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Comments:

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Summary of Comment Issues: The model clauses for Interest Rate and Payment Summary in Appendix H-4(F), H-4(G), and H-4(H) apply a single date header to both interest rate and payment changes which makes these disclosures inaccurate and contradictory to other RESPA disclosures. Changes are necessary to these model clauses, and a clarification is needed in the commentary to specify when an item is included in the "five-year" column. (1) The inclusion of "(date)" in the header of a column containing both the interest rate and the payment creates confusion, since the interest rate change becomes effective one month earlier than the related payment which reflects that change. The use of only one date in the header ignores this fact and causes this disclosure to contradict the comparable disclosure provided in the HUD-1 under RESPA 2010. (2) The "boundary" cases are not clearly specified. In particular, it is not clear whether or not a 5-year rate adjustment in an ARM loan should be disclosed in the column labeled "MAXIMUM during FIRST FIVE YEARS".

Second Comment on 12 CFR Part 226 [Docket No. R-1366] Interim Rule Summary of Comment Issue: (1) Lack of Consumer Information about Duration of Obligation: The interim rule replaces the §226.18(g) payment schedule with a summary tabulation of initial and maximum rate and payment values described in various model clauses. In doing so, it removes from the Truth-in-Lending Disclosure Statement any disclosure of the duration of the obligation. A consumer can see only the initial and maximum rates and payments, but not how many periodic payments are due or any mention of the maturity date of the obligation. This removes any basis for a consumer to compare one loan to another, as a loan with a smaller payment or rate may have a longer payment term which is not shown by the disclosure. Detail of Comment Issue: (1) Lack of Consumer Information about Duration of Obligation To disclose a loan, the most critical and fundamental parameters are (1) How much money is being loaned?, (2) What is the interest rate?, (3) What are the payments?, and (4) How long do they last? The Federal Truth-In-Lending Disclosure Statement has always handled this by providing the Amount Financed and APR as the most meaningful answers to (1) amount loaned and (2) interest rate, and by using the §226.18(g) payment schedule to show (3) payment amounts and (4) their duration. By replacing the §226.18(g) payment schedule with a summary tabulation of initial and maximum rate and payment values, the new disclosure prescribed by the interim rule leaves a shocking gap in this information. It omits any reference to how many payments there are or the time period over which they will extend. This requires the consumer to look through other disclosures or loan documents to learn this information. A consumer with disclosures for different loan products cannot make meaningful comparisons using this disclosure because it does not even provide enough information to distinguish a 15-year loan from a 30-year loan.

Although there is a virtue in the simplicity that is being sought by this rule, the disclosure must provide some measure of the duration of the payment obligation. The disclosure should contain either the number of payments, the term of the loan in years or months, or the maturity date of the loan, if not all of these facts.

Third Comment on 12 CFR Part 226 [Docket No. R-1366] Interim Rule Summary of Comment Issue: (1) Lack of Information to Audit APR Calculation: The interim rule replaces the §226.18(g) payment schedule with a summary tabulation of initial and maximum rate and payment values described in various model clauses. The Amount Financed along with the payment schedule and its associated dates constituted all the necessary time and cash flow information to calculate the APR. In the absence of the payment schedule, it will be extremely difficult to accumulate the information to audit or confirm that the APR is calculated correctly. Detail of Comment Issue: (1) Lack of Information to Audit APR Calculation The calculation of a correct APR requires formulas that use the Amount Financed as an initial cash flow, along with the precise amounts and dates of each payment in the hypothetical payment stream being evaluated. These payments include the varying amounts of mortgage insurance premiums along with their mandatory cut-off as well as the assumption, for an ARM, that the index for rate adjustments remains at the initial index rate at the time of closing. Other than the existing Reg Z Truth-in-Lending Disclosure, there is no single document published in a loan closing package that contain this sequence of cash flows, complete with the amount financed, the principal and interest and mortgage insurance premium payments and their timing, also considering the mortgage insurance premium cutoffs and ARM payment adjustments under the assumption of a constant rate index. Because of this lack of resource data, examiners will be unable to verify APR calculations, and lenders, investors, and document providers will spend huge amounts of time locating the cause for discrepancies in APR calculations where no data exists to confirm the basis of the calculations. The APR calculation, whose calculations are far beyond most loan professionals, now becomes virtually non-checkable by those who know how to check them, and therefore becomes subject to unchecked errors and abuse. This was the "perfect fit" of the Amount Financed, the APR, and the complete payment schedule with dates and payment amounts--They provided a complete, self-verifying data set for an otherwise obscure calculation which, nonetheless, has valuable meaning in conveying the actual cost of money for a consumer loan. The payment schedule information should be retained, and simply labeled "Payments Assumed for the Purpose of Calculating the APR"

Fourth Comment on 12 CFR Part 226 [Docket No. R-1366] Interim Rule Summary of

Comment Issue: (1) Incorrect Statement Required by H-4(I): The statement required by the model clause in H-4(I) is inaccurate and untrue. In fact, in a loan with a discounted initial rate, there are circumstances when, "even if market rates do not change", the rate would not increase. Detail of Comment Issue: (1) Incorrect Statement Required by H-4(I): Model Clause H-4(I) is required to be displayed for all loans where the interest rate at consummation is lower than the fully indexed rate. The statements in the clause read: "You have a discounted introductory rate of ___% that ends after (period). In the (next period), even if the market rates do not change, this rate will increase to ___%." This is simply poor use of English, but it makes the statement untrue. It may be understood that what was intended to be said was, "If the market rates remain the same, this rate will increase to ___%." In that case, it would be correct to say the rate will increase to the amount of the current fully indexed rate. If the beginning phrase in that sentence means anything else, then there is not sufficient information to say what the rate will change to. The statement, "Even if the market rates do not change, this rate will increase to ___%." is different. This statement means that, "In all conditions, even those conditions when the market rates do not change, your rate will inevitably increase to ___%." This is the effect of using the words "even if" in this statement, and it makes the conclusion untrue. In fact, if the market index decreases by the amount of the discount, the rate will remain the same (subject to stipulated floors), and if the market index decreases by more than the amount of the discount, then the rate will decrease. In any event, it is impossible to say what the rate will change to unless the hypothetical change in the market index is precisely stated. All possible changes in the market index are encompassed by the use of the words "even if" in the introductory clause of that sentence. It may seem trivial to comment about such detailed use of English. However, Regulation Z has been a standard of the industry for over 30 years, and we should not endow it with sloppy language that can lead to ramifications that include incorrect legal interpretations.