

(DATE)

(Name and address of bank official)

Dear (name of official:)

As you may be aware, in July 1998, the President signed into law the Homeowners Protection Act of 1998 (copy enclosed). The Act, which becomes effective July 29, 1999, requires lenders or servicers to provide certain disclosures and notifications concerning private mortgage insurance (PMI) on loans secured by the consumer's primary residence consummated on or after July 29, 1999. The Act also contains disclosure provisions for mortgage loans that close before July 29, 1999. In addition, the Act includes provisions for borrower-requested cancellation and automatic termination of PMI.

For mortgage loans consummated on or after July 29, 1999, the Act requires that borrowers receive initial amortization schedules and disclosures concerning cancellation of PMI at the time of loan consummation, and additional disclosures annually. The new law requires banks to disclose the date at which borrowers can expect automatic termination of their PMI (generally, when the loan balance is first scheduled to reach 78 percent of the original value of the mortgaged property). Bank customers can also request PMI cancellation at 80 percent loan-to-value provided certain conditions are met. Disclosures vary depending on whether the loan has "borrower paid PMI" or "lender paid PMI", or is classified as a "fixed rate mortgage" or "adjustable rate mortgage" or designated as a "high-risk loan."

If PMI was required in connection with a residential mortgage entered into before July 29, 1999, the servicer must disclose to the borrower in an annual written statement: (a) that PMI may, under certain circumstances, be cancelled by the borrower with the consent of the lender, or in accordance with state law; and (b) an address and telephone number that the borrower may use to contact the servicer to determine whether the borrower may cancel the PMI.

The new law permits lenders and servicers to use standardized forms to provide the required disclosures, but does not mandate that specific forms be used. In addition, the Act specifically allows the annual disclosures to be included with other disclosures such as the disclosure of interest payments required by the Internal Revenue Service, or on the disclosure relating to the escrow account made as required under the Real Estate Settlement Procedures Act of 1974.

As stated earlier, the new law becomes effective on July 29, 1999. While none of the federal financial regulatory agencies have rule writing authority under this new legislation, the Federal Reserve, as well as the other banking agencies, have been granted enforcement authority with respect to the institutions under their supervision. Accordingly, we encourage you to take appropriate steps to notify your staff of this new law and establish policies and procedures to assure compliance. Our examination staff will be reviewing your records during the course of future examinations to ensure that you are in compliance with the new law. If you have any

questions regarding this matter, please call me at (Area Code + number) or (other contact at Reserve Bank).

Sincerely, (Signature & Title of Officer)

Enclosure