

**BUREAU OF CONSUMER FINANCIAL PROTECTION**

**12 CFR Part 1026**

**Truth in Lending Act (Regulation Z) Adjustment to Asset-Size Exemption**

**Threshold**

**AGENCY:** Bureau of Consumer Financial Protection.

**ACTION:** Final rule; official interpretation.

**SUMMARY:** The Bureau is amending the official commentary that interprets the requirements of the Bureau's Regulation Z (Truth in Lending) to reflect a change in the asset size threshold for certain creditors to qualify for an exemption to the requirement to establish an escrow account for a higher-priced mortgage loan based on the annual percentage change in the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the 12-month period ending in November. The exemption threshold is adjusted to decrease to \$2.052 billion from \$2.060 billion. The adjustment is based on the 0.4 percent decrease in the average of the CPI-W for the 12-month period ending in November 2015. Therefore, creditors with assets of less than \$2.052 billion (including assets of certain affiliates) as of December 31, 2015, are exempt, if other requirements of Regulation Z also are met, from establishing escrow accounts for higher-priced mortgage loans in 2016. This asset limit will also apply during a grace period, in certain circumstances, with respect to transactions with applications received before April 1 of 2017. The adjustment to the escrows exemption asset-size threshold will also decrease a similar threshold for small-creditor portfolio and balloon-payment qualified mortgages. Balloon-payment qualified mortgages that satisfy

all applicable criteria, including being made by creditors that have (together with certain affiliates) total assets below the threshold, are also excepted from the prohibition on balloon payments for high-cost mortgages.

**DATES:** This final rule is effective January 1, 2016.

**FOR FURTHER INFORMATION CONTACT:** James Wylie or Jaclyn Maier, Counsels, Office of Regulations, at (202) 435-7700.

**SUPPLEMENTARY INFORMATION:**

**I. Background**

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) amended TILA section 129D(a) to contain a general requirement that an escrow account be established by a creditor to pay for property taxes and insurance premiums for certain first-lien higher-priced mortgage loan transactions. TILA section 129(D) also generally permits an exemption from the higher-priced mortgage loan escrow requirement for a creditor that meets certain requirements, including any asset-size threshold the Bureau may establish.

In the 2013 Escrows Final Rule,<sup>1</sup> the Bureau established such an asset-size threshold of \$2,000,000,000, which would adjust automatically each year, based on the year-to-year change in the average of the CPI-W for each 12-month period ending in November, with rounding to the nearest million dollars.<sup>2</sup> For 2015, the threshold was \$2.060 billion. The Bureau recently revised the criteria for small creditors, and rural and underserved areas, for purposes of certain special provisions and exemptions from

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<sup>1</sup> 78 FR 4726 (Jan. 22, 2013).

<sup>2</sup> See 12 CFR 1026.35(b)(2)(iii)(C).

various requirements provided to certain small creditors under the Bureau's mortgage rules. As part of this revision the Bureau made certain changes that affect how the asset-size threshold applies. The Bureau revised the rule to include in the calculation of the asset-size threshold the assets of the creditor's affiliates that regularly extended covered transactions secured by first liens during the applicable period. The Bureau also added a grace period from calendar year to calendar year to allow an otherwise eligible creditor that exceeded the asset limit in the preceding calendar year (but not in the calendar year before the preceding year) to continue to operate as a small creditor with respect to transactions with applications received before April 1 of the current calendar year.<sup>3</sup>

During the 12-month period ending in November 2015, the average of the CPI-W decreased by 0.4 percent. As a result, the exemption threshold is decreased to \$2.052 billion for 2016. Thus, if the creditor's assets together with the assets of its affiliates that regularly extended first-lien covered transactions during calendar year 2015 are less than \$2.052 billion on December 31, 2015, and it meets the other requirements of § 1026.35(b)(2)(iii) it will be exempt in 2016 from the escrow-accounts requirement for higher-priced mortgage loans and will also be exempt from the escrow-accounts requirement for higher-priced mortgage loans for purposes of any loan consummated in 2017 for which the application was received before April 1, 2017. The adjustment to the escrows exemption asset-size threshold will also decrease the threshold for small-creditor portfolio and balloon-payment qualified mortgages under Regulation Z. The requirements for small-creditor portfolio qualified mortgages at § 1026.43(e)(5)(i)(D) reference the asset threshold in § 1026.35(b)(2)(iii)(C). Likewise, the requirements for balloon-payment qualified mortgages at § 1026.43(f)(1)(vi) reference the asset threshold

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<sup>3</sup> See 80 FR 59943, 59951 (Oct. 2, 2015).

in § 1026.35(b)(2)(iii)(C). Balloon-payment qualified mortgages that satisfy all applicable criteria in §§ 1026.43(f)(1)(i) through (vi) and 1026.43(f)(2), or the conditions set forth in § 1026.43(e)(6) for covered transactions for which the application is received before April 1, 2016,<sup>4</sup> including being made by creditors that have (together with certain affiliates) total assets below the threshold in § 1026.35(b)(2)(iii)(C), are also excepted from the prohibition on balloon payments for high-cost mortgages in § 1026.32(d)(1)(ii)(C).

## **II. Procedural Requirements**

### *A. Administrative Procedure Act*

Under the Administrative Procedure Act (APA), notice and opportunity for public comment are not required if the Bureau finds that notice and public comment are impracticable, unnecessary, or contrary to the public interest. 5 U.S.C. 553(b)(B).

Pursuant to this final rule, comment 35(b)(2)(iii)-1 in Regulation Z is amended to update the exemption threshold. The amendment in this final rule is technical, and merely applies the formula previously established in Regulation Z for determining any adjustments to the exemption threshold. For these reasons, the Bureau has determined that publishing a notice of proposed rulemaking and providing opportunity for public comment are unnecessary. Therefore, the amendment is adopted in final form.

Section 553(d) of the APA generally requires publication of a final rule not less than 30 days before its effective date, except for (1) a substantive rule which grants or recognizes an exemption or relieves a restriction; (2) interpretive rules and statements of policy; or (3) as otherwise provided by the agency for good cause found and published

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<sup>4</sup> The Bureau extended the temporary provision in § 1026.43(e)(6) from covered transactions consummated on or before January 10, 2016 to covered transactions for which the application was received on or before April 1, 2016. *See* 80 FR 59943, 59959 (Oct. 2, 2015).

with the rule. 5 U.S.C. 553(d). At a minimum, the Bureau believes the amendments fall under the third exception to section 553(d). The Bureau finds that there is good cause to make the amendments effective on January 1, 2016. The amendment in this notice is technical, and applies the method previously established in the agency's regulations for automatic adjustments to the threshold.

#### *B. Regulatory Flexibility Act*

Because no notice of proposed rulemaking is required, the Regulatory Flexibility Act does not require an initial or final regulatory flexibility analysis. 5 U.S.C. 603(a), 604(a).

#### *C. Paperwork Reduction Act*

In accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3506; 5 CFR 1320), the agency reviewed this final rule. No collections of information pursuant to the Paperwork Reduction Act are contained in the final rule.

### **List of Subjects in 12 CFR Part 1026**

Advertising, Consumer protection, Credit, Credit unions, Mortgages, National banks, Reporting and recordkeeping requirements, Savings associations, Truth in lending.

### **Authority and Issuance**

For the reasons set forth in the preamble, the Bureau amends Regulation Z, 12 CFR part 1026, as set forth below:

### **Part 1026 — TRUTH IN LENDING (REGULATION Z)**

1. The authority citation for part 1026 continues to read as follows:

**Authority:** 12 U.S.C. 2601, 2603-2605, 2607, 2609, 2617, 3353, 5511, 5512, 5532, 5581; 15 U.S.C. 1601 *et seq.*

2. In Supplement I to Part 1026—Official Interpretations, under *Section*

*1026.35—Requirements for Higher-Priced Mortgage Loans, 35(b)(2) Exemptions, Paragraph 35(b)(2)(iii)*, paragraph 1.iii.E introductory text, as amended by 80 FR 59944 (Oct. 2, 2015), is revised to read as follows:

**SUPPLEMENT I TO PART 1026—OFFICIAL INTERPRETATIONS**

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**SUBPART E—SPECIAL RULES FOR CERTAIN HOME MORTGAGE TRANSACTIONS**

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*Section 1026.35—Requirements for Higher-Priced Mortgage Loans*

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*35(b)(2) Exemptions*

\* \* \* \* \*

*Paragraph 35(b)(2)(iii)*

1. *Requirements for exemption.* \* \* \*

iii. \* \* \*

E. Under § 1026.35(b)(2)(iii)(C), the \$2,000,000,000 asset threshold adjusts 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. The Bureau will publish notice of the asset threshold each year by amending this comment. For calendar year 2016, the asset threshold is \$2,052,000,000. A creditor that together with the assets of its affiliates that regularly extended first-lien covered transactions during calendar year 2015 has total assets of less than \$2,052,000,000 on December 31, 2015, satisfies this criterion for purposes of any loan consummated in 2016

and for purposes of any loan consummated in 2017 for which the application was received before April 1, 2017. For historical purposes:

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[THIS SIGNATURE PAGE PERTAINS TO THE PROPOSED RULE TITLED  
“TRUTH IN LENDING ACT (REGULATION Z) ADJUSTMENT TO ASSET-  
SIZE EXEMPTION THRESHOLD”]

Dated: December 16, 2015.

  
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Richard Cordray,

*Director, Bureau of Consumer Financial Protection.*