution had policies and procedures reasonably designed to assign personnel to a delinquent borrower by the time the written early intervention notice was provided, and in any event, within 45 days after the borrower became delinquent (12 CFR 1024.40(a)).
95. Determine whether the institution had policies and procedures reasonably designed to ensure that the assigned personnel were available, via telephone, to answer the borrower’s questions and (as applicable) assist the borrower with available loss mitigation options until the borrower has made, without incurring a late charge, two consecutive mortgage payments in accordance with the terms of a permanent loss mitigation agreement (12 CFR 1024.40(a)(2)).
96. Determine whether the institution had policies and procedures reasonably designed to ensure that, if a borrower contacts the assigned personnel and does not immediately receive a live response, the institution

30. An institution qualifies as a small servicer if it either (a) services, together with any affiliates, 5,000 or fewer mortgage loans, as that term is used in 12 CFR 1026.41(a)(1), for all of which the institution (or an affiliate) is the creditor or assignee, (b) is a Housing Finance Agency, as defined in 24 CFR 266.5 (12 CFR 1026.41(e)(4)(ii)); or (c) is a nonprofit entity (defined in 12 CFR 1026.41(e)(4)(ii)(C)(1)) that services 5,000 or fewer mortgage loans, including any mortgage loans serviced on behalf of associated nonprofit entities (defined in 12 CFR 1026.41(e)(4)(ii)(C)(2)), for all of which the servicer or an associated nonprofit entity is the creditor. The following mortgage loans are not considered in determining whether a servicer qualifies as a small servicer: (a) mortgage loans voluntarily serviced by the servicer for a creditor or assignee that is not an affiliate of the servicer and for which the servicer does not receive any compensation or fees, (b) reverse mortgage transactions, and (c) mortgage loans secured by consumers’ interests in timeshare plans (12 CFR 1026.41(e)(4)(iii)).

can provide a live response in a timely manner (12 CFR 1024.40(a)(3)).

97. Determine whether the institution maintains policies and procedures reasonably designed to ensure that the assigned personnel can perform, among others, the following tasks:

- provide the borrower with accurate information about available loss mitigation options, including the steps the borrower must take to be evaluated for such options, including how to complete a loss mitigation application or appeal a denial of a loan modification option (if applicable);
- provide the borrower with accurate information about the status of any loss mitigation application submitted;
- provide the borrower with accurate information about the circumstances under which the institution may refer the account to foreclosure;
- provide the borrower with accurate information about applicable loss mitigation deadlines;
- timely retrieve a complete record of the borrower's payment history and all written information the borrower has provided to the institution (or the institution's predecessors) in connection with a loss mitigation application, and provide these documents to other persons required to evaluate the borrower for available loss mitigation options; and
- provide the borrower with information about submitting a written error notice or written request for information (12 CFR 1024.40 (b)).

Loss Mitigation Procedures—12 CFR 1024.41

Applicability: The loss mitigation procedure requirements apply to only those mortgage loans, as that term is defined in 12 CFR 1024.31, that are secured by the borrower's principal residence (12 CFR 1024.30(c)(2)). Except for the requirements of 1024.41(j), the loss mitigation procedure requirements do not apply to (i) small servicers, as that term is defined in 12 CFR 1026.41(e);³¹ (ii) reverse

31. An institution qualifies as a small servicer if it either (a) services, together with any affiliates, 5,000 or fewer mortgage loans, as that term is used in 12 CFR 1026.41(a)(1), for all of which the institution (or an affiliate) is the creditor or assignee, (b) is a Housing Finance Agency, as defined in 24 CFR 266.5 (12 CFR 1026.41(e)(4)(ii)); or (c) is a nonprofit entity (defined in 12 CFR 1026.41(e)(4)(ii)(C)(1)) that services 5,000 or fewer mortgage loans, including any mortgage loans serviced on behalf of associated nonprofit entities (defined in 12 CFR 1026.41(e)(4)(ii)

mortgage transactions, as that term is defined in 12 CFR 1026.33(a); and (iii) qualified lenders, as defined under the Farm Credit Act of 1971 and accompanying regulations (12 CFR 1024.30(b)).

Calculating time periods: 12 CFR 1024.41 provides borrowers certain protections depending on whether the institution receives a complete loss mitigation application at least a specified number of days before a foreclosure sale. See, e.g., 12 CFR 1024.41(c)(1) (37 days), and 12 CFR 1024.41(e) and (h) (90 days). These time periods are calculated as of the date the servicer receives a complete loss mitigation application. Thus, scheduling or rescheduling a foreclosure sale after the servicer receives the complete loss mitigation application will not affect the borrower's protections (12 CFR part 1024, supp. I., comment 1024.41(b)(3)-2). If no foreclosure sale is scheduled as of the date the servicer receives a complete loss mitigation application, the application is considered received more than 90 days before a foreclosure sale (12 CFR part 1024, supp. I., comment 1024.41(b)(3)-1).

Definition of first notice or filing: 12 CFR 1024.41 includes certain prohibitions on making the first notice or filing for a judicial or non-judicial foreclosure, and provides borrowers certain protections depending on whether such a notice or filing has been made. Whether a particular document qualifies as the first notice or filing depends on the foreclosure process under the applicable state law at issue:

- **Judicial foreclosure.** Where foreclosure procedure requires a court action or proceeding, the first notice or filing is the earliest document required to be filed with a court or other judicial body to commence the action or proceeding. Depending on the particular foreclosure process, examples of these documents could be a complaint, petition, order to docket, or notice of hearing;
- **Non-judicial foreclosure—recording or publication requirement.** Where foreclosure procedure does not require an action or court proceeding (such as under a power of sale), the first notice or filing is the earliest document required to be recorded or published to initiate the foreclosure process; or

(C)(2)), for all of which the servicer or an associated nonprofit entity is the creditor. The following mortgage loans are not considered in determining whether a servicer qualifies as a small servicer: (a) mortgage loans voluntarily serviced by the servicer for a creditor or assignee that is not an affiliate of the servicer and for which the servicer does not receive any compensation or fees, (b) reverse mortgage transactions, and (c) mortgage loans secured by consumers' interests in timeshare plans (12 CFR 1026.41(e)(4)(iii)).

- *Non-judicial foreclosure—no recording or publication requirement.* Where foreclosure procedure does not require an action or court proceeding, and also does not require any document to be recorded or published, the first notice or filing is the earliest document that establishes, sets, or schedules a date for the foreclosure sale.

Note that a document provided to the borrower but not initially required to be filed, recorded, or published is not considered the first notice or filing on the sole basis that the documents must later be included as an attachment accompanying another document that is required to be filed, recorded, or published to carry out a foreclosure (12 CFR part 1024, supp. I., comment 1024.41(f)-1).

Applications Received at Least 45 Days before a Foreclosure Sale (Review for Completeness)

Complete the following for any loss mitigation application that the institution received at least 45 days before a foreclosure sale.

98. Determine whether the institution promptly determined whether the application was complete (12 CFR 1024.41(b)(1)). A loss mitigation application is viewed expansively and includes oral inquiries by the borrower where the borrower also provides information the institution would use to evaluate loss mitigation applications, or where a borrower requests that the institution determines whether the borrower is “prequalified” for a loss mitigation application by evaluating the borrower against preliminary criteria (12 CFR part 1024, supp. I., comment 1024.41(b)(1)-2). An institution is required to comply with the loss mitigation procedures for only a single complete loss mitigation application for a borrower’s mortgage loan account (12 CFR 1024.41(i)).

Complete Applications—Written Acknowledgement

Complete the following if the application was complete.

99. Determine whether the institution provided written acknowledgement to the borrower within five days (excluding legal public holidays, Saturdays, and Sundays) after receiving the loss mitigation application. The acknowledgement must state that the application was complete and include a statement that the borrower should consider contacting servicers of any other mortgage loans secured by the same property to discuss available loss mitigation options (12 CFR 1024.41(b)(2)(1)(B)).

Facially Complete Applications—Additional Information or Corrected Documents Required

Complete the following if the application was facially complete and the institution later discovered that additional information or corrections to a previously submitted document were required to complete the application. A loss mitigation application is facially complete if either (i) the institution’s initial notice under 12 CFR 1024.41(b) advised the borrower that the application was complete or (ii) the institution’s initial notice under 12 CFR 1024.41(b) requested additional information from the borrower to complete the application and the borrower submitted such additional information.

100. Determine whether, upon discovering that additional information or corrected documents were required to complete the application, the institution (i) promptly requested the missing information or corrected documents and (ii) gave the borrower a reasonable opportunity to complete the application (12 CFR 1024.41(c)(2)(iv)). A reasonable opportunity depends on the particular facts and circumstances, but must provide the borrower sufficient time to gather the necessary information and documents (12 CFR part 1024, supp. I., comment 1024.41(c)(2)(iv)-1).
101. Determine whether the institution treated the borrower’s application as complete for purposes of 12 CFR 1024.41(f)(2) (“Application received before foreclosure referral”) and 12 CFR 1024(g) (“Prohibition on foreclosure sale”) until the borrower is given a reasonable opportunity to submit additional information or corrected documents (12 CFR 1024.41(c)(2)(iv)).

Incomplete Applications—Written Acknowledgment, Reasonable Diligence, and Short-Term Forbearance

Complete the following if the application was incomplete.

102. Determine whether the institution provided written acknowledgement to the borrower within five days (excluding legal public holidays, Saturdays, and Sundays) after receiving the loss mitigation application. The acknowledgement must (1) state that the application was incomplete, (2) identify the additional information needed to complete the application, (3) identify a reasonable date by which the borrower must submit the additional information, and (4) include a statement that the borrower should consider contacting servicers of any other mortgage loans secured by the same property to

discuss available loss mitigation options (12 CFR 1024.41(b)(2)). Except when doing so would be impracticable (such as requesting a borrower to submit documentation in less than seven days), a reasonable deadline is generally one of the following that maximizes the borrower's loss mitigation protections: (a) the date by which any document or information submitted by the borrower will be stale or invalid, (b) the 120th day of the borrower's delinquency, (c) 90 days before a foreclosure sale, or (d) 38 days before a foreclosure sale (12 CFR part 1024, supp. I., comment 1024.41(b)(2)(ii)-1).

103. Determine whether the institution exercised reasonable diligence in obtaining documents and information to complete the application (12 CFR 1024.41(b)(1)). Examples of reasonable diligence include: (a) where the institution requires additional information from the borrower (such as an address or telephone number to verify employment), promptly contacting the borrower to obtain the information; and (b) where the borrower's loan is transferred to the institution from another servicer, reviewing documents the institution received from the prior servicer to determine if the required information is contained in those documents. Additionally, if the institution offered the borrower a short-term forbearance plan based upon information contained in an incomplete loss mitigation application, reasonable diligence would involve notifying the borrower that they are being offered a payment forbearance program based on an evaluation of an incomplete loss mitigation application, and that the borrower has the option of completing the application to receive a full evaluation for all loss mitigation options available to the borrower (12 CFR part 1024, supp. I., comment 1024.41(b)(1)-4.iii).
104. If the institution offered the borrower a short-term forbearance plan based upon information contained in an incomplete loss mitigation application, determine whether the institution either (a) made the first notice or filing for any judicial or non-judicial foreclosure process, (b) moved for foreclosure judgment or an order of sale, or (c) conducted a foreclosure sale while the borrower was performing under such plan (12 CFR 1024.41(c)(2)(iii)). A short-term forbearance program allows a borrower to forgo making certain payments or portions of payments due over a period of no more than six months (12 CFR part 1024, supp. I., comment 41(c)(2)(iii)-1).

Complete Applications Received More than 37 Days before a Foreclosure Sale (Evaluation of Application)

Complete the following for any complete loss mitigation application that the institution received more than 37 days before a foreclosure sale.

105. Determine whether, within 30 days, the institution (i) evaluated the borrower for all available loss mitigation options and (ii) provided the borrower with a notice stating (a) which loss mitigation options (if any) the institution would offer the borrower; (b) the amount of time the borrower has to accept or reject an offered loss mitigation option pursuant to 12 CFR 1024.41(e); and (c) if applicable, that the borrower has the right to appeal a denial of a loan modification option and the time period for making any appeal pursuant to 12 CFR 1024.41(h) (12 CFR 1024.41(c)).
106. If the institution denied the application, determine whether the notice also stated the specific reason or reasons for denying each such option, and, if applicable, that the borrower was not evaluated on other criteria (12 CFR 1024.41(d)).

Denial of Loan Modification Option Based upon Investor Criteria; Use of a Waterfall

Complete the following if the institution denied an application for a loan modification option due to a failure to meet investor guidelines.

107. Determine whether the institution identified in its notice to the borrower (i) the owner or assignee of the mortgage loan and (ii) the specific criteria the borrower failed to meet (12 CFR 1024.41(d), 12 CFR Part 1024, supp. I., comment 41(d)-1). (NOTE: if the borrower's application was evaluated under an investor's waterfall and the borrower qualified for a particular option, it is sufficient for the institution to inform the borrower that the investor's requirements include a ranking of options and that an offer of a loan modification option necessarily results in a denial of any other options ranked below the option for which the borrower is eligible (12 CFR part 1024, supp. I., comment 41(d)-1).

Denial Based upon Net Present Value Calculation

Complete the following if the institution denied the application due to a net present value calculation.

108. Determine whether the institution disclosed the inputs used in that calculation (12 CFR part 1024, supp. I., comment 41(d)-2).

Denial Using Hierarchy of Eligibility Criteria

Complete the following if the institution established a hierarchy of eligibility criteria and, after reaching the first criterion that causes a denial, did not evaluate whether the borrower would have satisfied the remaining criteria.

109. Determine whether the institution identified in the notice: (i) the specific reason or reasons why the borrower was actually rejected and (ii) that the borrower was not evaluated on other criteria. An institution is not required to determine or disclose whether a borrower would have been denied based on other criteria if the servicer did not actually evaluate these additional criteria (12 CFR part 1024, supp. I., comment 41(d)-4).

Time for Acceptance of an Offered Loss Mitigation Option

Complete the following if the institution offered the borrower a loss mitigation option.

Complete Applications Received at Least 90 Days before a Foreclosure Sale

Complete the following if institution offered a loss mitigation option and had received the complete application at least 90 days before a foreclosure sale.

110. Determine whether the institution provided the borrower with at least 14 days to accept or reject any offered loan modification option after the servicer provided notice of the offer to the borrower (12 CFR 1024.41(e)). This acceptance period can be extended if, within 14 days, the borrower makes an appeal of a denial of any loan modification option (12 CFR 1024.41(e)(2)(iii)). In the event of an appeal, the borrower's time for acceptance is extended to 14 days after the institution provides a notice of its determination of the appeal under 12 CFR 1024.41(e)(iii).

Complete Applications Received Between 37 and 90 days before a Foreclosure Sale

Complete the following if institution offered a loss mitigation option and had received the complete application fewer than 90 days before a foreclosure sale but more than 37 days before the sale.

111. Determine whether the institution provided the borrower with at least seven days to accept or reject any offered loss mitigation options after the servicer provided notice of the offer to the borrower (12 CFR 1024.41(e)(1)).

No Borrower Response to Offered Trial Loan Modification Plan

Complete the following if the institution offered a borrower a trial loan modification plan and the borrower did not respond within seven or 14 days (as applicable under 12 CFR 1024.41(e)(1)).

112. Determine (i) whether the borrower submitted payments in accordance with the offered plan and (ii) if so, whether the institution gave the borrower a reasonable period of time to fulfill any remaining requirements to accept the plan (12 CFR 1024.41(e)(2)(ii)).

Prohibitions on Commencing Foreclosure Proceedings and Dual Tracking

Complete the following for any borrower.

113. Determine whether the institution made any first judicial or non-judicial foreclosure notices or filings without meeting one of the following conditions: (i) the borrower was more than 120 days delinquent, (ii) the foreclosure is based on a borrower's violation of a due-on-sale clause, or (iii) the institution is joining the foreclosure action of a subordinate lienholder (12 CFR 1024.41(f)(1)). (Note that this requirement as applicable to small servicers is addressed below.)

Complete Applications Received during the Pre-foreclosure Period

Complete the following if the institution received a complete loss mitigation application either within the first 120 days of delinquency or before the institution made the first judicial or non-judicial foreclosure notice or filing. Note that the following does not apply if the foreclosure is based on a borrower's violation of a due-on-sale clause, or if the institution is joining the foreclosure action of a subordinate lienholder.

114. Determine whether the institution made the first foreclosure notice or filing only after one of the following occurred: (i) the institution notified the borrower that the borrower is ineligible for any loss mitigation option and if an appeal is available, either the appeal period expired or the appeal had been denied; (ii) the borrower rejected all the offered loss mitigation options; or (iii) the borrower failed to perform under a loss mitigation agreement (12 CFR 1024.41(f)(2)).

Complete Applications Received More than 37 Days before a Foreclosure Sale

Complete the following if the institution received a complete loss mitigation application after the institution initiated foreclosure but more than 37 days before a foreclosure sale.

115. Determine whether the institution improperly conducted a foreclosure sale or moved for foreclosure judgment or sale before one of the following occurred: (i) the institution notified the borrower that it had denied the loss mitigation application for any loss mitigation option and if an appeal is available, either the appeal period had expired or the appeal had been denied; (ii) the borrower rejected all the offered loss mitigation options; or (iii) the borrower fails to perform under a loss mitigation agreement (12 CFR 1024.41(g)).
117. For any appeal that the institution granted, determine whether the institution afforded the borrower 14 days to accept or reject any offered loan modification option (12 CFR 1024.41(h)(4)).
118. Determine whether the institution used different personnel to evaluate the appeal than the personnel who had evaluated the borrower's loss mitigation application (12 CFR 1024.41(h)(3)).

Small Servicers

Complete the following if the institution is a small servicer as that term is defined in 12 CFR 1026.41(e).

116. For any borrower who timely appealed a denial of an available loan modification option, determine whether the institution provided a notice to the borrower within 30 days stating (i) whether it will offer the borrower a loss mitigation option based on the appeal and (ii) if applicable, how long the borrower has to accept or reject this loss mitigation option or a previously offered loss mitigation option. (12 CFR 1024.41(h)(4)).
119. If the institution is a small servicer, determine whether the institution made the first foreclosure notice or filing before (i) the borrower was more than 120 days delinquent, (ii) the foreclosure is based on a borrower's violation of a due-on-sale clause, or (iii) the institution is joining a subordinate lienholder's foreclosure action (12 CFR 1024.41(j)).
120. If the institution is a small servicer and the borrower is performing according to the terms of a loss mitigation agreement, determine whether the institution (i) made the first foreclosure notice or filing, (ii) moved for a foreclosure judgment or order of sale, or (iii) conducted a foreclosure sale (12 CFR 1024.41(j)).

Military Lending Act

Background

The Military Lending Act¹ (MLA), enacted in 2006 and implemented by the Department of Defense (DoD), protects active duty members of the military, their spouses, and their dependents from certain lending practices.

The DoD regulation² implementing the MLA contains limitations on and requirements for certain types of consumer credit extended to active duty service members and their spouses, children, and certain other dependents ("covered borrowers"). Subject to certain exceptions, the regulation generally applies to persons who meet the definition of a creditor in Regulation Z and are engaged in the business of extending such credit, as well as their assignees.³

For covered transactions, the MLA and the implementing regulation limit the amount a creditor may charge, including interest, fees, and charges imposed for credit insurance, debt cancellation and suspension, and other credit-related ancillary products sold in connection with the transaction. The total charge, as expressed through an annualized rate referred to as the Military Annual Percentage Rate (MAPR)⁴ may not exceed 36 percent.⁵ The MAPR includes charges that are not included in the finance charge or the annual percentage rate (APR) disclosed under the Truth in Lending Act (TILA).⁶

In addition, among other provisions, the MLA, as implemented by the DoD

- provides an optional safe harbor from liability for certain procedures that creditors may use in connection with identifying covered borrowers;
- requires creditors to provide written and oral disclosures in addition to those required by TILA;

1. 10 USC 987.

2. 32 CFR part 232.

3. 32 CFR 232.3(i).

4. The MAPR is calculated in accordance with 32 CFR 232.4(c).

5. 32 CFR 232.4(b).

6. The MAPR largely parallels the APR, as calculated in accordance with Regulation Z, with some exceptions to ensure that creditors do not have incentives to evade the interest rate cap by shifting fees for the cost of the credit product away from those categories that would be included in the MAPR. Generally, a charge that is excluded as a "finance charge" under Regulation Z also would be excluded from the charges that must be included when calculating the MAPR. Late payment fees and required taxes—i.e., fees that are not directly related to the cost of credit—are examples of items excluded from both the APR and the MAPR. But certain other fees more directly related to the cost of credit are typically included in the MAPR, but not the APR. The most common examples of these fees—application fees and participation fees—have been specifically noted in the regulation as charges that generally must be included in the MAPR but would not be included in the APR under Regulation Z.

- prohibits certain loan terms, such as prepayment penalties, mandatory arbitration clauses, and certain unreasonable notice requirements; and
- restricts loan rollovers, renewals, and refinancings by some types of creditors.

Statutory amendments to the MLA in 2013 granted enforcement authority for the MLA's requirements to the agencies specified in section 108 of TILA.⁷ These agencies include the Board of Governors of the Federal Reserve System, the Consumer Financial Protection Bureau (CFPB), the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Federal Trade Commission.

In July 2015, the DoD published revisions to the MLA implementing regulation⁸ that

- extend the MLA's protections to a broader range of credit products;
- modify the MAPR to include certain additional fees and charges;
- alter the provisions of the optional safe harbor available to creditors for identification of covered borrowers;
- modify the disclosures creditors are required to provide to covered borrowers;
- modify the prohibition on rolling over, renewing, or refinancing consumer credit; and
- implement statutory changes, including provisions related to administrative enforcement and civil liability for MLA violations (for knowingly violating the MLA, there is potential for criminal penalties).

Previously, the MLA regulation only applied to certain types of credit, namely: narrowly defined payday loans, motor vehicle title loans, and tax refund anticipation loans with particular terms. The current rule defines "consumer credit" subject to the MLA much more broadly, generally paralleling the definition in Regulation Z. Some examples of additional credit products now subject to MLA protections when made to covered borrowers include

- credit cards,
- deposit advance products,

7. National Defense Authorization Act for Fiscal Year 2013, Pub. L. 112-239, section 662(b), 126 Stat. 1786.

8. 80 Fed. Reg. 43560.

- overdraft lines of credit (but not traditional overdraft services),⁹ and
- certain installment loans (but not installment loans expressly intended to finance the purchase of a vehicle or personal property when the credit is secured by the vehicle or personal property being purchased).

Credit agreements that violate the MLA are void from inception. For most products, creditors are required to come into compliance with the DoD's July 2015 rule on October 3, 2016. For credit card accounts, creditors are not required to come into compliance with the rule until October 3, 2017.¹⁰

Definitions (§ 232.3)

Consumer Credit

Consumer credit is "credit offered or extended to a covered borrower primarily for personal, family, or household purposes, and that is

- subject to a finance charge or
- payable by a written agreement in more than four installments."

The MLA regulation's definition of "consumer credit" has been amended to align more closely with the definition of the same term in Regulation Z. It is the DoD's intent that the term as used in the MLA regulation should wherever possible be interpreted consistently with Regulation Z. Notably, however, the MLA and the implementing regulation do not apply to certain types of loans extended to covered borrowers that are covered by Regulation Z, including

- residential mortgages (any credit transaction secured by an interest in a dwelling), including transactions to finance the purchase or initial construction of a dwelling, any refinance transaction, a home-equity loan or line of credit, or a reverse mortgage;
- credit transactions expressly intended to finance the purchase of a motor vehicle¹¹ when the credit

9. An overdraft line of credit with a finance charge is a covered consumer credit product when: it is offered to a covered borrower; the credit extended by the creditor is primarily for personal, family, or household purposes; it is used to pay an item that overdraws an asset account and for which the covered borrower pays any fee or charge; and the extension of credit for the item and the imposition of a fee were previously agreed upon in writing.

10. For purposes of the extended compliance date, the credit card accounts must be under an open-end (not home-secured) consumer credit plan. The DoD may, by order, further extend the expiration of the limited exemption for credit card accounts to a date not later than October 3, 2018. For all other credit products, a creditor must comply with the applicable requirements of the July 2015 rule by October 3, 2016, for all consumer credit transactions or accounts for consumer credit consummated or established on or after October 3, 2016.

11. For purposes of the MLA, the term "vehicle" includes any self-propelled vehicle primarily used for personal, family, or household purposes for on-road transportation. The term does not

is secured by the motor vehicle being purchased; and

- credit transactions expressly intended to finance the purchase of personal property when the credit is secured by the property being purchased.

Note: A transaction where a creditor simultaneously extends an additional cash advance beyond the purchase price of the securing personal property does not fall under this last exception.

Covered Borrower

A *covered borrower* is a consumer who, at the time the consumer becomes obligated on a consumer credit transaction or establishes an account for consumer credit, is a covered member of the armed forces or a dependent of a covered member (as defined in 32 CFR 232.3(g)(2) and (g)(3)).

Covered members of the armed forces include members of the Army, Navy, Marine Corps, Air Force, or Coast Guard currently serving on active duty pursuant to title 10, title 14, or title 32 of the U.S. Code under a call or order that does not specify a period of 30 days or fewer, or such a member serving on Active Guard and Reserve duty as that term is defined in 10 USC 101(d)(6).

The term *dependent* refers to a covered member's

- spouse,
- children under age 21,
- children under age 23 enrolled full-time at an approved institution of higher learning and dependent on a covered member (or dependent at the time of the member's or former member's death) for over one-half of their support, or
- children of any age incapable of self-support due to mental or physical incapacity that occurred while a dependent of the covered member under the preceding two bullets and dependent on a covered member (or dependent at the time of the member's or former member's death) for over one-half of their support.

Other relationships may also qualify an individual as a dependent of a covered member. Paragraphs (E) and (I) of 10 USC 1072(2) reference other relationships that qualify individuals as dependents under the MLA.

Per 32 CFR 232.2(a)(1), the regulation does not apply to a credit transaction or account relating to a consumer who is not a covered borrower at the time that he or she becomes obligated on a credit

include motor homes, recreational vehicles (RVs), golf carts, or motor scooters.

transaction or establishes an account for credit. Additionally, the regulation does not apply to a credit transaction or account (which would otherwise be consumer credit) relating to a consumer once the consumer no longer is a covered borrower.

Creditor

Except as provided in 32 CFR 232.8(a), (f), and (g), a *creditor* under the MLA is a person who is

- engaged in the business of extending consumer credit,¹² or
- an assignee of a person engaged in the business of extending consumer credit with respect to any consumer credit extended.

With respect to 32 CFR 232.8(a) only (relating to limitations on rollovers, renewals, repayments, refinancings, and consolidations), the term *creditor* means a person engaged in the business of extending consumer credit subject to applicable law to engage in deferred presentment transactions or similar payday loan transactions. However, pursuant to 232.8(a), the term does not include a person that is chartered or licensed under federal or state law as a bank, savings association, or credit union.

With respect to 32 CFR 232.8(f) only (relating to limitations on the use of a vehicle title as security), the term *creditor* does not include a person that is chartered or licensed under federal or state law as a bank, savings association, or credit union.

With respect to 32 CFR 232.8(g) only (relating to limitations on requiring establishment of an allotment as a condition for extending credit), the term *creditor* does not include a "military welfare society," as defined in 10 USC 1033(b)(2), or a "service relief society," as defined in 37 USC 1007(h)(4).

Military Annual Percentage Rate (MAPR)

The *MAPR* is the cost of the consumer credit expressed as an annual rate, calculated in accordance with 32 CFR 232.4(c) (see "Terms of Consumer Credit Extended to Covered Borrowers (Calculation of MAPR) (§ 232.4)" for more information about calculating the MAPR). The MAPR for covered transactions must not exceed 36 percent.¹³

12. For the purposes of this definition, a creditor is engaged in the business of extending consumer credit if the creditor considered by itself and together with its affiliates meets the transaction standard for a "creditor" under Regulation Z with respect to extensions of consumer credit to covered borrowers.

13. The regulation also prohibits an institution from imposing an MAPR except as authorized by applicable federal or state law. Depending on the type of institution, different federal or state laws may govern the maximum rates and fees an institution may impose for consumer credit transactions covered by the regulation.

Short-Term, Small Amount Loan

Under certain circumstances, an application fee for a *short-term, small amount loan* may be excluded when calculating the MAPR (see "Terms of Consumer Credit Extended to Covered Borrowers (Calculation of MAPR) (§ 232.4)" for more information about calculating the MAPR). A short-term, small amount loan is a closed-end loan that is

- subject to and made in accordance with a federal law (other than the MLA) that expressly limits the rate of interest that a federal credit union or an insured depository institution may charge on an extension of credit, provided that the limitation set forth in that law is comparable to a limitation of an APR of interest of 36 percent; and
- made in accordance with the requirements, terms, and conditions of a rule, prescribed by the appropriate federal regulatory agency (or jointly by such agencies) that implements the federal law described in the paragraph above, provided further that such law or rule contains
 - a fixed numerical limit on the maximum maturity term, which term shall not exceed nine months; and
 - a fixed numerical limit on any application fee that may be charged to a consumer who applies for such closed-end loan.

Terms of Consumer Credit Extended to Covered Borrowers (Calculation of MAPR) (§ 232.4)

Types of Fees to Include in MAPR Calculation

Under the MLA, a creditor may not impose an MAPR greater than 36 percent in connection with an extension of consumer credit that is closed-end credit or in any billing cycle for open-end credit. For credit card accounts, creditors are not required to comply with the DoD's July 2015 rule until October 3, 2017.

The following charges included in the MAPR ("charges") must be included in the calculation of the MAPR for both closed- and open-end credit, as applicable:

- any credit insurance premium or fee, any charge for single premium credit insurance, any fee for a debt cancellation contract, or any fee for a debt suspension agreement;
- any fee for a credit-related ancillary product sold

tion, but in no instance may such rates and fees exceed the 36 percent MAPR cap contained in the regulation.

in connection with the credit transaction for closed-end credit or an account for open-end credit; and

- except for a bona fide fee (other than a periodic rate) charged to a credit card account, which may be excluded if the bona fide fee is reasonable:
 - finance charges associated with the consumer credit;
 - any application fee charged to a covered borrower who applies for consumer credit, other than an application fee charged by a federal credit union or an insured depository institution when making a short-term, small amount loan provided that the application fee is charged to the covered borrower not more than once in any rolling 12-month period (see note below); and
 - in general, any fee imposed for participation in any plan or arrangement for consumer credit. (See “*No Balance during a Billing Cycle*” section below for more information on the MAPR calculation rules when there is no balance during a billing cycle for open-end credit.)

These charges are to be included in the MAPR calculation even if they would be excluded from the calculation of the finance charge under Regulation Z.

Note: One application fee charged by a creditor making a short-term, small amount loan can be excluded from the computation of the MAPR under the conditions noted in the definition of a short-term, small amount loan. However, if a creditor charges a second application fee to a covered borrower who applies for a second short-term, small amount loan within a rolling 12-month period, then that second fee (and any subsequent application fees charged during that period) is not eligible for the exclusion and must be included when computing the MAPR for that loan.

Computing the MAPR for Closed-End Credit

For closed-end credit, the MAPR shall be calculated following the rules for calculating and disclosing the APR for credit transactions under Regulation Z based on the MAPR charges listed above. See Examination Checklist for the types of fees that would be included or excluded from the MAPR calculation.

Computing the MAPR for Open-End Credit

Generally, the MAPR for open-end credit should be calculated following the rules for calculating the effective APR for a billing cycle as set forth in 12 CFR 1026.14(c) and (d) of Regulation Z¹⁴ (as if a creditor must comply with that section) based on the charges listed above.

Even if a fee is otherwise eligible to be excluded under 12 CFR 1026.14(c) and (d), the amount of charges related to opening, renewing, or continuing an account must be included in the calculation of the MAPR to the extent those charges are among those in the above “Types of Fees to Include in MAPR Calculation.”

No Balance during a Billing Cycle. For open-end credit, if the MAPR cannot be calculated in a billing cycle because there is no balance in the billing cycle, a creditor may not impose any fee or charge during that billing cycle, except that the creditor may impose a fee for participation in any plan or arrangement for that open-end credit so long as the participation fee does not exceed \$100.00 annually, regardless of the billing cycle in which the participation fee is imposed.

Note: the \$100.00-per-year limitation on the amount of the participation fee does not apply to a bona fide participation fee charged to a credit card account consistent with 32 CFR 232.4(d).

Creditors may impose fees or charges that are excluded from the calculation of the MAPR during a particular billing cycle where there is no balance during the billing cycle. For example, if a creditor charged a late fee for a late payment in accordance with its credit agreement with the covered borrower and in compliance with Regulation Z, the creditor may charge the fee, regardless of whether there is a balance in the billing cycle, because a late fee is not among the charges that are included in the calculation of the MAPR.

Bona Fide Fees Charged to a Credit Card Account, Generally. For consumer credit extended in a credit card account under an open-end (not home-secured) consumer credit plan, a bona fide fee, other than a periodic rate, is not a charge required

14. Sections 1026.14(c) and (d) of Regulation Z provide for the methods of computing the APR under several scenarios, such as: (1) when the finance charge is determined solely by applying one or more periodic rates; (2) when the finance charge during a billing cycle is or includes a fixed or other charge that is not due to application of a periodic rate, other than a charge with respect to a specific transaction; and (3) when the finance charge during a billing cycle is or includes a charge relating to a specific transaction during the billing cycle.

to be included in the MAPR calculation, provided the fee is both bona fide and reasonable for the type of fee. There is no exclusion for “bona fide fees” on accounts that are not credit card accounts.

The exclusion for bona fide fees on credit card accounts does not apply to the following fees:

- any credit insurance premium or fee, including any charge for single premium credit insurance, any fee for a debt cancellation contract, or any fee for a debt suspension agreement; or
- any fee for a credit-related ancillary product sold in connection with the credit transaction for closed-end credit or an account for open-end credit.

Note: A minimum interest charge on a credit card account that is generally disclosed in an account-opening table can be a bona fide fee excludable from the MAPR calculation if it meets the conditions for exclusion.

To assess whether a bona fide fee is “reasonable,” the fee must be compared to fees typically imposed by other creditors for the same or a substantially similar product or service. This comparison is designed to be an “elementary like-kind standard,” as illustrated in the examples below:

Example #1: When assessing a bona fide cash advance fee, that fee must be compared to fees charged by other creditors for transactions in which consumers receive extensions of credit in the form of cash or its equivalent.

Example #2: When assessing a foreign transaction fee, that fee may not be compared to a cash advance fee because the foreign transaction fee involves the service of exchanging the consumer’s currency (e.g., a reserve currency) for the local currency demanded by a merchant for a good or service, and does not involve the provision of cash to the consumer.

It is generally permissible to consider benefits provided by credit card rewards programs in determining whether a fee is reasonable overall. For participation fees, the rule gives additional guidance for determining whether a fee is reasonable: if the amount of the fee reasonably corresponds to the credit limit in effect or credit made available when the fee is imposed, to the services offered under the credit card account, or to other factors relating to the credit card account.

Example #3: Even if other creditors typically charge \$100.00 annually for participation in credit card accounts, a \$400.00 fee nevertheless may be reasonable if (relative to other accounts carrying participation fees) the credit made available to the covered borrower is

significantly higher or additional services or other benefits are offered under that account.

Bona Fide Fees Charged to a Credit Card Account, Safe Harbor. The regulation provides a firm, yet flexibly adaptable safe harbor standard for a “reasonable” amount of a bona fide fee on a credit card account. A bona fide fee is reasonable if the amount of the fee is less than or equal to an average amount of a fee for the same or a substantially similar product or service charged by five or more creditors each of whose U.S. credit cards in force is at least \$3 billion in an outstanding balance (or at least \$3 billion in loans on U.S. credit card accounts initially extended by the creditor) at any time during the three-year period preceding the time such average is computed. Creditors may use publicly available information regarding credit cards in force and/or fees charged on those credit cards, such as Securities and Exchange Commission filings, Consolidated Reports of Condition and Income, agreements posted on the CFPB’s website (www.consumerfinance.gov/credit-cards/agreements/), agreements posted on creditors’ own websites, or commercially compiled sources of information. For purposes of choosing creditors for comparison, note that a creditor may meet the \$3 billion threshold even if the creditor has sold the credit card loans to a special-purpose vehicle or entered into another arrangement so that securities backed by the loans may be issued.

A bona fide fee that is higher than an average amount calculated using the safe harbor standard also may be reasonable depending on other factors relating to the credit card account. A bona fide fee charged by a creditor is not unreasonable solely because other creditors do not charge a fee for the same or a substantially similar product or service.

Effect of Charging Fees on Bona Fide Fees. If a creditor imposes a fee or fees that cannot be excluded from the MAPR (see “Types of Fees to Include in MAPR Calculation”) and imposes a finance charge on a covered borrower, the total amount of the fee(s) and finance charge(s) shall be included in the MAPR. This does not affect whether another type of fee may be excluded as a bona fide fee.

However, if a creditor imposes any fee (other than a periodic rate or charges that must be included in the MAPR) that is not a bona fide fee and imposes a finance charge on a covered borrower, the total amount of those fees, including any bona fide fees, and other finance charges shall be included in the MAPR.

Example #1: In a credit card account under an open-end (not home-secured) consumer credit plan during a given billing cycle, Creditor A

imposes on a covered borrower a fee for a debt cancellation product, a finance charge, and a reasonable bona fide foreign transaction fee. Only the fee for the debt cancellation product and the finance charge must be included when calculating the MAPR.

Example #2: In a credit card account under an open-end (not home-secured) consumer credit plan during a given billing cycle, Creditor B imposes on a covered borrower a fee for a debt cancellation product, a finance charge, a reasonable bona fide foreign transaction fee, and a bona fide, but unreasonable cash advance fee. All of the fees—including the foreign transaction fee that otherwise would qualify for the exclusion as a bona fide fee—and the finance charge must be included when calculating the MAPR.

Timing for Computing the MAPR for Open-End Credit

Computing. In general, creditors can be reasonably expected to estimate at the outset of a billing cycle whether charges to a covered borrower can produce an MAPR in excess of the 36 percent limit. This is particularly true because the creditor already would know the periodic rate and whether the non-periodic fees are covered by the exclusion for a bona fide fee under 32 CFR 232.4(d).

Nevertheless, under certain circumstances, creditors might not know at the outset of a billing cycle whether the borrower's use of an open-end line of credit will lead to a finance charge that—through a combination of rates and fees—exceeds the 36 percent limit. However, at the end of a billing cycle the creditor would be able to calculate the MAPR and, in that same billing cycle, waive fees or periodic charges, either in whole or in part, in order to comply with the 36 percent limit.

MAPR Calculation Examples

The following examples may assist reviewers in calculating the MAPR.

Example #1: Closed-End Credit. The MAPR for single advance, single payment transactions, such as some types of deposit advance loans, must be computed in accordance with the rules in Regulation Z, such as by following the instructions described in paragraph (c)(5) of appendix J. Based on the formula provided in paragraph (c)(5) of appendix J, in the case of a single advance, single payment transaction loan extended to a covered borrower for a period of 45 days, and for which the advance is \$500.00 and the single payment required consists of the principal amount plus a finance charge of \$28.44, for a total payment of \$528.44, the MAPR would be 46.14 percent. In this example,

the resultant MAPR would exceed the 36 percent rate limit.

Example #2: Open-End Credit (General). Suppose a creditor offers a line of credit to a covered borrower primarily for personal, family, or household purposes (commonly referred to as a "personal line of credit") and permits the borrower to repay on a monthly basis. Upon establishing the personal line of credit, the covered borrower borrows \$500.00. The creditor charges a periodic rate of 0.006875 (which corresponds to an annual rate of 8.25 percent) plus a fee of \$25.00, charged when the account is established and annually thereafter. Under these circumstances, pursuant to 12 CFR 1026.14(c)(2), the creditor would calculate the MAPR as follows: "dividing the total amount of the finance charge for the billing cycle"—which is \$3.44 (corresponding to $(0.006875) \times (\$500)$), plus \$25.00—"by the amount of the balance to which it is applicable"—\$500—and multiplying the quotient (expressed as a percentage) by the number of billing cycles in a year"—12 (since the creditor allows the borrower to repay monthly), which is 68.26 percent. In this example, even though the periodic rate (0.006875) would comply with the interest rate limit under 32 CFR 232.4(b), the resultant MAPR would be in excess of that limit because the amount borrowed is low at the time the annual fee is imposed.

Example #3: Open-End Credit (Credit Card). In the case of a credit card account, a creditor likewise would be required to calculate the MAPR using the methods prescribed in 12 CFR 1026.14(c) and (d) of Regulation Z. For example, if a creditor extends credit to a covered borrower through a credit card account and the borrower incurs a finance charge relating to a specific transaction, such as a cash advance transaction, during the billing cycle, then the creditor would calculate the MAPR under the instructions set forth in 12 CFR 1026.14(c)(3). However, in the case of a credit card account the creditor may exclude, pursuant to 32 CFR 232.4(c)(1)(iii) and 232.4(d), any bona fide fee from the finance charges that otherwise must be accounted for; thus, if a charge for the cash advance transaction fits within the exclusion for a bona fide fee under 32 CFR 232.4(d), then that charge would not be included when computing the MAPR for that billing cycle.

Identification of Covered Borrowers (§ 232.5)

A creditor is permitted to apply its own method to assess whether a consumer is a covered borrower;

however, the regulation provides creditors an optional safe harbor from liability in conclusively determining whether credit is offered or extended to a covered borrower through assessing the status of a consumer by use of either of the following methods:

- Verifying the status of a consumer by using information relating to that consumer, if any, obtained directly or indirectly from the DoD's database, located at <https://mla.dmdc.osd.mil/> (or via any URL or direct connection to the database that may be provided by the DoD). Searches require entry of the consumer's last name, date of birth, and Social Security number.

Note: Historic lookbacks are prohibited under the rule. After a consumer has entered into a transaction or established an account, a creditor (including an assignee) may not, directly or indirectly, obtain any information from the DoD database to determine whether a consumer had been a covered borrower as of the date of a transaction or the date an account was established. However, this provision does not prevent creditors from adopting a risk management plan that includes periodically screening credit portfolios for other purposes, such as determining whether there are changes to covered borrower status.

OR

- Verifying the status of a consumer by using a statement, code, or similar indicator describing that status, if any, contained in a consumer report obtained from a consumer reporting agency that compiles and maintains files on consumers on a nationwide basis, or a reseller of such consumer reports, as those terms are defined in the Fair Credit Reporting Act (FCRA) and any implementing regulations.

Note: The consumer reporting agency (CRA) must be a nationwide agency or a reseller of reports from such an agency (as both of those terms are defined by the FCRA); many specialty CRAs may not qualify.

A creditor's one-time determination, by using one of the methods provided in 32 CFR 232.5(b)(2), is permitted and deemed to be conclusive with respect to that transaction or account between the creditor and that consumer, so long as the creditor timely creates and maintains a record of the information obtained, solely at the time that

- the consumer initiates the transaction or 30 days prior to that time;
- the consumer applies to establish the account or 30 days prior to that time; or
- the creditor develops or processes a firm offer of credit that includes the status of the consumer as

a covered borrower, so long as the consumer responds to that offer no later than 60 days after the creditor provides the offer to the consumer.

The MLA rule extends the covered borrower check safe harbor to a creditor's assignee provided that the assignee continues to maintain the original record created by the creditor that initially extended the credit. Neither the MLA nor 32 CFR 232 specify how and for how long creditors are to maintain these records, noting only that the records must be created timely and maintained thereafter.

An action by a creditor within an existing account, such as to increase the available credit that a consumer may draw upon, does not alter the status of the creditor's prior determination for that account. However, in order to benefit from the optional safe harbor provisions, a creditor must use one of the safe harbor methods when extending a new consumer credit product or newly establishing an account for consumer credit, including a new line of consumer credit that might be associated with a pre-existing transactional account held by the borrower (for example, when a consumer applies for an overdraft line of credit associated with an existing checking account).

Mandatory Loan Disclosures (§ 232.6)

If a creditor extends consumer credit (including any consumer credit originated or extended through the Internet) to a covered borrower, the creditor must provide the covered borrower with certain information before or at the time the borrower becomes obligated on the transaction or establishes an account for the consumer credit:

- a statement of the MAPR applicable to the extension of consumer credit;
- any disclosure required by Regulation Z, which shall be provided only in accordance with the requirements of Regulation Z that apply to that disclosure; and
- a clear description of the payment obligation of the covered borrower, as applicable. Note that a payment schedule (in the case of closed-end credit) or account-opening disclosure (in the case of open-end credit) provided pursuant to Regulation Z satisfies this requirement.

A creditor may satisfy the requirement to provide a statement of the MAPR by describing the charges the creditor may impose, in accordance with the regulation and subject to the terms and conditions of the agreement, relating to the consumer credit to calculate the MAPR. A creditor is not required to describe the MAPR as a numerical value or to describe the total dollar amount of all charges in

the MAPR that apply to the extension of consumer credit. A creditor may include a statement of the MAPR applicable to the consumer credit in the agreement with the covered borrower involving the consumer credit transaction. The regulation does not require a statement of the MAPR to be included in advertisements.

Under 32 CFR 232.6(c)(3), a statement substantially similar to the following model statement may be used to satisfy the requirement to provide a statement of the MAPR:

Federal law provides important protections to members of the Armed Forces and their dependents relating to extensions of consumer credit. In general, the cost of consumer credit to a member of the Armed Forces and his or her dependent may not exceed an annual percentage rate of 36 percent. This rate must include, as applicable to the credit transaction or account: The costs associated with credit insurance premiums; fees for ancillary products sold in connection with the credit transaction; any application fee charged (other than certain application fees for specified credit transactions or accounts); and any participation fee charged (other than certain participation fees for a credit card account).

If a transaction involves more than one creditor, then only one of those creditors must provide the required disclosures. The creditors may agree among themselves which creditor will provide the statement of the MAPR and the clear description of the payment obligation.¹⁵

The statement of the MAPR and the clear description of the payment obligation must be provided in writing in a form the covered borrower can keep. A creditor shall also provide such required information orally.¹⁶ A creditor may satisfy the requirement to provide oral disclosures if the creditor provides

- the information to the covered borrower in person, or
- a toll-free telephone number in order to deliver the oral disclosures to a covered borrower when the covered borrower contacts the creditor for this purpose.

If a creditor elects to provide a toll-free telephone number in order to deliver the oral disclosures, the toll-free telephone number must be included on

- a form the creditor directs the consumer to use to apply for the transaction or account involving consumer credit, or

- the written disclosure the creditor provides to the covered borrower.

The oral disclosures provided through the toll-free number need only be available for a duration of time reasonably necessary to allow a covered borrower to contact the creditor for the purpose of listening to the disclosure. A creditor may orally provide a clear description of the payment obligation of the covered borrower by providing a general description of how the payment obligation is calculated or a description of what the borrower's payment obligation would be based on an estimate of the amount the borrower may borrow. For example, a creditor could generally describe how minimum payments are calculated on open-end credit plans issued by the creditor and then refer the covered borrower to the written materials the borrower will receive in connection with opening the plan. Alternatively, a creditor could choose to generally describe borrowers' obligations to make a monthly, bi-monthly, or weekly payment as the case may be under the borrowers' agreements. The requirement of a clear, oral payment obligation disclosure has sufficient breadth that creditors may choose a variety of acceptable oral disclosure compliance strategies. A generic oral description of the payment obligation may be provided, even though the disclosure is the same for borrowers with a variety of consumer credit transactions or accounts.

If Regulation Z would allow a creditor to provide a required disclosure after the borrower has become obligated on a transaction, as in the case of purchase orders or requests for credit made by mail, telephone, or fax under 12 CFR 1026.17(g), the disclosures required by the MLA may be provided at the time prescribed in Regulation Z. A creditor is required to provide new disclosures for the refinancing or renewal of consumer credit only when the transaction for that credit would be considered a new transaction that requires disclosures under Regulation Z.

The statement of the MAPR and the clear description of the payment obligation, as described above, need to be provided to a covered borrower only once for the transaction or the account established for consumer credit with respect to that borrower.

Limitations (§ 232.8)

The MLA imposes a number of limitations upon creditors in connection with consumer credit extended to covered borrowers.

Rollovers and certain other actions. It is unlawful for a creditor to roll over, renew, repay, refinance, or consolidate any consumer credit extended to the

15. 32 CFR 232.6(b)(2).

16. 32 CFR 232.6(d)(2).

covered borrower by the same creditor with the proceeds of other consumer credit extended by that creditor to the same covered borrower.

For the purposes of this paragraph, the term “creditor” means a person engaged in the business of deferred presentment transactions or similar payday loan transactions (as described in the relevant law), *provided however*, that the term does not include a person that is chartered or licensed under federal or state law as a bank, savings association, or credit union.

Note: This prohibition does not apply to a transaction when the same creditor extends consumer credit to a covered borrower to refinance or renew an extension of credit that was not covered by this paragraph because the consumer was not a covered borrower at the time of the original transaction.

Terms Relating to Dispute Resolution. A creditor cannot require a covered borrower to

- waive the covered borrower’s right to legal recourse under any otherwise applicable provision of federal or state law, including any provision of the Servicemembers Civil Relief Act;¹⁷
- submit to arbitration or other onerous legal notice provisions in the case of a dispute; or
- give unreasonable notice as a condition for legal action.

Payment Terms and Conditions—General. A creditor cannot

- use the title of a vehicle as security for the obligation involving the consumer credit. Note that for the purposes of this paragraph, the term “creditor” does not include a person that is chartered or licensed under federal or state law as a bank, savings association, or credit union;
- require as a condition for the extension of consumer credit that the covered borrower establish an allotment to repay the obligation (note that for the purposes of this paragraph only, the term “creditor” shall not include a “military welfare society,” as defined in 10 USC 1033(b) (2), or a “service relief society,” as defined in 37 USC 1007(h)(4)); or
- prohibit the borrower from prepaying the consumer credit or charge a penalty fee for prepaying all or part of the consumer credit.

17. 50 USC 3901 *et seq.*

Payment Terms and Conditions—Account Access. A creditor cannot use a check or other method of access to a deposit, savings, or other financial account maintained by the covered borrower, except that, in connection with a consumer credit transaction with an MAPR not exceeding the 36 percent limit, a creditor may

- require an electronic fund transfer to repay a consumer credit transaction, unless otherwise prohibited by law;
- require direct deposit of the consumer’s salary as a condition of eligibility for consumer credit, unless otherwise prohibited by law; or
- if not otherwise prohibited by applicable law, take a security interest in funds deposited after the extension of credit in an account established in connection with the consumer credit transaction.

This section prohibits a creditor from using the borrower’s account information to create a remotely created check or remotely created payment order in order to collect payments on consumer credit from a covered borrower. Similarly, a creditor may not use a post-dated check provided at or around the time credit is extended that deprives the borrower of control over payment decisions, as is common in certain payday lending transactions. However, the prohibition on account access does not in any way prevent covered borrowers from tendering a check or authorizing access to a deposit, savings, or other financial account to repay a creditor. Section 232.8(e) also does not prohibit a covered borrower from authorizing automatically recurring payments, provided that such recurring payments comply with other laws, including the Electronic Fund Transfer Act and its implementing regulations, such as 12 CFR 1005.10, as applicable. The prohibition in 32 CFR 232.8(e) also does not prohibit covered borrowers from granting a security interest to a creditor in the covered borrower’s checking, savings, or other financial account, provided that it is not otherwise prohibited by applicable law and the creditor complies with the MLA regulation including the 36 percent limitation on the MAPR.

Savings Clauses. A creditor may include a proscribed term under section 232.8, such as a mandatory arbitration clause, within a standard written credit agreement with a covered borrower, provided that the agreement includes a contractual “savings” clause limiting the application of the proscribed term to only non-covered borrowers, consistent with any other applicable law.

Military Lending Act Examination Objectives and Procedures

EXAMINATION OBJECTIVES

1. Determine the institution's compliance with the provisions of 32 CFR 232, as applicable.
2. Assess the quality of the institution's compliance risk management systems and its policies and procedures for implementing the provisions.
3. Determine the reliance that can be placed on the institution's internal controls and procedures for monitoring the institution's compliance with the provisions.
4. Determine corrective action when violations of law are identified or when the institution's policies, procedures, or internal controls are deficient.

EXAMINATION PROCEDURES

Determine Applicability of the Regulation

1. Determine if the creditor offers or purchases consumer credit covered by 32 CFR 232.
 - If the creditor does not offer or purchase the types of credit that would be consumer credit within the meaning of the MLA, the regulation does not apply and no further review is necessary.
 - If the creditor offers or purchases any of the types of credit that would be consumer credit within the meaning of the MLA, use the following procedures to determine whether the creditor complies with the MLA.

See the flowchart, Determining MLA Applicability, at the end of the section, which may be helpful in determining MLA applicability to a particular extension of credit to a covered borrower.

Evaluate Compliance Management System

2. Determine the extent and adequacy of the institution's policies, procedures, and practices for ensuring and monitoring compliance with the MLA.
3. Determine the extent and adequacy of the training received by individuals whose responsibilities relate to compliance with the MLA. Review any training materials pertaining to the MLA and determine whether the training is comprehensive and covers the

various aspects of the provisions that apply to the creditor's offerings and operations.

4. Determine if the institution has policies or procedures in place to
 - provide account disclosure information to covered borrowers in accordance with 32 CFR 232.6;
 - correctly determine which fees it charges are required to be included in the calculation of the MAPR;
 - correctly calculate and limit the MAPR (including waiving amounts necessary in order to comply with the limit at the outset of a transaction and at the end of a billing cycle on open-end credit, as applicable) as defined in 32 CFR 232.3(p) and in accordance with 32 CFR 232.4(c); and
 - properly create and maintain records of covered borrower checks.
5. Obtain compliance reviews and/or audit materials, including workpapers and reports, to determine if
 - the scope of any audits address all provisions of the regulation, as applicable;
 - transaction testing includes samples covering all relevant product types and decision centers;
 - the work performed is accurate;
 - significant deficiencies and their causes are included in reports to management or to the board of directors;
 - management has taken corrective actions to follow up on previously identified deficiencies; and
 - the frequency of review/audit is appropriate (including review/audit of implemented corrective action related to previously identified deficiencies).
6. Through discussions with management and review of available information, determine whether the institution's internal controls are adequate to ensure compliance. Consider the following:
 - organization charts;
 - process flowcharts;
 - policies and procedures;
 - account documentation;
 - checklists; and

- computer program documentation, including any computer program testing and validation.

Identification of Covered Borrowers

7. Determine whether the creditor's policies, procedures, and training materials accurately reflect the scope of the "covered borrower" definition.
8. Determine whether the creditor has elected to use one of the optional safe harbor methods provided in 32 CFR 232.5(b). If the creditor does not use one of the optional safe harbor methods, describe the method, if any, that the creditor uses to ensure it does not make covered loans to covered borrowers on prohibited terms.
9. If a creditor elects to use one of the two optional safe harbor methods to check a consumer's status, ascertain whether the creditor timely creates and thereafter maintains a record of the information obtained, in accordance with 32 CFR 232.5(b)(3).
10. If a creditor elects to use a method other than one of the two optional safe harbor methods, determine whether the chosen method is performed prior to a consumer becoming obligated on a credit transaction or establishing an account for credit and whether the creditor maintains a record of the information obtained.

Note: Section 232.5 contains no specific timing and recordkeeping requirements if the creditor uses an alternative to one of the safe harbors to verify covered borrower status. However, any alternative method selected by the creditor should be evaluated to determine whether it is reasonable and verifiable, and whether it addresses the risk of extending consumer credit that does not comply with the MLA to a covered borrower.

11. Regarding an action by a creditor relating to a covered borrower with an existing account, if a creditor has elected to use one of the two optional safe harbor methods, determine whether the creditor also uses one of the safe harbor methods when extending a new consumer credit product or newly establishing an account for consumer credit, including a new line of consumer credit that might be associated with a pre-existing transactional account held by the borrower.

Calculation of MAPR

12. Determine whether the creditor includes the following charges in the calculation of the

MAPR for both closed- and open-end credit, as applicable:

- any credit insurance premium or fee, any charge for single premium credit insurance, any fee for a debt cancellation contract, or any fee for a debt suspension agreement;
 - any fee for a credit-related ancillary product sold in connection with the credit transaction for closed-end credit or an account for open-end credit; and
 - except for a bona fide fee (other than a periodic rate) charged to a credit card account, which may be excluded if the bona fide fee is reasonable for that type of fee:
 - finance charges associated with the consumer credit;
 - any application fee charged to a covered borrower who applies for consumer credit, other than an application fee charged by a federal credit union or an insured depository institution when making a short-term, small amount loan provided that the application fee is charged to the covered borrower not more than once in any rolling 12-month period; and
 - any fee imposed for participation in any plan or arrangement for consumer credit other than as permitted under 32 CFR 232.4(c)(2)(ii)(B).
13. For closed-end credit, determine whether the creditor appropriately calculates the MAPR following the rules for calculating and disclosing the APR for credit transactions under Regulation Z based on the "Types of Fees to Include in MAPR Calculation" above.
 14. For open-end credit, determine whether the creditor appropriately calculates the MAPR following the rules for calculating the effective APR for a billing cycle as set forth in 12 CFR 1026.14(c) and (d) of Regulation Z (as if a creditor must comply with that section) based on the "Types of Fees to Include in MAPR Calculation" above.

Mandatory Loan Disclosures

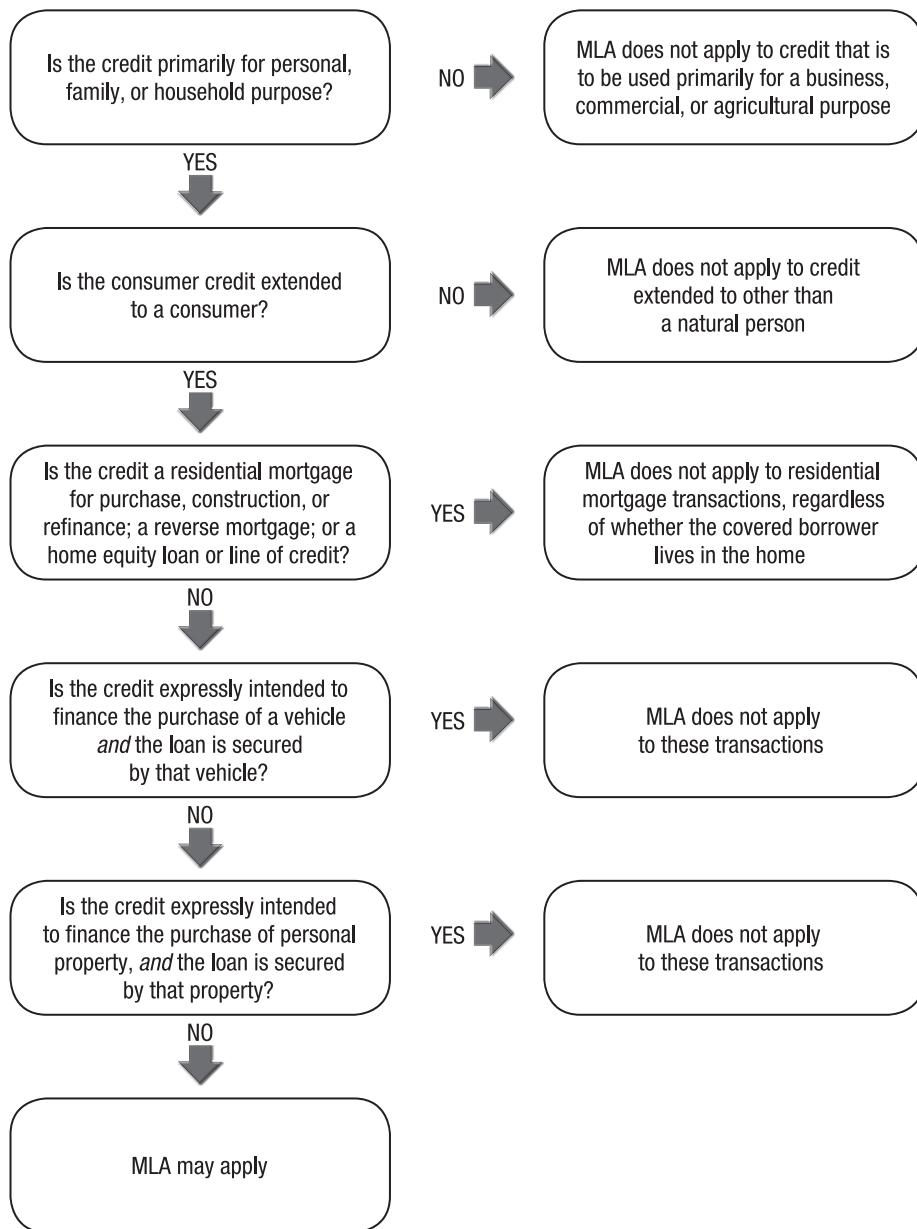
15. Determine whether the creditor properly provides the covered borrower with required information before or at the time the borrower becomes obligated on the transaction or establishes an account for the consumer credit, including

- a statement of the MAPR applicable to the extension of consumer credit;
 - any disclosure required by Regulation Z, which shall be provided only in accordance with the requirements of Regulation Z that apply to that disclosure; and
 - a clear description of the payment obligation of the covered borrower, as applicable. Note that a payment schedule (in the case of closed-end credit) or account-opening disclosure (in the case of open-end credit) provided pursuant to Regulation Z satisfies this requirement. Also note that for oral disclosures, a generic, clear description of the payment obligation is permissible.
16. Determine whether the creditor provides the statement of the MAPR and the clear description of the payment obligation both in writing in a form the covered borrower can keep and orally.
17. If the creditor elects to provide a toll-free telephone number in order to deliver the oral disclosures to a covered borrower, determine whether the toll-free telephone number is included on either
- a form the creditor directs the consumer to use to apply for the transaction or account involving consumer credit, or
 - the written disclosure the creditor provides to the covered borrower.
18. If the creditor elects to provide a toll-free telephone number in order to deliver the oral disclosures to a covered borrower, determine whether the toll-free telephone number is available for a duration of time reasonably necessary to allow a covered borrower to contact the creditor for the purpose of listening to the disclosure.
- same creditor to refinance or renew an extension of credit that was not covered because the consumer was not a covered borrower at the time of the original transaction.
20. Determine whether the creditor abides by the prohibitions against requiring covered borrowers to
- waive their rights to legal recourse under any otherwise applicable law,
 - submit to arbitration or other onerous legal notice provisions in the case of a dispute, or
 - provide unreasonable notice as a condition for legal action.
21. Confirm that the creditor does not
- require that a covered borrower repay the obligation by military allotment (note that for purposes of this provision of the regulation, the term "creditor" does not include "military welfare societies" or "service relief societies"),
 - prohibit a covered borrower from prepaying the consumer credit, or
 - charge a covered borrower a penalty fee for prepaying all or part of the consumer credit.
22. Determine whether the creditor abides by the prohibition on using the title of a vehicle as security for the obligation involving the consumer credit. Note that this prohibition does not apply when the transaction is expressly intended to finance the purchase of a vehicle and the credit is secured by the vehicle or when the creditor is chartered under federal or state law as a bank, savings association, or credit union.
23. Determine whether the creditor improperly requires access to a deposit, savings, or other financial account maintained by the covered borrower for repayment by
- obtaining payment through a remotely created check or remotely created payment order, or
 - obtaining a post-dated check provided at or around the time credit is extended.

Other Limitations

19. Determine whether the creditor abides by the prohibition on rolling over, renewing, repaying, refinancing, or consolidating consumer credit. Note that this prohibition does not apply to a creditor that is chartered or licensed under federal or state law as a bank, savings association, or credit union, or when the credit is being extended by the

Determining MLA Applicability



Military Lending Act Examination Checklist

Applicability of the Regulation

1. Does the creditor or assignee offer, extend, or purchase credit primarily for personal, family, or household purposes? Yes No N/A
If the answer is Yes, proceed. If the answer is No or N/A, conclude the review.

Evaluate Compliance Management System

2. Does the institution have adequate policies, procedures, and practices for ensuring and monitoring compliance with the MLA? Yes No N/A
3. Does the institution provide adequate training for individuals whose responsibilities relate to compliance with the MLA? Yes No N/A
4. Does the institution have policies or procedures in place to
- provide account disclosure information to covered borrowers in accordance with 32 CFR 232.6, Yes No N/A
 - correctly determine which fees the creditor charges are required to be included in the calculation of the MAPR, Yes No N/A
 - correctly calculate and limit the MAPR (including waiving amounts necessary in order to comply with the limit at the outset of a transaction and at the end of a billing cycle on open-end credit, as applicable) as defined in 32 CFR 232.3(p) and in accordance with 32 CFR 232.4(c), and Yes No N/A
 - properly create and maintain records of covered borrower checks? Yes No N/A
5. Based on a review of the institution's compliance reviews and/or audit materials, including workpapers and reports:
- Does the scope of any audits address all provisions of the regulation, as applicable? Yes No N/A
 - Does transaction testing include samples covering all relevant product types and decision centers? Yes No N/A
 - Is the work performed accurate? Yes No N/A
 - Are significant deficiencies and their causes included in reports to management or to the board of directors? Yes No N/A
 - Has management taken corrective actions to follow up on previously identified deficiencies? Yes No N/A
 - Is the frequency of review/audit appropriate (including review/audit of implemented corrective action related to previously identified deficiencies)? Yes No N/A
6. Are the institution's internal controls adequate to ensure compliance? Yes No N/A

Identification of Covered Borrowers

7. Do the creditor's policies, procedures, and training materials accurately reflect the scope of the "covered borrower" definition? Yes No N/A
8. Has the creditor elected to use one of the optional safe harbor methods provided in 32 CFR 232.5(b)? Yes No N/A

9. If a creditor elects to use one of the two optional safe harbor methods to check a consumer's status:

- Does the creditor timely create a record of the information obtained, in accordance with 32 CFR 232.5(b)(3)? Yes No N/A
- Does the creditor thereafter maintain a record of the information obtained, in accordance with 32 CFR 232.5(b)(3)? Yes No N/A
- Regarding an action by a creditor relating to a covered borrower with an existing account, does the creditor also use one of the safe harbor methods when extending a new consumer credit product or newly establishing an account for consumer credit, including a new line of consumer credit that might be associated with a pre-existing transactional account held by the borrower? Yes No N/A

10. If a creditor elects to use a method other than one of the two optional safe harbor methods:

- Is the chosen method performed prior to a consumer becoming obligated on a credit transaction or establishing an account for credit? Yes No N/A
- Does the creditor maintain a record of the information obtained? Yes No N/A

Calculation of MAPR

11. Does the creditor include the following charges in the calculation of the MAPR for both closed- and open-end credit, as applicable:

- any credit insurance premium or fee, any charge for single premium credit insurance, any fee for a debt cancellation contract, or any fee for a debt suspension agreement; Yes No N/A
- any fee for a credit-related ancillary product sold in connection with the credit transaction for closed-end credit or an account for open-end credit; and Yes No N/A
- except for a bona fide fee (other than a periodic rate) charged to a credit card account, which may be excluded if the bona fide fee is reasonable for that type of fee:
 - finance charges associated with the consumer credit; Yes No N/A
 - any application fee charged to a covered borrower who applies for consumer credit, other than an application fee charged by a federal credit union or an insured depository institution when making a short-term, small amount loan provided that the application fee is charged to the covered borrower not more than once in any rolling 12-month period; and Yes No N/A
 - in general, any fee imposed for participation in any plan or arrangement for consumer credit. Yes No N/A

12. For closed-end credit, does the creditor appropriately calculate the MAPR following the rules for calculating and disclosing the APR for credit transactions under Regulation Z based on the MAPR charges?

13. For open-end credit, does the creditor appropriately calculate the MAPR following the rules for calculating the effective APR for a billing cycle as set forth in 12 CFR 1026.14(c) and (d) of Regulation Z (as if a creditor must comply with that section) based on the MAPR charges?

Yes No N/A

Mandatory Loan Disclosures

14. Does the creditor properly provide each covered borrower with required information before or at the time the borrower becomes obligated on the transaction or establishes an account for the consumer credit (or at a later time provided for in Regulation Z, if any), including		Yes	No	N/A
• a statement of the MAPR applicable to the extension of consumer credit;	Yes	No	N/A	
• any disclosure required by Regulation Z, which shall be provided only in accordance with the requirements of Regulation Z that apply to that disclosure; and	Yes	No	N/A	
• a clear description of the payment obligation of the covered borrower, as applicable. Note that a payment schedule (in the case of closed-end credit) or account-opening disclosure (in the case of open-end credit) provided pursuant to Regulation Z satisfies this requirement.	Yes	No	N/A	
15. Does the creditor provide the statement of the MAPR and the clear description of the payment obligation both in writing in a form the covered borrower can keep and orally?	Yes	No	N/A	
16. If the creditor elects to provide a toll-free telephone number in order to deliver the oral disclosures to a covered borrower, does the creditor include the toll-free telephone number on either	Yes	No	NA	
• a form the creditor directs the consumer to use to apply for the transaction or account involving consumer credit; or				
• the written disclosure the creditor provides to the covered borrower?				
17. If the creditor elects to provide a toll-free telephone number in order to deliver the oral disclosures to a covered borrower, is the toll-free telephone number available for a duration of time reasonably necessary to allow a covered borrower to contact the creditor for the purpose of listening to the disclosure?	Yes	No	N/A	

Other Limitations

18. Does the creditor abide by the prohibition on rolling over, renewing, repaying, refinancing, or consolidating consumer credit? Note that this prohibition does not apply to a creditor that is chartered or licensed under federal or state law as a bank, savings association, or credit union, or when the credit is being extended by the same creditor to refinance or renew an extension of credit that was not covered because the consumer was not a covered borrower at the time of the original transaction.	Yes	No	N/A
19. Does the creditor abide by the prohibitions against requiring covered borrowers to			
• waive their rights to legal recourse under any otherwise applicable law,	Yes	No	N/A
• submit to arbitration or other onerous legal notice provisions in the case of a dispute, or	Yes	No	N/A
• provide unreasonable notice as a condition for legal action?	Yes	No	N/A
20. Does the creditor refrain from			
• requiring that a covered borrower repay the obligation by military allotment (note that for purposes of this provision of the regulation, the term "creditor" does not include "military welfare societies" or "service relief societies"),	Yes	No	N/A
• prohibiting a covered borrower from prepaying the consumer credit, or	Yes	No	N/A
• charging a covered borrower a penalty fee for prepaying all or part of the consumer credit?	Yes	No	N/A

21. Does the creditor refrain from using the title of a vehicle as security for the obligation involving the consumer credit? Note that this prohibition does not apply when the transaction is expressly intended to finance the purchase of a vehicle and the credit is secured by the vehicle or when the creditor is chartered under federal or state law as a bank, savings association, or credit union.

Yes No N/A

22. Does the creditor refrain from improperly requiring access to a deposit, savings, or other financial account maintained by the covered borrower for repayment by

- obtaining payment through a remotely created check or remotely created payment order; or
- obtaining a post-dated check provided at or around the time credit is extended?

Yes No N/A

Yes No N/A

Servicemembers Civil Relief Act (SCRA) of 2003

Background:

The SCRA was signed into law on December 19, 2003, amending and replacing the Soldiers' and Sailors' Civil Relief Act of 1940, and is codified at 50 U.S.C. App. 501 *et seq.* It was further amended December 10, 2004, by the Veterans Benefits Improvement Act of 2004. The law protects members of the Army, Navy, Air Force, Marine Corps and Coast Guard, including members of the National Guard, as they enter military service (active duty¹), as well as commissioned officers of the Public Health Service and the National Oceanic and Atmospheric Administration engaged in active service. Some of the benefits accorded to servicemembers by the SCRA also extend to servicemembers' spouses, dependents and other persons subject to the obligations of servicemembers. The Housing and Economic Recovery Act of 2008 (HERA) amended several sections of this law by extending the availability of certain protections. The Helping Heroes Keep Their Homes Act of 2010 extended expiring HERA amendments until December 31, 2012. Major relief provisions of the SCRA include the following:

Maximum Rate of Interest on Loans, Including Mortgages

- Upon receiving a written request for relief and a copy of the servicemember's military orders, creditors must, for the duration of the servicemember's military service, reduce the interest² rate on debts³ incurred by the servicemember, or

1. In the case of servicemembers who are members of the Army, Navy, Air Force, Marine Corps, or Coast Guard, active duty is defined as "full-time duty in the active military service of the United States. Such term includes full-time training duty, annual training duty, and attendance, while in the active military service, at a school designated as a service school by law or by the Secretary of the military department concerned. Such term does not include full-time National Guard duty." 10 USC § 101(d). Note the term "military service" under the SCRA also includes National Guard members under a call of duty authorized by the President or the Secretary of Defense for more than 30 consecutive days and servicemembers who are commissioned officers of the Public Health Service and the National Oceanic and Atmospheric Administration engaged in "active service." 50 U.S.C. app. 511(2)(B).

2. "Interest" is defined in the SCRA to include service and renewal charges or any other fees or charges, except for charges for bona fide insurance. 50 U.S.C. app. 527(d).

3. Section 207 of the SCRA, 50 U.S.C. app. 527, applies to "an obligation or liability . . . incurred by the servicemember, or the servicemember and the servicemember's spouse jointly, before the servicemember enters military service." No distinction is made between personal versus business credit. However, according to a U.S. Department of Education memorandum, the SCRA limitation on interest rates does not apply to federally insured student loans based on 20 U.S.C. § 1078(d), which states that no provision of any Federal or state law that limits the interest rate on a loan, will apply to loans made under a government student loan

a servicemember and spouse jointly, prior to entry into military service to no more than 6 percent per year. (This applies to the individual servicemember's debt or joint debt with a spouse.)

- Creditors must maintain the interest rate reduction for the period of military service, except in the case of a mortgage, trust deed, or other security in the nature of a mortgage, where the interest rate reduction extends for one year after the end of the servicemember's military service.⁴
- Creditors who reduce the interest rate on the obligations of a servicemember must forgive interest in excess of 6 percent.
- The reduced interest rate provision applies unless a court finds the ability of the servicemember to pay interest on the debt at a higher interest rate is not materially affected by his or her military service. In such cases, the court may grant a creditor relief from the interest rate limitations of the Act.

Residential and Motor Vehicle Purchases and Leases

- Contracts for the purchase of real or personal property, for which the servicemember has paid a deposit or made a payment before the servicemember enters military service, may not be rescinded or terminated after the servicemember's entry into military service for a breach of the terms of the contract occurring before or during their military service, or the property repossessed because of the breach without a court order.
- Termination of certain residential or motor vehicle leases may be made at the option of the lessee servicemember if the servicemember provides to the lessor or the lessor's agent written notice of the request for termination along with a copy of the military orders.
 - Automobiles leased for personal or business use by the servicemember or their dependent may be terminated if the servicemember, after the lease is executed, enters military service

program. Nonetheless, the other provisions of the SCRA, including those providing for a stay of proceedings and reopening default judgments, remain available to servicemembers.

4. The extension of the interest rate reduction for mortgages for an additional one year period after the end of military service was added by Section 2203(b) of HERA, which was signed into law on July 30, 2008. Section 2203(a) of HERA extends the stay, adjustment, sale, foreclosure, and seizure provisions from 90 days to 9 months following the end of the servicemember's period of military service. Unlike Section 2203(b), the amendment described in Section 2203(a) now expires on December 31, 2012.

for a period of 180 days or more.

- Additionally, an automobile lease entered into while the servicemember is on active duty may be terminated if the servicemember receives military orders for a permanent change of station (PCS) outside of the continental United States (this would include a PCS to Hawaii or Alaska) or deployment for a period of 180 days or more.
- Termination of an automobile lease also includes the return of the automobile to the lessor within 15 days after delivery of the written notice of termination.
- Termination is permitted of pre-service "residential, professional, agricultural or similar" leases occupied or intended to be occupied by a servicemember or a dependent as well as those leases executed during military service where the servicemember subsequently receives orders for a PCS or a deployment for a period of 90 days or more.

Foreclosure, Eviction from Bank-Owned Property

- Real or personal property owned by a servicemember before the servicemember's military service that secures a mortgage, trust deed, or similar security interest cannot be sold, foreclosed upon, or seized based on a breach of such a secured obligation during the period of military service or nine months thereafter without a court order. Additionally, in an action filed during or within nine months after a servicemember's military service, a court may, after a hearing on its own, or shall, upon application by a servicemember, stay a proceeding to enforce an obligation as described above or adjust the debt, when the member's ability to comply with the obligation is materially affected by reason of the member's military service.⁵
- A landlord may not evict a servicemember or the dependent of a servicemember from premises that are occupied or intended to be occupied as a primary residence during a period of military service except by court order.⁶

5. These provisions were extended until December 31, 2012. On January 1, 2013, the SCRA will revert to the 90-day limit per HIRA, which was amended by the Helping Heroes Keep Their Homes Act of 2010.

6. The law as originally passed by Congress applied to only those dwellings with monthly rents of \$2,400 or less. Accordingly, evictions involving residences with monthly rents of \$2,400 or less

Life Insurance Assigned as Security

- If a life insurance policy on the life of a servicemember is assigned before military service to secure the payment of an obligation, the assignee of the policy (except the insurer in connection with a policy loan), may not exercise, during the period of the servicemember's military service or within one year thereafter, any right or option obtained under the assignment, absent compliance with a court order or other specified requirement.

Adverse Action

- The fact that a servicemember applies for or receives a stay, postponement, or suspension of his or her obligations or liabilities pursuant to the SCRA may not in itself provide the basis for the following:
 - a determination by a lender or other person that the servicemember is unable to pay the obligation or liability in accordance with its terms
 - a creditor's denial or revocation of credit, change in terms of an existing credit arrangement, or refusal to grant credit to the servicemember in substantially the amount or on substantially the terms requested
 - an adverse report relating to the creditworthiness of the servicemember by or to a consumer reporting agency
 - a refusal by an insurer to insure the servicemember
 - an annotation in a servicemember's record by a creditor or a person engaged in the practice of assembling or evaluating consumer credit information identifying the servicemember as a member of the National Guard or a reserve component
 - a change in the terms offered or conditions required for the issuance of insurance

Relief for Other Obligors

- Whenever a court grants a stay, postponement, or suspension to a servicemember on an obligation, it may likewise grant a person primarily or secondarily liable such a stay, postponement or suspension.

require a court order. This amount is adjusted yearly and is published in the Federal Register by the Department of Defense. The figure as of January 1, 2011, is \$2,975.54.

Servicemembers Civil Relief Act (SCRA) of 2003 Examination Objectives and Procedures

EXAMINATION OBJECTIVES

1. Determine the institution's compliance with the provisions of the SCRA, as applicable, to the institution's product offering and operations, including management of other real estate owned, where a servicemember or his/her dependents may be tenants.
 - the work performed is accurate
 - significant deficiencies and their causes are included in reports to management or to the Board of Directors
 - management has taken corrective actions to follow-up on previously identified deficiencies
 - the frequency of review/audit is appropriate
2. Assess the quality of the institution's compliance risk management systems and its policies and procedures for implementing the SCRA.
3. Determine the reliance that can be placed on the institution's internal controls and procedures for monitoring the institution's compliance with the SCRA.
4. Determine corrective action when violations of law are identified, or when the institution's policies or internal controls are deficient.

EXAMINATION PROCEDURES

General

1. Through discussions with management and review of available information, determine whether the institution's internal controls are adequate to ensure compliance with the SCRA. Consider:
 - policies and procedures
 - account documentation
 - checklists
 - computer program documentation, including any computer program testing and validation
2. Determine the extent and adequacy of the training received by individuals whose responsibilities relate to compliance with the regulation. Review any training materials pertaining to the Act and determine whether the training is comprehensive and covers the various aspects of the provisions that apply to the creditor's offerings and operations.
3. Review compliance reviews or audit materials, including work papers and reports, to determine if
 - the scope of any audits address all provisions of the SCRA, as applicable
 - transaction testing includes samples covering relevant product types and decision centers (for example, both mortgage and credit card processing centers)

- the work performed is accurate
 - significant deficiencies and their causes are included in reports to management or to the Board of Directors
 - management has taken corrective actions to follow-up on previously identified deficiencies
 - the frequency of review/audit is appropriate
4. If any complaints based on the SCRA have been filed against the institution, determine
 - why were they filed
 - how they were resolved
 5. If the institution has received any actual requests for relief under the SCRA, determine whether appropriately trained staff reviewed the requests and if appropriate records are maintained.

Interest Rate Reduction for Loans, Including Mortgages

6. Determine how the institution handles requests for interest rate reductions under the SCRA on an obligation incurred by a servicemember or by a servicemember and spouse jointly, before the servicemember entered military service.
7. Determine how the institution calculates the reduced interest rate. Does the institution include all service and renewal charges, as well as other fees and charges, with the exception of charges for bona fide insurance?
8. Determine whether the institution applies the interest rate reduction effective as of the date the servicemember was called to military service.
9. Determine whether the institution applies the interest rate reduction throughout the term of the servicemember's military service, for all credit products. In the case of a mortgage, the institution must continue to apply the interest rate reduction for a one year period following the termination of military service.

Residential and Motor Vehicle Leases

10. Determine, in the case of a residential lease entered into before the servicemember entered into military service or executed by the servicemember while in military service but who subsequently receives orders for a permanent change of station or for a deployment of at least 90 days, that the institution permits the service-

member to terminate the lease.

11. Determine if the institution permits the service-member to terminate a motor vehicle lease where
 - the motor vehicle lease is for personal or business use by the servicemember or his/her dependent and
 - the lease is executed by the servicemember before he/she enters military service for a period of 180 days or more or,
 - the servicemember, while in military service, executes the lease and subsequently receives military orders for a PCS outside of the continental United States (this include a PCS to Hawaii or Alaska), or deployment with a military unit for a period of 180 days or more

Foreclosure, Eviction from Bank-Owned Property

12. Determine, in the case of an institution acting as a landlord, that the institution does not evict a servicemember or his/her dependents⁷ from a residence covered by the Act occupied primarily as a residence during a period of military service except by court order.
13. Determine whether, in the case of real or personal property owned by a servicemember before the servicemember's military service and is secured by a mortgage, trust deed, or similar security interest, the institution obtains a court order before initiating the sale, foreclosure, or seizure based on a breach of such a secured obligation during the period of military service or nine months thereafter.

Installment Contracts

14. Determine, in the case of an institution that finances or purchases installment contracts for the purchase of real or personal property, that where a servicemember has paid a deposit or made a payment before entering military service, that the contract was not rescinded or terminated by the institution after the service-member's entry into service, absent a court order for a breach of the terms of the contract occurring before or during the military service,

7. Dependents are defined in the SCRA as: (a) the service-member's spouse, (b) the servicemember's child, or (c) an individual for whom the servicemember provided more than one-half of the individual's support for 180 days preceding an application for relief under the SCRA.

or the property repossessed because of the breach.

Insurance Assigned as Security for a Loan

15. Determine, in the case of an insurance policy on the life of a servicemember that is assigned before the servicemember's military service as security for an obligation, that the institution does not exercise, during a period of military service or within one year thereafter, any right or option obtained under the assignment, absent a court order. This prohibition does not apply
 - if the assignee has written consent of the insured servicemember, obtained during his/her military service
 - when the premiums on the policy are due and unpaid
 - upon the death of the insured

Adverse Action

16. Determine, in the case of an application from or receipt by a servicemember of a stay, postponement, or suspension of an obligation, that the institution does not use such action as a basis of
 - a determination that the lender is unable to pay the obligation or liability in accordance with its terms
 - denial or revocation of credit, change in terms of an existing credit, or refusal by the creditor to grant credit to the servicemember in substantially the same amount or terms
 - an adverse credit report or reference

Examination Conclusions

17. Conclude the examination after taking the following actions:
 - Fully address identified deficiencies and violations, if any.
 - Attach appropriate supporting work-paper documentation.
 - Discuss findings with management and board of directors.
 - Write comments, as applicable, in the Report of Examination.
 - Include appropriate violation write-ups.
 - Discuss proposed enforcement action, if needed.

Applicable Laws and Regulations

Servicemembers Civil Relief Act, Pub. L. 108-189
(codified at 50 U.S.C. App. 501 et seq.)

Veterans Benefits Improvement Act of 2004, Pub.
L. 108-454

Housing and Economic Recovery Act of 2008, Pub.
L. 110-289

20 U.S.C. § 1078(d), Federal payments to reduce
student interest costs

Servicemembers Civil Relief Act (SCRA) of 2003 Examination Checklist

Section 518—Exercise of Rights Under Act Not to Affect Certain Future Financial Transactions

1. Does the creditor refrain from taking adverse action against a servicemember solely because the servicemember exercised rights under the Act? (50 U.S.C. App. § 518)
If No, cite a violation of Section 518.

Yes No NA

Section 527—Maximum Rate of Interest on Debts Incurred Before Military Service

1. Did the creditor reduce the interest rate on obligations of a servicemember, or of a servicemember jointly with the servicemember's spouse, incurred prior to military service, to no more than 6 percent during the period of military service upon receipt of written notice and a copy of the servicemember's military orders? (527(a)(1))
Note that in the case of a mortgage, the 6 percent cap extends to one year following the end of military service. Interest under the SCRA includes all service, renewal or other charges and fees with the exception of bona fide insurance charges.
If No, cite a violation of Section 527(a)(1).
2. Did the creditor forgive interest in excess of 6 percent? (527(a)(2))
If No, cite a violation of Section 527(a)(2).
3. Did the creditor reduce any periodic payment due by the servicemember by the amount of the interest forgiven? (527(a)(3))
If No, cite a violation of Section 527(a)(3).
4. Upon receipt of the written notice from the servicemember and a copy of the military orders, did the creditor apply the interest rate reduction retroactively to the date on which the servicemember is called to military service? (527(b)(2))
If No, cite a violation of Section 527(b)(2).

Yes No NA

Yes No NA

Yes No NA

Yes No NA

Section 532—Protection Under Installment Contracts for Purchase or Lease

1. Did the creditor obtain a court order before rescinding or terminating contracts by a servicemember for the purchase, lease or bailment of real or personal property (including a motor vehicle) for any breach of terms occurring before or during military service, provided a deposit or installment had been paid prior to entry into military service? Similarly, did the creditor obtain a court order before repossessing property due to breach of terms? (532(a))
If No, cite a violation of Section 532(a).

Yes No NA

Section 533—Mortgages and Trust Deeds

1. Did the creditor obtain a court order before selling, foreclosing or seizing real or personal property due to a breach of an obligation by a servicemember during the period of military service or within nine months after without a court order? (533(c))
Note that HERA sunsets the nine-month extension on December 31, 2012, and the SCRA reverts to the original statutory provision of 90 days on January 1, 2013.
If No, cite a violation of Section 533(c).

Yes No NA

Section 535—Termination of Residential or Motor Vehicle Lease

1. Did the creditor terminate the lease within the stipulated timeframe once the requirements for termination were met by the servicemember lessee? (535(d)) Yes No NA
If No, cite a violation of Section 535(d).

2. Did the creditor refund the lease amounts paid in advance for a period after the effective date of termination within 30 days of the effective date of the termination of the lease? (535(e)) Yes No NA
If No, cite a violation of Section 535(e).

Section 536—Protection of Life Insurance Policy

1. Did the creditor obtain a court order before exercising any right or option obtained under an assignment of the servicemember's life insurance policy made before the servicemember's military service during the period of military service or within one year thereafter? (536(a)) Yes No NA
If No, cite a violation of Section 536(a).

SAFE Act

General Overview¹

The Consumer Financial Protection Bureau's (Bureau) SAFE Act rule² requires an individual who acts as a residential mortgage loan originator (MLO) and is employed by a covered entity that is regulated by one of the Federal Financial Institutions Examination Council member agencies or the Farm Credit Administration to register with the Nationwide Mortgage Licensing System and Registry (Registry) and to obtain a unique identifier.³ Regarding entities supervised by the Federal Reserve, the SAFE Act rule applies to state member banks and their respective subsidiaries that are not functionally regulated within the meaning of section 5(c)(5) of the Bank Holding Company Act, as amended (see 12 USC 1844); branches and agencies of foreign banks (other than federal branches, federal agencies, and insured state branches of foreign banks); and commercial lending companies owned or controlled by foreign banks; and their employees who act as MLOs.

Covered entities are required to provide certain institution-specific information to the Registry to enable their individual MLO employees to complete their registrations. MLOs themselves must provide additional information, including: (a) the MLO's fingerprints for submission to the Federal Bureau of Investigation to perform a national criminal background check; and (b) information on the MLO's

1. Secure and Fair Enforcement for Mortgage Licensing Act; see 12 USC 5101-5116, Title V of the Housing and Economic Recovery Act of 2008 (Pub. L. 110-289, 122 Stat. 2654, 12 USC 5101 et seq.) as amended by Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Pub. L. No. 111-203, 124 Stat. 1376) (Dodd-Frank Act).

2. See 12 CFR 1007 (Regulation G); 76 Fed. Reg. 78483 (December 19, 2011).

3. Under the SAFE Act, an individual is generally prohibited from engaging in the business of mortgage loan origination without first obtaining and maintaining a unique identifier and either a license and registration as a state-licensed MLO or a registration as a federally registered MLO. The SAFE Act rule generally excepts from registration requirements employees who engage in a *de minimis* level of mortgage loan origination activity. In particular, the rule does not apply to an employee of a covered entity who has never been registered through the Registry if, during the preceding 12 months, the employee acted as an MLO for five or fewer residential loans. Pursuant to the Dodd-Frank Act, the Bureau has responsibility for developing and maintaining the federal registration system and supervisory and enforcement authority for SAFE Act compliance for entities under the Bureau's jurisdiction. See Dodd-Frank Act sections 1025, 1061, and 1100.

employment history as well as information related to any relevant criminal, civil, administrative, or arbitration actions. Selected MLO personal information and identifying institution information is made available to consumers using the Registry's public website.

Additionally, covered entities must also make the unique identifiers of their registered MLOs available to consumers in a manner and method practicable for the institution. Likewise, to make sure that consumers have access to an MLO's unique identifier before committing to a mortgage loan transaction, an MLO must provide the unique identifier upon request, before acting as an MLO, and in any initial written communication from the MLO to the consumer.

The SAFE Act rule requires covered entities to adopt written policies and procedures to ensure that their MLO employees are registered and that their registration information, as reflected in the institution's records, is accurate. These policies and procedures should be appropriate to the nature, size, complexity, and scope of residential mortgage lending activities of each institution. Consistent with the policies and procedures required by the rule, covered entities should provide guidance and assistance to their MLOs regarding the applicability and requirements of the rule and should instruct their MLOs to direct any inquiries about the rule to appropriate institution staff. Additionally, the policies and procedures should address taking appropriate action, consistent with applicable federal law, including section 19 of the Federal Deposit Insurance Act (12 USC 1829), and implementing regulations with respect to the results of an MLO's criminal background check from the Registry.

Furthermore, the SAFE Act rule requires covered entities to conduct testing to review compliance with the rule. Institutions are required to independently test for compliance with the regulation at least annually. Such independent compliance activities may be conducted by an institution's internal audit function, compliance (or similar function), or an outside party.

SAFE Act

Examination Procedures for Depository Institutions

EXAMINATION OBJECTIVES

1. To determine whether the financial institution has adopted written policies and procedures designed to assure compliance with the SAFE Act regulation.
2. To determine whether the annual independent testing of the institution's policies and procedures for assuring compliance with the SAFE Act regulation has been conducted.
3. To determine whether any violations or deficiencies identified during the independent testing have been corrected and that steps have been taken to ensure they do not recur.

EXAMINATION PROCEDURES

1. Determine whether the financial institution, or any of its subsidiaries, employs one or more mortgage loan originators (MLOs). For those institutions without any MLOs, these examination procedures do not need to be completed.
2. Determine for those financial institutions with MLOs whether the institution has adopted written policies and procedures and conducts annual independent compliance tests to assure compliance with the SAFE Act regulation. If the institution has failed to adopt policies and procedures and to perform annual independent compliance tests, the examiners should address the violation in the examination report and require corrective action.
3. Review the financial institution's written policies and procedures and the annual independent compliance tests to determine whether the institution has taken appropriate steps to assure compliance with the SAFE Act that at a minimum
 - a. establish a process for identifying which employees of the financial institution are required to be registered MLOs;
 - b. require that all employees of the financial institution who are MLOs be informed of the registration requirements of the SAFE Act and the SAFE Act regulation and be instructed on how to comply with such requirements and procedures;
- c. establish procedures to comply with the unique identifier requirements in section 105 of the SAFE Act regulation;
- d. establish reasonable procedures for confirming the adequacy and accuracy of employee registrations, including updates and renewals, by comparisons with its own records;
- e. establish procedures and tracking systems for monitoring compliance with registration and renewal requirements and procedures;
- f. provide for independent testing for compliance with the SAFE Act regulation conducted annually by institution personnel or by an outside party;
- g. provide for appropriate action in the case of an employee who fails to comply with the registration requirements of the SAFE Act, the SAFE Act regulation, or the financial institution's policies and procedures, including prohibiting such employees from acting as an MLO or other appropriate disciplinary actions;
- h. establish a process for reviewing employee criminal history background reports received pursuant to the SAFE Act regulation, taking appropriate action consistent with applicable federal law, including section 19 of the Federal Deposit Insurance Act (12 USC section 1829) and implementing records of these reports and actions taken with respect to applicable employees; and
- i. establish procedures designed to ensure that any third party with which the institution has arrangements related to mortgage loan origination has policies and procedures to comply with the SAFE Act, including appropriate licensing and/or registration of individuals acting as MLOs.

4. Any significant deficiencies in the institution's SAFE Act regulation policies and procedures or independent compliance tests should be documented in the workpapers and discussed in the examination report together with corrective actions taken.

Regulation G

Examination Objectives and Procedures

EXAMINATION OBJECTIVES

To determine whether the institution

- Is aware of its responsibilities under section 48 of the FDI Act and the implementing CRA Sunshine Regulation (Regulation G)
- Has identified any written agreements that would trigger the section 48 requirements
- Discloses covered agreements and files annual reports as required by the regulation

2. With regard to covered agreements that the institution has identified, determine whether the institution discloses covered agreements to the public and the relevant supervisory agency in a timely manner and files annual reports relating to covered agreements in a timely manner.
3. Require appropriate corrective action.
4. Document findings.

EXAMINATION PROCEDURES

1. Determine whether the institution can appropriately identify any written contract, arrangement, or understanding covered under Regulation G.

Regulation G

Summary of Disclosure and Reporting Requirements

A. Disclosure of Covered Agreements to the Public

Requirement	Nongovernmental Entities and Persons	Insured Depository Institutions (IDIs) and Affiliates
Which agreements must be disclosed to the public?	Covered agreements entered into after 11/12/99	Covered agreements entered into after 11/12/99
When does my duty to disclose a covered agreement to the public begin?	4/1/01	4/1/01
What event triggers my obligation to disclose a covered agreement to a member of the public?	An individual or entity must request that you make a covered agreement available.	An individual or entity must request that you make a covered agreement available.
How do I disclose a covered agreement to the public?	You must promptly make a copy of the covered agreement available. You may withhold information that is confidential and proprietary under FOIA standards. However, you must disclose certain enumerated items of information identified in section 207.6(b)(3) of Regulation G.	You must promptly make a copy of the covered agreement available. You may withhold information that is confidential and proprietary under FOIA standards. However, you must disclose certain enumerated items of information identified in section 207.6(b)(3) of Regulation G. An IDI or affiliate may make an agreement available by placing a copy of the covered agreement in the IDI's CRA public file. The IDI must make the agreement available in accordance with the CRA rule on public files.
When does my duty to disclose a covered agreement to the public end?	Twelve months after the end of the term of the agreement. However, if your agreement terminated before 4/1/01, your obligation to disclose terminates 4/1/02.	Twelve months after the end of the term of the agreement. However, if your agreement terminated before 4/1/01, your obligation to disclose terminates 4/1/02.

B. Disclosure of Covered Agreements to the Relevant Supervisory Agency (RSA)

Requirement	Nongovernmental Entities and Persons	Insured Depository Institutions (IDIs) and Affiliates
What agreements must be disclosed to the RSA?	Covered agreements entered into after 11/12/99	Covered agreements entered into after 11/12/99
When does my duty to disclose a covered agreement to the RSA begin?	4/1/01	4/1/01
When must I disclose a covered agreement to the RSA?	You must disclose your covered agreement to the RSA within 30 days after the RSA requests a copy of the agreement.	You must disclose your covered agreement to the RSA within 60 days of the end of the calendar quarter after the agreement is entered into.
How do I disclose a covered agreement to the RSA?	You must provide the RSA with a complete copy of the agreement. If you propose the withholding of any information that may be withheld from disclosure under FOIA, you must also provide a public version of the agreement that excludes such information and an explanation justifying the exclusion. The public version must include certain information. See section 207.6(b)(3) of Regulation G.	You must provide the RSA with a complete copy of the agreement. If you propose the withholding of any information that may be withheld from disclosure under FOIA, you must also provide a public version of the agreement that excludes such information and an explanation justifying the exclusion. The public version must include certain information. See section 207.6(b)(3) of Regulation G. Alternatively, you may provide a list of all covered agreements that you entered into during the calendar quarter and include the information described in section 207.6(d)(1). If the RSA requests a copy of an agreement referenced in the list, you must provide a copy of the agreement and a public version (if applicable) within 7 calendar days.
When does my duty to disclose a covered agreement to the RSA end?	Twelve months after the end of the term of the agreement.	If you provide a list, your obligation to provide a copy of an agreement referenced in the list terminates 36 months after the end of the term of the agreement.

C. Filing of Annual Reports with the Relevant Supervisory Agency (RSA)

Requirement	Nongovernmental Entities and Persons (NGEPs)	Insured Depository Institutions (IDIs) and Affiliates
What agreements are subject to the requirements for annual reporting to the RSA?	Covered agreements entered into on or after 5/12/00	Covered agreements entered into on or after 5/12/00
What periods require an annual report?	You must report for each fiscal year in which you receive or use funds or other resources under the covered agreement. Alternatively, you may file your report on a calendar year basis.	You must report for each fiscal year in which you have any reportable data concerning the covered agreement described in section 207.7(e)(1)(iii), (e)(1)(iv), or (e)(1)(vi). Alternatively, you may file your report on a calendar year basis.
When must I file the annual report?	For fiscal years that end after 1/1/01, you must file the report with each RSA within 6 months after the end of the fiscal year covered by the report. Alternatively, you may, within this 6-month period, provide the report to an IDI or affiliate that is a party to the agreement. You must include written instructions requiring the IDI or affiliate to promptly forward the report to the RSA(s).	For fiscal years that end after 1/1/01, you must file the report with each RSA within 6 months after the end of the fiscal year covered by the report. If an NGEP has provided its report to you, you must also file that report with the RSA(s) on behalf of the NGEP within 30 days of receipt.
May I file a consolidated annual report?	If you are a party to two or more covered agreements, you may file a single consolidated annual report concerning all the covered agreements.	If you are a party to two or more covered agreements, you may file a single consolidated annual report concerning all the covered agreements. If you and your affiliates are parties to the same covered agreement, you may file a single consolidated annual report relating to the agreement.
What must I include in the annual report?	You must include the information described in section 207.7(d) of Regulation G.	You must include the information described in section 207.7(e) of Regulation G.

Regulation H

Section 109 of the Riegle–Neal Interstate Banking and Branching Efficiency Act

Background

The Riegle–Neal Interstate Banking and Branching Efficiency Act of 1994 (Interstate Act) allows banks to branch across state lines. Section 109 of the act, however, prohibits a bank from establishing or acquiring a branch or branches outside its home state, pursuant to the act, primarily for the purpose of deposit production. Congress enacted section 109 to ensure that interstate branches would not take deposits from a community without the bank's reasonably helping to meet the credit needs of that community. Interagency regulations implementing section 109 became effective in October 1997. The Board's rules implementing the provision for state member banks are located in section 208.7 of Regulation H, Membership of State Banking Institutions in the Federal Reserve System.

Section 106 of the Gramm–Leach–Bliley Act of 1999 (GLBA) expanded the coverage of section 109 by changing the definition of an “interstate branch.” As a result, section 109 also applies to any bank or branch of a bank controlled by an out-of-state bank holding company. Interagency regulations implementing this amendment became effective October 1, 2002.

The language of section 109 and its legislative history make clear that section 109 is to be administered without imposing additional regulatory burden on banks. Consequently, the Board's regulation does not impose additional data-reporting requirements or require banks to produce, or assist in producing, relevant data.

Coverage

Section 109 applies to any bank that has covered interstate branches. (Examples of covered interstate branches follow the examination checklist at the end of this chapter.)

Definitions

Covered Interstate Branch

A *covered interstate branch* is

- Any branch of a bank; any federal branch of a foreign bank; and any uninsured or insured branch of a foreign bank licensed by a state that
 - Is established or acquired outside the bank's home state pursuant to the interstate branching authority granted by the Interstate Act or

by any amendment made by the Interstate Act to any other provision of law or

- Could not have been established or acquired outside the bank's home state but for the establishment or acquisition of a branch described immediately above and
- Any bank or branch of a bank controlled by an out-of-state bank holding company.

Home State

Home state is defined as follows:

- For state banks, the state that chartered the bank
- For national banks, the state in which the main office of the bank is located
- For bank holding companies, the state in which the total deposits of all banking subsidiaries of the company are the largest on the later of
 - July 1, 1966, or
 - The date on which the company becomes a holding company under the Bank Holding Company Act
- For foreign banks,
 - For purposes of determining whether a U.S. branch of a foreign bank is a covered interstate branch, the home state of the foreign bank as determined in accordance with 12 USC 3103(c) and section 211.22 of the Board's regulations (12 CFR 211.22) and
 - For purposes of determining whether a branch of a U.S. bank controlled by a foreign bank is a covered interstate branch, the state in which the total deposits of all banking subsidiaries of the foreign bank are the largest on the later of
 - July 1, 1966, or
 - The date on which the foreign bank becomes a bank holding company under the Bank Holding Company Act

Host State

Host state means a state in which a covered interstate branch is established or acquired.

Host State Loan-to-Deposit Ratio

The *host state loan-to-deposit ratio* relates to all banks that have that state as their home state and

is the ratio of those banks' total loans in the host state to their total deposits from the host state.

Out-of-State Bank Holding Company

An *out-of-state bank holding company* is, with respect to any state, a bank holding company whose home state is another state.

Statewide Loan-to-Deposit Ratio

The *statewide loan-to-deposit ratio* relates to an individual bank and is the ratio of the bank's loans to its deposits in a particular state in which it has one or more covered interstate branches.

The Two-Step Test

Beginning no earlier than one year after a covered interstate branch is acquired by or established as a state member bank, the Board must determine whether a bank is complying with the provisions of section 109. Section 109 provides a two-step test for determining compliance with the prohibition against interstate deposit-production offices:

1. *Compare loan-to-deposit ratios*—The first step is to conduct a loan-to-deposit (LTD) ratio test to measure the lending and deposit activities of a bank's covered interstate branches and then compare the bank's statewide LTD ratio with the host state LTD ratio. If the bank's statewide LTD ratio is at least one-half of the relevant host state LTD ratio, the bank passes the section 109 evaluation and no further review is required. Host state ratios are prepared annually by the Board and are made public in press releases available on the Board's public web site under the title "Banking agencies issue host state loan-to-deposit ratios."
2. *Determine whether the bank is meeting credit needs*—The second step, necessary if a bank fails the LTD ratio test or the LTD ratio cannot be calculated because data are not sufficient or are not reasonably available, is to determine whether the bank is reasonably helping to meet the credit needs of the communities served by the bank in the host state. This step requires the examiner to review the activities of the bank, such as its lending activity and its performance under the CRA. Banks may provide the examiner with any relevant information, including loan data, if a credit-needs determination is conducted.

Although section 109 specifically requires the examiner to consider a bank's CRA rating when making a credit-needs determination, the bank's CRA rating should not be the only factor considered. However, it is expected that banks rated

"satisfactory" or better on CRA will receive a favorable credit-needs determination. Banks rated lower than "satisfactory" on CRA may receive an adverse credit-needs determination unless circumstances are mitigated by the other factors enumerated in section 109. To ensure consistency, a bank's compliance with section 109 generally should be reviewed in conjunction with the evaluation of its CRA performance.

For institutions designated as wholesale or limited purpose banks, the credit-needs determination should consider the bank's performance using the appropriate CRA performance test provided in the CRA regulations. For banks not subject to CRA, including certain special-purpose banks and uninsured branches of foreign banks,¹ the CRA regulations should be used only as a guideline when making a credit-needs determination. Section 109 does not obligate such banks to have a record of performance under the CRA or require them to pass any CRA performance tests.

Enforcement and Sanctions

Before a bank may be sanctioned under section 109, the examiner must demonstrate that the bank failed the LTD ratio test *and* failed to reasonably help meet the credit needs of the communities in the host state served by the bank. Because the bank must fail both the LTD ratio test and the credit-needs determination to be in non-compliance with section 109, the examiner has an obligation to apply the LTD ratio test before seeking sanctions, regardless of the regulatory burden imposed. Thus, if a bank receives an adverse credit-needs determination, the LTD ratio test must be applied even if the data necessary to calculate the appropriate ratio are not readily available. Consequently, the examiner is required to obtain the necessary data to calculate the bank's statewide LTD ratio before sanctions are imposed.

If a bank fails both steps of the section 109 evaluation, sanctions may be imposed, as specified in the statute:

- Ordering the closing of the interstate branch in the host state and
- Prohibiting the bank from opening a new branch in the host state

Sanctions may not be warranted, however, if the bank provides reasonable assurances, to the satisfaction of the Board, that it has an acceptable

1. A special-purpose bank that does not provide commercial or retail banking services by granting credit to the public in the ordinary course of business is not evaluated for CRA performance. Likewise, a branch of a foreign bank, unless the branch is insured or resulted from an acquisition as described in the International Banking Act, 12 USC 3101 et seq., is not evaluated for CRA performance.

plan that will reasonably help meet the credit needs of the communities served, or to be served. Federal Reserve examiners should consult with Reserve Bank management and the Board before discuss-

ing possible sanctions with any bank. Before sanctions are imposed, the Reserve Bank should also consult with state banking authorities.

Regulation H—Section 109

Examination Objectives and Procedures

EXAMINATION OBJECTIVES

- To ensure that a bank is not operating a covered interstate branch, as defined, primarily for the purpose of deposit production, by determining if the bank meets
 - The loan-to-deposit (LTD) ratio test or
 - The credit-needs determination requirements of section 109 of the Interstate Act

EXAMINATION PROCEDURES

(Examples of covered interstate branches follow the examination checklist at the end of this chapter.)

A. Identification of Covered Interstate Branches

1. Banks controlled by an out-of-state bank holding company
 - (a) Determine if the bank is controlled by an out-of-state bank holding company by identifying the home state of the bank and the home state of the bank holding company. To determine the home state of a bank, refer to the definition. To determine the home state of a bank holding company, refer to home state data available from the Board and confirm the home state with bank management.
 - (b) If the bank is not controlled by a bank holding company, or if the home state of the bank holding company is the same state as the home state of the bank, the bank does not have any covered interstate branches under examination procedure 1. Go to procedure 2.
 - (c) If the home state of the bank holding company is not the same as the home state of the bank, the bank meets the definition of a covered interstate branch and is subject to section 109. Go to procedures 2 and 3.
2. Banks with interstate branchesDetermine if the bank has any branches that were established or acquired pursuant to the Interstate Act in states other than the bank's home state. If it does, the bank has a covered interstate branch. Go to procedure 3. If the bank has no covered interstate branches under procedures 1 and 2, the bank is not subject to section 109, and no further review is necessary.

3. One-year rule

For the covered interstate branches identified in procedure 1 or 2, determine if any have been covered interstate branches for one year or more. Note that if any of a bank's covered interstate branches within a particular state have been covered interstate branches for one year or more, then all of the bank's covered interstate branches within that state are subject to review. If any branch has been a covered interstate branch for one year or more, go to procedure 4. If not, no further review is necessary at this time.

B. Assessment of Compliance with the LTD Ratio Test

4. For a covered interstate branch subject to section 109, determine if the bank has sufficient data to calculate a statewide LTD ratio for each host state. (The bank is not required to provide this information or to assist in providing this information.) For states for which the bank has sufficient data, go to procedure 5. For states for which the bank does not have sufficient data, go to procedure 6.
5. For each host state for which the bank can provide loan and deposit data, calculate and compare the bank's statewide LTD ratio with the applicable host state LTD ratio provided by the Board. If the bank's statewide LTD ratio is one-half or greater than one-half of the relevant host state LTD ratio, the bank passes the LTD ratio test and the section 109 evaluation in that state, and no further review is necessary. If the bank's statewide LTD ratio is less than one-half of the host state LTD ratio in that state, the bank fails the LTD ratio test. Go to procedure 6.

C. Credit-Needs Determination

6. For each host state identified in procedure 4 or 5, determine whether the bank is reasonably helping to meet the credit needs of communities served by the bank in the host state. When making this determination, consider all of the following:
 - (a) Whether the covered interstate branches were formerly part of a failed or failing depository institution
 - (b) Whether the covered interstate branches were acquired under circumstances in which there was a low LTD ratio because of the

- nature of the acquired institution's business or loan portfolio
- (c) Whether the covered interstate branches have a higher concentration of commercial or credit card lending, trust services, or other specialized activities, including the extent to which the covered interstate branches accept deposits in the host state
- (d) The most recent ratings (overall rating, multistate MSA rating, and state ratings) received by the bank under the Community Reinvestment Act (CRA)
- (e) Economic conditions, including the level of loan demand, within the communities served by the covered interstate branches
- (f) The safe and sound operation and condition of the bank
- (g) The CRA regulation, examination procedures, and interpretations of the regulation

If the bank passes the credit-needs determination test, it is in compliance with section 109, and no further review is necessary. If the bank fails the credit-needs determination test but a LTD ratio test has not been conducted, go to procedure 7. If the bank

fails the credit-needs determination test and has failed the LTD ratio test, the bank is in noncompliance with section 109. Go to procedure 8.

D. Determination of Whether Sanctions Are Warranted

- 7. Calculate the bank's statewide LTD ratio for each host state in which the bank failed the credit-needs determination test. The data used to calculate these ratios may be obtained from any reliable source. The bank may, but is not required to, provide the examiner with additional data at any time during the examination. If the bank's statewide LTD ratio(s) is one-half of or greater than one-half of the host state LTD ratio, the bank is in compliance with section 109 requirements, and no further review is necessary. If the bank's statewide LTD ratio is less than one-half of the host state LTD ratio, the bank is not in compliance with section 109. Go to procedure 8.
- 8. Consult with Reserve Bank management and the Board to determine whether sanctions are warranted.

Regulation H—Section 109 Examination Checklist

Identify Covered Interstate Branches Subject to Section 109 Evaluation

1. Does the bank have any covered interstate branches? Determine
 - (a) If the bank has established or acquired any branches outside the bank's home state pursuant to the interstate branching authority granted by the Riegle–Neal Interstate Banking and Branching Efficiency Act of 1994 or
Yes No
 - (b) Whether the bank, including a bank consisting of only a main office, is controlled by an out-of-state bank holding company as defined in section 2(o)(7) of the Bank Holding Company Act of 1956
Yes No

Note: If the answer to both (a) and (b) is "no," no further review is necessary.
 2. Have any covered interstate branches been covered interstate branches for one year or more? If any of a bank's covered interstate branches within a particular state have been covered interstate branches for one year or more, all the bank's covered interstate branches within that state are subject to review.
Yes No
- Note: If the answer is "no," no further review is necessary.

Assess Compliance with the Loan-to-Deposit (LTD) Ratio Test

3. For covered interstate branches subject to section 109, does the bank have sufficient data to calculate a statewide LTD ratio(s) for each respective host state?
Yes No
 4. For each host state in which a covered interstate branch exists, calculate the bank's statewide LTD ratio. Is the statewide LTD ratio equal to or greater than one-half of the host state LTD ratio?
Yes No
- Note: For each host state for which the answer is "yes," the bank is in compliance with section 109, and no further review is necessary. For each host state for which the answer is "no," proceed to checklist item 5.

Perform Credit-Needs Determination Test

5. For each host state identified in checklist item 3 or 4, is the bank reasonably helping to meet the credit needs of the communities served by the bank in the host state?
Yes No
- When making this determination, consider the following:
- Whether the covered interstate branches were formerly part of a failed or failing depository institution
 - Whether the covered interstate branches were acquired under circumstances in which there was a low LTD ratio because of the nature of the acquired institution's business or loan portfolio
 - Whether the covered interstate branches have a higher concentration of commercial or credit card lending, trust services, or other specialized activities, including the extent to which the covered interstate branches accept deposits in the host state

- The most recent ratings (overall rating, multistate MSA rating, and state ratings) received by the bank under the Community Reinvestment Act (CRA)
- Economic conditions, including the level of loan demand, within the communities served by the covered interstate branches
- The safe and sound operation and condition of the bank
- The CRA regulation, examination procedures, and interpretations

Note: If the bank passes the credit-needs determination test, the bank complies with section 109, and no further review is necessary. If the bank fails the credit-needs determination test but the LTD ratio test has not yet been conducted, go to checklist item 6. If the bank fails the credit-needs determination test and has failed the LTD ratio test, go to item 7.

Determine if Sanctions Are Warranted

6. Calculate the statewide LTD ratio for each host state for which the bank failed the credit-needs determination test. Is this ratio equal to or greater than one-half of the host state LTD ratio?

Yes No

Note: If the answer is “yes,” the bank is in compliance with section 109, and no further review is necessary. If the answer is “no,” the bank is in noncompliance with section 109 (go to checklist item 7).

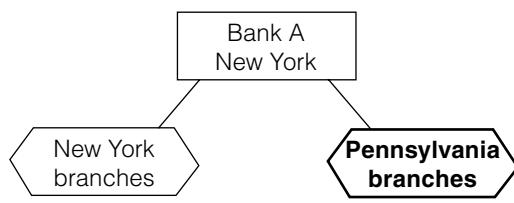
7. After consultation with Reserve Bank management and the Board, are sanctions warranted?

Yes No

Regulation H—Section 109

Examples of Covered Interstate Branches

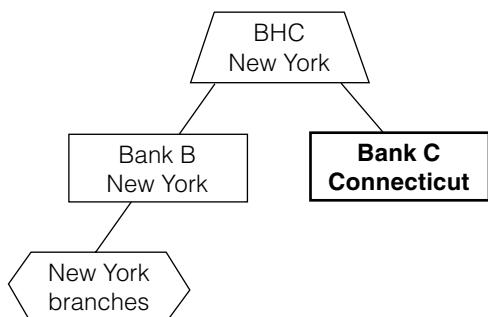
Bank with Branches outside Its Home State



Bank A is an interstate bank with branches in Pennsylvania that were established or acquired under the Interstate Act. Bank A's home state is New York and its host state is Pennsylvania. The Pennsylvania branches are covered interstate branches subject to the section 109 review. Bank A's statewide loan-to-deposit (LTD) ratio in Pennsylvania is compared with the host state LTD ratio for Pennsylvania.

The section 109 test is conducted at the same time the bank's CRA examination is conducted.

Bank Consisting of Only a Main Office and Controlled by an Out-of-State Bank Holding Company



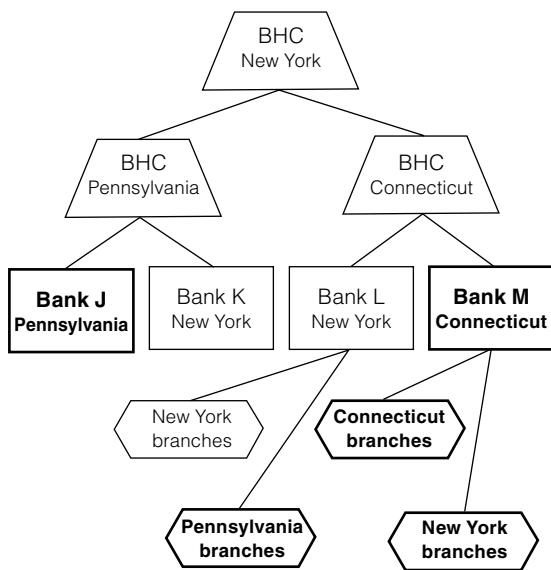
Banks B and C are controlled by a bank holding company whose home state is New York. Bank B is an intrastate bank and is not subject to the section 109 review.

Bank C's home state is Connecticut; it is subject to the section 109 review because it is controlled by an out-of-state bank holding company whose home state is New York. Bank C's statewide LTD ratio in Connecticut is compared with the host state LTD ratio for Connecticut.

The section 109 test is conducted at the same time the bank's CRA examination is conducted.

Note: Bold type indicates that the bank or branch is subject to the section 109 review.

Covered Interstate Branches under a Multitiered Bank Holding Company Structure



Note: Bold type indicates that the bank or branch is subject to the section 109 review.

This example illustrates the need to look to the top-tier bank holding company when determining whether to conduct the section 109 review. Banks J, K, L, and M are controlled by a top-tier holding company whose home state is New York.

Out-of-state bank holding company

Banks J and M are subject to section 109 reviews because an out-of-state top-tier bank holding company controls both of them. Bank J's home state is Pennsylvania; its statewide LTD ratio in Pennsylvania is compared with the host state LTD ratio for Pennsylvania. Bank M's home state is Connecticut; its statewide LTD ratio in Connecticut is compared with the host state LTD ratio for Connecticut.

Out-of-state branches

Bank M's branches in New York also are subject to the section 109 review, because Bank M is an interstate bank. Bank M's home state is Connecticut; its statewide LTD ratio in New York is compared with the host state LTD ratio for New York.

Bank L's branches in Pennsylvania also are subject to the section 109 review because Bank L is an interstate bank. Bank L's home state is New York; its statewide LTD ratio in Pennsylvania is compared with the host state LTD ratio for Pennsylvania.

Not subject to 109 review

Bank K is not subject to review for section 109 compliance because an out-of-state bank holding company does not control it and it does not have interstate branches.

The section 109 test is conducted at the same time the bank's CRA examination is conducted.

Regulation M

Consumer Leasing

Background

Regulation M, Consumer Leasing, implements the Consumer Leasing Act (15 USC 1667 et seq.), which was enacted in 1976. A major purpose of the act is to ensure that consumers receive meaningful and accurate disclosure of the terms of a lease before entering into a contract to lease personal property. Such disclosure is intended to help consumers compare one lease with another, as well as compare the cost of leasing with the cost of buying on credit or the opportunity cost of paying cash. The act also sets limits on balloon payments sometimes due at the end of a lease and regulates advertising.

The Consumer Leasing Act, which is part of the Truth in Lending Act, was originally implemented by Regulation Z, Truth in Lending. When Regulation Z was revised in 1981, the provisions of the regulation governing consumer leases were moved to Regulation M. In 2007, Regulation M was updated to incorporate guidance on the electronic delivery of disclosures consistent with the E-Sign Act.¹

Today, a relatively small number of banks engage in consumer leasing. The trend seems to be for leasing to be carried out through specialized bank subsidiaries, vehicle finance companies, other finance companies, or directly by retailers.

Key Definitions

Understanding certain key terms plays an integral role in understanding the requirements imposed by the Consumer Leasing Act.

Lessee

A *lessee* is a natural person who enters into or is offered a consumer lease.

Lessor

A *lessor* is a natural person or organization who regularly leases, offers to lease, or arranges for the lease of personal property under a consumer lease. A person who leased or offered to lease more than five times in the preceding calendar year or the current calendar year meets this definition.

1. The Electronic Signatures in Global and National Commerce Act, 15 USC 7001 et seq.

Consumer Lease

A *consumer lease* is a lease contract between a lessor and a lessee

- For the use of personal property by an individual (natural person)
- For personal property to be used primarily for personal, family, or household purposes
- For a period of more than four months (week-to-week and month-to-month leases do not meet this criterion, even though they may be extended beyond four months) and with a total contractual cost of no more than \$25,000

Specifically *excluded* from coverage by Regulation M are leases

- For business, agricultural, or commercial purposes or made to an organization
- For real property
- For personal property incidental to the lease of real property, subject to certain conditions
- For credit sales, as defined in Regulation Z, section 226.2(a)(16)

A lease meeting all the criteria for a consumer lease is covered by the Consumer Leasing Act and Regulation M. If any one of the criteria is not met, for example, if the leased property is to be used primarily for business purposes or the total contractual cost exceeds \$25,000, the act and the regulation do not apply.

Consumer leases fall into one of two categories: closed-end and open-end. The information that must be disclosed to consumers varies according to the category of lease, so it is important to note the differences between the categories. To understand the differences, one must first understand “realized value” and “residual value.”

Realized Value

The *realized value* is (1) the price received by the lessor of the leased property at disposition, (2) the highest offer for disposition of the leased property, or (3) the fair market value of the leased property at the end of the lease term.

Residual Value

The *residual value* is the value of the leased property at the end of the lease, as estimated or assigned by the lessor at consummation of the lease.

Open-End Lease

An *open-end lease* is a lease in which the amount owed at the end of the lease term is based on the difference between the residual value and the realized value of the leased property. If the realized value is less than the residual value, the consumer may have to pay all or part of the difference; if the realized value is greater than the residual value, the consumer may receive a refund.

Closed-End Lease

A *closed-end lease* is any lease other than an open-end lease. This type of lease allows the consumer to “walk away” at the end of the contract period with no further payment obligation—unless the property has been damaged or has sustained abnormal wear and tear.

Gross Capitalized Cost

The *gross capitalized cost* is the amount agreed upon by the lessor and lessee as the value of the leased property, plus any items that are capitalized or amortized during the lease term, such as taxes, insurance, service agreements, and any outstanding prior credit or lease balance.

Capitalized Cost Reduction

The *capitalized cost reduction* is the total amount of any rebate, cash payment, net trade-in allowance, and noncash credit that reduces the gross capitalized cost.

Adjusted Capitalized Cost

The *adjusted capitalized cost* is the gross capitalized cost less the capitalized cost reduction. It is the amount used by the lessor in calculating the base periodic payment.

General Disclosure Requirements

Format of Disclosures

Lessors are required to provide the consumer with leasing cost information and other disclosures in a format similar to the model disclosure forms in appendix A to Regulation M. Certain pieces of this information must be kept together and must be segregated from other lease information. All the information stated must be accurate, clear and conspicuous, and provided in writing in a form that the consumer may keep.

With the consumer’s consent, Regulation M disclosures may be provided electronically. Before consent can be given, consumers must be provided with a clear and conspicuous statement,

informing the consumer of

- Any right or option to have the information provided in paper or non-electronic form;
- The right to withdraw the consent to receive information electronically and the consequences, including fees, of doing so;
- The scope of the consent (for example, whether the consent applies only to a particular transaction or to identified categories of records that may be provided during the course of the parties’ relationship);
- The procedures to withdraw consent and to update information needed to contact the consumer electronically; and
- The methods by which a consumer may obtain, upon request, a paper copy of an electronic record after consent has been given to receive the information electronically and whether any fee will be charged.

The consumer must consent electronically or confirm consent electronically in a manner that “reasonably demonstrates that the consumer can access information in the electronic form that will be used to provide the information that is the subject of the consent.”

If an institution makes subsequent changes to the hardware or software requirements that would prevent a consumer from accessing and retaining information electronically, the institution must notify the consumer of the new requirements and must allow the consumer to withdraw consent without charge.

Content of Disclosures

Disclosure requirements are outlined in section 213.4 of the regulation. Briefly, leasing disclosures must contain the following information, as applicable:

- Description of the leased property
- Amount due at lease signing or delivery
- Payment schedule and total amount of periodic payments
- Other charges
- Total of payments
- Payment calculation
- Early-termination information
- Maintenance responsibilities
- Purchase option
- Statement referencing nonsegregated disclosures
- Liability resulting from a difference between the

- residual value and the realized value
- Right of appraisal
- Liability at the end of the lease term based on the residual value
- Fees and taxes
- Insurance
- Warranties or guarantees
- Penalties and other charges for delinquency
- Security interest
- Limitations on rate information
- Additional disclosures for non-motor-vehicle open-end leases

Timing of Disclosures

A dated disclosure statement must be given to the consumer before the lease is signed. The disclosure must contain all the information detailed in section 213.4 of the regulation.

Renegotiations and Extensions

New disclosures must generally be provided when a consumer renegotiates or extends a lease beyond six months.

Multiple Lessors and Lessees

In the event of multiple lessors, one lessor may make the required disclosures on behalf of all the lessors. If the lease involves more than one lessee, the required disclosures may be given to any lessee who is primarily liable.

Advertising

Advertisements concerning consumer leases must also comply with certain disclosure requirements. All advertisements must be accurate. If a printed ad includes any reference to certain triggering terms—the amount of any payment or a statement of a capitalized cost reduction (that is, a down payment) or other payment required before or at lease signing or delivery (or that no such payment is required)—the ad must also state the following:

- That the transaction is a lease
- The total amount due prior to or at lease signing or delivery
- The number, amounts, and due dates or periods of the scheduled payments
- Whether or not a security deposit is required

Advertisements for open-end leases must also include a statement that extra charges may be

imposed at the end of the lease based on the difference between the residual value and the realized value at the end of the lease term.

If a percentage rate is given in an advertisement, the rate must not be more prominent than any of the other required disclosures, with the exception of the notice described in section 213.4(s). Such an ad must also include the statement, “This percentage may not measure the overall cost of financing this lease.” The term “annual percentage rate” or “annual lease rate,” or any equivalent term, may not be used.

Some fees (license, registration, taxes, and inspection fees) may vary by state or locality. An advertisement may exclude these third-party fees from the disclosure of a periodic payment or a total amount due at lease signing or delivery, provided that the ad states that these fees have been excluded. Otherwise, an ad may include these fees in the periodic payment or total amount due, provided that it states that the fees are based on a particular state or locality and indicates that the fees may vary.

Disclosures for electronic advertisements (such as an advertisement on an Internet website) may be provided in the advertisement without regard to the consumer consent or other provision of the E-Sign Act. As with a catalog or multi-page advertisement, an electronic advertisement that includes a table or schedule of the required disclosures is considered a single advertisement if, for the lease terms that appear without all the required disclosures, the advertisement clearly refers the consumer to the location where the additional required information begins. For example, a term triggering additional disclosures may be accompanied by a link that directly connects the consumer to the additional disclosures.

Limits on Balloon Payments

To limit balloon payments that may be required of the consumer, certain sections of the regulation call for reasonable calculations and estimates. These provisions protect the consumer at early termination of a lease, at the end of the lease term, or in the event of delinquency, default, or late-payment status. They limit the lessee's liability at the end of the lease term and set reasonableness standards for wear and use charges, early-termination charges, and penalties or fees for delinquency.

Penalties and Liability

Criminal and civil liability provisions of the Truth in Lending Act also apply to the Consumer Leasing Act. Actions alleging failure to disclose the required information or to otherwise comply with the Con-

sumer Leasing Act must be brought within one year of the termination of the lease agreement.

Record Retention

Lessors are required to maintain evidence of

compliance with the requirements of Regulation M, other than the advertising requirements under section 213.7, for a period of at least two years after the date the disclosures are required to be made or an action is required to be taken.

Regulation M

Examination Objectives and Procedures

EXAMINATION OBJECTIVES

1. To assess the quality of the financial institution's compliance management system for the Consumer Leasing Act
2. To determine that lessees of personal property are given meaningful and accurate disclosures of lease terms
3. To determine if the limits of liability are clearly indicated to lessees and are correctly enforced by the institution
4. To ensure that the institution provides accurate disclosures of its leasing terms in all advertising

4. Are the disclosures timely? (§ 213.3(a)(3))
5. If the lease involves more than one lessee, are the disclosures provided to any lessee who is primarily liable? (§ 213.3(c))
6. If additional information is provided, is it provided in a manner such that it does not mislead or confuse the lessee? (§ 213.3(b))
7. Are all estimates clearly identified and reasonable? (§ 213.3(d))
8. Are the disclosures accurate, and do they contain the information required by sections 213.4(a)–213.4(t)?
9. Are disclosures given to lessees when they renegotiate or extend their leases? (§ 213.5)

EXAMINATION PROCEDURES

General Disclosure Requirements

- A. Review the institution's procedures for providing disclosures to ensure that it has adequate controls and procedures to effect compliance.
- B. Review the disclosures provided by the institution.
 1. Are the disclosures clear and conspicuous and provided in writing in a form the consumer can keep?
 - a. For disclosures provided electronically (other than for advertising requirements), are the disclosures in electronic form provided in compliance with the consumer consent and other applicable provisions of the Electronic Signatures in Global and National Commerce Act (E-Sign Act)?²
 - b. For an advertisement accessed by the consumer in electronic form, are the disclosures required by 12 CFR 213.7 provided to the consumer in electronic form in the advertisement? (§ 213.3(a))
 2. Are the disclosures given in a dated statement and in the prescribed format? (§ 213.3(a)(1))
 3. Is the information required by sections 213.4(b) through (f), (g)(2), (h)(3), (i)(1), (j), and (m)(1) segregated and in a form substantially similar to the model in appendix A to Regulation M? (§ 213.3(a)(2))

Lessee Liability

Review the lease estimates and calculations to ensure that no unreasonable balloon payment is expected of the lessee in the following circumstances:

- A. At early termination
 1. Does the lessor disclose the conditions under which the lease may be terminated early and the amount, and method of determining the amount, of any early-termination charges? (§ 213.4(g)(1))
 2. Are any early-termination charges reasonable? (§ 213.4(g)(1))
- B. At end of lease term (for wear and use)
 1. If the lessor sets standards for wear and use of the leased vehicle, are the amounts of, or method of determining the amounts of, any charge for excess mileage disclosed? (§ 213.4(h)(3))
 2. Are standards for wear and use reasonable? (§ 213.4(h)(2))
- C. At end of lease term (for open-end leases)
 1. Does the lessor disclose the limitations on the lessee's liabilities at the end of the lease term? (§ 213.4(m)(2))
 2. Are the lessee and lessor permitted to make a mutually agreeable final adjustment regarding excess liability? (§ 213.4(m)(3))
- D. In the event of delinquency, default, or late payment
 1. Does the lessor disclose penalties or other charges for delinquency, default, or late

2. The final amendments to Regulation M on the electronic delivery of disclosures, consistent with the requirements of the E-Sign Act, became effective December 10, 2007, and require mandatory compliance by October 1, 2008.

- payments? (§ 213.4(q))
2. Are the penalties or other charges reasonable? (§ 213.4(q))

Advertising

- A. Review advertising policies and procedures used by the institution to ensure that it has adequate controls and procedures to effect compliance.
- B. Review a sample of the institution's advertisements.
 1. Do the advertisements contain terms that are usually and customarily available? (§ 213.7(a))
 2. Are the disclosures contained in the advertisements clear and conspicuous? (§ 213.7(b))
 3. Do catalog or multiple-page advertisements comply with the page-reference requirements? (§ 213.7(c))

4. When triggering terms are used, do the advertisements contain the additional required information? (§ 213.7(d))
Do merchandise tags that use triggering terms refer to a sign or display that contains the additional required disclosures? (§ 213.7(e))
5. If television or radio advertisements that use triggering terms do not contain the additional terms required by section 213.7(d)(2), do they use alternative disclosure methods (that is, do they direct consumers to a toll-free number or a written advertisement)? (§ 213.7(f))

Miscellaneous

1. Are records and other evidence of compliance retained for at least two years? (§ 213.8)

Regulation M Examination Checklist

1. Does the institution engage in consumer leasing or purchase consumer leases from lessors? (§ 213.2(h)) (If it does not, there is no need to complete this checklist.)	Yes	No
2. Are the disclosures made prior to consummation of the lease (that is, at the time a binding order is made or the lease is signed)? (§ 213.3(a)(3))	Yes	No
3. Are the disclosures clear and conspicuous and provided in writing in a form the consumer can keep? (§ 213.3(a))	Yes	No
4. Are disclosures in electronic form provided in compliance with the consumer consent and other applicable provisions of the Electronic Signatures in Global and National Commerce Act (E-Sign Act)? (§ 213.3(a))	Yes	No
5. For an advertisement accessed by the consumer in electronic form, are the disclosures required by 12 CFR 213.7 provided to the consumer in electronic form in the advertisement? (§ 213.3(a))	Yes	No
6. Are the disclosures given in a dated statement and made in either (i) a separate statement that identifies the consumer lease transaction, (ii) the contract, or (iii) other document evidencing the lease? (§ 213.3(a)(1))	Yes	No
7. Is the information required by sections 213.4(b)–(f), (g)(2), (h)(3), (i)(1), (j), and (m)(1) segregated and in a form substantially similar to the model in appendix A to Regulation M? (§ 213.3(a)(2))	Yes	No
8. If the lease involves more than one lessee, are the disclosures provided to any lessee who is primarily liable? (§ 213.3(c))	Yes	No
9. If additional information is provided, is it provided in a manner such that it does not mislead or confuse the lessee? (§ 213.3(b))	Yes	No
10. Are disclosures provided to at least one lessee when there are multiple lessees and by at least one lessor when there are multiple lessors? (§ 213.3(c))	Yes	No
11. Are all estimates clearly identified and reasonable? (§ 213.3(d))	Yes	No
12. Are the following disclosures made in the lease?		
A. Description of property (§ 213.4(a))	Yes	No
B. Amount due at lease signing or delivery (§ 213.4(b))	Yes	No
C. Payment schedule and total amount of periodic payments (§ 213.4(c))	Yes	No
D. Other charges (§ 213.4(d))	Yes	No
E. Total of payments (§ 213.4(e))	Yes	No
F. Regarding payment calculations,		
i. Gross capitalized cost (§ 213.4(f)(1))	Yes	No
ii. Capitalized cost reduction (§ 213.4(f)(2))	Yes	No
iii. Adjusted capitalized cost (§ 213.4(f)(3))	Yes	No
iv. Residual value (§ 213.4(f)(4))	Yes	No
v. Depreciation and any amortized amounts (§ 213.4(f)(5))	Yes	No
vi. Rent charge (§ 213.4(f)(6))	Yes	No
vii. Total of base periodic payments (§ 213.4(f)(7))	Yes	No
viii. Lease payments (§ 213.4(f)(8))	Yes	No
ix. Base periodic payment (§ 213.4(f)(9))	Yes	No
x. Itemization of other charges (§ 213.4(f)(10))	Yes	No
xi. Total periodic payment (§ 213.4(f)(11))	Yes	No
G. Regarding early termination,		
i. Conditions under which the lessee or lessor may terminate the lease prior to the end of the lease term (§ 213.4(g)(1))	Yes	No

ii. The amount of or description of the method for determining the amount of any penalty or other charges for early termination (§ 213.4(g)(1))	Yes	No
iii. In a form substantially similar to the sample (§ 213.4(g)(2))	Yes	No
H. Regarding notice of wear and use,		
i. Whether the lessor or the lessee is responsible for maintaining or servicing the leased property, with a description of the responsibility (§ 213.4(h)(1))	Yes	No
ii. Lessor's standards for wear and use, which must be reasonable (§ 213.4(h)(2))	Yes	No
iii. In a form substantially similar to the sample (§ 213.4(h)(3))	Yes	No
I. Purchase option (§ 213.4(i))	Yes	No
J. Statement referencing other nonsegregated disclosures (§ 213.4(j))	Yes	No
K. Liability between residual and realized values (§ 213.4(k))	Yes	No
L. Right of appraisal (§ 213.4(l))	Yes	No
M. For open-end leases,		
i. The rent and other charges paid by the lessee (§ 213.4(m)(1))	Yes	No
ii. Liability at end of lease term based on residual value and any excess liability (§ 213.4(m)(2))	Yes	No
iii. Mutually agreeable final adjustment (§ 213.4(m)(3))	Yes	No
N. Fees and taxes (§ 213.4(n))	Yes	No
O. Regarding insurance,		
i. Types and amounts of insurance that the lessee is required to have (§ 213.4(o))	Yes	No
ii. If the lessor provides insurance, types, amounts, and cost (§ 213.4(o)(1))	Yes	No
P. Warranties or guarantees (§ 213.4(p))	Yes	No
Q. Penalties and other charges for late payments, delinquency, or default (§ 213.4(q))	Yes	No
R. Security interest other than a security deposit (§ 213.4(r))	Yes	No
S. Regarding any information on rates,		
i. Does the lessor use the term "annual percentage rate," "annual lease rate," or any equivalent term in the lease disclosure? (§ 213.4(s))	Yes	No
ii. If so, does a statement that "This percentage may not measure the overall cost of financing this lease" accompany the rate? (§ 213.4(s))	Yes	No
13. Are disclosures given to lessees when they renegotiate or extend their lease? (§ 213.5)	Yes	No
14. Does the bank advertise its leasing program? If it does,		
A. Do the advertisements contain terms that are usually and customarily available? (§ 213.7(a))	Yes	No
B. Are the advertisements clear and conspicuous? (§ 213.7(b))	Yes	No
i. Are any affirmative or negative references to a charge that is part of the disclosure required under section 213.7(d)(2)(ii) less prominent than the disclosure (except for the statement of a periodic payment)? (§ 213.7(b)(1))	Yes	No
ii. Are the advertisements of lease rates less prominent than any disclosure required by section 213.4 (except the notice of the limitations on the rate)? (§ 213.7(b)(2))	Yes	No
C. Do catalog and multiple-page advertisements comply with the page-reference requirements? (§ 213.7(c))	Yes	No
D. If any triggering terms are used, are all the following disclosures made? (§ 213.7(d)(2))	Yes	No
i. That the transaction advertised is a lease	Yes	No

ii. The total amount due prior to or at consummation or by delivery, if delivery occurs after consummation	Yes	No
iii. The number, amounts, and due dates or periods of scheduled payments under the lease	Yes	No
iv. Whether or not a security deposit is required	Yes	No
v. A statement that an extra charge may be imposed at the end of the lease term when the lessee's liability (if any) is based on the difference between the residual value of the leased property and its realized value at the end of the lease term	Yes	No
15. Do merchandise tags that use triggering terms refer to a sign or display that contains the additional required disclosures? (§ 213.7(e))	Yes	No
16. Do television and radio advertisements that do not contain the additional information required by section 213.4(d)(2) direct consumers to a toll-free number or a written advertisement for additional information when triggering terms are used? (§ 213.7)	Yes	No
A. Is the toll-free number listed along with a statement that the number may be used by consumers to obtain the information? (§ 213.7(f)(1)(i))	Yes	No
B. i. Is the written advertisement in a publication that is in general circulation in the community served by the station?	Yes	No
ii. Does the broadcast include the name and date of the publication?	Yes	No
iii. Is the publication published beginning at least three days before, and ending at least ten days after, the broadcast? (§ 213.7(f)(1)(ii))	Yes	No
C. Was the toll-free telephone number available for at least ten days, beginning on the date of broadcast? (§ 213.7(f)(2)(i))	Yes	No
D. Does the lessor provide the information required by section 213.7(d)(2) via the toll-free number orally, or in writing upon request? (§ 213.7(f)(2)(ii))	Yes	No
17. Are records and other evidence of compliance retained for at least two years? (§ 213.8)	Yes	No

Regulation P

Privacy of Consumer Financial Information

BACKGROUND AND OVERVIEW

Title V, subtitle A of the Gramm-Leach-Bliley Act (GLBA)¹ governs the treatment of nonpublic personal information about consumers by financial institutions. Section 502 of the subtitle, subject to certain exceptions, prohibits a financial institution from disclosing nonpublic personal information about a consumer to nonaffiliated third parties unless (1) the institution satisfies various notice and opt-out requirements and (2) the consumer has not elected to opt out of the disclosure. Section 503 requires the institution to provide notice of its privacy policies and practices to its customers. Section 504 authorizes the issuance of regulations to implement these provisions.

In 2000, the Board of Governors of the Federal Reserve System (Board), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), and the former Office of Thrift Supervision (OTS), published regulations implementing provisions of GLBA governing the treatment of nonpublic personal information about consumers by financial institutions.²

Title X of the Dodd-Frank Act Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act)³ granted rulemaking authority for most provisions of subtitle A of title V of GLBA to the Consumer Financial Protection Bureau (CFPB) with respect to financial institutions and other entities subject to the CFPB's jurisdiction, except securities and futures-related companies and certain motor vehicle dealers. The Dodd-Frank Act also granted authority to the CFPB to examine and enforce compliance with these statutory provisions and their implementing regulations with respect to entities under CFPB jurisdiction.⁴ In December 2011, the CFPB recodified in Regulation P, 12 CFR part 1016, the implementing regulations that were previously issued by the Board, the FDIC, the Federal Trade Commission (FTC), the NCUA, the OCC, and the former OTS.⁵

1. 15 U.S.C. §§6801–6809.

2. The NCUA published its final rule in the *Federal Register* on May 18, 2000 (65 FR 31722). The Board, the FDIC, the OCC, and the former OTS jointly published their final rules on June 1, 2000 (65 FR 35162).

3. Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Pub. L. No. 111-203, Title X, 124 Stat. 1983 (2010).

4. Dodd-Frank Act §§1002(12)(J), 1024(b)-(c), and 1025(b)-(c); 12 U.S.C. §§5481(12)(J), 5514(b)-(c), and 5515(b)-(c). Section 1002(12)(J) of the Dodd-Frank Act, however, excluded financial institutions' information security safeguards under GLBA section 501(b) from the CFPB's rulemaking, examination, and enforcement authority.

5. 76 FR 79025 (Dec. 21, 2011). Pursuant to GLBA, the FTC

The regulation establishes rules governing duties of a financial institution to provide particular notices and limitations on its disclosure of nonpublic personal information, as summarized below.

- A financial institution must provide notice of its privacy policies and practices and allow the consumer to opt out of the disclosure of the consumer's nonpublic personal information to a nonaffiliated third party if the disclosure is outside of the exceptions in sections 13, 14, or 15 of the regulation. If the financial institution provides the consumer's nonpublic personal information to a nonaffiliated third party under the exception in section 13, it must provide notice of its privacy policies and practices to the consumer. Under the exception in section 13, the financial institution must also enter into a contractual agreement with the third party that prohibits the third party from disclosing or using the information other than to perform services for the institution or functions on the institution's behalf, including use under an exception in sections 14 or 15 in the ordinary course of business to carry out those services or functions. If the financial institution complies with these requirements, it is not required to provide an opt-out notice.
- Regardless of whether a financial institution shares nonpublic personal information, the institution must provide notice of its privacy policies and practices to its customers.
- A financial institution generally may not disclose consumer account numbers to any nonaffiliated third party for marketing purposes.
- A financial institution must follow redisclosure and reuse limitations on any nonpublic personal information it receives from a nonaffiliated financial institution.

In general, the privacy notice must describe a financial institution's policies and practices with respect to collecting and disclosing nonpublic personal information about a consumer to both affiliated and nonaffiliated third parties. Also, the notice must provide a consumer a reasonable opportunity to direct the institution generally not to share nonpublic personal information about the consumer (that is, to "opt out") with nonaffiliated third parties other than as permitted by exceptions

retains rulemaking authority over any financial institution that is a person described in 12 U.S.C. §5519 (with certain statutory exceptions, the FTC generally retains rulemaking authority for motor vehicle dealers predominantly engaged in the sale and servicing of motor vehicles, the leasing and servicing of motor vehicles, or both).

under the regulation (for example, sharing for everyday business purposes, such as processing transactions and maintaining customers' accounts, and in response to properly executed governmental requests). The privacy notice must also provide, where applicable under the Fair Credit Reporting Act (FCRA), a notice and an opportunity for a consumer to opt out of certain information sharing among affiliates.

Section 728 of the Financial Services Regulatory Relief Act of 2006 required the four federal banking agencies (the Board, the FDIC, the OCC, and the former OTS) and four additional federal regulatory agencies (the Commodity Futures Trading Commission (CFTC), the FTC, the NCUA, and the Securities and Exchange Commission (SEC)) to develop a model privacy form that financial institutions may rely on as a safe harbor to provide disclosures under the privacy rules.

On December 1, 2009, the eight federal agencies jointly released a voluntary model privacy form designed to make it easier for consumers to understand how financial institutions collect and share nonpublic personal information.⁶ The final rule adopting the model privacy form was effective on December 31, 2009.

On October 28, 2014, the CFPB published a final rule amending the requirements regarding financial institutions' provision of their annual disclosures of privacy policies and practices to customers by creating an alternative delivery method that financial institutions can use under certain circumstances.⁷ The amendment was effective immediately upon publication. The alternative delivery method allows a financial institution to provide an annual privacy notice by posting the annual notice on its website, if the financial institution meets certain conditions.

As of December 4, 2015, section 75001 of the Fixing America's Surface Transportation Act⁸ ("FAST Act") amended section 503 of GLBA to establish an exception to the annual privacy notice requirements whereby a financial institution that meets certain criteria is not required to provide an annual privacy notice to customers. The amendment was effective upon enactment.

There are fewer requirements to qualify for the exception to providing an annual privacy notice pursuant to the FAST Act GLBA amendments than there are to qualify to use the CFPB's alternative delivery method; any institution that meets the requirements for using the alternative delivery

method is effectively excepted from delivering an annual privacy notice.

Definitions and Key Concepts

In discussing the duties and limitations imposed by the regulation, a number of key concepts are used. These concepts include "financial institution"; "nonpublic personal information"; "nonaffiliated third party"; the "opt-out" right and the exceptions to that right; and "consumer" and "customer." Each concept is briefly discussed below. A more complete explanation of each appears in the regulation.

Financial Institution

A "financial institution" is any institution the business of which is engaging in activities that are financial in nature or incidental to such financial activities, as determined by section 4(k) of the Bank Holding Company Act of 1956. Financial institutions can include banks, securities brokers and dealers, insurance underwriters and agents, finance companies, mortgage bankers, and travel agents.⁹

Nonpublic Personal Information

"Nonpublic personal information" generally is any information that is not publicly available and that

- a consumer provides to a financial institution to obtain a financial product or service from the institution,
- results from a transaction between the consumer and the institution involving a financial product or service, or
- a financial institution otherwise obtains about a consumer in connection with providing a financial product or service

Information is publicly available if an institution has a reasonable basis to believe that the information is lawfully made available to the general public from government records, widely distributed media, or legally required disclosures to the general public. Examples include information in a telephone book or a publicly recorded document, such as a mortgage or security interest filing.

Nonpublic personal information may include individual items of information, as well as lists of information. For example, nonpublic personal infor-

6. 74 FR 62890.

7. 79 FR 64057.

8. Fixing America's Surface Transportation Act of 2015, Pub. L. No. 114-94 (2015), 129 Stat. 1312 (2015).

9. Certain functionally regulated subsidiaries, such as brokers, dealers, and investment advisers, are subject to GLBA implementing regulations issued by the SEC. Other functionally regulated subsidiaries, such as futures commission merchants, commodity trading advisors, commodity pool operators, and introducing brokers in commodities, are subject to GLBA implementing regulations issued by the CFTC. Insurance entities may be subject to privacy regulations issued by their respective state insurance authorities.

mation may include names, addresses, phone numbers, social security numbers, income, credit score, and information obtained through Internet collection devices (i.e., cookies).

There are special rules regarding lists. Publicly available information would be treated as nonpublic if it were included on a list of consumers derived from nonpublic personal information. For example, a list of the names and addresses of a financial institution's depositors would be nonpublic personal information even though the same names and addresses might be published in local telephone directories because the list is derived from the fact that a person has a deposit account with an institution, which is not publicly available information.

However, if the financial institution has a reasonable basis to believe that certain customer relationships are a matter of public record, then any list of these relationships would be considered publicly available information. For instance, a list of mortgage customers from public mortgage records would be considered publicly available information. The institution could provide a list of such customers, and include on that list any other publicly available information it has about those customers without having to provide notice or opt out.

Nonaffiliated Third Party

A "nonaffiliated third party" is any person except a financial institution's affiliate or a person employed jointly by a financial institution and a company that is not the institution's affiliate. An "affiliate" of a financial institution is any company that controls, is controlled by, or is under common control with the financial institution.

Opt Out Right and Exceptions

The Right

Consumers must be given the right to "opt out" of, or prevent, a financial institution from disclosing nonpublic personal information about them to a nonaffiliated third party unless an exception to that right applies. The exceptions are detailed in sections 13, 14, and 15 of the regulation and described below.

As part of the opt-out right, consumers must be given a reasonable opportunity and a reasonable means to opt out. What constitutes a *reasonable opportunity to opt out* depends on the circumstances surrounding the consumer's transaction, but a consumer must be provided a reasonable amount of time to exercise the opt-out right. For example, it would be reasonable if the financial institution allows 30 days from the date of mailing a

notice or 30 days after customer acknowledgement of an electronic notice for an opt-out direction to be returned. What constitutes a *reasonable means to opt out* may include check-off boxes, a reply form, or a toll-free telephone number. It is not reasonable to require a consumer to write his or her own letter as the only means to opt out.

The Exceptions

Exceptions to the opt-out right are detailed in sections 13, 14, and 15 of the regulation. Financial institutions need not comply with opt-out requirements if they limit disclosure of nonpublic personal information:

Section 13:

- To a nonaffiliated third party to perform services for the financial institution or to function on its behalf, including marketing the institution's own products or services or those offered jointly by the institution and another financial institution. The exception is permitted only if the financial institution provides an initial notice of these arrangements and by contract prohibits the third party from disclosing or using the information for other than the specified purposes. However, if the service or function is covered by the exceptions in section 14 or 15 (discussed below), the financial institution does not have to comply with the disclosure and confidentiality requirements of section 13.

Section 14:

- As necessary to effect, administer, or enforce a transaction that a consumer requests or authorizes, or under certain other circumstances relating to existing relationships with customers. Disclosures under this exception could be in connection with the audit of credit information, administration of a rewards program, or provision of an account statement.

Section 15:

- For specified other disclosures that a financial institution normally makes, such as to protect against or prevent actual or potential fraud; to the financial institution's attorneys, accountants, and auditors; or to comply with applicable legal requirements, such as the disclosure of information to regulators.

Consumer and Customer

The distinction between consumers and customers is significant because financial institutions have additional disclosure duties with respect to customers. Under the regulation, all customers are consumers, but not all consumers are customers.

A “consumer” is an individual, or that individual’s legal representative, who obtains or has obtained a financial product or service from a financial institution that is to be used primarily for personal, family, or household purposes.

A “financial service” includes, among other things, a financial institution’s evaluation or brokerage of information that the institution collects in connection with a request or an application from a consumer for a financial product or service. For example, a financial service includes a lender’s evaluation of an application for a consumer loan or for opening a deposit account even if the application is ultimately rejected or withdrawn.

Consumers who are not customers are entitled to an initial privacy and opt-out notice before the financial institution shares nonpublic personal information with nonaffiliated third parties outside of the exceptions in sections 13, 14, and 15. Consumers who are not customers are entitled to an initial privacy notice before the financial institution shares nonpublic personal information with a nonaffiliated third party under the exception in section 13. Under the exception in section 13, the financial institution must also enter into a contractual agreement with the third party that prohibits the third party from disclosing or using the information other than to perform services for the institution or functions on the institution’s behalf, including use under an exception in sections 14 or 15 in the ordinary course of business to carry out those services or functions. If a financial institution complies with these requirements, it is not required to provide an opt-out notice.

A “customer” is a consumer who has a “customer relationship” with a financial institution. A customer relationship is a *continuing* relationship between a consumer and a financial institution under which the institution provides one or more financial products or services to the consumer that are to be used primarily for personal, family, or household purposes.

- For example, a customer relationship may be established when a consumer engages in one of the following activities with a financial institution:
 - maintains a deposit or investment account;
 - obtains a loan;
 - enters into a lease of personal property; or
 - obtains financial, investment, or economic advisory services for a fee.

Customers are entitled to initial and annual privacy notices regardless of the information disclosure practices of their financial institution unless an exception to the annual privacy notice requirement applies.

There is a special rule for loans. When a financial institution sells the servicing rights to a loan to another financial institution, the customer relationship transfers with the servicing rights. However, any information on the borrower retained by the institution that sells the servicing rights must be accorded the protections due any consumer.

- Note that isolated transactions alone will not cause a consumer to be treated as a customer. For example, if an individual purchases a bank check from a financial institution where the person has no account, the individual will be a consumer but not a customer of that institution because he or she has not established a customer relationship. Likewise, if an individual uses the ATM of a financial institution where the individual has no account, even repeatedly, the individual will be a consumer, but not a customer of that institution.

Financial Institution Duties

The regulation establishes specific duties and limitations for a financial institution based on its activities. Financial institutions that intend to disclose nonpublic personal information outside the exceptions in sections 13, 14, and 15 will have to provide opt-out rights to their customers and to consumers who are not customers. All financial institutions have an obligation to provide initial and annual notices of their privacy policies and practices to their customers (unless an exception to the annual privacy notice requirement applies) and to provide initial and annual notices to consumers who are not customers before disclosing nonpublic personal information to a nonaffiliated third party other than under sections 14 and 15. All financial institutions must abide by the regulatory limits on the disclosure of account numbers to nonaffiliated third parties and on the redisclosure and reuse of nonpublic personal information received from nonaffiliated financial institutions.

A brief summary of financial institution duties and limitations appears below. A more complete explanation of each appears in the regulation.

Notice and Opt-Out Duties to Consumers

Before a financial institution discloses nonpublic personal information about any of its consumers to a nonaffiliated third party, and an exception in section 14 or 15 does not apply, then the financial institution must provide to the consumer:

- an initial notice of its privacy policies and practices;
- an opt-out notice (including, among other things, a reasonable means to opt out); and

- a reasonable opportunity, before the financial institution discloses the information to the nonaffiliated third party, to opt out.

Before a financial institution discloses nonpublic personal information about a consumer to a nonaffiliated third party under the exception in section 13, the financial institution must provide to the consumer an initial notice of its privacy policies and practices. Under the exception in section 13, the financial institution must also enter into a contractual agreement with the third party that prohibits the third party from disclosing or using the information other than to perform services for the institution or functions on the institution's behalf, including use under an exception in sections 14 or 15 in the ordinary course of business to carry out those services or functions. If a financial institution complies with these requirements, it is not required to provide an opt-out notice.

The financial institution may not disclose any nonpublic personal information to nonaffiliated third parties except under the enumerated exceptions unless these notices have been provided and the consumer has not opted out (where applicable). Additionally, the institution must provide a *revised notice* before the financial institution begins to share a new category of nonpublic personal information or shares information with a new category of nonaffiliated third party in a manner that was not described in the previous notice.

Note that a financial institution need not comply with the initial and opt-out notice requirements for consumers who are not customers if the institution limits disclosure of nonpublic personal information to the exceptions in sections 14 and 15. A financial institution that discloses nonpublic personal information about a consumer to a nonaffiliated third party under the exception in section 13 must provide an initial notice. Under the exception in section 13, the financial institution must also enter into a contractual agreement with the third party that prohibits the third party from disclosing or using the information other than to perform services for the institution or functions on the institution's behalf, including use under an exception in sections 14 or 15 in the ordinary course of business to carry out those services or functions. If these requirements are met, the financial institution is not required to provide an opt-out notice.

Notice Duties to Customers

In addition to the duties described above, there are several duties unique to customers. In particular, regardless of whether the institution discloses or intends to disclose nonpublic personal information, a financial institution must provide notice to its

customers of its privacy policies and practices at various times.

- A financial institution must provide an *initial notice* of its privacy policies and practices to each customer, not later than the time a customer relationship is established. Section 4(e) of the regulation describes the exceptional cases in which delivery of the notice is allowed subsequent to the establishment of the customer relationship.
- A financial institution must provide an *annual notice* at least once in any period of 12 consecutive months during the continuation of the customer relationship unless an exception to the annual privacy notice requirement applies.
- Generally, new privacy notices are not required for each new product or service. However, a financial institution must provide a *new notice* to an existing customer when the customer obtains a new financial product or service from the institution, if the initial or annual notice most recently provided to the customer was not accurate with respect to the new financial product or service.
- When a financial institution does not disclose nonpublic personal information (other than as permitted under section 14 and section 15 exceptions) and does not reserve the right to do so, the institution has the option of providing a simplified notice.

Requirements for Notices

Clear and Conspicuous. Privacy notices must be clear and conspicuous, meaning they must be reasonably understandable and designed to call attention to the nature and significance of the information contained in the notice. The regulation does not prescribe specific methods for making a notice clear and conspicuous but does provide examples of ways in which to achieve the standard, such as the use of short explanatory sentences or bullet lists and the use of plain-language headings and easily readable typeface and type size. Privacy notices also must accurately reflect the institution's privacy practices.

Delivery Rules. Privacy notices must be provided so that each recipient can reasonably be expected to receive actual notice in writing, or if the consumer agrees, electronically. To meet this standard, a financial institution could, for example, (1) hand-deliver a printed copy of the notice to its consumers, (2) mail a printed copy of the notice to a consumer's last known address, or (3) for the consumer who conducts transactions electronically, post the notice on the institution's website and require the consumer to acknowledge receipt

of the notice as a necessary step to completing the transaction.

For customers only, a financial institution must provide the initial notice (as well as any annual notice and any revised notice) so that a customer can retain or subsequently access the notice. A written notice satisfies this requirement. For customers who obtain financial products or services electronically, and agree to receive their notices on the institution's website, the institution may provide the current version of its privacy notice on its website.

As of October 28, 2014, a financial institution may use an alternative delivery method for providing annual privacy notices to customers through posting the annual notices on its websites if: (1) no opt-out rights are triggered by the financial institution's information sharing practices under GLBA or under FCRA section 603, and opt-out notices required by FCRA section 624 and subpart C of Regulation V have previously been provided, if applicable, or the annual privacy notice is not the only notice provided to satisfy those requirements; (2) certain information included in the annual privacy notice has not changed since the previous notice; and (3) the financial institution uses the model form provided in the regulation as its annual privacy notice. In order to use this alternative delivery method, an institution must: (1) insert a clear and conspicuous statement at least once per year on an account statement, coupon book, or a notice or disclosure the institution issues under any provision of law that informs customers that the annual privacy notice is available on the institution's website, that the institution will mail the notice to customers who request it by calling a specific telephone number, and that the notice has not changed; (2) continuously post the current privacy notice in a clear and conspicuous manner on a page on its website, on which the only content is the privacy notice, without requiring the customer to provide any information such as a login name or password or agree to any conditions to access the website; and (3) mail its current privacy notice to those customers who request it by telephone within 10 calendar days of the request.

As of December 4, 2015, pursuant to the FAST Act's GLBA amendment, a financial institution is not required to provide an annual privacy notice to its customers if it: (1) solely shares nonpublic personal information in accordance with the provisions of GLBA sections 502(b)(2) (corresponding to Regulation P section 1016.13) or 502(e) (corresponding to Regulation P sections 1016.14 and .15) or regulations prescribed under GLBA section 504(b); and (2) has not changed its policies and practices

with regard to disclosing nonpublic personal information since its most recent disclosure to its customers that was made in accordance with GLBA section 503. An institution that at any time fails to comply with either of the criteria is not eligible for the exception and is required to provide an annual privacy notice to its customers.

Notice Content. A privacy notice must contain specific disclosures. However, a financial institution may provide to consumers who are not also customers a "short form" initial notice together with an opt-out notice stating that the institution's privacy notice is available upon request and explaining a reasonable means for the consumer to obtain it. The following is a list of disclosures regarding nonpublic personal information that institutions must provide in their privacy notices, as applicable:

1. categories of information collected;
2. categories of information disclosed;
3. categories of affiliates and nonaffiliated third parties to whom the institution may disclose information;
4. policies and practices with respect to the treatment of former customers' information;
5. categories of information disclosed to nonaffiliated third parties that perform services for the institution or functions on the institution's behalf and categories of third parties with whom the institution has contracted (section 13);
6. an explanation of the op-out right and methods for opting out;
7. any opt-out notices that the institution must provide under the FCRA with respect to affiliate information sharing;
8. policies and practices for protecting the security and confidentiality of information; and
9. a statement that the institution makes disclosures to other nonaffiliated third parties for everyday business purposes or as permitted by law (sections 14 and 15).

Model Privacy Form. The appendix to the regulation contains the model privacy form. A financial institution can use the model form to obtain a "safe harbor" for compliance with the content requirements for notifying consumers of its information-sharing practices and their right to opt out of certain sharing practices. To obtain the safe harbor, the institution must provide a model form in accordance with the instructions set forth in the appendix of the regulation. Additionally, institutions using the alternative delivery method for providing

annual privacy notices to customers must use the model form.

Limitations on Disclosure of Account Numbers (Section 12)

A financial institution must not disclose an account number or similar form of access number or access code for a credit card, deposit, or transaction account to any nonaffiliated third party (other than a consumer reporting agency) for use in telemarketing, direct mail marketing, or other marketing through electronic mail to the consumer.

The disclosure of encrypted account numbers without an accompanying means of decryption, however, is not subject to this prohibition. The regulation also expressly allows disclosures by a financial institution to its agent to market the institution's own products or services (although the financial institution must not authorize the agent to directly initiate charges to the customer's account). The regulation also does not bar a financial institution from disclosing account numbers to participants in private-label or affinity card programs, if the participants are identified to the customer when the customer enters the program.

Redisclosure and Reuse Limitations on Nonpublic Personal Information Received (Section 11)

If a financial institution receives nonpublic personal information from a nonaffiliated financial institution, its disclosure and use of the information is limited.

- For nonpublic personal information received under a section 14 or 15 exception, the financial institution is limited to
 - disclosing the information to the affiliates of the financial institution from which it received the information;
 - disclosing the information to its own affiliates, who may, in turn, disclose and use the information only to the extent that the financial institution can do so; and
 - disclosing and using the information pursuant to a section 14 or 15 exception (for example, an institution receiving information for account processing could disclose the information to its auditors).
- For nonpublic personal information received other than under a section 14 or 15 exception, the recipient's use of the information is unlimited, but its disclosure of the information is limited to
 - disclosing the information to the affiliates of the financial institution from which it received the information;

- disclosing the information to its own affiliates, who may, in turn disclose the information only to the extent that the financial institution can do so; and
- disclosing the information to any other person, if the disclosure would be lawful if made directly to that person by the financial institution from which it received the information. For example, an institution that received a customer list from another financial institution could disclose the list in accordance with the privacy policy of the financial institution that provided the list subject to any opt-out election or revocation by the consumers on the list and in accordance with appropriate exceptions under sections 14 and 15.

Other Matters

Fair Credit Reporting Act

The regulation does not modify, limit, or supersede the operation of the FCRA.

State Law

The regulation does not supersede, alter, or affect any state statute, regulation, order, or interpretation, except to the extent that it is inconsistent with the regulation. A state statute, regulation, order, or interpretation is consistent with the regulation if the protection it affords any consumer is greater than the protection provided under the regulation, as determined by the CFPB, on its own motion or upon the petition of any interested party, after consultation with the agency or authority with jurisdiction under section 505(a) of GLBA over either the person who initiated the complaint or that is the subject of the complaint.

Guidelines Regarding Protecting Customer Information

The regulation requires a financial institution to disclose its policies and practices for protecting the confidentiality, security, and integrity of nonpublic personal information about consumers (whether or not they are customers). The disclosure need not describe these policies and practices in detail but instead may describe in general terms who is authorized to have access to the information and whether the institution has security practices and procedures in place to ensure the confidentiality of the information in accordance with the institution's policies.

The four federal banking agencies published guidelines, pursuant to section 501(b) of GLBA, that address steps a financial institution should take in order to protect customer information. The

guidelines relate only to information about customers, rather than all consumers. Compliance examiners should consider the findings of a 501(b) inspection during the compliance examination of a

financial institution for purposes of evaluating the accuracy of the institution's disclosure regarding information security.

Regulation P

Examination Objectives

1. To assess the quality of a financial institution's compliance management policies, procedures, and internal controls for implementing the regulation, specifically ensuring consistency between what the financial institution tells consumers in its notices about its policies and practices and what it actually does.
2. To determine the reliance that can be placed on a financial institution's policies, procedures, and internal controls for monitoring the institution's compliance with the regulation.
3. To determine a financial institution's compliance with the regulation, specifically in meeting the following requirements:
 - providing to customers notices of its privacy policies and practices that are timely, accurate, clear and conspicuous, and delivered so that each customer can reasonably be expected to receive actual notice;
4. To initiate effective corrective actions when violations of law are identified, or when policies, procedures, or internal controls are deficient.
 - disclosing nonpublic personal information to nonaffiliated third parties, other than under an exception, after first meeting the applicable requirements for giving consumers notice and the right to opt out;
 - appropriately honoring consumer opt-out directions;
 - lawfully using or disclosing nonpublic personal information received from a nonaffiliated financial institution; and
 - disclosing account numbers only according to the limits in the regulation.

Regulation P

Examination Procedures

- A. Through discussions with management and review of available information, identify the institution's information sharing practices (and changes to those practices) with affiliates and nonaffiliated third parties, how it treats nonpublic personal information, and how it administers opt outs. Consider the following as appropriate:
 1. notices (initial, annual, revised, opt out, short-form, and simplified);
 2. institutional privacy policies, procedures, and internal controls, including those to
 - process requests for nonpublic personal information, including requests for aggregated information;
 - deliver notices to consumers;
 - manage consumer opt-out directions (e.g., designating files, allowing a reasonable time to opt out, providing new opt out and privacy notices when necessary, receiving opt-out directions, handling joint account holders);
 - prevent the unlawful disclosure and use of the information received from nonaffiliated financial institutions; and
 - prevent the unlawful disclosure of account numbers;
 3. information sharing agreements between the institution and affiliates and service agreements or contracts between the institution and nonaffiliated third parties either to obtain or provide information or services;
 4. complaint logs, telemarketing scripts, and any other information obtained from nonaffiliated third parties (Note: Review telemarketing scripts to determine whether the contractual terms set forth under section 13 are met and whether the institution is disclosing account number information in violation of section 12.);
 5. categories of nonpublic personal information collected from or about consumers in obtaining a financial product or service (e.g., in the application process for deposit, loan, or investment products; for an over-the-counter purchase of a bank check; from E-banking products or services, including information collected electronically through Internet cookies; or through ATM transactions);
 6. categories of nonpublic personal information shared with, or received from, each nonaffiliated third party;
 7. consumer complaints regarding the treatment of nonpublic personal information, including those received electronically;
 8. records that reflect the bank's categorization of its information sharing practices under sections 13, 14, 15, and outside of these exceptions; and
 9. results of a 501(b) inspection (used to determine the accuracy of the institution's privacy disclosures regarding information security).
- B. Use the information gathered from step A to work through the Privacy Notice and Opt-Out Decision Tree (Attachment A). Identify which module(s) of procedures is (are) applicable.
- C. Use the information gathered from step A to work through the Redisclosure and Reuse and Account Number Sharing Decision Trees, as necessary (Attachments B and C). Identify which module is applicable.
- D. Determine the adequacy of the financial institution's policies, procedures, and internal controls to ensure compliance with the regulation as applicable. Consider the following:
 1. sufficiency of internal policies, procedures, and internal controls, including review of new products and services and controls over servicing arrangements and marketing arrangements;
 2. effectiveness of management information systems, including the use of technology for monitoring, exception reports, and standardization of forms and procedures;
 3. frequency and effectiveness of monitoring procedures;
 4. adequacy and regularity of the institution's training program;
 5. suitability of the compliance audit program for ensuring that
 - the procedures address all regulatory provisions as applicable;
 - the work is accurate and comprehensive with respect to the institution's information sharing practices;

- the frequency is appropriate;
 - conclusions are appropriately reached and presented to responsible parties;
 - steps are taken to correct deficiencies and to follow-up on previously identified deficiencies; and
6. knowledge level of management and personnel.
- E. Ascertain areas of risk associated with the financial institution's sharing practices (especially those within section 13 and those that fall outside of the exceptions) and any weaknesses found within the compliance management program. Keep in mind any outstanding deficiencies identified in the audit for follow-up when completing the modules.
- F. Based on the results of the foregoing initial procedures and discussions with management, determine which procedures, if any, should be completed in the applicable module, focusing on areas of particular risk. The selection of procedures to be employed depends upon the adequacy of the institution's compliance management system and level of risk identified. Each module contains a series of general instruction to verify compliance, cross-referenced to cites within the regulation. Additionally, there are cross-references to a more comprehensive checklist, which the examiner may use if needed to evaluate compliance in more detail.
- G. Evaluate any additional information or documentation discovered during the course of the examination according to these procedures. Note that this may reveal new or different sharing practices necessitating reapplication of the Decision Trees and completion of additional or different modules.
- H. Formulate conclusions.
1. Summarize all findings.
 2. For violation(s) noted, determine the cause by identifying weaknesses in internal controls, compliance review, training, management oversight, or other areas.
 3. Identify action needed to correct violations and to address weaknesses in the institution's compliance system, as appropriate.
 4. Discuss findings with management and obtain a commitment for corrective action.

Regulation P

Module 1

Sharing nonpublic personal information with nonaffiliated third parties under sections 14 and/or 15 and outside of the exceptions (with or without also sharing under section 13).

Note: Financial institutions whose practices fall within this category engage in the most expansive degree of information sharing permissible. Consequently, these institutions are held to the most comprehensive compliance standards imposed by the regulation.

Note: As of December 4, 2015, a financial institution is not required to provide an annual privacy notice to its applicable customers if it: (1) solely shares nonpublic personal information in accordance with the provisions of GLBA sections 502(b)(2) (corresponding to Regulation P section 1016.13) or 502(e) (corresponding to Regulation P sections 1016.14 and .15) or regulations prescribed under GLBA section 504(b); and (2) has not changed its policies and practices with regard to disclosing nonpublic personal information since its most recent disclosure to its customers that was made in accordance with GLBA section 503. A financial institution that at any time fails to comply with either of the criteria is not eligible for the exception and is required to provide an annual privacy notice to its customers.

A. Disclosure of Nonpublic Personal Information

1. Select a sample of third-party relationships with nonaffiliated third parties and obtain a sample of information shared between the institution and the third party both inside and outside of the exceptions. The sample should include a cross-section of relationships but should emphasize those that are higher risk in nature as determined by the initial procedures. Perform the following comparisons to evaluate the financial institution's compliance with disclosure limitations.
 - a. Compare the categories of information shared and with whom the information was shared to those stated in the privacy notice and verify that what the institution tells consumers (both customers and those who are not customers) in its notices about its policies and practices in this regard, and what the institution actually does, are consistent (§§6, 10).
 - b. Compare the information shared to a sample of opt-out directions and verify that only nonpublic personal information covered under the exceptions or from

consumers (customers and those who are not customers) who chose not to opt out is shared (§10).

2. If the financial institution also shares information under section 13, obtain and review contracts with nonaffiliated third parties that perform services for the financial institution not covered by the exceptions in section 14 or 15. Determine whether the contracts prohibit the third party from disclosing or using the information other than to carry out the purposes for which the information was disclosed (§13(a)).

B. Presentation, Content, and Delivery of Privacy Notices

1. Review the financial institution's initial, annual and revised notices, as well as any short-form notices that the institution may use for consumers who are not customers. Determine whether or not these notices
 - a. are clear and conspicuous (§§3(b), 4(a), 5(a)(1), 8(a)(1));
 - b. accurately reflect the institution's policies and practices (§§4(a), 5(a)(1), 8(a)(1)). Note: This includes policies and practices disclosed in the notices that exceed regulatory requirements; and
 - c. include, and adequately describe, all required items of information and contain examples as applicable (§6). Note that if the institution shares under nonpublic personal information under section 13 the notice provisions for that section shall also apply.
 - d. If the model privacy form is used, determine that it reflects the institution's policies and practices. For institutions seeking a safe harbor for compliance with the content requirements of the regulation, verify that the notice has the proper content and is in the proper format as specified in the appendix of the regulation.
2. Through discussions with management, review of the institution's policies, procedures, and internal controls and a sample of electronic or written consumer records where available, determine if the institution has adequate policies, procedures, and internal controls in place to provide notices to consumers, as appropriate. Assess the following:

- a. timeliness of delivery (§§4(a), 7(c), 8(a)); and
- b. reasonableness of the method of delivery (e.g., by hand; by mail; electronically, if the consumer agrees; or as a necessary step of a transaction) (§9).
- c. For customers only, review the timeliness of delivery (§§4(d), 4(e), 5(a)), means of delivery of annual notice (§9(c)), and accessibility of or ability to retain the notice (§9(e)).

C. Opt-Out Right

1. Review the financial institution's opt-out notices. An opt-out notice may be combined with the institution's privacy notices. Regardless, determine whether the opt-out notices
 - a. are clear and conspicuous (§§3(b) and 7(a)(1));
 - b. accurately explain the right to opt out (§7(a)(1));
 - c. include and adequately describe the three required items of information (the institution's policy regarding disclosure of nonpublic personal information, the consumer's opt-out right, and the means to opt out) (§7(a)(1)); and
 - d. describe how the institution treats joint relationships, as applicable (§7(d)).
2. Through discussions with management, review of the institution's policies, procedures, and internal controls and a sample of electronic or written records where available, determine if the institution has adequate policies, procedures, and internal controls in place to provide the opt-out notice and

comply with opt-out directions of consumers (customers and those who are not customers), as appropriate. Assess the following:

- a. timeliness of delivery (§10(a)(1));
- b. reasonableness of the method of delivery (e.g., by hand; by mail; electronically, if the consumer agrees; or as a necessary step of a transaction) (§9);
- c. reasonableness of the opportunity to opt out (the time allowed to and the means by which the consumer may opt out) (§§10(a)(1)(iii), 10(a)(3)); and
- d. adequacy of procedures to implement and track the status of a consumer's (customers and those who are not customers) opt-out direction, including those of former customers (§7(e), (f), (g)).

D. Checklist Cross References—Module 1

<i>Regulation section</i>	<i>Subject</i>	<i>Checklist questions</i>
4(a), 6(a, b, c, e), and 9(a, b, g)	Privacy notices (presentation, content, and delivery)	2, 8–11, 14, 18, 35, 36, 41
4(a, c, d, e), 5, and 9(c, e)	Customer notice delivery rules	1, 3–7, 37–39
13	Section 13 notice and contracting rules (as applicable)	12, 48
6(d)	Short-form notice rules (optional for consumers only)	15–17
7, 8, and 10	Opt-out rules	19–34, 42–44
14, 15	Exceptions	49–51

Regulation P

Module 2

Sharing nonpublic personal information with nonaffiliated third parties under sections 13, and 14 and/or 15 but not outside of these exceptions.

Note: As of December 4, 2015, a financial institution is not required to provide an annual privacy notice to its applicable customers if it: (1) solely shares nonpublic personal information in accordance with the provisions of GLBA sections 502(b)(2) (corresponding to Regulation P section 1016.13) or 502(e) (corresponding to Regulation P sections 1016.14 and .15) or regulations prescribed under GLBA section 504(b); and (2) has not changed its policies and practices with regard to disclosing nonpublic personal information since its most recent disclosure to its customers that was made in accordance with GLBA section 503. A financial institution that at any time fails to comply with either of the criteria is not eligible for the exception and is required to provide an annual privacy notice to its customers.

A. Disclosure of Nonpublic Personal Information

1. Select a sample of third-party relationships with nonaffiliated third parties and obtain a sample of information shared between the institution and the third party. The sample should include a cross-section of relationships but should emphasize those that are higher risk in nature as determined by the initial procedures. Perform the following comparisons to evaluate the financial institution's compliance with disclosure limitations.
 - a. Compare the information shared and with whom the information was shared to ensure that the institution accurately categorized its information sharing practices and is not sharing nonpublic personal information outside the exceptions (§§13, 14, 15).
 - b. Compare the categories of information shared and with whom the information was shared to those stated in the privacy notice and verify that what the institution tells consumers in its notices about its policies and practices in this regard and what the institution actually does are consistent (§§6, 10).

c. If the model privacy form is used, determine that it reflects the institution's policies and practices. For institutions seeking a safe harbor for compliance with the content requirements of the regulation, verify that the notice has the proper content and is in the proper format as specified in the appendix of the regulation.

2. Review contracts with nonaffiliated third parties that perform services for the financial institution not covered by the exceptions in section 14 or 15. Determine whether the contracts adequately prohibit the third party from disclosing or using the information other than to carry out the purposes for which the information was disclosed (§13(a)).

B. Presentation, Content, and Delivery of Privacy Notices

1. Review the financial institution's initial and annual privacy notices. Determine whether or not they
 - a. are clear and conspicuous (§§3(b), 4(a), 5(a)(1));
 - b. accurately reflect the institution's policies and practices (§§4(a), 5(a)(1)). Note, this includes policies and practices disclosed in the notices that exceed regulatory requirements; and
 - c. include, and adequately describe, all required items of information and contain examples as applicable (§§6, 13).
2. Through discussions with management, review of the institution's policies, procedures, and internal controls and a sample of electronic or written consumer records where available, determine if the institution has adequate policies, procedures, and internal controls in place to provide notices to consumers, as appropriate. Assess the following:
 - a. timeliness of delivery (§4(a)); and
 - b. reasonableness of the method of delivery (e.g., by hand; by mail; electronically, if

- the consumer agrees; as a necessary step of a transaction; or pursuant to the alternative delivery method) (§9).
- c. For customers only, review the timeliness of delivery (§§4(d), 4(e), and 5(a)), means of delivery of annual notice (§9(c)), and accessibility of or ability to retain the notice (§9(e)).

C. Checklist Cross References—Module 2

<i>Regulation section</i>	<i>Subject</i>	<i>Checklist questions</i>
4(a), 6(a, b, c, e), and 9(a, b, g)	Privacy notices (presentation, content, and delivery)	2, 8–11, 14, 18, 35, 36, 41
4(a,c,d,e), 5, and 9(c,e)	Customer notice delivery rules	1, 3–7, 37–39
13	Section 13 notice and contracting rules	12, 48
14, 15	Exceptions	49–51

Regulation P

Module 3

Sharing nonpublic personal information with nonaffiliated third parties only under sections 14 and/or 15.

NOTE: This module applies only to customers.

NOTE: As of December 4, 2015, a financial institution is not required to provide an annual privacy notice to its applicable customers if it: (1) solely shares nonpublic personal information in accordance with the provisions of GLBA sections 502(b)(2) (corresponding to Regulation P section 1016.13) or 502(e) (corresponding to Regulation P sections 1016.14 and .15) or regulations prescribed under GLBA section 504(b); and (2) has not changed its policies and practices with regard to disclosing nonpublic personal information since its most recent disclosure to its customers that was made in accordance with GLBA section 503. A financial institution that at any time fails to comply with either of the criteria is not eligible for the exception and is required to provide an annual privacy notice to its customers.

A. Disclosure of Nonpublic Personal Information

1. Select a sample of third-party relationships with nonaffiliated third parties and obtain a sample of information shared between the financial institution and the third party.
 - a. Compare the information shared and with whom the information was shared to ensure that the institution accurately states its information sharing practices and is not sharing nonpublic personal information outside the exceptions.

B. Presentation, Content, and Delivery of Privacy Notices

1. Obtain and review the financial institution's initial and annual notices, as well as any simplified notice that the institution may use. Note that the institution may only use the simplified notice when it does not also share nonpublic personal information with affiliates outside of section 14 and 15 exceptions. Determine whether or not these notices
 - a. are clear and conspicuous (§§3(b), 4(a), 5(a)(1));

- b. accurately reflect the institution's policies and practices (§§4(a), 5(a)(1)). Note, this includes policies and practices disclosed in the notices that exceed regulatory requirements; and
 - c. include, and adequately describe, all required items of information (§6).
 - d. If the model privacy form is used, determine that it reflects the institution's policies and practices. For institutions seeking a safe harbor for compliance with the content requirements of the regulation, verify that the notice has the proper content and is in the proper format as specified in the appendix of the regulation.
2. Through discussions with management, review of the institution's policies, procedures, and internal controls and a sample of electronic or written customer records where available, determine if the institution has adequate policies, procedures, and internal controls in place to provide notices to customers, as appropriate. Assess the following:
 - a. timeliness of delivery (§§4(a), 4(d), 4(e), 5(a)); and
 - b. reasonableness of the method of delivery (e.g., by hand; by mail; electronically, if the customer agrees; as a necessary step of a transaction; or pursuant to the alternative delivery method) (§9) and accessibility of or ability to retain the notice (§9(e)).

C. Checklist Cross References—Module 3

Regulation section	Subject	Checklist questions
4 (a, d, e), 5, and 9	Customer notice delivery process	1, 3–7, 35–41
6	Customer notice content and presentation	8–11, 14, 18
6 (c)(5)	Simplified notice content (optional)	13
14, 15	Exceptions	49–51

Regulation P Module 4

Redisclosure and reuse of nonpublic personal information received from a nonaffiliated financial institution under sections 14 and/or 15.

- A. Through discussions with management and review of the institution's policies, procedures, and internal controls, determine whether the institution has adequate policies, procedures, and internal controls to prevent the unlawful redisclosure and reuse of the information where the institution is the recipient of nonpublic personal information (§11(a)).
- B. Select a sample of information received from nonaffiliated financial institutions to evaluate the financial institution's compliance with redisclosure and reuse limitations.
 1. Verify that the institution's redisclosure of the

information was only to affiliates of the financial institution from which the information was obtained or to the institution's own affiliates, except as otherwise allowed in the step 2 below (§11(a)(1)(i) and (ii)).

2. Verify that the institution only uses and shares the information pursuant to an exception in sections 14 and 15 (§11(a)(1)(iii)).

C. Checklist Cross References—Module 4

<i>Regulation section</i>	<i>Subject</i>	<i>Checklist questions</i>
11(a)	Redisclosure and reuse	45
14, 15	Exceptions	49–51

Regulation P

Module 5

Redisclosure of nonpublic personal information received from a nonaffiliated financial institution outside of sections 14 and 15.

- A. Through discussions with management and review of the institution's policies, procedures, and internal controls, determine whether the institution has adequate policies, procedures, and internal controls to prevent the unlawful redisclosure of the information where the institution is the recipient of nonpublic personal information (§11(b)).
- B. Select a sample of information received from nonaffiliated financial institutions and shared with others to evaluate the financial institution's compliance with redisclosure limitations.
 1. Verify that the institution's redisclosure of the information was only to affiliates of the financial institution from which the information was obtained or to the institution's own

affiliates, except as otherwise allowed in the step 2 below (§11(b)(1)(i) and (ii)).

2. If the institution shares information with entities other than those under step 1 above, verify that the institution's information sharing practices conform to those in the nonaffiliated financial institution's privacy notice (§11(b)(1)(iii)).
3. Also, review the procedures used by the institution to ensure that the information sharing reflects the opt-out status of the consumers of the nonaffiliated financial institution (§§10, 11(b)(1)(iii)).

C. Checklist Cross References—Module 5

<i>Regulation section</i>	<i>Subject</i>	<i>Checklist questions</i>
11(b)	Redisclosure	46

Regulation P

Module 6

ACCOUNT NUMBER SHARING

- A. If available, review a sample of telemarketer scripts used when making sales calls to determine whether the scripts indicate that the telemarketers have the account numbers of the institution's consumers (§12(a)).
- B. Obtain and review a sample of contracts with agents or service providers to whom the financial institution discloses account numbers for use in connection with marketing the institution's own products or services. Determine whether the institution shares account numbers with nonaffiliated third parties only to perform marketing for the institution's own products and services. Ensure that the contracts do not

authorize these nonaffiliated third parties to directly initiate charges to the accounts (§12(b)(1)).

- C. Obtain a sample of materials and information provided to the consumer upon entering a private label or affinity credit card program. Determine if the participants in each program are identified to the customer when the customer enters into the program (§12(b)(2)).

- D. Checklist Cross References—Module 6

<i>Regulation section</i>	<i>Subject</i>	<i>Checklist questions</i>
12	Account number sharing	47

Regulation P Examination Checklist

SUBPART A

Initial Privacy Notice

1. Does the institution provide a clear and conspicuous notice that accurately reflects its privacy policies and practices to all customers not later than when the customer relationship is established, other than as allowed in paragraph (e) of section 4 of the regulation? [§4(a)(1)]
- Yes No

(Note: A financial institution establishes a customer relationship when it enters into a continuing relationship with a consumer. [§4(c)(1)] With respect to credit relationships, an institution establishes a customer relationship when it originates a consumer loan. If the institution subsequently sells the servicing rights to the loan to another financial institution, the customer relationship transfers with the servicing rights. [§4(c)(2)])

2. Does the institution provide a clear and conspicuous notice that accurately reflects its privacy policies and practices to all consumers, who are not customers, before any nonpublic personal information about the consumer is disclosed to a nonaffiliated third party, other than under an exception in section 14 or section 15? [§4(a)(2)]
- Yes No

(Note: No notice is required if nonpublic personal information is disclosed to nonaffiliated third parties only under an exception in sections 14 and 15 and there is no customer relationship. [§4(b)])

3. Does the institution provide to existing customers, who obtain a new financial product or service, a revised privacy notice that covers the customer's new financial product or service, if the most recent notice provided to the customer was not accurate with respect to the new financial product or service? [§4(d)(1)]
- Yes No

4. Does the institution provide initial notice after establishing a customer relationship only if
- a. the customer relationship is not established at the customer's election; [§4(e)(1)(i)] or
 - b. to do otherwise would substantially delay the customer's transaction (e.g., in the case of a telephone application), and the customer agrees to the subsequent delivery? [§4(e)(1)(ii)]
- Yes No

5. When the subsequent delivery of a privacy notice is permitted, does the institution provide notice after establishing a customer relationship within a reasonable time? [§4(e)]
- Yes No

Annual Privacy Notice

6. Does the institution provide a clear and conspicuous notice that accurately reflects its privacy policies and practices at least annually (that is, at least once in any period of 12 consecutive months) to customers, throughout the customer relationship unless an exception to the annual privacy notice requirement applies? [§5(a)(1) and (2)]
- Yes No

(Note: annual notices are not required for former customers. [§5(b)(1) and (2)])

7. Does the institution provide an annual privacy notice to each customer whose loan the institution owns the right to service unless an exception to the annual privacy notice requirement applies? [§§5(c), 4(c)(2)]
- Yes No

Content of Privacy Notices

8. Do the initial, annual, and revised privacy notices include each of the following, as applicable:
- | | | |
|--|-----|----|
| a. the categories of nonpublic personal information that the institution collects; [§6(a)(1)] | Yes | No |
| b. the categories of nonpublic personal information that the institution discloses; [§6(a)(2)] | Yes | No |
| c. the categories of affiliates and nonaffiliated third parties to whom the institution discloses nonpublic personal information, other than parties to whom information is disclosed under an exception in section 14 or section 15; [§6(a)(3)] | Yes | No |
| d. the categories of nonpublic personal information disclosed about former customers, and the categories of affiliates and nonaffiliated third parties to whom the institution discloses that information, other than those parties to whom the institution discloses information under an exception in section 14 or section 15; [§6(a)(4)] | Yes | No |
| e. if the institution discloses nonpublic personal information to a nonaffiliated third party under section 13, and no exception under section 14 or section 15 applies, a separate statement of the categories of information the institution discloses and the categories of third parties with whom the institution has contracted; [§6(a)(5)] | Yes | No |
| f. an explanation of the opt-out right, including the method(s) of opt out that the consumer can use at the time of the notice; [§6(a)(6)] | Yes | No |
| g. any disclosures that the institution makes under FCRA section 603(d)(2)(A)(iii); [§6(a)(7)] | Yes | No |
| h. the institution's policies and practices with respect to protecting the confidentiality and security of nonpublic personal information; [§6(a)(8)] and | Yes | No |
| i. a general statement—with no specific reference to the third parties—that the institution makes disclosures to other nonaffiliated third parties for everyday business purposes, such as (with the institution including all purposes that are applicable) to process transactions, maintain accounts, respond to court orders and legal investigations, or report to credit bureaus, or as permitted by law? [§6(a)(9), (b)(1) and (2)] | Yes | No |
- (Note: Institutions that provide a model privacy form in accordance with the instructions in the appendix of the regulation will receive a safe harbor for compliance with the content requirements of the regulation.)*
9. Does the institution list the following categories of nonpublic personal information that it collects, as applicable:
- | | | |
|---|-----|----|
| a. information from the consumer; [§6(c)(1)(i)] | Yes | No |
| b. information about the consumer's transactions with the institution or its affiliates; [§6(c)(1)(ii)] | Yes | No |
| c. information about the consumer's transactions with nonaffiliated third parties; [§6(c)(1)(iii)] and | Yes | No |
| d. information from a consumer reporting agency? [§6(c)(1)(iv)] | Yes | No |
10. Does the institution list the following section 6(c)(1) categories of nonpublic personal information that it discloses, as applicable, and a few examples of each, or alternatively state that it reserves the right to disclose all the nonpublic personal information that it collects:
- | | | |
|-----------------------------------|-----|----|
| a. information from the consumer; | Yes | No |
|-----------------------------------|-----|----|

- | | | |
|--|-----|----|
| b. information about the consumer's transactions with the institution or its affiliates; | Yes | No |
| c. information about the consumer's transactions with nonaffiliated third parties; and | Yes | No |
| d. information from a consumer reporting agency? [§6(c)(2)] | Yes | No |

(Note: Examples are recommended under §6(c)(2)(i) although not under §6(c)(1).)

- | | | |
|---|-----|----|
| 11. Does the institution list the following categories of affiliates and nonaffiliated third parties to whom it discloses information, as applicable, and a few examples to illustrate the types of the third parties in each category: | | |
| a. financial service providers; [§6(c)(3)(i)] | Yes | No |
| b. nonfinancial companies; [§6(c)(3)(ii)] and | Yes | No |
| c. others? [§6(c)(3)(iii)] | Yes | No |
| 12. Does the institution make the following disclosures regarding service providers and joint marketers to whom it discloses nonpublic personal information under section 13: | | |
| a. as applicable, the same categories and examples of nonpublic personal information disclosed as described in paragraphs (a)(2) and (c)(2) of section 6 (see questions 8b and 10); [§6(c)(4)(i)] and | Yes | No |
| b. that the third party is a service provider that performs marketing on the institution's behalf or on behalf of the institution and another financial institution; [§6(c)(4)(ii)(A)] or | Yes | No |
| c. that the third party is a financial institution with which the institution has a joint marketing agreement? [§6(c)(4)(ii)(B)] | Yes | No |
| 13. If the institution does not disclose nonpublic personal information, and does not reserve the right to do so, other than under exceptions in sections 14 and 15, does the institution provide a simplified privacy notice that contains at a minimum: | | |
| a. a statement to this effect; | Yes | No |
| b. the categories of nonpublic personal information it collects (same as paragraph (a)(1) of section 6); | Yes | No |
| c. the policies and practices the institution uses to protect the confidentiality and security of nonpublic personal information (same as paragraph (a)(8) of section 6); and | Yes | No |
| d. a general statement that the institution makes disclosures to other nonaffiliated third parties as permitted by law (same as paragraphs (a)(9) and (b) of section 6)? [§6(c)(5)] | Yes | No |
| <i>(Note: Use of this type of simplified notice is optional; an institution may always use a full notice.)</i> | | |
| 14. Does the institution describe the following about its policies and practices with respect to protecting the confidentiality and security of nonpublic personal information: | | |
| a. who is authorized to have access to the information; [§6(c)(6)(i)] and | Yes | No |
| b. whether security practices and policies are in place to ensure the confidentiality of the information in accordance with the institution's policy? [§6(c)(6)(ii)] | Yes | No |

(Note: The institution is not required to describe technical information about the safeguards used in this respect.)

15. If the institution provides a short-form initial privacy notice with the opt-out notice, does the institution do so only to consumers with whom the institution does not have a customer relationship? [§6(d)(1)]	Yes	No
16. If the institution provides a short-form initial privacy notice according to §6(d)(1), does the short-form initial notice		
a. conform to the definition of "clear and conspicuous"; [§6(d)(2)(i)]	Yes	No
b. state that the institution's full privacy notice is available upon request; [§6(d)(2)(ii)] and	Yes	No
c. explain a reasonable means by which the consumer may obtain the notice? [§6(d)(2)(iii)]	Yes	No
<i>(Note: The institution is not required to deliver the full privacy notice with the short-form initial notice. [§6(d)(3)]</i>		
17. Does the institution provide consumers who receive the short-form initial notice with a reasonable means of obtaining the longer initial notice, such as		
a. a toll-free telephone number that the consumer may call to request the notice; [§6(d)(4)(i)] or	Yes	No
b. for the consumer who conducts business in person at the institution's office, having copies available to provide immediately by hand-delivery? [§6(d)(4)(ii)]	Yes	No
18. If the institution, in its privacy policies and practices, reserves the right to disclose nonpublic personal information to nonaffiliated third parties in the future, does the privacy notice include, as applicable, the		
a. categories of nonpublic personal information that the financial institution reserves the right to disclose in the future, but does not currently disclose; [§6(e)(1)] and	Yes	No
b. categories of affiliates or nonaffiliated third parties to whom the financial institution reserves the right in the future to disclose, but to whom it does not currently disclose, nonpublic personal information? [§6(e)(2)]	Yes	No

Opt-Out Notice

19. If the institution discloses nonpublic personal information about a consumer to a nonaffiliated third party, and the exceptions under sections 13, 14, and 15 do not apply, does the institution provide the consumer with a clear and conspicuous opt-out notice that accurately explains the right to opt out? [§7(a)(1)]	Yes	No
20. Does the opt-out notice state		
a. that the institution discloses or reserves the right to disclose nonpublic personal information about the consumer to a nonaffiliated third party; [§7(a)(1)(i)]	Yes	No
b. that the consumer has the right to opt out of that disclosure; [§7(a)(1)(ii)] and	Yes	No
c. a reasonable means by which the consumer may opt out? [§7(a)(1)(iii)]	Yes	No
21. Does the institution provide the consumer with the following information about the right to opt out		
a. all the categories of nonpublic personal information that the institution discloses or reserves the right to disclose; [§7(a)(2)(i)(A)]	Yes	No
b. all the categories of nonaffiliated third parties to whom the information is disclosed; [§7(a)(2)(i)(A)]	Yes	No
c. that the consumer has the right to opt out of the disclosure of that information; [§7(a)(2)(i)(A)] and	Yes	No

d. the financial products or services that the consumer obtains to which the opt-out direction would apply? [§7(a)(2)(i)(B)]	Yes	No
22. Does the institution provide the consumer with at least one of the following reasonable means of opting out, or with another reasonable means:		
a. check-off boxes prominently displayed on the relevant forms with the opt-out notice; [§7(a)(2)(ii)(A)]	Yes	No
b. a reply form included with the opt-out notice; [§7(a)(2)(ii)(B)]	Yes	No
c. an electronic means to opt out, such as a form that can be sent via electronic mail or a process at the institution's website, if the consumer agrees to the electronic delivery of information; [§7(a)(2)(ii)(C)] or	Yes	No
d. a toll-free telephone number? [§7(a)(2)(ii)(D)]	Yes	No
<i>(Note: The institution may require the consumer to use one specific means, as long as that means is reasonable for that consumer. [§7(a)(2)(iv)]</i>		
23. If the institution delivers the opt-out notice after the initial notice, does the institution provide the initial notice once again with the opt-out notice? [§7(c)]	Yes	No
24. Does the institution provide an opt-out notice, explaining how the institution will treat opt-out directions by the joint consumers, to at least one party in a joint consumer relationship? [§7(d)(1)]	Yes	No
25. Does the institution permit each of the joint consumers in a joint relationship to opt out? [§7(d)(2)]	Yes	No
26. Does the opt-out notice to joint consumers state that either		
a. the institution will consider an opt out by a joint consumer as applying to all associated joint consumers; [§7(d)(2)(i)] or	Yes	No
b. each joint consumer is permitted to opt out separately? [§7(d)(2)(ii)]	Yes	No
27. If each joint consumer may opt out separately, does the institution permit		
a. one joint consumer to opt out on behalf of all of the joint consumers; [§7(d)(3)]	Yes	No
b. the joint consumers to notify the institution in a single response; [§7(d)(5)(i)] and	Yes	No
c. each joint consumer to opt out either for himself or herself, and/or for another joint consumer? [§7(d)(5)(ii)]	Yes	No
28. Does the institution refrain from requiring all joint consumers to opt out before implementing any opt-out direction with respect to the joint account? [§7(d)(4)]	Yes	No
29. Does the institution comply with a consumer's direction to opt out as soon as is reasonably practicable after receiving it? [§7(g)]	Yes	No
30. Does the institution allow the consumer to opt out at any time? [§7(h)]	Yes	No
31. Does the institution continue to honor the consumer's opt-out direction until revoked by the consumer in writing, or, if the consumer agrees, electronically? [§7(i)(1)]	Yes	No
32. When a customer relationship ends, does the institution continue to apply the customer's opt-out direction to the nonpublic personal information collected during, or related to, that specific customer relationship (but not to new relationships, if any, subsequently established by that customer)? [§7(i)(2)]	Yes	No

Revised Notices

33. Except as permitted by sections 13, 14, and 15, does the institution refrain from disclosing any nonpublic personal information about a consumer to a nonaffiliated third party, other than as described in the initial privacy notice provided to the consumer, unless
- a. the institution has provided the consumer with a clear and conspicuous revised notice that accurately describes the institution's privacy policies and practices; [§8(a)(1)] Yes No
 - b. the institution has provided the consumer with a new opt-out notice; [§8(a)(2)] Yes No
 - c. the institution has given the consumer a reasonable opportunity to opt out of the disclosure, before disclosing any information; [§8(a)(3)] and Yes No
 - d. the consumer has not opted out? [§8(a)(4)] Yes No
34. Does the institution deliver a revised privacy notice when it
- a. discloses a new category of nonpublic personal information to a nonaffiliated third party; [§8(b)(1)(i)] Yes No
 - b. discloses nonpublic personal information to a new category of nonaffiliated third party; [§8(b)(1)(ii)] or Yes No
 - c. discloses nonpublic personal information about a former customer to a nonaffiliated third party, if that former customer has not had the opportunity to exercise an opt-out right regarding that disclosure? [§8(b)(1)(iii)] Yes No

(Note: A revised notice is not required if the institution adequately described the nonaffiliated third party or information to be disclosed in the prior privacy notice. [§8(b)(2)])

Delivery Methods

35. Does the institution deliver the privacy and opt-out notices, including the short-form notice, so that the consumer can reasonably be expected to receive actual notice in writing or, if the consumer agrees, electronically? [§9(a)] Yes No
36. Does the institution use a reasonable means for delivering the notices, such as
- a. hand-delivery of a printed copy; [§9(b)(1)(i)] Yes No
 - b. mailing a printed copy to the last known address of the consumer; [§9(b)(1)(ii)] Yes No
 - c. for the consumer who conducts transactions electronically, clearly and conspicuously posting the notice on the institution's electronic site and requiring the consumer to acknowledge receipt as a necessary step to obtaining a financial product or service; [§9(b)(1)(iii)] or Yes No
 - d. for isolated transactions, such as ATM transactions, posting the notice on the screen and requiring the consumer to acknowledge receipt as a necessary step to obtaining the financial product or service? [§9(b)(1)(iv)] Yes No

(Note: Insufficient or unreasonable means of delivery include: exclusively oral notice, in person or by telephone; branch or office signs or generally published advertisements; and electronic mail to a customer who does not obtain products or services electronically. [§9(b)(2)(i) and (ii), and (d)])

37. For annual notices only, if the institution does not employ one of the methods described in question 36, does the institution employ one of the following reasonable means of delivering the notice such as

a.	for the customer who uses the institution's website to access products and services electronically and who agrees to receive notices at the website, continuously posting the current privacy notice on the website in a clear and conspicuous manner; [§9(c)(1)(i)] or	Yes	No
b.	for the customer who has requested the institution refrain from sending any information about the customer relationship, making copies of the current privacy notice available upon customer request? [§9(c)(1)(ii)]	Yes	No
38.	As of October 28, 2014, for annual notices only, if the institution uses the alternative delivery method, does the institution meet the following conditions:		
a.	the institution does not disclose the customer's nonpublic personal information to nonaffiliated third parties other than for purposes under sections 13, 14, and 15; [§9(c)(2)(i)(A)]	Yes	No
b.	the institution does not include on its privacy notice an opt out under FCRA section 603(d)(2)(A)(iii); [§9(c)(2)(i)(B)]	Yes	No
c.	the institution previously provided the customer the opt-out notices required by FCRA section 624 and subpart C of Regulation V, if applicable, or the privacy notice is not the only notice provided to satisfy those requirements; [§9(c)(2)(i)(C)]	Yes	No
d.	the information that the institution is required to convey on its privacy notice pursuant to sections 6(a)(1)-(5), (8), and (9) has not changed since it provided the immediately previous privacy notice to the customer, other than to eliminate categories of information that it discloses or categories of third parties to which it discloses information; [§9(c)(2)(i)(D)]	Yes	No
e.	the institution uses the model privacy form for its privacy notice; [§9(c)(2)(i)(E)]	Yes	No
f.	the institution conveys in a clear and conspicuous manner not less than annually on an account statement, coupon book, or a notice or disclosure that it is required or expressly and specifically permitted to issue to the customer under any other provision of law that the privacy notice is available on its website and will be mailed to the customer upon request by telephone, and the statement states that the privacy notice has not changed and includes a specific web address that takes the customer to the website where the privacy notice is posted and a telephone number for the customer to request that it be mailed; [§9(c)(2)(ii)(A)]	Yes	No
g.	the institution posts its privacy notice continuously and in a clear and conspicuous manner on a page on its website on which the only content is the privacy notice, without requiring the customer to provide any information such as a login name or password or agree to any conditions to access the website; [§9(c)(2)(ii)(B)] and	Yes	No
h.	the institution mails its current privacy notice to those customers who request it by telephone within 10 calendar days of the request? [§9(c)(2)(ii)(C)]	Yes	No
39.	As of December 4, 2015, for annual privacy notices only, if the institution does not provide an annual privacy notice (or provides one, but not using a compliant delivery method), does the institution meet both of the following criteria:		
a.	the institution solely shares nonpublic personal information in accordance with the provisions of GLBA sections 502(b)(2) (corresponding to Regulation P section 1016.13) or 502(e) (corresponding to Regulation P sections 1016.14 and .15) or regulations prescribed under GLBA section 504(b); and	Yes	No

b. the institution has not changed its policies and practices with regard to disclosing nonpublic personal information from the policies and practices that were disclosed in the most recent disclosure sent to consumers in accordance with GLBA section 503?	Yes	No
40. For customers only, does the institution ensure that the initial, annual, and revised notices may be retained or obtained later by the customer in writing, or if the customer agrees, electronically? [§9(e)(1)]	Yes	No
41. Does the institution use an appropriate means to ensure that notices may be retained or obtained later, such as		
a. hand-delivery of a printed copy of the notice; [§9(e)(2)(i)]	Yes	No
b. mailing a printed copy to the last known address of the customer; [§9(e)(2)(ii)] or	Yes	No
c. making the current privacy notice available on the institution's website (or via a link to the notice at another site) for the customer who agrees to receive the notice at the website? [§9(e)(2)(iii)]	Yes	No
42. Does the institution provide at least one initial, annual, and revised notice, as applicable, to joint consumers? [§9(g)]	Yes	No

SUBPART B**Limits on Disclosure to Nonaffiliated Third Parties**

43. Does the institution refrain from disclosing any nonpublic personal information about a consumer to a nonaffiliated third party, other than as permitted under sections 13, 14, and 15, unless		
a. it has provided the consumer with an initial notice; [§10(a)(1)(i)]	Yes	No
b. it has provided the consumer with an opt-out notice; [§10(a)(1)(ii)]	Yes	No
c. it has given the consumer a reasonable opportunity to opt out before the disclosure; [§10(a)(1)(iii)] and	Yes	No
d. the consumer has not opted out? [§10(a)(1)(iv)]	Yes	No
<i>(Note: This disclosure limitation applies to consumers as well as to customers [§10(b)(1)] and to all nonpublic personal information regardless of whether the information was collected before or after receiving an opt-out direction. [§10(b)(2)])</i>		
44. Does the institution provide the consumer with a reasonable opportunity to opt out such as by		
a. mailing the notices required by section 10 and allowing the consumer to respond by toll-free telephone number, return mail, or other reasonable means (see question 22) within 30 days from the date mailed; [§10(a)(3)(i)]	Yes	No
b. where the consumer opens an online account with the institution and agrees to receive the notices required by section 10 electronically, allowing the consumer to opt out by any reasonable means (see question 22) within 30 days from consumer acknowledgement of receipt of the notice in conjunction with opening the account; [§10(a)(3)(ii)] or	Yes	No
c. for isolated transactions, providing the notices required by section 10 at the time of the transaction and requesting that the consumer decide, as a necessary part of the transaction, whether to opt out before the completion of the transaction? [§10(a)(3)(iii)]	Yes	No

45. Does the institution allow the consumer to select certain nonpublic personal information or certain nonaffiliated third parties with respect to which the consumer wishes to opt out? [§10(c)] Yes No

(Note: An institution may allow partial opt outs in addition to, but may not allow them instead of, a comprehensive opt out.)

Limits on Rediscovery and Reuse of Information

46. If the institution receives information from a nonaffiliated financial institution under an exception in section 14 or section 15, does the institution refrain from using or disclosing the information except
- to disclose the information to the affiliates of the financial institution from which it received the information; [§11(a)(1)(i)] Yes No
 - to disclose the information to its own affiliates, which are in turn limited by the same disclosure and use restrictions as the recipient institution; [§11(a)(1)(ii)] and Yes No
 - to disclose and use the information pursuant to an exception in section 14 or section 15 in the ordinary course of business to carry out the activity covered by the exception under which the information was received? [§11(a)(1)(iii)] Yes No

(Note: The disclosure or use described in section c of this question need not be directly related to the activity covered by the applicable exception. For instance, an institution receiving information for fraud-prevention purposes could provide the information to its auditors. But the phrase "in the ordinary course of business" does not include marketing. [§11(a)(2)])

47. If the institution receives information from a nonaffiliated financial institution other than under an exception in section 14 or section 15, does the institution refrain from disclosing the information except
- to the affiliates of the financial institution from which it received the information; [§11(b)(1)(i)] Yes No
 - to its own affiliates, which are in turn limited by the same disclosure restrictions as the recipient institution; [§11(b)(1)(ii)] and Yes No
 - to any other person, if the disclosure would be lawful if made directly to that person by the institution from which the recipient institution received the information? [§11(b)(1)(iii)] Yes No

Limits on Sharing Account Number Information for Marketing Purposes

48. Does the institution refrain from disclosing, directly or through affiliates, account numbers or similar forms of access numbers or access codes for a consumer's credit card account, deposit account, or transaction account to any nonaffiliated third party (other than to a consumer reporting agency) for telemarketing, direct mail, or electronic mail marketing to the consumer, except
- to the institution's agents or service providers solely to market the institution's own products or services, as long as the agent or service provider is not authorized to directly initiate charges to the account; [§12(b)(1)] or Yes No
 - to a participant in a private-label credit card program or an affinity or similar program where the participants in the program are identified to the customer when the customer enters into the program? [§12(b)(2)] Yes No

(Note: An “account number or similar form of access number or access code” does not include numbers in encrypted form, so long as the institution does not provide the recipient with a means of decryption. [§12(c)(1)] A transaction account does not include an account to which third parties cannot initiate charges. [§12(c)(2)])

SUBPART C

Exception to Opt-Out Requirements for Service Providers and Joint Marketing

49. If the institution discloses nonpublic personal information to a nonaffiliated third party without permitting the consumer to opt out, do the opt-out requirements of sections 7 and 10, and the revised notice requirements in section 8, not apply because
- the institution disclosed the information to a nonaffiliated third party who performs services for or functions on behalf of the institution (including joint marketing of financial products and services offered pursuant to a joint agreement as defined in paragraph (b) of section 13); [§13(a)(1)] Yes No
 - the institution has provided consumers with the initial notice; [§13(a)(1)(i)] and Yes No
 - the institution has entered into a contract with that party prohibiting the party from disclosing or using the information except to carry out the purposes for which the information was disclosed, including use under an exception in section 14 or section 15 in the ordinary course of business to carry out those purposes? [§13(a)(1)(ii)] Yes No

Exceptions to Notice and Opt-Out Requirements for Processing and Servicing Transactions

50. If the institution discloses nonpublic personal information to nonaffiliated third parties, do the requirements for initial notice in section 4(a)(2), opt out in sections 7 and 10, revised notice in section 8, and for service providers and joint marketing in section 13, not apply because the information is disclosed as necessary to effect, administer, or enforce a transaction that the consumer requests or authorizes, or in connection with
- servicing or processing a financial product or service requested or authorized by the consumer; [§14(a)(1)] Yes No
 - maintaining or servicing the consumer’s account with the institution or with another entity as part of a private-label credit card program or other credit extension on behalf of the entity; or [§14(a)(2)] Yes No
 - a proposed or actual securitization, secondary market sale (including sale of servicing rights) or other similar transaction related to a transaction of the consumer? [§14(a)(3)] Yes No
51. If the institution uses a section 14 exception as necessary to effect, administer, or enforce a transaction, is the disclosure
- required, or is one of the lawful or appropriate methods, to enforce the rights of the institution or other persons engaged in carrying out the transaction or providing the product or service; [§14(b)(1)] or Yes No
 - required, or is a usual, appropriate, or acceptable method, to [§14(b)(2)]
 - carry out the transaction or the product or service business of which the transaction is a part, including recording, servicing, or maintaining the consumer’s account in the ordinary course of business; [§14(b)(2)(i)] Yes No

ii. administer or service benefits or claims; [§14(b)(2)(ii)]	Yes	No
iii. confirm or provide a statement or other record of the transaction or information on the status or value of the financial service or financial product to the consumer or the consumer's agent or broker; [§14(b)(2)(iii)]	Yes	No
iv. accrue or recognize incentives or bonuses; [§14(b)(2)(iv)]	Yes	No
v. underwrite insurance or for reinsurance or for certain other purposes related to a consumer's insurance; [§14(b)(2)(v)] or	Yes	No
vi. in connection with		
(1) the authorization, settlement, billing, processing, clearing, transferring, reconciling, or collection of amounts charged, debited, or otherwise paid by using a debit, credit, or other payment card, check, or account number, or by other payment means; [§14(b)(2)(vi)(A)]	Yes	No
(2) the transfer of receivables, accounts or interests therein; [§14(b)(2)(vi)(B)] or	Yes	No
(3) the audit of debit, credit, or other payment information? [§14(b)(2)(vi)(C)]	Yes	No

Other Exceptions to Notice and Opt-Out Requirements

52. If the institution discloses nonpublic personal information to nonaffiliated third parties, do the requirements for initial notice in section 4(a)(2), opt out in sections 7 and 10, revised notice in section 8, and for service providers and joint marketers in section 13, not apply because the institution makes the disclosure
- a. with the consent or at the direction of the consumer; [§15(a)(1)]
 - b. to protect the confidentiality or security of records, [§15(a)(2)(i)]; to protect against or prevent actual or potential fraud, unauthorized transactions, claims, or other liability, [§15(a)(2)(ii)]; for required institutional risk control or for resolving consumer disputes or inquiries, [§15(a)(2)(iii)]; to persons holding a legal or beneficial interest relating to the consumer, [§15(a)(2)(iv)]; or to persons acting in a fiduciary or representative capacity on behalf of the consumer; [§15(a)(2)(v)]
 - c. to insurance rate advisory organizations, guaranty funds or agencies, agencies rating the institution, persons assessing compliance, and the institution's attorneys, accountants, and auditors; [§15(a)(3)]
 - d. as specifically permitted or required by other provisions of law and in compliance with the Right to Financial Privacy Act, to law enforcement agencies, self-regulatory organizations, or for an investigation on a matter related to public safety; [§15(a)(4)]
 - e. to a consumer reporting agency in accordance with the FCRA or from a consumer report reported by a consumer reporting agency; [§15(a)(5)]
 - f. in connection with a proposed or actual sale, merger, transfer, or exchange of all or a portion of a business or operating unit, if the disclosure of nonpublic personal information concerns solely consumers of such business or unit; [§15(a)(6)]
 - g. to comply with federal, state, or local laws, rules, or legal requirements; [§15(a)(7)(i)]
 - h. to comply with a properly authorized civil, criminal, or regulatory investigation, or subpoena or summons by federal, state, or local authorities; [§15(a)(7)(ii)] or

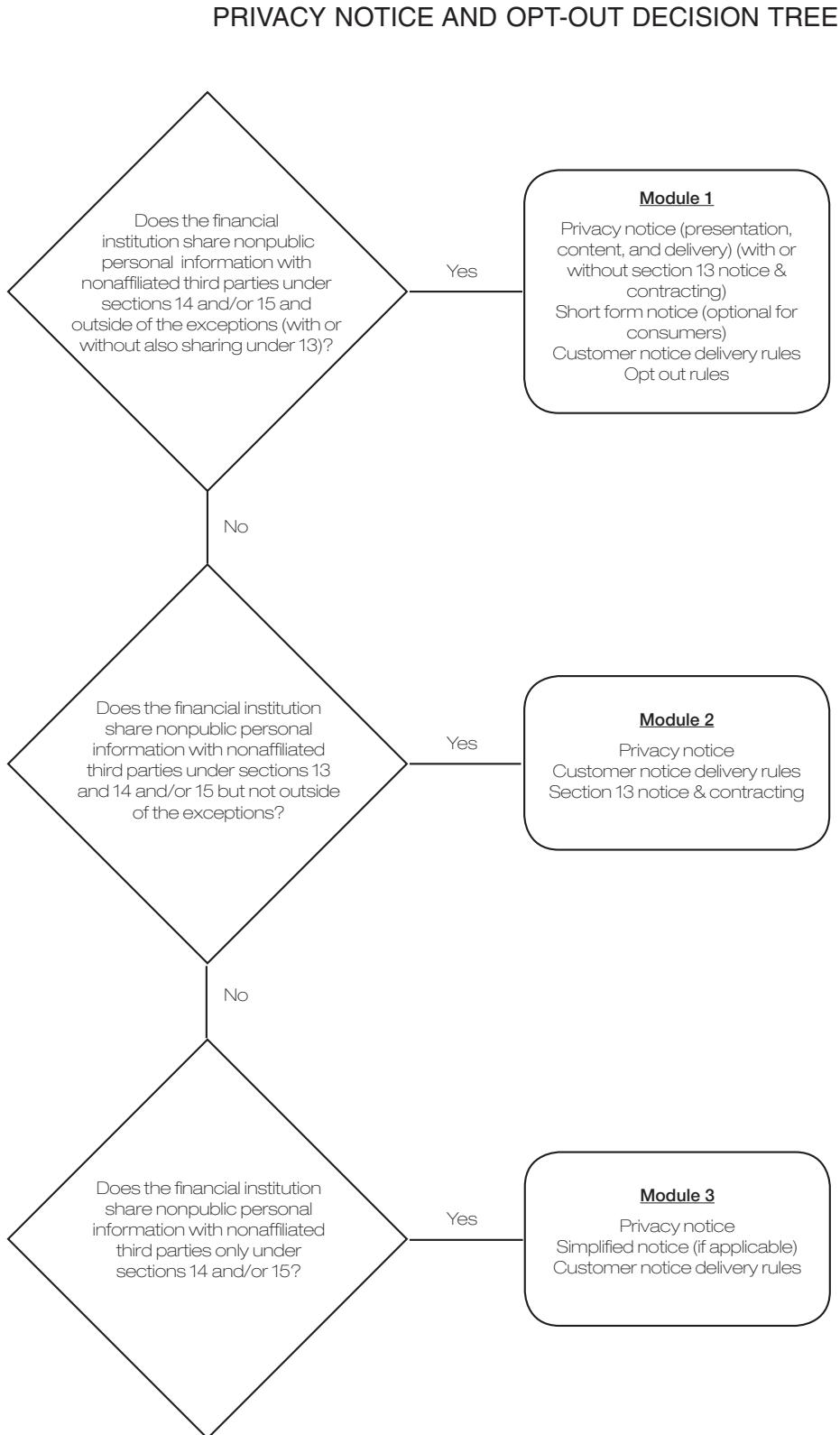
- i. to respond to judicial process or government regulatory authorities having jurisdiction over the institution for examination, compliance, or other purposes as authorized by law? [§15(a)(7)(iii)]

Yes No

(Note: The regulation gives the following as an example of the exception described in section (a) of this question: "A consumer may specifically consent to [an institution's] disclosure to a nonaffiliated insurance company of the fact that the consumer has applied to [the institution] for a mortgage so that the insurance company can offer homeowner's insurance to the consumer.")

Regulation P

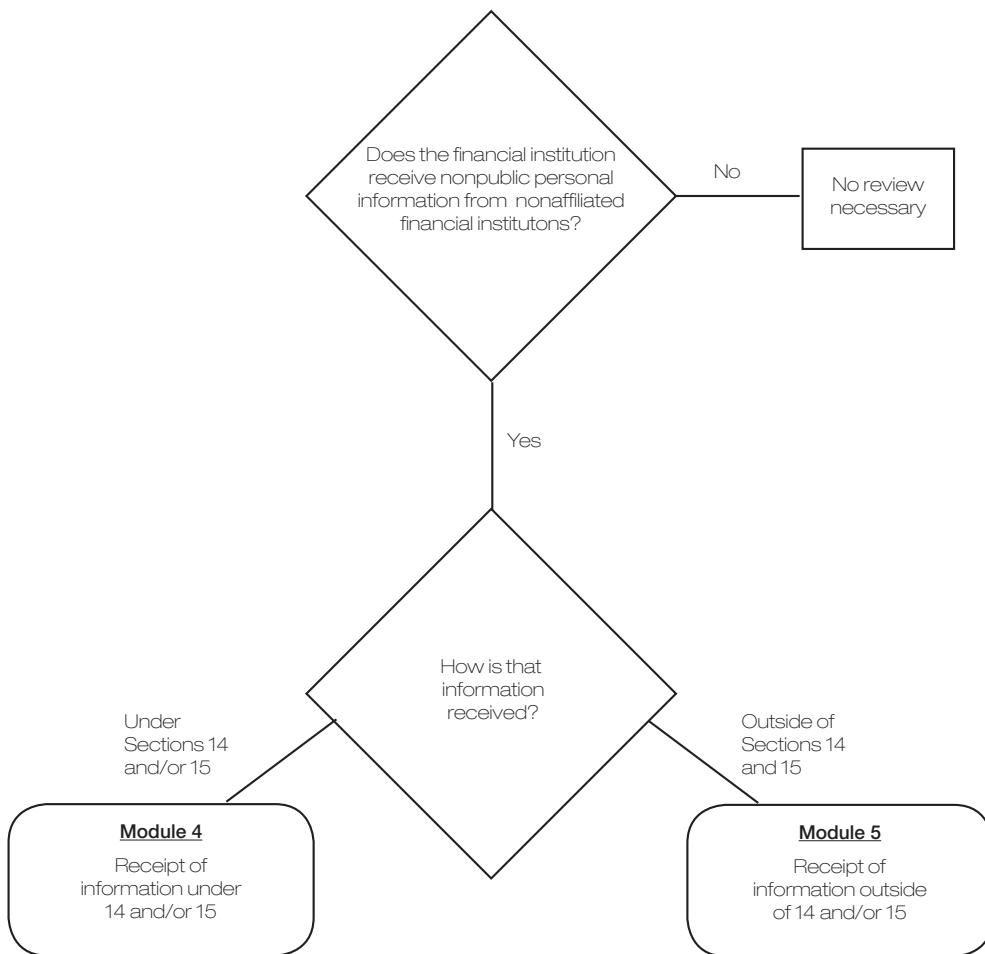
Attachment A



Regulation P

Attachment B

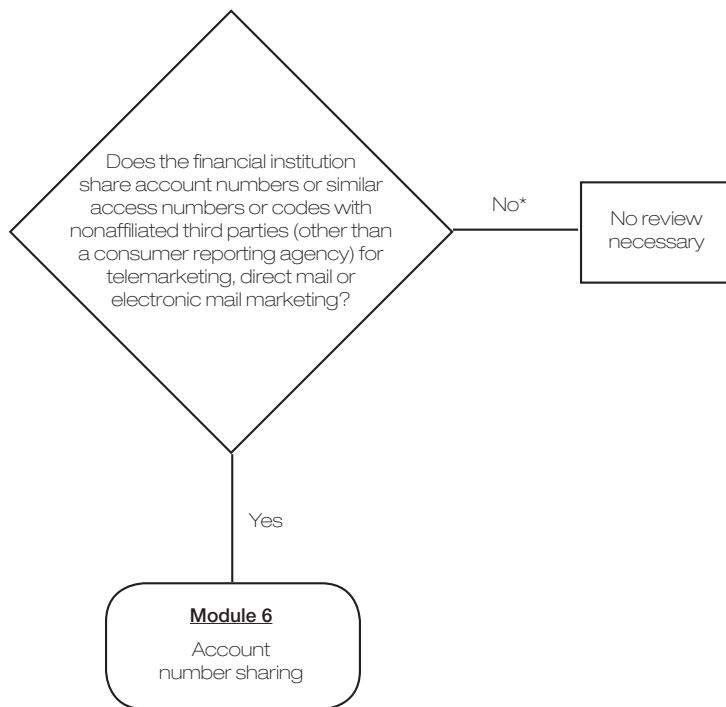
REDISCLOSURE AND REUSE OF NONPUBLIC PERSONAL INFORMATION RECEIVED FROM NONAFFILIATED FINANCIAL INSTITUTIONS DECISION TREE (Sections 11(a) and 11(b))



Regulation P

Attachment C

ACCOUNT NUMBER SHARING DECISION TREE (Section 12)



* This may include sharing of encrypted account numbers but not the decryption key.

Federal Trade Commission Act

Section 5: Unfair or Deceptive Acts or Practices

Background

Section 5(a) of the Federal Trade Commission Act (FTC Act) (15 USC §45) prohibits “unfair or deceptive acts or practices in or affecting commerce.” This prohibition applies to all persons engaged in commerce, including banks. The Board has affirmed its authority under section 8 of the Federal Deposit Insurance Act to take appropriate action when unfair or deceptive acts or practices (UDAP) are discovered.

On March 11, 2004, the Board and the Federal Deposit Insurance Corporation (FDIC) issued a joint statement (Joint Statement) regarding the agencies’ responsibilities to enforce the prohibitions against unfair or deceptive trade practices as they apply to state-chartered banks. The Joint Statement contains a discussion of managing risks relating to UDAP and general guidance on measures that state-chartered banks can take to avoid engaging in such acts or practices, including best practices.

Legal Standards

The Joint Statement contained in appendix A of these procedures gives a complete description of the legal standards for both unfair and deceptive practices. The legal standards for unfairness and deception are independent of each other. Depending on the facts, a practice may be unfair, deceptive, or both. The legal standards for UDAP are briefly described below.

Unfair Practices

An act or practice is unfair where it

- causes or is likely to cause substantial injury to consumers;
- cannot be reasonably avoided by consumers; and
- is not outweighed by countervailing benefits to consumers or to competition.

Public policy, as established by statute, regulation, or judicial decisions may be considered with all other evidence in determining whether an act or practice is unfair.

Deceptive Practices

An act or practice is deceptive where

- a representation, omission, or practice misleads or is likely to mislead the consumer;
- a consumer’s interpretation of the representation, omission, or practice is considered reasonable under the circumstances; and
- the misleading representation, omission, or practice is material.

Relationship of UDAP to Other Laws and Ratings

Some acts or practices may violate both section 5 of the FTC Act and other federal or state laws. Other acts and practices may violate only the FTC Act while fully complying with other consumer protection laws and regulations. Therefore, if a potential UDAP violation is found, examiners should consider whether other statutory or regulatory violations have occurred. The Joint Statement specifies laws that warrant particular attention in this regard (see appendix A of these procedures).

Furthermore, when illegal credit practices are identified through a review of UDAP compliance, examiners should consider whether the illegal practices adversely affect the Community Reinvestment Act rating of the institution pursuant to the regulatory requirements of 12 CFR 228.28(c).

Compliance Risk Evaluation

UDAP violations can present significant legal, reputational, and compliance risks for banks. These risks highlight the need for examiners to assess compliance with section 5 of the FTC Act in conjunction with consumer compliance examinations, other related supervisory activities, and consumer complaint investigations. Consistent with the Board’s risk-focused consumer compliance supervision program, compliance with section 5 of the FTC Act should be considered when developing risk assessments, scoping an examination, or when investigating a consumer complaint.

A determination of whether a particular act or practice is unfair or deceptive will depend on an analysis of the facts and circumstances. Although individual violations or complaints may appear isolated, when considered in the context of additional information including other violations or complaints, they may raise potential UDAP concerns.

Section 5 of the FTC Act:

Furthermore, the prohibition against UDAP not only applies to all products and services offered by banks, but to every stage and activity, from product development to the creation and rollout of market-

ing campaigns, and to servicing and collections. Therefore, particular focus should be paid to new or modified systems or products and third-party arrangements.

Federal Trade Commission Act—Section 5 Examination Objectives and Procedures

EXAMINATION OBJECTIVES

- To determine the adequacy of the bank's internal procedures, policies, and controls to ensure consistent compliance with section 5 of the FTC Act.
- To determine if the bank complies with section 5 of the FTC Act, which prohibits unfair and deceptive acts or practices.

EXAMINATION PROCEDURES

In order to fulfill the examination objectives stated above, and consistent with the Joint Statement, examiners should identify the bank's internal policies, procedures, and controls to be reviewed for UDAP compliance. In particular, the bank's compliance management systems; advertising and promotional materials; initial and subsequent disclosures; servicing and collections; and management and monitoring of employees and third parties should be reviewed as they relate to the products and services identified as potential areas of concern.

Examiners also should use these procedures in conjunction with the guidance and best practices contained in the Joint Statement to determine whether an unfair or deceptive act or practice has occurred. Specifically, examiners should, as appropriate

- review previous examinations reports, including consumer compliance, and safety and soundness examination reports;
- review current and prior examination findings regarding the institution's involvement in acts or practices that violate or may violate section 5 of the FTC Act;
- review the bank's policies, procedures, and internal controls;
- review a sample of consumer complaints, advertisements and promotional materials, disclosures, customer agreements, and third-party contracts and instructions;
- interview management and staff about the bank's acts and practices; and
- discuss any examiner concerns with bank management.

Evaluating Compliance Management Programs

A bank's compliance management program should focus on the avoidance of acts or practices that are unfair or deceptive and on the prompt correction of any such identified acts of practices. The degree of specificity with which a compliance management program should address this area will vary depending on the bank's size, complexity and product offerings. A small bank that offers a limited number of products through a few branches may not need the kind of specific, documented compliance program needed in a bank engaged in, for example, nationwide mortgage or credit card lending.

Items to Evaluate

1. Determine whether the bank's policies and procedures include guidance on preventing unfair or deceptive acts or practices.
2. Ascertain whether the bank reviews its practices in the context of federal regulations, policies, and decisions on unfair or deceptive acts or practices.
3. Ascertain whether the bank's compliance management function looks beyond the identification of individual violations to determine if its practices may be unfair or deceptive.
4. Determine whether the bank trains its employees on the provisions of the FTC Act that prohibit UDAP.
5. Determine whether the bank reviews consumer complaints to identify potential compliance problems and negative trends that have the potential to be unfair or deceptive. Determine whether the bank reviews concentrations of complaints about the same product or about bank conduct in order to identify potential areas of concern.
6. Determine whether the bank has identified any potentially unfair or deceptive acts or practices, and if so, verify that it corrected the identified concerns and provided restitution to affected persons when appropriate.
7. If the bank has identified potentially unfair or deceptive acts or practices, determine if it has implemented changes to prevent future recurrences.

8. Determine whether the bank clearly discloses a telephone number or mailing address (and e-mail address or website if applicable) that consumers may use to contact the bank or its third-party servicers regarding any complaints or inquiries they may have.
9. Determine whether the bank's management is involved in both the development of new products and services and in decisions to change the terms of or reprice existing products and services.

Evaluating Advertising and Promotional Materials

Due to the increasing complexity of certain products, particularly mortgage loans and credit cards, a bank's advertising and promotional materials¹ should be presented in a clear, balanced, and timely manner, with special attention paid to products targeted toward the elderly, financially vulnerable, or financially unsophisticated. Advertising and promotional materials should present not only the benefits of the products and services, but also any potential risks, such as payment shock or negative amortization. When a bank's business is largely driven by product marketing and promotion, it should exercise particular caution to avoid potential UDAP.

Items to Evaluate

1. Determine whether the bank reviews all advertisements, promotional materials, and marketing scripts to ensure that there is a reasonable factual basis for all representations made.
 2. Determine whether the bank reviews all advertisements, promotional materials, and marketing scripts to ensure that these materials do not use fine print, separate statements, or inconspicuous disclosures to correct potentially misleading headlines.
 3. Determine whether the bank tailors advertisements, promotional materials, and marketing scripts to take into account the sophistication and experience of the target audience, including the elderly and financially vulnerable.
 4. In advertisements, promotional materials, marketing scripts, and recorded telephone conversations, determine whether the bank (or its third-party servicer) makes claims, representations, or statements that may mislead members of the target audience about the cost, value,
- availability, cost savings, benefits, or terms of the product or service.
 5. Determine whether the bank reviews all advertisements, promotional materials, and marketing scripts to ensure that they fairly and adequately describe the terms, benefits, and material limitations of the product or service being offered, including any related or optional products or services, and that they do not misrepresent such terms either affirmatively or by omission.
 6. Determine whether the bank avoids advertising that a particular service or benefit will be provided in connection with an account if the bank does not intend or is not able to provide the service or benefit to account holders.
 7. Determine whether the bank draws the attention of customers to key terms, including limitations and conditions that are important in enabling customers to make informed decisions about whether the product or service meets their needs.
 8. When using terms such as "pre-approved," "guaranteed," or "fixed rates," determine whether the bank clearly discloses any limitations, conditions, or restrictions on the offer.
 9. Determine whether the bank ensures that costs and benefits of related or optional products and services, such as overdraft protection, are clearly explained and not misrepresented or presented in an incomplete or overly complex manner.
 10. Determine whether the bank avoids advertising terms that are not available to most customers, and avoids using unrepresentative examples in advertising, marketing, and promotional materials.
 11. Determine whether the bank reviews its website content and navigational process to ensure that the consumer is able to readily obtain the necessary disclosures for its products.
 12. Determine whether the bank reviews its advertising and promotional materials to avoid raising UDAP concerns.

Evaluating Initial and Subsequent Disclosures

A bank's disclosures with respect to initial terms and conditions, repricing, and changes in terms should be clear and accurate. The terms and conditions of many credit and deposit products are variable and may change periodically based on external variables, such as changes in the prime rate. Many credit card products have terms that may change or increase automatically following a

1. Advertising and promotional materials include print and electronic materials, as well as scripts used for radio, Internet, or television advertising and telemarketing.

specific event, such as an interest rate increase triggered by a consumer's delinquency with the creditor or another creditor. The disclosures for products with variable terms and conditions such as these should be clearly presented.

Items to Evaluate

1. Determine whether the bank reviews all customer agreements and disclosures to ensure that there is a reasonable factual basis for all representations made.
2. Determine whether the bank's customer agreements and disclosures fairly and adequately describe the terms, benefits, and material limitations or conditions of the product or service being offered. Limitations may include such things as: a special interest rate that applies only to balance transfers, an expiration date for terms that apply only during an introductory period, or a prerequisite for obtaining particular terms (such as minimum transaction amounts, introductory or other fees, or other qualifications). Conditions may include the ability to cancel without charge a service that was offered on a free trial basis.
3. Determine whether the bank's disclosures make claims, representations, or statements that may mislead members of the target audience about the cost, value, availability, cost savings, benefits, or terms of the product or service.
4. Determine whether the bank informs consumers in a clear and timely manner about any fees, penalties, or other charges (including charges for any force-placed products) that have been imposed, and the reasons for their imposition.
5. Determine whether the bank clearly discloses that optional or related products and services that are offered simultaneously with credit—such as insurance, travel services, credit protection, and consumer report update services—are not required to obtain credit or are not considered in decisions to grant credit.
6. When making claims about amounts of credit available to consumers, determine whether the bank accurately and completely represents the amount of potential, approved, or useable credit that the consumer will receive.
7. Determine whether the bank clearly informs a consumer when the account terms approved for the consumer are less favorable than the terms advertised or previously disclosed.
8. If the bank reserves the right to change the terms of an account or product, determine whether the bank's customer agreements clearly disclose that the bank can make future changes to the rate, terms, and conditions otherwise

specified in any agreement signed by or given to the consumer. Determine whether the circumstances under which such changes may be made are clearly explained.

Evaluating Servicing and Collections

Servicing and collection activities can present a higher risk of potential UDAP violations because they are often conducted by bank subsidiaries, affiliates or third-party vendors and servicers. Thus, a bank should ensure that its disclosures of servicing and collections activities are accurate and not misleading and that those activities are conducted fairly and in consonance with any disclosures or agreements. For example, statements should clearly indicate when payments are due before any penalties are incurred.

Items to Evaluate

1. Determine whether the bank ensures that its employees and third-party servicers have, and follow, procedures to credit consumer payments in a timely manner.
2. Determine whether consumers are clearly told when and if monthly payments are applied to fees, penalties, or other charges before being applied to regular principal and interest.
3. Determine whether account statements clearly disclose how fees, penalties, other charges, and interest and principal payments affect the account balance and whether they have been calculated in accordance with any written agreements with the borrower.

Monitoring the Conduct of Employees and Third Parties

A bank should have effective risk and monitoring controls for hiring personnel and contracting and maintaining relationships with third parties. The controls should establish responsibilities with third parties for training and monitoring of staff. In addition, the controls should foster a bank's ability to monitor whether actual practices by its employees and third-party contractors are consistent with the bank's policies and procedures, applicable laws and regulations, and third-party agreements. In addition, a bank's monitoring should include a review of training and promotional materials used not only by its employees but also by third parties, to ensure that any UDAP concerns are identified early.

Items to Evaluate

1. Determine whether, through its third-party agreements and internal policies, the bank has effective risk and monitoring controls for select-

- ing and managing third-party contractors. Such agreements and policies should outline the degree of monitoring, acceptable error rates, and corrective action provisions for noncompliance. They also should identify issues that would need to be escalated to bank management.
2. Determine whether a bank's compensation programs for employees and third-party contractors provide incentives for acts or practices that could raise potential concerns, such as compensation programs that steer consumers to particular products to the exclusion of other, potentially beneficial products.
 3. Determine whether the bank monitors the training of employees and third parties who market or promote bank products or service loans to ensure that they are adequately trained to avoid making statements or taking actions that might be unfair or deceptive. Monitoring should include a review of training and promotional materials, including telemarketing scripts.
 4. Determine whether the bank reviews a third party's primary interface with consumers, such as reviewing recorded telephone calls or transcripts of online communication.

Federal Trade Commission Act—Section 5

Appendix: Statement on Unfair or Deceptive Acts or Practices by State-Chartered Banks

The following statement was issued jointly by the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation on March 11, 2004.

Purpose

The Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation (the “Board” and the “FDIC,” or collectively, the “Agencies”) are issuing this statement to outline the standards that will be considered by the Agencies as they carry out their responsibility to enforce the prohibitions against unfair or deceptive trade practices found in section 5 of the Federal Trade Commission Act (“FTC Act”)² as they apply to acts and practices of state-chartered banks. The Agencies will apply these standards when weighing the need to take supervisory and enforcement actions and when seeking to ensure that unfair or deceptive practices do not recur.

This statement also contains a section on managing risks relating to unfair or deceptive acts or practices, which includes best practices as well as general guidance on measures that state-chartered banks can take to avoid engaging in such acts or practices.

Although the majority of insured banks adhere to a high level of professional conduct, banks must remain vigilant against possible unfair or deceptive acts or practices both to protect consumers and to minimize their own risks.

Coordination of Enforcement Efforts

Section 5(a) of the FTC Act prohibits “unfair or deceptive acts or practices in or affecting commerce,”³ and applies to all persons engaged in commerce, including banks. The Agencies each have affirmed their authority under section 8 of the Federal Deposit Insurance Act to take appropriate action when unfair or deceptive acts or practices are discovered.⁴

A number of agencies have authority to combat unfair or deceptive acts or practices. For example, the FTC has broad authority to enforce the requirements of section 5 of the FTC Act against many non-bank entities.⁵ In addition, state authori-

ties have primary responsibility for enforcing state statutes against unfair or deceptive acts or practices. The Agencies intend to work with these other regulators as appropriate in investigating and responding to allegations of unfair or deceptive acts or practices that involve state banks and other entities supervised by the Agencies.

Standards for Determining What is Unfair or Deceptive

The FTC Act prohibits unfair or deceptive acts or practices. Congress drafted this provision broadly in order to provide sufficient flexibility in the law to address changes in the market and unfair or deceptive practices that may emerge.⁶

An act or practice may be found to be *unfair* where it “causes or is likely to cause substantial injury to consumers which is not reasonably avoidable by consumers themselves and not outweighed by countervailing benefits to consumers or to competition.”⁷ A representation, omission, or practice is *deceptive* if it is likely to mislead a consumer acting reasonably under the circumstances and is likely to affect a consumer’s conduct or decision regarding a product or service.

The standards for unfairness and deception are independent of each other. While a specific act or practice may be both unfair and deceptive, an act or practice is prohibited by the FTC Act if it is *either* unfair or deceptive. Whether an act or practice is unfair or deceptive will in each instance depend upon a careful analysis of the facts and circumstances. In analyzing a particular act or practice, the Agencies will be guided by the body of law and official interpretations for defining unfair or deceptive acts or practices developed by the courts and the FTC. The Agencies will also consider factually similar cases brought by the FTC and other agencies to ensure that these standards are applied consistently.

Unfair Acts or Practices

Assessing whether an act or practice is unfair

An act or practice is unfair where it (1) causes or is likely to cause substantial injury to consumers, (2) cannot be reasonably avoided by consumers,

2. 15 USC § 45.

3. 15 USC § 45(a).

4. 12 USC § 1818(b)(1), (e)(1), and (i)(2). See letter from Chairman Greenspan to the Hon. John J. LaFalce (May 30, 2002); and “Unfair or Deceptive Acts or Practices: Applicability of the Federal Trade Commission Act,” FIL 57-2002 (May 30, 2002).

5. 15 USC § 45(a)(2) and Gramm-Leach-Bliley Act § 133, published in notes to 15 USC § 41.

6. See FTC Policy Statement on Unfairness (December 17, 1980); and FTC Policy Statement on Deception (October 14, 1983).

7. This standard was first issued as a policy by the FTC and later codified into the FTC Act as 15USC § 45(n).

and (3) is not outweighed by countervailing benefits to consumers or to competition. Public policy may also be considered in the analysis of whether a particular act or practice is unfair. Each of these elements is discussed further below.

- *The act or practice must cause or be likely to cause substantial injury to consumers.*

To be unfair, an act or practice must cause or be likely to cause substantial injury to consumers. Substantial injury usually involves monetary harm. An act or practice that causes a small amount of harm to a large number of people may be deemed to cause substantial injury. An injury may be substantial if it raises a significant risk of concrete harm. Trivial or merely speculative harms are typically insufficient for a finding of substantial injury. Emotional impact and other more subjective types of harm will not ordinarily make a practice unfair.

- *Consumers must not reasonably be able to avoid the injury.*

A practice is not considered unfair if consumers may reasonably avoid injury. Consumers cannot reasonably avoid injury from an act or practice if it interferes with their ability to effectively make decisions. Withholding material price information until after the consumer has committed to purchase the product or service would be an example of preventing a consumer from making an informed decision. A practice may also be unfair where consumers are subject to undue influence or are coerced into purchasing unwanted products or services.

The Agencies will not second-guess the wisdom of particular consumer decisions. Instead, the Agencies will consider whether a bank's behavior unreasonably creates or takes advantage of an obstacle to the free exercise of consumer decision-making.

- *The injury must not be outweighed by countervailing benefits to consumers or to competition.*

To be unfair, the act or practice must be injurious in its net effects—that is, the injury must not be outweighed by any offsetting consumer or competitive benefits that are also produced by the act or practice. Offsetting benefits may include lower prices or a wider availability of products and services.

Costs that would be incurred for remedies or measures to prevent the injury are also taken into account in determining whether an act or practice is unfair. These costs may include the costs to the bank in taking preventive measures and the costs to society as a whole of any increased burden and similar matters.

- *Public policy may be considered.*

Public policy, as established by statute, regulation, or judicial decisions may be considered with all other evidence in determining whether an act or practice is unfair. For example, the fact that a particular lending practice violates a state law or a banking regulation may be considered as evidence in determining whether the act or practice is unfair. Conversely, the fact that a particular practice is affirmatively allowed by statute may be considered as evidence that the practice is not unfair. Public policy considerations by themselves, however, will not serve as the primary basis for determining that an act or practice is unfair.

Deceptive Acts and Practices

Assessing whether an act or practice is deceptive

A three-part test is used to determine whether a representation, omission, or practice is “deceptive.” First, the representation, omission, or practice must mislead or be likely to mislead the consumer. Second, the consumer’s interpretation of the representation, omission, or practice must be reasonable under the circumstances. Lastly, the misleading representation, omission, or practice must be material. Each of these elements is discussed below in greater detail.

- *There must be a representation, omission, or practice that misleads or is likely to mislead the consumer.*

An act or practice may be found to be deceptive if there is a representation, omission, or practice that misleads or is likely to mislead the consumer. Deception is not limited to situations in which a consumer has already been misled. Instead, an act or practice may be found to be deceptive if it is likely to mislead consumers. A representation may be in the form of express or implied claims or promises and may be written or oral. Omission of information may be deceptive if disclosure of the omitted information is necessary to prevent a consumer from being misled.

In determining whether an individual statement, representation, or omission is misleading, the statement, representation, or omission will not be evaluated in isolation. The Agencies will evaluate it in the context of the entire advertisement, transaction, or course of dealing to determine whether it constitutes deception. Acts or practices that have the potential to be deceptive include: making misleading cost or price claims; using bait-and-switch techniques; offering to provide a product or service that is not in fact available; omitting material limitations or conditions from an offer; selling a product unfit for the purposes for which it is sold; and failing to provide promised services.

- *The act or practice must be considered from the perspective of the reasonable consumer.*

In determining whether an act or practice is misleading, the consumer's interpretation of or reaction to the representation, omission, or practice must be reasonable under the circumstances. The test is whether the consumer's expectations or interpretation are reasonable in light of the claims made. When representations or marketing practices are targeted to a specific audience, such as the elderly or the financially unsophisticated, the standard is based upon the effects of the act or practice on a reasonable member of that group.

If a representation conveys two or more meanings to reasonable consumers and one meaning is misleading, the representation may be deceptive. Moreover, a consumer's interpretation or reaction may indicate that an act or practice is deceptive under the circumstances, even if the consumer's interpretation is not shared by a majority of the consumers in the relevant class, so long as a significant minority of such consumers is misled.

In evaluating whether a representation, omission or practice is deceptive, the Agencies will look at the entire advertisement, transaction, or course of dealing to determine how a reasonable consumer would respond. Written disclosures may be insufficient to correct a misleading statement or representation, particularly where the consumer is directed away from qualifying limitations in the text or is counseled that reading the disclosures is unnecessary. Likewise, oral disclosures or fine print may be insufficient to cure a misleading headline or prominent written representation.

- *The representation, omission, or practice must be material.*

A representation, omission, or practice is material if it is likely to affect a consumer's decision regarding a product or service. In general, information about costs, benefits, or restrictions on the use or availability of a product or service is material. When express claims are made with respect to a financial product or service, the claims will be presumed to be material. Similarly, the materiality of an implied claim will be presumed when it is demonstrated that the institution intended that the consumer draw certain conclusions based upon the claim.

Claims made with the knowledge that they are false will also be presumed to be material. Omissions will be presumed to be material when the financial institution knew or should have known that the consumer needed the omitted information to evaluate the product or service.

Relationship to Other Laws

Acts or practices that are unfair or deceptive within

the meaning of section 5 of the FTC Act may also violate other federal or state statutes. On the other hand, there may be circumstances in which an act or practice violates section 5 of the FTC Act even though the institution is in technical compliance with other applicable laws, such as consumer protection and fair lending laws. Banks should be mindful of both possibilities. The following laws warrant particular attention in this regard:

Truth in Lending and Truth in Savings Acts

Pursuant to the Truth in Lending Act (TILA), creditors must "clearly and conspicuously" disclose the costs and terms of credit.⁸ The Truth in Savings Act (TISA) requires depository institutions to provide interest and fee disclosures for deposit accounts so that consumers may compare deposit products.⁹ TISA also provides that advertisements shall not be misleading or inaccurate, and cannot misrepresent an institution's deposit contract. An act or practice that does not comply with these provisions of TILA or TISA may also violate the FTC Act. On the other hand, a transaction that is in technical compliance with TILA or TISA may nevertheless violate the FTC Act. For example, consumers could be misled by advertisements of "guaranteed" or "lifetime" interest rates when the creditor or depository institution intends to change the rates, whether or not the disclosures satisfy the technical requirements of TILA or TISA.

Equal Credit Opportunity and Fair Housing Acts

The Equal Credit Opportunity Act (ECOA) prohibits discrimination in any aspect of a credit transaction against persons on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to contract), the fact that an applicant's income derives from any public assistance program, and the fact that the applicant has in good faith exercised any right under the Consumer Credit Protection Act. Similarly, the Fair Housing Act (FHA) prohibits creditors involved in residential real estate transactions from discriminating against any person on the basis of race, color, religion, sex, handicap, familial status, or national origin. Unfair or deceptive practices that target or have a disparate impact on consumers who are members of these protected classes may violate the ECOA or the FHA, as well as the FTC Act.

8. 15 USC § 1632(a).

9. 12 USC § 4301 *et seq.*

Fair Debt Collection Practices Act

The Fair Debt Collection Practices Act prohibits unfair, deceptive, and abusive practices related to the collection of consumer debts. Although this statute does not by its terms apply to banks that collect their own debts, failure to adhere to the standards set by this Act may support a claim of unfair or deceptive practices in violation of the FTC Act. Moreover, banks that either affirmatively or through lack of oversight, permit a third-party debt collector acting on their behalf to engage in deception, harassment, or threats in the collection of monies due may be exposed to liability for approving or assisting in an unfair or deceptive act or practice.

Managing Risks Related to Unfair or Deceptive Acts or Practices

Since the release of the FDIC's statement and the Board's letter on unfair and deceptive practices in May 2002, bankers have asked for guidance on strategies for managing risk in this area. This section outlines guidance on best practices to address some areas with the greatest potential for unfair or deceptive acts and practices, including: advertising and solicitation; servicing and collections; and the management and monitoring of employees and third-party service providers. Banks also should monitor compliance with their own policies in these areas, and should have procedures for receiving and addressing consumer complaints and monitoring activities performed by third parties on behalf of the bank.

To avoid engaging in unfair or deceptive activity, the Agencies encourage use of the following practices, which have already been adopted by many institutions:

Review all promotional materials, marketing scripts, and customer agreements and disclosures to ensure that they fairly and adequately describe the terms, benefits, and material limitations of the product or service being offered, including any related or optional products or services, and that they do not misrepresent such terms either affirmatively or by omission. Ensure that these materials do not use fine print, separate statements or inconspicuous disclosures to correct potentially misleading headlines, and ensure that there is a reasonable factual basis for all representations made.

Draw the attention of customers to key terms, including limitations and conditions, that are important in enabling the customer to make an informed decision regarding whether the product or service meets the customer's needs.

Clearly disclose all material limitations or condi-

tions on the terms or availability of products or services, such as a limitation that applies a special interest rate only to balance transfers; the expiration date for terms that apply only during an introductory period; material prerequisites for obtaining particular products, services or terms (e.g., minimum transaction amounts, introductory or other fees, or other qualifications); or conditions for canceling a service without charge when the service is offered on a free trial basis.

Inform consumers in a clear and timely manner about any fees, penalties, or other charges (including charges for any force-placed products) that have been imposed, and the reasons for their imposition.

Clearly inform customers of contract provisions that permit a change in the terms and conditions of an agreement.

When using terms such as "pre-approved" or "guaranteed," clearly disclose any limitations, conditions, or restrictions on the offer.

Clearly inform consumers when the account terms approved by the bank for the consumer are less favorable than the advertised terms or terms previously disclosed.

Tailor advertisements, promotional materials, disclosures and scripts to take account of the sophistication and experience of the target audience. Do not make claims, representations or statements that mislead members of the target audience about the cost, value, availability, cost savings, benefits, or terms of the product or service.

Avoid advertising that a particular service will be provided in connection with an account if the bank does not intend or is not able to provide the service to accountholders.

Clearly disclose when optional products and services—such as insurance, travel services, credit protection, and consumer report update services that are offered simultaneously with credit—are not required to obtain credit or considered in decisions to grant credit.

Ensure that costs and benefits of optional or related products and services are not misrepresented or presented in an incomplete manner.

When making claims about amounts of credit available to consumers, accurately and completely represent the amount of potential, approved, or useable credit that the consumer will receive.

Avoid advertising terms that are not available to most customers and using unrepresentative examples in advertising, marketing, and promotional materials.

Avoid making representations to consumers that

they may pay less than the minimum amount due required by the account terms without adequately disclosing any late fees, overlimit fees, or other account fees that will result from the consumer paying such reduced amount.

Clearly disclose a telephone number or mailing address (and, as an addition, an email or website address if available) that consumers may use to contact the bank or its third-party servicers regarding any complaints they may have, and maintain appropriate procedures for resolving complaints. Consumer complaints should also be reviewed by banks to identify practices that have the potential to be misleading to customers.

Implement and maintain effective risk and supervisory controls to select and manage third-party servicers.

Ensure that employees and third parties who market or promote bank products, or service loans, are adequately trained to avoid making statements or taking actions that might be unfair or deceptive.

Review compensation arrangements for bank employees as well as third-party vendors and servicers to ensure that they do not create unintended incentives to engage in unfair or deceptive practices.

Ensure that the institution and its third party servicers have and follow procedures to credit consumer payments in a timely manner. Consumers should be clearly told when and if monthly

payments are applied to fees, penalties, or other charges before being applied to regular principal and interest.

The need for clear and accurate disclosures that are sensitive to the sophistication of the target audience is heightened for products and services that have been associated with abusive practices. Accordingly, banks should take particular care in marketing credit and other products and services to the elderly, the financially vulnerable, and customers who are not financially sophisticated. In addition, creditors should pay particular attention to ensure that disclosures are clear and accurate with respect to: the points and other charges that will be financed as part of home-secured loans; the terms and conditions related to insurance offered in connection with loans; loans covered by the Home Ownership and Equity Protection Act; reverse mortgages; credit cards designed to rehabilitate the credit position of the cardholder; and loans with pre-payment penalties, temporary introductory terms, or terms that are not available as advertised to all consumers.

Conclusion

The development and implementation of policies and procedures in these areas and the other steps outlined above will help banks assure that products and services are provided in a manner that is fair, allows informed customer choice, and is consistent with the FTC Act.

Branch Closings

Background

State member banks are required, by section 42 of the Federal Deposit Insurance Act (FDI Act) (12 USC 1831r-1), to submit a notice of any proposed branch closing to the Federal Reserve at least ninety days before the date of the proposed closing.¹ The notice must include a detailed statement of the reasons for the decision to close the branch and statistical or other information in support of those reasons.

These banks are also required to notify customers of the proposed closing, both by posting a notice at the branch proposed for closure and by mailing a notice of the closure to affected consumers. The notice provided on the branch premises must be posted in a conspicuous manner at least thirty days before the proposed closing. The mailed notice must be provided to branch customers at least ninety days before the proposed closing.

An interstate bank regulated by the Federal Reserve that proposes to close a branch located in a low- or moderate-income area is required to include in its notice to customers the mailing address of its Reserve Bank supervisor and a statement that comments on the closing may be mailed to the Reserve Bank.² In those cases, a person from the affected area may submit a written request to the Reserve Bank relating to the proposed closing, stating specific reasons for the request and including a discussion of the adverse effect the closing may have on the availability of banking services in the affected area. If the Reserve Bank, in conjunction with the Board, determines that the request is not frivolous, it must

convene a meeting of appropriate individuals, organizations, depository institutions, and Federal Reserve and other regulatory agency representatives, as determined by the Federal Reserve at its discretion, to explore the feasibility of obtaining adequate alternative facilities and services for the affected area following the closing of the branch.

Finally, each institution must adopt policies regarding closings of branches of the institution.

Applicability

The bank closure provisions apply to traditional brick-and-mortar branches or similar banking facilities at which deposits are received, checks are paid, or money is lent.³ Notice is not required for the closing of a nonbranch facility, such as an ATM, a remote service facility, a loan-production office, or a temporary branch.⁴ Nor does section 42 apply to mergers, consolidations, or other acquisitions, including branch sales, that do not result in any branch closings.

Mergers

An institution must file a branch closing notice whenever it closes a branch, including when the closing occurs in the context of a merger, consolidation, or other form of acquisition.⁵ Branch closings that occur in the context of transactions subject to the Bank Merger Act (12 USC 1828) require a branch closing notice, even if the transaction received expedited treatment under that act. The responsibility for filing the notice lies with the acquiring or resulting institution, but either party to such a transaction may give the notice. Thus, for example, the purchaser may give the notice prior to consummation of the transaction when the purchaser intends to close a branch following consummation, or the seller may give the notice because it intends to close a branch at or prior to consummation. In the latter example, if the transaction were to close ahead of schedule, the purchaser, if authorized by the Federal Reserve,

1. Section 42, which was added to the Federal Deposit Insurance Act by section 228 of the Federal Deposit Insurance Corporation Improvement Act of 1991 (Pub. L. 102-242, 105 Stat. 2236), became effective in December 1991. Section 42 was amended by section 106 of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 and by the Economic Growth and Regulatory Paperwork Reduction Act of 1996. This chapter is adapted from the Joint Policy Statement regarding Branch Closings issued by the Board, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision, effective June 29, 1999. The statement is available at www.federalreserve.gov/boarddocs/press/boardacts/1999/19990707/l-1036.pdf.

2. An *interstate bank* is a bank that maintains branches in more than one state. A *low- or moderate-income area* is a census tract for which the median family income is (1) less than 80 percent of the median family income for the metropolitan statistical area (as designated by the director of the Office of Management and Budget) in which the census tract is located or (2) in the case of a census tract that is not located in a metropolitan statistical area, less than 80 percent of the median family income for the state in which the census tract is located, as determined without taking into account family income in metropolitan statistical areas in the state (12 USC 1831r(d)(4)).

3. Insured branches of foreign banks are not considered "branches" for purposes of section 42 because they are subject to separate liquidation procedures as specified in 12 CFR 28.22 (federal branches of foreign banks) and 12 CFR 211.25(f) (state branches of foreign banks).

4. The 1996 amendment expressly stated that section 42 does not apply with respect to automated teller machines (Pub. L. 104-208, 110 Stat. 3009).

5. See the section "Other Applicability Considerations" for information on certain branches closed in connection with emergency acquisitions or FDIC assistance or a branch subsequently transferred back to the FDIC pursuant to an acquisition agreement.

could operate the branch to complete compliance with the ninety-day requirement and would not need to give an additional notice.

Relocations and Consolidations

Section 42 does not apply when a branch is relocated or is consolidated with one or more other branches, provided that the relocation or consolidation occurs within the immediate neighborhood and does not substantially affect the nature of the business or customers served.

A *branch relocation* is a movement within the same immediate neighborhood that does not substantially affect the nature of the business or customers served. Generally, relocations will be found to have occurred only when short distances are involved—for example, across the street, around the corner, or a block or two away. Moves of less than 1,000 feet will generally be considered relocations. In less densely populated areas, where neighborhoods extend farther and a long move would not significantly affect the nature of the business or the customers served by the branch, a relocation may occur over substantially longer distances.

Generally, consolidations of branches are considered relocations if the branches are located within the same neighborhood and the nature of the business or customers served is not affected. Thus, for example, a consolidation of two branches on the same block following a merger would not constitute a branch closing. The same guidelines apply to consolidations as to relocations.

Other Applicability Considerations

A change in the services offered at a branch is not considered a branch closing, provided that the remaining facility constitutes a branch (as defined herein).⁶

Section 42 also does not apply when a branch ceases operation but is not closed by an institution. Thus, it does not apply to

- A temporary interruption of service caused by an event beyond the institution's control (for example, a natural catastrophe), if the insured depository institution plans to restore branching services at the site in a timely manner⁷

6. If after a reduction in services the resulting facility no longer qualifies as a branch, section 42 would apply. Thus, notices of branch closing would be required if an institution were to replace a traditional brick-and-mortar branch with an ATM.

7. Section 42 would apply, however, if the institution did not reopen the branch following the incident. Although prior notice would not be possible in such a case, the institution should notify the customers of the branch and the Federal Reserve in the manner specified by section 42 to the extent possible and as soon as possible after the decision to close the branch has been made.

- The transferal back to the FDIC, pursuant to the terms of an acquisition agreement, of a branch of a failed bank operated on an interim basis in connection with the acquisition of all or part of a failed bank, as long as the transfer occurs within the option period or within an occupancy period, not to exceed 180 days, specified in the agreement
- A branch that is closed in connection with an emergency acquisition under section 11(n), 13(f), or 13(k) of the FDI Act or with any assistance provided by the FDIC under section 13(c) of the FDI Act (12 USC 182(n), 1823(f) and (k), and 1823(c))

Notice of Branch Closing to the Federal Reserve

A state member bank's notice of a proposed branch closing to the Federal Reserve must include the following:

- The identity of the branch to be closed
- The proposed date of closing
- A detailed statement of the reasons for the decision to close the branch
- Statistical or other information in support of those reasons consistent with the institution's written policy for branch closings

If an institution believes that certain information included in the notice is confidential in nature, it should prepare that information separately and request confidential treatment. The Federal Reserve will decide whether to treat the information confidentially under the Freedom of Information Act (5 USC 552).

If a notice provided to a state supervisory agency pursuant to state law contains the information outlined above, the institution may provide a copy of that notice to the Federal Reserve, provided that the notice is filed at least ninety days prior to the date of the branch closing.

Notice of Branch Closing to Customers

Customer Allocation

For purposes of providing notice of the proposed closing to the customers of the branch, a *customer of a branch* is a patron of a state member depository institution who has been identified with a particular branch by the institution through use, in good faith, of a reasonable method of allocating customers to specific branches. An institution that allocates customers on the basis of where a customer opened his or her deposit or loan

account is presumed to have reasonably identified each customer of a branch. Although the use of this means of allocation, and perhaps others, may result in certain facilities that technically constitute branches being assigned no customers, this result is permissible so long as the means of allocation is reasonable; if such a branch is closed, notification to the Federal Reserve and posting of a notice on the branch premises will suffice. Finally, a state member institution need not change its recordkeeping system in order to make a reasonable determination of who is a customer of a branch.

An institution must include a customer notice at least ninety days in advance of the proposed closing in at least one of the regular account statements mailed to customers, or in a separate mailing. If the branch closing occurs after the proposed date of closing, an additional notice need not be mailed to customers (or provided to the Federal Reserve) if the institution acted in good faith in projecting the date for closing and in subsequently delaying the closing.

Content

The mailed customer notice should state the location of the branch to be closed and the proposed date of closing and should either identify another location at which customers can obtain service after the closing or provide a telephone number that customers can call to learn about alternative sites. If a notice of branch closing provided to customers pursuant to state law contains this information, a separate notice need not be sent, provided that the notice is sent at least ninety days prior to the closing.

Low- and Moderate-Income Areas Served by Interstate Banks

If the state member bank maintains branches in more than one state and the branch to be closed is located in a low- or moderate-income area, the mailed customer notice must contain the mailing address of the appropriate Reserve Bank and a statement that comments on the proposed branch closing may be mailed to that entity. The notice should also state that the Federal Reserve does not have the authority to approve or prevent the branch closing.

Additional rules apply if the System receives a written request concerning the proposed closing from a person within a low- or moderate-income area served by the branch. In this case, if the request states specific reasons for the request, including a discussion of the adverse effect of the closing on the availability of banking services in the

affected area, and if the Federal Reserve concludes that the request is not frivolous, the Federal Reserve must convene a meeting of Federal Reserve representatives, other interested depository institution regulatory agencies, community leaders, and other appropriate individuals, organizations, and depository institutions, as determined by the Federal Reserve at its discretion. The purpose of the meeting shall be to explore the feasibility of obtaining adequate alternate facilities and services for the affected area, including the establishment of a new branch by another depository institution, the chartering of a new depository institution, or the establishment of a community development credit union, following the closing of the branch.

In the case of an institution that will become an interstate bank prior to the closure of a branch in a low- or moderate-income area, such information must be included in the notice unless the closure will occur immediately upon consummation of the transaction that causes the institution to become interstate.

No action by the Federal Reserve under this provision shall affect the authority of an interstate bank to close a branch (including the timing of the closing) if the requirements of section 42(a) and (b) of the FDI Act (regarding notice to the appropriate federal banking agency and notice to the institution's customers) have been met by such bank with respect to the branch being closed.

On-Site Notice

The on-site notice to branch customers should be posted in a conspicuous manner on the branch premises at least thirty days prior to the proposed closing. The notice should state the proposed date of closing and should identify another location where customers can obtain service after that date or provide a telephone number that customers can call to learn about alternative sites. An institution may revise the notice to extend the projected closing date without triggering a new thirty-day notice period.

Contingent Notices

In some situations, an institution, at its discretion and to expedite transactions, may mail and post notices to customers of a proposed branch closing that is contingent upon an event. For example, in the case of a proposed merger or acquisition, an institution may notify customers of its intent to close a branch upon the Federal Reserve Board's approval of the proposed merger or acquisition.

Policies for Branch Closings

The law requires all insured depository institutions to adopt policies for branch closings. Each institution with one or more branches must adopt such a policy. If an institution currently has no branches, it must adopt a policy for branch closing before it establishes its first branch. The policy should be in writing, should be appropriate for the size of the institution, and should meet the needs of the institution.

The branch closing policy should include criteria for determining which branch is to be closed and which customers should be notified as well as procedures for providing the required notices.

Compliance

Compliance with the requirements to adopt a branch closing policy and provide the notices when a branch is to be closed is determined during routine compliance examinations. Failure to comply may result in adverse findings in the compliance evaluation or in an enforcement action.

Examination Tips

Workpapers

Federal Reserve System examiners review the technical aspects of section 42 during routine compliance examinations and evaluate the effect of any branch closures on low- and moderate-income communities during CRA examinations. Because

branch closure issues may be raised in bank holding company or other CRA-related applications outside the examination process, examiners should ensure that their workpapers adequately support conclusions about a bank's branch closure policy and any specific branch closures reviewed. For example, in addition to answering the questions in the examination checklist, examiners should note whether the bank has an adequate written branch closing policy in place, whether this policy was followed for any branch closings, and whether the bank adequately documented the reasons for the closure. Documentation related to the branch closure, including the dates the notice was mailed to the appropriate parties and posted on the branch premises, specific reasons for the closure, and other data used by the bank to support its decision to close the branch (such as statistical data concerning branch profitability or loss), should be included in the workpapers.

Meetings

Regulators have no authority to tell a bank that it may not close a branch. Meetings convened to discuss state member bank branch closures in low- and moderate-income areas pursuant to section 42 are generally not considered public meetings. Instead, these are more on the order of private meetings to discuss alternatives to providing banking services to the affected community. As a result, attendance at these meetings should be limited to parties invited by the Federal Reserve and may be held after the branch is closed.

Branch Closings

Examination Objectives and Procedures

EXAMINATION OBJECTIVES

1. To determine whether the institution is in compliance with the statutory requirements for branch closings, including those relating to the following:
 - a. Providing prior notification of any branch closing to its appropriate federal banking agency and to customers of the branch
 - b. Establishing internal policies for branch closings

EXAMINATION PROCEDURES

1. Determine whether the institution has any branches that would subject it to the Joint Policy Statement regarding Branch Closings and section 42 of the Federal Deposit Insurance Act.
2. Determine whether the institution has adopted a branch closing policy that ensures compliance with the policy statement regarding branch closings and section 42 of the FDI Act.

3. Determine whether the institution's procedures for closing a branch have been followed since the last examination in which compliance with the policy statement for branch closing notices and section 42 of the FDI Act was assessed.
4. For any branch closed since the last examination, determine whether the institution provided adequate notice of any branch closing to the Federal Reserve at least 90 days prior to the proposed closing.
5. For any branch closed since the last examination, determine if the institution mailed an adequate notice to its customers at least 90 days prior to the proposed closing.
6. For any branch closed since the last examination, determine if the institution posted a notice to the branch customers in a conspicuous manner on the branch premises at least 30 days prior to the proposed closing.

Branch Closings Examination Checklist

- | | |
|--|-------------|
| 1. Does the insured depository institution have any branches, as defined in the Joint Policy Statement regarding Branch Closings, that would make it subject to the policy statement and to section 42 of the Federal Deposit Insurance Act? | Yes No |
| or | |
| Since the last exam, has the insured depository institution closed any of its branches, making it subject to the notification requirements of the policy statement and section 42 of the FDI Act? | Yes No |
| Note: If the answer to both questions is "no," do not proceed with this checklist. | |
| 2. Has the institution provided written notice of any branch closing to the Federal Reserve at least 90 days in advance of the closing? (§ 42(a)(1)) | Yes No |
| 3. Did the notice to the Federal Reserve contain | |
| a. The identity of the branch to be closed (§ 42(a)(1)) | Yes No |
| b. The proposed closing date (§ 42(a)(1)) | Yes No |
| c. The specific reasons for the closure (§ 42(a)(2)(A)) | Yes No |
| d. Statistical or other information in support of the reason(s) and consistent with the institution's written policy for branch closings (§ 42(a)(2)(B)) | Yes No |
| 4. Did the institution provide to customers written notice of the branch closure, in a regular account statement or separate mailing, at least 90 days before the closing? (§ 42(b)(2)(B)) | Yes No |
| 5. Did the mailed customer notice contain | |
| a. The location of the branch to be closed (§ 42(b)(1)) | Yes No |
| b. The proposed closing date (§ 42(b)(2)(B)) | Yes No |
| c. A list of alternative banking locations or a phone number to call to obtain information about possible alternatives (§ 42(b)(1)) | Yes No |
| 6. Did the institution conspicuously display a notice to customers on the premises of the branch to be closed at least 30 days before the closing? (§ 42(b)(2)(A)) | Yes No |
| 7. Did the notice that was posted on the bank premises contain | |
| a. The proposed closing date (§ 42(b)(2)(A)) | Yes No |
| b. A list of alternative banking locations or a phone number to call to obtain information about possible alternatives (§ 42(b)(1)) | Yes No |
| 8. Has the institution adopted a written branch closing policy? (§ 42(c)) | Yes No |
| 9. Does the written branch closing policy include (§ 42(c)) | |
| a. Factors for determining which branch to close | Yes No |
| b. Factors for determining which customers to notify | Yes No |
| c. Procedures for providing the required notices | Yes No |
| 10. Pursuant to state law, did the institution provide notifications consistent with the requirements of section 42 to the customers of the branch to be closed? (See checklist items 5 and 7.) (Note: If the answer is "yes," a second notice need not be sent in order to comply with the policy statement.) | Yes No |

11. If, pursuant to state law, the institution provided its state supervisor with a notice of a branch closing,

- a. Did the institution also provide a copy of that notice to the Federal Reserve? (§ 42(a)(1))
- b. Did the notice contain information consistent with the notice required by section 42? (See checklist item 3.)
- c. Was the notice filed with the Federal Reserve at least 90 days before the date of the proposed branch closing? (§ 42(a)(1))

Yes No

Yes No

Yes No

Children's Online Privacy Protection Act

Background

Financial institutions that operate one or more web sites or online services directed at children (or a portion of such a web site or service), or that have knowledge that they are collecting or maintaining personal information from a child online, are subject to certain regulatory requirements. Those requirements, which are set forth in the Children's Online Privacy Protection Act of 1998 (COPPA) (15 USC 6501 et seq.), address the collection, use, and disclosure of personal information about children collected from children through web sites or other online services. The regulation that implements COPPA (16 CFR 312) was issued in November 1999 by the Federal Trade Commission and became effective in April 2000. Each of the federal financial regulatory agencies has enforcement authority for COPPA over the institutions it supervises.

Definitions

- *Child (children)*—An individual (individuals) under the age of 13
- *Operator*—Any person who operates a web site located on the Internet or an online service and who collects or maintains personal information from or about the users of, or visitors to, such a web site, or on whose behalf such information is collected or maintained where the web site or online service is used for commercial purposes
- *Personal information*—Individually identifiable information about an individual collected online, including first and last names, home address, e-mail address, telephone number, Social Security number, or any combination of information that permits physical or online contact

General Requirements

Operators of web sites or online services directed at children, and operators who have knowledge that they are collecting or maintaining personal information from children, are required to

- Provide, on the web site or online service, a clear, complete, and understandable written notice of information-collection practices with regard to children, describing how the operator collects, uses, and discloses the information (§ 312.4)
- Obtain, through reasonable efforts and with limited exceptions, verifiable parental consent

before collecting, using, or disclosing personal information from children (§ 312.5)

- Provide a parent, upon request, with the means of reviewing the personal information collected from his or her child and of refusing to permit the information's further use or maintenance (§ 312.6)
- Limit collection of personal information for the purpose of facilitating a child's online participation in a game, prize offer, or other activity to that information that is reasonably necessary for the activity (§ 312.7)
- Establish and maintain reasonable procedures to protect the confidentiality, security, and integrity of the personal information collected from children (§ 312.8)

Notice on Web Site

Placement of Notice

An operator of a web site or online service directed at children must post, on its home page and everywhere on the site or service where it collects personal information from any child, a link taking viewers to a notice of its information practices with regard to children. An operator of a general-audience web site that has a separate children's area must post a link to its notice on the home page of the children's area.

Such links must be placed in a clear and prominent place on the home page of the web site or online service. To make the link clear and prominent, an operator may, for example, use a larger font size in a different color on a contrasting background. A link in small print at the bottom of a home page or a link that is indistinguishable from adjacent links does not satisfy the "clear and prominent" guidelines.

Content of Notice

The web site notice must, among other requirements, state

- The name, address, telephone number, and e-mail address of all operators collecting or maintaining personal information from children through the web site or online service; or the same information for one operator who will respond to all inquiries, in addition to the names of all the operators
- The types of personal information collected from children, and how the information is collected

- How the operator uses or may use the personal information
- Whether the operator discloses information collected to third parties. If it does, the notice must state
 - The types of business engaged in by the third parties
 - The purposes for which the information is used
 - Whether the third parties have agreed to maintain the confidentiality, security, and integrity of the information
 - That the parent has the option of consenting to the collection and use of the information without consenting to the disclosure of the information to third parties
- That the operator may not require, as a condition of participation in an activity, that a child disclose more information than is reasonably necessary to participate in the activity
- That a parent may review his or her child's personal information, have it deleted, and refuse to allow any further collection or use of the child's information. Procedures for parental review, deletion, and refusal to allow further collection or use must also be included in the notice.

Notice to Parent

Content of Notice

An operator is required to obtain verifiable parental consent before collecting, using, or disclosing personal information from children. An operator must also make reasonable efforts to provide a parent with notice of the operator's information practices with regard to children, as described above, and, in the case of a notice seeking consent, must state the following:

- That the operator wishes to collect personal information from the parent's child
- That the parent's consent is required for the collection, use, and disclosure of the information
- How the parent can provide consent

Parental Consent and Review of Information

Methods of Obtaining Parental Consent

Obtaining verifiable parental consent may be done by any of several methods. Currently, operators may take a "sliding-scale" approach whereby the method of obtaining parental consent depends on how the financial institution intends to use the child's personal information.

Under the sliding-scale approach, if the information is to be used solely for internal purposes

(including use by an operating subsidiary or an affiliate), the required method of obtaining consent is less rigorous. A financial institution that uses the information internally may obtain parental consent via e-mail, provided that the operator takes additional steps to verify that the person providing consent is in fact the child's parent by, for example, confirming receipt of consent by e-mail, letter, or telephone call. Operators who use such methods must provide notice that the parent may revoke consent.

The sliding-scale approach was adopted in anticipation that technical developments would eventually allow the use of more-reliable methods to verify identities. This approach, which was originally scheduled to be phased out by April 15, 2005, has been extended indefinitely by the FTC.

If, in contrast, the information is to be disclosed to others (for example, to chat rooms, message boards, or third parties), putting the child's privacy at greater risk, a more-reliable method of consent is required. These more-reliable methods include

- Obtaining a signed consent form from a parent via mail or fax
- Accepting and verifying a credit card number
- Taking a call from a parent, through a toll-free telephone number staffed by trained personnel
- Receiving e-mail accompanied by a digital signature
- Receiving e-mail accompanied by a PIN or password obtained through one of the verification methods described in the bullet items above

Parent-Permitted Disclosures to Third Parties

A parent may permit an operator of a web site or online service to collect and use information about a child while prohibiting the operator from disclosing the child's information to third parties. An operator must give a parent this option.

Parental Consent to Material Changes

An operator must send a new notice and request for consent to a parent if there is a material change in the collection, use, or disclosure practices to which the parent has previously agreed.

Exceptions to Prior-Parental-Consent Requirement

A financial institution does not need prior parental consent to collect

- A parent's or child's name or online contact information solely to obtain consent or to provide notice. If the operator has not obtained parental

consent in a reasonable time after the information was collected, the operator must delete the information from its records

- A child's online contact information solely to respond on a one-time basis to a specific request from the child. In such an instance, the contact information must not be used to re-contact the child and must be deleted.
- A child's online contact information to respond more than once to a specific request made by the child (for example, a request to receive a monthly online newsletter), if the parent is notified and allowed to request that the information not be used in any other way
- The name and online contact information of the child to be used solely to protect the child's safety
- The name and online contact information of the child solely to protect the security of the site, to take precautions against liability, or to respond to judicial process, law enforcement agencies, or an investigation related to public safety

Parental Right to Review Information

An operator of a web site or online service is required to provide a parent with a means of obtaining any personal information collected from his or her child. At a parent's request, the operator must provide the parent with a description of the types of personal information it has collected from the child and an opportunity to review the information collected from the child.

Before a parent is permitted to review a child's information, the operator must take steps to ensure that the person making the request is the child's parent. An operator or its agent will not be held liable under any federal or state laws for any disclosures made in good faith and after having followed reasonable procedures to verify the requester's identity.

Parents may refuse to permit an operator to continue to use or collect a child's personal information in the future and may instruct the operator to delete the information. If a parent does so, the operator may terminate its service to that child.

Other Requirements

Confidentiality, Security, and Integrity of Personal Information Collected from a Child

The operator of a web site or an online service is required to establish and maintain reasonable procedures to protect the confidentiality, security, and integrity of personal information collected from a child. Operators must have adequate policies and procedures for protecting a child's personal information from loss, misuse, unauthorized access, or disclosure. Operators are permitted to select an appropriate method for implementing this provision.

Safe Harbor

With prior FTC approval, industry groups, financial institutions, and others may establish a self-regulatory program. Web site operators and online services that comply with FTC-approved self-regulatory guidelines will receive a "safe harbor" from the requirements of COPPA and the regulation. Self-regulatory guidelines must require the implementation of substantially similar requirements that provide the same or greater protections for a child as sections 312.2 through 312.9 of the regulation. The guidelines must also include an effective, mandatory mechanism for assessing operators' compliance as well as incentives to ensure that an operator will comply.

Children's Online Privacy Protection Act

Examination Objectives and Procedures

EXAMINATION OBJECTIVES

1. To assess the quality of a financial institution's compliance management policies and procedures for implementing COPPA, specifically, for ensuring consistency between an institution's notices about policies and practices and what it actually does
2. To determine the degree of reliance that can be placed on a financial institution's internal controls and procedures for monitoring compliance with COPPA
3. To determine a financial institution's compliance with COPPA, specifically, in meeting the following requirements:
 - Providing, on the web site or online service, a clear, complete, and understandable written notice of its information-collection practices with regard to children that describes how the operator collects, uses, and discloses the information
 - Obtaining, through reasonable efforts and with limited exceptions, verifiable parental consent prior to the collection, use, or disclosure of personal information from children
 - Providing a parent, upon request, with the means of reviewing the personal information collected from his or her child and the means with which to refuse its further use or maintenance
 - Complying with any direction or request of a parent concerning his or her child's information
 - Limiting collection of personal information for a child's online participation in a game, prize offer, or other activity to information that is reasonably necessary for the activity
 - Establishing and maintaining reasonable procedures to protect the confidentiality, security, and integrity of the personal information collected from children
4. To initiate effective corrective actions when violations of law are identified or when policies or internal controls are deficient

EXAMINATION PROCEDURES

Initial Procedures

1. From direct observation of the financial institution's web site or online service and through discussions with appropriate management officials, ascertain whether the institution is subject to COPPA by determining if it operates a web site or online service that
 - Is directed at children
 - Knowingly collects or maintains personal information from children

Note: Stop here if the institution does not currently operate a web site that is directed to children or does not knowingly collect information about children. In these cases the institution is not subject to COPPA, and no further examination for COPPA is necessary.

2. Determine if the financial institution is participating in an FTC-approved self-regulatory program.
 - If it is, obtain a copy of the program and supporting documentation, such as reviews or audits, that demonstrate the financial institution's compliance with the program. If the self-regulatory authority (SRA) determined that the financial institution was in compliance with COPPA at the most recent review or audit or has not yet made a determination, no further examination for COPPA is necessary. If, on the other hand, the SRA determined that the institution was not in compliance with COPPA and the institution has not taken appropriate corrective action, continue with the remaining procedures.
 - If the financial institution is not participating in a FTC-approved self-regulatory program, continue with the remaining procedures.
3. Determine, through a review of available information, whether the financial institution's internal controls are adequate to ensure compliance with COPPA. Consider the following:
 - Organization chart, to determine who is responsible for the financial institution's compliance with COPPA

- Process flowcharts, to determine how the institution's COPPA compliance is planned for, evaluated, and achieved
 - Policies and procedures that relate to COPPA compliance
 - Methods of collecting or maintaining personal information from the web site or online service
 - List of data elements collected from any children and a description of how the data are used and protected
 - List of data elements collected from any children that are disclosed to third parties, and any contracts or agreements with those third parties governing the use of that information
 - Complaints regarding the treatment of data collected from a child
 - Internal checklists, worksheets, and other review documents
4. Review applicable audit and compliance review material, including workpapers, checklists, and reports, to determine whether
 - The procedures address the COPPA provisions applicable to the institution
 - Effective corrective action occurred in response to previously identified deficiencies
 - The audits and reviews performed were reasonable and accurate
 - Deficiencies, their causes, and the effective corrective actions are consistently reported to management or members of the board of directors
 - The frequency of the compliance review is satisfactory
 5. Review, as available, a sample of complaints that allege the inappropriate collection, sharing, or use of data from a child to determine whether there are any areas of concern.
 6. Based on the results of the foregoing, determine the depth of the examination review, focusing on the areas of particular risk. The procedures to be employed depend on the adequacy of the institution's compliance management system and the level of risk identified.
- including data shared with third parties, if applicable, and determine whether
- The institution has established and maintained reasonable procedures to protect the confidentiality, security, and integrity of personal information collected from a child (§§ 312.3 and 312.8)
 - Data are collected, used, and shared in accordance with the institution's web site notice (§§ 312.3 and 312.4)
 - Parental permission was obtained prior to the use, collection, or sharing of information, including consent to any material change in such practices (§ 312.5(a))
 - Data are collected, used, and shared in accordance with parental consent (§§ 312.5 and 312.6)
3. Through testing or management's demonstration of the web site or online service and a review of a sample of parental consent forms or other documentation, determine whether the institution has a reasonable method for verifying that the person providing the consent is the child's parent. (§ 312.5(b)(2))
 4. Review a sample of parental requests for personal information provided by their children, and verify that the institution
 - Provided, upon request, a description of the specific types of personal information collected (§ 312.6(a)(1))
 - Complied with a parent's instructions concerning the collection, use, maintenance, or disclosure of his or her child's information (§ 312.6(a)(2))
 - Allowed a parent to review any personal information collected from the child (§ 312.6(a)(3))
 - Verified that the person requesting information is a parent of the child (§ 312.6(a)(3))
 5. Through testing or management's demonstration of the web site or online service, verify that the institution does not condition a child's participation in a game, offering of a prize, or another activity on the child's disclosure of more personal information than is reasonably necessary to participate in the activity. (§ 312.7)

Verification Procedures

1. Review the notice describing the financial institution's information practices with regard to children to determine whether it is clearly and prominently placed on the web site and contains all information required by the regulation. (§ 312.4)
2. Obtain a sample of data collected from children,

Conclusions

1. Summarize all findings, supervisory concerns, and regulatory violations.
2. Determine the root cause of any violations by identifying weaknesses in internal controls, audit and compliance reviews, training, manage-

- ment oversight, or other factors; also, determine whether the violations are repetitive or systemic.
3. Identify any action needed to correct violations and weaknesses in the financial institution's compliance system.
4. Discuss findings with the institution's management and obtain a commitment for corrective action.

Children's Online Privacy Protection Act Worksheet

Notice on Web Site

1. Does the financial institution knowingly collect or maintain personal information from a child in a manner that violates the regulation? (§ 312.3)
Yes No
2. Is the link to the notice clearly labeled as a notice of the web site's information practices with regard to children, and is it placed in a clear and prominent place on the home page of the web site and at each area on the web site where a child directly provides or is asked to provide personal information? (§ 312.4(b)(1))
Yes No
3. Does the notice state
 - The name, address, telephone number, and e-mail address of all operators collecting or maintaining personal information from any children through the web site or online service, or the same information for one operator who will respond to all inquiries along with the names of all operators (§ 312.4(b)(2)(i))
Yes No
 - The types of information collected from a child, and whether the information is collected directly or passively (§ 312.4(b)(2)(ii))
Yes No
 - How such information is or may be used (§ 312.4(b)(2)(iii))
Yes No
 - Whether such information is disclosed to third parties. If it is, determine whether the notice states
 - The types of businesses engaged in by the third parties
Yes No
 - The purposes for which the information is used
Yes No
 - That the third parties have agreed to maintain the confidentiality, security, and integrity of the information
Yes No
 - That a parent has the option to consent to the collection and use of the information without consenting to the disclosure of the information to third parties (§ 312.4(b)(2)(iv))
Yes No
 - That the operator is prohibited from conditioning a child's participation in an activity on the disclosure of more information than is reasonably necessary to participate in such activity (§ 312.4(b)(2)(v))
Yes No
 - That a parent may review and have deleted the child's personal information, may refuse to permit further collection or use of the child's information, and is provided with the procedures for doing so (§ 312.4(b)(2)(vi))
Yes No

Notice to a Parent

4. Does the financial institution make reasonable efforts to ensure that a parent of the child receives the notice? (§ 312.4(c))
Yes No
5. Does the notice to the parent state
 - That the operator wishes to collect information from the child (§ 312.4(c)(1)(i)(A))
Yes No
 - The institution's practices regarding children, as noted on its web site (§§ 312.4(b)(2) and 312.4(c)(1)(i)(B))
Yes No
 - That the parent's consent is required for the collection, use, and disclosure of such information, and the means by which the parent can provide verifiable consent to the collection of information (§ 312.4(c)(1)(ii))
Yes No

- If the operator has collected information from a child that will be used to respond directly more than once to a specific request from the child, does the notice state
 - That the operator has collected the child's online contact information to respond to the child's request for information, and that the requested information will require more than one contact with the child Yes No
 - That the parent may refuse to permit further contact with the child and require the deletion of the information, and how the parent can do so Yes No
 - That if the parent fails to respond to the notice, the operator may use the information for the purpose(s) stated in the notice (§ 312.4(c)(1)(iii)) Yes No
- If the purpose behind the collection of information is to protect the safety of the child, does the notice state
 - That the operator has collected the child's name and online contact information to protect the safety of the child Yes No
 - That the parent may refuse to permit further contact with the child and require the deletion of the information, and how the parent can do so Yes No
 - If the parent fails to respond to the notice, that the operator may use the information for the purpose(s) stated in the notice (§ 312.4(c)(1)(iv)) Yes No

Parental Consent

6. Does the financial institution obtain the consent of the parent prior to any collection, use, or disclosure of personal information from any children, outside the exceptions listed in section 312.5(c)? (§ 312.5(a)(1)) Yes No
7. If changes to the policy on collecting, using, or disclosing data on children occurred, does the institution request and review updated consent forms or documentation and determine whether parental permission is still in effect? (§ 312.5(a)) Yes No
8. Does the institution have a reasonable method for verifying that the person providing the consent is the child's parent? (§ 312.5(b)(2)) Yes No

Right of Parent to Review Personal Information Provided by a Child

9. Does the financial institution respond to parental requests to review information provided by their children by providing
 - A description of the specific types of personal information collected (§ 312.6(a)(1)) Yes No
 - The opportunity for the parent to refuse to permit the further use or collection of personal information and to direct the financial institution to delete the child's personal information (§ 312.6(a)(2)) Yes No
 - Procedures for reviewing any personal information collected from the child (§ 312.6(a)(3)) Yes No
 - Adequate procedures to ensure that those persons requesting information are parents of the child in question (§ 312.6(a)(3)) Yes No

Prohibition against Conditioning a Child's Participation on Collection of Personal Information

10. Does the operator refrain from conditioning a child's participation in a game, the offering of a prize, or another activity on the child's disclosure of more personal information than necessary to participate? (§ 312.7) Yes No

Confidentiality, Security, and Integrity of Personal Information Collected from a Child

11. Does the financial institution maintain reasonable policies and procedures for protecting a child's personal information from loss, misuse, unauthorized access, or disclosure? (§ 312.8) Yes No

Right to Financial Privacy Act

Background

The Right to Financial Privacy Act of 1978 was enacted to provide the financial records of financial institution customers a reasonable amount of privacy from federal government scrutiny. The act, which became effective in March 1979, establishes specific procedures that government authorities must follow when requesting a customer's financial records from a bank or other financial institution. It also imposes duties and limitations on financial institutions prior to the release of information sought by government agencies. In addition, the act generally requires that customers receive

- A written notice of the federal authority's intent to obtain financial records
- An explanation of the purpose for which the records are sought
- A statement describing procedures to follow if the customer does not wish such records or information to be made available

Certain exceptions allow for delayed notice or no customer notice at all.

Prior to passage of the act, bank customers were not informed that their personal financial records were being turned over to a government authority and could not challenge government access to the records. In *United States v. Miller* (425 U.S. 435 (1976)), the Supreme Court held that because financial records are maintained by a financial institution, the records belong to the institution rather than the customer; therefore, the customer has no protectable legal interest in the bank's records and cannot limit government access to those records. It was principally in response to this decision that the Right to Financial Privacy Act was enacted.

Coverage

Coverage under the act specifically extends to customers of financial institutions. A *customer* is defined as any person or authorized representative of that person who uses or has used any service of a financial institution. The definition also includes any person for whom the financial institution acts as a fiduciary. Corporations and partnerships of six or more individuals are not considered customers for purposes of the act.

Requirements

To obtain access to, copies of, or information contained in a customer's financial records, a government authority, generally, must first obtain one of the following:

- An authorization, signed and dated by the customer, that identifies the records, the reasons the records are being requested, and the customer's rights under the act
- An administrative subpoena or summons
- A search warrant
- A judicial subpoena
- A formal written request by a government agency (to be used only if no administrative summons or subpoena authority is available)

A financial institution may not release a customer's financial records until the government authority seeking the records certifies in writing that it has complied with the applicable provision of the act. In addition, the institution must maintain a record of all instances in which a customer's records are disclosed to a government authority pursuant to customer authorization. The records should include the date, the name of the government authority, and an identification of the records disclosed. Generally, the customer has a right to inspect the records.

Although there are no specific record-retention requirements in the act, financial institutions should retain copies of all administrative and judicial subpoenas, search warrants, and formal written requests given to them by federal government agencies or departments along with the written certification required.

A financial institution must begin assembling the required information upon receipt of the agency's summons or subpoena or a judicial subpoena and must be prepared to deliver the records upon receipt of the written certificate of compliance.

Cost Reimbursement

With certain exceptions, government entities must reimburse financial institutions for the cost of providing the information. This reimbursement may include costs for assembling or providing records, reproduction and transportation costs, or any other costs reasonably necessary or incurred in gathering and delivering the requested information. The Board's Regulation S establishes rates and the conditions under which these payments may be made.

Exceptions to Notice and Certification Requirements

In general, exceptions to the notice and certification requirements cover situations pertinent to routine banking business, information requested by supervisory agencies, and requests subject to other statutory requirements. Specific exceptions include records

- Submitted by financial institutions to any court or agency when perfecting a security interest, proving a claim in bankruptcy, or collecting a debt for itself or a fiduciary
- Requested by a supervisory agency in connection with its supervisory, regulatory, or monetary functions (including regular examinations and any investigations relating to consumer complaints)
- Sought in accordance with procedures authorized by the Internal Revenue Code (records that are intended to be accessed by procedures authorized by the Tax Reform Act of 1976)
- Required to be reported in accordance with any federal statute (or rule promulgated thereunder, such as the Bank Secrecy Act)
- Requested by the Government Accountability Office for an authorized proceeding, investigation, examination, or audit directed at a federal agency
- Subject to a subpoena issued in conjunction with proceedings before a grand jury (with the exception of cost reimbursement and the restricted use of grand jury information)
- Requested by a government authority subject to a lawsuit involving the bank customer (The records may be obtained under the Federal Rules of Civil and Criminal Procedure.)

The act also allows financial institutions to

- Release records that are not individually identifiable with a particular customer
- Notify law enforcement officials if it has information relevant to a violation of the law

Exceptions to Notice Requirements But Not to Certification Requirements

In certain cases, the act does not require the customer to be notified of the request but still requires the federal agency requesting the information to certify in writing that it has complied with all applicable provisions of the act. Exceptions to the notice provisions include

- Instances in which a financial institution, rather than a customer, is being investigated

- Requests for records incidental to the processing of a government loan, loan guaranty, loan insurance agreement, or default on a government-guaranteed or government-insured loan (In this case, the federal agency must give the loan applicant a notice of the government's rights to access financial records when the customer initially applies for the loan. The financial institution is then required to keep a record of all disclosures made to government authorities, and the customer is entitled to inspect this record.)
- Instances in which the government is engaging in authorized foreign intelligence activities or the Secret Service is carrying out its protective functions

Although the Securities and Exchange Commission is covered by the act, it can obtain customer records from an institution without prior notice to the customer by obtaining an order from a U.S. district court. The agency must, however, provide the certificate of compliance to the institution along with the court order prohibiting disclosure of the fact that the documents have been obtained. The court order will set a delay-of-notification date, after which the customer will be notified by the institution that the SEC has obtained his or her records.

Delayed-Notice Requirements

Under certain circumstances, a government entity may request a court order delaying the customer notice for up to ninety days. This delay may be granted if the court finds that earlier notice would result in endangering the life or physical safety of any person, flight from prosecution, destruction of or tampering with evidence, or intimidation of potential witnesses or would otherwise seriously jeopardize or unduly delay an investigation, trial, or official proceeding. Delayed notice of up to ninety days is also allowed for search warrants.

Civil Liability

A customer may collect civil penalties from any government agency or department that obtains, or any financial institution or employee of the institution who discloses, information in violation of the act. These penalties include (1) actual damages, (2) \$100, regardless of the volume of records involved, (3) court costs and reasonable attorney's fees, and (4) such punitive damages as the court may allow for willful or intentional violations. An action may be brought up to three years after the date of the violation or the date the violation was discovered. A financial institution that relies in good faith on a federal agency's certification may not be held liable to a customer for the disclosure of financial records.

Right to Financial Privacy Act Examination Procedures

1. Determine if the financial institution has received any requests for customer financial records covered by the act since the most recent compliance examination. If no requests have been received, determine if the institution is aware of its responsibilities under the act. If requests have been received, complete the remaining procedures.
2. Determine if the financial institution has established procedures and internal controls for fulfilling requests by government authorities for consumer financial records that are adequate to ensure that all requests are handled in compliance with the act.
3. Determine if the financial institution provides customers' financial records to government authorities only after receiving the written certification required by the act.
4. Determine if the financial institution's internal procedures require that the institution refrain from requiring a customer's authorization for disclosure of financial records as a condition of doing business.
5. Determine if the financial institution keeps appropriate records of those instances in which a customer's financial records are disclosed to a government authority upon authorization by the customer, including a copy of the request and the identity of the government authority. Determine if the institution provides customers a copy of the records upon request (unless a court order blocking access has been obtained).
6. Determine if the financial institution maintains appropriate records of all disclosures of a customer's records made to a government authority in connection with a government loan, guaranty, or insurance program. Determine if the institution allows customers to examine these records upon request.

Right to Financial Privacy Act Examination Checklist

- | | | |
|--|-----|----|
| 1. Has the financial institution received any requests for customer financial records covered by the Right to Financial Privacy Act since the last examination? | Yes | No |
| If it has, answer questions 2–7. | | |
| 2. Has the financial institution, in compliance with the act, established procedures for fulfilling requests by government authorities for customers' financial records? | Yes | No |
| 3. Does the financial institution have adequate internal controls in place to ensure that all requests are handled in compliance with the act? | Yes | No |
| 4. As required by section 1103(b) of the act, does the financial institution provide customers' financial records to government authorities only after receiving the written certification required by the act? | Yes | No |
| 5. Does the financial institution refrain from requiring a customer's authorization for disclosure of financial records as a condition of doing business?
(§ 1104(b)) | Yes | No |
| 6. Does the financial institution maintain records of all disclosures of customer records made to a government authority in connection with a government loan, guaranty, or insurance program? (§ 1113(h)(6)) | Yes | No |
| a. Does the financial institution allow customers to examine these records upon request? | Yes | No |
| 7. Does the financial institution keep adequate records of those instances in which a customer's financial records are disclosed to a government authority upon authorization by the customer, including a copy of the request and the identity of the government authority? (§ 1104(c)) | Yes | No |
| a. Does the financial institution allow customers to examine these records upon request (unless blocked by a court order)? | Yes | No |

Each question 2–7 answered “no” requires an explanation of how the financial institution intends to comply with the requirements of the act.

Protecting Tenants at Foreclosure

Background

The Protecting Tenants at Foreclosure Act of 2009¹ became effective on May 20, 2009. This new law protects tenants from immediate eviction by persons or entities that become owners of residential property through the foreclosure process and extends additional protections for tenants with U.S. Department of Housing and Urban Development Section 8 vouchers.² The law is self-executing; no federal agency has authority to issue regulations implementing the law or to interpret the law. The law expires on December 31, 2012.

The fundamental purpose of the Protecting Tenants at Foreclosure Act is to ensure that tenants facing eviction from a foreclosed property have adequate time to find alternative housing. To that end, the law establishes a minimum time period that a tenant can remain in a foreclosed property before eviction. The law does not affect any state or

local law that provides longer time periods or other additional protections for tenants.

Definitions

Bona Fide Lease or Tenancy

A lease or tenancy is bona fide if the tenant is not the mortgagor or the parent, spouse, or child of the mortgagor; the lease or tenancy is the result of an arms-length transaction; and the lease or tenancy requires rent that is not substantially lower than fair market rent or is reduced or subsidized due to a federal, state, or local subsidy.

Requirements

Under the law, the immediate successor in interest at foreclosure must (a) provide bona fide tenants with 90 days notice prior to eviction and (b) allow bona fide tenants with leases to occupy property until the end of the lease term, except the lease can be terminated on 90 days notice if the unit is sold to a purchaser who will occupy the property.

1. Title VII of the Helping Families Save Their Homes Act of 2009. Public Law 111-22, effective May 20, 2009 (www.gpo.gov/fdsys/pkg/PLAW-111publ22/pdf/PLAW-111publ22.pdf).

2. www.gpo.gov/fdsys/pkg/FR-2009-06-24/pdf/E9-14909.pdf and www.hud.gov/offices/pih/programs/hcv/about/fact_sheet.cfm#6

Protecting Tenants at Foreclosure Examination Objectives and Procedures

EXAMINATION OBJECTIVES

1. To assess the institution's awareness of its responsibilities under the Protecting Tenants at Foreclosure Act of 2009.
2. To assess the institution's compliance management policies and procedures with respect to its responsibilities under the law.

EXAMINATION PROCEDURES

1. Determine that the institution is aware of its responsibilities under the law through interviews with institution management.
2. Determine that the institution has incorporated its compliance responsibilities under the law into its operations, particularly with respect to its foreclosure notice procedures.
3. Determine that the institution has conducted training for appropriate personnel regarding the law.

4. Determine that the institution has incorporated routine reviews for compliance with the law into its compliance monitoring program.
5. Determine that the institution's internal audit program has been updated to include audit plans for evaluating compliance with the law.
6. Review applicable compliance review and audit materials, including workpapers, checklists, and reports pertaining to the law. Evaluate whether the reviews and audits performed were reasonable and accurate and that effective corrective action occurred in response to any identified deficiencies.
7. Summarize findings and supervisory concerns. Identify actions needed to address any weaknesses and deficiencies in the institution's compliance management systems. Discuss findings with institution management and obtain any necessary commitment for corrective action.

Federal Fair Lending Regulations and Statutes Overview

The federal fair lending laws—the Equal Credit Opportunity Act and the Fair Housing Act—prohibit discrimination in credit transactions, including transactions related to residential real estate.

The Statutes and Implementing Regulations

The *Equal Credit Opportunity Act* (ECOA), which is implemented by the Board's Regulation B (12 CFR 202), prohibits discrimination in any aspect of a credit transaction. It applies to any extension of credit, including residential real estate lending and extensions of credit to small businesses, corporations, partnerships, and trusts.

The ECOA prohibits discrimination based on

- Race or color
- Religion
- National origin
- Sex
- Marital status
- Age (provided the applicant has the capacity to contract)
- The applicant's receipt of income derived from any public assistance program
- The applicant's exercise, in good faith, of any right under the Consumer Credit Protection Act

Lending acts and practices that are specifically prohibited, permitted, or required are described in the regulation. Official staff interpretations of the regulation are contained in supplement I to the regulation.

The *Fair Housing Act* (FHAct), which is implemented by HUD regulations,¹ prohibits discrimination in all aspects of residential real estate-related transactions, including, but not limited to,

- Making loans to buy, build, repair, or improve a dwelling
- Purchasing real estate loans
- Selling, brokering, or appraising residential real estate
- Selling or renting a dwelling

The FHAct prohibits discrimination based on

- Race or color
- Religion
- National origin
- Sex
- Familial status (that is, discrimination against households having children under the age of 18 living with a parent or legal custodian, pregnant women, or persons with legal custody of children under 18)
- Handicap

Because both the FHAct and the ECOA apply to mortgage lending, lenders may not discriminate in mortgage lending on the basis of any of the prohibited factors listed. In addition, with respect to residential real estate-related lending, under both laws, a lender may not, on the basis of a prohibited factor,

- Fail to provide information or services relating to, or provide different information or services relating to, any aspect of the lending process, including credit availability, application procedures, and lending standards
- Discourage or selectively encourage applicants with respect to inquiries about or applications for credit
- Refuse to extend credit, or use different standards in determining whether to extend credit
- Vary the terms of credit offered, including the amount, interest rate, duration, and type of loan
- Use different standards to evaluate collateral
- Treat a borrower differently in servicing a loan or invoking default remedies
- Use different standards for pooling or packaging a loan in the secondary market

A lender may not express, orally or in writing, a preference that is based on a prohibited factor or indicate that it will treat applicants differently on the basis of a prohibited factor. Moreover, a lender may not discriminate on a prohibited basis because of the characteristics of

- An applicant, prospective applicant, or borrower
- A person associated with an applicant, prospective applicant, or borrower (for example, a co-applicant, spouse, business partner, or live-in aide)
- The present or prospective occupants of either the property to be financed or the neighborhood or other area in which the property to be financed is located

Note: This overview is adapted from the introduction to the Interagency Fair Lending Examination Procedures, which were revised in 2004 and distributed by the Board as an attachment to CA Letter 04-8.

1. HUD's regulations are at 24 CFR 100.

Finally, the FHAct requires lenders to make reasonable accommodations for a person with disabilities when such accommodations are necessary to afford the person an equal opportunity to apply for credit.

Types of Lending Discrimination

The courts have recognized three types of proof of lending discrimination under the ECOA and the FHAct:

- Overt evidence of disparate treatment
- Comparative evidence of disparate treatment
- Evidence of disparate impact

Disparate Treatment

The existence of illegal disparate treatment may be established either by statements revealing that a lender explicitly considered prohibited factors (*overt evidence*) or by differences in treatment that are not fully explained by legitimate nondiscriminatory factors (*comparative evidence*).

Overt Evidence of Disparate Treatment

Overt evidence of discrimination exists when a lender openly discriminates on a prohibited basis.

Example. A lender offers a credit card with a limit of up to \$750 for applicants age 21–30 and \$1,500 for applicants over 30. This policy violates the ECOA's prohibition on discrimination on the basis of age.

Overt evidence of discrimination also exists even when a lender expresses—but does not act on—a discriminatory preference.

Example. A lending officer tells a customer, “We do not like to make home mortgages to Native Americans, but the law says we may not discriminate and we have to comply with the law.” This statement violates the FHAct's prohibition against statements expressing a discriminatory preference as well as section 202.5(a) of Regulation B, which prohibits discouraging applicants on a prohibited basis.

Comparative Evidence of Disparate Treatment

Disparate treatment occurs when a lender treats a credit applicant differently on the basis of one of the prohibited factors. Showing that, beyond the difference in treatment, the treatment was motivated by prejudice or by conscious intention to discriminate against a person is not required. Different treatment is considered by courts to be intentional discrimi-

nation because the difference in treatment on a prohibited basis has no credible, nondiscriminatory explanation.

Disparate treatment may be more likely to occur in the treatment of applicants who are neither clearly well qualified nor clearly unqualified. Discrimination may more readily affect applicants in this middle group for two reasons. First, applications that are “close cases” have more room and need for lender discretion. Second, whether or not an applicant qualifies may depend on the level of assistance provided by the lender in completing an application. The lender may, for example, propose solutions to credit or other problems relevant to an application, identify compensating factors, and provide encouragement to the applicant. Lenders are under no obligation to provide such assistance, but to the extent that they do, the assistance must be provided in a nondiscriminatory way.

Example. A nonminority couple applies for an automobile loan. The lender finds adverse information in the couple's credit report. The lender discusses the credit report with the couple and determines that the adverse information, a judgment against the couple, was incorrect, as the judgment had been vacated. The nonminority couple was granted a loan. A minority couple applied for a similar loan with the same lender. Upon discovering adverse information in the minority couple's credit report, the lender denies the loan application on the basis of the adverse information without giving the couple an opportunity to discuss the report.

The foregoing is an example of disparate treatment of similarly situated applicants—apparently on the basis of a prohibited factor—in the amount of assistance and information provided.

If a lender has apparently treated similar applicants differently on the basis of a prohibited factor, it must explain the difference. If the explanation is found to be not credible, the Federal Reserve may conclude that the lender intentionally discriminated.

Redlining is a form of illegal disparate treatment whereby a lender provides unequal access to credit, or unequal terms of credit, because of the race, color, national origin, or other prohibited characteristic(s) of the residents of the area in which the credit seeker resides or will reside or in which the residential property to be mortgaged is located. Redlining may violate both the FHAct and the ECOA.

Disparate Impact

A disparate impact occurs when a lender applies a racially (or otherwise) neutral policy or practice

equally to all credit applicants but the policy or practice disproportionately excludes or burdens certain persons on a prohibited basis.

Example. A lender's policy is to deny loan applications for single-family residences for less than \$60,000. The policy has been in effect for ten years. This minimum loan amount policy is shown to disproportionately exclude potential minority applicants from consideration because of their income levels or the value of the houses in the areas in which they live.

Although the law on disparate impact as it applies to lending discrimination continues to develop, it has been clearly established that a policy or practice that creates a disparity on a prohibited basis is not, by itself, proof of a violation.

When an examiner finds that a lender's policy or practice has a disparate impact, the next step is to determine whether the policy or practice is justified by "business necessity." The justification must be manifest and may not be hypothetical or speculative. Factors that may be relevant to the justification include cost and profitability. But even if a policy or practice that has a disparate impact on a prohibited basis can be justified by business necessity, it may still be found to be in violation if an alternative policy or practice could serve the same purpose with less discriminatory effect. Finally, evidence of *discriminatory intent* is not necessary to establish that a lender's adoption or implementation of a policy or practice that has a disparate impact is in violation of the FHAct or the ECOA.

Federal Fair Lending Regulations and Statutes

Equal Credit Opportunity (Regulation B)

Background

The Equal Credit Opportunity Act (ECOA) of 1974, which is implemented by the Board's Regulation B, applies to all creditors. The statute requires financial institutions and other firms engaged in the extension of credit to "make credit equally available to all creditworthy customers without regard to sex or marital status." Moreover, the statute makes it unlawful for "any creditor to discriminate against any applicant with respect to any aspect of a credit transaction (1) on the basis of race, color, religion, national origin, sex or marital status, or age (provided the applicant has the capacity to contract); (2) because all or part of the applicant's income derives from any public assistance program; or (3) because the applicant has in good faith exercised any right under the Consumer Credit Protection Act." In keeping with the broad reach of the prohibition, the regulation covers creditor activities before, during, and after the extension of credit.

Under the ECOA, the Federal Reserve Board is responsible for drafting and interpreting the implementing regulation. Enforcement responsibility, however, rests with a creditor's functional regulator or, for any category not so assigned, with the Federal Trade Commission. A synopsis of some of the more important points of Regulation B follows.

Prohibited Practices

Regulation B contains two basic and comprehensive prohibitions against discriminatory lending practices (section 202.4):

- A creditor shall not discriminate against an applicant on a prohibited basis regarding any aspect of a credit transaction.
- A creditor shall not make any oral or written statement, in advertising or otherwise, to applicants or prospective applicants that would discourage, on a prohibited basis, a reasonable person from making or pursuing an application.

Note that the regulation is concerned not only with the treatment of persons who have initiated the application process, but also with lender behavior before the application is even taken. Lending officers and employees must be careful to take no action that would, on a prohibited basis, discourage anyone from applying for a loan. For example, a bank may not advertise its credit services and practices in ways that would tend to encourage some types of borrowers and discourage others on

a prohibited basis. In addition, a bank may not use prescreening tactics likely to discourage potential applicants on a prohibited basis. Instructions to loan officers or brokers to use scripts, rate quotes, or other means to discourage minority applicants from applying for credit are also prohibited.

The prohibition against discouraging applicants applies to in-person oral and telephone inquiries as well as to written applications. Lending officers must refrain from requesting prohibited information in conversations with applicants during the pre-interview phase (that is, before the application is taken) as well as when taking the written application.

To prevent discrimination in the credit-granting process, the regulation imposes a delicate balance between the creditor's need to know as much as possible about a prospective borrower and the borrower's right not to disclose information irrelevant to the credit transaction. To this end, the regulation prescribes rules for taking, evaluating, and acting on applications as well as rules for furnishing and maintaining credit information.

Rules for Taking Applications— Section 202.5

Regulation B prohibits creditors from requesting and collecting specific personal information about an applicant that has no bearing on the applicant's ability or willingness to repay the credit requested and could be used to discriminate against the applicant.

Applicant Characteristics

Creditors may not request or collect information about an applicant's race, color, religion, national origin, or sex. Exceptions to this rule generally involve situations in which the information is necessary to test for compliance with fair lending rules or is required by a state or federal regulatory agency or other government entity for a particular purpose, such as to determine eligibility for a particular program. For example, a creditor may request prohibited information

- In connection with a self-test being conducted by the creditor (provided that the self-test meets certain requirements)
- For monitoring purposes in relation to credit secured by real estate
- To determine an applicant's eligibility for special-purpose credit programs

Information about a Spouse or Former Spouse (§ 202.5(c))

A bank may not request information about an applicant's spouse or former spouse except under the following circumstances:

- The non-applicant spouse will be a user of or joint obligor on the account. (Note: The term "user" applies only to open-end accounts.)
- The non-applicant spouse will be contractually liable on the account.
- The applicant is relying on the spouse's income, at least in part, as a source of repayment.
- The applicant resides in a community property state, or the property upon which the applicant is relying as a basis for repayment of the credit requested is located in such a state.
- The applicant is relying on alimony, child support, or separate maintenance income as a basis for obtaining the credit.

Marital status (§§ 202.5(d)(1) and 202.5(d)(3))

Individual Credit

When an applicant applies for individual credit, the bank may not ask the applicant's marital status. There are two exceptions to this rule:

- If the credit transaction is to be secured, the bank may ask the applicant's marital status. (This information may be necessary to determine what would be required to gain access to the collateral in the event of default.)
- If the applicant either resides in a community property state or lists assets to support the debt that are located in such a state, the bank may ask the applicant's marital status. (In community property states, assets owned by a married individual may also be owned by the spouse, thus complicating the accessibility of the collateral in the event of default.)

Joint Credit

When a request for credit is joint (made by two or more individuals who will be primarily liable), the bank may ask the applicant's marital status, regardless of whether the credit is to be secured or unsecured, but may use only the terms "married," "unmarried," and "separated." This requirement applies to oral as well as written requests for marital status information. "Unmarried" may be defined to include divorced, widowed, or never married, but the application must not be structured in such a way as to encourage the applicant to distinguish among these.

Alimony, Child Support, or Separate Maintenance Income (§ 202.5(d)(2))

A bank may ask if an applicant is receiving alimony, child support, or separate maintenance payments. However, the bank must first disclose to the applicant that such income need not be revealed unless the applicant wishes to rely on that income in the determination of creditworthiness. An appropriate notice to that effect must be given whenever the bank makes a general request concerning income and the source of that income. Therefore, a bank either must ask questions designed to solicit only information about specific income (for example, "salary," "wages," "employment," or other specified categories of income) or must state that disclosure of alimony, child support, or separate maintenance payments is not required.

Residency and Immigration Status (§ 202.5(e))

The bank may inquire about the applicant's permanent residence and immigration status in order to determine creditworthiness.

Rules for Evaluating Applications—Section 202.6

General Rule

A creditor may consider any information in evaluating applicants, so long as the use of the information does not have the *intent* or the *effect* of discriminating against an applicant on a prohibited basis. Generally, a creditor may not

- Consider any of the prohibited bases, including age (providing the applicant is old enough, under state law, to enter into a binding contract) and the receipt of public assistance
- Use childbearing or childrearing information, assumptions, or statistics to determine whether an applicant's income may be interrupted or decreased
- Consider whether there is a telephone listing in the applicant's name (but the creditor may consider whether there is a telephone in the applicant's home)
- Discount or exclude part-time income from an applicant or the spouse of an applicant

Systems for Analyzing Credit

Regulation B neither requires nor endorses any particular method of credit analysis. Creditors may use traditional methods, such as judgmental systems that rely on a credit officer's subjective evaluation of an applicant's creditworthiness, or

they may use more-objective, statistically developed techniques such as credit scoring.

Credit Scoring Systems

Section 202.2(p) of Regulation B prescribes the standards that a credit scoring system must meet to qualify as an “empirically derived, demonstrably and statistically sound, credit system.” All forms of credit analysis that do not meet the standards are automatically classified as “judgmental” systems. This distinction is important because creditors that use a “demonstrably and statistically sound” system may take applicant age directly into account as a predictive variable, whereas judgmental systems may not.

Judgmental Evaluation Systems

Any system other than one that is empirically derived and demonstrably and statistically sound is a judgmental system (including any credit scoring system that does not meet the prescribed technical standards). Such a system may not take applicant age directly into account in evaluating creditworthiness. The act and the regulation do, however, permit a creditor to consider the applicant's age for the purpose of evaluating other applicant information that has a demonstrable relationship to creditworthiness.

Rules for Extensions of Credit— Section 202.7

Section 202.7 of Regulation B provides a set of rules proscribing certain discriminatory practices regarding the creation and continuation of credit accounts.

Signature Requirements

The primary purpose of the signature requirements is to permit creditworthy individuals (particularly women) to obtain credit on their own. Two general rules apply:

- A bank may not require a signature other than the applicant's or joint applicant's if under the bank's standards of creditworthiness the applicant qualifies for the amount and terms of the credit requested.
- A bank has more latitude in seeking signatures on instruments necessary to reach property used as security, or in support of the customer's creditworthiness, than it has in obtaining the signatures of persons other than the applicant on documents that establish the contractual obligation to repay.

The subsections dealing with signatures have been, for many creditors, some of the most commonly misunderstood provisions of Regulation B. For that reason, and to increase examiners' ability to facilitate lender compliance and determine whether a particular signature practice is or is not a violation of the regulation, additional guidance is provided in CA Letter 02-1, Clarifying Signature Provisions under Sec. 202.7(d) of Regulation B. Examiners should consult that CA letter when assessing the level of a bank's compliance with the signature requirements.

Special-Purpose Credit Programs— Section 202.8

The ECOA and Regulation B allow creditors to establish special-purpose credit programs for applicants who meet certain eligibility requirements. Generally, these programs target an economically disadvantaged class of individuals and are authorized by federal or state law. Some are offered by not-for-profit organizations that meet certain IRS guidelines, and some by for-profit organizations that meet specific tests outlined in section 202.8.

Experience has shown that creditors rarely seek to use section 202.8. Additionally, as stated in the commentary (supplement I to the regulation), the Federal Reserve “does not determine whether individual programs qualify for special-purpose credit status, or whether a particular program benefits an ‘economically disadvantaged class of persons.’ The agency or creditor administering or offering the loan program must make these decisions regarding the status of its program.” Consequently, examiners are encouraged, if an issue arises regarding such a program, to consult with Board staff.

Notifications—Section 202.9

A bank must notify an applicant of action taken on the applicant's request for credit, whether favorable or adverse, within thirty days after receiving a completed application. Notice of approval may be expressly stated or implied (for example, the bank may give the applicant the credit card, money, property, or services for which the applicant applied). Notification of adverse action taken on an *existing* account must also be made within thirty days.

Under at least two circumstances, the bank need not comply with the thirty-day notification rule:

- The bank must notify an applicant of adverse action within ninety days after making a counteroffer unless the applicant accepts or uses the credit during that time.

- The bank may not have to notify an applicant of adverse action if the application was incomplete and the bank sent the applicant a notice of incompleteness that met certain requirements set forth in section 202.9(c).

Adverse Action Notice (§ 202.9(a)(2))

A notification of adverse action must be in writing and must contain certain information, including the name and address of the bank and the nature of the action that was taken. In addition, the bank must provide an ECOA notice that includes the identity of the federal agency responsible for enforcing compliance with the act for that bank. This notice is generally included on the notification of adverse action. The bank must also either provide the applicant with the specific principal reason for the action taken or disclose that the applicant has the right to request the reason(s) for denial within sixty days of receipt of the bank's notification, along with the name, address, and telephone number of the person who can provide the specific reason(s) for the adverse action. The reason may be given orally if the bank also advises the applicant of the right to obtain the reason in writing upon request.

Incomplete Applications (§ 202.9(c))

When a bank receives an incomplete application, it may send one of two alternative notifications to the applicant. One is a notice of adverse action; the other is a notice of incompleteness. The notice of incompleteness must be in writing and must specify the information the bank needs if it is to consider the application; it must also provide a reasonable period of time for the applicant to furnish the missing information.

Applications Submitted through a Third Party (§ 202.9(g))

When more than one bank is involved in a transaction and adverse action is taken with respect to the application for credit by all the banks involved, each bank that took such action must provide a notice of action taken. The notification may be given by a third party; however, the notice must disclose the identity of each bank on whose behalf the notice is given. If one of the banks approves the application, the banks that took adverse action need not provide notification.

Notification to Business Credit Applicants (§ 202.9(a)(3))

The notification requirements for business credit applicants are different from those for consumer credit applicants and are more extensive if the

business had gross revenues of \$1,000,000 or less in the preceding fiscal year. Extensions of trade credit, credit incident to a factoring agreement, and similar types of credit are subject to the same rules as those that apply to businesses that had gross revenues of more than \$1,000,000.

Generally, a bank must comply with the same notification requirements for business credit applicants with gross revenues of \$1,000,000 or less as it does for consumer credit applicants. However, the bank has more options when dealing with these business credit applicants. First, the bank may tell the business credit applicant orally of the action taken. Second, if the bank chooses to provide a notice informing the business credit applicant of the right to request the reason for action taken, it may, rather than disclose the reason itself, provide the notice at the time of application. If the bank chooses to inform the applicant of the right to request a reason, however, it must provide a disclosure with an ECOA notice that is in retainable form and that gives the applicant the same information that must be provided to consumer credit applicants when this option is used (see section 202.9(a)(2)(ii)). Finally, if the application was made entirely over the phone, the bank may provide an oral statement of action taken and of the applicant's right to a statement of reasons for adverse action.

The notification requirements for business credit applicants with gross revenues of more than \$1,000,000 are relatively simple. The bank must notify the applicant of the action taken within a reasonable time period. The notice may be oral or in writing; a written statement of the reasons for adverse action and the ECOA notice need be provided only if the applicant makes a written request within sixty days of the bank's notification of the action taken.

Designation of Accounts—Section 202.10(a)

A creditor that furnishes credit information to a consumer reporting agency must designate

- Any new account to reflect the participation of both spouses if the applicant's spouse is permitted to use or is contractually liable on the account
- Any existing account to reflect the participation of both spouses within ninety days after receiving a written request to do so from one of the spouses

If a creditor furnishes credit information to a consumer reporting agency, the creditor must furnish the information in the name of the spouse about whom the information was requested.

Record Retention—Section 202.12

Applications

In general, a bank must preserve all written or recorded information connected with an application for twenty-five months (twelve months for business credit) after the date on which the bank informed the applicant of action taken on an application or of incompleteness of an application.

Prohibited Information

A bank may retain information in its files that it may not use in evaluating applications. However, the information must have been obtained inadvertently or in accordance with federal or state law or regulation.

Existing Accounts

A bank must preserve any written or recorded information concerning adverse action on an existing account as well as any written statement submitted by the applicant alleging a violation of the ECOA or Regulation B. This evidence must be kept for twenty-five months (twelve months for business credit).

Prescreened Solicitations

The twenty-five-month retention rule also applies when a bank makes an offer of credit to potential customers. In such cases, the bank must retain for twenty-five months following the date of the solicitation

- The text of any prescreened solicitation,
- The list of criteria the creditor used to select potential recipients of the solicitation, and
- Any correspondence related to complaints (formal or informal) about the solicitation.

Rules for Providing Appraisal Reports—Section 202.14

Regulation B requires that banks provide a copy of the appraisal report used in connection with an application for credit to be secured by a lien on a dwelling. A bank may provide the copy either routinely (whether or not credit is granted or the application is withdrawn) or upon an applicant's written request. If the bank provides an appraisal report only upon request, it must inform the applicant in writing of the right to receive a copy of the report.

Incentives for Self-Testing and Self-Correction—Section 202.15

A self-test, as discussed in section 202.15 of Regulation B, must meet two criteria. First, it must be a program, practice, or study that a lender designs and uses specifically to determine the extent or effectiveness of its compliance with the regulation. Second, the results of the self-test must create data or factual information that is otherwise not available and cannot be derived from loan or application files or other records related to credit transactions. The findings of a self-test that is conducted voluntarily by a creditor and that meets the conditions set forth in section 202.15 are privileged against discovery or use by (1) a government agency in any examination or investigation related to the ECOA or Regulation B or (2) a government agency or an applicant in any legal proceeding involving an alleged violation of the ECOA or Regulation B. Privileged information includes the report or results of the test; data or other information created by the test; and any analysis, opinions, or conclusions regarding the results of the test. The privilege does *not* cover information about whether a test was conducted; the methodology, scope, time period, or dates covered by the test; loan or application files or other business records; and information derived from such files and records, even if aggregated, summarized, or reorganized.

Requirements for Electronic Communication—Section 202.16

Subject to the specific provisions of section 202.16 regarding disclosures, consumer consent, redelivery, electronic signatures, and exceptions, a creditor may provide by electronic communication any disclosure otherwise required by the regulation to be in writing.

Enforcement, Penalties, and Liabilities—Section 202.17

In addition to actual damages, Regulation B provides for punitive damages of up to \$10,000 in individual lawsuits and up to the lesser of \$500,000 or 1 percent of the bank's net worth in class action suits. Successful complainants are also entitled to an award of court costs and attorney's fees.

A bank is not liable for failure to comply with the notification requirements of section 202.9 if the failure was caused by an inadvertent error and the bank, after discovering the error, (1) corrects the error as soon as possible and (2) begins compliance with the requirements of the regulation. "Inadvertent errors" include mechanical, elec-

tronic, and clerical errors that the bank can show (1) were not intentional and (2) occurred despite the fact that the bank maintains procedures reasonably adapted to avoid such errors. Similarly, failure to comply with sections 202.6(b)(6), 202.10,

202.12, and 202.13 is not considered a violation if it results from an inadvertent error and the bank takes the corrective action noted above. Errors involving sections 202.12 and 202.13 may be corrected prospectively by the bank.

Federal Fair Lending Regulations and Statutes

Fair Housing Act

The Fair Housing Act (FHAAct), which is title VIII of the Civil Rights Act of 1968, as amended (42 USC 3601 et seq.), makes it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap, or familial status. Anyone who is in the business of providing housing-related loans is subject to the FHAAct (as well as the Equal Credit Opportunity Act).

Key Provisions of the Fair Housing Act

The Fair Housing Act specifically applies to the financing of a loan secured by residential real estate. As noted in section 805 of the act, a bank may not deny a loan or other financial assistance for the purpose of purchasing, constructing, improving, repairing, or maintaining a dwelling because of the race, color, religion, national origin, handicap, familial status, or sex of the

- Loan applicant
- Any person associated with the loan applicant
- Any current or prospective owner of the dwelling
- Any lessees
- Any tenants or occupants

The FHAAct also makes it unlawful for a creditor to use a prohibited basis to discriminate in fixing the amount, interest rates, duration, or other terms of the credit. In addition, because residential real estate-related transactions include any transactions secured by residential real estate, the act's prohibitions (and regulatory requirements in certain areas, such as advertising) apply to home equity lines of credit as well as to home purchase loans. These prohibitions also apply to the selling, renting, brokering, or appraising of residential real property and to secondary-mortgage-market activities. Consequently, a bank's practices in the area of housing lending should be examined in a general way to ensure that they do not "otherwise make unavailable or deny" housing, even when no specific act or practice may violate any specifically named prohibition of the FHAAct.

Unlawfully Discriminatory Lending Practices under the FHAAct

Like the other civil rights statutes, the Fair Housing Act was broadly written by Congress. A variety of

lending practices have been found to be illegal under the act, including some that are not specifically mentioned in the act but that have been determined to be illegal because they violate requirements and prohibitions that are implicit in the act's language. Some of the practices that the courts have determined to be prohibited are described below.

Redlining

Redlining is the practice of denying a creditworthy applicant a loan for housing in a certain neighborhood even though the applicant may otherwise be eligible for the loan. The term refers to the presumed practice of mortgage lenders of drawing red lines around portions of a map to indicate areas or neighborhoods in which they do not want to make loans.

Redlining on a racial basis has been held by the courts to be an illegal practice. It is unlawful under the FHAAct only when done on a prohibited basis. Redlining an area on the basis of such considerations as the fact that the area lies on a fault line or a flood plain is not prohibited.

The prohibition against redlining does not mean that a lending institution is expected to approve all housing loan applications or to make all loans on identical terms. Denying loans or granting loans on more-stringent terms and conditions, however, must be justified on the basis of economic factors and without regard to the race, color, religion, national origin, sex, or marital status of the prospective borrowers or the residents of the neighborhood in which the property is located. For example, a bank may consider such economic factors as

- An applicant's income or credit history
- The condition, use, or design of the proposed security property (or of those nearby properties that clearly affect the value of the proposed security property), provided that such determinants are strictly economic or physical in nature
- The availability of neighborhood amenities or city services
- The need of the lender to hold a balanced real estate loan portfolio, with a reasonable distribution of loans among various neighborhoods, types of property, and loan amounts

Each of the factors must be applied without regard to any of the prohibited bases.

Lowballing

Lowballing—the practice of making an excessively low appraisal in relation to the purchase price on the basis of prohibited considerations—is one form of redlining. Lending more than the appraised value of the collateral is not sound banking practice, and lowballing forces a borrower either to cancel the purchase contract or the loan application, or both, or to make a larger down payment on a property in order to make up the difference between the sales price and the appraised price.

Use of Racially Exclusive Images

The use of racially exclusive images has repeatedly been found to be illegal in the employment context even when there was little or no evidence of a discriminatory policy directed toward any given individual applicant. This practice has been held to violate the Fair Housing Act as well. For example, a housing lender might exploit an exclusive image by showing only applicants of a particular race in advertisements for home loans. Using only white individuals in advertisements for home equity loans, for instance, may suggest to viewers that only white applicants need apply or that the lender is looking only for applicants who resemble the individuals in its housing advertisements.

In addition to prohibiting the use of racially exclusive images, the FHAct makes it unlawful to make or print a statement or advertisement with respect to the sale or rental of a dwelling that indicates a preference, limitation, or discrimination based on race, color, religion, sex, handicap, familial status, or national origin or the intention to make any such preference, limitation, or discrimination. The courts have applied this prohibition to newspaper advertisements soliciting tenants and homebuyers who speak only certain languages. For example, a Korean bank that advertises only in Korean-language publications targeting Koreans while ignoring other minority groups in the bank's community may be discouraging other minority applicants from applying. Although it is recognized that a determination of the impact of an advertising policy will depend on all the facts of the situation, some advertising guidelines issued by the Secretary of the Department of Housing and Urban Development may be useful to banks and examiners in determining the kinds of advertising practices that should be encouraged or avoided. Banks should ensure that their advertising policies do not have the effect, even inadvertently, of prescreening applications for credit on prohibited bases.

Discriminatory Acts That Have a Negative Impact on Nonminorities

The courts have held that discriminatory acts that have a negative impact on nonminorities, such as white individuals, are illegal and that such individuals have standing to sue.

Use of Excessively Burdensome Qualification Standards

The use of excessively burdensome qualification standards to deny, or that have the effect of denying, housing to minority applicants is also illegal under the FHAct.

Imposition of More-Onerous Interest Rates or Other Terms, Conditions, or Requirements

The imposition of more-onerous interest rates, or other more-onerous terms, conditions, or requirements, on minority loan applicants is explicitly prohibited. The phrase “terms or conditions” as used in the act covers many types of discriminatory practices.

Application of Different Standards or Procedures for the Same Process

The application of different standards or procedures in administering foreclosures, late charges, penalties, reinstatements, or other collection procedures is unlawful.

Insurance

The FHAct and the ECOA diverge on the treatment of discrimination in the terms or availability of insurance. The ECOA does not prohibit a creditor who sells or participates in the sale of insurance from differentiating, on a prohibited basis, in the terms and availability of insurance. Nor does it prohibit discrimination in the availability or terms of credit on the basis that insurance is unavailable, except when the insurance has been denied on the basis of age. When it comes to housing-related lending, however, the result may be different. The Department of Justice has taken the position that the FHAct is violated when insurance required for housing credit is denied, or is made more difficult to obtain, on a basis prohibited by the FHAct.

Racial Steering

Racial steering—deliberately guiding loan applicants or potential purchasers toward or away from certain types of loans or geographic areas because of race—is illegal.

In summary, banks are not expected to make unsound real estate loans or to render services on

more-favorable terms to applicants solely because of the applicant's status as a member of a protected class. However, denying loans or services on this basis is illegal.

Federal Fair Lending Regulations and Statutes

Interagency Fair Lending Examination Procedures

INTRODUCTION

Overview of Fair Lending Laws and Regulations

This overview provides a basic and abbreviated discussion of federal fair lending laws and regulations. It is adapted from the Interagency Policy Statement on Fair Lending issued in March 1994.

1. Lending Discrimination Statutes and Regulations

The Equal Credit Opportunity Act (ECOA) prohibits discrimination in any aspect of a credit transaction. It applies to any extension of credit, including extensions of credit to small businesses, corporations, partnerships, and trusts.

The ECOA prohibits discrimination based on:

- Race or color
- Religion
- National origin
- Sex
- Marital status
- Age (provided the applicant has the capacity to contract)
- The applicant's receipt of income derived from any public assistance program
- The applicant's exercise, in good faith, of any right under the Consumer Credit Protection Act

The Federal Reserve Board's Regulation B, found at 12 CFR part 202, implements the ECOA. Regulation B describes lending acts and practices that are specifically prohibited, permitted, or required. Official staff interpretations of the regulation are found in Supplement I to 12 CFR part 202.

The Fair Housing Act (FHA) prohibits discrimination in all aspects of "residential real-estate related transactions," including but not limited to:

- Making loans to buy, build, repair or improve a dwelling
- Purchasing real estate loans
- Selling, brokering, or appraising residential real estate
- Selling or renting a dwelling

The FHA prohibits discrimination based on:

- Race or color

- National origin
- Religion
- Sex
- Familial status (defined as children under the age of 18 living with a parent or legal custodian, pregnant women, and people securing custody of children under 18)
- Handicap

HUD's regulations implementing the FHA are found at 24 CFR Part 100. Because both the FHA and the ECOA apply to mortgage lending, lenders may not discriminate in mortgage lending based on any of the prohibited factors in either list.

Under the ECOA, it is unlawful for a lender to discriminate on a prohibited basis in any aspect of a credit transaction, and under both the ECOA and the FHA, it is unlawful for a lender to discriminate on a prohibited basis in a residential real-estate-related transaction. Under one or both of these laws, a lender may not, because of a prohibited factor

- Fail to provide information or services or provide different information or services regarding any aspect of the lending process, including credit availability, application procedures, or lending standards
- Discourage or selectively encourage applicants with respect to inquiries about or applications for credit
- Refuse to extend credit or use different standards in determining whether to extend credit
- Vary the terms of credit offered, including the amount, interest rate, duration, or type of loan
- Use different standards to evaluate collateral
- Treat a borrower differently in servicing a loan or invoking default remedies
- Use different standards for pooling or packaging a loan in the secondary market.

A lender may not express, orally or in writing, a preference based on prohibited factors or indicate that it will treat applicants differently on a prohibited basis. A violation may still exist even if a lender treated applicants equally.

A lender may not discriminate on a prohibited basis because of the characteristics of

- An applicant, prospective applicant, or borrower
- A person associated with an applicant, prospective applicant, or borrower (for example, a

co-applicant, spouse, business partner, or live-in aide)

- The present or prospective occupants of either the property to be financed or the characteristics of the neighborhood or other area where property to be financed is located.

Finally, the FHAct requires lenders to make reasonable accommodations for a person with disabilities when such accommodations are necessary to afford the person an equal opportunity to apply for credit.

2. Types of Lending Discrimination

The courts have recognized three methods of proof of lending discrimination under the ECOA and the FHAct:

- Overt evidence of disparate treatment
- Comparative evidence of disparate treatment
- Evidence of disparate impact

Disparate Treatment

The existence of illegal disparate treatment may be established either by statements revealing that a lender explicitly considered prohibited factors (overt evidence) or by differences in treatment that are not fully explained by legitimate nondiscriminatory factors (comparative evidence).

Overt Evidence of Disparate Treatment

There is overt evidence of discrimination when a lender openly discriminates on a prohibited basis.

Example: A lender offered a credit card with a limit of up to \$750 for applicants aged 21–30 and \$1500 for applicants over 30. This policy violated the ECOA's prohibition on discrimination based on age.

There is overt evidence of discrimination even when a lender expresses—but does not act on—a discriminatory preference:

Example: A lending officer told a customer, “We do not like to make home mortgages to Native Americans, but the law says we cannot discriminate and we have to comply with the law.” This statement violated the FHAct's prohibition on statements expressing a discriminatory preference as well as Section 202.4(b) of Regulation B, which prohibits discouraging applicants on a prohibited basis.

Comparative Evidence of Disparate Treatment

Disparate treatment occurs when a lender treats a credit applicant differently based on one of the prohibited bases. It does not require any showing that the treatment was motivated by prejudice or a

conscious intention to discriminate against a person beyond the difference in treatment itself.

Disparate treatment may more likely occur in the treatment of applicants who are neither clearly well-qualified nor clearly unqualified. Discrimination may more readily affect applicants in this middle group for two reasons. First, if the applications are “close cases,” there is more room and need for lender discretion. Second, whether or not an applicant qualifies may depend on the level of assistance the lender provides the applicant in completing an application. The lender may, for example, propose solutions to credit or other problems regarding an application, identify compensating factors, and provide encouragement to the applicant. Lenders are under no obligation to provide such assistance, but to the extent that they do, the assistance must be provided in a nondiscriminatory way.

Example: A non-minority couple applied for an automobile loan. The lender found adverse information in the couple's credit report. The lender discussed the credit report with them and determined that the adverse information, a judgment against the couple, was incorrect because the judgment had been vacated. The non-minority couple was granted their loan. A minority couple applied for a similar loan with the same lender. Upon discovering adverse information in the minority couple's credit report, the lender denied the loan application on the basis of the adverse information without giving the couple an opportunity to discuss the report.

The foregoing is an example of disparate treatment of similarly situated applicants, apparently based on a prohibited factor, in the amount of assistance and information the lender provided.

If a lender has apparently treated similar applicants differently on the basis of a prohibited factor, it must provide an explanation for the difference in treatment. If the lender's explanation is found to be not credible, the agency may find that the lender discriminated.

Redlining is a form of illegal disparate treatment in which a lender provides unequal access to credit, or unequal terms of credit, because of the race, color, national origin, or other prohibited characteristic(s) of the residents of the area in which the credit seeker resides or will reside or in which the residential property to be mortgaged is located. Redlining may violate both the FHAct and the ECOA.

Disparate Impact

When a lender applies a racially or otherwise neutral policy or practice equally to all credit

applicants, but the policy or practice disproportionately excludes or burdens certain persons on a prohibited basis, the policy or practice is described as having a “disparate impact.”

Example: A lender’s policy is not to extend loans for single family residences for less than \$60,000.00. This policy has been in effect for ten years. This minimum loan amount policy is shown to disproportionately exclude potential minority applicants from consideration because of their income levels or the value of the houses in the areas in which they live.

The fact that a policy or practice creates a disparity on a prohibited basis is not alone proof of a violation. When an Agency finds that a lender’s policy or practice has a disparate impact, the next step is to seek to determine whether the policy or practice is justified by “business necessity.” The justification must be manifest and may not be hypothetical or speculative. Factors that may be relevant to the justification could include cost and profitability. Even if a policy or practice that has a disparate impact on a prohibited basis can be justified by business necessity, it still may be found to be in violation if an alternative policy or practice could serve the same purpose with less discriminatory effect. Finally, evidence of discriminatory intent is not necessary to establish that a lender’s adoption or implementation of a policy or practice that has a disparate impact is in violation of the FHAct or ECOA.

These procedures do not call for examiners to plan examinations to identify or focus on potential disparate impact issues. The guidance in this Introduction is intended to help examiners recognize fair lending issues that may have a potential disparate impact. Guidance in the Appendix to the Interagency Fair Lending Examination Procedures provides details on how to obtain relevant information regarding such situations along with methods of evaluation, as appropriate.

General Guidelines

These procedures are intended to be a basic and flexible framework to be used in the majority of fair lending examinations conducted by the FFIEC agencies. They are also intended to guide examiner judgment, not to supplant it. The procedures can be augmented by each agency as necessary to ensure their effective implementation.

While these procedures apply to many examinations, agencies routinely use statistical analyses or other specialized techniques in fair lending examinations to assist in evaluating whether a prohibited basis was a factor in an institution’s credit decisions. Examiners should follow the procedures

provided by their respective agencies in these cases.

For a number of aspects of lending—for example, credit scoring and loan pricing—the “state of the art” is more likely to be advanced if the agencies have some latitude to incorporate promising innovations. These interagency procedures provide for that latitude.

Any references in these procedures to options, judgment, etc., of “examiners” means discretion within the limits provided by that examiner’s agency. An examiner should use these procedures in conjunction with his or her own agency’s priorities, examination philosophy, and detailed guidance for implementing these procedures. These procedures should not be interpreted as providing an examiner greater latitude than his or her own agency would. For example, if an agency’s policy is to review compliance management systems in all of its institutions, an examiner for that agency must conduct such a review rather than interpret Part II of these interagency procedures as leaving the review to the examiner’s option.

The procedures emphasize racial and national origin discrimination in residential transactions, but the key principles are applicable to other prohibited bases and to nonresidential transactions.

Finally, these procedures focus on analyzing institution compliance with the broad, nondiscrimination requirements of the ECOA and the FHAct. They do not address such explicit or technical compliance provisions as the signature rules or adverse action notice requirements in Sections 202.7 and 202.9, respectively, of Regulation B.

PART I. EXAMINATION SCOPE GUIDELINES

Background

The scope of an examination encompasses the loan product(s), market(s), decision center(s), time frame, and prohibited basis and control group(s) to be analyzed during the examination. These procedures refer to each potential combination of those elements as a “focal point.” Setting the scope of an examination involves, first, identifying all of the potential focal points that appear worthwhile to examine. Then, from among those, examiners select the focal point(s) that will form the scope of the examination, based on risk factors, priorities established in these procedures or by their respective agencies, the record from past examinations, and other relevant guidance. This phase includes obtaining an overview of an institution’s compliance management system as it relates to fair lending.

When selecting focal points for review, examin-

ers may determine that the institution has performed “self-tests” or “self-evaluations” related to specific lending products. The difference between “self tests” and “self evaluations” is discussed in the *Using Self-Tests and Self-Evaluations to Streamline the Examination* section of the Appendix. Institutions must share all information regarding “self-evaluations” and certain limited information related to “self-tests.” Institutions may choose to voluntarily disclose additional information about “self-tests.” Examiners should make sure that institutions understand that voluntarily sharing the results of self-tests will result in a loss of confidential status of these tests. Information from “self-evaluations” or “self-tests” may allow the scoping to be streamlined. Refer to *Using Self-Tests and Self-Evaluations to Streamline the Examination* in the Appendix for additional details.

Scoping may disclose the existence of circumstances—such as the use of credit scoring or a large volume of residential lending—which, under an agency’s policy, call for the use of regression analysis or other statistical methods of identifying potential discrimination with respect to one or more loan products. Where that is the case, the agency’s specialized procedures should be employed for such loan products rather than the procedures set forth below.

Setting the intensity of an examination means determining the breadth and depth of the analysis that will be conducted on the selected loan product(s). This process entails a more involved analysis of the institution’s compliance risk management processes, particularly as it relates to selected products, to reach an informed decision regarding how large a sample of files to review in any transactional analyses performed and whether certain aspects of the credit process deserve heightened scrutiny.

Part I of these procedures provides guidance on establishing the scope of the examination. Part II (Compliance Management Review) provides guidance on determining the intensity of the examination. There is naturally some interdependence between these two phases. Ultimately the scope and intensity of the examination will determine the record of performance that serves as the foundation for agency conclusions about institutional compliance with fair lending obligations. The examiner should employ these procedures to arrive at a well-reasoned and practical conclusion about how to conduct a particular institution’s examination of fair lending performance.

In certain cases where an agency already possesses information which provides examiners with guidance on priorities and risks for planning an upcoming examination, such information may expedite the scoping process and make it unnec-

essary to carry out all of the steps below. For example, the report of the previous fair lending examination may have included recommendations for the focus of the next examination. However, examiners should validate that the institution’s operational structure, product offerings, policies and risks have not changed since the prior examination before condensing the scoping process.

The scoping process can be performed either off-site, onsite, or both, depending on whatever is determined appropriate and feasible. In the interest of minimizing burdens on both the examination team and the institution, requests for information from the institution should be carefully thought out so as to include only the information that will clearly be useful in the examination process. Finally, any off-site information requests should be made sufficiently in advance of the on-site schedule to permit institutions adequate time to assemble necessary information and provide it to the examination team in a timely fashion. (See “Potential Scoping Information” in the Appendix for guidance on additional information that the examiner might wish to consider including in a request).

Examiners should focus the examination based on:

- An understanding of the credit operations of the institution
- The risk that discriminatory conduct may occur in each area of those operations
- The feasibility of developing a factually reliable record of an institution’s performance and fair lending compliance in each area of those operations.

1. Understanding Credit Operations

Before evaluating the potential for discriminatory conduct, the examiner should review sufficient information about the institution and its market to understand the credit operations of the institution and the representation of prohibited basis group residents within the markets where the institution does business. The level of detail to be obtained at this stage should be sufficient to identify whether any of the risk factors in the steps below are present. Relevant background information includes:

- The types and terms of credit products offered, differentiating among broad categories of credit such as residential, consumer, or commercial, as well as product variations within such categories (fixed vs. variable, etc.)
- Whether the institution has a special purpose credit program, or other program that is specifi-

- cally designed to assist certain underserved populations
- The volume of, or growth in, lending for each of the credit products offered
 - The demographics (i.e., race, national origin, etc.) of the credit markets in which the institution is doing business
 - The institution's organization of its credit decision-making process, including identification of the delegation of separate lending authorities and the extent to which discretion in pricing or setting credit terms and conditions is delegated to various levels of managers, employees or independent brokers or dealers
 - The institution's loan officer or broker compensation program
 - The types of relevant documentation/data that are available for various loan products and what is the relative quantity, quality and accessibility of such information. i.e., for which loan product(s) will the information available be most likely to support a sound and reliable fair lending analysis
 - The extent to which information requests can be readily organized and coordinated with other compliance examination components to reduce undue burden on the institution. (Do not request more information than the exam team can be expected to utilize during the anticipated course of the examination.)

In thinking about an institution's credit markets, the examiner should recognize that these markets may or may not coincide with an institution's Community Reinvestment Act (CRA) assessment area(s). Where appropriate, the examiner should review the demographics for a broader geographic area than the assessment area.

Where an institution has multiple underwriting or loan processing centers or subsidiaries, each with fully independent credit-granting authority, consider evaluating each center and/or subsidiary separately, provided a sufficient number of loans exist to support a meaningful analysis. In determining the scope of the examination for such institutions, examiners should consider whether:

- Subsidiaries should be examined. The agencies will hold a financial institution responsible for violations by its direct subsidiaries, but not typically for those by its affiliates (unless the affiliate has acted as the agent for the institution or the violation by the affiliate was known or should have been known to the institution before it became involved in the transaction or purchased the affiliate's loans). When seeking to determine an institution's relationship with affiliates that are not supervised financial institutions, limit the inquiry to what can be learned in the

institution and do not contact the affiliate without prior consultation with agency staff.

- The underwriting standards and procedures used in the entity being reviewed are used in related entities not scheduled for the planned examination. This will help examiners to recognize the potential scope of policy-based violations.
- The portfolio consists of applications from a purchased institution. If so, for scoping purposes, examiners should consider the applications as if they were made to the purchasing institution. For comparison purposes, applications evaluated under the *purchased* institution's standards should not be compared to applications evaluated under the *purchasing* institution's standards.).
- The portfolio includes purchased loans. If so, examiners should look for indications that the institution specified loans to purchase based on a prohibited factor or caused a prohibited factor to influence the origination process.
- A complete decision can be made at one of the several underwriting or loan processing centers, each with independent authority. In such a situation, it is best to conduct on-site a separate comparative analysis at each underwriting center. If covering multiple centers is not feasible during the planned examination, examiners should review their processes and internal controls to determine whether or not expanding the scope and/or length of the examination is justified.
- Decision-making responsibility for a single transaction may involve more than one underwriting center. For example, an institution may have authority to decline mortgage applicants, but only the mortgage company subsidiary may approve them. In such a situation, examiners should learn which standards are applied in each entity and the location of records needed for the planned comparisons.
- Applicants can be steered from the financial institution to the subsidiary or other lending channel and vice versa, and what policies and procedures exist to monitor this practice.
- Any third parties, such as brokers or contractors, are involved in the credit decision and how responsibility is allocated among them and the institution. The institution's familiarity with third party actions may be important, for an institution may be in violation if it participates in transactions in which it knew or reasonably ought to have known other parties were discriminating.

As part of understanding the financial institution's own lending operations, it is also important to understand any dealings the financial institution

has with affiliated and non-affiliated mortgage loan brokers and other third party lenders.

These brokers may generate mortgage applications and originations solely for a specific financial institution or may broadly gather loan applications for a variety of local, regional, or national lenders. As a result, it is important to recognize what impact these mortgage brokers and other third party lender actions and application processing operations have on the lending operations of a financial institution. Because brokers can be located anywhere in or out of the financial institution's primary lending or CRA assessment areas, it is important to evaluate broker activity and fair lending compliance related to underwriting, terms and conditions, redlining, and steering, each of which is covered in more depth in sections of these procedures. Examiners should consult with their respective agencies for specific guidance regarding broker activity.

If the institution is large and geographically diverse, examiners should select only as many markets or underwriting centers as can be reviewed readily in depth, rather than selecting proportionally to cover every market. As needed, examiners should narrow the focus to the Metropolitan Statistical Area (MSA) or underwriting center(s) that are determined to present the highest discrimination risk. Examiners should use Loan Application Register (LAR) data organized by underwriting center, if available. After calculating denial rates between the control and prohibited basis groups for the underwriting centers, examiners should select the centers with the highest fair lending risk. This approach would also be used when reviewing pricing or other terms and conditions of approved applicants from the prohibited basis and control groups. If underwriting centers have fewer than five racial or national origin denials, examiners should not examine for racial discrimination in underwriting. Instead, they should shift the focus to other loan products or prohibited bases, or examination types such as a pricing examination.

However, if examiners learn of other indications of risks that favor analyzing a prohibited basis with fewer transactions than the minimum in the sample size tables, they should consult with their supervisory office on possible alternative methods of analysis. For example, there is strong reason to examine a pattern in which almost all of 19 male borrowers received low rates but almost all of four female borrowers received high rates, even though the number of each group is fewer than the stated minimum. Similarly, there would be strong reason to examine a pattern in which almost all of 100 control group applicants were approved but all four prohibited basis group applicants were not, even

though the number of prohibited basis denials was fewer than five.

2. Evaluating the Potential for Discriminatory Conduct

Step One: Develop an Overview

Based on his or her understanding of the credit operations and product offerings of an institution, an examiner should determine the nature and amount of information required for the scoping process and should obtain and organize that information. No single examination can reasonably be expected to evaluate compliance performance as to every prohibited basis, in every product, or in every underwriting center or subsidiary of an institution. In addition to information gained in the process of Understanding Credit Operations, above, the examiner should keep in mind the following factors when selecting products for the scoping review:

- Which products and prohibited bases were reviewed during the most recent prior examination(s) and, conversely, which products and prohibited bases have not recently been reviewed?
- Which prohibited basis groups make up a significant portion of the institution's market for the different credit products offered?
- Which products and prohibited basis groups the institution reviewed using either a voluntarily disclosed self-test or a self evaluation?

Based on consideration of the foregoing factors, the examiner should request information for all residential and other loan products considered appropriate for scoping in the current examination cycle. In addition, wherever feasible, examiners should conduct preliminary interviews with the institution's key underwriting personnel and those involved with establishing the institution's pricing policies and practices. Using the accumulated information, the examiner should evaluate the following, as applicable:

- Underwriting guidelines, policies, and standards
- Descriptions of credit scoring systems, including a list of factors scored, cutoff scores, extent of validation, and any guidance for handling overrides and exceptions. (Refer to *Part A* of the *Considering Automated Underwriting and Credit Scoring* section of the Appendix for guidance)
- Applicable pricing policies, risk-based pricing models, and guidance for exercising discretion over loan terms and conditions
- Descriptions of any compensation system, including whether compensation is related to, loan production or pricing

- The institution's formal and informal relationships with any finance companies, subprime mortgage or consumer lending entities, or similar institutions
- Loan application forms
- Home Mortgage Disclosure Act–Loan Application Register (HMDA–LAR) or loan registers and lists of declined applications
- Description(s) of databases maintained for loan product(s) to be reviewed
- Records detailing policy exceptions or overrides, exception reporting and monitoring processes
- Copies of any consumer complaints alleging discrimination and related loan files
- Compliance program materials (particularly fair lending policies), training manuals, organization charts, as well as record keeping, monitoring protocols, and internal controls
- Copies of any available marketing materials or descriptions of current or previous marketing plans or programs or pre-screened solicitations.

Step Two: Identify Compliance Program Discrimination Risk Factors

Review information from agency examination work papers, institutional records and any available discussions with management representatives in sufficient detail to understand the organization, staffing, training, recordkeeping, auditing, policies and procedures of the institution's fair lending compliance systems. Review these systems and note the following risk factors:

- C1. Overall institution compliance record is weak.
- C2. Prohibited basis monitoring information required by applicable laws and regulations is nonexistent or incomplete.
- C3. Data and/or recordkeeping problems compromised reliability of previous examination reviews.
- C4. Fair lending problems were previously found in one or more institution products or in institution subsidiaries.
- C5. The size, scope, and quality of the compliance management program, including senior management's involvement, designation of a compliance officer, and staffing is materially inferior to programs customarily found in institutions of similar size, market demographics and credit complexity.
- C6. The institution has not updated compliance policies and procedures to reflect changes in law or in agency guidance.

C7. Fair lending training is nonexistent or weak.

Consider these risk factors and their impact on particular lending products and practices as you conduct the product specific risk review during the scoping steps that follow. Where this review identifies fair lending compliance system deficiencies, give them appropriate consideration as part of the Compliance Management Review in Part II of these procedures.

Step Three: Review Residential Loan Products

Although home mortgages may not be the ultimate subject of every fair lending examination, this product line must at least be considered in the course of scoping every institution that is engaged in the residential lending market.

Divide home mortgage loans into the following groupings: home purchase, home improvement, and refinancings. Subdivide those three groups further if an institution does a significant number of any of the following types or forms of residential lending, and consider them separately:

- Government-insured loans
- Mobile home or manufactured housing loans
- Wholesale, indirect and brokered loans
- Portfolio lending (including portfolios of Fannie Mae/Freddie Mac rejections)

In addition, determine whether the institution offers any conventional "affordable" housing loan programs special purpose credit programs or other programs that are specifically designed to assist certain borrowers, such as underserved populations and whether their terms and conditions make them incompatible with regular conventional loans for comparative purposes. If so, consider them separately.

If previous examinations have demonstrated the following, then an examiner may limit the focus of the current examination to alternative underwriting or processing centers or to other residential products that have received less scrutiny in the past:

- A strong fair lending compliance program
- No record of discriminatory transactions at particular decision centers or in particular residential products
- No indication of a significant change in personnel, operations or underwriting or pricing policies at those centers or in those residential products
- No unresolved fair lending complaints, administrative proceedings, litigation or similar factors.
- No discretion to set price or credit terms and

conditions in particular decision centers or for particular residential products.

Step Four: Identify Residential Lending Discrimination Risk Factors

- Review the lending policies, marketing plans, underwriting, appraisal and pricing guidelines, broker/agent agreements and loan application forms for each residential loan product that represents an appreciable volume of, or displays noticeable growth in, the institution's residential lending.
- Review also any available data regarding the geographic distribution of the institution's loan originations with respect to the race and national origin percentages of the census tracts within its assessment area or, if different, its residential loan product lending area(s).
- Conduct interviews of loan officers and other employees or agents in the residential lending process concerning adherence to and understanding of the above policies and guidelines as well as any relevant operating practices.
- In the course of conducting the foregoing inquiries, look for the following risk factors (factors are numbered alphanumerically to coincide with the type of factor, e.g., "O" for "overt"; "P" for "pricing", etc.).

NOTE: For risk factors below that are marked with an asterisk (*), examiners need not attempt to calculate the indicated ratios for racial or national origin characteristics when the institution is not a HMDA reporter. However, consideration should be given in such cases to whether or not such calculations should be made based on gender or racial–ethnic surrogates.

Overt indicators of discrimination such as:

- O1. Including explicit prohibited basis identifiers in the institution's written or oral policies and procedures (underwriting criteria, pricing standards, etc.)
- O2. Collecting information, conducting inquiries or imposing conditions contrary to express requirements of Regulation B
- O3. Including variables in a credit scoring system that constitute a basis or factor prohibited by Regulation B or, for residential loan scoring systems, the FHAct. (If a credit scoring system scores age, refer to *Part E* of the *Considering Automated Underwriting and Credit Scoring* section of the Appendix.)
- O4. Statements made by the institution's officers, employees or agents which constitute an express or implicit indication that one or

more such persons have engaged or do engage in discrimination on a prohibited basis in any aspect of a credit transaction

- O5. Employee or institutional statements that evidence attitudes based on prohibited basis prejudices or stereotypes.

*Indicators of potential **disparate treatment in Underwriting** such as:*

- U1. *Substantial disparities among the approval/denial rates for applicants by monitored prohibited basis characteristic (especially within income categories)
- U2. *Substantial disparities among the application processing times for applicants by monitored prohibited basis characteristic (especially within denial reason groups)
- U3. *Substantially higher proportion of withdrawn/incomplete applications from prohibited basis group applicants than from other applicants
- U4. Vague or unduly subjective underwriting criteria
- U5. Lack of clear guidance on making exceptions to underwriting criteria, including credit scoring overrides
- U6. Lack of clear loan file documentation regarding reasons for any exceptions to standard underwriting criteria, including credit scoring overrides
- U7. Relatively high percentages of either exceptions to underwriting criteria or overrides of credit score cutoffs
- U8. Loan officer or broker compensation based on loan volume (especially loans approved per period of time)
- U9. Consumer complaints alleging discrimination in loan processing or in approving/denying residential loans.

*Indicators of potential **disparate treatment in Pricing** (interest rates, fees, or points) such as:*

- P1. Financial incentives for loan officers or brokers to charge higher prices (including interest rate, fees and points). Special attention should be given to situations where financial incentives are accompanied by broad pricing discretion (as in P2), such as through the use of overages or yield spread premiums.
- P2. Presence of broad discretion in loan pricing (including interest rate, fees and points), such as through overages, underages or yield spread premiums. Such discretion may be present even when institutions provide

- rate sheets and fees schedules, if loan officers or brokers are permitted to deviate from those rates and fees without clear and objective criteria.
- P3. Use of risk-based pricing that is not based on objective criteria or applied consistently
- P4. *Substantial disparities among prices being quoted or charged to applicants who differ as to their monitored prohibited basis characteristics
- P5. Consumer complaints alleging discrimination in residential loan pricing.
- P6. *In mortgage pricing, disparities in the incidence or rate spreads¹ of higher-priced lending by prohibited basis characteristics as reported in the HMDA data.
- P7. *A loan program that contains only borrowers from a prohibited basis group, or has significant differences in the percentages of prohibited basis groups, especially in the absence of a Special Purpose Credit Program under ECOA.
- Indicators of potential **disparate treatment by Steering** such as:*
- S1. Lack of clear, objective and consistently implemented standards for (i) referring applicants to subsidiaries, affiliates, or lending channels within the institution (ii) classifying applicants as “prime” or “sub-prime” borrowers, or (iii) deciding what kinds of alternative loan products should be offered or recommended to applicants (product placement).
- S2. Financial incentives for loan officers or brokers to place applicants in nontraditional products (i.e., negative amortization, “interest only”, “payment option” adjustable rate mortgages) or higher cost products.
- S3. For an institution that offers different products based on credit risk levels, any significant differences in percentages of prohibited basis groups in each of the alternative loan product categories.
- S4. *Significant differences in the percentage of prohibited basis applicants in loan products or products with specific features relative to control group applicants. Special attention should be given to products and features that have potentially negative consequences for applicants (i.e., non-traditional mortgages, prepayment penalties, lack of escrow requirements, or credit life insurance)
- S5. *For an institution that has one or more sub-prime mortgage subsidiaries or affiliates, any significant differences, by loan product, in the percentage of prohibited basis applicants of the institution compared to the percentage of prohibited basis applicants of the subsidiary(ies) or affiliate(s).
- S6. *For an institution that has one or more lending channels that originate the same loan product, any significant differences in the percentage of prohibited basis applicants in one of the lending channels compared to the percentage of prohibited basis applicants of the other lending channel.
- S7. Consumer complaints alleging discrimination in residential loan pricing or product placement.
- S8. *For an institution with sub-prime mortgage subsidiaries, a concentration of those subsidiaries’ branches in minority areas relative to its other branches.
- Indicators of potential **discriminatory Redlining** such as:*
- R1. *Significant differences, as revealed in HMDA data, in the number of applications received, withdrawn, approved not accepted, and closed for incompleteness or loans originated in those areas in the institution’s market that have relatively high concentrations of minority group residents compared with areas with relatively low concentrations of minority residents.
- R2. *Significant differences between approval/denial rates for all applicants (minority and non-minority) in areas with relatively high concentrations of minority group residents compared with areas with relatively low concentrations of minority residents.
- R3. *Significant differences between denial rates based on insufficient collateral for applicants from areas with relatively high concentrations of minority residents and those areas with relatively low concentrations of minority residents.
- R4. *Significant differences in the number of originations of higher-priced loans or loans with potentially negative consequences for borrowers, (i.e., non-traditional mortgages, prepayment penalties, lack of escrow requirements) in areas with relatively high concentrations of minority residents compared with areas with relatively low concentrations of minority residents.
- R5. Other patterns of lending identified during the most recent CRA examination that differ by the concentration of minority residents.

1. Regulation C, Section 203.4(a)(12).

- R6. Explicit demarcation of credit product markets that excludes MSAs, political subdivisions, census tracts, or other geographic areas within the institution's lending market or CRA assessment areas and having relatively high concentrations of minority residents.
- R7. Difference in services available or hours of operation at branch offices located in areas with concentrations of minority residents when compared to branch offices located in areas with concentrations of non-minority residents.
- R8. Policies on receipt and processing of applications, pricing, conditions, or appraisals and valuation, or on any other aspect of providing residential credit that vary between areas with relatively high concentrations of minority residents and those areas with relatively low concentrations of minority residents.
- R9. The institution's CRA assessment area appears to have been drawn to exclude areas with relatively high concentrations of minority residents.
- R10. Employee statements that reflect an aversion to doing business in areas with relatively high concentrations of minority residents.
- R11. Complaints or other allegations by consumers or community representatives that the institution excludes or restricts access to credit for areas with relatively high concentrations of minority residents. Examiners should review complaints against the institution filed either with their agency or the institution; the CRA public comment file; community contact forms; and the responses to questions about redlining, discrimination, and discouragement of applications, and about meeting the needs of racial or national origin minorities, asked as part of obtaining local perspectives on the performance of financial institutions during prior CRA examinations.
- R12. An institution that has most of its branches in predominantly non-minority neighborhoods at the same time that the institution's sub-prime mortgage subsidiary has branches which are located primarily in predominantly minority neighborhoods.
- M2. Advertising only in media serving non-minority areas of the market.
- M3. Marketing through brokers or other agents that the institution knows (or has reason to know) would serve only one racial or ethnic group in the market.
- M4. Use of marketing programs or procedures for residential loan products that exclude one or more regions or geographies within the institutions assessment or marketing area that have significantly higher percentages of minority group residents than does the remainder of the assessment or marketing area.
- M5. Using mailing or other distribution lists or other marketing techniques for pre-screened or other offerings of residential loan products that:
- Explicitly exclude groups of prospective borrowers on a prohibited basis; or
 - Exclude geographies (e.g., census tracts, ZIP codes, etc.) within the institution's marketing area that have significantly higher percentages of minority group residents than does the remainder of the marketing area.
- M6. *Proportion of prohibited basis applicants is significantly lower than that group's representation in the total population of the market area.
- M7. Consumer complaints alleging discrimination in advertising or marketing loans.

Step Five: Organize and Focus Residential Risk Analysis

Review the risk factors identified in Step 4 and, for each loan product that displays risk factors, articulate the possible discriminatory effects encountered and organize the examination of those loan products in accordance with the following guidance. For complex issues regarding these factors, consult with agency supervisory staff.

- Where overt evidence of discrimination, as described in factors O1–O5, has been found in connection with a product, document those findings as described in Part III, B, besides completing the remainder of the planned examination analysis.
- Where any of the risk factors U1–U9 are present, consider conducting an underwriting comparative file analysis as described in Part III, C.
- Where any of the risk factors P1–P7 are present, consider conducting a pricing comparative file analysis as described in Part III, D.

*Indicators of potential **disparate treatment in Marketing** of residential products, such as:*

- M1. Advertising patterns or practices that a reasonable person would believe indicate prohibited basis customers are less desirable.

- Where any of the risk factors S1–S8 are present, consider conducting a steering analysis as described in Part III, E.
- Where any of the risk factors R1–R12 are present, consider conducting an analysis for redlining as described in Part III, G.
- Where any of the risk factors M1–M7 are present, consider conducting a marketing analysis as described in Part III, H.
- Where an institution uses age in any credit scoring system, consider conducting an examination analysis of that credit scoring system's compliance with the requirements of Regulation B as described in Part III, I.

Step Six: Identify Consumer Lending Discrimination Risk Factors

For any consumer loan products selected in Step One for risk analysis, examiners should conduct a risk factor review similar to that conducted for residential lending products in Steps Three through Five, above. Examiners should consult with agency supervisory staff regarding the potential use of surrogates to identify possible prohibited basis group individuals.

NOTE: The term surrogate in this context refers to any factor related to a loan applicant that potentially identifies that applicant's race, color or other prohibited basis characteristic in instances where no direct evidence of that characteristic is available. Thus, in consumer lending, where monitoring data is generally unavailable, a Hispanic or Asian surname could constitute a surrogate for an applicant's race or national origin because the examiner can assume that the institution (which can rebut the presumption) perceived the person to be Hispanic or Asian. Similarly, an applicant's given name could serve as a surrogate for his or her gender. A surrogate for a prohibited basis group characteristic may be used to set up a comparative analysis with control group applicants or borrowers.

Examiners should then follow the rules in Steps Three through Five, above and identify the possible discriminatory patterns encountered and consider examining those products determined to have sufficient risk of discriminatory conduct.

Step Seven: Identify Commercial Lending Discrimination Risk Factors

Where an institution does a substantial amount of

lending in the commercial lending market, most notably small business lending and the product has not recently been examined or the underwriting standards have changed since the last examination of the product, the examiner should consider conducting a risk factor review similar to that performed for residential lending products, as feasible, given the limited information available. Such an analysis should generally be limited to determining risk potential based on risk factors U4–U8; P1–P3; R5–R7; and M1–M3.

If the institution makes commercial loans insured by the Small Business Administration (SBA), determine from agency supervisory staff whether SBA loan data (which codes race and other factors) are available for the institution and evaluate those data pursuant to instructions accompanying them.

For large institutions reporting small business loans for CRA purposes and where the institution also voluntarily geocodes loan denials, look for material discrepancies in ratios of approval-to-denial rates for applications in areas with high concentrations of minority residents compared to areas with concentrations of non-minority residents.

Articulate the possible discriminatory patterns identified and consider further examining those products determined to have sufficient risk of discriminatory conduct in accordance with the procedures for commercial lending described in Part III, F.

Step Eight: Complete the Scoping Process

To complete the scoping process, the examiner should review the results of the preceding steps and select those focal points that warrant examination, based on the relative risk levels identified above. In order to remain within the agency's resource allowances, the examiner may need to choose a smaller number of focal points from among all those selected on the basis of risk. In such instances, set the scope by first, prioritizing focal points on the basis of (i) high number and/or relative severity of risk factors; (ii) high data quality and other factors affecting the likelihood of obtaining reliable examination results; (iii) high loan volume and the likelihood of widespread risk to applicants and borrowers; and (iv) low quality of any compliance program and, second, selecting for examination review as many focal points as resources permit.

Where the judgment process among competing focal points is a close call, information learned in

the phase of conducting the compliance management review can be used to further refine the examiner's choices.

PART II. COMPLIANCE MANAGEMENT REVIEW

The Compliance Management Review enables the examination team to determine:

- The intensity of the current examination based on an evaluation of the compliance management measures employed by an institution
- The reliability of the institution's practices and procedures for ensuring continued fair lending compliance.

Generally, the review should focus on

- Determining whether the policies and procedures of the institution enable management to prevent, or to identify and self-correct, illegal disparate treatment in the transactions that relate to the products and issues identified for further analysis under Part I of these procedures
- Obtaining a thorough understanding of the manner by which management addresses its fair lending responsibilities with respect to (a) the institution's lending practices and standards, (b) training and other application-processing aids, (c) guidance to employees or agents in dealing with customers, and (d) its marketing or other promotion of products and services.

To conduct this review, examiners should consider institutional records and interviews with appropriate management personnel in the lending, compliance, audit, and legal functions. The examiner should also refer to the *Compliance Management Analysis Checklist* contained in the Appendix to evaluate the strength of the compliance programs in terms of their capacity to prevent, or to identify and self-correct, fair lending violations in connection with the products or issues selected for analysis. Based on this evaluation

- Set the intensity of the transaction analysis by minimizing sample sizes within the guidelines established in Part III and the *Fair Lending Sample Size Tables* in the Appendix, to the extent warranted by the strength and thoroughness of the compliance programs applicable to those focal points selected for examination
- Identify any compliance program or system deficiencies that merit correction or improvement and present these to management in accordance with Part IV of these procedures.

Where an institution performs a self-evaluation or has voluntarily disclosed the report or results of a self-test of any product or issue that is within the

scope of the examination and has been selected for analysis pursuant to Part I of these procedures, examiners may streamline the examination, consistent with agency guidance, provided the self-test or self-evaluation meets the requirements set forth in *Using Self-Tests and Self-Evaluations to Streamline the Examination* located in the Appendix.

PART III. EXAMINATION PROCEDURES

Once the scope and intensity of the examination have been determined, assess the institution's fair lending performance by applying the appropriate procedures that follow to each of the examination focal points already selected.

A. Verify Accuracy of Data

Prior to any analysis and preferably before the scoping process, examiners should assess the accuracy of the data being reviewed. Data verifications should follow specific protocols (sampling, size, etc.) intended to ensure the validity of the review. For example, where an institution's LAR data is relied upon, examiners should generally validate the accuracy of the institution's submitted data by selecting a sample of LAR entries and verifying that the information noted on the LAR was reported according to instructions by comparing information contained in the loan file for each sampled loan. If the LAR data are inconsistent with the information contained in the loan files, depending on the nature of the errors, examiners may not be able to proceed with a fair lending analysis until the LAR data have been corrected by the institution. In cases where inaccuracies impede the examination, examiners should direct the institution to take action to ensure data integrity (data scrubbing, monitoring, training, etc.).

Note: While the procedures refer to the use of HMDA data, other data sources should be considered, especially in the case of non-HMDA reporters or institutions that originate loans but are not required to report them on a LAR.

B. Documenting Overt Evidence of Disparate Treatment

Where the scoping process or any other source identifies overt evidence of disparate treatment, the examiner should assess the nature of the policy or statement and the extent of its impact on affected applicants by conducting the following analysis

Step 1. Where the indicator(s) of overt discrimination are found in or based on a written policy for example, a credit scorecard) or communication, determine and document:

- a. The precise language of the apparently discriminatory policy or communication and the nature

- of the fair lending concerns that it raises
- b. The institution's stated purpose in adopting the policy or communication and the identity of the person on whose authority it was issued or adopted
 - c. How and when the policy or communication was put into effect
 - d. How widely the policy or communication was applied
 - e. Whether and to what extent applicants were adversely affected by the policy or communication.

Step 2. Where any indicator of overt discrimination was an oral statement or unwritten practice, determine and document:

- a. The precise nature of both the statement or practice and of the fair lending concerns that they raise
- b. The identity of the persons making the statement or applying the practice and their descriptions of the reasons for it and the persons authorizing or directing the use of the statement or practice
- c. How and when the statement or practice was disseminated or put into effect
- d. How widely the statement or practice was disseminated or applied
- e. Whether and to what extent applicants were adversely affected by the statement or practice.

Assemble findings and supporting documentation for presentation to management in connection with Part IV of these procedures.

C. Transactional Underwriting Analysis—Residential and Consumer Loans

Step 1: Set Sample Size

- a. For each focal point selected for this analysis, two samples will be utilized: (i) prohibited basis group denials and (ii) control group approvals, both identified either directly from monitoring information in the case of residential loan applications or through the use of application data or surrogates in the case of consumer applications.
- b. Refer to *Fair Lending Sample Size Tables, Table A* in the Appendix and determine the size of the initial sample for each focal point, based on the number of prohibited basis group denials and the number of control group approvals by the institution during the twelve month (or calendar year) period of lending activity preceding the examination. In the event

that the number of denials and/or approvals acted on during the preceding 12 month period substantially exceeds the maximum sample size shown in Table A, reduce the time period from which that sample is selected to a shorter period. (In doing so, make every effort to select a period in which the institution's underwriting standards are most representative of those in effect during the full 12 month period preceding the examination.)

- c. If the number of prohibited basis group denials or control group approvals for a given focal point that were acted upon during the 12 month period referenced in 1.b., above, do not meet the minimum standards set forth in the Sample Size Table, examiners need not attempt a transactional analysis for that focal point. Where other risk factors favor analyzing such a focal point, consult with agency supervisory staff on possible alternative methods of judgmental comparative analysis.
- d. If agency policy calls for a different approach to sampling (e.g., a form of statistical analysis, a mathematical formula, or an automated tool) for a limited class of institutions, examiners should follow that approach.

Step 2. Determine Sample Composition.

- a. To the extent the institution maintains records of loan outcomes resulting from exceptions to its credit underwriting standards or other policies (e.g., overrides to credit score cutoffs), request such records for both approvals and denials, sorted by loan product and branch or decision center, if the institution can do so. Include in the initial sample for each focal point all exceptions or overrides applicable to that focal point.
- b. Using HMDA/LAR data or, for consumer loans, comparable loan register data to the extent available, choose approved and denied applications based on selection criteria that will maximize the likelihood of finding marginal approved and denied applicants, as discussed below.
- c. To the extent that the above factors are inapplicable or other selection criteria are unavailable or do not facilitate selection of the entire sample size of files, complete the initial sample selection by making random file selections from the appropriate sample categories in the Sample Size Table.

Step 3: Compare Approved and Denied Applications

Overview: Although a creditor's written policies and procedures may appear to be nondiscriminatory, lending personnel may interpret or apply policies in a discriminatory manner. In order to detect any

disparate treatment among applicants, the examiner should first eliminate all but “marginal transactions” (see 3.b. below) from each selected focal point sample. Then, a detailed profile of each marginal applicant’s qualifications, the level of assistance received during the application process, the reasons for denial, the loan terms, and other information should be recorded on an Applicant Profile Spreadsheet. Once profiled, the examiner can compare the target and control groups for evidence that similarly qualified applicants have been treated differently as to either the institution’s credit decision or the quality of assistance provided.

a. *Create Applicant Profile Spreadsheet*

Based upon the institution’s written and/or articulated credit standards and loan policies, identify categories of data that should be recorded for each applicant and provide a field for each of these categories on a worksheet or computerized spreadsheet. Certain data (income, loan amount, debt, etc.) should always be included in the spreadsheet, while the other data selected will be tailored for each loan product and institution based on applicable underwriting criteria and such issues as branch location and underwriter. Where credit bureau scores and/or application scores are an element of the institution’s underwriting criteria (or where such information is regularly recorded in loan files, whether expressly used or not), include a data field for this information in the spread sheet.

In order to facilitate comparisons of the quality of assistance provided to target and control group applicants, respectively, every work sheet should provide a “comments” block appropriately labeled as the site for recording observations from the file or interviews regarding how an applicant was, or was not, assisted in overcoming credit deficiencies or otherwise qualifying for approval.

b. *Complete Applicant Profiles*

From the application files sample for each focal point, complete applicant profiles for selected denied and approved applications as follows:

- A principal goal is to identify cases where similarly qualified prohibited basis and control group applicants had different credit outcomes, because the agencies have found that discrimination, including differences in granting assistance during the approval process, is more likely to occur with respect to applicants who are *not* either clearly qualified or unqualified, i.e., “marginal” applicants. The examiner-in-charge should, during the following steps, judgmentally select from the initial sample only those denied and approved

applications which constitute marginal transactions. (See Appendix on *Identifying Marginal Transactions* for guidance)

- If few marginal control group applicants are identified from the initial sample, review additional files of approved control group applicants. This will either increase the number of marginal approvals or confirm that marginal approvals are so infrequent that the marginal denials are unlikely to involve disparate treatment.
- The judgmental selection of both marginal-denied and marginal-approved applicant loan files should be done together, in a “back and forth” manner, to facilitate close matches and a more consistent definition of “marginal” between these two types of loan files.
- Once the marginal files have been identified, the data elements called for on the profile spreadsheet are extracted or noted and entered.
- While conducting the preceding step, the examiner should simultaneously look for and document on the spreadsheet any evidence found in marginal files regarding the following:
 - the extent of any assistance, including both affirmative aid and waivers or partial waivers of credit policy provisions or requirements, that appears to have been provided to marginal-approved control group applicants which enabled them to overcome one or more credit deficiencies, such as excessive debt-to-income ratios
 - the extent to which marginal-denied target group applicants with similar deficiencies were, or were not, provided similar affirmative aid, waivers or other forms of assistance.

c. *Review and Compare Profiles*

- For each focal point, review all marginal profiles to determine if the underwriter followed institution lending policies in denying applications and whether the reason(s) for denial were supported by facts documented in the loan file and properly disclosed to the applicant pursuant to Regulation B. If any (a) unexplained deviations from credit standards, (b) inaccurate reasons for denial or (c) incorrect disclosures are noted, (whether in a judgmental underwriting system, a scored system or a mixed system) the examiner should obtain an explanation from the underwriter and document the response on an appropriate workpaper.

NOTE: In constructing the applicant profiles to be compared, examiners must adjust the

facts compared so that assistance, waivers, or acts of discretion are treated consistently between applicants. For example, if a control group applicant's DTI ratio was lowered to 42% because the institution decided to include short-term overtime income, and a prohibited basis group applicant who was denied due to "insufficient income" would have had his ratio drop from 46% to 41% if his short-term overtime income had been considered, then the examiners should consider 41%, not 46%, in determining the benchmark.

- For each reason for denial identified within the target group, rank the denied prohibited basis applicants, beginning with the applicant whose qualification(s) related to that reason for denial were least deficient. (The top-ranked denied applicant in each such ranking will be referred to below as the "benchmark" applicant.)
- Compare each marginal control group approval to the benchmark applicant in each reason-for-denial ranking developed in step (b), above. If there are no approvals who are equally or less qualified, then there are no instances of disparate treatment for the institution to account for. For all such approvals that appear no better qualified than the denied benchmark applicant
 - identify the approved loan on the worksheet or spreadsheet as an "overlap approval", and
 - compare that overlap approval with other marginal prohibited basis denials in the ranking to determine whether additional overlaps exist. If so, identify all overlapping approvals and denials as above.
- Where the focal point involves use of a credit scoring system, the analysis for disparate treatment is similar to the procedures set forth in (c) above, and should focus primarily on overrides of the scoring system itself. For guidance on this type of analysis, refer to *Considering Automated Underwriting and Credit Scoring, Part C* in the Appendix.

Step 4. If there is some evidence of violations in the underwriting process but not enough to clearly establish the existence of a pattern or practice, the examiner should expand the sample as necessary to determine whether a pattern or practice does or does not exist.

Step 5. Discuss all findings resulting from the above comparisons with management and document both the findings and all conversations on an

appropriate worksheet.

D. Analyzing Potential Disparities in Pricing and Other Terms and Conditions

Depending on the intensity of the examination and the size of the borrower population to be reviewed, the analysis of decisions on pricing and other terms and conditions may involve a comparative file review, statistical analysis, a combination of the two, or other specialized technique used by an agency. Each examination process assesses an institution's credit-decision standards and whether decisions on pricing and other terms and conditions are applied to borrowers without regard to a prohibited basis.

The procedures below encompass the examination steps for a comparative file review. Examiners should consult their own agency's procedures for detailed guidance where appropriate. For example, when file reviews are undertaken in conjunction with statistical analysis, the guidance on specific sample sizes referenced below may not apply.

Step 1: Determine Sample Selection

Examiners may review data in its entirety or restrict their analysis to a sample depending on the examination approach used and the quality of the institution's compliance management system. The *Fair Lending Sample Size Tables* in the Appendix provide general guidance about appropriate sample sizes. Generally, the sample size should be based on the number of prohibited basis group and control group originations for each focal point selected during the 12 months preceding the examination and the outcome of the compliance management system analysis conducted in Part II. When possible, examiners should request specific loan files in advance and request that the institution have them available for review at the start of the examination.

Step 2: Determine Sample Composition and Create Applicant Profiles

Examiners should tailor their sample and subsequent analysis to the specific factors that the institution considers when determining its pricing, terms, and conditions. For example, while decisions on pricing, and other terms and conditions are part of an institution's underwriting process, general underwriting criteria should not be used in the analysis if they are not relevant to the term or condition to be reviewed. Additionally, consideration should be limited to factors which examiners

determine to be legitimate.

- a. While the period for review should be 12-months, prohibited basis group and control group borrowers should be grouped and reviewed around a range of dates during which the institution's practices for the term or condition being reviewed were the same. Generally, examiners should use the loan origination date or the loan application date.
- b. Identify data to be analyzed for each focal point to be reviewed and record this information for each borrower on a spreadsheet to ensure a valid comparison regarding terms and conditions. For example, in certain cases, an institution may offer slightly differentiated products with significant pricing implications to borrowers. In these cases, it may be appropriate to group these procedures together for the purposes of evaluation.

Step 3: Review Terms and Conditions; Compare with Borrower Outcomes

- a. Review all loan terms and conditions (rates, points, fees, maturity variations, LTVs, collateral requirements, etc.) with special attention to those which are left, in whole or in part, to the discretion of loan officers or underwriters. For each such term or condition, identify (a) any prohibited basis group borrowers in the sample who appear to have been treated unfavorably with respect to that term or condition and (b) any control group borrowers who appear to have been treated favorably with respect to that term or condition. The examiner's analysis should be thoroughly documented in the work-papers.
- b. Identify from the sample universe any control group borrowers who appear to have been treated more favorably than one or more of the above-identified prohibited basis group borrowers and who have pricing or creditworthiness factors (under the institution's standards) that are equal to or less favorable than the prohibited basis group borrowers.
- c. Obtain explanations from the appropriate loan officer or other employee for any differences that exist and reanalyze the sample for evidence of discrimination.
- d. If there is some evidence of violations in the imposition of terms and conditions but not enough to clearly establish the existence of a pattern or practice, the examiner should expand the sample as necessary to determine whether a pattern or practice does or does not exist.
- e. Discuss differences in comparable loans with the institution's management and document all conversations on an appropriate worksheet. For

additional guidance on evaluating management's responses, refer to *Part A, 1–5, Evaluating Responses to Evidence of Disparate Treatment* in the Appendix.

E. Steering Analysis

An institution that offers a variety of lending products or product features, either through one channel or through multiple channels, may benefit consumers by offering greater choices and meeting the diverse needs of applicants. Greater product offerings and multiple channels, however, may also create a fair lending risk that applicants will be illegally steered to certain choices based on prohibited characteristics.

Several examples illustrate potential fair lending risk:

- An institution that offers different lending products based on credit risk levels may present opportunities for loan officers or brokers to illegally steer applicants to the higher-risk products
- An institution that offers nontraditional loan products or loan products with potentially onerous terms (such as prepayment penalties) may present opportunities for loan officers or brokers to illegally steer applicants to certain products or features
- An institution that offers prime or sub-prime products through different channels may present opportunities for applicants to be illegally steered to the sub-prime channel

The distinction between guiding consumers toward a specific product or feature and illegal steering centers on whether the institution did so on a prohibited basis, rather than based on an applicant's needs or other legitimate factors. It is not necessary to demonstrate financial harm to a group that has been "steered." It is enough to demonstrate that action was taken on a prohibited basis regardless of the ultimate financial outcome. If the scoping analysis reveals the presence of one or more risk factors S1 through S8 for any selected focal point, consult with agency supervisory staff about conducting a steering analysis as described below.

Step 1. Clarify what options are available to applicants.

Through interviews with appropriate personnel of the institution and review of policy manuals, procedure guidelines and other directives, obtain and verify the following information for each product-alternative product pairing or grouping identified above:

- a. All underwriting criteria for the product or

feature and their alternatives that are offered by the institution or by a subsidiary or affiliate. Examples of products may include stated income, negative amortization and options ARMs. Examples of terms and features include prepayment penalties and escrow requirements. The distinction between a product, term, and feature may vary institution to institution. For example, some institutions may consider "stated income" a feature, while others may consider that a distinct product.

- b. Pricing or other costs applicable to the product and the alternative product(s), including interest rates, points, and all fees.

Step 2: Document the policies, conditions or criteria that have been adopted by the institution for determining how referrals are to be made and choices presented to applicants.

- a. Obtain not only information regarding the product or feature offered by the institution and alternatives offered by subsidiaries/affiliates, but also information on alternatives offered solely by the institution itself.
- b. Obtain any information regarding a subsidiary of the institution directly from that entity, but seek information regarding an affiliate or holding company subsidiary only from the institution itself.
- c. Obtain all appropriate documentation and provide a written summary of all discussions with loan personnel and managers.
- d. Obtain documentation and/or employee estimates as to the volume of referrals made from or to the institution, for each product, during a relevant time period.
- e. Resolve to the extent possible any discrepancies between information found in the institution's documents and information obtained in discussions with loan personnel and managers by conducting appropriate follow-up interviews.
- f. Identify any policies and procedures established by the institution and/or the subsidiary or affiliate for (i) referring a person who applies to the institution, but does not meet its criteria, to another internal lending channel, subsidiary or affiliate; (ii) offering one or more alternatives to a person who applies to the institution for a specific product or feature, but does not meet its criteria; or (iii) referring a person who applies to a subsidiary or affiliate for its product, but who appears qualified for a loan from the institution, to the institution; or referring a person who applies through one internal lending channel for a product, but who appears to be qualified for a loan through another lending channel to that particular lending channel.

- g. Determine whether loan personnel are encouraged, through financial incentives or otherwise, to make referrals, either from the institution to a subsidiary/affiliate or vice versa. Similarly, determine whether the institution provides financial incentives related to products and features.

Step 3. Determine how referral decisions are made and documented within the institution.

Determine how a referral is made to another internal lending channel, subsidiary, or affiliate. Determine the reason for referral and how it is documented.

Step 4. Determine to what extent individual loan personnel are able to exercise personal discretion in deciding what loan products or other credit alternatives will be made available to a given applicant.

Step 5. Determine whether the institution's stated policies, conditions or criteria in fact are adhered to by individual decision makers. If not, does it appear that different policies or practices are actually in effect?

Enter data from the prohibited basis group sample on the spread sheets and determine whether the institution is, in fact, applying its criteria as stated. For example, if one announced criterion for receiving a "more favorable" prime mortgage loan was a back end debt ratio of no more than 38%, review the spread sheets to determine whether that criteria was adhered to. If the institution's actual treatment of prohibited basis group applicants appears to differ from its stated criteria, document such differences for subsequent discussion with management.

Step 6. To the extent that individual loan personnel have any discretion in deciding what products and features to offer applicants, conduct a comparative analysis to determine whether that discretion has been exercised in a nondiscriminatory manner.

Compare the institution's or subsidiary/affiliate's treatment of control group and prohibited basis group applicants by adapting the "benchmark" and "overlap" technique discussed in Part III, Section C. of these procedures. For purposes of this Steering Analysis, that technique should be conducted as follows:

- a. For each focal point to be analyzed, select a sample of prohibited basis group applicants who received "less favorable" treatment (e.g., referral to a finance company or a subprime mortgage subsidiary or counteroffers of less favorable product alternatives).

NOTE: In selecting the sample, follow the guidance of *Fair Lending Sample Size Tables, Table B* in the Appendix and select "marginal

- applicants" as instructed in Part III, Section C, above.
- b. Prepare a spread sheet for the sample which contains data entry categories for those underwriting and/or referral criteria that the institution identified in Step 1.b as used in reaching underwriting and referral decisions between the pairs of products.
 - c. Review the "less favorably" treated prohibited basis group sample and rank this sample from least qualified to most qualified.
 - d. From the sample, identify the best qualified prohibited basis group applicant, based on the criteria identified for the control group, above. This applicant will be the "benchmark" applicant. Rank order the remaining applicants from best to least qualified.
 - e. Select a sample of control group applicants. Identify those who were treated "more favorably" with respect to the same product-alternative product pair as the prohibited basis group. (Again refer to the Sample Size Table B and marginal applicant processes noted above in selecting the sample.)
 - f. Compare the qualifications of the benchmark applicant with those of the control group applicants, beginning with the least qualified member of that sample. Any control group applicant who appears less qualified than the benchmark applicant should be identified on the spreadsheet as a "control group overlap".
 - g. Compare all control group overlaps with other, less qualified prohibited basis group applicants to determine whether additional overlaps exist
 - h. Document all overlaps as possible disparities in treatment. Discuss all overlaps and related findings (e.g., any differences between stated and actual underwriting and/or referral criteria) with management, documenting all such conversations.

Step 7. Examiners should consult with their agency's supervisory staff if they see a need to contact control group or prohibited basis group applicants to substantiate the steering analysis.

F. Transactional Underwriting Analysis—Commercial Loans

Overview: Unlike consumer credit, where loan products and prices are generally homogenous and underwriting involves the evaluation of a limited number of credit variables, commercial loans are generally unique and underwriting methods and loan pricing may vary depending on a large number of credit variables. The additional credit analysis that is involved in underwriting

commercial credit products will entail additional complexity in the sampling and discrimination analysis process. Although ECOA prohibits discrimination in all commercial credit activities of a covered institution, the agencies recognize that small businesses (sole proprietorships, partnerships, and small, closely-held corporations) may have less experience in borrowing. Small businesses may have fewer borrowing options, which may make them more vulnerable to discrimination. Therefore, in implementing these procedures, examinations should generally be focused on small business credit (commercial applicants that had gross revenues of \$1,000,000 or less in the preceding fiscal year), absent some evidence that a focus on other commercial products would be more appropriate.

Step 1: Understand Commercial Loan Policies

For the commercial product line selected for analysis, the examiner should first review credit policy guidelines and interview appropriate commercial loan managers and officers to obtain written and articulated standards used by the institution in evaluating commercial loan applications.

NOTE: Examiners should consult their own agencies for guidance on when a comparative analysis or statistical analysis is appropriate, and follow their agencies procedures for conducting such a review/analysis.

Step 2: Conduct Comparative File Review

- a. Select all (or a maximum of ten) denied applications that were acted on during the three month period prior to the examination. To the extent feasible, include denied applications from businesses that are (i) located in minority and/or integrated geographies or (ii) appear to be owned by women or minority group members, based on the names of the principals shown on applications or related documents. (In the case of institutions that do a significant volume of commercial lending, consider reviewing more than ten applications.)
- b. For each of the denied commercial applications selected, record specific information from loan files and through interviews with the appropriate loan officer(s), about the principal owners, the purpose of the loan, and the specific, pertinent financial information about the commercial enterprise (including type of business—retail, manufacturing, service, etc.), that was used by the institution to evaluate the credit request. Maintenance or use of data that identifies prohibited basis characteristics of those involved with the business (either in approved or denied loan applications) should be evaluated as a potential violation of Regulation B.

- c. Select ten approved loans that appear to be similar with regard to business type, purpose of loan, loan amount, loan terms, and type of collateral, as the denied loans sampled. For example, if the denied loan sample includes applications for lines of credit to cover inventory purchases for retail businesses, the examiner should select approved applications for lines of credit from retail businesses.
- d. For each approved commercial loan application selected, obtain and record information parallel to that obtained for denied applications.
- e. The examiner should first compare the credit criteria considered in the credit process for each of the approved and denied applications to established underwriting standards, rather than comparing files directly.
- f. The examiner should identify any deviations from credit standards for both approved and denied credit requests, and differences in loan terms granted for approved credit requests.
- g. The examiner should discuss each instance where deviations from credit standards and terms were noted, but were not explained in the file, with the commercial credit underwriter. Each discussion should be documented.

Step 3: Conduct Targeted Sampling

- a. If deviations from credit standards or pricing are not sufficiently explained by other factors either documented in the credit file or the commercial underwriter was not able to provide a reasonable explanation, the examiner should determine if deviations were detrimental to any protected classes of applicants.
- b. The examiner should consider employing the same techniques for determining race and gender characteristics of commercial applicants as those outlined in the consumer loan sampling procedures.
- c. If it is determined that there are members of one or more prohibited basis groups among commercial credit requests that were not underwritten according to established standards or received less favorable terms, the examiner should select additional commercial loans, where applicants are members of the same prohibited basis group and select similarly situated control group credit requests in order to determine whether there is a pattern or practice of discrimination. These additional files should be selected based on the specific applicant circumstance(s) that appeared to have been viewed differently by lending personnel on a prohibited basis.
- d. If there are not enough similarly situated applicants for comparison in the original sample

period to draw a reasonable conclusion, the examiner should expand the sample period. The expanded sample period should generally not go beyond the date of the prior examination.

Sampling Guidelines

- a. Generally, the task of selecting an appropriate expanded sample of prohibited basis and control group applications for commercial loans will require examiner judgment. The examiner should select a sample that is large enough to be able to draw a reasonable conclusion.
- b. The examiner should first select from the applications that were acted on during the initial sample period, but were not included in the initial sample, and select applications from prior time periods as necessary.
- c. The expanded sample should include both approved and denied, prohibited basis and control group applications, where similar credit was requested by similar enterprises for similar purposes.

G. Analysis of Potential Discriminatory “Redlining”

Overview: For purposes of this analysis, traditional “redlining” is a form of illegal disparate treatment in which an institution provides unequal access to credit, or unequal terms of credit, because of the race, color, national origin, or other prohibited characteristic(s) of the residents of the area in which the credit seeker resides or will reside or in which the residential property to be mortgaged is located. Redlining may also include “reverse redlining,” the practice of targeting certain borrowers or areas with less advantageous products or services based on prohibited characteristics.

The redlining analysis may be applied to determine whether, on a prohibited basis:

- an institution fails or refuses to extend credit in certain areas;
- an institution targets certain borrowers or certain areas with less advantageous products
- an institution makes loans in such an area but at a restricted level or upon less-favorable terms or conditions as compared to contrasting areas; or
- an institution omits or excludes such an area from efforts to market residential loans or solicit customers for residential credit.

This guidance focuses on possible discrimination based on race or national origin. The same analysis could be adapted to evaluate relative access to credit for areas of geographical concentration on other prohibited bases—for example, age.

NOTE: It is true that neither the Equal Credit Opportunity Act (ECOA) nor the Fair Housing Act (FHAAct) specifically uses the term “redlining.” However, federal courts as well as agencies that have enforcement responsibilities for the FHAAct, have interpreted it as prohibiting institutions from having different marketing or lending practices for certain geographic areas, compared to others, where the purpose or effect of such differences would be to discriminate on a prohibited basis. Similarly, the ECOA would prohibit treating applicants for credit differently on the basis of differences in the racial or ethnic composition of their respective neighborhoods.

Like other forms of disparate treatment, redlining can be proven by overt or comparative evidence. If any written or oral policy or statement of the institution (see risk factors R6–10 in Part I, above) suggests that the institution links the racial or national origin character of an area with any aspect of access to or terms of credit, the examiners should refer to the guidance in Section B of this Part III, on documenting and evaluating overt evidence of discrimination.

Overt evidence includes not only explicit statements, but also any geographical terms used by the institution that would, to a reasonable person familiar with the community in question, connote a specific racial or national origin character. For example, if the principal information conveyed by the phrase “north of 110th Street” is that the indicated area is principally occupied by Hispanics, then a policy of not making credit available “north of 110th Street” is overt evidence of potential redlining on the basis of national origin.

Overt evidence is relatively uncommon. Consequently, the redlining analysis usually will focus on comparative evidence (similar to analyses of possible disparate treatment of individual customers) in which the institution’s treatment of areas with contrasting racial or national origin characters is compared.

When the scoping process (including consultation within an agency as called for by agency procedures) indicates that a redlining analysis should be initiated, examiners should complete the following steps of comparative analysis:

1. Identify and delineate any areas within the institution’s CRA assessment area and reasonably expected market area for residential products that have a racial or national origin character;
2. Determine whether any minority area identified in Step 1 appears to be excluded, under-served, selectively excluded from marketing efforts, or

otherwise less-favorably treated in any way by the institution;

3. Identify and delineate any areas within the institution’s CRA assessment area and reasonably expected market area for residential products that are non-minority in character and that the institution appears to treat more favorably;
4. Identify the location of any minority areas located just outside the institution’s CRA assessment area and market area for residential products, such that the institution may be purposely avoiding such areas.
5. Obtain the institution’s explanation for the apparent difference in treatment between the areas and evaluate whether it is credible and reasonable; and
6. Obtain and evaluate other information that may support or contradict interpreting identified disparities to be the result of intentional illegal discrimination.

These steps are discussed in detail below.

Using Information Obtained during Scoping

Although the six tasks listed are presented below as examination steps in the order given above, examiners should recognize that a different order may be preferable in any given examination. For example, the institution’s explanation (Step 5) for one of the policies or patterns in question may already be documented in the CRA materials reviewed (Step 1) and the CRA examiners may already have verified it, which may be sufficient for purposes of the redlining analysis.

As another example, as part of the scoping process, the examiners may have reviewed an analysis of the geographic distribution of the institution’s loan originations with respect to the racial and national origin composition of census tracts within its CRA assessment or residential market area. Such analysis might have documented the existence of significant discrepancies between areas, by degree of minority concentration, in loans originated (risk factor R1), approval/denial rates (risk factor R2) and/or rates of denials because of insufficient collateral (risk factor R3). In such a situation in which the scoping process has produced a reliable factual record, the examiners could begin with Step 5 (obtaining an explanation) of the redlining analysis below.

In contrast, when the scoping process only yields partial or questionable information, or when the risk factors on which the redlining analysis is based on complaints or allegations against the

institution, Steps 1–4 must be addressed.

Comparative Analysis for Redlining

Step 1: Identify and delineate any areas within the institution's CRA assessment area and reasonably expected market area for residential products that are of a racial or national origin minority character.

NOTE: The CRA assessment area can be a convenient unit for redlining analysis because information about it typically already is in hand. However, the CRA assessment area may be too limited. The redlining analysis focuses on the institution's decisions about how much access to credit to provide to different geographical areas. The areas for which those decisions can best be compared are areas where the institution actually marketed and provided credit and where it could reasonably be expected to have marketed and provided credit. Some of those areas might be beyond or otherwise different from the CRA assessment area.

If there are no areas identifiable for their racial or national origin minority character within the institution's CRA assessment area or reasonably expected market area for residential products, a redlining analysis is not appropriate. (If there is a substantial but dispersed minority population, potential disparate treatment can be evaluated by a routine comparative file review of applicants.)

This step may have been substantially completed during scoping, but unresolved matters may remain. (For example, several community spokespersons may allege that the institution is redlining, but disagree in defining the area). The examiners should:

- a. Describe as precisely as possible why a specific area is recognized in the community (perceptions of residents, etc.) and/or is objectively identifiable (based on census or other data) as having a particular racial or national origin minority character.
- The most obvious identifier is the predominant race or national origin of the residents of the area. Examiners should document the percentages of racial or national origin minorities residing within the census tracts that make up the area. Analyzing racial and national origin concentrations in quartiles (such as 0 to ≤25%, >25% to ≤50%, >50% to ≤75%, and >75%) or based on majority concentration (0 to ≤50%, and >50%) may be helpful. However, examiners should bear in mind that it is illegal for the institution to consider a prohibited factor in any way. For example, an area or neighborhood may only have a minority population of 20%, but if the

area's concentration appears related to lending practices, it would be appropriate to use that area's level of concentration in the analysis. Contacts with community groups can be helpful to learn whether there are such subtle features of racial or ethnic character within a particular neighborhood.

- Geographical groupings that are convenient for CRA may obscure racial patterns. For example, an underserved, low-income, predominantly minority neighborhood that lies within a larger low-income area that primarily consisted of non-minority neighborhoods, may seem adequately served when the entire low-income area is analyzed as a unit. However, a racial pattern of underservice to minority areas might be revealed if the low-income minority neighborhood shared a border with an underserved, middle-income, minority area and those two minority areas were grouped together for purposes of analysis.
- b. Describe how the racial or national origin character changes across the suspected redlining area's various boundaries.
- c. Document or estimate the demand for credit, within the minority area. This may include the applicable demographics of the area, including the percentage of homeowners, the median house value, median family income, or the number of small businesses, etc. Review the institution's non-originated loan applications from the suspected redlined areas. If available, review aggregate institution data for loans originated and applications received from the suspected redlined areas. Community contacts may also be helpful in determining the demand for such credit. If the minority area does not have a significant amount of demand for such credit, the area is not appropriate for a redlining analysis.

Step 2: Determine whether any minority area identified in Step 1 is excluded, under-served, selectively excluded from marketing efforts, or otherwise less-favorably treated in any way by the institution.

The examiners should begin with the risk factors identified during the scoping process. The unfavorable treatment may have been substantially documented during scoping and needs only to be finished in this step. If not, this step will verify and measure the extent to which HMDA data show the minority areas identified in Step 1 to be underserved and/or how the institution's explicit policies treat them less favorably.

- a. Review prior CRA lending test analyses to learn whether they have identified any excluded or

otherwise under-served areas or other significant geographical disparities in the institution's lending. Determine whether any of those are the minority areas identified in Step 1.

- b. Learn from the institution itself whether, as a matter of policy, it treats any separate or distinct geographical areas within its marketing or service area differently from other areas. This may have been done completely or partially during scoping analysis related to risk factors R5–R9. The differences in treatment can be in marketing, products offered, branch operations (including the services provided and the hours of operation), appraisal practices, application processing, approval requirements, pricing, loan conditions, evaluation of collateral, or any other policy or practice materially related to access to credit. Determine whether any of those less-favored areas are the minority areas identified in Step 1.
- c. Obtain from the institution: (i) its reasons for such differences in policy, (ii) how the differences are implemented, and (iii) any specific conditions that must exist in an area for it to receive the particular treatment (more favorable or less favorable) that the institution has indicated.

Step 3: Identify and delineate any areas within the institution's CRA assessment area and reasonably expected market area for residential products that are non-minority in character and that the institution appears to treat more favorably.

To the extent not already completed during scoping:

- a. Document the percentages of control group and of racial or national origin minorities residing within the census tract(s) that comprise(s) the non-minority area
- b. Document the nature of the housing stock in the area
- c. Describe, to the extent known, how the institution's practices, policies, or its rate of lending change from less- to more-favorable as one leaves the minority area at its various boundaries (Examiners should be particularly attentive to instances in which the boundaries between favored and disfavored areas deviate from boundaries the institution would reasonably be expected to follow, such as political boundaries or transportation barriers)
- d. Examiners should particularly consider whether, within a large area that is composed predominantly of racial or national origin minority households, there are enclaves that are predominantly non-minority or whether, along the area's borders, there are irregularities where the non-minority group is predominant. As part

of the overall comparison, examiners should determine whether credit access within those small non-minority areas differs from credit access in the larger minority area.

Step 4: Identify the location of any minority areas located just outside the institution's CRA assessment area and market area for residential products, such that the institution may be purposely avoiding such areas.

Review the analysis from prior CRA examinations of whether the assessment area appears to have been influenced by prohibited factors. If there are minority areas that the institution excluded from the assessment area improperly, consider whether they ought to be included in the redlining analysis. Analyze the institution's reasonably expected market area in the same manner.

Step 5: Obtain the institution's explanation for the apparent difference in treatment between the areas and evaluate whether it is credible and reasonable.

This step completes the comparative analysis by soliciting from the institution any additional information not yet considered by the examiners that might show that there is a nondiscriminatory explanation for the apparent disparate treatment based on race or ethnicity.

For each matter that requires explanation, provide the institution full information about what differences appear to exist in how it treats minority and non-minority areas, and how the examiners reached their preliminary conclusions at this stage of the analysis.

- a. Evaluate whether the conditions identified by the institution in Step 2 as justifying more favorable treatment pursuant to institutional policy existed in minority neighborhoods that did not receive the favorable treatment called for by institutional policy. If there are minority areas for which those conditions existed, ask the institution to explain why the areas were treated differently despite the similar conditions.
- b. Evaluate whether the conditions identified by the institution in Step 2 as justifying less favorable treatment pursuant to institutional policy existed in non-minority neighborhoods that received favorable treatment nevertheless. If there are non-minority areas for which those conditions existed, ask the institution to explain why those areas were treated differently, despite the similar conditions.
- c. Obtain explanations from the institution for any apparent differences in treatment observed by the examiners but not called for by the institution's policies
 - If the institution's explanation cites any spe-

- cific conditions in the non-minority area(s) to justify more favorable treatment, determine whether the minority area(s) identified in Step 1 satisfied those conditions. If there are minority areas for which those conditions existed, ask the institution to explain why the areas were treated differently despite the similar conditions
- If the institution's explanation cites any specific conditions in the minority area(s) to justify less favorable treatment, determine whether the non-minority area(s) had those conditions. If there are non-minority areas for which those conditions existed, ask the institution to explain why those areas were treated differently, despite the similar conditions.
- d. Evaluate the institution's responses by applying appropriate principles selected from the Appendix on *Evaluating Responses to Evidence of Disparate Treatment*.

Step 6: Obtain and evaluate specific types of other information that may support or contradict a finding of redlining.

As a legal matter, discriminatory intent can be inferred simply from the lack of a legitimate explanation for clearly less-favorable treatment of racial or national origin minorities. Nevertheless, if the institution's explanations do not adequately account for a documented difference in treatment, the examiners should consider additional information that might support or contradict the interpretation that the difference in treatment constituted redlining.

- a. *Comparative file review.* If there was a comparative file review conducted in conjunction with the redlining examination, review the results; or, if it is necessary and feasible to do so to clarify what appears to be discriminatory redlining, compare denied applications from within the suspected redlining area to approved applications from the contrasting area.
- Learn whether there were any denials of fully qualified applicants from the suspected redlining area. If so, that may support the view that the institution was avoiding doing business in the area.
- Learn whether the file review identified instances of illegal disparate treatment against applicants of the same race or national origin as the suspected redlining area. If so, that may support the view that the institution was avoiding doing business with applicants of that group, such as the residents of the suspected redlining area. Learn whether any such identified victims applied for transactions in the suspected redlining area.

- If there are instances of either of the above, identify denied non-minority residents, if any, of the suspected redlining area and review their application files to learn whether they appear to have been treated in an irregular or less favorable way. If so, that may support the view that the character of the area rather than of the applicants themselves appears to have influenced the credit decisions.
- Review withdrawn and incomplete applications for the suspected redlining area, if those can readily be identified from the HMDA-LAR, and learn whether there are reliable indications that the institution discouraged those applicants from applying. If so, that may support the view that the institution was avoiding conducting business in the area and may constitute evidence of a violation of Section 202.4(b) of Regulation B.

Conversely, if the comparisons of individual transactions show that the institution treated minority and non-minority applicants within and outside the suspected redlining area similarly, that tends to contradict the conclusion that the institution avoided the areas because it had minority residents.

- b. *Interviews of third parties.* The perspectives of third parties will have been taken into account to some degree through the review of available materials during scoping. Later in the examination, in appropriate circumstances, information from third parties may help determine whether the institution's apparent differences in treatment of minority and non-minority areas constitute redlining.
- Identify persons (such as housing or credit counselors, home improvement contractors, or real estate and mortgage brokers) who may have extensive experience dealing with credit applicants from the suspected redlined area.
- After obtaining appropriate authorization and guidance from your agency, interview those persons to learn of their first-hand experiences related to:
 - oral statements or written indications by an institution's representatives that loan applications from a suspected redlined area were discouraged;
 - whether the institution treated applicants from the suspected redlining area as called for in its own procedures (as the examiners understand them) and/or whether it treated them similarly to applicants from non-minority areas (as the examiners are familiar with those transactions);
 - any unusual delays or irregularities in loan processing for transactions in the sus-

- pected redlining area;
- differences in the institution's pricing, loan conditions, property valuation practices, etc., in the suspected redlining area compared to contrasting areas.

Also, learn from the third parties the names of any consumers they described as having experienced the questionable behavior recounted by the third party, and consider contacting those consumers.

If third parties witnessed specific conduct by the institution that indicates the institution wanted to avoid business from the area or prohibited basis group in question, this would tend to support interpreting the difference in treatment as intended. Conversely, if third parties report proper treatment or positive actions toward such area or prohibited basis group, this would tend to contradict the view that the institution intended to discriminate.

- c. *Marketing.* A clear exclusion of the suspected redlining area from the institution's marketing of residential loan products supports the view that the institution did not want to do business in the area. Marketing decisions are affirmative acts to include or exclude areas. Disparities in marketing between two areas may reveal that the institution prefers one to the other. If sufficiently stark and supported by other evidence, a difference in marketing to racially different areas could itself be treated as a redlining violation of the Fair Housing Act. Even below that level of difference, marketing patterns can support or contradict the view that disparities in lending practices were intentional.

- Review materials that show how the institution has marketed in the suspected redlined area and in non-minority areas. Begin with available CRA materials and discuss the issues with CRA examiners, then review other materials as appropriate. The materials may include, for example, the institution's guidance for the geographical distribution of pre-approved solicitations for credit cards or home equity lines of credit, advertisements in local media or business or telephone directories, business development calls to real estate brokers, and calls by telemarketers.

- d. *Peer performance.* Market share analysis and other comparisons to competitors are insufficient by themselves to prove that an institution engaged in illegal redlining. By the same token, an institution cannot justify its own failure to market or lend in an area by citing other institutions' failures to lend or market there.

However, an institution's inactivity in an underserved area where its acknowledged

competitors are active would tend to support the interpretation that it intends to avoid doing business in the area. Conversely, if it is as active as other institutions that would suggest that it intends to compete for, rather than avoid, business in the area.

- Develop a list of the institution's competitors.
- Learn the level of lending in the suspected redlining area by competitors. Check any public evaluations of similarly situated competitors obtained by the CRA examiners as part of evaluating the performance context or obtain such evaluations independently.

- e. *Institution's record.* Request from the institution information about its overall record of serving or attempting to serve the racial or national origin minority group with which the suspected redlining area is identified. The record may reveal an intent to serve that group that tends to contradict the view that the institution intends to discriminate against the group.

NOTE: For any information that supports interpreting the situation as illegal discrimination, obtain and evaluate an explanation from the institution as called for in Part IV. If the institution's explanation is that the disparate results are the consequence of a specific, neutral policy or practice that the institution applies broadly, such as not making loans on homes below a certain value, review the guidance in the *Special Analyses* section of the Appendix under *Disproportionate Adverse Impact Violations* and consult agency managers.

H. Analysis of Potential Discriminatory Marketing Practices

When scoping identifies significant risk factors (M1–M7) related to marketing, examiners should consult their agency's supervisory staff and experts about a possible marketing discrimination analysis. If the supervisory staff agrees to proceed, the examiners should collect information as follows:

Step 1: Identify the institution's marketing initiatives.

a. Pre-approved solicitations

- Determine whether the institution sends out pre-approved solicitations:
 - for home purchase loans
 - for home improvement loans
 - for refinance loans
- Determine how the institution selects recipients for such solicitations
 - learn from the institution its criteria for such selections
 - review any guidance or other information the institution provided credit reporting

- companies or other companies that supply such lists
- b. *Media Usage*
- Determine in which newspapers and broadcast media the institution advertises.
 - identify any racial or national origin identity associated with those media
 - determine whether those media focus on geographical communities of a particular racial or national origin character
 - Learn the institution's strategies for geographic and demographic distribution of advertisements.
 - Obtain and review copies of the institution's printed advertising and promotional materials.
 - Determine what criteria the institution communicates to media about what is an attractive customer or an attractive area to cultivate business.
 - Determine whether advertising and marketing are the same to racial and national origin minority areas as compared to non-minority areas.
- c. *Self-produced promotional materials*
- Learn how the institution distributes its own promotional materials, both methods and geographical distribution
 - Learn what the institution regards as the target audience(s) for those materials
- d. *Realtors, brokers, contractors, and other intermediaries*
- Determine whether the institution solicits business from specific realtors, brokers, home improvement contractors, and other conduits.
 - learn how the institution decides which intermediaries it will solicit
 - identify the parties contacted and determine the distribution between minority and non-minority areas
 - obtain and review the types of information the institution distributes to intermediaries
 - determine how often the institution contacts intermediaries
 - Determine what criteria the institution communicates to intermediaries about the type of customers it seeks or the nature of the geographic areas in which it wishes to do business.
- e. *Telemarketers or predictive dialer programs*
- Learn how the institution identifies which consumers to contact, and whether the institution sets any parameters on how the list of

consumers is compiled.

Step 2: Determine whether the institution's activities show a significantly lower level of marketing effort toward minority areas or toward media or intermediaries that tend to reach minority areas.

Step 3: If there is any such disparity, document the institution's explanation for it.

For additional guidance, refer to *Part C* of the *Special Analyses* section in the Appendix.

I. Credit Scoring

If the scoping process results in the selection of a focal point that includes a credit or mortgage scored loan product, refer to the *Considering Automated Underwriting and Credit Scoring* section of the Appendix.

If the institution utilizes a credit scoring program which scores age for any loan product selected for review in the scoping stage, either as the sole underwriting determinant or only as a guide to making loan decisions, refer to *Part E* of the *Considering Automated Underwriting and Credit Scoring* section of the Appendix.

J. Disparate Impact Issues

These procedures have thus far focused primarily on examining comparative evidence for possible unlawful disparate treatment. Disparate impact has been described briefly in the Introduction. Whenever an examiner believes that a particular policy or practice of an institution appears to have a disparate impact on a prohibited basis, the examiner should refer to Part A of the *Special Analyses* section of the Appendix or consult with agency supervisory staff for further guidance.

PART IV. OBTAINING AND EVALUATING RESPONSES FROM THE INSTITUTION AND CONCLUDING THE EXAMINATION

Step 1. Present to the institution's management for explanation:

- a. Any overt evidence of disparate treatment on a prohibited basis.
- b. All instances of apparent disparate treatment (e.g., overlaps) in either the underwriting of loans or in loan prices, terms, or conditions.
- c. All instances of apparent disparate treatment in the form of discriminatory steering, redlining, or marketing policies or practices.
- d. All instances where a denied prohibited basis applicant was not afforded the same level of assistance or the same benefit of discretion as

- an approved control group applicant who was no better qualified with regard to the reason for denial.
- e. All instances where a prohibited basis applicant received conspicuously less favorable treatment by the institution than was customary from the institution or was required by the institution's policy.
 - f. Any statistically significant average difference in either the frequency or amount of pricing disparities between control group and prohibited basis group applicants.
 - g. Any evidence of neutral policies, procedures or practices that appear to have a disparate impact or effect on a prohibited basis.

Explain that unless there are legitimate, nondiscriminatory explanations (or in the case of disparate impact, a compelling business justification) for each of the preliminary findings of discrimination identified in this Part, the agency could conclude that the institution is in violation of the applicable fair lending laws.

Step 2. Document all responses that have been provided by the institution, not just its “best” or “final” response. Document each discussion with dates, names, titles, questions, responses, any information that supports or undercuts the institution’s credibility, and any other information that bears on the issues raised in the discussion(s).

Step 3. Evaluate whether the responses are consistent with previous statements, information obtained from file review, documents, reasonable banking practices, and other sources, and satisfy common-sense standards of logic and credibility.

- a. Do not speculate or assume that the institution's decision-maker had specific intentions or considerations in mind when he or she took the actions being evaluated. Do not, for example, conclude that because you have noticed a legitimate, nondiscriminatory reason for a denial (such as an applicant's credit weakness), that no discrimination occurred unless it is clear that, at the time of the denial, the institution actually based the denial on that reason.
- b. Perform follow-up file reviews and comparative analyses, as necessary, to determine the accuracy and credibility of the institution's explanations.
- c. Refer to *Evaluating Responses to Evidence of Disparate Treatment* in the Appendix for guidance as to common types of responses.
- d. Refer to the *Disproportionate Adverse Impact Violations* portion of the *Special Analyses* section of the Appendix for guidance on evaluating the institution's responses to apparent disparate impact.

Step 4. If, after completing Steps 1–3 above, you conclude that the institution has failed to adequately demonstrate that one or more apparent violations had a legitimate nondiscriminatory basis or were otherwise lawful, prepare a documented list or discussion of violations, or a draft examination report, as prescribed by agency directives.

Step 5. Consult with agency supervisory staff regarding whether (a) any violations should be referred to the Departments of Justice or Housing and Urban Development and (b) enforcement action should be undertaken by your agency.

Federal Fair Lending Regulations and Statutes

Interagency Fair Lending Examination Procedures:

Appendix

INTRODUCTION

This Appendix offers a full range of information that might conceivably be brought to bear in an examination. In that sense, it is a "menu" of resources to be considered and selected from, depending on the nature and scope of the examination being conducted.

COMPLIANCE MANAGEMENT ANALYSIS CHECKLIST

This checklist is for use in conjunction with Part II of these procedures as a device for examiners to evaluate the strength of an institution's compliance program in terms of its capacity to prevent, and to identify and self-correct fair lending violations in connection with the products or issues selected for analysis. The checklist is not intended to be an absolute test of an institution's compliance management program. Programs containing all or most of the features described in the list may nonetheless be flawed for other reasons; conversely, a compliance program that encompasses only a

portion of the factors listed below may nonetheless adequately support a strong program under appropriate circumstances. In short, the examiner must exercise his or her best judgment in utilizing this list and in assessing the overall quality of an institution's efforts to ensure fair lending compliance.

If the transactions within the proposed scope are covered by a listed preventive measure, and the answer is "Yes", check the box in the first column. You may then reduce the intensity (mainly the sample size) of the planned comparative file review to the degree that the preventive measures cover transactions within the proposed scope. Document your findings in sufficient detail to justify any resulting reduction in the intensity of the examination.

You are not required to learn whether preventive measures apply to specific products outside the proposed scope. However, if the information you have obtained shows that the measure is a general practice of the institution, and thus applies to all loan products, check the box in the second column in order to assist future examination planning.

A. Preventive Measures

Determine whether policies and procedures exist that tend to prevent illegal disparate treatment in the transactions you plan to examine. There is no legal or agency requirement for institutions to conduct these activities. The absence of any of these policies and practices is never, by itself, a violation.

1. Lending Practices and Standards:

a. Principal Policy Issues

- Are underwriting practices clear, objective, and generally consistent with industry standards?
- Is pricing within reasonably confined ranges with guidance linking variations to risk and/or cost factors?
- Does management monitor the nature and frequency of exceptions to its standards?
- Are denial reasons accurately and promptly communicated to unsuccessful applicants?
- Are there clear and objective standards for referring applicants to (i) subsidiaries, affiliates, or other lending channels within the institution, (ii) classifying applicants as "prime" or sub-prime" borrowers, or (iii) deciding what kinds of alternative loan products should be offered or recommended to applicants?
- Are loan officers required to document any deviation from the rate sheet?
- Does management monitor consumer complaints alleging discrimination in loan pricing or underwriting?

b. Do training, application-processing aids, and other guidance correctly and adequately describe:

- Prohibited bases under ECOA, Regulation B, and the Fair Housing Act?
 - Other substantive credit access requirements of Regulation B (e.g. spousal signatures, improper inquiries, protected income)?
- c. Is it specifically communicated to employees that they must not, on a prohibited basis:
- Refuse to deal with individuals inquiring about credit?
 - Discourage inquiries or applicants by delays, courtesy, or other means?
 - Provide different, incomplete, or misleading information about the availability of loans, application requirements, and processing and approval standards or procedures (including selectively informing applicants about certain loan products while failing to inform them of alternatives)?
 - Encourage or more vigorously assist only certain inquirers or applicants?
 - Refer credit seekers to other institutions, more costly loan products, or potentially onerous features?
 - Refer credit seekers to nontraditional products (i.e., negative amortization, "interest only," "payment option" adjustable rate mortgages) when they could have qualified for traditional mortgages?
 - Waive or grant exceptions to application procedures or credit standards?
 - State a willingness to negotiate?
 - Use different procedures or standards to evaluate applications?
 - Use different procedures to obtain and evaluate appraisals?
 - Provide certain applicants opportunities to correct or explain adverse or inadequate information, or to provide additional information?
 - Accept alternative proofs of creditworthiness?
 - Require co-signers?
 - Offer or authorize loan modifications?
 - Suggest or permit loan assumptions?
 - Impose late charges, reinstatement fees, etc.?
 - Initiate collection or foreclosure?
- d. Has the institution taken specific initiatives to prevent the following practices:
- Basing credit decisions on assumptions derived from racial, gender, and other stereotypes, rather than facts?
 - Seeking consumers from a particular racial, ethnic, or religious group, or of a particular gender, to the exclusion of other types of consumers, on the basis of how "comfortable" the employee may feel in dealing with those different from him/her?
 - Limiting the exchange of credit-related information or the institution's efforts to qualify an applicant from a prohibited basis group.
 - Drawing the institution's CRA assessment area by unreasonably excluding minority areas?
 - Targeting certain borrowers or areas with less advantageous products?
- e. Does the institution have procedures to ensure that it does not:

- State racial or ethnic limitations in advertisements?
- Employ code words or use photos in advertisements that convey racial or ethnic limitations or preferences?
- Place advertisement that a reasonable person would regard as indicating minority consumers are less desirable?
- Advertise only in media serving predominantly minority or non-minority areas of the market?
- Conduct other forms of marketing differentially in minority or non- minority areas of the market?
- Market only through brokers known to serve only one racial or ethnic group in the market?
- Use a prohibited basis in any pre-screened solicitation?
- Provide financial incentives for loan officers to place applicants in nontraditional products or higher-risk products?

2. Compliance Audit Function: Does the Institution Attempt to Detect Prohibited Disparate Treatment by Self-Test or Self-Evaluation?

NOTE: A self-test is any program, practice or study that is designed and specifically used to assess the institution's compliance with the ECOA and the Fair Housing Act. It creates data or factual information that is not otherwise available and cannot be derived from loan, application or other records related to credit transactions (12 CFR 202.15(b)(1) and 24 CFR 100.141). The report, results, and many other records associated with a self-test are privileged unless an institution voluntarily discloses the report or results or otherwise forfeits the privilege. See 12 CFR 202.15(b)(2) and 24 CFR 100.142(a) for a complete listing of the types of information covered by the privilege. A self-evaluation, while generally having the same purpose as a self-test, does not create any new data or factual information, but uses data readily available in loan or application files and other records used in credit transactions and, therefore, does not meet the self-test definition. See *Using Self-Tests and Self-Evaluations to Streamline the Examination* in this Appendix for more information about self-tests and self-evaluations.

While you may request the results of self-evaluations, you should not request the results of self-tests or any of the information listed in 12 CFR 202.15(b)(2) and 24 CFR 100.142(a). If an institution discloses the self-test report or results to its regulator, it will lose the privilege. The following items are intended to obtain information about the institution's approach to self-testing and self-evaluation, not the findings. Complete the checklist below for each self-evaluation and each self-test, where the institution voluntarily discloses the report or results. Evaluating the results of self-evaluations and voluntarily disclosed self-tests is described in *Using Self-Tests and Self-Evaluations to Streamline the Examination* in this Appendix.

a. Are the transactions reviewed by an independent analyst who:

- Is directed to report objective results?
- Has an adequate level of expertise?
- Produces written conclusions?

b. Does the institution's approach for self-testing or self-evaluation call for:

- Attempting to explain major patterns shown in the HMDA or other loan data?
- Determining whether actual practices and standards differ from stated ones and basing the evaluation on the actual practices?
- Evaluating whether the reasons cited for denial are supported by facts relied on by the decision maker at the time of the decision?
- Comparing the treatment of prohibited basis group applicants to control group applicants?
- Obtaining explanations from decision makers for any unfavorable treatment of the prohibited basis group that departed from policy or customary practice?

- Covering significant decision points in the loan process where disparate treatment or discouragement might occur, including:
 - The approve/deny decision?
 - Pricing?
 - Other terms and conditions?
 - Covering at least as many transactions as examiners would independently, if using the Fair Lending Sample Size Tables for a product with the application volumes of the product to be evaluated?
 - Maintaining information concerning personal characteristics collected as part of a self-test separately from application or loan files?
 - Timely analysis of the data?
 - Taking appropriate and timely corrective action?
- c. In the institution's plan for comparing the treatment of prohibited basis group applicants with that of control group applicants:
- Are control and prohibited basis groups based on a prohibited basis found in ECOA or the FHAct and defined clearly to isolate that prohibited basis for analysis?
 - Are appropriate data to be obtained to document treatment of applicants and the relative qualifications vis-a-vis the requirement in question?
 - Will the data to be obtained reflect the data on which decisions were based?
 - Does the plan call for comparing the denied applicants' qualifications related to the stated reason for denial with the corresponding qualifications for approved applicants?
 - Are comparisons designed to identify instances in which prohibited basis group applicants were treated less favorably than control group applicants who were no better qualified?
 - Is the evaluation designed to determine whether control and prohibited basis group applicants were treated differently in the processes by which the institution helped applicants overcome obstacles and by which their qualifications were enhanced?
 - Are responses and explanations to be obtained for any apparent disparate treatment on a prohibited basis or other apparent violations of credit rights?
 - Are reasons cited by credit decision makers to justify or explain instances of apparent disparate treatment to be verified?
- d. For self-tests under ECOA that involved the collection of applicant personal characteristics, did the institution:
1. develop a written plan that describes or identifies the:
 - specific purpose of the self-test?
 - methodology to be used?
 - geographic area(s) to be covered?
 - type(s) of credit transactions to be reviewed?
 - entity that will conduct the test and analyze the data?
 - timing of the test, including start and end dates or the duration of the self- test?
 - other related self-test data that is not privileged?

2. disclose at the time applicant characteristic information is requested, that:

- the applicant will not be required to provide the information?
- the creditor is requesting the information to monitor its compliance with ECOA?
- federal law prohibits the creditor from discriminating on the basis of this information or on the basis of an applicant's decision not to furnish the information?
- if applicable, certain information will be collected based on visual observation or surname if not provided by the applicant?

B. Corrective Measures

a. Determine whether the institution has provisions to take appropriate corrective action and provide adequate relief to victims for any violations in the transactions you plan to review. Who is to receive the results of a self-evaluation or voluntarily disclosed self-test? What decision process is supposed to follow delivery of the information? Is feedback to be given to staff whose actions are reviewed? What types of corrective action may occur? Are consumers to be:

- Offered credit if they were improperly denied?
- Compensated for any damages, both out of pocket and compensatory?
- Notified of their legal rights?

b. Other corrective action:

- Are institutional policies or procedures that may have contributed to the discrimination to be corrected?
- Are employees involved to be trained and/or disciplined?
- Is the need for community outreach programs and/or changes in marketing strategy or loan products to better serve minority segments of the institution's market to be considered?
- Are audit and oversight systems to be improved in order to ensure there is not recurrence of any identified discrimination?

CONSIDERING AUTOMATED UNDERWRITING AND CREDIT SCORING

These procedures are designed to help an examiner draw and support fair lending conclusions in situations involving automated underwriting or credit scoring.

A. Structure and Organization of the Scoring System

Determine the utilization of credit scoring at the institution including

1. For each customized credit scoring model or scorecard for any product, or for any credit scoring model used in connection with a product held in portfolio, identify and obtain:

- a. the number and inter-relationship of each model or scorecard applied to a particular product;
- b. the purposes for which each scorecard is

employed (e.g., approval decision, set credit limits, set pricing, determine processing requirements, etc.);

- c. the developer of each scorecard used (e.g., in-house department, affiliate, independent vendor name) and describe the development population utilized;
- d. the types of monitoring reports generated (including front-end, back-end, account management and any disparate impact analyses), the frequency of generation and recent copies of each;
- e. all policies applicable to the use of credit scoring;
- f. training materials and programs on credit scoring for employees, agents and brokers involved in any aspect of retail lending;
- g. any action taken to revalidate or re-calibrate any model or scorecard used during the exam period and the reason(s) why;
- h. the number of all high-side and low-side

- overrides for each type of override occurring during the exam period and any guidance given to employees on their ability to override;
- i. all cutoffs used for each scorecard throughout the examination period and the reasons for the cutoffs and any change made during the exam period;
 - j. all variables scored by each product's scorecard(s) and the values that each variable may take; and
 - k. the method used to select for disclosure those adverse action reasons arising from application of the model or scorecard.
2. For each judgmental underwriting system that includes as an underwriting criterion a standard credit bureau or secondary market credit score, identify:
- a. the vendor of each credit score and any vendor recommendation or guidance on the usage of the score relied upon by the institution;
 - b. the institution's basis for using the particular bureau or secondary market score and the cutoff standards for each product's underwriting system and the reasons for the cutoffs and any changes to the same during the exam period;
 - c. the number of exceptions or overrides made to the credit score component of the underwriting criteria and the basis for those exceptions or overrides, including any guidance given to employees on their ability to depart from credit score underwriting standards; and
 - d. types of monitoring reports generated on the judgmental system or its credit scoring component (including front-end, back-end, differential processing and disparate impact analysis), the frequency of generation and recent copies of each.

B. Adverse Action Disclosure Notices

Determine the methodology used to select the reasons why adverse action was taken on a credit application denied on the basis of the applicant's credit score. Compare the methodology used to the examples recited in the Commentary to Regulation B and decide acceptability against that standard. Identify any consumer requests for reconsideration of credit score denial reasons and review the action taken by management for consistency across applicant groups.

Where a credit score is used to differentiate application processing, and an applicant is denied

for failure to attain a judgmental underwriting standard that would not be applied if the applicant had received a better credit score (thereby being considered in a different—presumably less stringent—application processing group), ensure that the adverse action notice also discloses the bases on which the applicant failed to attain the credit score required for consideration in the less stringent processing group.

C. Disparate Treatment in the Application of Credit Scoring Programs

1. Determine what controls and policies management has implemented to ensure that the institution's credit scoring models or credit score criteria are not applied in a discriminatory manner, in particular:
 - a. Examine institution guidance on using the credit scoring system, on handling overrides and on processing applicants and how well that guidance is understood and observed by the targeted employees and monitored for compliance by management; and
 - b. Examine institution policies that permit overrides or that provide for different processing or underwriting requirements based on geographic identifiers or borrower score ranges to assure that they do not treat protected group applicants differently than other similarly situated applicants.
2. Evaluate whether any of the bases for granting credit to control group applicants who are low-side overrides are applicable to any prohibited basis denials whose credit score was equal to or greater than the lowest score among the low-side overrides. If such cases are identified, obtain and evaluate management's reason for why such different treatment is not a fair lending violation.
3. Evaluate whether any of the bases for denying credit to any prohibited basis applicants who are high-side overrides are applicable to any control group approvals whose credit score was equal to or less than the highest score among the prohibited basis high-side overrides. If such cases are identified, obtain and evaluate management's reason for why such different treatment is not a fair lending violation.
4. If credit scores are used to segment applicants into groups that receive different processing or are required to meet additional underwriting requirements (e.g., "tiered risk underwriting"), perform a comparative file review, or confirm the results and adequacy of management's comparative file review, that evaluates whether all applicants within each group are treated equally.

D. Disparate Impact and Credit Scoring Algorithms

Consult with agency supervisory staff to assess potential disparate treatment issues relating to the credit scoring algorithm.

E. Credit Scoring Systems that Include Age

Regulation B expressly requires the initial validation and periodic revalidation of a credit scoring system that considers age. There are two ways a credit scoring system can consider age: 1) the system can be split into different scorecards depending on the age of the applicant; and 2) age may be directly scored as a variable. Both features may be present in some systems. Regulation B requires that all credit scoring systems that consider age in either of these ways must be validated (in the language of the regulation, empirically derived, demonstrably and statistically sound (EDDSS)).

1. Age-Split Scorecards: If a system is split into only two cards and one card covers a wide age range that encompasses elderly applicants (applicants 62 or older), the system is treated as considering, but not scoring, age. Typically, the younger scorecard in an age-split system is used for applicants under a specific age between 25 and 30. It de-emphasizes factors such as the number of trade lines and the length of employment, and increases the negative weight of any derogatory information on the credit report. Systems such as these do not raise the issue of assigning a negative factor or value to the age of an elderly applicant. However, if age is directly scored as a variable (whether or not the system is age-split), or if elderly applicants are included in a card with a narrow age range in an age-split system, the system is treated as scoring age.
2. Scorecards that Score Age: If a scorecard scores age directly, in addition to meeting the EDDSS requirement, the creditor must ensure that the age of an elderly applicant is not assigned a negative factor or value. (See the staff commentary at 12 CFR 202.2(p) and 202.6(b)(2)). A negative factor or value means utilizing a factor, value, or weight that is less favorable than the creditor's experience warrants or is less favorable than the factor, value, or weight assigned to the most favored age group below the age of 62 (12 CFR 202.2(v)).

F. Examination for Empirical Derivation and Statistical Soundness

Regulation B requires credit scoring systems that use age to be empirically derived, and demonstra-

bly and statistically sound. This means that they must fulfill the requirements of 12 CFR 202.2(p)(1)(i)-(iv). Obtain documentation provided by the developer of the system and consult the agency's most recent guidance for making that determination.

EVALUATING RESPONSES TO EVIDENCE OF DISPARATE TREATMENT

A. Responses to Comparative Evidence of Disparate Treatment

The following are responses that an institution may offer—separately or in combination—to attempt to explain that the appearance of illegal disparate treatment is misleading, and that no violation has in fact occurred. The responses, if true, may rebut the appearance of disparate treatment. The examiners must evaluate the validity and credibility of the responses.

1. *The institution's personnel were unaware of the prohibited basis identity of the applicant(s)*

If the institution claims to have been unaware of the prohibited basis identity (race, etc.) of an applicant or neighborhood, ask it to show that the application in question was processed in such a way that the institution's staff that made the decisions could not have learned the prohibited basis identity of the applicant.

If the product is one for which the institution maintains prohibited basis monitoring information, assume that all employees could have taken those facts into account. Assume the same when there was face-to-face contact between any employee and the consumer.

If there are other facts about the application from which an ordinary person would have recognized the applicant's prohibited basis identity (for example, the surname is an easily recognizable Hispanic one), assume that the institution's staff drew the same conclusions. If the racial character of a community is in question, ask the institution to provide persuasive evidence why its staff would *not* know the racial character of any community in its service area.

2. *The difference in treatment was justified by differences in the applicants (applicants not "similarly situated")*

Ask the institution to account for the difference in treatment by pointing out a specific difference between the applicants' qualifications, or some factor not captured in the application but that legitimately makes one applicant more or less attractive to the institution, or some non-prohibited factor related to the processing of

their applications. The difference identified by the institution must be one that is important enough to justify the difference in treatment in question, not a meaningless difference.

The factors commonly cited to show that applicants are not similarly situated fall into two groups: those that can be evaluated by how consistently they are handled in other transactions, and those that cannot be evaluated in that way.

a. Verifying "not similarly situated" explanations by consistency

The appearance of disparate treatment remains if a factor cited by the institution to justify favorable treatment for a control group applicant also exists for an otherwise similar prohibited basis applicant who was treated unfavorably. Similarly, the appearance of disparate treatment remains if a factor cited by the institution to justify unfavorable treatment for a prohibited basis applicant also exists for a control group applicant that got favorable treatment. If this is not so, ask the institution to document that the factor cited in its explanation was used consistently for control group and prohibited basis applicants.

Among the responses that should be evaluated this way are:

- *Customer relationship.* Ask the institution to document that a customer relationship was also sometimes considered to the benefit of prohibited basis applicants and/or that its absence worked against control group customers.
- *"Loan not saleable or insurable."* If file review is still in progress, be alert for loans approved despite the claimed fatal problem. At a minimum, ask the institution to be able to produce the text of the secondary market or insurer's requirement in question.
- *Difference in standards or procedures between branches or underwriters.* Ask the institution to provide transactions documenting that each of the two branches or underwriters applied its standards or procedures consistently to both prohibited basis and control group applications it processed, and that each served similar proportions of the prohibited basis group.
- *Difference in applying the same standard (difference in "strictness") between underwriter, branches, etc.* Ask the institution to provide transactions documenting that the stricter employee, branch, etc., was strict for both prohibited basis and control group

applicants and that the other was lenient for both, and that each served similar proportions of the prohibited basis group. The best evidence of this would be prohibited basis applicants who received favorable treatment from the lenient branch and control group applicants who received less favorable treatment from the "strict" branch.

- *Standards or procedures changed during period reviewed.* Ask the institution to provide transactions documenting that during each period the standards were applied consistently to both prohibited basis and control group applicants.

- *Employee misunderstood standard or procedure.* Ask the institution to provide transactions documenting that the misunderstanding influenced both prohibited basis and control group applications. If that is not available, find no violation if the misunderstanding is a reasonable mistake.

b. Evaluating "not similarly situated" explanations by other means

If consistency cannot be evaluated, consider an explanation favorably even without examples of its consistent use if:

- the factor is documented to exist in (or be absent from) the transactions, as claimed by the institution;
- the factor is one a prudent institution would consider and is consistent with the institution's policies and procedures;
- file review found no evidence that the factor is applied selectively on a prohibited basis (in other words, the institution's explanation is "not inconsistent with available information"); and
- the institution's description of the transaction is generally consistent and reasonable.

Some factors that may be impossible to compare for consistency are:

- *Unusual underwriting standard.* Ask the institution to show that the standard is prudent. If the standard is prudent and not inconsistent with other information, accept this explanation even though there is no documentation that it is used consistently.
- *"Close calls."* The institution may claim that underwriters' opposite decisions on similar applicants reflects legitimate discretion that the examiners should not second guess. That is not an acceptable explanation for identical applicants with different results, but is acceptable when the applicants have differing strengths and weak-

- nesses that different underwriters might reasonably weigh differently. However, do not accept the explanation if other files reveal that these "strengths" or "weaknesses" are counted or ignored selectively on a prohibited basis.
- "*Character loan.*" Expect the institution to identify a specific history or specific facts that make the applicant treated favorably a better risk than those treated less favorably.
 - "*Accommodation loan.*" There are many legitimate reasons that may make a transaction appealing to an institution apart from the familiar qualifications demanded by the secondary market and insurers. For example, a consumer may be related to or referred by an important customer, be a political or entertainment figure who would bring prestige to the institution, be an employee of an important business customer, etc. It is not illegal discrimination to make a loan to an otherwise unqualified control group applicant who has such attributes while denying a loan to an otherwise similar prohibited basis applicant without them. However, be skeptical when the institution cites reasons for "accommodations" that an ordinary prudent institution would not value.
 - "*Gut feeling.*" Be skeptical when institutions justify an approval or denial by a general perception or reaction to the consumer. Such a perception or reaction may be linked to a racial or other stereotype that legally must not influence credit decisions. Ask whether any specific event or fact generated the reaction. Often, the institution can cite something specific that made him or her confident or uncomfortable about the consumer. There is no discrimination if it is credible that the institution indeed considered such a factor and did not apply it selectively on a prohibited basis.
- c. Follow up customer contacts
- If the institution's explanation of the handling of a particular transaction is based on consumer traits, actions, or desires not evident from the file, consider obtaining agency authorization to contact the consumer to verify the institution's description. Such contacts need not be limited to possible victims of discrimination, but can include control group applicants or other witnesses.
3. *The different results stemmed from an inadvert-*
- ent error*
- If the institution claims an identified error such as miscalculation or misunderstanding caused the favorable or unfavorable result in question, evaluate whether the facts support the assertion that such an event occurred.
- If the institution claims an unidentified error caused the favorable or unfavorable result in question, expect the institution to provide evidence that discrimination is inconsistent with its demonstrated conduct, and therefore that discrimination is the less logical interpretation of the situation. Consider the context (as described below).
4. *The apparent disparate treatment on a prohibited basis is a misleading portion of a larger pattern of random inconsistencies*
- Ask the institution to provide evidence that the unfavorable treatment is not limited to the prohibited basis group and that the favorable treatment is not limited to the control group. Without such examples, do not accept an institution's unsupported claim that otherwise inexplicable differences in treatment are distributed randomly.
- If the institution can document that similarly situated prohibited basis group applicants received the favorable treatment in question approximately as frequently and in comparable degree as the control group applicants, conclude there is no violation.
- NOTE: Transactions are relevant to "random inconsistency" only if they are "similarly situated" to those apparently treated unequally.
5. *Loan terms and conditions*
- The same analyses described in the preceding sections with regard to decisions to approve or deny loans also apply to pricing differences. Risks and costs are legitimate considerations in setting prices and other terms and conditions of loan products. However, generalized reference by the institution to "cost factors" is insufficient to explain pricing differences.
- If the institution claims that specific borrowers received different terms or conditions because of cost or risk considerations, ask the institution to be able to identify specific risk or cost differences between them.
- If the institution claims that specific borrowers received different terms or conditions because they were not similarly situated as negotiators, consider whether application records might provide relevant evidence. If the records are not helpful, consider seeking authorization to contact consumers to learn whether the institution in fact behaved comparably toward prohibited basis and control group consumers. The contacts would be to learn such information as the institution's opening quote of terms to the

consumer and the progress of the negotiations.

If the institution responds that an average price difference between the control and prohibited basis groups is based on cost or risk factors, ask it to identify specific risk or cost differences between individual control group applicants with the lowest rates and prohibited basis group applicants with the highest rates that are significant enough to justify the pricing differences between them. If the distinguishing factors cited by the institution are legitimate and verifiable as described in the sections above, remove those applications from the average price calculation. If the average prices for the remaining control group and prohibited basis group members still differ more than minimally, consult agency supervisory staff about further analysis. Findings or violations based on disparate treatment or disparate impact regarding cost or risk factors should be discussed with agency supervisory staff.

B. Responses to Overt Evidence of Disparate Treatment

1. Descriptive references vs. lending considerations

A reference to race, gender, etc., does not constitute a violation if it is merely descriptive—for example, "the applicant was young." In contrast, when the reference reveals that the prohibited factor influenced the institution's decisions and/or consumer behavior, treat the situation as an apparent violation to which the institution must respond.

2. Personal opinions vs. lending considerations

If an employee involved with credit availability states unfavorable views regarding a racial group, gender, etc., but does not explicitly relate those views to credit decisions, review that employee's credit decisions for possible disparate treatment of the prohibited basis group described unfavorably. If there are no instances of apparent disparate treatment, treat the employee's views as permissible private opinions. Inform the institution that such views create a risk of future violations.

3. Stereotypes related to credit decisions

There is an apparent violation when a prohibited factor influences a credit decision through a stereotype related to creditworthiness—for example, a loan denial because "a single woman could not maintain a large house." If the stereotyped beliefs are offered as "explanations" for unfavorable treatment, regard such unfavorable treatment as apparent illegal disparate treatment. If the stereotype is only a general observation unrelated to particular transactions, review that employee's credit decisions for

possible disparate treatment of the prohibited basis group in question. Inform the institution that such views create a risk of future violations.

4. Indirect reference to a prohibited factor

If negative views related to creditworthiness are described in non-prohibited terms, consider whether the terms would commonly be understood as surrogates for prohibited terms. If so, treat the situation as if explicit prohibited basis terms were used. For example, an institution's statement that "It's too risky to lend north of 110th Street" might be reasonably interpreted as a refusal to lend because of race if that portion of the institution's lending area north of 110th Street were predominantly black and the area south, white.

5. Lawful use of a prohibited factor

a. Special Purpose Credit Program (SPCP)

If an institution claims that its use of a prohibited factor is lawful because it is operating an SPCP, ask the institution to document that its program conforms to the requirements of Regulation B. An SPCP must be defined in a written plan that existed before the institution made any decisions on loan applications under the program. The written plan must:

- demonstrate that the program will benefit persons who would otherwise be denied credit or receive credit on less favorable terms; and
- state the time period the program will be in effect or when it will be re-evaluated.

No provision of an SPCP should deprive people who are not part of the target group of rights or opportunities they otherwise would have. Qualified programs operating on an otherwise-prohibited basis will not be cited as a violation.

NOTE: Advise the institution that an agency finding that a program is a lawful SPCP is not absolute security against legal challenge by private parties. Suggest that an institution concerned about legal challenge from other quarters use exclusions or limitations that are not prohibited by ECOA or the FHAct, such as "first-time home buyer."

b. Second review program

Such programs are permissible if they do no more than ensure that lending standards are applied fairly and uniformly to all applicants. For example, it is permissible to review the proposed denial of applicants who are members of a prohibited basis group by comparing their applications to the approved applications of similarly qualified individuals who are in the control group to

determine if the applications were evaluated consistently.

Ask the institution to demonstrate that the program is a safety net that merely attempts to prevent discrimination, and does not involve underwriting terms or practices that are preferential on a prohibited basis.

Statements indicating that the mission of the program is to apply different standards or efforts on behalf of a particular racial or other group constitute overt evidence of disparate treatment. Similarly, there is an apparent violation if comparative analysis of appli-

cants who are processed through the second review and those who are not discloses dual standards related to the prohibited basis.

c. Affirmative marketing/advertising program:

Affirmative advertising and marketing efforts that do not involve application of different lending standards are permissible under both the ECOA and the FHAct. For example, special outreach to a minority community would be permissible.

FAIR LENDING SAMPLE SIZE TABLES

Table A. Underwriting (Accept/Deny) Comparisons

	Sample 1. Prohibited Basis Denials			Sample 2. Control Group Approvals		
Number of Denials or Approvals	5–50	51–150	>150	20–50	51–250	>250
Minimum to review:	All	51	75	20	51	100
Maximum to review:	50	100	150	5x prohibited basis sample (up to 50)	5x prohibited basis sample (up to 125)	5x prohibited basis sample (up to 300)

Table B. Terms and Conditions Comparisons

	Sample 1. Prohibited Basis Approvals			Sample 2. Control Group Approvals		
Number of Approvals	5–25	26–100	>100	20–50	51–250	>250
Minimum to review:	All	26	50	20	40	60
Maximum to review:	25	50	75	5x prohibited basis sample (up to 50)	5x prohibited basis sample (up to 75)	5x prohibited basis sample (up to 100)

Explanatory Notes to Sample Size Tables

1. Examiners should not follow Table B when conducting a pricing review that involves a regression analysis. Consult with agency supervisory staff for specific protocol in these cases.
2. When performing both underwriting and terms and conditions comparisons, use the same control group approval sample for both tasks.
3. If there are fewer than 5 prohibited basis denials or 20 control group approvals, refer to "Sample Size" instructions in the procedures.
4. "Minimum" and "maximum" sample sizes: select a sample size between the minimum and maximum numbers identified above. Examiners should base the size of their review on the level of risk identified during the preplanning and scoping procedures. Once the sample size has been determined, select individual transactions judgmentally. Refer to procedures.
5. If two prohibited basis groups (e.g., black and Hispanic) are being compared against one control group, select a control group that is 5 times greater than the larger prohibited basis group sample, up to the maximum.
6. Where the institution's discrimination risk profile identifies significant discrepancies in withdrawal/incomplete activity between control and prohibited basis groups, or where the number of marginal prohibited basis group files available for sampling is small, an examiner may consider supplementing

samples by applying the following rules:

- If prohibited basis group withdrawals/incompletes occur after the applicant has received an offer of credit that includes pricing terms, this is a reporting error under Regulation C (the institution should have reported the application as approved but not accepted) and therefore these applications should be included as prohibited basis group approvals in a terms and conditions comparative file analysis.
- If prohibited basis group incompletes occur due to lack of an applicant response with respect to an item that would give rise to a denial reason, then include them as denials for that reason when conducting an underwriting comparative file analysis.

IDENTIFYING MARGINAL TRANSACTIONS

These procedures are intended to assist an examiner in identifying denied and approved applications that were not either clearly qualified or unqualified, i.e., marginal transactions.

A. Marginal Denials

Denied applications with any or all the following characteristics are "marginal." Such denials are compared to marginal approved applications. Marginal denied applications include those that:

- Were close to satisfying the requirement that the adverse action notice said was the reason for denial;
- Were denied by the institution's rigid interpretation of inconsequential processing requirements;
- Were denied quickly for a reason that normally would take a longer time for an underwriter to evaluate;
- Involved an unfavorable subjective evaluation of facts that another person might reasonably have interpreted more favorably (for example, whether late payments actually showed a "pattern," or whether an explanation for a break in employment was "credible");
- Resulted from the institution's failure to take reasonable steps to obtain necessary information;
- Received unfavorable treatment as the result of a departure from customary practices or stated policies. For example, if it is the institution's stated policy to request an explanation of derogatory credit information, a failure to do so for a prohibited basis applicant would be a departure from customary practices or stated policies even if the derogatory information seems to be egregious;
- Were similar to an approved control group applicant who received unusual consideration or service, but were not provided such consideration or service;
- Received unfavorable treatment (for example, were denied or given various conditions or more

processing obstacles) but appeared fully to meet the institution's stated requirements for favorable treatment (for example, approval on the terms sought);

- Received unfavorable treatment related to a policy or practice that was vague, and/or the file lacked documentation on the applicant's qualifications related to the reason for denial or other factor;
- Met common secondary market or industry standards even though failing to meet the institution's more rigid standards;
- Had a strength that a prudent institution might believe outweighed the weaknesses cited as the basis for denial;
- Had a history of previously meeting a monthly housing obligation equivalent to or higher than the proposed debt; and/or
- Were denied for an apparently "serious" deficiency that might easily have been overcome. For example, an applicant's total debt ratio of 50 percent might appear grossly to exceed the institutions guideline of 36 percent, but this may in fact be easily corrected if the application lists assets to pay off sufficient nonhousing debts to reduce the ratio to the guideline, or if the institution were to count excluded part-time earnings described in the application.

B. Marginal Approvals

Approved applications with any or all of the following characteristics are "marginal." Such approvals are compared to marginal denied applications. Marginal approvals include those:

- Whose qualifications satisfied the institution's stated standard, but very narrowly;
- That bypassed stated processing requirements (such as verifications or deadlines);
- For which stated creditworthiness requirements were relaxed or waived;
- That, if the institution's own standards are not clear, fell short of common secondary market or industry lending standards;
- That a prudent conservative institution might

- have denied;
- Whose qualifications were raised to a qualifying level by assistance, proposals, counteroffers, favorable characterizations or questionable qualifications, etc.; and/or
 - That in any way received unusual service or consideration that facilitated obtaining the credit.

POTENTIAL SCOPING INFORMATION

As part of the scoping process described in Part I of the procedures, examiners will need to gather documents and information to sufficiently identify their focal points for review. Below is a list of suggested information that examiners may wish to gather internally, as well as from the institution itself.

A. Internal Agency Documents and Records

1. Previous examination reports and related work papers for the most recent Compliance/CRA and Safety and Soundness Examinations.
2. Complaint information.
3. Demographic data for the institution's community.

Comment: The examiner should obtain the most recent agency demographic data, for information on the characteristics of the institution's assessment/market areas.

B. Information from the Institution

Comment: Prior to beginning a compliance examination, the examiner should request the institution to provide the information outlined below. This request should be made far enough in advance of the on-site phase of the examination to facilitate compliance by the institution. In some institutions, the examiner may not be able to review certain of this information until the on-site examination. The examiner should generally request only those items that correspond to the time period(s) being examined.

1. *Institution's Compliance Program* (For examinations that will include analysis of the institution's compliance program.)
 - a. Organization charts identifying those individuals who have lending responsibilities or compliance, HMDA or CRA responsibilities, together with job descriptions for each such position.
 - b. Lists of any pending litigation or administrative proceedings concerning fair lending matters.
 - c. Results of self-evaluations or self-tests (where

the institution chooses to share self-test results), copies of audit or compliance reviews of the institution's program for compliance with fair lending laws and regulations, including both internal and independent audits.

NOTE: The request should advise the institution that it is not required to disclose the report or results of any self-tests of the type protected under amendments to ECOA and the FHAct programs.

- d. Complaint file.
- e. Any written or printed statements describing the institution's fair lending policies and/or procedures.
- f. Training materials related to fair lending issues including records of attendance.
- g. Records detailing policy exceptions or overrides, exception reporting and monitoring processes.

2. *Lending Policies / Loan Volume*

- a. Internal underwriting guidelines and lending policies for all consumer and commercial loan products.

Comment: If guidelines or policies differ by branch or other geographic location, request copies of each variation.

- b. A description of any credit scoring system(s) in use now or during the exam period.

Comment: Inquire as to whether a vendor or in-house system is used; the date of the last verification; the factors relied on to construct any in-house system and, if applicable, any judgmental criteria used in conjunction with the scoring system.

- c. Pricing policies for each loan product, and for both direct and indirect loans.

Comment: The institution should be specifically asked whether its pricing policies for any loan products include the use of "overages". The request should also ask whether the institution offers any "sub-prime" loan products or otherwise uses any form of risk-based pricing. A similar inquiry should be made regarding the use of any cost-based pricing. If any of these three forms are or have been in use since the last exam, the institution should provide pricing policy and practice details for each affected product, including the institution's criteria for differentiating between each risk or cost level and any policies regarding overages. Regarding indirect lending, the institution should be asked to provide any forms of agreement (including compensation) with brokers/dealers, together with a description of the

roles that both the institution and the dealer/broker play in each stage of the lending process.

- d. A description of each form of compensation plan for all lending personnel and managers.
- e. Advertising copy for all loan products.
- f. The most recent HMDA / LAR, including unreported data if available.

Comment: The integrity of the institution's HMDA-LAR data should be verified prior to the pre-examination analysis.

- g. Any existing loan registers for each non-HMDA loan product.

Comment: Loan registers for the 3 month period preceding the date of the examination, together with any available lists of declined loan applicants for the same period should be requested. Registers / lists should contain, to the extent available, the complete name and address of loan applicants and applicable loan terms, including loan amount, interest rate, fees, repayment schedule and collateral codes.

- h. A description of any application or loan-level data bases maintained, including a description of all data fields within the database or that can be linked at the loan-level.
- i. Forms used in the application and credit evaluation process for each loan product.

Comment: At a minimum, this request should include all types of credit applications, forms requesting financial information, underwriter worksheets, any form used for the collection of monitoring information, and any quality control or second review forms or worksheets.

- j. Lists of service providers.

Comment: Service providers may include: brokers, realtors, real estate developers, appraisers, underwriters, home improvement contractors and private mortgage insurance companies. Request the full name and address and geographic area served by each provider. Also request documentation as to any fair lending requirements imposed on, or commitments required of, any of the institution's service providers.

- k. Addresses of any Internet Site(s)

Comment: Internet "Home Pages" or similar sites that an institution may have on the Internet may provide information concerning the availability of credit, or means for obtaining it. All such information must comply with the nondiscrimination requirements of the fair lending laws. In view of the increasing capability to conduct transactions on the

Internet, it is extremely important for examiners to review an institution's Internet sites to ensure that all of the information or procedures set forth therein are in compliance with any applicable provisions of the fair lending statutes and regulations.

3. Community Information

- a. Demographic information prepared or used by the institution.
- b. Any fair lending complaints received and institution responses thereto.

SPECIAL ANALYSES

These procedures are intended to assist examiners who encounter disproportionate adverse impact violations, discriminatory pre-application screening and possible discriminatory marketing.

A. Disproportionate Adverse Impact Violations

When all five conditions below exist, consult within your agency to determine whether to present the situation to the institution and solicit the institution's response. Note that condition 5 can be satisfied by either of two alternatives.

The contacts between examiners and institutions described in this section are information-gathering contacts within the context of the examination and are not intended to serve as the formal notices and opportunities for response that an agency's enforcement process might provide. Also, the five conditions are not intended as authoritative statements of the legal elements of a disproportionate adverse impact proof of discrimination; they are paraphrases intended to give examiners practical guidance on situations that call for more scrutiny and on what additional information is relevant.

NOTE: Even if it appears likely that a policy or criterion causes a disproportionate adverse impact on a prohibited basis (condition 3), consult agency supervisory staff if the policy or criterion is obviously related to predicting creditworthiness and is used in a way that is commensurate with its relationship to creditworthiness, or is obviously related to some other basic aspect of prudent lending, and there appears to be no equally effective alternative for it. Examples are reliance on credit reports or use of debt-to-income ratio in a way that appears consistent with industry standards and with a prudent evaluation of credit risk.

Conditions

1. A specific policy or criterion is involved.

The policy or criterion suspected of producing a disproportionate adverse impact on a prohibited basis should be clear enough that the nature of action to correct the situation can be determined.

NOTE: Gross HMDA denial or approval rate disparities are not appropriate for disproportionate adverse impact analysis because they typically cannot be attributed to a specific policy or criterion.

2. The policy or criterion on its stated terms is neutral for prohibited bases.

3. The policy or criterion falls disproportionately on applicants or borrowers in a prohibited basis group.

The difference between the rate at which prohibited basis group members are harmed or excluded by the policy or criterion and the rate for control group members must be large enough that it is unlikely that it could have occurred by chance. If there is reason to suspect a significant disproportionate adverse impact may exist, consult with agency supervisory staff as appropriate.

4. There is a causal relationship between the policy or criterion and the adverse result.

The link between the policy or criterion and the harmful or exclusionary effect must not be speculative. It must be clear that changing or terminating the policy or criterion would reduce the disproportion in the adverse result.

5. Either a or b:

a. The policy or criterion has no clear rationale, or appears to exist merely for convenience or to avoid a minimal expense, or is far removed from common sense or standard industry underwriting considerations or lending practices.

The legal doctrine of disproportionate adverse impact provides that the policy or criterion that causes the impact must be justified by "business necessity" if the institution is to avoid a violation. There is very little authoritative legal interpretation of that term with regard to lending, but that should not stop examiners from making the preliminary inquiries called for in these procedures. For example, the rationale is generally not clear for basing credit decisions on factors such as location of residence, income level (*per se* rather than relative to debt), and accounts with a finance company. If prohibited basis group applicants were denied loans more frequently than control group applicants because they failed an institution's minimum income requirement, it would appear that the

first four conditions plus 5a existed; therefore, the examiners should consult within their agency about obtaining the institution's response, as described in the next section below.

b. Alternatively, even if there is a sound justification for the policy, it appears that there may be an equally effective alternative for accomplishing the same objective with a smaller disproportionate adverse impact.

The law does not require an institution to abandon a policy or criterion that is clearly the most effective method of accomplishing a legitimate business objective. However, if an alternative that is approximately equally effective is available that would cause a less severe adverse impact, the policy or criterion in question may constitute a violation.

At any stage of the analysis of possible disproportionate adverse impact, if there appears to be such an alternative, and the first four conditions exist, consult within the agency how to evaluate whether the alternative would be equally effective and would cause a less-severe impact. If the conclusion is that it would, solicit a response from the institution, as described in the next section below.

Obtaining the Institution's Response

If the first four conditions plus either 5a or 5b appear to exist, consult with agency supervisory staff about whether and how to inform the institution of the situation and solicit the institution's response. The communication with the institution may include the following:

- The specific neutral policy or criterion that appears to cause a disproportionate adverse impact.
- How the examiners learned about the policy.
- How widely the examiners understand it to be implemented.
- How strictly they understand it to be applied.
- The prohibited basis on which the impact occurs.
- The magnitude of the impact.
- The nature of the injury to individuals.
- The data from which the impact was computed.

The communication should request that the institution provide any information supporting the business justification for the policy and request that the institution describe any alternatives it consid-

ered before adopting the policy or criterion at issue.

Evaluating and Following Up on the Response

The analyses of "business necessity" and "less discriminatory alternative" tend to converge because of the close relationship of the questions of what purpose the policy or criterion serves and whether it is the most effective means to accomplish that purpose.

Evaluate whether the institution's response persuasively contradicts the existence of the significant disparity or establishes a business justification. Consult with agency supervisory staff, as appropriate.

B. Discriminatory Pre-Application Screening

Obtain an explanation for any:

- Withdrawals by applicants in prohibited basis groups without documentation of consumer intent to withdraw;
- Denials of applicants in prohibited basis groups without any documentation of applicant qualifications; or
- On a prohibited basis, selectively quoting unfavorable terms (for example, high fees or down payment requirements) to prospective applicants, or quoting unfavorable terms to all prospective applicants but waiving such terms for control group applicants. (Evidence of this might be found in withdrawn or incomplete files.)
- Obtain explanations for any delays between application and action dates on a prohibited basis

If the institution cannot explain the situations, examiners should consider obtaining authorization from their agency to contact the consumers to verify the institution's description of the transactions. Information from the consumer may help determine whether a violation occurred.

In some instances, such as possible "prescreening" of applicants by institution personnel, the results of the procedures discussed so far, including interviews with consumers, may be inconclusive in determining whether a violation has occurred. In those cases, examiners should, if authorized by their agency, consult with agency supervisory staff regarding the possible use of "testers" who would pose as apparently similarly situated applicants, differing only as to race or other applicable prohibited basis characteristic, to determine and compare how the institution treats

them in the application process.

C. Possible Discriminatory Marketing

1. Obtain full documentation of the nature and extent, together with management's explanation, of any:
 - Prohibited basis limitations stated in advertisements;
 - Code words in advertisements that convey prohibited limitations; or
 - Advertising patterns or practices that a reasonable person would believe indicate prohibited basis consumers are less desirable or are only eligible for certain products.
2. Obtain full documentation as to the nature and extent, together with management's explanation, for any situation in which the institution, despite the availability of other options in the market:
 - Advertises only in media serving either minority or non-minority areas of the market;
 - Markets through brokers or other agents that the institution knows, or could reasonably be expected to know, to serve only one racial or ethnic group in the market; or
 - Utilizes mailing or other distribution lists or other marketing techniques for pre-screened or other offerings of residential loan products:
 - Explicitly exclude groups of prospective borrowers on a prohibited basis; or
 - Exclude geographies (e.g., census tracts, ZIP codes, etc.) within the institution's marketing area that have demonstrably higher percentages of minority group residents than does the remainder of the marketing area, but which have income and other credit-related characteristics similar to the geographies that were targeted for marketing; or
 - Offer different products to such geographies, especially if sub-prime products are primarily marketed to racial or ethnic minorities.

NOTE: Pre-screened solicitation of potential applicants on a prohibited basis does not violate ECOA. Such solicitations are, however, covered by the FHAct. Consequently, analyses of this form of potential marketing discrimination should be limited to residential loan products.
3. Evaluate management's response particularly with regard to the credibility of any nondiscriminatory reasons offered as explanations for any

of the foregoing practices. Refer to *Evaluating Responses to Evidence of Disparate Treatment* elsewhere in this Appendix for guidance.

USING SELF-TESTS AND SELF-EVALUATIONS TO STREAMLINE THE EXAMINATION

Institutions may find it advantageous to conduct self-tests or self-evaluations to measure or monitor their compliance with ECOA and Regulation B. A self-test is a program, practice or study that is designed and specifically used to assess the institution's compliance with fair lending laws that creates data not available or derived from loan, application or other records related to credit transactions (12 CFR 202.15(b)(1) and 24 CFR 100.140–100.148). For example, using testers to determine whether there is disparate treatment in the pre-application stage of credit shopping may constitute a self-test. The information set forth in 12 CFR 202.15(b)(2) and 24 CFR 100.142(a) is privileged unless an institution voluntarily discloses the report or results or otherwise forfeits the privilege. A self-evaluation, while generally having the same purpose as a self-test, does not create any new data or factual information, but uses data readily available in loan or application files and other records used in credit transactions and, therefore, does not meet the self-test definition.

Examiners should not request any information privileged under 12 CFR 202.15(b)(2) and 24 CFR 100.142(a), related to self-tests. If the institution discloses the results of any self-tests, or has performed any self-evaluations, and examiners can confirm the reliability and appropriateness of the self-tests or self-evaluations (or even parts of them), they need not repeat those tasks.

NOTE: When the term self-evaluation is used below, it is meant to include self-tests where the institution has voluntarily disclosed the report or results.

If the institution has performed a self-evaluation of any of the product(s) selected for examination, obtain a copy thereof and proceed through the remaining steps of this section on Streamlining the Examination.

Determine whether the research and analysis of the planned examination would duplicate the institution's own efforts. If the answers to Questions A and B below are both Yes, each successive Yes answer to Questions C through L indicates that the institution's work up to that point can serve as a basis for eliminating examination steps.

If the answer to either Question A or B is No, the self-evaluation cannot serve as a basis for eliminating examination steps. However, examiners should

still consider the self-evaluation to the degree possible in light of the remaining questions and communicate the findings to the institution so that it can improve its self-evaluation process.

- A. Did the transactions covered by the self-evaluation occur not longer ago than two years prior to the examination? If the self-evaluation covered more than two years prior to the examination incorporate only results from transactions in the most recent two years.
- B. Did it cover the same product, prohibited basis, decision center, and stage of the lending process (for example, underwriting, setting of loan terms) as the planned examination?
- C. Did the self-evaluation include comparative file review?

NOTE: One type of "comparative file review" is statistical modeling to determine whether similar control group and prohibited basis group applicants were treated similarly. If an institution offers self-evaluation results based on a statistical model, consult appropriately within your agency.

- D. Were control and prohibited basis groups defined accurately and consistently with ECOA and/or the FHAct?
- E. Were the transactions selected for the self-evaluation chosen so as to focus on marginal applicants or, in the alternative, selected randomly?
- F. Were the data analyzed (whether abstracted from files or obtained from electronic databases) accurate? Were those data actually relied on by the credit decision makers at the time of the decisions?

To answer these two questions and Question G below, for the institution's control group sample and each of its prohibited basis group samples, request to review 10% (but not more than 50 for each group) of the transactions covered by the self-evaluation. For example, if the institution's self-evaluation reviewed 250 control group and 75 prohibited basis group transactions, plan to verify the data for 25 control group and seven prohibited basis group transactions.

- G. Did the 10% sample reviewed for Question F also show that customer assistance and institution judgment that assisted or enabled applicants to qualify were recorded systematically and accurately and were compared for differences on any prohibited bases?
- H. Were prohibited basis group applicants' qualifications related to the underwriting factor in question compared to corresponding qualifications of control group approvals? Specifically,

for self-evaluations of approve/deny decisions, were the denied applicants' qualifications related to the stated reason for denial compared to the corresponding qualifications for approved applicants?

- I. Did the self-evaluation sample cover at least as many transactions at the initial stage of review as examiners would initially have reviewed using the sampling guidance in these procedures?

If the institution's samples are significantly smaller than those in the sampling guidance but its methodology otherwise is sound, review additional transactions until the numbers of reviewed control group and prohibited basis group transactions equal the minimums for the initial stage of review in the sampling guidance.

- J. Did the self-evaluation identify instances in which prohibited basis group applicants were treated less favorably than control group applicants who were no better qualified?
- K. Were explanations solicited for such instances from the persons responsible for the decisions?
- L. Were the reasons cited by credit decision makers to justify or explain instances of appar-

ent disparate treatment supported by legitimate, persuasive facts or reasoning?

If the questions above are answered "Yes", incorporate the findings of the self-evaluation (whether supporting compliance or violations) into the examination findings. Indicate that those findings are based on verified data from the institution's self-evaluation. In addition, consult appropriately within the agency regarding whether or not to conduct corroborative file analyses in addition to those performed by the institution.

If not all of the questions in the section above are answered "Yes", resume the examination procedures at the point where the institution's reliable work would not be duplicated. In other words, use the reliable portion of the self-evaluation and correspondingly reduce independent comparative file review by examiners. For example, if the institution conducted a comparative file review that compared applicants' qualifications without taking account of the reasons they were denied, the examiners could use the qualification data abstracted by the institution (if accurate) but would have to construct independent comparisons structured around the reasons for denial.

Regulation BB

Community Reinvestment

Background and Summary

The Community Reinvestment Act (CRA) of 1977 (12 USC 2901), as amended, encourages each insured depository institution covered by the act to help meet the credit needs of the communities in which it operates. The CRA requires that each federal financial supervisory agency assess the record of each covered depository institution in helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations; an agency will take that record into account when deciding whether to approve an institution's application for a deposit facility. The CRA has undergone numerous changes since its inception in 1977. In August 2005, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (the agencies) jointly adopted significant amendments to the CRA.

Neither the CRA nor its implementing regulations inject hard and fast rules or ratios into the examination or application processes. Rather, the law seeks to evaluate each lender's record while accommodating a lender's individual circumstances. Neither the CRA nor its implementing regulations require financial institutions to make high-risk loans that jeopardize their safety. To the contrary, the law makes it clear that an institution's lending to meet its CRA responsibilities should be conducted within the bounds of safety and soundness. Rebuilding and revitalizing communities through sound lending and good business judgment should benefit both communities and financial institutions.

An institution's capacity to help meet community credit needs is influenced by many factors, including its financial condition and size, constraints on its resources, legal impediments, and local economic conditions that could affect the demand and supply of credit. Examiners must consider these factors when evaluating an institution's performance under CRA. This approach is consistent with a fundamental underpinning of the CRA regulations—that the differences in institutions and the communities in which they do business preclude rigid and inflexible rules. Clear, flexible, and sensible performance criteria that accommodate differences in institutions and their communities, that minimize burden, that promote consistency and objectivity, and that allow examiners to be guided by common sense rather than adherence to

mechanistic procedures are embodied in the CRA regulations and the examination procedures that help to implement them.

For example, the CRA regulations provide different evaluation methods in response to basic differences in institutions' structures and operations. The regulations provide (1) a streamlined assessment method for small institutions that emphasizes lending performance; (2) an assessment method for intermediate small institutions that uses the same lending test used in the small-institution examination method, as well as a flexible community development test; (3) an assessment method for large retail institutions that focuses on lending, investment, and service performance; and (4) an assessment method for wholesale and limited-purpose institutions that is based on community development activities. Further, the regulations give any institution, regardless of its size or business strategy, the choice to be evaluated under a strategic plan. This type of flexibility and customizing should permit institutions to be evaluated fairly and in conformance with their business approach.

Examination-Burden Reduction

The complementary regulatory themes of flexibility, responsiveness, and objectivity are extended to the examination process as part of an overarching effort to, among other things, reduce the burden of the regulations and the CRA examination on institutions. Indeed, both the regulations and the examination procedures reflect a conscientious effort to minimize the burden on financial institutions. For example, the agencies' conscious attempt to minimize the burden on supervised institutions can be seen in the fact that examiners are encouraged to draw on the results of previous examinations of an institution for information about its major product lines, business strategy, and supervisory restrictions. This information is typically available from agency sources and can often be reviewed off-site. Further, examiners may already have knowledge of an institution's community and local demographics from their own past visits to the institution or to other institutions in the same area. In these cases, examiners should be able to develop a good understanding of the context in which an institution operates before the actual examination begins. Examiners can then supplement and update that understanding upon arrival at the institution. Lastly, it should be noted that there are

no CRA data-reporting obligations for small institutions.

Similarly, the regulations focus on performance-based criteria, not on an institution's processes or documentation alone. Institutions are not to be evaluated on how well they ascertain community credit needs, how well they market and advertise their products, or how actively members of their boards of directors participate in local community organizations or civic groups.

This performance-based focus sets the stage for a constructive, credible, efficient, and unobtrusive examination process that concentrates on results. Both the regulations and the examination procedures promote and establish evaluation methods that are based on reviewing objective data; institutions can also use these methods to measure their own performance. Because examination results are more understandable and more predictable under these performance-based examination procedures, the burden on financial institutions is further minimized.

Rather than a one-size-fits-all examination, separate procedures have been developed for small, intermediate small, and large institutions, as well as for wholesale or limited-purpose institutions and institutions that are operating under an approved strategic plan. Further, examiners are expected to use their common sense to tailor an examination to a particular institution, thereby mitigating the burden on the institution. For example, examiners may be able to perform some procedures in advance of the on-site examination. This tailoring allows examiners to take reasonable steps to reduce the burden on an institution and ensure that the examination process is more understandable for the institution.

Performance Context

An institution's performance under the regulatory assessment criteria is evaluated in the context of information about the institution, its community, and its competitors. The examiner will review demographic and economic data about the institution's assessment area(s), in addition to information about local economic conditions; the institution's major business products and strategies; and its financial condition, capacity, and ability to lend or invest in its community. Often, this review will be facilitated by gathering information from examinations of other institutions serving the same or similar assessment areas, reviewing information from other recent community contacts, and reviewing information about the assessment area developed cooperatively by the different agencies.

The examiner will also review information an institution chooses to provide about the lending,

investment, and service opportunities in its assessment area(s). The examiner will not, however, require the institution to create such information, nor will the examiner ask for any information other than what the institution may already have developed as part of its normal business practice. An examiner should not evaluate an institution on its efforts to ascertain community credit needs, market its products, geocode its loans, or record CRA-related discussions in its board minutes; an institution should also not be rated on the basis of the quality of any contextual information that it may provide.

Role of Community Contacts

Interviews with local community, civic, or government leaders can help examiners learn about the community and its economic base, as well as local community development needs and initiatives. Interviews can also help examiners understand public perceptions about how well local institutions are responding to the community's credit needs. An examiner can use information obtained from these interviews to balance his or her understanding of the institution's performance context. Community contact interviews normally take the form of personal meetings, but telephone conversations or larger group meetings may also be appropriate.

Information from community contacts can provide valuable insights to examiners, particularly to those who have relatively little experience or familiarity with an institution's assessment area. Contacts may be made during an examination or prior to the start of an examination. Typically, the examiners responsible for the CRA examination will conduct the interviews. However, whenever possible, the agencies will draw on recent local interviews conducted by other agency staff or by other regulatory agencies that have CRA responsibilities in the area.

Assessment-Area Considerations

Institutions are required to identify one or more assessment areas within which the agencies will evaluate the institution's performance. In most cases, an institution's assessment area will be the town, the municipality, the county, or some other political subdivision or the metropolitan statistical area (MSA) in which its branches are located and a substantial portion of its loans are made. If an institution chooses, however, its assessment area need not coincide with the boundaries of one or more political subdivisions (e.g., counties, cities, and towns or MSAs), so long as the adjustments to those boundaries reflect the fact that the institution's assessment area(s) would otherwise be too

large for the institution to serve, have an unusual configuration, or include significant geographic barriers. When the assessment area coincides with recognized political subdivisions, or when it has not changed in any way since the previous examination, examiners may not have to conduct a comprehensive reevaluation of the assessment area.

When evaluating an institution's performance, the examiner will use the assessment area designated by an institution, provided the assessment area meets regulatory criteria. Only if the criteria have not been satisfied will the examiner revise the assessment area so that it complies with the regulations. The revisions will be discussed with institution management, and the revised assessment area will be used to evaluate performance. However, unless the assessment area reflects illegal discrimination, examiners will not consider problems with the designation of the assessment area when assigning a rating to the institution.

Performance Criteria for Small Institutions

Often, the burden of regulations and examinations is most pronounced in small institutions. Their limited financial resources and staffing, in addition to other competitive factors, may influence the way that small institutions meet their CRA responsibilities. In recognition of these factors, the regulations established a streamlined assessment method for small institutions that significantly reduces examination burden. The regulations contain only five performance criteria for small institutions:

1. The institution's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments
2. The percentage of loans and, as appropriate, other lending-related activities located in the institution's assessment area(s)
3. The institution's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes
4. The geographic distribution of the institution's loans
5. The institution's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s)

In carrying out their examination responsibilities, examiners should exercise common sense when deciding how much material to review and what steps are necessary to reach an accurate and

well-supported conclusion. For example, if an institution's assessment area is composed of only a few geographies, a geographic analysis of loans within the assessment area may be inappropriate or unnecessary. Or, if an institution has analyzed where and to whom it is making loans in its assessment area as part of its business efforts, examiners may be able to validate and then use the institution's analysis rather than conduct a detailed analysis of their own. In other words, when evaluating the performance criteria, examiners should always consider and use available, reliable information.

Similarly, if an institution's loan-to-deposit ratio appears low, the examination procedures ask the examiner to evaluate the institution's lending-related activities, such as loan sales and community development lending and investments, to determine if they materially supplement its lending performance as reflected in its loan-to-deposit ratio. However, such an analysis may not be necessary, or a less extensive analysis may be sufficient if the loan-to-deposit ratio is high.

Performance Criteria for Intermediate Small Institutions

Intermediate small institutions are evaluated under two component tests: the small-institution lending test and the flexible community development test for intermediate small institutions. The lending test encompasses the same five performance criteria used for small institutions:

1. The institution's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments
2. The percentage of loans and, as appropriate, other lending-related activities located in the institution's assessment area(s)
3. The institution's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes
4. The geographic distribution of the institution's loans
5. The institution's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s)

The second component test for intermediate small institutions is the community development test that was created as a result of the 2005 regulatory changes. The intermediate-small-institution community development test considers the following four criteria:

1. The number and amount of community development loans
2. The number and amount of qualified investments
3. The extent to which the institution provides community development services
4. The institution's responsiveness through such activities to community development lending, investment, and services needs

Under the community development test, intermediate small institutions will be evaluated on their record of providing community development loans, qualified investments, and community development services under one single component rating, unlike the large-institution evaluation method, which considers and evaluates these three activities separately. Intermediate small institutions are expected to allocate resources among the different categories of community development loans, qualified investments, and community development services that are the most responsive to the community development needs and opportunities in the area. Although the agencies expect intermediate small institutions to generally engage in a combination of community development loans, qualified investments, and community development services, the appropriate levels of these activities are very institution-specific and will be determined by an institution's capacity and business strategy, as well as by the community development needs and opportunities in the area.

As they do when conducting other examination procedures, examiners should exercise judgment and common sense to minimize the burden imposed on an institution by the examination process. However, examiner judgment must be consistent with obtaining a complete and accurate assessment of an institution's performance. For example, examiners may be able to use economic and demographic data that were analyzed in an examination of one institution when they examine other institutions serving the same or similar assessment areas. Information from community contacts may cover more than one institution in a given market. When an institution has analyzed its CRA performance, examiners may use those analyses, after verifying their accuracy and reliability, and should supplement those analyses when questions are raised. Examiners should consider any performance-related information offered by an institution but should not request information not called for by examination procedures.

Performance Criteria for Large Institutions

Large institutions are evaluated and rated under three separate performance tests: the lending test,

the investment test, and the service test.

Lending Test

The lending test evaluates a large institution's retail lending, as well as its community development lending, using five performance criteria:

1. The number and dollar amount of the institution's home mortgage, small business, small farm, and consumer loans, if applicable, in the institution's assessment area(s)
2. The geographic distribution of the institution's home mortgage, small business, small farm, and consumer loans, if applicable, based on the loan location
3. The distribution of the institution's home mortgage, small business, small farm, and consumer loans, if applicable, to borrowers of different income levels and businesses and farms of different sizes
4. The number and dollar amount of community development loans and their complexity and innovativeness
5. The institution's use of innovative and flexible lending practices

Investment Test

The investment test evaluates an institution's record of making qualified investments, using the following four performance criteria:

1. The dollar amount of qualified investments
2. The innovativeness or complexity of qualified investments
3. The responsiveness of qualified investments to credit and community development needs
4. The degree to which the qualified investments are not routinely provided by private investors

Service Test

The service test evaluates an institution's use of retail and community development services to meet the needs of the assessment area. The institution's retail services are evaluated in the retail service test, which includes four performance criteria:

1. The current distribution of the institution's branches among low-, moderate-, middle- and upper-income geographies
2. The institution's record of opening and closing branches, particularly branches located in low- or moderate-income geographies or primarily serving low- or moderate-income individuals
3. The availability and effectiveness of the institution's alternative systems for delivering services to low- and moderate-income areas and individuals

4. The range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies

An institution's community development services are considered using the two performance criteria in the community development service test:

1. The extent to which the institution provides community development services
2. The innovativeness and responsiveness of community development services

As mentioned previously under the small-institution and intermediate-small-institution examination procedures, examiners are expected to exercise judgment and common sense to minimize the burden of the examination process, consistent with obtaining a complete and accurate assessment of performance. However, large institutions face burdens that small institutions do not, particularly the burden of data collection and reporting. Nevertheless, because large-institution data exist in an automated form, examiners can conduct much of their necessary analysis before the on-site examination—thereby reducing disruptions caused by the presence of examiners at the institution. As they do in small institutions, examiners must be sensitive to the burden of the examination process and use their judgment and common sense to determine what examination steps are necessary to arrive at an accurate assessment of an institution's performance.

Performance Criteria for Wholesale or Limited-Purpose Institutions

To be evaluated under the community development test, an institution must be designated as a wholesale or limited-purpose institution. An institution receives this designation by submitting a written request to its primary regulator. Once an institution has received a designation, it will not normally have to reapply for it. The designation will remain in effect until the institution requests that it be revoked or until one year after the agency determines that the institution no longer satisfies the criteria for designation and notifies the institution of this determination.

Wholesale or limited-purpose institutions are evaluated on the basis of their

1. Community development lending, qualified investments, or community development services;
2. Use of innovative or complex qualified investments, community development loans, or community development services and the extent to which investments are not routinely provided by private investors; and

3. Responsiveness to community credit and development needs.

Examiners must be cognizant of the context within which a wholesale or limited-purpose institution operates. Examiners should recognize that these institutions may tailor their community development activities on the basis of their own circumstances and the community development opportunities available to them in their assessment areas or in the broader statewide or regional areas that include the assessment areas.

Institutions need not engage in all three categories of community development activities to be considered Satisfactory under the community development test. Community development loans, investments, and services can be directed to a statewide or regional market that includes the institution's assessment area; these activities still qualify for consideration under the community development test as benefiting the assessment area. Moreover, if an institution has a Satisfactory community development record in its assessment area, all community development activities regardless of their locations should be considered.

In applying the community development test, examiners should perform only those analyses that are necessary to reach an accurate conclusion about the institution's performance; use all available, reliable information; and avoid duplication of effort to reduce the examination burden on an institution.

Strategic Plans

The regulations permit any institution to develop a strategic plan for addressing its CRA responsibilities. An institution must submit its strategic plan to its primary supervisory agency for approval. The regulations require that the plan be developed in consultation with members of the public and be published for public comment. The plan must contain measurable annual goals. A single plan may contain goals designed to achieve only a Satisfactory rating; at the institution's option, a plan may also contain goals designed to achieve a Satisfactory rating, as well as goals designed to achieve an Outstanding rating.

The strategic-plan approach to addressing an institution's CRA responsibilities presents an opportunity for a very straightforward examination. The first question an examiner should investigate is whether the goals were met. If they were, the appropriateness of the goals will have already been determined during the public comment period for the plan and as part of the appropriate agency's review and approval of the plan. Consequently,

further investigation relating to the context of the institution should not be necessary. Obviously, if some or all of the plan's goals were not met, the examiner will be required to evaluate issues such as whether the goals were substantially met; in doing so, the examiner will have to exercise some judgment about the degree goals were missed and the causes.

However, an examiner should approach an examination of an institution operating under a strategic plan understanding the primary purpose of the regulatory provisions on strategic plans: to give an institution significant latitude to design a program that is appropriate to its own capabilities, business strategies, and organizational framework, as well as to the communities it serves. Consequently, the institution may develop plans for a single assessment area that it serves; for some, but not all, of the assessment areas that it serves; or for all of them. It may also develop a plan that incorporates and coordinates the activities of

various affiliates. The examiner's challenge is to evaluate institutions operating under one plan or under a number of plans in a way that accurately reflects the results achieved and that sensibly wraps that evaluation into the overall assessment of the institution.

Again, an examiner should, to the greatest extent possible, use information available from the agencies to evaluate an institution's performance under a strategic plan. However, it is likely that some elements of a plan under review will not be reflected in public or other agency data. Consequently, the examiner may, of necessity, have to ask the institution for the data necessary to determine whether it has met its goals. To the extent possible, the examiner should ask the institution to provide data for review before the on-site portion of the examination. The examiner should also seek to mitigate the burden on the institution by, wherever possible, using data in the form maintained by the institution.

Small Institutions

Examination Procedures and Sample Format for

Public Disclosure of Examination Results

The Examination Procedures for Small Institutions (which include the CRA Ratings Matrix for Small Institutions) and the Sample Format for Public Disclosure of Examination Results follow. Both documents are also available on the web site of the Federal Financial Institutions Examination Council.

Examination Procedures: www.ffiec.gov/cra/pdf/cra_exsmall.pdf

Sample Format for Public Disclosure of Examination Results: www.ffiec.gov/cra/pdf/ex_instruct_s.pdf

Small-Institution Performance Evaluations

Interagency Guidance on Using the Streamlined Assessment Method

This guidance, issued on November 26, 1996, was adopted by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

This interagency guidance supplements the CRA examination procedures for small institutions. The guidance is designed to facilitate the proper use of the examination procedures and to promote consistency among the agencies in presenting examination findings.

Public evaluations should include efficient, substantive, and complete discussions of facts, data, and analysis that lead to conclusions about performance. The determination of the "reasonableness" of the loan-to-deposit ratio, the proportion of lending within an institution's assessment area, or the geographic and borrower distribution of lending is clearly not a simple task. It is precisely this difficulty that places an increased importance upon the written explanation of the examiner's analysis and conclusions, and prompts the issuance of this guidance.

Description of the Assessment Area

Demographic Information

The interagency public evaluation format requires that the discussion of an institution's assessment area include descriptive information regarding population, median income, employment, community credit needs, and business opportunities. Any information that was considered by the examiner in forming overall conclusions regarding the institution's performance should be included in this description.

Information regarding the racial or ethnic composition of an assessment area should be included in the public evaluation only where a finding of racial discrimination impacted the institution's performance. The CRA regulation focuses primarily on lending to borrowers and geographies of different income levels. An institution's fair lending record affects its CRA record in cases where substantive violations of the fair lending laws are found. The inclusion of race and national origin data in each public evaluation, whether or not fair lending issues are present, may contribute to public confusion regarding the purpose of the Community Reinvestment Act as compared to the fair lending laws.

Assessment-area descriptions should include, however, information regarding the number and

percentage of low-, moderate-, middle-, and upper-income geographies and families within the assessment area since this information is always relevant to conclusions regarding an institution's CRA performance. It may be useful to use tables indicating the percentage of geographies and families in each income category to convey this information clearly.

Assessment-Area Delineation

Regulation BB makes it clear that an institution's ability to properly draw an assessment area is not a consideration in evaluating its performance. As a result, the public evaluation should not refer to the assessment area's compliance with regulatory requirements. If the examiner finds that the assessment area does not comply with regulatory requirements, that fact should be noted in the report of examination. The public evaluation should be based on the appropriate (redrawn) assessment area.

Community Contacts

The description of the assessment area should also include information obtained from community contacts that the examiner used in forming conclusions about the institution's performance. Community contacts provide insight that can help update, and lend perspective to, data gathered from other sources. These contacts are a very important part of the CRA examination. The public evaluation should note information from recent relevant contacts that were made in connection with the CRA examination being conducted, as well as in connection with other examinations, including those conducted by staff from other agencies.

Examiners should include as much information as possible about community contacts to give the reader of the public evaluation an understanding of the contact's background and knowledge of the area. General statements that "several contacts" were made and the information was used in evaluating the institution's performance are not adequately descriptive.

It is usually sufficient to identify the types of contacts made without indicating the name of the contact or the organization represented. A discussion of community contacts in the public evaluation might state, for example, "Two contacts were made during the examination. One contact was a representative from an organization that provides affordable housing to low-income residents in the county.

The other contact focused on small business development. Information from a community contact made by [another agency] with a governmental housing authority was also used in analyzing the institution's lending record."

Information regarding comments made by community contacts should be included in the public evaluation, absent a request to the contrary by the person contacted. Those comments should be specific enough that the reader can understand how conclusions were reached later in the public evaluation, but not so specific as to identify the contact.

Conclusions with Respect to Performance Criteria

Facts, Data, and Analysis

As noted in the format for small-institution public evaluations, overall conclusions must address key aspects of an institution's CRA performance based upon an analysis of facts and data derived from the examination process. The public evaluation should be written in a way that allows the reader to understand how the examiner arrived at conclusions for each of the performance criteria. Comments in this section should explicitly relate facts and data regarding the institution's performance to the examiner's findings.

For example, the statement that "an institution makes virtually all of its loans in its assessment area" is not sufficient. If applicable, a better presentation of this conclusion would be "Examiners reviewed and verified the institution's internal analysis of credit extensions made during the examination period. A substantial majority of the institution's lending was conducted within its assessment area. The review included the institution's two major product lines, commercial and one- to four-family mortgage loans. The examination found that 94 percent of the commercial loans and 96 percent of the mortgage loans made by the institution were within its assessment area. By volume, 84 percent of commercial loans and 88 percent of mortgage loans made by the institution were inside its assessment area."

Likewise, statements asserting that lending to low- and moderate-income individuals reflects the population within the assessment area without further explanation are not sufficiently informative. This type of a statement implies that the credit needs in this assessment area were proportional to the various income levels represented in the overall population. This is not, however, always true, necessary, or relevant. Perhaps, there were limited lending opportunities in one or more income categories. For instance, a mortgage lender may

be unable to tap the very low-income geographies because of a high number of rental properties. Alternatively, a consumer lender may be equally unable to make consumer credit available to high-income residents who prefer to take on second mortgages. To avoid this problem, public evaluations should include an analysis of performance that includes information from the materials used to develop the examiner's understanding of the performance context about loan demand in the various areas with income levels, as appropriate.

Loan-to-Deposit Ratio

Discussions of the loan-to-deposit ratio in the public evaluations should reference the information that is used to support the conclusion that the ratio is or is not reasonable. This may, for instance, require a discussion of other similarly situated lenders in the assessment area under review or other support, as appropriate. If, for instance, an institution has a lower average loan-to-deposit ratio than other similarly situated lenders in its assessment area and the examiner finds this delineation "reasonable," the discussion should distinguish the institution under review from the similarly situated lenders in the assessment area. Consulting recent examinations performed in the assessment areas may assist in this analysis.

It is important to remember that the loan-to-deposit ratio is a quick reference for determining whether an institution is lending. As such, it is not usually of central importance in the streamlined examination. Furthermore, by calling for an analysis of the adequacy of the loan-to-deposit ratio, the agencies do not intend to foster lending levels that might be considered unsafe or unsound. There is no fixed ratio that can be considered reasonable. Rather, loan-to-deposit ratios will vary depending on an institution's charter, its business strategy, the demographics of its assessment area, and other factors that make up the context in which the institution performs. There are occasions, however, where a loan-to-deposit ratio is so low that it becomes a central issue in the examination. For instance, where an institution makes very few loans during an examination cycle, the distribution of those loans is clearly not as relevant to the institution's performance rating as the fact that the institution may not be lending very much in any case.

Origination

When analyzing an institution's lending performance, Regulation BB directs examiners to focus on loans originated since the last examination. To this end, the public evaluation should indicate the number and types of loans that were reviewed to

conduct the analysis. Applications and denials are generally not relevant to the analysis and, therefore, are not discussed in the examination procedures. A discussion of applications and denials may be appropriate, however, in a larger discussion of an institution's performance context. For instance, a discussion of applications and denials may be useful in explaining poor performance due to a lack of credit demand.

Activities that are in the planning stages that have not resulted in loan originations should not be considered in evaluating the institution's performance. This would include situations where an institution participates in a consortium developed to revitalize a downtown area but, at the time of the examination, has made no loans and the size of the loan pool has not yet been determined. In this example, there is no performance to evaluate during the examination period even though the activity would likely receive positive consideration once loans are made.

Loans to Small Businesses and Small Farms

Where loans to small businesses and small farms are a major product line for the institution, it is important to analyze the distribution of lending to businesses or farms of different sizes. It is often difficult to determine the number of small businesses and farms using the statistical data gathered prior to the examination. Reliable data on the number of small businesses or farms in any given area is often scarce. Possible sources of information include local farm bureaus, extension agencies, and chambers of commerce. Supporting conclusions regarding the geographic or borrower distribution of small business and farm loans requires an analysis of the institution's small business and farm loans to businesses and farms of different sizes. This analysis is particularly important where the examination concludes that the institution exceeds the standards for Satisfactory performance.

Geographic and Borrower Distribution

Examiners should refrain from including broad statements regarding the dispersion of loans throughout an assessment area without further discussing the adequacy of an institution's geographic distribution of lending at the income level. Dispersion is only one element of an analysis of geographic distribution. Specifically, a dispersion analysis is done to determine whether any significant gaps or lapses in lending are present in the institution's assessment area. The main focus of this analysis is the institution's geographic distribution of loans among low-, moderate-, middle-, and

upper-income geographies. The regulation and examination procedures specifically direct that the analysis be conducted with respect to each of the four income categories separately. Examiners may use an institution's internal analysis of geographic distribution after verifying its accuracy. If such an analysis is not available, a sample of loan files must be used to conduct a geographic distribution analysis.

Similarly, examiners may use an institution's internal analysis of its lending by borrower income, if available, after verifying its accuracy. If the institution has not prepared a reliable analysis, loan files should be sampled to analyze lending distribution by borrower income. If the information necessary to do a distribution analysis by borrower income is not available in loan files, the examiner may use other available information as a proxy for such information. Of course, any information used to reach conclusions regarding lending distribution by borrower income or geography must be discussed in the public evaluation.

Finally, there may be situations where an analysis of lending distribution by geography and borrower income appears to exceed standards for a Satisfactory rating but, upon closer analysis, the institution's overall lending activity is very low. For instance, if an institution has only made a dozen loans since its last examination, it would be very difficult to justify a conclusion that the distribution of its loans met the standards for a Satisfactory rating, even if each loan was in a low- or moderate-income area or to a low- or moderate-income individual.

Where there is insufficient information available to perform a meaningful geographic- or borrower-distribution analysis, examiners should type "analysis was not meaningful" across the appropriate rows of the performance evaluation grid. The discussion of the analysis should explain why the analysis could not be performed. For example, where an assessment area consists entirely of middle-income census tracts and the examiner has concluded that proxies that would enable a meaningful geographic analysis are not available, the public evaluation should state that fact.

Elements Supporting an Outstanding Rating

A rating of Outstanding will normally be accompanied by an explanation that expressly considers not only a small institution's lending but also its performance in qualified investments and delivery of retail services. Although a small institution can receive an Outstanding rating based on the strength of its lending performance, the appendix to the CRA regulation makes it clear that in assessing whether an institution's performance is

Outstanding, the [agency] considers the extent to which the institution exceeds each of the performance standards for a Satisfactory rating and its performance in making qualified investments and its performance in providing branches and other services and delivery systems that enhance credit availability in its assessment area. Consequently, the examination procedures provide that a small institution can receive an Outstanding rating without a review of investments and services only when its lending performance is so exceptional that the examiner determines that a review of investments and services would not further improve the institution's performance level. In other words, the review of investments and services would be superfluous in the presence of what is already considered to be an Outstanding level of performance based on lending alone.

Note that an Outstanding institution is characterized not only by a high loan-to-deposit ratio and a high percentage of loans in its assessment area but also by an "excellent" penetration of borrowers at all income levels and an "excellent" dispersion of loans throughout geographies of different incomes in its assessment area.

The examination procedures recognize that institutions can exceed the standards for Satisfactory performance in varying degrees. In CRA (as in other rating systems), the Satisfactory category embraces a rather broad range of different performance levels. Some institutions that have strong lending records will end up with the same rating as other institutions that are marginally Satisfactory. Nevertheless, there is a difference between institutions rated Outstanding and those rated at the high end of the Satisfactory range.

An institution may exceed standards for Satisfactory performance in three ratable categories and still not merit an Outstanding. To receive an Outstanding on the strength of its lending performance, the institution must materially exceed the standards for Satisfactory in some or all of the criteria. The judgment that an institution materially exceeds Satisfactory standards and warrants an Outstanding rating should be based on largely indisputable evidence that an entire community is being served, including an excellent penetration of low and moderate borrowers and geographies within its assessment area(s). Remember that the Community Reinvestment Act specifically requires the agencies "to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods." Application of the streamlined examination does not alter the policy focus of the overall evaluation. Serving the credit needs of low- and moderate-income borrowers and neighborhoods

should not get lost in the process of calculating loan-to-deposit ratios and "in-out" percentages.

While small institutions do not go through the same rigors as the large-institution examinations, small institutions are not intended to be unduly favored when it comes to assigning ratings for their performance. In addition to determining whether an institution has exceeded some or all of the standards for a Satisfactory rating, the agencies will consider a small institution's investment and service performance based on a broad range of investment and service activities. For example, the examination procedures permit an Outstanding rating if the institution's performance with respect to the five core criteria generally exceeds Satisfactory and its performance in making qualified investments and providing branches and other services and delivery systems in the assessment area(s) supplements its performance under the five core criteria sufficiently to warrant an overall rating of Outstanding.

Additional Observations

Information Regarding Process-Oriented Activities

Process-oriented activities, such as the internal monitoring of the geographic distribution of loans, needs ascertainment, marketing, and efforts to achieve CRA objectives, rarely substantiate strong performance or explain poor performance. These activities may, on occasion, be discussed to explain elements of the performance context that affect the institution.

Consideration of Prior Ratings

The performance-context procedures require examiners to consider the prior performance rating, among other factors, when evaluating the institution. The prior rating is of interest to the public and should be considered in assessing current performance.

Fair Lending

The fair lending portion of the compliance examination is the appropriate medium for analyzing an institution's performance with respect to making credit decisions in compliance with the Equal Credit Opportunity Act and the Fair Housing Act. Findings of discrimination on a prohibited basis, however, should be discussed in the CRA and examination report in accordance with the guidance provided in the sample Public Evaluation.

Small-Institution Performance Evaluations

Instructions for Sampling at Small Institutions

These instructions were distributed as attachment B to CA 02-3 (January 24, 2002).

Examiners are required to estimate three proportions in connection with examinations of small institutions: the proportion of loans inside and outside of an assessment area; the proportion of loans in low-, moderate-, middle-, and upper-income geographies in an assessment area; and the proportion of loans to low-, moderate-, middle-, and upper-income borrowers within an assessment area. Examiners are to interpret the estimated proportions based on the performance context and other information obtained during the examination.

Under the revised regulation, small banks are not required to collect data for CRA examination purposes. However, some small institutions may choose to provide data regarding their loans, including the census-tract locations and borrower incomes, similar to those being required for large institutions. Some institutions may even provide a summary of their distribution of loans. In this case, as long as the examiner is able to verify the bank's information using the guidance provided with respect to sampling with data accuracy in CA 01-8, the examiner will not need to perform sampling to evaluate the bank's CRA performance but may use the data supplied by the bank.

Step 1

Examiners should select samples for one or more major product lines, taking into account factors such as the institution's business strategy and its areas of expertise. As an initial matter, it will be acceptable to select for review for these purposes among the same categories of loans that are to be used when reviewing large banks, i.e. mortgages, small business and farm loans, and consumer loans.¹

Step 2

The total number of loans, both originated and purchased by the institution, for a major product category will be defined as the "universe" of loans. In order to determine the number of loans for the sample (known as the sample size), examiners should know the number of loans in the universe, even if this requires them to count the number of loans manually.

This universe can include

- The total number of loans since the last examination, or
- The total number of loans in the previous year, or
- The total number of loans in the previous six months.

The universe of loans should cover at least the activity in the six months prior to the examination. It should cover at least the prior year if the number of loans made in the last six months is less than 50. If the universe of loans for the previous year for any particular product category is less than 50, then all loans made or purchased since the last examination for that product should be included in the universe. Moreover, when selecting the universe, examiners should ensure that loans included in the universe are representative of the bank's loan activity during the entire examination period.

Step 3

The examiner should determine the number of loans to be sampled. Use the sampling software to determine the appropriate number of loans to be selected for each product category being examined. The software computes the sample size based on the universe of loans for each product and the desired confidence and precision levels.

Initially, examiners should select samples based on a 90 percent confidence interval, with a plus or minus 5 percent level of precision. This means that there is a 90 percent chance that the results from the sample will be within 5 percent of the true proportion, for whichever criteria are being evaluated. This confidence interval was chosen because it should ensure an acceptable reliability of results. However, examination reports for small banks should be monitored closely during the first year of experience with this new sampling approach so that a review of the results of implementing this policy can be done when there has been adequate field experience. For loan products or institutions that require further investigation or are undergoing greater scrutiny for any reason, a 95 percent confidence level with plus or minus 5 percent precision should be used. A more stringent statistical framework using a higher confidence level is necessary because in these cases examiners will need results with a higher degree of reliability.

How to Select a Random Sample

Once the number of loans to be sampled is known,

1. According to Regulation BB, the major consumer product categories are defined as home equity, motor vehicle, other secured, other unsecured, and credit card.

the examiners should select these loans from a list of loans unique to that product, if one is available from the bank. If no unique list or other sorting system is available for use, the examiner must restrict the random sampling procedures below to each product category that can be segregated.

To select files, the examiner should calculate the interval to use for sampling by dividing the number of loans in the universe by the number of loans in the sample and rounding up to the nearest whole number. For example, if there are 150 loans in the universe and 86 in the sample, the calculation is $150/86=1.74$, which, when rounded, is 2. The examiner should start by choosing either the first or second loan and then proceed through the list of 150 loans and select every other file. After the first pass through the list, the examiner would have selected 75 of the 86 needed for the sample. To select the 11 additional files, the examiner should follow the same process with the remaining files on the list. Dividing 75 (the remaining files not already selected for the sample) by 11 yields 6.82, which rounds up to 7. This time the examiner would start by selecting any of the first 7 loans on the list and then select every seventh file thereafter. This will add 10 to the sample. Having done this, 85 files will have been selected for the sample and 65 files not selected. Selecting 1 more file, at random, from the 65 not already selected, will complete the sample.

Calculating Proportion Estimates and Resulting Reliability

The next step is to calculate the proportion estimates as itemized in the examination procedures. Once the loan data are entered, the software program will generate the following reports for examiner use:

Comparisons of Credit Extended Inside and Outside of the Assessment Area²

- The percentage of the number of loans (by product type) inside and outside the assessment area
- The percentage of the dollar amount of loans (by product type) inside and outside the assessment area

The results from the sample will be accompanied by a precision range (or confidence interval), plus or minus, around the estimate. For example, sampling for the percentage of loans (within a product type) outside of the assessment area may result in a proportion estimate of 32.5 percent with

2. Sampling software will compute the proportion estimates for the examiner if they are available. Examiners will evaluate the results following the criteria outlined in the examination procedures.

a plus or minus 5 percent precision interval at the 90 percent confidence level. This means that there is a 90 percent probability that the percentage of the institution's loans of this type outside the assessment area is between 27.5 percent to 37.5 percent. The resulting precision interval is influenced by a range of factors, including the confidence level, and the incidence of missing data. In general, the narrower the range around the resulting estimate, the more accuracy that has been achieved from the sampling procedures.

Distribution of Credit within the Assessment Area(s)³

In accordance with the examination procedures, examiners should tabulate the following proportions based on *only those loan records from the sample that are within the assessment area* for each product category:

- The number and percentage of loan originations (by product type, if applicable) in low-, moderate-, middle-, and upper-income geographies
- The dollar amount and percentage of loan originations (by product type, if applicable) in low-, moderate-, middle-, and upper-income geographies
- The number and percentage of loan originations (by product type, if applicable) to low-, moderate-, middle-, and upper-income borrowers
- The dollar amount and percentage of loan originations (by product type, if applicable) in low-, moderate-, middle-, and upper-income borrowers
- The number and percentage of loan originations to small businesses/farms of different sizes (by revenue)
- The dollar amount and percentage of loan originations to small businesses/farms of different sizes (by revenue)

Examiners are to follow the guidelines in the examination procedures to interpret the results from the sampling and, ultimately, to assign a rating to the institution's lending performance. Note that the precision ranges for the distribution estimates may be broader than those for the "In/Out" analysis. This may be the case because the original sample size will have been reduced by those loans located *outside* the assessment area. Though it would be possible to augment the sample with additional loan records, this is not required in most cases because the time and expense involved do not seem justified by the greater precision of the results obtained. However, if the precision interval in such circumstances is more than 15 percent, the examiner should select, and enter, additional files

3. Again, the sampling software will compute these results for examiners once the necessary data have been entered.

from within the assessment area in order to reduce the precision interval below 15 percent.

Examiners should take particular care in their interpretations of proportion estimates to low- or moderate-income geographies that are in the single digits. Even a high degree of precision in the sampling will not allow examiners to make fine distinctions when dealing with small proportion estimates. For example, if the total number of loan originations in a product line was 500 since the last examination and the sample results show a 2 percent penetration to low- and moderate-income

areas, then the resulting precision interval could be between .8 percent and 4.6 percent, using a 90 percent confidence level. Such a result does not allow the examiner to distinguish a .8 percent from a 4.0 percent penetration.

Examiners should also understand that the analytical reports do not identify specific tracts, or geographic "gaps," in a bank's lending. Therefore, while the software can be used to determine the distribution of loans made to different income geographies, examiners cannot rely on it to identify significant gaps in a bank's lending.

Intermediate Small Institutions Examination Procedures and Sample Format for Public Disclosure of Examination Results

The Examination Procedures for Intermediate Small Institutions and the Sample Format for Public Disclosure of Examination Results follow. Both documents are also available on the web site of the Federal Financial Institutions Examination Council.

Examination Procedures: www.ffiec.gov/cra/pdf/isbank.pdf

Sample Format for Public Disclosure of Examination Results: www.ffiec.gov/cra/pdf/ex_instruct_sinter.pdf

Large Institutions Examination Procedures and Sample Format for Public Disclosure of Examination Results

The Examination Procedures for Large Institutions and the Sample Format for Public Disclosure of Examination Results follow. Both documents are also available on the web site of the Federal Financial Institutions Examination Council.

Examination Procedures: www.ffiec.gov/cra/pdf/cra_exlarge.pdf

Sample Format for Public Disclosure of Examination Results: www.ffiec.gov/cra/pdf/ex_instruct_l.pdf

Examination Scope

For institutions (interstate and intrastate) with more than one assessment area, identify assessment areas for a full-scope review. A full-scope review is accomplished when examiners complete all of the procedures for an assessment area. For interstate institutions, a minimum of one assessment area from each state, and a minimum of one assessment area from each multistate metropolitan statistical area/metropolitan division (MSA/MD), must be reviewed using the full-scope examination procedures.

1. Review prior Community Reinvestment Act (CRA) performance evaluations, available community contact materials, Home Mortgage Disclosure Act (HMDA) and CRA performance data including the institution's lending, investment, and service activities by assessment area, the lending of other lenders in those markets, and demographic information from those markets.
2. Select assessment areas for full-scope review by considering the factors below:
 - a. the lending, investment, and service opportunities in the different assessment areas, particularly areas where the need for bank credit, investments, and services is significant;
 - b. the level of the institution's lending, investment, and service activity in the different assessment areas, including in low- and moderate-income areas, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies designated by the agencies¹ based on (i) rates of poverty, unemployment, and population loss or (ii) population size, density, and dispersion;²
 - c. the number of other institutions in the different assessment areas and the importance of the institution under examination in serving the different areas, particularly any areas with relatively few other providers of financial services;
 - d. comments and feedback received from community groups and the public regarding the institution's CRA performance;
 - e. the size of the population;
 - f. the existence of apparent anomalies in the reported CRA or HMDA data for any particular assessment area(s);

¹ The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency.

² A list of distressed or underserved nonmetropolitan middle-income geographies is available on the Federal Financial Institutions Examination Council (FFIEC) website at www.ffiec.gov/.

- g. the length of time since the assessment area(s) was last examined using a full-scope review;
- h. the institution's prior CRA performance in different assessment areas;
- i. examiners' knowledge of the same or similar assessment areas; and
- j. issues raised in CRA performance evaluations of other institutions and prior community contacts in the institution's assessment areas or similar assessment areas.

Performance Context

1. Review standardized worksheets and other agency information sources to obtain relevant demographic, economic, and loan data, to the extent available, for each assessment area under review. Compare the data with similar data for the MSA/MD, county, or state to determine how any similarities or differences will help in evaluating lending, investment, and service opportunities and community and economic conditions in the assessment area. Also consider whether the area has housing costs that are particularly high given area median income.
2. Obtain for review the Consolidated Reports of Condition (Call Reports), Uniform Bank Performance Reports (UBPR), annual reports, supervisory reports, and prior CRA evaluations of the institution to help understand the institution's ability and capacity, including any limitations imposed by size, financial condition, or statutory, regulatory, economic or other constraints, to respond to safe and sound opportunities in the assessment area(s) for retail loans, and community development loans, investments, and services.
3. Discuss with the institution, and consider, any information the institution may provide about its local community and economy, including community development needs and opportunities, its business strategy, its lending capacity, or information that otherwise assists in the evaluation of the institution.
4. Review community contact forms prepared by the regulatory agencies to obtain information that assists in the evaluation of the institution. Contact local community, governmental, or economic development representatives to update or supplement this information. Refer to the Community Contact Procedures for more detail.
5. Review the institution's public file and any comments received by the institution or the agency since the last CRA performance evalu-

- ation for information that assists in the evaluation of the institution.
6. By reviewing performance evaluations and other financial data, determine whether any similarly situated institutions (in terms of size, financial condition, product offerings, and business strategy) serve the same or similar assessment area(s) and would provide relevant and accurate information for evaluating the institution's CRA performance. Consider, for example, whether the information could help identify
- a. lending and community development opportunities available in the institution's assessment area(s) that are compatible with the institution's business strategy and consistent with safe and sound banking practices;
 - b. constraints affecting the opportunities to make safe and sound retail loans, community development loans, qualified investments and community development services compatible with the institution's business strategy in the assessment area(s); and
 - c. successful CRA-related product offerings or activities utilized by other lenders serving the same or similar assessment area(s).
7. Document the performance context information, particularly community development needs and opportunities, gathered for use in evaluating the institution's performance.

Assessment Area

1. Review the institution's stated assessment area(s) to ensure that it
 - a. consists of one or more MSAs/MDs or contiguous political subdivisions (i.e., counties, cities, or towns);
 - b. includes the geographies where the institution has its main office, branches, and deposit-taking automated teller machines (ATMs), as well as the surrounding geographies in which the institution originated or purchased a substantial portion of its loans;
 - c. consists only of whole census tracts;
 - d. consists of separate delineations for areas that extend substantially across MSA/MD or state boundaries unless the assessment area is in a multistate MSA/MD;
 - e. does not reflect illegal discrimination; and
 - f. does not arbitrarily exclude any low- or moderate-income area(s) taking into account the institution's size, branching structure, and financial condition.
2. If the assessment area(s) does not coincide with

the boundaries of an MSA/MD or political subdivision(s), assess whether the adjustments to the boundaries were made because the assessment area would otherwise be too large for the institution to reasonably serve, have an unusual configuration, or include significant geographic barriers.

3. If the assessment area(s) fails to comply with the applicable criteria described above, develop, based on discussions with management, a revised assessment area(s) that complies with the criteria. Use this assessment area(s) to evaluate the institution's performance, but do not otherwise consider the revision in determining the institution's rating.

Lending, Investment, and Service Tests for Large Retail Institutions

Lending Test

1. Identify the institution's loans to be evaluated by reviewing
 - a. the most recent HMDA and CRA Disclosure Statements, the interim HMDA Loan Application Register (LAR), and any interim CRA loan data collected by the institution;
 - b. a sample of consumer loans if consumer lending represents a substantial majority of the institution's business so that an accurate conclusion concerning the institution's lending record could not be reached without a review of consumer loans;
 - c. any other information the institution chooses to provide, such as small business loans secured by nonfarm residential real estate, home equity loans not reported for HMDA, unfunded commitments, any information on loans outstanding, and loan distribution analyses conducted by or for the institution, including any explanations for identified concerns or actions taken to address them.
2. Test a sample of loan files to verify the accuracy of data collected and/or reported by the institution. In addition, ensure that
 - a. affiliate loans reported by the institution are not also attributed to the lending record of another affiliate subject to CRA. This can be accomplished by requesting the institution to identify how loans are attributed and how it ensures that all the loans within a given lending category (e.g., small business loans, home purchase loans, motor vehicle, credit card, home equity, other secured, and other unsecured loans) in a particular assessment area are reported for all of the institution's affiliates if the institution elects

- to count any affiliate loans;
- b. loans reported as community development loans (including those originated or purchased by consortia or third parties) meet the definition of community development loans. Determine whether community development loans benefit the institution's assessment area(s) or a broader statewide or regional area that includes the institution's assessment area(s). Except for multifamily loans, ensure that community development loans have not also been reported by the institution or an affiliate as HMDA, small business or farm, or consumer loans. Review records provided to the institution by consortia or third parties or affiliates to ensure that the amount of the institution's third party or consortia or affiliate lending does not account for more than the institution's percentage share (based on the level of its participation or investment) of the total loans originated by the consortia, third parties, or affiliates;
 - c. all consumer loans in a particular loan category have been included when the institution collects and maintains the data for one or more loan categories and has elected to have the information evaluated.
3. Identify the volume, both in number and dollar amount, of each type of loan being evaluated that the institution has made or purchased within its assessment area. Evaluate the institution's lending volume considering the institution's resources and business strategy and other information from the performance context, such as population, income, housing, and business data. Note whether the institution conducts certain lending activities in the institution and other activities in an affiliate in a way that could inappropriately influence an evaluation of borrower or geographic distribution.
 4. Review any analyses prepared by or for and offered by the institution for insight into the reasonableness of the institution's geographic distribution of lending. Test the accuracy of the data and determine if the analyses are reasonable. If areas of low or no penetration were identified, review explanations and determine whether action was taken to address disparities, if appropriate.
 5. Supplement with an independent analysis of geographic distribution as necessary. As applicable, determine the extent to which the institution is serving geographies in each income category and whether there are conspicuous gaps unexplained by the performance context. Conclusions should recognize that institutions are not required to lend in every geography. The analysis should consider
 - a. (excluding affiliate lending) the number, dollar amount, and percentage of the institution's loans located within any of its assessment areas, as well as the number, dollar amount, and percentage of the institution's loans located outside any of its assessment areas;
 - b. the number, dollar amount, and percentage of each type of loan in the institution's portfolio in each geography, and in each category of geography (low-, moderate-, middle-, and upper-income);
 - c. the number of geographies penetrated in each income category, as determined in step (b), and the total number of geographies in each income category within the assessment area(s);
 - d. the number and dollar amount of its home purchase, home refinancing, and home improvement loans, respectively in each geography compared to the number of one-to-four family owner-occupied units in each geography;
 - e. the number and dollar amount of multifamily loans in each geography compared to the number of multifamily structures in each geography;
 - f. the number and dollar amount of small business and farm loans in each geography compared to the number of small businesses/farms in each geography;
 - g. whether any gaps exist in lending activity for each income category, by identifying groups of contiguous geographies that have no loans or those with low penetration relative to the other geographies.
 6. If there are groups of contiguous geographies within the institution's assessment area with abnormally low penetration, the examiner may determine if an analysis of the institution's performance compared to other lenders for home mortgage loans (using reported HMDA data) and for small businesses and small farm loans (using data provided by lenders subject to CRA) would provide an insight into the institution's lack of performance in those areas. This analysis is not required, but may provide insight if
 - a. the reported loan category is substantially related to the institution's business strategies;
 - b. the area under analysis substantially overlaps the institution's assessment area(s);

- c. the analysis includes a sufficient number and volume of transactions, and an adequate number of lenders with assessment area(s) substantially overlapping the institution's assessment area(s);
 - d. the assessment area data are free from anomalies that can cause distortions such as dominant lenders that are not subject to the CRA, a lender that dominates a part of an area used in calculating the overall lending, or there is an extraordinarily high level of performance, in the aggregate, by lenders in the institution's assessment area(s).
7. Using the analysis from step 6, form a conclusion as to whether the institution's abnormally low penetration in certain areas should constitute a negative consideration under the geographic distribution performance criteria of the lending test by considering
- a. the institution's share of reported loans made in low- and moderate-income geographies versus its share of reported loans made in middle- and upper-income geographies within the assessment area(s);
 - b. the number of lenders with assessment area(s) substantially overlapping the institution's assessment area(s);
 - c. the reasons for penetration of these areas by other lenders, if any, and the lack of penetration by the institution being examined that are developed through discussions with management and the community contact process;
 - d. the institution's ability to serve the subject area in light of (i) the demographic characteristics, economic condition, credit opportunities and demand; and (ii) the institution's business strategy and its capacity and constraints;
 - e. the degree to which penetration by the institution in the subject area in a different reported loan category compensates for the relative lack of penetration in the subject area; and
 - f. the degree to which penetration by the institution in other low- and moderate-income geographies within the assessment area(s) in reported loan categories compensates for the relative lack of penetration in the subject area.
8. Review any analyses prepared by or for and offered by the institution for insight into the reasonableness of the institution's distribution of lending by borrower characteristics. Test the accuracy of the data and determine if the analyses are reasonable. If areas of low or no penetration were identified, review explanations and determine whether action was taken to address disparities, if appropriate.
9. Supplement with an independent analysis of the distribution of the institution's lending within the assessment area by borrower characteristics as necessary and applicable. Consider factors such as
- a. the number, dollar amount, and percentage of the institution's total home mortgage loans and consumer loans, if included in the evaluation, to low-, moderate-, middle-, and upper-income borrowers;
 - b. the percentage of the institution's total home mortgage loans and consumer loans, if included in the evaluation, to low-, moderate-, middle-, and upper-income borrowers compared with the percentage of the population within the assessment area who are low-, moderate-, middle-, and upper-income;
 - c. the number and dollar amount of small loans originated to businesses or farms by loan size of less than \$100,000, at least \$100,000 but less than \$250,000, and at least \$250,000 but less than or equal to \$1 million;
 - d. the number and amount of the small loans to businesses or farms that had annual revenues of less than \$1 million compared with the total reported number and amount of small loans to businesses or farms; and
 - e. if the institution adequately serves borrowers within the assessment area(s), whether the distribution of the institution's lending outside of the assessment area based on borrower characteristics would enhance the assessment of the institution's overall performance.
10. Review data on the institution's community development loans using information obtained in the performance context procedures, especially with regard to community credit needs and institutional capacity, to determine
- a. the number and amount of community development loans in
 - i. the institution's assessment area(s); or
 - ii. the broader statewide or regional area that includes the assessment area(s) that support organizations or activities with a purpose, mandate, or function that includes serving the geographies or individuals located within the institution's assessment area(s);

- b. the extent to which community development lending opportunities have been available to the institution;
 - c. the institution's responsiveness to the opportunities for community development lending;
 - d. the extent of leadership the institution has demonstrated in community development lending; and
 - e. the innovativeness or complexity involved.
11. If the institution has been responsive to community development needs and opportunities in its assessment area(s) based on the analysis in step 10, consider
- a. the number and dollar amount of community development loans in the broader statewide or regional area that includes the assessment area(s) but
 - i. will not benefit the assessment area(s); and
 - ii. do not support organizations or activities with a purpose, mandate, or function that includes serving geographies or individuals located within the institution's assessment area(s);
 - b. the extent to which these loans enhance the institution's performance.
- Note: Refer to the appendix for additional guidance on addressing activities at the state, multistate MSA, or institution level.
12. Evaluate whether the institution's performance under the lending test is enhanced by offering innovative loan products or products with more flexible terms to meet the credit needs of low-and moderate-income individuals or geographies. Consider
- a. the degree to which the loans serve low- and moderate-income creditworthy borrowers in new ways or loans serve groups of creditworthy borrowers not previously served by the institution; and
 - b. the success of each product, including number and dollar amount of loans originated during the review period.
13. Discuss with management the preliminary findings in this section.
14. Summarize your conclusions regarding the institution's lending performance under the following criteria:
- a. lending activity;
 - b. geographic distribution;
 - c. borrower characteristics;
 - d. community development lending; and
 - e. use of innovative or flexible lending practices.
15. Prepare comments for the performance evaluation and the compliance examination report. Refer to the appendix for guidance on addressing community development activities in the performance evaluation.

Investment Test

1. Identify qualified investments by reviewing the institution's investment portfolio, and at the institution's option, its affiliate's investment portfolio. As necessary, obtain a prospectus, or other information that describes the investment(s) and the geographic area(s) or population(s) served. This review should encompass qualified investments, including investments in a broader statewide or regional area and in nationwide funds, that were made since the previous examination (including those that have been sold or have matured) and may consider qualified investments made prior to the previous examination still outstanding. Also, consider qualifying grants, donations, or in-kind contributions of property since the last examination that are for community development purposes. Determine
 - a. whether the investments have been considered under the lending or service tests; and
 - b. whether an affiliate's investments, if considered, have been claimed by another institution.
2. Evaluate investment performance using information obtained in the performance context procedures, especially with regard to community needs and institutional capacity. Determine
 - a. the number and amount of qualified investments in
 - i. the institution's assessment area(s); or
 - ii. the broader statewide or regional area that includes the assessment area(s) that support organizations or activities with a purpose, mandate, or function that includes serving the geographies or individuals located within the institution's assessment area(s);

Note: A large institution with a nationwide branch footprint typically has many assessment areas in many states. Investments in nationwide funds are likely to benefit such an institution's assessment area(s), or the broader statewide or

regional area that includes its assessment area(s), and provide that institution with the opportunity to match its investments with the geographic scope of its business.

- b. the extent to which qualified investment opportunities have been available to the institution;
 - c. the institution's responsiveness to opportunities for qualified investments;
 - d. the use of any innovative or complex investments, in particular those that are not routinely provided by other investors; and
 - e. the degree to which investments serve low- and moderate-income areas or individuals, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies, and the available opportunities for qualified investments.
3. If the institution has been responsive to community development needs and opportunities in its assessment area(s) based on the analysis in step 2, consider
 - a. the number and dollar amount of qualified investments in the broader statewide or regional area that includes the assessment area(s) but
 - i. will not benefit the assessment area(s); and
 - ii. do not support organizations or activities with a purpose, mandate, or function that includes serving geographies or individuals located within the institution's assessment area(s);
 - b. the extent to which these investments enhance the institution's performance.
Note: Refer to the appendix for additional guidance on addressing activities at the state or multistate MSA, or institution level.
 4. Discuss with management the preliminary findings in this section.
 5. Summarize conclusions about the institution's investment performance after considering
 - a. the number and dollar amount of qualified investments;
 - b. the innovativeness and complexity of qualified investments;
 - c. the degree to which these qualified investments are not routinely provided by other private investors; and
 - d. the responsiveness of qualified investments to available opportunities.
 6. Prepare comments for the performance evalua-

tion and the compliance examination report. Refer to the appendix for guidance on addressing community development activities in the performance evaluation.

Service Test

Retail Banking Services

1. Determine from information available in the institution's public file
 - a. the distribution of the institution's branches among low-, moderate-, middle-, and upper-income geographies in the institution's assessment area(s); and
 - b. banking services, including hours of operation and available loan and deposit products.
2. Obtain the institution's explanation for any material differences in the hours of operations of, or services available at, branches within low-, moderate-, middle-, and upper-income geographies in the institution's assessment area(s).
3. Evaluate the institution's record of opening and closing branch offices since the previous examination and information that could indicate whether changes have had a positive or negative effect, particularly on low- and moderate-income geographies or individuals.
4. Evaluate the accessibility and use of alternative systems for delivering retail banking services, (e.g., proprietary and nonproprietary ATMs, loan production offices (LPOs), banking by telephone or computer, and bank-at-work or by-mail programs) in low- and moderate-income geographies and to low- and moderate-income individuals.
5. Assess the quantity, quality and accessibility of the institution's service-delivery systems provided in low-, moderate-, middle-, and upper-income geographies. Consider the degree to which services are tailored to the convenience and needs of each geography (e.g., extended business hours, including weekends, evenings, or by appointment, providing bilingual services in specific geographies, etc.).

Community Development Services

6. Identify the institution's community development services including, at the institution's option, services through affiliates. Hold discussions with management and review available materials. Determine
 - a. whether services have been considered under the lending or investments tests; and
 - b. if provided by affiliates of the institution,

- services are not claimed by other affiliated institutions.
7. Evaluate performance using information obtained in the performance context procedures, especially with regard to community needs and institutional capacity. Determine
 - a. the extent of community development services provided in
 - i. the institution's assessment area(s); or
 - ii. the broader statewide or regional area that includes the assessment area(s) that support organizations or activities with a purpose, mandate, or function that includes serving the geographies or individuals located within the institution's assessment area(s);
 - b. their innovativeness, including whether they serve low- or moderate-income customers in new ways or serve groups of customers not previously served; and
 - c. the degree to which they serve low- or moderate-income areas or individuals and their responsiveness to available opportunities for community development services.
 8. If the institution has been responsive to community development needs and opportunities in its assessment area(s) based on the analysis in step 7, consider
 - a. the extent of community development services in the broader statewide or regional area that includes the assessment area(s) but
 - i. will not benefit the assessment area(s); and
 - ii. do not support organizations or activities with a purpose, mandate, or function that includes serving geographies or individuals located within the institution's assessment area(s);
 - b. the extent to which these services enhance the institution's performance.

Note: Refer to the appendix for additional guidance on addressing activities at the state, multistate MSA, or institution level.
 9. Discuss with management the preliminary findings.
 10. Summarize conclusions about the institution's system for delivering retail banking and community development services, considering
 - a. the distribution of branches among low-, moderate-, middle-, and upper-income geographies;
 - b. the institution's record of opening and closing branches, particularly branches located in low- or moderate-income geographies or primarily serving low- or moderate-income individuals;
 - c. the availability and effectiveness of alternative systems for delivering retail banking services;
 - d. the extent to which the institution provides community development services;
 - e. the innovativeness and responsiveness of community development services; and
 - f. the range and accessibility of services provided in low-, moderate-, middle-, and upper-income geographies.
 11. Prepare comments for the performance evaluation and the compliance examination report. Refer to the appendix for guidance on addressing community development activities in the performance evaluation.

Ratings

1. Group the analyses of the assessment areas examined by MSA and nonmetropolitan areas within each state where the institution has branches.³ If an institution has branches in two or more states of a multistate MSA, group the assessment areas that are in that multistate MSA.
2. Summarize conclusions regarding the institution's performance in each MSA and nonmetropolitan portion of each state with an assessment area that was examined using these procedures. If two or more assessment areas in an MSA or in a nonmetropolitan portion of a state were examined using these procedures, determine the relative significance of the institution's performance in each assessment area by considering
 - a. the significance of the institution's lending, qualified investments, and lending-related services in each compared to
 - i. the institution's overall activities;
 - ii. the number of other institutions and the extent of their activities; and
 - iii. the lending, investment, and service opportunities in each;
 - b. demographic and economic conditions in each.
3. Evaluate the institution's performance in those assessment area(s) not selected for examination using the full-scope procedures.

³ The reference to MSA may also reference MD.

- a. Revisit the demographic and lending, investment, and service data considered in scoping the examination. Also, consider the institution's operations (branches, lending portfolio mix, etc.) in the assessment area(s).
 - b. Through a review of the public file(s), consider any services that are customized to the assessment area(s).
 - c. Consider any other information provided by the institution (e.g., CRA self-assessment) regarding its performance in the area.
4. For MSAs, and the nonmetropolitan portion of the state, where one or more assessment areas were examined using the full-scope procedures, ensure that performance in the assessment area(s) not examined using the full-scope procedures is consistent with the conclusions based on the assessment area(s) examined in step 2, above. Select one of the following options for inclusion in the performance evaluation:
- a. the institution's [lending, investment, service] performance in [the assessment area/these assessment areas] is consistent with the institution's [lending, investment, service] performance in the assessment areas within [the MSA/nonmetropolitan portion of the state] that were reviewed using the examination procedures;
 - b. the institution's [lending/investment/service] performance in [the assessment area/these assessment areas] [exceeds/is below] the [lending/investment/service] performance in the assessment areas within [the MSA/nonmetropolitan portion of the state] that were reviewed using the examination procedures; however, it does not change the conclusion for the [MSA/nonmetropolitan portion of the state].
5. For MSA, and nonmetropolitan portions of the state, where no assessment area was examined using the full-scope procedures, form a conclusion regarding the institution's lending, investment, and service performance in the assessment area(s). When there are several assessment areas in the MSA, or the nonmetropolitan portion of the state, form a conclusion regarding the institution's performance in the MSA, or the nonmetropolitan portion of the state. Determine the relative significance of the institution's performance in each assessment area within the MSA, or the nonmetropolitan portion of the state, by considering
- a. the significance of the institution's lending, qualified investments, and lending-related services in each compared to the institution's overall activities;
 - b. demographic and economic conditions in each.
6. Also, select one of the following options for inclusion in the performance evaluation:
- a. the institution's [lending, investment, service] performance in [the assessment area/these assessment areas] is consistent with the institution's [lending, investment, service] performance [overall/in the state];
 - b. the institution's [lending/investment/service] performance in [the assessment area/these assessment areas] [exceeds/is below] the [lending/investment/service] performance for the [institution/state]; however, it does not change the [institution's/state] rating.
7. Determine the relative significance of each MSA and nonmetropolitan area to the institution's overall performance (institutions operating in one state) or statewide or multistate MSA performance (institutions operating in more than one state). Consider
- a. the significance of the institution's lending, qualified investments, and lending-related services in each compared to
 - i. the institution's overall activities;
 - ii. the number of other institutions and the extent of their activities; and
 - iii. the lending, investment, and service opportunities in each;
 - b. demographic and economic conditions in each.
8. When determining the state or multistate MSA rating, as applicable, consider
- a. community development loans and services and qualified investments in the institution's assessment area(s) in the state or multistate MSA;
 - b. community development loans and services and qualified investments
 - i. in the broader statewide or regional area that includes the institution's assessment area(s) in the state or multistate MSA; and
 - ii. that support organizations or activities with a purpose, mandate, or function that includes serving individuals or geographies in the institution's assessment area(s); and
 - c. if the institution has been responsive to community development needs and opportunities in its assessment area(s) based on the analysis in steps 8a and 8b, consider

Table 1. Component test ratings

Component test ratings	Points for lending	Points for investment	Points for service
Outstanding	12	6	6
High satisfactory	9	4	4
Low satisfactory	6	3	3
Needs to improve	3	1	1
Substantial noncompliance	0	0	0

- any community development loans and services and qualified investments in the broader statewide or regional area that includes the institution's assessment area(s) in the state or multistate MSA that
- i. will not benefit the assessment area(s); and
 - ii. do not support organizations or activities with a purpose, mandate, or function that includes serving geographies or individuals located within the institution's assessment area(s).
9. Using the component test ratings chart, above, assign component ratings that reflect the institution's lending, investment, and service performance. In the case of an institution with branches in just one state, one set of component ratings will be assigned to the institution. In the case of an institution with branches in two or more states and multistate MSAs, component ratings will be assigned for each state or multistate MSA reviewed.
10. Assign a preliminary composite rating for the institutions operating in only one state and a preliminary rating for each state or multistate MSA reviewed for institutions operating in more than one state. In assigning the rating, sum the numerical values of the component test ratings for the lending, investment, and service tests and refer to the composite rating chart below. No institution, however, may receive an assigned rating of "satisfactory" or higher unless it receives a rating of at least "low satisfactory" on the lending test. In addition, an institution's assigned rating can be no more than three times the score on the lending test.
11. Consider an institution's past performance if the prior rating was "needs to improve." If the poor performance has continued, an institution could be considered for a "substantial noncompliance" rating.
12. For institutions with branches in more than one state or multistate MSA, assign a preliminary overall rating.
- a. To determine the relative importance of each state and multistate MSA to the institution's overall rating, consider
 - i. the significance of the institution's lending, qualified investments, and lending-related services in each compared to
 1. the institution's overall activities;
 2. the number of other institutions and the extent of their activities in each; and
 3. the lending, investment, and service opportunities in each;
 - ii. demographic and economic conditions in each.
 - b. Consider the community development loans and services and qualified investments that meet the geographic requirements and that have not been considered in assigning state or multistate MSA ratings. For example, a qualified investment in a regional or nationwide fund that meets the geographic requirements and benefits more than one state, but was not considered because the benefits are not attributable to a particular state or multistate MSA, would be considered at the overall institution level.
13. Review the results of the most recent compliance examination and determine whether evidence of discriminatory or other illegal credit practices that violate an applicable law, rule, or regulation should lower the institution's preliminary overall CRA rating, or the preliminary CRA rating for a state or multistate MSA.⁴ If evidence of discrimination or other illegal credit practices by the institution in any geography, or in any assessment area by any affiliate whose loans have been considered as part of the bank's

Table 2. Composite rating

Composite rating	Points needed
Outstanding	20+
Satisfactory	11–19
Needs to improve	5–10
Substantial noncompliance	0–4

4. "Evidence of discriminatory or other illegal credit practices" includes, but is not limited to: (a) discrimination against applicants on a prohibited basis in violation, for example, of the Equal Credit Opportunity Act or the Fair Housing Act; (b) violations of the Home Ownership and Equity Protection Act; (c) violations of section 5 of the Federal Trade Commission Act; (d) violations of section 8 of the Real Estate Settlement Procedures Act; and (e) violations of the Truth in Lending Act regarding a consumer's right of rescission.

- lending performance, was found, consider the following:
- a. the nature, extent, and strength of the evidence of the practices;
 - b. the policies and procedures that the institution (or affiliate, as applicable) has in place to prevent the practices;
 - c. any corrective action the institution (or affiliate, as applicable) has taken, or has committed to take, including voluntary corrective action resulting from self-assessment; and
 - d. any other relevant information.
14. Assign final overall rating to the institution. Consider
- a. the preliminary rating; and
 - b. any evidence of discriminatory or other illegal credit practices, and discuss conclusions with management.
15. Write comments and conclusions and create charts and tables reflecting area demographics; the institution's operation; and its lending, investment, and service activity in each assessment area for inclusion in the performance evaluation.
16. Prepare recommendations for supervisory strategy and matters that require attention for follow-up activities.
- Public File Checklist**
1. There is no need to review each branch or each complete public file during every examination. In determining the extent to which the institution's public files will be reviewed, consider the institution's record of compliance with the public file requirements in previous examinations; its branching structure and changes to it since its last examination; complaints about the institution's compliance with the public file requirements, and any other relevant information.
 2. In any review of the public file undertaken, determine, as needed, whether branches display an accurate public notice in their lobbies and the file(s) in the main office and in each state contains
 - a. all written comments from the public relating to the institution's CRA performance and responses to them for the current and preceding two calendar years (except those that reflect adversely on the good name or reputation of any persons other than the institution);
 - b. the institution's most recent CRA performance evaluation;
 3. In any branch review undertaken, determine whether the branch provides the most recent performance evaluation and a list of services generally available at its branches and a description of any material differences in availability or cost of services at the branch (or a list of services available at the branch).

Appendix A. Community Development Activities

Qualified community development (CD) activities in the assessment area (AA) or the broader statewide or regional area that includes the AA(s)

Initial level activity is considered during the evaluation

Has a purpose, mandate, or function that includes serving the AA

Specific AA when an activity benefits and is targeted to the AA.

State/multistate MSA when an activity benefits or is

targeted to two or more AAs, or the state or multistate MSA.

Institution level when an activity benefits or is targeted to

- a regional area of two or more states not in a multistate MSA, or
- a regional area that includes, but is larger than, one multistate MSA.

Does not have a purpose, mandate, or function that includes serving the AA

If the institution has been responsive to CD needs and opportunities in its AA(s), these activities may enhance performance at the state, multistate MSA, or institution level as applicable.

State/multistate MSA when the activity benefits geographies or individuals located in a state or multistate MSA where the bank has one or more defined AA.

Institution level when the activity is in the broader regional area that includes the bank's AA(s).

Note: It is not appropriate to assign activities to a specific AA or state unless the bank can demonstrate the activity benefitted, and was targeted to, the AA or state.

PE comments

Specific AA—Discuss conclusions regarding evaluation of the level of activity. Comment on the quantitative measure of the loan/investment/service and the qualitative aspects that augmented performance levels.

State/multistate MSA—Discuss conclusions regarding evaluation of the level of activity. Comment on the quantitative measure of all loans, investments, and services in all the AA(s) in the state or multistate MSA combined. Include statewide and regional

activities that contribute to the state/multistate MSA's overall assessment and indicate if related amounts are in addition to or included in specific AA discussions or tables. Explain if loans, investments, and/or services for any AA were given greater weight than others and why. Comment generally on qualitative aspects that augmented performance, such as responsiveness to need, degree of innovation, or complexity.

Institution level—Discuss conclusions regarding evaluation of the level of activity. Comment on the quantitative measure of all loans, investments, and services in all states and multistate MSAs combined. Include regional and nationwide activities that contribute to the institution's overall assessment and indicate if related amounts are in addition to or included in the specific state or multistate MSA discussions or tables. Explain if loans, investments, and/or services for any state or multistate MSA were given greater weight than others and why. Comment generally on qualitative aspects that augmented performance, such as responsiveness to need, degree of innovation, or complexity.

Show in tables (when used)

Specific AA—Include qualified activities the bank can demonstrate directly benefit or target the AA.

State/multistate MSA—Separate line for qualified activities that support an organization or activity that covers an area that is larger than, but includes the institution's AA, and has not been attributed to a specific AA. Include regional activities and nationwide investments that benefit, or are targeted to, a specific state or multistate MSA.

Institution level—Separate lines for (1) regional and (2) nationwide activities that were not otherwise attributed to a specific AA, state, or multistate MSA.

Large Institutions Ratings Matrixes

Lending-Test Matrix

Characteristic	Outstanding	High Satisfactory	Low Satisfactory	Needs to Improve	Substantial Noncompliance
Lending activity	Lending levels reflect excellent responsiveness to assessment-area credit needs.	Lending levels reflect good responsiveness to assessment-area credit needs.	Lending levels reflect adequate responsiveness to assessment-area credit needs.	Lending levels reflect poor responsiveness to assessment-area credit needs.	Lending levels reflect very poor responsiveness to assessment-area credit needs.
Assessment-area(s) concentration	A substantial majority of loans are made in the institution's assessment area(s).	A high percentage of loans are made in the institution's assessment area(s).	An adequate percentage of loans are made in the institution's assessment area(s).	A small percentage of loans are made in the institution's assessment area(s).	A very small percentage of loans are made in the institution's assessment area(s).
Geographic distributions of loans	The geographic distribution of loans reflects excellent penetration throughout the assessment area(s).	The geographic distribution of loans reflects good penetration throughout the assessment area(s).	The geographic distribution of loans reflects adequate penetration throughout the assessment area(s).	The geographic distribution of loans reflects poor penetration throughout the assessment area(s), particularly to low- or moderate-income geographies in the assessment area(s).	The geographic distribution of loans reflects very poor penetration throughout the assessment area(s), particularly to low- or moderate-income geographies in the assessment area(s).
Borrowers' profile	The distribution of borrowers reflects, given the product lines offered by the institution, excellent penetration among retail customers of different income levels and among business customers of different sizes.	The distribution of borrowers reflects, given the product lines offered by the institution, good penetration among retail customers of different income levels and among business customers of different sizes.	The distribution of borrowers reflects, given the product lines offered by the institution, adequate penetration among retail customers of different income levels and among business customers of different sizes.	The distribution of borrowers reflects, given the product lines offered by the institution, poor penetration among retail customers of different income levels and among business customers of different sizes.	The distribution of borrowers reflects, given the product lines offered by the institution, very poor penetration among retail customers of different income levels and among business customers of different sizes.

Lending-Test Matrix—continued

Characteristic	Outstanding	High Satisfactory	Low Satisfactory	Needs to Improve	Substantial Noncompliance
Responsiveness to credit needs of highly economically disadvantaged geographies and to low-income persons and small business	The institution exhibits an excellent record of serving the credit needs of the most economically disadvantaged area(s) of its assessment area(s), low-income individuals, and/or very small businesses, consistent with safe and sound banking practices.	The institution exhibits a good record of serving the credit needs of the most economically disadvantaged area(s) of its assessment area(s), low-income individuals, and/or very small businesses, consistent with safe and sound banking practices.	The institution exhibits an adequate record of serving the credit needs of the most economically disadvantaged area(s) of its assessment area(s), low-income individuals, and/or very small businesses, consistent with safe and sound banking practices.	The institution exhibits a poor record of serving the credit needs of the most economically disadvantaged area(s) of its assessment area(s), low-income individuals, and/or very small businesses, consistent with safe and sound banking practices.	The institution exhibits a very poor record of serving the credit needs of the most economically disadvantaged area of its assessment area(s), low-income individuals, and/or very small businesses, consistent with safe and sound banking practices.
Community development lending activities	The institution is a leader in making community development loans.	The institution has made a relatively high level of community development loans.	The institution has made an adequate level of community development loans.	The institution has made a low level of community development loans.	The institution has made few, if any, community development loans.
Product innovation	The institution makes extensive use of innovative and/or flexible lending practices in order to serve assessment-area credit needs.	The institution uses innovative and/or flexible lending practices in order to serve assessment-area credit needs.	The institution makes limited use of innovative and/or flexible lending practices in order to serve assessment-area credit needs.	The institution makes little use of innovative and/or flexible lending practices in order to serve assessment-area credit needs.	The institution makes no use of innovative and/or flexible lending practices in order to serve assessment-area credit needs.

Investment-Test Matrix

Characteristic	Outstanding	High Satisfactory	Low Satisfactory	Needs to Improve	Substantial Noncompliance
Investment and grant activity	The institution has an excellent level of qualified community development investment and grants, often in a leadership position, particularly those that are not routinely provided by private investors.	The institution has a significant level of qualified community development investments and grants, occasionally in a leadership position, particularly those that are not routinely provided by private investors.	The institution has an adequate level of qualified community development investments and grants, although rarely in a leadership position, particularly those that are not routinely provided by private investors.	The institution has a poor level of qualified community development investments and grants, but not in a leadership position, particularly those that are not routinely provided by private investors.	The institution has a few, if any, qualified community development investments or grants, particularly those that are not routinely provided by private investors.
Responsiveness to credit and community development needs	The institution exhibits excellent responsiveness to credit and community economic development needs.	The institution exhibits good responsiveness to credit and community economic development needs.	The institution exhibits adequate responsiveness to credit and community economic development needs.	The institution exhibits poor responsiveness to credit and community economic development needs.	The institution exhibits very poor responsiveness to credit and community economic development needs.
Community development initiatives	The institution makes extensive use of innovative and/or complex investments to support community development initiatives.	The institution makes significant use of innovative and/or complex investments to support community development initiatives.	The institution occasionally uses innovative and/or complex investments to support community development initiatives.	The institution rarely uses innovative and/or complex investments to support community development initiatives.	The institution does not use innovative and/or complex investments to support community development initiatives.

Service-Test Matrix

Characteristic	Outstanding	High Satisfactory	Low Satisfactory	Needs to Improve	Substantial Noncompliance
Accessibility of delivery systems	Delivery systems are readily accessible to all portions of the institution's assessment area(s).	Delivery systems are accessible to essentially all portions of the institution's assessment area(s).	Delivery systems are reasonably accessible to essentially all portions of the institution's assessment area(s).	Delivery systems are accessible to limited portions of the institution's assessment area(s).	Delivery systems are inaccessible to significant portions of the assessment area(s), particularly low- and moderate-income geographies and/or low- and moderate-income individuals.
Changes in branch locations	To the extent changes have been made, the institution's record of opening and closing branches has improved the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals.	To the extent changes have been made, the institution's opening and closing of branches has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals.	To the extent changes have been made, the institution's opening and closing of branches has generally not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals.	To the extent changes have been made, the institution's record of opening and closing branches has adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals.	To the extent changes have been made, the institution's opening and closing of branches has significantly adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies and/or to low- and moderate-income individuals.
Reasonableness of business hours and services in meeting assessment-area(s) needs	Services (including where appropriate, business hours) are tailored to the convenience and needs of the assessment area(s), particularly low- and moderate-income geographies and/or individuals.	Services (including, where appropriate, business hours) do not vary in a way that inconveniences certain portions of the assessment area(s), particularly low- and moderate-income geographies and/or individuals.	Services (including, where appropriate, business hours) do not vary in a way that inconveniences portions of the assessment area(s), particularly low- and moderate-income geographies and/or individuals.	Services (including, where appropriate, business hours) vary in a way that inconveniences certain portions of the assessment area(s), particularly low- and moderate-income geographies and/or individuals.	Services (including, where appropriate, business hours) vary in a way that significantly inconveniences many portions of the assessment area(s), particularly low- and moderate-income geographies and/or individuals.
Community development services	The institution is a leader in providing community development services.	The institution provides a relatively high level of community development services.	The institution provides an adequate level of community development services.	The institution provides a limited level of community development services.	The institution provides few, if any, community development services.

Large Institutions Format Guidance for Public Disclosure of Examination Results

This following guidance was transmitted in CA 02-7 (June 13, 2002). The guidance may be applied to the new large-bank performance evaluation templates transmitted in CA 05-7 (September 16, 2005).

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SAMPLE LARGE INSTITUTION EVALUATION

PUBLIC DISCLOSURE

(Date of Evaluation)

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Name of Depository Institution

Institution's Identification Number

Address of Institution

Name of Supervisory Agency

Address of Supervisory Agency

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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This table of contents is a sample for a large, multistate institution, and should be adjusted, as appropriate, to reflect the scope of the institution's operations. Refer to the Instructions for Writing Public Evaluations for further guidance.

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INSTITUTION'S RATING

INSTITUTION'S CRA RATING: *Name of financial institution* is rated “[**BOLDFACE CAPS**].”

The following table indicates the performance level of name of financial institution with respect to the lending, investment, and service tests. [Indicate the performance level under each criteria by marking an “X” in the appropriate row.]

PERFORMANCE LEVELS	NAME OF FINANCIAL INSTITUTION		
	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory			
Low Satisfactory			
Needs to Improve			
Substantial			
Noncompliance			

* The lending test is weighted more heavily than the investment and service tests in determining the overall rating.

Summarize the major factors supporting the institution's rating. When illegal discrimination or discouragement has been identified and has affected the rating, the summary should include a statement that the rating was influenced by violations of the substantive provisions of the antidiscrimination laws. The summary should not mention any technical violations of the antidiscrimination laws.

NOTE

Present a bullet point **summary of the major factors supporting the institution's rating** with respect to each test.

INSTITUTION

DESCRIPTION OF INSTITUTION

Write a brief description of the institution. Include relevant information regarding the institution's holding company and affiliates, if any, the states and assessment areas served, the institution's ability to meet various credit needs based on its financial condition and size, product offerings, prior performance, legal impediments and other factors. Other information that may be important includes total assets, asset/loan portfolio mix, primary business focus, branching network, and any merger or acquisition activity.

NOTE

In addition to the above, remember: (1) When describing the bank's assessment areas, indicate if there has been any change in assessment areas since the prior examination. If so, explain the changes briefly with any necessary details. (2) A conclusion must be stated regarding the bank's ability to meet the various credit needs in its assessment areas but do not disclose confidential information, in accordance with the prohibition in 12 CFR 261.2(c)(1)(i). (3) You may include a map of the bank's assessment areas in an appendix.

SCOPE OF EXAMINATION

NOTE

Scope information orients the reader and, when presented here, eliminates repetition later in the document. At a minimum, the following items should be discussed: the specific lending products reviewed; the names of any affiliates reviewed and their corresponding lending, investment or service activities; the institution's assessment areas and whether its activities in the assessment areas were reviewed using the full examination procedures; and the period covered in the review. Indicate if any products or assessment areas were given greater weight in reaching conclusions. Indicate that the information presented here pertains throughout the evaluation unless specifically noted otherwise.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Discuss the institution's overall CRA performance. The facts, data and analyses that were used to form a conclusion about the rating should be reflected in the narrative, including institution strengths and areas for improvement. The narrative should clearly demonstrate how the results of each of the performance test analyses and relevant information from the performance context factored into the overall institution rating. Charts and tables should be used whenever possible to summarize and effectively present the most critical or informative data used by the examiner in analyzing the institution's performance and reaching conclusions.

Write a paragraph about the institution's record of complying with the antidiscrimination laws (ECOA, FHA, or HMDA) using the following guidelines.

When substantive violations involving illegal discrimination or discouragement are found by the [Agency] or identified through self-assessment(s), state that substantive violations were found, whether they caused the CRA rating to be adjusted downward, and why the rating was or was not adjusted. Identify the law(s) and regulation(s) violated, the extent of the violation(s) (for example, widespread, or limited to a particular state, office, division, or subsidiary) and characterize management's responsiveness in acting upon the violation(s). Determine whether the institution has policies, procedures, training programs, internal assessment efforts, or other practices in place to prevent discriminatory or other illegal credit practices.

If no substantive violations were found, state that no violations of the substantive provisions of the antidiscrimination laws and regulations were identified. Even if discrimination has not been found, comments related to the institution's fair lending policies, procedures, training programs and internal assessment efforts may still be appropriate. If applicable, technical violations cited in the report of

examination should be presented in general terms. Discuss whether management has [proposed/taken] steps that [have/would if implemented] address(ed) the technical violation(s).

NOTE

Use the following format for the discussion:

LENDING TEST

State the rating (for example, “outstanding,” “high satisfactory,” “low satisfactory”) with respect to the lending test and provide a brief explanation to support the rating. This explanation should include the ratings of the states or conclusions about the full-scope MSAs, whichever is applicable, evaluated at the examination. Explain when any areas were given greater weight than others were.

Lending Activity: State the conclusion (for example, “excellent,” “good,” “adequate”) regarding lending activity. Use the Total Lending Activity Table below to show the total number and dollar value of all applicable loans originated or purchased by the bank and its affiliates. (Adjust table if consumer or other loan types are being evaluated.) If no affiliate lending is included, do not use the Total Lending Activity Table. Instead, refer to the combined totals from the Assessment Area Lending Table discussed below.

EXHIBIT 1
Summary of Lending Activity

Loan Type	#	%	\$(000s)	%
HMDA home purchase	3,994	--	758,385	--
HMDA refinancings	2,081	--	399,258	--
HMDA home improvement	626	--	2,831	--
HMDA multifamily	52	--	130,041	--
Total HMDA-related	6,753	68	1,290,515	75
Total small business	3,239	32	424,913	25
TOTAL LOANS	9,992	100	\$1,715,428	100

Note: Affiliate loans include only loans originated or purchased within the bank’s assessment areas.

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Assessment Area Concentration: Discuss the level of lending activity inside and outside all the bank's assessment areas, using the Assessment Area Lending Table below. (Adjust the table if small farm, consumer, or other loan types are being evaluated.) It is not necessary to state a conclusion regarding assessment area concentration since this is factored into the overall lending activity conclusion. Provide a discussion if there is a high level of lending outside the assessment area. Refer to Core Table 1: Lending Volume, for additional information about assessment area lending.

EXHIBIT 2
Lending Inside and Outside the Assessment Area

	Inside				Outside			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
HMDA home improvement	617	99	2,786	98	9	1	45	2
HMDA multifamily	45	87	111,581	86	7	13	18,460	14
Total HMDA-related	662	98	114,367	86	16	2	18,505	14
Total small business	3,180	98	414,159	97	59	2	10,754	3
TOTAL LOANS	3,842	98	\$528,526	98	75	2	\$29,259	5

Note: Affiliate loans not included.

Geographic and Borrower Distribution: State a conclusion (for example, “excellent,” “good,” “adequate”) regarding each of these elements of the lending test. Remember that overall conclusions are based on performance in the various assessment areas. It is not necessary to recalculate geographic and borrower distribution data for all the bank’s assessment areas combined. Support your conclusions by specifying the ratings/conclusions in the various assessment areas states or MAs (as applicable) that were factored into the conclusions about the bank’s overall performance. Discuss performance in general. Detailed discussions should be reserved for assessment area write-ups.

With respect to geographic distribution, note whether or not any significant lending gaps in contiguous geographies unexplained by performance context were found. If there were such lending gaps indicate in which assessment area(s) they occurred and include a cross-reference to the appropriate section of the evaluation.

In addition, discuss any significant qualitative aspects that may have augmented the bank’s overall geographic or borrower performance. This can include innovative or flexible lending practices or products that are available in all assessment areas. Describe the product or practice briefly and indicate in what way it assisted low- and moderate-income (LMI) geographies and/or LMI borrowers. State the volume of loans originated through the programs and that they are included in the overall volume of loans evaluated. If the products or practices are unique to specific states or assessment areas, they should be mentioned only briefly, and the reader should be directed to the appropriate section of the evaluation for a more detailed discussion.

Community Development Lending: State a conclusion about the level of community development lending (for example, “the bank is a leader,” “its level of . . . is relatively high,” “its level of . . . is adequate”) overall and in states or full-scope MAs, whichever is applicable. Note if any activity was outside the bank’s assessment area and explain why such activity was given consideration. Explain when any areas were given greater weight than others were. Refer as appropriate to issues relating to performance context and availability of opportunities. Provide the total of community development loans (number and dollar amount) in all the bank’s assessment areas combined. Similarly, provide these totals for “other community development lending activity” that was considered, such as letters of credit. Include general comments and specific examples of qualitative aspects of the activity that may have augmented performance, such as responsiveness to need, degree of innovation, or complexity. Other than in the examples, details about the qualitative aspects of the loans should be presented in the discussions of the state or assessment area where the loans are located. Refer to Core Table 1 for information on the level of community development lending in the individual assessment areas.

INVESTMENT TEST

State the rating (for example, “outstanding,” “high satisfactory,” “low satisfactory”) with respect to the investment test overall and provide a brief explanation to support this rating. This explanation should include the ratings of the states or conclusions about full-scope MAs, whichever is applicable. Note if any activity was outside the bank’s assessment area and explain why such activity was given consideration. Explain when any areas were given greater weight than others were. Provide the total amount of investments (number and dollar amount) in all the assessment areas combined, and state a conclusion (for example, “excellent,” “significant,” “adequate”) regarding the level of activity. Note if any investments were given greater weight than others were and explain why. Give the details of any investments that assist the overall, regional, or multiple assessment areas. Indicate if the amounts of such investments are in addition to or included in the specific assessment area activity shown in Core Table 14, which should be cross-referenced. Make general comments and provide specific examples of the qualitative aspects that may have augmented performance, such as responsiveness to need, degree of innovation, or complexity. Other than in the examples, details about the qualitative aspects of investments should be presented in the discussions of the state or assessment area to which the investments relate.

SERVICE TEST

State the rating (for example, “outstanding,” “high satisfactory,” “low satisfactory”) with respect to the service test. Support your rating by specifying the ratings/conclusions in the various assessment areas (states or MAs as applicable) that were factored into the conclusions about the bank’s overall performance. State general conclusions regarding each element of the retail service portion as well as the community development service portion of the test, using the terminology of Appendix A to Regulation BB, which describes the various performance levels. Detailed discussions should be reserved for assessment area write-ups. However, if there are particular assessment areas in which performance was exceptionally good or bad, you may mention the assessment area(s) and provide a cross-reference to the section of the evaluation in which detailed information is presented. Products should be described generally, and a statement should be made that they are available as described throughout all the assessment areas unless otherwise noted.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS

As previously noted, write a paragraph about the institution’s record of complying with the antidiscrimination laws. Use the guidelines on page 3.

MULTISTATE METROPOLITAN AREA

CRA RATING FOR (*Name of Multistate Metropolitan Area, Including State Names*):¹

The lending test is rated:

The investment test is rated:

The service test is rated:

[Complete for each multistate metropolitan area where an institution has branches in two or more states within the multistate metropolitan area.]

Summarize the major factors supporting the institution's multistate metropolitan area rating. When illegal discrimination or discouragement has been identified and has affected the rating, the conclusion should include a statement that the rating was influenced by violations of the substantive provisions of the antidiscrimination laws. The conclusion should not mention any technical violations of the antidiscrimination laws.

NOTE

Present a bullet point summary supporting the ratings with respect to each test.

SCOPE OF EXAMINATION

Write a short description of the scope of the examination within the multistate MA. Discuss how CRA activities in the multistate MA were reviewed (using the examination procedures or through an analysis of available facts and data), and the time period covered in the review.

NOTE

In addition to the above, indicate any variance from the information presented in the scope section of the institution portion of this document and explain the reason(s) for the variance. If there is more than one assessment area in the multistate metropolitan area, refer to the state and metropolitan area portions of this document for guidance.

1. This rating reflects performance within the multistate metropolitan area. The statewide evaluations are adjusted and do not reflect performance in the parts of those states contained within the multistate metropolitan area.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN (NAME OF MULTISTATE METROPOLITAN AREA)

Describe the institution's operations within the multistate metropolitan area, including a description of each of the assessment area(s) that it serves within the multistate metropolitan area. Information that may be important includes: total assets; asset/loan portfolio mix; primary business focus; branching network; and any merger or acquisition activity. For each of the assessment areas served, include key information such as the number of branches within the assessment area and the number of individuals and geographies in each income category. Indicate how many of those assessment areas were reviewed using the examination procedures.

Other information that may be important includes population trends, type and condition of housing stock, available employment, and general business activity. Also include a summary of any credit needs identified and particular lending opportunities which were noted. Discuss, if appropriate, the number and kinds of CRA-related community contacts that were consulted and relevant information obtained and used, if any, in the CRA evaluation. Typically, more detailed information will be presented for assessment areas reviewed using the examination procedures. Charts and tables may be used to effectively present information as appropriate, particularly for assessment areas that are not reviewed using the examination procedures.

NOTE

In addition to the above, identify the states, counties and major cities that constitute the MA and provide the following data: total deposits in the MA, MA deposits as a percentage of the state's overall total deposits, and the institution's deposit share in the MA. Discuss qualitative aspects that may have influenced the bank's performance, such as the level of competition and length of time in the market. Insert the demographic information table below, which provides most demographic details. In addition, discuss HUD adjusted-income ranges, unemployment rates and major employers, and provide an overview of the economy together with any other relevant performance context information you used, including information obtained from community contacts.

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EXHIBIT 3
Assessment Area Demographics

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	39	14.6	37,694	7.8	15,579	41.3	113,168	23.3
Moderate-income	57	21.3	90,481	18.6	20,899	23.1	79,578	16.4
Middle-income	96	36.0	192,219	39.6	23,846	12.4	93,094	19.2
Upper-income	75	28.1	164,819	34.0	8,355	5.1	199,373	41.1
Total Assessment Area	267	100.0	485,213	100.0	68,679	14.2	485,213	100.0
Housing Units by Tract	Housing Types by Tract							
	Owner-occupied			Rental		Vacant		
	#	%	%	#	%	#	%	
Low-income	71,485	12,252	3.3	17.1	50,122	70.1	9,111	12.7
Moderate-income	150,066	48,351	12.9	32.2	87,510	58.3	14,205	9.5
Middle-income	292,074	153,540	40.8	52.6	110,334	37.8	28,200	9.7
Upper-income	257,663	161,863	43.0	62.8	68,383	26.5	27,417	10.6
Total Assessment Area	771,288	375,006	100.0	48.8	316,349	41.0	78,933	10.2
Total Businesses by Tract	Businesses by Tract & Revenue Size							
	Less Than or = \$1 Million			Over \$1 Million		Revenue Not Reported		
	#	%	%	#	%	#	%	
Low-income	8,402	10.1	9.9	1,306	10.9	0	--	
Moderate-income	15,865	19.0	18.4	2,688	22.5	0	--	
Middle-income	25,892	31.0	32.2	2,864	23.9	0	--	
Upper-income	33,388	40.0	39.5	5,114	42.7	0	--	
Tract not reported	0	0.0	0.0	0	0	0	0	--
Total Assessment Area	83,547	100.0	71,575	100.0	11,972	100.0	0	--
	Percentage of Total Business:		85.7		14.3			

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CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN (NAME OF MULTISTATE METROPOLITAN AREA)

Discuss the institution's CRA performance within the multistate metropolitan area, including institution strengths and areas for improvement. The narrative should clearly demonstrate how the results of each of the performance test analyses factored into the rating. Support your conclusions with an analysis of facts and data, such as the number and volume of loans and investments, by type, across geographies and borrower categories in the assessment areas reviewed using the examination procedures. In addition, support your conclusions with a discussion of facts and data for assessment areas reviewed using the limited examination procedures when appropriate. Indicate whether the institution's performance in the assessment areas reviewed without using the examination procedures is consistent with the institution's record in assessment areas reviewed using the examination procedures in the multistate metropolitan area. Charts and tables should be used whenever possible to summarize and effectively present the most critical or informative data used by the examiner in analyzing the institution's performance and reaching conclusions.

NOTE

The discussion of conclusions should reflect the following format:

LENDING TEST

State a rating with respect to the lending test (for example, “outstanding,” “high satisfactory,” “low satisfactory”) and briefly explain the basis for the rating.

Lending Activity: State a conclusion (for example, “excellent,” “good,” “adequate”) regarding lending activity and refer to Core Table 1: Lending Volume for details. Explain the basis of your conclusion, and, as applicable, include performance context information.

Geographic Distribution: State a conclusion (for example, “excellent,” “good,” “adequate”) regarding the overall geographic distribution of loans and refer to Core Tables 2 through 7 and Table 13, as applicable, for details. Explain the basis of your conclusion, with reference to applicable performance context and community contact information. Discuss performance with respect to each of the following loan products, as applicable: HMDA-related (for example, home purchase loans, refinancings) small business, small farm, and consumer. For each product category:

1. State a conclusion (for example, “excellent,” “good,” “adequate”) concerning the evaluation of performance in relation to the appropriate demographic and aggregate data contained in the core tables, and insert key numbers as necessary.
2. Discuss separately performance in LMI geographies.
3. Discuss any significant lending gaps in contiguous geographies.
4. Discuss any qualitative aspects of lending performance that may have augmented performance, such as innovative or flexible lending practices or products. Products or practices already discussed in detail at the institution level should be mentioned only briefly. However, for those products or practices unique to the multistate metropolitan area, provide a more detailed description of the product(s) or practice(s) and indicate in what way LMI geographies were assisted. Include information on the volume of loans originated through the programs and indicate that the loans are included in the overall volume of loans evaluated.

Distribution by Borrower Income and Revenue Size of the Business: State a conclusion (for example, “excellent,” “good,” “adequate”) regarding the overall distribution of loans by borrower income and revenue size of the business. Refer to Core Tables 8 through 13, as applicable, for details. Explain the basis of your conclusion, and include applicable performance context and community contact information. Discuss separately performance with respect to HMDA-related, small business loans, consumer and small farm loans, as applicable. For each product category:

1. State a conclusion (for example, “excellent,” “good,” “adequate”) regarding the evaluation of performance in relation to the appropriate demographic and aggregate information provided in the tables, using key numbers as necessary.
2. For HMDA-related and consumer loans, discuss performance separately in relation to LMI borrowers.
3. Discuss any qualitative aspects of lending performance that may have augmented performance levels, such as innovative or flexible lending practices or products. Products or practices already discussed in detail at the institution level should be mentioned only briefly. However, for those products or practices unique to the multistate metropolitan area, provide general descriptions of the product(s) or practice(s) and indicate in what way LMI borrowers were assisted. Include information about the volume of loans originated through the programs and indicate that the loans are included in the overall volume of loans evaluated.

Community Development Loans: State a conclusion about the level of community development lending (for example, “the bank is a leader,” “makes a relatively high level of” or, “makes an adequate level of . . .”) and refer as appropriate to issues relating to performance context and availability of opportunities. State the total of community development loans (number and dollar amount) in the multistate area, and reference Core Table 1 for loan volume in the individual assessment areas. In addition, state the total in the multistate area of “other community development activity” considered, such as letters of credit. Provide details on and specific examples of the qualitative aspects that may have augmented performance, such as responsiveness to need, degree of innovation, or complexity.

INVESTMENT TEST

State a rating (for example, “outstanding,” “high satisfactory,” “low satisfactory”) with respect to the investment test. Note the combined total, in number and dollar amount, of all investments in the MA assessment area, and direct the reader to Core Table 14 for MA details. Note if any investments were given greater weight than others were and explain why. Comment on the qualitative aspects that may have augmented performance, such as responsiveness to need, degree of innovation, or complexity. Provide significant examples of qualified investments to substantiate your conclusions.

SERVICE TEST

State a rating (for example, “outstanding,” “high satisfactory,” “low satisfactory”) with respect to the overall service test and briefly explain the basis for the rating.

Retail Services

For retail services, state a conclusion regarding each of the following items. Use the terminology of Appendix A of Regulation BB for describing the various performance levels:

1. Accessibility of branches, with a reference to Core Table 15 for details and a comparison of branch locations with the population information provided in the table.
2. Availability of alternative delivery systems that may effectively enhance service to LMI geographies or persons.
3. Changes in branch locations (as shown in Table 15) and the impact on LMI geographies or persons.
4. Reasonableness of services if it differs from the overall.

Community Development Services

State a conclusion (for example, “leader in providing,” “provides a relatively high level”) regarding community development services and provide details and specific examples representative of the institution’s activity.

STATE

CRA RATING FOR (Name of State):²***The lending test is rated:******The investment test is rated:******The service test is rated:***

[Complete for each state in which an institution has branches if the institution has branches in two or more states. For an institution that has branches in only one state, complete the Metropolitan Area and Non-Metropolitan Statewide Area presentations only for that state, as applicable in light of the location of the branches.]

Summarize the major factors supporting the institution's state rating. When illegal discrimination or discouragement has been identified and has affected the rating, the conclusion should include a statement that the rating was influenced by violations of the substantive provisions of the antidiscrimination laws. The conclusion should not mention any technical violations of the antidiscrimination laws.

NOTE

Present a bullet point summary to support the ratings with respect to each test.

SCOPE OF EXAMINATION

Write a short description of the scope of the examination within the state. Discuss how CRA activities in the state were reviewed (which metropolitan areas or non-metropolitan statewide areas included assessment areas that were reviewed using the full examination procedures and which metropolitan areas were reviewed through an analysis of available facts and data), and the time period covered in the review.

NOTE

In addition to the above, indicate any variance from the information presented in the scope section of the institution portion of the document and explain the reason(s) for the variance. Specify which assessment areas had full reviews and which had limited ones and note if any areas fully reviewed were given greater weight in reaching conclusions.

2. For institutions with branches in two or more states in a multistate metropolitan area, this statewide evaluation is adjusted and does not reflect performance in the parts of those states contained within the multistate metropolitan area. Refer to the multistate metropolitan area rating and discussion for the rating and evaluation of the institution's performance in that area.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN (NAME OF STATE)

Describe the institution's operations within the state, including a description of the assessment area(s) served. Information that may be important includes: total statewide assets; asset/loan portfolio mix; primary business focus; branching network; any merger or acquisition activity; and a brief description of the metropolitan areas, non-metropolitan areas, and assessment areas served within the state.

NOTE

In addition to the above, specify the MAs that are included in the state's assessment areas and their general location in the state, and provide data on the following: total deposits in the state, state deposits as a percentage of the bank's overall total deposits, and the bank's deposit share in the state. In addition, discuss qualitative aspects that may have influenced the bank's performance, such as the level of competition and length of time in the market. General information concerning the total population of the combined assessment areas, income ranges and unemployment levels, and a broad economic overview should also be presented. Include a general discussion of credit needs in the assessment area(s) and any information from community contacts that is applicable to the entire state. Specific demographic information is to be presented in the discussions relating to the individual assessment areas.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN (NAME OF STATE)

Discuss the institution's CRA performance within the state. The facts, data and analyses that were used to form a conclusion about the rating should be reflected in the narrative, including institution strengths and areas for improvement. The narrative should clearly demonstrate how the results of each of the performance test analyses factored into the rating. Charts and tables should be used whenever possible to summarize and effectively present the most critical or informative data used by the examiner in analyzing the institution's performance and reaching conclusions.

NOTE

Use the following format for the discussion of conclusions:

LENDING TEST

State the rating (for example, "outstanding," "high satisfactory," "low satisfactory") with respect to the lending test and provide a brief explanation to support the rating. The explanation should include the conclusions for the full-scope MAs evaluated at the examination. Explain when any areas were given greater weight than others were.

Lending Activity: State a conclusion (for example, "excellent," "good," "adequate") regarding

lending activity. Insert the Total Lending Activity Table into the text (see example in institution section) showing the number and dollar value of all applicable loans originated or purchased by the bank and its affiliates, if applicable, in all assessment areas in the state. Make reference to Core Table 1: Lending Volume for further information about lending in specific assessment areas. You may note strengths or weaknesses in lending activity in specific assessment areas if necessary; however, details should usually be given only in the discussions of the specific assessment areas.

Geographic and Borrower Distribution: State a conclusion (for example, “excellent,” “good,” “adequate”) regarding each of these elements of the lending test. Remember that overall conclusions are based on performance in the various assessment areas, and it is not necessary to calculate performance data for all the assessment areas in the state. Provide support by specifying the conclusions in the various assessment areas that were factored into the bank’s overall performance. Discuss performance in general. Detailed discussions should be reserved for assessment area write-ups.

With respect to geographic distribution, provide a general discussion of any significant lending gaps in contiguous geographies that were found. Details should be provided in the discussion of the assessment area concerned.

In addition, discuss any significant qualitative aspects that may have augmented the bank’s performance levels in the state, for example, innovative or flexible lending practices or products that are available throughout the assessment areas in the state. Provide a general description of the product(s) or practice(s) and indicate in what way LMI geographies and/or LMI borrowers were assisted. Include information on the volume of loans originated under the programs and indicate that the loans are included in the overall volume of loans evaluated. If such products or practices are unique to specific assessment areas, they should be mentioned only briefly and the reader should be directed to the appropriate section(s) of the evaluation for details.

Community Development Loans: State a conclusion about the level of community development lending (for example, “the bank is a leader,” “makes a relatively high level,” “makes an adequate level”) overall and in full-scope MAs. Explain when any areas were given greater weight than others were. Refer as appropriate to issues pertaining to performance context and availability of opportunities. State the total of community development loans (number and dollar amount) in all the assessment areas in the state combined, and direct the reader to Core Table 1 for data on the volume of loans in each assessment area. In addition, state the total of “other community development activity” considered, such as letters of credit. Provide general comments and specific examples of qualitative aspects that may have augmented performance, such as responsiveness to need, degree of innovation, or complexity. Other than in the examples, details about the qualitative aspects of loans should be presented in the discussions of the assessment areas in which the loans are located.

INVESTMENT TEST

State the rating (for example, “outstanding,” “high satisfactory,” “low satisfactory”) with respect to the investment test in the state and in the full-scope MAs. Explain when any areas were given greater weight than others were. Provide the total amount of investments (number and dollar) for all the assessment areas in the state combined and state a conclusion regarding evaluation of the level of activity (for example, “excellent,” “significant,” “adequate”). Note if any investments were given greater weight than others were and explain why. Describe the details of any investments that assist the state’s overall assessment areas. Indicate if such amounts are in addition to or included in the specific assessment area activity shown in Core Table 14: Qualified Investments, and direct the reader to that table. Comment generally on the qualitative aspects that may have augmented performance, such as responsiveness to need, degree of innovation, or complexity. Details of qualitative aspects of investments should be presented in the discussions of the assessment areas to which the investments relate.

SERVICE TEST

State the rating (for example, “outstanding,” “high satisfactory,” “low satisfactory”) with respect to the service test and support your rating by specifying the conclusions in the various assessment areas that were factored into the rating of the bank’s performance. State conclusions about performance regarding each element of the retail service portion of the test as well as to the community development service portion. Use the terminology of Regulation BB Appendix A, which describes the various performance levels. Detailed discussions should be reserved for assessment area write-ups. However, if there are particular assessment areas in which performance was exceptionally good or bad, you may mention the assessment area(s) and refer to the section(s) of the document in which detailed information is presented. Discuss any differences in products offered that are unique to the state.

METROPOLITAN AREAS

(For metropolitan areas with some or all assessment areas reviewed using the examination procedures.)

DESCRIPTION OF INSTITUTION'S OPERATIONS IN (Name of Metropolitan Area & State)

Describe the institution's operations within the metropolitan area, including a description of each of the assessment area(s) that it serves within the metropolitan area. Information that may be important includes: the number of branches within the assessment areas and the number of individuals and geographies in each income category. Indicate how many of those assessment areas were reviewed using the full examination procedures. Other information that may be important includes population trends, income levels, type and condition of housing stock, available employment, and general business activity. Also include a summary of any credit needs identified and particular lending opportunities which were noted.

Discuss, if appropriate, the number and kinds of CRA-related community contacts that were consulted and relevant information obtained and used, if any, in the CRA evaluation. Typically, more detailed information will be presented for assessment areas reviewed using the full examination procedures. Charts and tables may be used to effectively present information as appropriate, particularly for assessment areas that are reviewed using the limited examination procedures.

NOTE

In addition to the above, specify the counties and major cities that make up the MA and include data on the following: total deposits in the MA, MA deposits as a percentage of the state's overall total deposits, and the bank's deposit share in the MA. Discuss qualitative aspects that may have influenced the bank's performance, such as the level of competition and length of time in the market. Insert the demographic information table below, which provides primary demographic details. Finally, discuss HUD adjusted-income levels, unemployment rates and major employers, and provide an overview of the economy and any other relevant performance context information you used, including information obtained from community contacts.

EXHIBIT 3
Assessment Area Demographics
(Insert name of assessment area)

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	39	14.6	37,694	7.8	15,579	41.3	113,168	23.3
Moderate-income	57	21.3	90,481	18.6	20,899	23.1	79,578	16.4
Middle-income	96	36.0	192,219	39.6	23,846	12.4	93,094	19.2
Upper-income	75	28.1	164,819	34.0	8,355	5.1	199,373	41.1
Total Assessment Area	267	100.0	485,213	100.0	68,679	14.2	485,213	100.0
Housing Units by Tract	Housing Types by Tract							
	Owner-occupied			Rental		Vacant		
Low-income	71,485	12,252	3.3	17.1	50,122	70.1	9,111	12.7
Moderate-income	150,066	48,351	12.9	32.2	87,510	58.3	14,205	9.5
Middle-income	292,074	153,540	40.8	52.6	110,334	37.8	28,200	9.7
Upper-income	257,663	161,863	43.0	62.8	68,383	26.5	27,417	10.6
Total Assessment Area	771,288	375,006	100.0	48.8	316,349	41.0	78,933	10.2
Total Businesses by Tract	Businesses by Tract & Revenue Size							
	Less Than or = \$1 Million			Over \$1 Million		Revenue Not Reported		
Low-income	8,402	10.1	7,096	9.9	1,306	10.9	0	--
Moderate-income	15,865	19.0	13,177	18.4	2,688	22.5	0	--
Middle-income	25,892	31.0	23,028	32.2	2,864	23.9	0	--
Upper-income	33,388	40.0	28,274	39.5	5,114	42.7	0	--
Tract not reported	0	0.0	0	0.0	0	0	0	--
Total Assessment Area	83,547	100.0	71,575	100.0	11,972	100.0	0	--
	Percentage of Total Business:		85.7			14.3		

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN (NAME OF METROPOLITAN AREA AND STATE)

Discuss the institution's CRA performance within the metropolitan area, including institution strengths and areas for improvement. The narrative should clearly demonstrate how the results of each of the performance test analyses factored into the conclusions. Support your conclusions with an analysis of facts and data, such as the number and volume of loans and investments, by type, across geographies and borrower categories in the assessment areas reviewed using the full examination procedures. In addition, support your conclusions with a discussion of facts and data for assessment areas reviewed using the limited examination procedures when appropriate. Indicate whether the institution's performance in the assessment areas reviewed using the limited examination procedures is consistent with the institution's record in assessment areas reviewed using the full examination procedures in the metropolitan area. Charts

and tables should be used whenever possible to summarize and effectively present the most critical or informative data used by the examiner in analyzing the institution's performance and reaching conclusions.

NOTE

Use the following format for the discussion:

LENDING TEST

State a conclusion with respect to the lending test (for example, "excellent," "good," "adequate") and provide a brief explanation, including performance context information, as applicable, to support the conclusion.

Lending Activity: State a conclusion (for example, "excellent," "good," "adequate") regarding lending activity and direct the reader to Core Table 1: Lending Volume for details. Explain the basis of your conclusion, with reference to any applicable performance context information.

Geographic Distribution: State a conclusion (for example, "excellent," "good," "adequate") regarding the overall geographic distribution of loans and direct the reader to Core Tables 2 through 7 and Table 13, as applicable, for details. Explain the basis of your conclusion, with reference to any applicable performance context and community contact information. Discuss separately performance with respect to HMDA-related products, such as home purchase loans and refinancings, as well as with respect to small business and small farm loans and consumer loans, as applicable. For each product category:

1. State a conclusion (for example, "excellent," "good," "adequate") regarding performance, with reference to the appropriate demographic and aggregate information contained in the core tables, and insert key numbers as necessary.
2. Discuss separately performance in LMI geographies.
3. Discuss any significant lending gaps in contiguous geographies.
4. Discuss any qualitative aspects of lending performance that may have augmented performance. These may include innovative or flexible lending practices or products that are available throughout the bank's assessment areas or that are unique to the particular assessment area. Products or practices already discussed in detail at the institution or state level should be mentioned only briefly. However, for those products or practices unique to the assessment area, provide details about the product(s) or practice(s) and indicate in what way LMI geographies were assisted. Include information concerning the volume of loans originated under the programs and indicate that the loans are included in the overall volume of loans evaluated.

Distribution by Borrower Income and Revenue Size of the Business: State a conclusion (for example, “excellent,” “good,” “adequate”) regarding the overall distribution of loans by borrower income and revenue size of the business. Refer to Core Tables 8 through 13, as applicable, for details. Explain the basis of your conclusion, with reference to any applicable performance context and community contact information. Discuss separately performance with respect to HMDA-related loans, small business loans, small farm loans, and consumer loans, as applicable. For each product category:

1. State a conclusion (for example, “excellent,” “good,” “adequate”) regarding performance in relation to the appropriate demographic and aggregate information provided in the tables, using key numbers as necessary.
2. For HMDA-related and consumer loans, discuss separately performance with respect to LMI borrowers.
3. Discuss any qualitative aspects of lending performance that may have augmented performance levels. These may include innovative or flexible lending practices or products that are available throughout the bank’s assessment areas or that are unique to the particular assessment area. Products or practices already discussed in detail at the institution or state level should be mentioned only briefly. However, for those products or practices unique to the assessment area, provide a more detailed description of the product(s) or practice(s) and indicate in what way LMI borrowers were assisted. Include information on the volume of loans originated under the programs and indicate that they are included in the overall volume of loans evaluated.

Community Development Lending: State a conclusion (for example, “the bank is a leader,” “makes a relatively high level of . . . ,” “makes an adequate level of . . . ”) for community development lending, and refer to performance context and availability of opportunities issues, as appropriate. State the volume of loans originated and purchased, and note any “other community development activity” that was considered, such as letters of credit. Indicate the level (number and dollar amount) of community development lending directed toward each of the four community development categories (for example, affordable housing) and include significant examples as warranted.

INVESTMENT TEST

State a conclusion (for example, “excellent,” “good,” “adequate”) regarding the level of investments. Note the number and dollar amount of investments in the assessment area, and direct the reader to Core Table 14 for details. Note if any investments were given greater weight than others were and explain why. Comment on the qualitative aspects that may have augmented performance levels, such as responsiveness to need, degree of innovation, or complexity. Provide significant examples of qualified investments to substantiate your conclusions.

SERVICE TEST

State a conclusion (for example, “excellent,” “good,” “adequate”) for the overall service test and the basis for the conclusion.

Retail Services

For retail services, using the terminology in Appendix A to Regulation BB, state a conclusion based on the following:

1. Accessibility of branches, with a reference to Core Table 15 for details and a comparison of branch locations with the population information provided in the table.
2. Availability of alternative delivery systems that may effectively enhance service to LMI geographies or persons.
3. Changes in branch locations (as shown in Table 15) and the impact on LMI geographies or persons.
4. Reasonableness of services if conclusion differs from that for the services overall.

Community Development Services:

State a conclusion (for example, “leader in providing,” “provides a relatively high level”) regarding community development services and provide details concerning and examples of the bank’s activity.

METROPOLITAN AREAS

(For each metropolitan area where no assessment areas were reviewed using the examination procedures.)

DESCRIPTION OF INSTITUTION'S OPERATIONS IN (NAME OF METROPOLITAN AREA AND STATE)

Describe the institution's operations within the metropolitan area, including a description of each of the assessment area(s) that it serves within the metropolitan area. Include key information such as the number of branches within the assessment areas and the number of individuals and geographies in each income category.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN (NAME OF METROPOLITAN AREA AND STATE)

Summarize the facts and data that were reviewed, including demographic information on the assessment areas and information on the institution's performance. Indicate whether the institution's performance in the assessment areas reviewed using the limited examination procedures is consistent with the institution's record [overall/in the state], using one of the two following statements:

- a. The institution's [lending, investment, service] performance in the area is consistent with the institution's [lending, investment, service] performance overall [or in the state].
- b. The institution's [lending, investment, service] performance in the area [exceeds/is below], the institution's [lending, investment, service] performance for the [institution/state]; however, it does not change the rating for the [institution/state]

NOTE

Activity and performance context information for assessment areas having limited reviews is presented in the core tables and should not be repeated here. Conclusions (consistent, exceeds, or below) regarding performance should be entered into a table that includes all limited review assessment areas in a particular state. If there is only one such area, conclusions can be presented in text and no table is necessary.

Please use the following text in your public evaluation:

"Facts and data reviewed, including performance and demographic information, can be found in the tables accompanying this report. Conclusions regarding performance, which did not impact the overall (insert either "institution" or "state") rating, are as follows:"

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Assessment Area	Lending Test	Investment Test	Service Test

NON-METROPOLITAN STATEWIDE AREA³

(If some or all of the assessment areas within the non-metropolitan statewide area were reviewed using the examination procedures.)

NOTE

For guidance in preparing this portion of the public evaluation, see **METROPOLITAN AREAS** beginning on page 19.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN (NAME OF NON-METROPOLITAN AREA AND STATE)

Describe the institution's operations within the non-metropolitan statewide area, including a description of each of the assessment area(s) that it serves within the non-metropolitan statewide area. Information that may be important includes the number of branches within the assessment areas and the number of individuals and geographies in each income category. Indicate how many of those assessment areas were reviewed using the full examination procedures. Other information that may be important includes population trends, income levels, type and condition of housing stock, available employment, and general business activity. Also include a summary of any credit needs identified and particular lending opportunities which were noted.

Discuss, if appropriate, the number and kinds of CRA-related community contacts that were consulted and relevant information obtained and used, if any, in the CRA evaluation. Typically, more detailed information will be presented for assessment areas reviewed using the full examination procedures. Charts and tables may be used to effectively present information as appropriate, particularly for assessment areas that are reviewed using the limited examination procedures.

3. The discussion of an institution's CRA performance within a non-metropolitan statewide area is only required for institutions with branches in two or more states. A separate discussion of CRA performance within a non-metropolitan statewide area for intrastate banks that have branches in metropolitan and non-metropolitan areas is optional because the performance in the non-metropolitan areas have been reviewed and discussed in the overall evaluation of the institution. Examiners may wish to discuss in greater detail, however, the assessment areas within non-metropolitan areas that were reviewed using the examination procedures for intrastate banks with branches in metropolitan and non-metropolitan areas, or for intrastate banks with branches only in non-metropolitan areas.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN
(NAME OF NON-METROPOLITAN AREA AND STATE)**

Discuss the institution's CRA performance within the non-metropolitan statewide area. The facts, data and analyses that were used to form a conclusion should be reflected in the narrative, including institution strengths and areas for improvement. The narrative should clearly demonstrate how the results of each of the performance test analyses factored into the conclusions for the non-metropolitan statewide area. Support your conclusions with an analysis of facts and data, such as the number and volume of loans and investments, by type, across geographies and borrower categories in the assessment areas reviewed using the full examination procedures. In addition, support your conclusions with a discussion of facts and data for assessment areas reviewed using the limited examination procedures when appropriate. Indicate whether the institution's performance in the assessment areas reviewed using the limited examination procedures is consistent with the institution's record in assessment areas reviewed using the full examination procedures in the non-metropolitan statewide area.

Charts and tables should be used whenever possible to summarize and effectively present the most critical or informative data used by the examiner in analyzing the institution's performance and reaching conclusions.

NON-METROPOLITAN STATEWIDE AREA⁴

(If none of the assessment areas within the non-metropolitan statewide area were reviewed using the examination procedures.)

DESCRIPTION OF INSTITUTION'S OPERATIONS IN (NAME OF NON-METROPOLITAN AREA AND STATE)

Describe the institution's operations within the non-metropolitan statewide area, including a description of each of the assessment area(s) that it serves. Include key information such as the number of branches within each assessment area and the number of individuals and geographies in each income category.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN (NAME OF NON-METROPOLITAN STATEWIDE AREA)

Summarize the facts and data that were reviewed, including demographic information on the assessment areas and information on the institution's performance. Indicate whether the institution's performance in the assessment areas reviewed using the limited examination procedures is consistent with the institution's record [overall/in the state], using one of the two following statements:

- a. The institution's [lending, investment, service] performance in the area is consistent with the institution's [lending, investment, service] performance overall [or in the state].
- b. The institution's [lending, investment, service] performance in the area [exceeds/is below], the institution's [lending, investment, service] performance for the [institution/state]; however, it does not change the rating for the [institution/state].

NOTE

For guidance in preparing this portion of the public evaluation, see **METROPOLITAN AREAS** beginning on page 24.

4. The discussion of an institution's CRA performance within a non-metropolitan statewide area is only required for institutions with branches in two or more states. A separate discussion of CRA performance within a non-metropolitan statewide area for intrastate banks that have branches in metropolitan and non-metropolitan areas is optional. Examiners may wish to discuss in greater detail, however, the assessment areas within the non-metropolitan areas that were reviewed using the examination procedures for intrastate banks with branches in metropolitan and non-metropolitan areas, or for intrastate banks with branches only in non-metropolitan areas.

CRA APPENDIX A

SCOPE OF EXAMINATION

NOTE

The Scope of Examination discussion has been moved to the front of the public disclosure. On this page, refer the reader to that discussion, which is on page 3 in this document. There is a statutory requirement that the written evaluation of a multistate institution's performance must list the individual branches examined in each state. Therefore, this appendix must be used for multistate institutions. In addition, large institutions with multiple assessment areas or affiliates subject to examination may warrant the use of charts that convey information regarding the scope of the examination. The following chart may be used as a supplement to the discussion of the scope. If it is used, please refer to Appendix A in your discussion.

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SCOPE OF EXAMINATION [SAMPLE]

TIME PERIOD REVIEWED	1/1/95 TO 6/30/96		
FINANCIAL INSTITUTION XYZ State Bank Grand Rapids, MI			PRODUCTS REVIEWED • Small Business • Small Farm • Consumer • Unsecured
AFFILIATE(S)	AFFILIATE RELATIONSHIP		PRODUCTS REVIEWED
XYZ Mortgage Company	Bank subsidiary		Mortgage loans
XYZ Community Investment Corporation	Holding company subsidiary		Investments
XYZ Credit Card Corporation	Holding company subsidiary		Credit Cards

LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION

ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED ⁵	OTHER INFORMATION
ILLINOIS MSA 0008 Decatur Adams County Non-MSA rural Illinois	Full procedures Ltd. procedures Full procedures		Mortgage loans not offered in non-MSA rural areas.
MICHIGAN MSA 0001 Grand Rapids City of Marcellus Non-MSA rural Michigan	Full procedures Full procedures Ltd. procedures		The scope of examination for non-MSA rural Michigan branches encompasses activities for the past six months, coinciding with their acquisition date.

NOTE

In the “branches visited” column, insert the names and addresses of the branches where examiners checked for technical compliance (sign and public file, if applicable). Under the table insert the following text:

“Note: “Branches visited” indicates where technical compliance with the CRA (signs, public file, etc.) was confirmed. The evaluation of the institution’s CRA performance takes into consideration activity from all branch locations, as described in the “Scope of Examination.”

5. There is a statutory requirement that the written evaluation of a multistate institution’s performance must list the individual branches examined in each state.

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CRA APPENDIX B
SUMMARY OF STATE AND MULTISTATE MSA RATINGS

State or Multistate Metropolitan Area Name	Lending Test Rating	Investment Test Rating	Service Test Rating	Overall State Rating

NOTE

The following appendix has been added to the public disclosure. It is based on the definitions used in relation to the FFIEC core tables. Please do not delete or change any items listed here. You may add items that are appropriate for a particular examination.

CRA APPENDIX C**GLOSSARY**

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Block numbering area (“BNA”): A statistical subdivision of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. A BNA does not cross county lines.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration’s Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into ‘male householder’ (a family with a male householder and no wife present) or ‘female householder’ (a family with a female householder and no husband present).

Full review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

Geography: A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Metropolitan area (MA): Any primary metropolitan statistical area (“PMSA”), metropolitan statistical area (“MSA”), or consolidated metropolitan area (“CMSA”), as defined by the Office of Management and Budget, with a population of 250,000 or more, and any other area designated as such by the appropriate federal financial supervisory agency.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

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CRA APPENDIX D **CORE CRA TABLES**

NOTE

Insert all applicable CRA core tables here.

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CRA APPENDIX E

ASSESSMENT AREA MAPS

NOTE

You may include a map of the bank's assessment areas in this optional appendix.

Wholesale or Limited-Purpose Institutions Examination Procedures and Sample Format for Public Disclosure of Examination Results

The Examination Procedures for Wholesale or Limited-Purpose Institutions and the Sample Format for Public Disclosure of Examination Results follow. Both documents are also available on the web site of the Federal Financial Institutions Examination Council.

Examination Procedures: www.ffiec.gov/cra/pdf/cra_exwhole.pdf

Sample Format for Public Disclosure of Examination Results: www.ffiec.gov/cra/pdf/ex_instruct_w.pdf

Institutions with Strategic Plans Examination Procedures and Sample Format for Public Disclosure of Examination Results

The Examination Procedures for Institutions with Strategic Plans and the Sample Format for Public Disclosure of Examination Results follow. Both documents are also available on the web site of the Federal Financial Institutions Examination Council.

Examination Procedures: www.ffiec.gov/cra/pdf/cra_exsplan.pdf

Sample Format for Public Disclosure of Examination Results: www.ffiec.gov/cra/pdf/ex_instruct_sp.pdf

Community Reinvestment Act Sampling and Resubmission of CRA Data

In August 2001, the Board adopted a uniform policy for the sampling and resubmission of data collected and maintained by state member banks, in accordance with Regulation BB. Although the sampling approach and data-resubmission policy are similar to those used for the verification and resubmission of data required to be reported under the Home Mortgage Disclosure Act,¹ there are two differences. First, the key fields are different.² Second, examiners will need to verify the accuracy of the CRA data aggregation for those banks that do not use the FFIEC data entry software for editing and reporting small business and small farm loan data.

As with the HMDA sampling procedures, the approach outlined in the “Data-Integrity Sampling Procedures” section of this chapter and illustrated by the “CRA Sampling Schedule” employs a two-tier sampling method that allows examiners in certain scenarios to stop their file review after a minimal number of files have been reviewed. For example, if the institution reported data for 150 loan files, the total number of files that should be randomly sampled during the exam is 56. The policy, however, allows examiners to review a smaller number of loans initially and subsequently decrease the sample size, provided that no more than 1 file in the initial sample contains errors in any key field.

For example, as noted in the CRA sampling schedule, for a universe of 150 files, the initial review would encompass 29 files. If, after completing the review of these 29 files, the examiner noted no more than one error in any key field for these files, the examiner should stop the file review. No additional files should be reviewed.

However, if the examiner finds that between 2 and 5 files have one or more errors in key fields, the examiner must continue reviewing the 27 additional files, for a total sample size of 56 files. After completing the review of the total sample of 56 files, the examiner should determine the total number of files that have key-field errors and apply the new

1. These procedures are outlined in CA 00-2 and in the “Data-Integrity Sampling Procedures” section of this chapter.

2. Key fields for CRA are

- For small business and small farm loans: the loan amount at origination, the loan location (MSA, state, county, census tract), and an indicator whether the loan was to a business or farm with gross annual revenues of \$1 million or less;
- For community development loans: the loan amount at origination or purchase and an accurate community development purpose, as documented in supporting loan files; and
- For consumer loans collected and maintained at the bank's option: the loan amount at origination or purchase, the loan location, and the gross annual income of the borrower.

CRA data-resubmission policy (see the “Data-Resubmission Standards” section of this chapter) to the entire sample, if necessary.

If, however, in a universe of 150 files, the examiner finds 6 or more files that have an error or errors in key fields during the initial file review, the examiner should stop after completing a review of the initial 29 files. In this case, the findings based on the initial files reviewed would constitute sufficient statistical evidence to conclude that a larger sample would have an unacceptable error rate, thus requiring resubmission. At this point, the examiner should apply the CRA data-resubmission standards to the total sample.

After analyzing the errors found during the sampling process, examiners may choose to perform supplemental targeted random sampling. For example, after completing a review of a CRA sample, an examiner may discover that CRA data errors appear to be coming from one particular loan decision center or are most prevalent in a particular product type. The examiner might decide to select a supplemental random sample of loan records specifically tied to that loan decision center or loan product. In these instances, supplemental samples should follow the same sampling process as the original sample, utilizing the two-tier approach found in the CRA sampling schedule. The statistical validity of this approach relies upon review of a random sample from the data maintained at each bank, as well as on a review of information year by year (separate universes) and not combined into one universe.

The following sections, “Data-Integrity Sampling Procedures,” “CRA Sampling Schedule for Data Accuracy,” and “Data-Resubmission Standards,” are based on attachments I, II, and III, respectively, to CA 00-2.

Data-Integrity Sampling Procedures

The following CRA data-integrity sampling procedures should be applied when reviewing data collected and maintained by state member banks, in accordance with the data collection, reporting, and disclosure requirements of Regulation BB:

1. *Identify and select the loan files to be reviewed.* For each CRA reporter, review applicable loan data for the current year and all other years since the last examination. The data collected and maintained for a single year constitute the universe from which a sample is taken. As a

- result, it may be necessary to select multiple samples.
2. *Determine the total number of files to be sampled from column G in the "CRA Sampling Schedule for Data Accuracy" table, based on the size of the universe.* (This table, which will be referred to as the schedule, can be found in the next section of this chapter.)
 3. *Select the total random sample.* (Instructions for selecting a random sample are contained in attachment 1 to CA 00-2.)
 4. *Review the initial number of files shown in column B of the schedule.*
 5. *The examiner may stop the sampling process after review of the initial number of files is completed, if the results indicate that a very small number of files had errors in key fields.* (See footnote 2 for a description of the key fields.) Using the schedule, this number can be determined by referencing column C.
For example, if a CRA universe contains 150 files, a total random sample of 56 files should be taken. The examiner may initially begin file review on 29 files. If, upon completing review of the initial 29 files, the examiner finds no more than 1 file with any error or errors in key fields, the examiner may end the sampling process for that CRA reporter for that universe. The examiner may then reach a statistically reliable conclusion that the findings are indicative of the universe and resubmission³ is not necessary.
 6. *The examiner must complete a review of the total random sample of files if a larger number of files with errors in key fields are found during the initial file review.* The need for this additional file review can be determined by using the schedule and referencing column D titled "Number of files with errors—Additional file review required." If the number of files that have errors in key fields from the initial review falls within the number reflected in this column, the examiner must review the additional files to complete the total random sample.
 7. *If an examiner determines that a large number of files reviewed in the initial file review have an error or errors in key fields, the examiner may stop the verification of loan data after the initial file review is completed and should apply the data-resubmission standards.* This maximum number can be determined by using the schedule and referencing column E. For example, if a CRA universe contains 150 files, a total random sample of 56 files should be taken. The examiner may initially begin file review on 29 files. If, upon completing review of the initial 29 files, the examiner finds 6 (or more) files that have an error or errors in key fields, the examiner should stop the file review. Sufficient statistical evidence has been obtained to conclude that a larger sample would have an unacceptable number of errors, thus requiring resubmission. At this point, the examiner should apply the CRA data-resubmission standards to the total sample.
 8. *Determine the software used by the bank for editing and reporting small business and small farm loan data.* If the bank uses the FFIEC data entry software for editing and reporting small business and small farm loan data, no further review is needed. If the bank does not use the FFIEC software, verify the accuracy of the CRA data aggregation.

3. For consumer loan data, the decision would not be whether to require resubmission but if the data collected and maintained are used as part of the CRA examination. If a bank elects to have consumer lending data considered during its CRA examination, the data must meet these accuracy standards. If consumer lending constitutes a substantial majority of a bank's business, the examiner should evaluate the bank's consumer lending in one or more of the categories specified in section 228.12(k) of Regulation BB (motor vehicle loan, credit card loan, home equity loan, other secured consumer loan, or other unsecured consumer loan) using loan files sampled by the examiner.

CRA Sampling Schedule for Data Accuracy

A	B	C	D	E	F	G
CRA UNIVERSE	INITIAL FILE REVIEW				ADDITIONAL FILE REVIEW	TOTAL RANDOM SAMPLE
	Initial file review	Maximum number of files with errors*— Stop sampling	Number of files with errors*— Additional file review required (go to column F)	Minimum number of files with errors*— Stop sampling & apply resubmission standards		
1-12	Review all					
12-20	12	0	1	2	Review all	All
21-30	13	0	1	2	Review all	All
31-50	15	0	1-2	3	13	28
51-70	17	0	1-2	3	12	29
71-90	18	0	1-3	4	20	38
91-110	28	1	2-3	4	11	39
111-130	29	1	2-4	5	18	47
131-140	29	1	2-4	5	20	49
141-170	29	1	2-5	6	27	56
171-190	30	1	2-5	6	27	57
191-270	30	1	2-5	6	29	59
271-380	30	1	2-6	7	38	68
381-750	31	1	2-6	7	38	69
751-1100	31	1	2-7	8	48	79
1101-	32	1	2-7	8	47	79

*Files with one or more errors in key fields. See footnote 2 for a description of the key fields.

Data-Resubmission Standards

To ensure the integrity of the CRA data used for analysis, the following guidelines should be used when considering whether to have an institution resubmit CRA data.

Institutions should be required to correct and resubmit CRA small business and small farm data when at least 5.0 percent of the data collected and maintained in accordance with section 42(a) of Regulation BB were recorded incorrectly. The key fields covered by this 5.0 percent rule are

- The loan amount at origination,
- The loan location (MSA, state, county, census tract), and
- An indicator whether the loan was to a business or farm with gross annual revenues of \$1 million or less.

Institutions are required to correct the aggregate number and aggregate amount of community development loans originated or purchased if data for 5.0 percent or more of the number or amount of the underlying loans do not meet the definition of community development.

Rounding errors in the loan amount and income fields should not be counted towards resubmission.

In addition to basing a resubmission on the error rate for an individual field, if at least 10.0 percent of the institution's records have an error in at least one of the key fields, then the entire CRA file must be resubmitted. In this instance, the institution must verify the data in each of the fields and not just those with greater than a 5.0 percent error rate.

Community Reinvestment Act Community Contact Procedures

General Guidelines

The primary objectives of conducting interviews with local community contacts are to

- Gather information that might assist in the development of a community profile;
- Determine opportunities for participation by financial institutions in helping to meet local credit needs;
- Understand perceptions on the performance of financial institutions in helping meet local credit needs; and
- Provide a context on the community to assist in the evaluation of an institution's CRA performance.

This section provides information and procedures for conducting community contact interviews. It broadly addresses a wide variety of subjects to accommodate varying communities and types of institutions. As a result, it is *not* meant to be used in the order presented. Examiners should select those steps and procedures that apply to the unique circumstances of the institution and/or the community.

Coverage and Frequency of Community Contacts

Community contacts typically take the form of personal meetings. Telephone conversations or larger group meetings are permitted as necessary and appropriate. Information from other financial regulatory agencies is also available in electronic form. At least in conjunction with each examination, the [agency] will conduct community contacts in the MSA, county, or assessment area(s) that the financial institution in question is serving. When possible, those community contacts should be conducted early in the examination to help to provide a context on the community to assist in the evaluation of performance.

Selection of Community Contacts

The number and nature of contacts will depend upon a variety of factors, including the complexity of the community, the size and type of the institution examined, and the amount and age of community-driven information already available to the examiner.

Treatment of Confidential Information

Confidentiality of Institution's Records

Examiners must maintain the confidentiality of any institution's proprietary information. When making community contacts, the examiner should not reveal any confidential information obtained from the institution's files or through discussions with management, or any conclusions drawn about the institution's performance or CRA rating.

Protection of Community Contacts

Maintaining the confidentiality of the community contact's identity, when requested to do so, is essential. Examiners must not reveal the name or other identifying information about a community contact to anyone outside the agency without the contact's permission to do so.

Report of Examination and CRA Performance Evaluation

Include in the Report of Examination and the CRA Performance Evaluation, as appropriate, a discussion of the number and kinds of CRA-related community contacts that were consulted and relevant information obtained and used, if any, in the CRA evaluation. Information should be factual. While opinions of contacts may be included when applicable, examiners should refrain from drawing conclusions or making judgments based solely on anecdotal evidence.

Sharing Information

The agencies routinely share information obtained during outreach contacts. Whenever community contacts are made, the examiner initiating the contact should complete the Community Contact Form and submit it to the party designated within each agency. The designee will distribute copies of the form to their counterparts at the other regulatory agencies.

Preparation for the Interview

Before conducting interviews, review relevant background information to identify additional areas of inquiry. Adequate preparation for the interviews includes reviewing information on the assessment area, selecting community contacts, and structuring the interview.

Review of Information on Assessment Area

A review of all available background materials prior to the community contact process is vital in developing a working understanding of the community you are about to enter. The nature, extent, and age of the information available prior to conducting community contacts influences your objectives for the community contact process. A well-developed context also allows for more detailed and in-depth community contact interviews. The examiner should

- Assess prevailing economic conditions and demographic characteristics within and near the assessment area. This includes a review of available data on various population segments within the community, trends in migration, labor and employment characteristics, comparisons to state and county/MSA data, and housing and real estate market statistics.
- Assess infrastructural and geographic characteristics within the assessment area. This includes a review of maps; natural areas; major thoroughfares; access to public transportation; locations of low- and moderate-income census tracts; names of specific low- and moderate-income neighborhoods; and proximity of the assessment area to military bases, airport facilities, and metropolitan centers. Internal mapping software; information from the financial institution; and information from local planning, transportation, economic development, or real estate boards are good sources for possible information.
- Assess distribution and availability of branch and ATM services, especially with regard to low-income areas within the community. Include a review of check-cashing facilities, if possible. Internal mapping software, if available, can allow the examiner to map these locations.
- Assess, to the extent information is available, local development issues and priorities in the areas of affordable housing, commercial activity, and economic and community development.

A summary of such information may be available from the Community Affairs function. In addition, the examiner may wish to review previous community contacts for this locality, including those from other regulatory agencies. If the examiner is reviewing an MSA, he or she should contact the city's municipality and obtain a copy of its Consolidated Plan (Complans). Complans list the needs of an MSA as identified and prioritized by its officials. The examiner may also consider obtaining public reports from multiple listings services (MLS) and news articles on local development projects.

Quantitative sources may include feasibility studies, market analysis, or commercial appraisal reports for local development projects. State or local economic development agencies, utility companies, real estate organizations, and universities present in the immediate or surrounding area are often good sources for such material. Section II, "Identification of Potential Contacts," contains additional potential sources for these types of material.

- Determine the priorities of the community and the opportunities for financial institutions to participate with local governmental and nonprofit organizations in the areas of affordable housing, small business/farm development, and economic and community development. Review the number and nature of government agencies, nonprofit, and neighborhood organizations that provide programs and resources to the assessment area for these purposes. If possible, note the amount of funds devoted to these purposes. Also, attempt to determine which programs or organizations are particularly active with respect to the low-income individuals and/or areas located in the assessment area.

Sources of information for this step include prior community contacts in this area, information on local programs from the institution, and discussions with appropriate agency staff.

- Based upon information reviewed, above, identify areas that require further inquiry through the community contacts process. For example
 - a. Are there any significant conflicting pieces of information that may require further investigation in the contact interviews?
 - b. Are there any pieces of quantitative information, such as housing and rental values, that are considerably outdated and need to be verified in the contact interviews?
 - c. Do the data suggest particular areas of "need" in affordable housing, such as housing rehabilitation, multifamily development, or single-family home purchase, that you can investigate further and verify through the contact interviews? Or alternatively, are needs for specific areas of the population, such as housing for the elderly, still unclear and therefore require further study through the contact interviews?
 - d. Do the data suggest particular areas of need in services, such as ATMs, branches, or bilingual services, that can be investigated further and verified through the contact interviews?
 - e. Does the review identify organizations or projects requiring additional information?

Identification of Potential Community Contacts

This section discusses the number of types of community contacts that should be made during an examination. It also identifies potential community contacts and provides guidance on the sources of information that are available from them.

Number and Type of Contacts

Select contacts that can best provide information on the assessment area(s). Consider the nature of the information you are seeking to complete your analysis of the assessment area(s) and the purpose of the organizations in the assessment area(s). Examiners may wish to initially consult or select organizations on the telephone to determine which can best comment on particular issues.

Time constraints can limit the number of contacts that the examiner is able to conduct. The following factors may be considered when determining the appropriate number of contacts to make:

- The nature of any information provided by the institution, including information that specifies credit, service, or community development needs in the institution's assessment area
- The nature of public comments, including information that specifies credit, service, or community development needs in the institution's assessment area
- The amount of community contact information available from other examinations conducted for this area, both in number and substance, and the date the information was gathered
- The complexity of the community, including the size of its population, its geographic breadth, and the diversity of its population
- The characteristics of the institution examined

Organization Types

1. Grassroots Community Groups

Grassroots groups are formed when concerned individuals come together to solve common problems. Groups whose primary aim is to further the objectives of low-income residents are of particular interest. These groups can be difficult to identify because they tend to be smaller neighborhood groups and may not have readily recognizable names. However, they will often share the following characteristics:

- Low-income representation is evident in policy and implementation aspects of organization. This may be evident at the board level, in the committee structure, or in the day-to-day management.

- Input from low-income residents is clearly sought in functional/program aspects and information distribution to low-income individuals is a priority. Examples of this include door-to-door surveys and frequent neighborhood meetings.
- Low-income individuals are encouraged or empowered to solve problems collectively.

Types of organizations: Churches, block clubs, tenants associations, low-income advocacy groups, housing or credit counseling programs, senior citizen groups, shelter providers, health clinics, and community network/collaborative groups.

Types of information available: Development priorities and concerns of the local low-income populations; available development programs and resources; current partnerships and/or development projects in the area; and the role of financial institutions in the assessment area.

Secondary information: Completed questionnaires or surveys.

2. Community-Based Development or Financial Intermediaries

The primary aim of these organizations is typically to increase the economic standard of low-income individuals or areas. Thus, they tend to be involved in technical aspects of development, such as residential and commercial real estate ventures or financing. Though these groups encourage representation of low-income individuals, they are also likely to have a higher degree of staff or decision-makers who live outside of the low-income areas that the organization is serving.

Types of organizations: Nonprofit organizations, such as community development corporations (CDCs); church-based economic development programs; community loan funds; small business investment corporations (SBICs); specialized small business investment corporations (SSBICs); low-income housing organizations; technical assistance providers, low-income credit unions; development institutions; and micro-enterprise groups.

Types of information available: Low-income credit, service, and community development issues at the neighborhood level; quantitative information on housing values and actual real estate projects; qualitative information on financial institutions and financial practices of low-income individuals; technical details on financing and lending mechanisms for programs they offer; and information on other government and program resources or ventures in the community.

Secondary information: Feasibility studies, appraisal information on specific neighborhoods, local needs assessments, surveys of institutions' activi-

ity, surveys of financial practices of low-income clientele, and lending agreements by groups of local financial institutions.

3. Government Offices

Types of organizations:

- Local branches of federal agencies, such as the Department of Housing and Development (HUD), Small Business Administration (SBA), Department of Commerce Economic Development Administration (EDA), Farmers Home Administration (FmHA), Bureau of Indian Affairs (BIA), and U.S. Department of Agriculture (USDA)
- Local groups of federally funded or mandated programs: community action agencies (CAAs), neighborhood revitalization programs, and Office of Minority Business Enterprise (OMBE) business development centers
- Local elected officials: mayors, commissioners, tribal chiefs, city council members, and tribal council members
- State and local housing agencies or authorities
- Economic development agencies, including industrial and redevelopment agencies or authorities, county or regional planning agencies, transportation agencies, utility companies, rural electric cooperatives, economic development corporations (EDCs), and local planning or economic development directors
- School board superintendent and officials

Types of information available: Types of loan, grant, guarantee, or other programs available for use by institutions and housing, community, and economic development groups; the amount of funding available through such programs in the institution's assessment area(s); the extent to which local financial institutions participate in such programs and perspectives on barriers or issues related to their participation; specific project opportunities in which institutions could participate; and information on underserved neighborhoods or areas.

Secondary information available: Housing, small business, agriculture, and general economic conditions and trends in the assessment area; publicly sponsored comprehensive or general development and redevelopment plans and maps; other plans and studies, such as housing plans (e.g., the Consolidated Plan), economic development plans, and studies; and various community service needs in the assessment area. School boards can update census information by providing demographic

information on the makeup of their student body. This information is typically collected annually.

4. Business and Labor Groups

Types of organizations: Chambers of commerce, downtown and neighborhood merchants associations, small and minority business advocacy groups, realtors, minority and nonminority real estate agents, local venture capital companies, SBA/college-supported small business development centers (SBDCs), feed stores, cattlemen's associations, actual small business owners, and small business technical assistance providers (such as business incubators and local union representatives).

Types of information available: Data and perspectives on local business, economic conditions, recent economic activity, and trends in the community; the nature and extent of small business activity; the level of referrals from financial institutions to SBDCs; the existence of active SBA 504 programs, or SBIC or SSBC programs; perspectives on financial institution efforts to provide financing and services to small businesses/small farms; the level of institution participation in other public/private programs for small business development and employment training; and other private and public sources of financing available for small businesses and small farms in the assessment area.

Secondary information available: Mortgage interest rate sheets from financial institutions or mortgage companies obtained from realtors.

5. Civil Rights and Consumer Protection Groups

Types of organizations: Open housing/fair housing organizations; local chapters of the National Association for the Advancement of Colored People (NAACP), Urban League, Urban Coalition, and National Organization of Women (NOW); legal aid/legal services offices; human relations commissions; and state attorney general or consumer protection offices.

Types of information available: Credit needs, issues, or priorities for any protected classes; complaints against specific financial institutions; and general perspectives on financial institutions in the assessment area.

Secondary information available: Studies using testers in financial institutions, formal complaints, or case write-ups.

6. Other

Types of organizations: Universities, research institutions, foundations, and hospitals or hospital extension programs.

Types of information available: Many and varied. Specific community projects by universities or hospitals may be involved.

Secondary information available: Demographic and economic data; independent research studies or reports on community development topics; and studies and data collection on development and economic trends or opportunities in the area. Automated "Conplans" may also be available.

Conducting the Interview

Having determined the groups and/or individuals to be contacted and the information to be solicited from each interview, the examiner must then plan the structure and content of questions prior to the interview. This section provides a sample list of questions that the examiner may wish to consider. The examiner should select and tailor questions from the list of sample questions that would be the most effective for each specific contact.

The questions highlight the type of information that the examiner is seeking through the community contact process. They are meant to serve as a guide to assist the examiner in planning the substance and structure of the interview. Obviously, not all questions will be appropriate to each specific contact. Nor is the list all-inclusive; particular questions may generate significant discussions and examiners are expected to probe and conduct follow-up questions appropriately. Examiners are encouraged to review the entire list before structuring their interview. As examiners gain experience, they are encouraged to engage in discussion with the community contact and not undertake a "question and answer" format.

Background Information on Community Contact

The examiner should ascertain the organization's area of expertise and the role that it plays in the community.

General:

- a. What geographic areas does the organization serve?
- b. How old is the organization? How was it started? How much involvement by local residents and/or low-income residents was there initially?

- c. Whom does the organization represent? Roughly what percentage of your client base is very low-(defined as 25–50 percent of median area income), low-, moderate- or middle-income?
- d. What are the mission and the primary goals of this organization? What are the goals for this year?
- e. Is there a board of directors? What is the representation on the board? Are there low-income neighborhood residents on the board? Are banks/lenders or other financial institutions on the board?
- f. What projects or programs are you currently working on? Aside from programs, are there other means in which the mission is carried out?
- g. How many "clients" does this organization serve on a monthly or annual basis? If the organization is involved in development, how many real estate projects have been completed in the organization's history? How many are ongoing?
- h. If direct loans have been provided through any programs, what type of loans are they? What segments of the community have benefited from these loans (low-, very low-, or moderate-income; the elderly; etc.)? What is the number and dollar volume of loans generated?
- i. What are the amounts and sources of the organization's funding? How is the funding disbursed (i.e., what activities does it fund and how much of the budget is devoted to each activity)?
- j. Could you list the organization's major accomplishments in the past five years? Is there such a list that you may have for purposes of your funders or funding proposals that I may have a copy of?
- k. What are some of the limits the organization is facing in serving its community? In what areas is it currently encountering opportunity?
- l. Is the organization interested in expanding its program or project areas at this time? In what area? Is there a timeline in place to implement these activities or expected to be in place?

Specific to Economic Development Agencies (Including Utility Companies):

- a. Are there empowerment zones (EZs), enterprise communities (ECs), or foreign trade zones (FTZs) in your area? Where? What types of monetary incentives are offered?
- b. What are examples of small business, small farm, and community-based development that the agency has been involved in? Has activity

- been concentrated in a few areas? Which ones?
- c. Does the economic development agency also coordinate the housing program and monies for this jurisdiction? If not, is economic development coordinated with housing officials? What priority is accorded to affordable housing? What priorities, if any, are accorded to specific population segments (e.g., elderly, special assistance, female heads of households, homeless, other)?
 - d. Are the economic development strategies or the availability of the programs communicated to local residents in any way? How? [Note to examiner: Did you find that local residents or community representatives were able to articulate strategies or various programs?]
 - e. Does the agency have working relationships established with community organizations at the neighborhood level? Who? What are the names of the individuals that the agency has worked with? If so, what is the extent of the partnership that has been established?

Specific to Local Government:

- a. What is the structure of the local government? Is there an economic development department? Is this separate from housing development?
- b. Which department has responsibility for economic development policy?
- c. Does the local government have programs that target affordable housing, small business development, and/or community development projects? How much funding do they have?
- d. Has the local government identified priorities for its housing and economic development funds? Has the government determined what impact this will have for the population (e.g., for the elderly, low-income families, individuals with special needs, the homeless)? To the agency's knowledge, what has been the impact of its funds in the last several years?
- e. How much money has been allocated for affordable housing, elderly needs, special needs, etc.? What is the time frame for the disbursement of funds, particularly CDBG funds?

Specific to Real Estate Brokers:

- a. Do you have brokers who specialize in low- or moderate-income housing (single or multifamily)?

Obtaining a Community Profile

One of the primary objectives of the contact

process is to update the community profile. The examiner is expected to obtain and update information on current economic conditions and trends, current demographic characteristics, and existing credit needs.

General:

- a. What is the current demographic makeup of the community? What were the most significant demographics changes in the past five to ten years, if any (e.g., migration patterns, racial composition)?
- b. Which neighborhoods are in transition, if any? Has gentrification or the displacement of low- or moderate-income individuals become an issue in certain neighborhoods? In which neighborhoods? Is the potential displacement of individuals being managed in some process, for example, a relocation package? If so, how and who is involved?
- c. What major employers have either entered or left the community in the last few years? Has this impacted certain categories of the labor market and not others? If so, who was positively impacted? Negatively? How?
- d. Who or what organizations are the driving forces in the community (examples include churches, government, community groups, etc.)?
- e. What priorities have you identified for this area?
- f. Have you conducted any studies (e.g., neighborhood surveys or feasibility studies) that may provide insight into local credit, service, or community development needs? What were the results? (Obtain a copy, if available.) How was the study used and what was the distribution (any banks included)?
- g. Do zoning restrictions play a role in the availability of affordable housing units? How? Which neighborhoods are most impacted?
- h. Are absentee landlords a problem? For whom? In which neighborhoods?
- i. In your opinion, what credit needs have not been adequately satisfied by area financial institutions? (Give example: small business loans, home improvement loans, installment loans, etc.)
- j. To what extent are financial services available in the assessment area? What is the availability of ATMs or branches in this neighborhood?
- k. Are there many women- or minority-owned businesses in the area? If so, are they concentrated in any geographic location or occupational field?

Specific to Community-Based Organizations

- a. Does this community have a significant number of people who would be "uncounted" in official census figures? If so, why? Does your organization give estimates of the uncounted or real population?
- b. What are the primary and secondary issues that low-income people in this area are concerned with in the short term? In the long term?
- c. What are the most pressing concerns—e.g., adequate housing, access to retail goods, adequate public transportation facilities, adult education, job training and placement, English as a second language (ESL), health facilities—that you have been able to identify facing low-income residents?
- d. What language(s) are spoken in the community?

Specific to Economic Development Agencies (Including Utility Companies):

- a. What are the primary economic strengths of this area? Primary weaknesses? (Note: Economic development agencies typically operate at the county or MSA level. Using follow-up questions and probing techniques, attempt to get as local an assessment as possible.)
- b. Are there development plans currently underway for infrastructure-related projects, such as bridges, sewers, etc.? If so, what is the suggested timetable? Will the project generate or is it generating jobs for low- or moderate-income residents?
- c. What are the main economic development strategies (examples include business attraction, business retention, marketing, small business development, etc.) that you are currently pursuing for the overall county or MSA? For a particular neighborhood? What priority is given to small business, small farm, and community-based development (such as grocery stores, day care facilities, etc.)?

Specific to Housing Organizations (State, Local, Etc.):

- a. What is the waiting list for various affordable housing programs in the area?
- b. Have you received complaints from tenants that buildings are not in compliance with local building codes? In your perception, how widespread is this problem?
- c. What is the nature of demand for affordable housing? How does this compare to available housing stock, both in terms of number of units

and types of units?

- d. How would you rate the need for housing among various sectors of the community, such as the elderly, individuals on special assistance, female heads of households, the homeless, others?
- e. Are there structural inadequacies in the type of housing stock available for low-income populations in this area? Is housing rehabilitation a priority issue among those your organization has identified?

Specific to Real Estate Brokers:

- a. (Refer to specific geographic areas.) What are the current economic conditions in this general area? Are housing values going up or down? If it is an "up" market, what are some of the forces contributing to its success? If down, what are some of the issues contributing to its decline?
- b. Has there been any recent development activity in this area? What is the nature of the development (commercial, residential, affordable housing, public projects)? What has been the impact on the neighborhood?
- c. Are there mobile homes or concentrations of mobile homes, such as mobile-home parks, in any area?
- d. What is the average length of time that single-family homes are on the market in this neighborhood?
- e. Other types of residences? Other neighborhoods?
- f. Do you know of any changes in the near future that would impact the market for residential/commercial properties in a specific area? What are these changes (political, environmental, legal, etc.)?
- g. Do you have copies of any appraisal reports for commercial and residential properties? For which areas (obtain, when possible)?
- h. Are you aware of appraisal-related problems in this neighborhood, such as the lack of comparables?
- i. What credit products do your customers typically use to purchase a home? Conventional mortgages? Government loans? Land contracts? Why?
- j. What are the various sources of financing that your customers typically use? Banks? Thrifts? Mortgage companies? Home improvement dealers? Credit unions? Employer-related sources (i.e., GMAC)? Others? Are particular combinations of sources more typical than others?
- k. What are the characteristics of likely investors

for multifamily housing properties in a specific neighborhood? What are the likely financial risks and rewards for investors in this area? (Compare with other neighborhoods.)

Specific to Foundations:

- a. What types of eligibility criteria are currently established for community development programs?
- b. Which organizations and projects do you fund? How much money is committed to these organizations and/or projects for this year?
- c. How long is the money committed for?
- d. Out of the programs and/or organizations that you funded in this area, which are the most effective in the affordable housing area? In the small business development or community development area?

Assessing Opportunities for Financial Institution Participation

The degree to which financial institutions are involved in community development projects or services depends in some part on the extent of other resources and partners available within the community. Examiners are expected to obtain information on the availability of resources dedicated to the local credit or development needs that have been identified. Examiners are also expected to gauge the level of the contact's efforts in approaching local financial institutions and the mechanisms of any financing involved, if any.

In addition to any background materials reviewed in the preparation portion of the examination, contacts can provide relevant information on

- The number and nature of community development or credit-related projects being developed for the benefit of the community,
- The number of organizations or government programs committed to those activities,
- The extent to which partnerships or other forms of coordination are evident in the area,
- The level of resources devoted to these activities, and
- How active these programs or resources are with respect to promoting the credit or banking needs that local representatives or residents have identified.

Community-Based Organizations:

- a. Has your organization ever participated in activities, either formally or informally, with financial institutions? If so, which ones? For

what projects or products? For what clients (e.g., what were the income characteristics of those who benefited)?

- b. Does your organization partner with other groups, including religious organizations, government agencies, and neighborhood organizations, in conducting any of its program activities?
- c. Tell me about any other organizations you work with in meeting your clients' needs. What other organizations serve this community in the areas of affordable housing? Small business development? Commercial, day care, or other community-related facilities? Job training? Credit counseling? Low-income advocacy?
- d. Which of these organizations do you consider most active? If I wanted more information from them, whom should I contact?
- e. Which financial intermediaries do you consider particularly effective? Why?
- f. Are you seeking funds from local financial institutions for any current projects?
- g. What is the nature of the project? Is it a development-based product? Is it related to credit needs in the community? Is there a specific neighborhood or group of individuals that this project will benefit? How?
- h. What are the specific requirements for the financing that you are seeking?
- i. Are you aware of similar projects that other organizations are working on? What can you tell me about those? Whom can I contact to learn more?

State and Local Economic Development Agencies, Government Agencies:

- a. What, if any, commercial development projects are underway? Where are they located? Are jobs created? Will low- or moderate-income individuals benefit? How?
- b. What are the number and nature of various economic development programs funded by the city or state? How many residents do these programs benefit annually?
- c. Which of these programs, if any, are designed to leverage funds from financial institutions? What are the mechanics of the program? How many projects have been funded to date? Which financial institutions have participated in these programs? Is there a particular area or group that these funds target?
- d. Do you have programs designed specifically for affordable housing or small business development? If so, how many small businesses and/or

- small farms benefit? What is your definition of small business?
- e. What are the funding levels of these programs? How many projects have been funded to date? Is there a particular neighborhood or group that these funds target? If so, what are they?
 - f. Have any financial institutions participated in these programs? If so, which ones?
 - g. Do you currently have other projects or have you had projects in the past that required either investment or other forms of financing from a financial institution? What are/were the characteristics of the project? Its financing? Include projects involving bond issuances, etc. What were the results? Innovative? Risky?
 - h. What financing mechanisms are needed, planned, or in place for any development or infrastructure-related projects?

Real Estate Brokers:

- a. Do you know about local or state financing programs for affordable housing, small business, or commercial development? How did you hear of these programs?
- b. Are there specific home insurance or financing programs that you utilize or to whom you refer customers? Which ones? Which do you utilize specifically for your low-income customers?
- c. Which financial institutions in the area are you aware of that access these programs? How actively? Which do not?

Obtaining Local Perspectives on the Performance of Financial Institutions

In addition, another function of the community contact process is to obtain feedback from the community on the performance of local financial institutions. The examiner is expected to gather information on the willingness and responsiveness of financial institutions, including the institution under examination, to work with local residents and professionals in meeting credit and community economic development needs.

General:

- a. With which banks, savings and loans, or mortgage companies have you been involved? What was the nature of your involvement?
- b. Has your organization ever participated in activities, either formally or informally, with financial institutions? If so, which ones? How did this professional relationship develop?
- c. What were the results of your involvement with

financial institutions? In what ways has financial institution participation had a positive impact? In what ways has it had a negative impact? Probe for such project aspects as timing, financing terms, etc.

- d. Are local financial institutions proactive in developing relationships or offering assistance? If so, which ones?
- e. What financial institution(s) does your group recommend to your constituents? Why?
- f. What obstacles, if any, prevent greater involvement from financial institutions in meeting local credit needs?
- g. Have you ever been invited by institutions to participate in institution-sponsored activities? If yes, specify the activities' purpose and the role you played.
- h. Has your organization ever received complaints about individual institutions?
- i. Did the people affected know about the complaint process or were they informed about it?
- j. Did any of the complaints involve allegations that the institution(s) discouraged people from submitting an application? Did any complaints involve geographic or racial redlining, or any other forms of discrimination? What happened?
- k. Is anyone in your group or known to your group willing to offer specific evidence of discriminatory actions by specific institutions? (If allegations of discrimination, discouragement, or redlining are made with respect to an institution regulated by your agency, forward the relevant information to the institution's primary regulator.)
- l. In your opinion, which institutions in the area have been particularly outstanding in meeting the community's needs? Why? What, specifically, has been done by these institutions?
- m. In your opinion, which area institutions have been particularly notable for their unwillingness to respond to the community's needs? Why?
- n. In your opinion, how well does [institution name] meet the credit needs of this community?

Community-Based Organizations:

- a. Have you discussed local credit needs with any financial institutions? What were the results?
- b. Do any institutions provide in-kind services, i.e., loaned executives, etc.?
- c. What efforts are made to inform institutions and obtain their participation in the organization's activities? Which institutions participate and to what degree? Which institutions, if any,

- declined to participate?
- d. If your organization works with government enhancement programs, do financial institutions work with you on that product? If so, which ones?
 - e. What efforts have you employed to improve your organization's relationship with any institutions? Which institutions? How successful have your efforts been?

Real Estate Brokers:

(Be sure to include those operating in low- or moderate-income areas.)

- a. Do you frequently work with financial institutions or other lenders that originate home mortgages?
- b. Which institutions do you receive rate sheets from on a consistent basis? How are they typically delivered to you?
- c. Are local lenders willing to work with you for first-time homebuyers? If so, which ones? Why or why not?
- d. Are local lenders willing to work with you on exceptions on credit reports? If so, which ones? Why or why not?

- e. What knowledge, if any, do you have of credit standards being adjusted in either a preferential or discriminatory manner? Which lenders? What were the circumstances?
- f. Have you worked with lenders that have taken customers under the Fannie Mae 97 percent program? Freddie Mac? Others?
- g. Which lenders do not receive your referrals for home purchases and why? Which lenders do

not receive your referrals for small businesses and why?

- h. What percentage of referred homebuyers normally go to the recommended lenders?
- i. What percentage of referred homebuyers normally get loans from recommended lenders?
- j. What other methods could be used to increase the use of insured financial institutions by people in your market area? In particular, are some financial institutions attracting portions of the market and not others? For which products?
- k. Do women or minorities have more difficulty than men in obtaining mortgage loans? If so, why? Which institutions are perceived as not meeting the needs of women or minority applicants?
- l. Are there outreach activities by particular institutions for women or minority customers? Do you perceive these programs as positive?
- m. In your experience, are there certain institutions favored in the minority and/or women's business community?

Business, Labor, or Consumer Groups Working with the Women's or Minority Business Community:

- a. What is the general perception of financial institutions in the minority business community? In the women's business community? Why?
- b. Do any financial institutions have a small business department targeting women or minorities? Which ones? How is it done?
- c. Which institutions have separate minority or small business counseling services? Do the counselors also have lending authority?

Community Reinvestment Act FFIEC Community Contact Form

Examiners should summarize each interview they conduct on the Community Contact Form. The purpose of this form is to provide a consistent means by which financial institution regulators can share information obtained through interviews for a particular community. The individual conducting the interview should inform the interviewees that this information will be shared with other regulatory agencies.

1. Regulatory agency:

2. Date of contact:

3. Interviewee information:

Name:	Title:	
Organization represented:		
Type/organization category:		
Address:		
City:	State:	
Interviewee's telephone:		
Add area served:		
Served state(s):	Served MSA(s):	Served counties:

4. Was this the first contact with this organization (in connection with a current examination) or a follow-up contact?

First _____ Follow-up _____

5. Was the interview conducted in conjunction with an examination? If yes, list financial institutions.

Institution name	Cert	Charter	Docket	RSSD
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6. Summarize the organization's purposes, functions, and sources of funding. Include the organization's impact if applicable (for example, number of low-income clients served, number of units built, etc.).

7. Political or geographic boundaries of area focused on during this specific contact.

8. Interview summary.

(a) Community profile:

Current economic conditions; current demographic characteristics; general banking and credit needs; other (e.g., identifying names of low- or moderate-income neighborhoods).

(b) Opportunities for participation by local financial institutions:

Community development, other credit-related projects, or financing programs; level of opportunity for bank involvement.

(c) Performance of local financial institutions:

Perceptions or experience regarding the degree of involvement of the local financial institution industry and of the specific financial institution (if obtained) in the community.

9. Person in charge of examination:

Interviewer:

Reviewed by:

Community Reinvestment Act Instructions for Writing Public Evaluations

The format of all of the public evaluation templates follows the provisions of amendments to the Community Reinvestment Act that require the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation (agencies) to

1. Rate the institution's overall performance in meeting the credit needs of its community;
2. For an interstate institution, rate each state in which the bank has branches or multistate metropolitan statistical area (MSA) in which the institution has branches in more than one state; and
3. Separately present the conclusions for the performance test(s) or criteria considered in arriving at the rating as well as the facts and data supporting those conclusions for each MSA in which the institution has branches.

The contents of the public evaluation will vary depending on the nature of the institution examined and the examination method used. Public evaluation templates for small institutions, intermediate small institutions, large institutions, wholesale and limited-purpose institutions, and institutions operating under approved strategic plans have been prepared by the agencies. These templates provide guidance regarding the structure and contents of the public evaluations. Except for the intrastate public evaluations for small institutions and intermediate small institutions, the templates are structured to meet the requirements that the CRA imposes on public evaluations for interstate institutions. The samples can easily be adjusted to suit the requirements for institutions with branches in only one state.

Evaluations for Institutions with Branches in Only One State

Regardless of the examination method used, the public evaluation for institutions with branches in only one state must contain the institution's overall CRA rating and the conclusions for the performance test(s) or criteria upon which the rating is based. No state or multistate MSA rating is needed for intrastate institutions. Also, there is no requirement to rate an institution's performance in each assessment area. Rather, the public evaluation must present conclusions about the institution's performance in the assessment area(s) subject to the following guidance:

1. If the institution has branches in more than one MSA, the public evaluation must present the conclusions for each performance test(s) or criterion, along with supporting facts and data, separately for each MSA.
2. If the institution has defined more than one assessment area within a nonmetropolitan statewide area, separate discussion of CRA performance within a nonmetropolitan statewide area for intrastate institutions that have branches in metropolitan and nonmetropolitan areas is optional because the performance in the nonmetropolitan areas has been discussed in the overall evaluation of the institution. Examiners may wish to discuss in greater detail, however, the assessment areas within the nonmetropolitan statewide areas that were reviewed using the examination procedures for (1) intrastate institutions with branches in MSAs or nonmetropolitan areas or (2) intrastate institutions with branches only in nonmetropolitan areas.

More-detailed discussions of each assessment area examined should follow the appropriate MSA and nonmetropolitan-area presentation.

Evaluations for Interstate Institutions

In addition to the institution's overall CRA rating, public evaluations for interstate institutions must contain ratings for each state in which the institution has branches and multistate MSA in which the institution has branches in more than one state of the multistate MSA. The public evaluation for interstate institutions is, therefore, organized to present the institution's overall rating first, followed by the multistate MSA rating(s), and then the state rating(s). The discussion of the overall institution, multistate MSA, and state ratings must include the conclusions for the performance test(s) or criteria upon which the rating(s) is based. An institution's performance in each assessment area is not rated. Rather, the public evaluation must present the conclusions about the institution's performance in the assessment area(s) subject to the following guidance:

1. Multistate MSA presentations should be followed by discussions of the performance within assessment area(s) within the multistate MSA.
2. Separate MSA presentations for each MSA where the institution has branches should follow the appropriate state presentation. A discussion of an institution's CRA performance within a nonmetropolitan area statewide area is required

for institutions with branches in two or more states. Include a discussion about how the examination of the institution was performed, including a list of the individual branches examined.

Again, more-detailed assessment-area discussions should follow the applicable MSA and nonmetropolitan-area discussions.

Conclusions Based on Performance Tests

The CRA requires the agencies to present conclusions for each of the performance test(s) or criteria considered in arriving at a rating. The performance evaluations should reflect the conclusions reached under these performance tests.

- For large institutions, the public evaluation must indicate the conclusions reached under the lending, investment, and service tests.
- For intermediate small institutions, the public evaluation must indicate the conclusions under the lending and community development tests.
- For small institutions, the streamlined assessment method for small institutions focuses on lending performance. However, to the extent that investment and service performance were considered in rating a small institution Outstanding, the conclusions for each must be in the public evaluation.
- For wholesale and limited-purpose institutions, conclusions for the community development test must be discussed in the performance evaluation.

- Finally, for institutions that operate under an approved strategic plan, the performance evaluation for those institutions must contain conclusions for the tests used in the examination.

Hybrid Performance Evaluations

When an institution is examined under more than one examination method, the examiner should develop a hybrid performance evaluation. The evaluation should state the examination methods used in the “General Information” section. In addition, the discussion of the scope should indicate the examination method that was used in each assessment area examined. Finally, discussions of the analysis used under each assessment-area presentation should note the applicable examination method.

Charts, Tables, and Appendices

Charts and tables should be used throughout the public evaluation to facilitate discussion of the institution’s performance. In addition, the inclusion of one or more appendices may facilitate the presentation of information in the public evaluation. For example, appendix A is a chart describing the scope of the examination and should be used for institutions with numerous assessment areas. Appendix B should be used to summarize the state ratings for interstate institutions. Other charts and tables may be used to assist the reader and amplify the discussion of an institution’s performance.