Approved March 16, 1983
Date

MINUTES OF THE SENATE COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS.

The meeting was called to order by Sen. Neil H. Arasmith at
Chairperson

9:00 a.m./p.m. on March 15, 1983 in room 529-S of the Capitol.

All members were present except:

Sen. Hess - Excused

Committee staff present:

Bill Wolff, Legislative Research
Bruce Kinzie, Revisor's Office

Conferees appearing before the committee:

Jim Maag, Kansas Bankers Association
Marvin Umholtz, Kansas Credit Union League
Jim Turner, Kansas Savings and Loan League

The minutes of March 2 were approved.

The hearing began on HB 2071 with the testimony of Jim Maag, Kansas Bankers Association, in support of the bill. (See Attachment I). He noted that this bill relates to SB 50 which was heard previously, the difference between the two bills being that HB 2071 does not ask that 16-207b be repealed as SB 50 did.

Marvin Umholtz, Kansas Credit Union League, gave his testimony in support of HB 2071. (See Attachment II).

Jim Turner, Kansas Savings and Loan League, gave his testimony in support of HB 2071 and stated that it is less controversial than SB 50.

After short committee discussion, the hearing on HB 2071 was concluded.

An emergency hearing on HB 2489 began. Staff explained that originally the bill dealt with a Revisor's clean-up problem, but that after the bill was introduced, Freddie Mac changed its second mortgage program effective today. Unless the bill is further amended, the Secretary of State will have no mechanism to determine the floating usuary rate on fixed rate mortgages for next month. The chairman added that he was hoping to get this bill out of committee today and to the Senate tomorrow so it could be passed and sent back to the House for concurrence.

Jim Turner, Kansas Savings and Loan League, appeared in support of the bill and to give an explanation of the amendments. (See Attachment III). He referred to the announcement from Freddie Mac which makes it necessary for immediate action on the bill. (See Attachment IV). Short committee discussion followed regarding the publishing date of the interest rate by the Secretary of State. In response to a question as to what would happen if the bill were not passed, Mr. Turner said that lending in the state would be stymied because no one would want to make fixed rate mortgages due to the penalty involved for using a wrong fixed rate. An alternative would be to ask the Attorney General's opinion. It was concluded that HB 2489 encompasses what is needed to do as has been done before and that if changes are needed later, it can be amended on the floor or by a conference committee.

Sen. Pomeroy made a motion to amend HB 2489 as suggested and also to amend it by changing "in" to "on" after the words "on the last day", by striking "of each" on line 33, and by inserting "the proceeding" before "month" on line 33. Sen. Werts seconded the motion. The motion carried.

Sen. Pomeroy made a motion to amend line 84 by striking "statute book" and inserting "Kansas Register". Sen. Harder seconded the motion. The motion carried.

Sen. Pomeroy made a motion to report HB 2489 favorably as amended. Sen. Werts seconded the motion. The motion carried.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON COMMERCIAL AND FINANCIAL INSTITUTIONS,

room 529-S, Statehouse, at 9:00 a.m./~~p.m.~~ on March 15, 1983

The chairman asked the committee if it wished to act on HB 2071 which is a clarification of what was thought was done last year.

Sen. Werts made a motion to report HB 2071 favorably. Sen. Gordon seconded the motion. The motion carried.

The next meeting will be held on March 16.

The meeting was adjourned.

SENATE COMMITTEE

ON

COMMERCIAL AND FINANCIAL INSTITUTIONS

OBSERVERS
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
3/15/83	Marvin Steinert	Topeka	S&L Dept.
"	Marvin Umholtz	"	KCUL
"	Jim Maag	"	KBA
"	Tom Wilder	"	KSLL
"	Jim Turner	Topeka	KSLL

March 15, 1983

TO: Senate Committee on Commercial and Financial Institutions

RE: HB 2071

Mr. Chairman and Members of the Committee:

We appreciate very much the opportunity to appear before the Committee in support of HB 2071. The bill amends K.S.A. 16-207(d) to clarify that the rules and regulations promulgated by the state bank commissioner, the consumer credit commissioner, the savings and loan commissioner, and the credit union administrator under the provisions of that act shall apply to adjustable rate loans "made primarily for personal, family, or household purposes" and would not apply to commercial or agricultural loans as defined by K.S.A. 16-207(f).

It is our belief that when SB 559 of the 1982 session was amended to include Section 2 (which is now 16-207(d) of the Kansas Statues Annotated) those regulations to be issued were to apply only to adjustable rate loans for residential real estate and for "personal, family or household purposes" and not to any adjustable rate commercial or agriculatural loans and did not, at that time, place any further restrictions on the making of such loans. To our knowledge there was no discussion at the time that Section 2 was added to SB 559 during the 1982 session that agricultural and commercial loans should be included in any rules and regulations put forth by these various state commissioners for financial institutions. Therefore, to clarify any ambiguity in the existing law, we would respectfully request that the language contained in HB 2071 be added to K.S.A. 16-207(d).

It should be further noted that unless such an amendment is forthcoming and bank examiners interpret 16-207(d) to mean that all commercial and agricultural loans must adhere to the rules and regulations as set forth in 104-1-1 it would create a situation where state-chartered banks would have additional restrictions on the making of commercial and agricultural loans that nationally-chartered banks would not. In addition, it would place restrictions on agricultural and commercial loans which would not apply to any corporate loan.

We strongly believe that there should be a continuing movement towards uniformity in the powers and authority of both state and nationally chartered banks. The continued existence of K.S.A. 16-207(d) in its present form would be a movement in the opposite direction.

Again, we want to thank the Committee for the opportunity to appear on this legislation and we respectfully request that you recommend HB 2071 favorably for passage.

James S. Maag
Director of Research

Attachment I

(6) Notwithstanding subsections (1) and (2), a lender may contract for and receive a minimum finance charge of not more than $5 when the amount financed does not exceed $75, or not more than $7.50 when the amount financed exceeds $75.

(7) This section shall not apply to a loan secured by an interest in land the interest rate of which is governed by subsection (b) of K.S.A. 16-207, unless made subject hereto by agreement.

(8) This section shall not apply to a loan secured by an interest in land subordinate to a prior mortgage and held by a lender other than the lender of the first mortgage, the interest rate of which is governed by subsection (b) or (h) of K.S.A. 16-207, and any amendments thereto, unless made subject hereto by agreement.

~~(8)~~ *(9)* As an alternative to the rates set forth in subsection (1) and subsection (2)(d), during the period beginning on the effective date of this act and ending July 1, 1982, a supervised financial organization may contract for and receive a finance charge not exceeding 18% per year on the unpaid balance of the amount financed.

New Sec. 2. The state bank commissioner, consumer credit commissioner, savings and loan commissioner and credit union administrator shall jointly adopt rules and regulations for the purpose of governing loans made under the provisions of subsection (h) of K.S.A. 16-207, and any amendments thereto, and subsection (8) of K.S.A. 16a-2-401, and any amendments thereto. Such rules and regulations shall be published in only one place in the Kansas administrative regulations as directed by the state rules and regulations board.

Sec. 3. K.S.A. 16a-2-401 is hereby repealed.

Sec. 4. This act shall take effect and be in force from and after its publication in the statute book.

Approved May 10, 1982.

CHAPTER 95

Senate Bill No. 538

AN ACT amending the consumer credit code; concerning consumer credit insurance; amending K.S.A. 16a-4-103 and repealing the existing section.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 16a-4-103 is hereby amended to read as follows: 16a-4-103. In this act "consumer credit insurance" means insurance, other than insurance on property, by which the satisfaction of debt in whole or in part is a benefit provided, but does not include:

State of Kansas

CONSUMER CREDIT COMMISSIONER
STATE DEPARTMENT OF CREDIT UNIONS
SAVINGS AND LOAN DEPARTMENT
STATE BANK COMMISSIONER

NOTICE OF PUBLIC HEARING ON JOINT PROPOSED ADMINISTRATIVE REGULATIONS

You are hereby notified that a public hearing will be held at 10:30 a.m. on August 11, 1982, in Room 313-S, Capitol Building, Topeka, Kansas on temporary and permanent regulation 104-1-1. All interested parties may present oral comments at the hearing. Written comments may be sent to any of the following state agencies:

Consumer Credit Commissioner
535 Kansas Avenue, Suite 1114
Topeka, Kansas 66603

Department of Credit Unions
535 Kansas Avenue, Suite 1008
Topeka, Kansas 66603

Bank Commissioner
818 Kansas Avenue
Topeka, Kansas 66612

Savings and Loan Department
503 Kansas Avenue, Room 220
Topeka, Kansas 66603

The regulation to be adopted is as follows:

104-1-1. Adjustable rate notes secured by a real estate mortgage or a contract for deed to real estate. For the purpose of adjusting the interest rate, the lender may use any interest-rate index that is readily verifiable by the borrower and is beyond the control of the lender. Adjustments to the interest rate of an adjustable mortgage loan shall correspond directly to the movement of the index, subject to any rate-adjustment limitations that a lender may provide. The initial index value shall be the most recently available value of the index at, or within six months prior to, the closing date of the loan. The amount of a rate adjustment shall reflect the difference between the initial index value and either: (a) the index value most recently available as of the date of rate adjustment, if the payment is not simultaneously adjusted, or (b) the index value most recently available as of the date of notification of a payment adjustment. When the movement of the index permits an interest-rate increase, the lender may decline to increase the interest rate by the indicated amount. The lender may decrease the interest rate at any time.

Adjustments to the interest rate may be implemented through adjustments to the outstanding principal loan balance or the loan term, through changes in the payment amount, or both. Adjustments shall be subject to the following conditions: (a) the total loan term shall not exceed 40 years; (b) the adjustments shall reflect the movement of the index; (c) the initial payment amount shall be sufficient to fully amortize the loan at the beginning of the loan term; and (d) the payment amount shall be adjusted at least every five years to a level sufficient to amortize the loan at the then-existing interest rate and principal loan balance over the remaining term of the loan.

The borrower shall not be charged any costs or fees in connection with regularly-scheduled adjustments to the interest rate, the payment, the outstanding principal loan balance, or the loan term.

At least 30, but not more than 45 days, before adjustment of the payment, a lender shall send written notification to the borrower containing the following information:

(a) a statement that the payment on the loan with the lender, secured by a mortgage or deed of trust on property located at the named address, is scheduled to be adjusted on a particular date;

(b) the outstanding balance of the loan on the adjustment date, assuming timely payment of the remaining payments due by that date;

(c) the interest rate on the loan as of the adjustment date, the index value on which that rate is based, the period of time for which that interest rate will be in effect, the next payment adjustment date, and the rate adjustment dates, if any, between the upcoming payment adjustment date and the next payment adjustment date;

(d) the payment amount as of the payment adjustment date;

(e) the dates, if any, on which the rate was adjusted since the last payment adjustment, the rates on each such rate adjustment date, and the index values corresponding to each such date;

(f) the dates, if any, on which the outstanding principal loan balance was adjusted since the last payment adjustment, and the net change in the outstanding principal loan balance since the last payment adjustment;

(g) the fact that the borrower may pay off the entire loan or a part of it without penalty when the prepayment is made more than six months after execution of the note; and

(h) the title and telephone number of a lender employee who can answer questions about the notice.

An applicant shall be given, at the time of receipt of an application, or upon request, a disclosure notice in substantially the following form:

IMPORTANT INFORMATION ABOUT THE ADJUSTABLE MORTGAGE LOAN
PLEASE READ CAREFULLY

You have received an application form for an adjustable mortgage loan ("AML"). The AML may differ from other mortgages with which you are familiar.

GENERAL DESCRIPTION OF ADJUSTABLE MORTGAGE LOAN

The adjustable mortgage loan is a flexible loan instrument. Its interest rate may be adjusted by the lender from time to time. Such adjustments will result in increases or decreases in your payment amount, in the outstanding principal loan balance, in the loan term, or in all three (see discussion below relating to these types of adjustments). Regulations place no limit on the amount by which the interest rate may be adjusted at any one time or over the life of the loan, or on the frequency with which it may be adjusted. Adjustments to the interest rate must reflect the movement of a single, specified index (see discussion below). For this reason, if you desire to have certain rate-adjustment limitations placed in your loan agreement, you should negotiate that matter with the lender. You may also want to make inquiries concerning the loan terms offered by other lenders on AMLs to compare the terms and conditions.

Another flexible feature of the AML is that the regular payment amount may be increased or decreased by the lender from time to time to reflect changes in the interest rate. Again, regulations place no limitations on the amount by which the lender may adjust payments at any one time, or on the frequency of payment adjustments. If you wish to have particular provisions in your loan agreement regarding adjustments to the payment amount, you should negotiate those terms with the lender.

A third flexible feature of the AML is that the outstanding principal loan balance (the total amount you owe) may be increased or decreased from time to time when adjustments to the interest rate result in a payment amount that is too small to cover interest due on the loan, or a payment amount that is larger than necessary to pay off the loan over the remaining term of the loan.

The final flexible feature of the AML is that the loan term may be lengthened or shortened from time to time, corresponding to an increase or decrease in the interest rate. When the term is extended in connection with a rate increase, the payment amount does not have to be increased to the same extent as if the term had not been lengthened. In no case may the total term of the loan exceed 40 years.

The combination of these four basic features allows a lender to offer a variety of mortgage loans. For example, one type of loan could permit rate adjustments with corresponding changes in the payment amount. Alternatively, a loan could permit rate adjustments to occur more frequently than payment adjustments, limit the amount by which the payment could be adjusted, and/or provide for corresponding adjustments to the principal loan balance.

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Adjustments to the interest rate of an AML must correspond directly to the movement of an index, subject to any rate-adjustment limitations that may be contained in the loan contract. If the index has moved down, the lender must reduce the interest rate by at least the decrease in the index. If the index has moved up, the lender has the right to increase the interest rate by that amount. Although increasing the interest rate is optional for the lender, you should be aware that the lender has this right and that the lender may become contractually obligated to exercise it.

The following is important information about the index to be applied to your AML.

1. Name and description of index to be used for applicant's loan:
   (provide relevent information here)
2. The initial index value (if known) or date of initial index value:
   (provide relevant information here)
3. A source or sources where the index may be readily obtained by the borrower:
   (provide relevant information here)
4. The high and low index rates during the previous calendar year:
   (provide relevant information here)

KEY TERMS OF ADJUSTABLE MO[illegible]AGE LOAN

Following is a summary of the basic terms on the type of AML to be offered to you. This summary is intended for reference purposes only. The following important information relating specifically to your loan will be contained in the loan agreement.

1. The loan term:
   (provide relevant information here)
2. The frequency of rate changes:
   (provide relevant information here)
3. The frequency of payment changes:
   (provide relevant information here)
4. The maximum rate change, if any, at one time:
   (provide relevant information here)
5. The maximum rate change, if any, over the life of the loan:
   (provide relevant information here)
6. The maximum payment change, if any, at one time:
   (provide relevant information here)
7. The minimum increments, if any, of rate changes:
   (provide relevant information here)
8. The adjustments to the principal loan balance:
   (provide relevant information here)

HOW YOUR ADJUSTABLE MORTGAGE LOAN WOULD WORK

INITIAL INTEREST RATE

The initial interest rate offered by <u>(lender's name)</u> on your AML will be established and disclosed to you on <u>(commitment date)</u> based on market conditions at the time.

A short description of each key term of the AML offered to you follows (headings identify the key terms).
(provide relevant information here)

NOTICE OF PAYMENT ADJUSTMENTS

<u>(Lender's name)</u> will send you notice of an adjustment to the payment amount at least 30 but not more than 45 days before it becomes effective. The following is a description of information contained in the notice, as required by K.A.R. ________:
(provide relevant information here)

PREPAYMENT PENALTY

You may prepay an AML in whole or part without penalty when the prepayment is made more than six months after execution of such note.

FEES

You will be charged fees by <u>(lender's name)</u> and by other persons in connection with the origination of your AML. The lender will give you an estimate of these fees after receiving your loan application. However, you will not be charged any costs or fees in connection with any regularly-scheduled adjustment to the interest rate, the payment, the outstanding principal loan balance, or the loan terms initiated by the lender.

PROPOSED COMPTROLLER OF THE CURRENCY REGULATIONS, JUNE 2, ON EASING RESTRICTIONS ON ISSUANCE OF ADJUSTABLE-RATE MORTGAGES BY NATIONAL BANKS

DEPARTMENT OF THE TREASURY

Comptroller of the Currency

12 CFR Part 29

[Docket No. 82-9]

Adjustable-Rate Mortgages

AGENCY: Office of the Comptroller of the Currency, Treasury.

ACTION: Proposed rule.

SUMMARY: The Office of the Comptroller of the Currency (Office) is proposing revisions to its adjustable-rate mortgage (ARM) regulation (12 CFR Part 29). That regulation was published on March 27, 1981 and amended on April 1, 1982. The proposed revisions would increase the flexibility of national banks to design ARM instruments by eliminating (1) limits on the frequency of payment and interest rate adjustments and (2) limits on the magnitude of interest rate adjustments. The proposal would replace the requirement that the monthly payment be reset at a fully amortizing level at least once every five years with a requirement that the monthly payment be reset at a level sufficient to begin reducing the outstanding debt no later than during the 21st year. The proposal would retain (1) the requirement that changes in the ARM interest rate be tied to changes in an interest rate index and (2) most of the existing disclosure requirements. The revised regulation would result in a freer flow of bank funds into home mortgage lending and would eliminate the reporting requirement associated with payment-capped mortgage plans.

DATE: Comments on the proposed regulation must be received on or before July 2, 1982.

ADDRESS: Comments should be sent to Docket No. 82-9, Communications Division, Office of the Comptroller of the Currency, Washington, D.C. 20219, Attn: Marie Giblin. Telephone (202) 447-1800. Comments will be available for public inspection and photocopying.

FOR FURTHER INFORMATION CONTACT: Judith Naiman, Industry and Public Affairs, (202) 447-0934, David Nebhut, Economic and Policy Research Division, (202) 447-1825, or Francis S. Rath, Legal Advisory Services Division, (202) 447-1880, Office of the Comptroller of the Currency, Washington, D.C. 20219.

SUPPLEMENTARY INFORMATION:

Drafting Information

The principal drafter of this document was David Nebhut, Financial Economist, Economic and Policy Analysis Division, Office of the Comptroller of the Currency.

Special Analyses

The Secretary of the Treasury has expressly exempted this regulation from the requirement of preparing a regulatory flexibility analysis, since it will not have a significant economic impact on a substantial number of small entities. The revised regulation is expected to result in a freer flow of bank funds into home mortgage lending and will eliminate the reporting requirement associated with payment-capped mortgage plans. Any costs incurred by small banks as a result of the revision are likely to result from adjustments in computer programs and employee training. Those costs are expected to be minimal.

The Office of the Comptroller of the Currency has determined that the regulation does not constitute a major rule within the meaning of E.O. 12291. Accordingly, a regulatory impact analysis will not be prepared on the grounds that the proposed revision (1) will not have an annual effect on the economy of $100 million or more, (2) will not result in a major increase in the cost of bank operations or government supervision nor is it likely to generate substantially higher payment for borrowers, and (3) will not have a significant adverse effect on competition, employment, investment, productivity, innovation, or competition with foreign-based entities.

Two proposed modifications of the regulation are the removal of interest rate caps and the removal of the limit on negative amortization. The current regulation permits interest rate increases in excess of the periodic caps to be carried over to future time periods. Therefore, the removal of the interest rate caps should have a relatively small effect on the overall amount that a borrower will pay over the life of the mortgage. However, removal of the caps, if not accompanied by a limitation on the size of payment changes, will increase the potential payment volatility of mortgage loans that provide for frequent payment changes. The removal of interest rate caps from the regulation does not preclude the imposition of caps by lenders. Lenders may choose to design instruments with interest rate caps in order to limit their credit risk.

The likely effect of the removal of the limit on negative amortization is more complicated to evaluate, but the Office believes that the removal of the limit will not substantially increase the cost of a loan relative to the amount actually borrowed. Negative amortization, in effect, means that the lender is advancing a portion of the interest due in a given month to the borrower. Therefore, higher payments on a loan that has had higher negative amortization are analogous to higher payments required to repay a larger principal balance. Further, increasing the amount of permissible negative amortization will enable borrowers to realize reduce monthly payments for some portion of the loan term.

Overall, the revision of the regulation will enhance the competitive position of national banks by permitting them to develop ARM instruments that are responsive to borrower needs.

Background and Analysis

On March 27, 1981, the Office adopted a final rule (46 FR 18932) establishing a framework within which national banks may make or purchase mortgage instruments that are responsive to changing interest rates and to bank deposit structures. That rule provided sufficient flexibility to accommodate most adjustable-rate mortgage lending programs then in existence. To promote continued innovation and experimentation, the rule permitted national banks to submit for review by the Office of the Comptroller of the Currency adjustable-rate mortgage plans that limit payment changes and provide for timely repayment of the loan but do not cap interest rate adjustments.

Since June 1981, the Office has permitted approximately 30 national banks to offer adjustable-rate mortgages that incorporate features not authorized by the ARM regulation. Most of the nonconforming ARM programs contain no caps on interest rates or on negative amortization and some use interest rate indexes not authorized by the Office's regulation. Instead of requiring changes in the design of those programs, the Office informed the banks of its concerns with such flexible instruments and permitted loans to be originated under those programs on an experimental basis.

The ARM rule was issued as an interim measure intended to smooth the transition from a market involving almost exclusively level-payment, fixed-rate mortgage loans to a market with a variety of flexible mortgage instruments. The Office anticipated reexamining the regulation two years after it was issued. However, the movement from standard fixed-rate mortgages to a variety of alternative mortgage instruments including ARMs, shared-appreciation

mortgages mortgages designed to accelerate repayment of principal occurred more rapidly than expected.

Several factors are responsible for the rapid change in the ARM market. One factor is the increased flexibility under which other mortgage lenders operate. On April 30, 1981, the Federal Home Loan Bank Board (FHLBB) issued a regulation (46 FR 24148) permitting federally chartered savings and loan associations to offer a wide variety of adjustable mortgage loan instruments. That regulation neither restricts interest rate adjustments nor limits increases in the outstanding loan balance on mortgage loans made by federally chartered S&Ls. On July 29, 1981, the National Credit Union Administration (NCUA) issued a similar regulation (46 FR 38669) governing ARM lending by federally chartered credit unions and the FHLBB amended its regulation to permit graduated-payment adjustable mortgage loans. A number of states now permit state-chartered financial institutions to make ARMs that are more flexible than those permitted by the Office's regulation. Additionally, private mortgage insurers have shown their willingness to insure ARMS that are more flexible than those the Office's regulation permits.

A second factor contributing to the development of the ARM market has been the creation of a secondary market in adjustable-rate mortgages. In June 1981, the Federal National Mortgage Association (FNMA) announced plans to purchase eight different types of ARMs. Of those eight, only two are consistent with the Office's current regulation. The six plans that national banks may not originate, except perhaps as payment-capped mortgages, do not have interest rate caps. Also, some permit more negative amortization than the regulation permits, and others use indexes not authorized by the Office.

The Office has permitted several national banks to offer four of the nonconforming FNMA plans under the provisions of the ARM regulation that permit experimentation with payment-capped mortgages. That process, however, involves delays in reviewing and responding to individual bank's submissions and could limit the ability of national banks to compete in the adjustable-rate mortgage market. The Office is, therefore, considering revising the regulation to authorize national banks to offer more flexible adjustable-rate mortgages.

The proposed revision to the regulation is consistent with the Office's belief that the design of adjustable-rate mortgage instruments can best be determined by the marketplace rather than by regulation. A lender's needs may depend on its deposit base, the customers it serves, the demands of secondary mortgage market investors, and the economic conditions of its region. Similarly, borrowers with differing expectations of income growth and differing preferences for housing are likely to demand different mortgage instruments. Lending institutions must have flexibility in designing mortgage instruments if the housing finance needs of various participants in the market are to be met.

Market imperfections, however, may prevent the efficient operation of a totally unregulated ARM market. The primary market imperfection is the high cost of obtaining information on an ARM. Those costs may prevent borrowers from accurately evaluating the instruments available. That problem can be compounded by the high transaction costs associated with mortgage loans that tend to lock borrowers into contracts, even if it is discovered after a contract is closed that a particular loan does not meet their needs. The Office's proposal addresses those problems in two ways. First, the requirement that the ARM interest rate be indexed to a market interest rate ensures that ARM interest rate changes are based on objective indicator of market conditions. This protects borrowers from arbitrary increases in the loan rate. Second, in recognition of the complexity of adjustable-rate mortgages, the proposal retains the requirement that banks disclose basic information to potential borrowers on the operation of the adjustable-rate mortgages it offers.

Proposed Changes in the OCC's ARM Regulation

Proposed changes in the OCC's ARM regulation are discussed below. No changes are proposed in the provisions of the regulation that are not addressed in this section.

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The proposed revision to the regulation permits national banks to use as an interest rate index any interest rate (or a moving average thereof) that is readily available to and verifiable by borrowers, and is beyond the control of the bank. If a bank bases interest rate changes on movements in a published average cost-of-funds index, it would be required to include in the disclosure notice a statement that such an index is likely to exhibit an upward bias over the next several years, regardless of movements in market rates of interest, as the interest rate ceilings on deposit instruments are phased out.

The Office's current adjustable-rate mortgage regulation (as amended on April 1, 1982 at 47 FR 13775) authorizes five interest rate indexes: the monthly and weekly average of the average auction rate on 6-month Treasury bills, the monthly and weekly average yield on Treasury securities with a maturity of three years, and the monthly average contract rate on previously occupied homes as complied by the Federal Home Loan Bank Board.

The Office limited the choice of indexes in its regulation in order to provide some uniformity in the ARM market, to simplify borrower comparisons of different ARM programs, and to facilitate the development of a secondary market in adjustable-rate mortgages. However, since FHLBB, NCUA and FNMA permit additional interest rate indexes, it is unlikely that continuing to limit the number of permissible indexes for national banks will promote uniformity in the adjustable-rate mortgage market or facilitate comparison shopping by potential borrowers.

The Office seeks comments on: (1) Whether there are any interest rate indexes that meet the proposed criteria but would be inappropriate interest rate indexes and (2) whether the above criteria exclude any interest rate indexes that would be appropriate.

Interest Rate Changes

(a) *Frequency.* The proposal removes (1) the limits on the frequency of interest rate adjustments and (2) the requirement that interest rate adjustments occur at regular intervals. It requires only that interest rate changes occur at intervals specified in the loan documents. The proposal retains the requirement that the borrower be notified of an impending interest rate adjustment 30 to 45 days before any interest rate adjustment may take effect.

The Office's existing regulation limits the frequency of interest rate adjustments to regular intervals of not more than once every 6 months. The initial fixed-rate period may exceed subsequent fixed-rate periods.

The limitation was included in the regulation to give borrowers some minimum period of payment stability. However, payments can be stabilized without restricting the frequency of interest rate changes, *e.g.*, the rate of amortization can be changed while the payment remains constant. To the extent that interest rate changes are cyclical, such an adjustment technique enables the lender to implement interest rate changes without deviating greatly from the original amortization schedule. Secular increases in the interest rate,

howeve: d necessitate an eventual payment . ease.

The Office requests comment on: (1) Whether the constraint on the frequency of interest rate adjustments should be retained and (2) the likely effect of its removal.

(b) *Magnitude*. The proposed amendment eliminates limits on the size of interest rate adjustments. The existing ARM rule limits interest rate adjustments to not more than 1 percentage point per six month period between adjustments and to not more than 5 percentage points at any single rate adjustment.

Regulatory constraints on the magnitude of interest rate changes impose some interest rate risk sharing between borrower and lender and dampen the potential volatility of monthly payments. At present market rates, the ARM interest rate cap implies a maximum annual payment change of approximately 15%.

The Office seeks comments on whether limitations on interest rate adjustments should be eliminated from the regulation.

An alternative to requiring interest rate caps is to give national banks the option of choosing either a periodic interest rate cap or a periodic cap on monthly payment changes. The Office seeks comments on whether any such requirement would be appropriate.

(c) *Required and Permitted Changes*. The existing regulation requires that any periodic or aggregate limit on interest rate changes apply to both increases and decreases. The proposal removes that requirement.

Lenders offering ARMs have designed a number of instruments with interest rate increases and decreases that are not symmetrical. For example, an ARM may have an initial interest rate which is below the current market rate. To compensate the lender, a schedule is established at the outset that will increase the mortgage interest rate by increasing the spread between the loan rate and the index rate. During this graduation period, decreases in the interest rate that might otherwise have resulted from decreases in the index are not taken. The Office believes that national banks should have the ability to design instruments with such flexibility, provided that the schedule for interest rate and payment adjustments is explained clearly and accurately in the initial disclosure statement. The Office requests comments on: (1) The likely effect of removing the symmetry requirement and (2) whether the regulation should specify required and permitted interest rate changes.

(d) *Negative Amortization*. The proposed amendment does not change the permissible methods of implementing interest rate changes. It does, however, remove the restriction on the aggregate amount of negative amortization that may occur on an ARM made by a national bank. Banks are, however, required to set the installment payment at a level sufficient to begin reducing the outstanding loan principal no later than during the 21st year of the loan term and to amortize the entire principal of the loan without a substantial balloon payment by the end of the 30th year.

The Office's existing regulation permits interest rate changes to be implemented through changes in the monthly payment, changes in the rate of amortization, or a combination of those methods. Negative amortization is now limited to one percent of the outstanding loan balance at the beginning of a fixed-payment period times the number of 6-month periods between payment adjustments. Additionally, the monthly payment must be set at a fully amortizing level at least once every 5 years.

Negative amortization is an essential element of any graduated-payment mortgage. In the early years of the loan, the borrower's monthly payments are set at a level below that required to amortize the loan. During that period, the bank, in effect, lends the borrower the difference between the actual monthly payment and the payment required for full amortization of the loan. The higher monthly payments later in the loan term compensate the lender for the earlier period of negative or reduced amortization. A key feature of a graduated-payment mortgage loan is a predetermined schedule of payment increases designed to put the loan on a fully amortizing basis at the end of a specified period.

On other ARMs, negative amortization provides a cushion that enables borrowers to maintain level payments beyond the period for which the interest rate is fixed. Cyclical movements in the interest rate alter the rate of amortization rather than the size of monthly payments. If significant periods of negative amortization occur, the loan-to-value ratio may rise, which in turn increases the lender's risk.

The Office requests comment on whether the regulation should include any limits on negative amortization or guidelines to assure that the loan-to-value ratios on ARMs do not exceed an unsafe level.

Fees

The proposal does not prohibit fees for rate or payment adjustments or prepayment of principal. Lenders th charge such fees would be required disclose the size of the fees and whe.. and how such fees would be charged. The Office's existing adjustable-rate mortgage regulation prohibits charges for interest rate or payment adjustments and permits prepayment fees only up until 30 days before the first rate adjustment on an ARM.

The Office seeks comments on the desirability of permitting banks to charge fees for interest rate adjustments, payment adjustments, and prepayments. Also, the Office specifically requests comments on whether prepayment fees should be permitted if prepayments arise via accelerated amortization due to the nature of the ARM program.

Disclosure. (a) The proposed revision retains most of the disclosure requirements of the existing regulation. Listed below are the changes in the required disclosures.

(1) Banks using an average cost-of-funds index would be required to disclose that such an index is likely to have an upward bias as the phasing out of interest rate ceilings on depository instruments continues.

(2) The proposal requires lenders to describe the method used to calculate the initial monthly payment on the loan if it differs from the fully amortizing monthly payment.

(3) The proposal does not prohibit lenders from charging fees related to interest rate adjustments, changes in the monthly payment, or prepayment on an ARM. Lenders would be required to disclose on what basis such fees would be charged and the amount of such fees.

(4) The proposal revises the required hypothetical example that national banks must provide. The regulation stipulates an interest rate scenario that increases by 10 percentage points as rapidly as possible. The proposal requires each bank to determine the interest rate scenario to be used with its example. Comments are requested on whether the Office should specify an interest rate scenario to be used by all national banks offering ARMs and, if so, what rate scenario might be appropriate.

(5) Because the proposal greatly expands the variety of instruments that national banks may offer, it is unlikely that a single disclosure form would be suitable for all ARMs. The proposal, therefore, does not include a model disclosure form. Nevertheless, banks are required to explain to their borrowers the potential risks of ARMs. Disclosure documents will be tailored by the bank according to its ARM plan. Comments are requested on whether the provision of a model form by this Office is necessary and, if so, how a model

disclosu ...rm might be designed to accommodate the variety of ARMs that will appear on the market.

(6) The proposal authorizes national banks to offer ARMs on which payment changes occur at different intervals than interest rate changes. Therefore, the Office is proposing that payment adjustment notifications be provided at least 30 days and no more than 45 days before any payment change may take effect and that certain information be included in such notifications. The Office requests comments on whether payment change notification requirements should be included in the regulation.

(b) The proposal does not substantially alter the disclosure statement that national banks making short-term demand or balloon mortgages must provide to borrowers. The Office believes that statement conveys important information. The Office solicits comments on whether the wording and the tone of that statement are appropriate and whether it provides borrowers with accurate and meaningful information regarding the nature of such loans.

List of Subjects in 12 CFR Part 29

National banks, Mortgages.

Proposed Amendment

Accordingly, the Office proposes to revise 12 CFR Part 29 to read as follows:

PART 29—ADJUSTABLE-RATE MORTGAGES

Sec.
29.1 Definition.
29.2 General rule.
29.3 Index.
29.4 Rate changes.
29.5 Prepayment fees.
29.6 Assumption.
29.7 Disclosure.

Authority: 12 U.S.C. 1 *et seq.*; 12 U.S.C. 93a; and 12 U.S.C. 371(g).

§ 29.1 Definition

An adjustable-rate mortgage loan is any loan made to finance or refinance the purchase of and secured by a lien on a one- to four-family dwelling, including a condominium unit, cooperative housing unit, or a mobile home, where such loan is made pursuant to an agreement intended to enable the lender to adjust the rate of interest from time to time. Adjustable-rate mortgage loans include loan agreements where the note and/or other loan documents expressly provide for adjusting the rate at periodic intervals. They also include fixed-rate loan agreements that implicitly permit rate adjustment by having the note mature on demand or at the end of an interval shorter than the term of the amortization schedule unless the national bank has clearly made no promise to refinance the loan (when demand is made or at maturity) and has made the disclosure specified in § 29.7(d).

§ 29.2 General rule.

National banks may make or purchase adjustable-rate mortgage loans only if they conform to the conditions and limitations contained in this part. National banks may make or purchase adjustable-rate murtgage loans pursuant to this Part without regard to any limitations that otherwise would be imposed on adjustable-rate mortgage lending by the laws of any State, the District of Columbia, Puerto Rico, the Virgin Islands, American Samoa, or Guam, which limitations are hereby expressly preempted.

§ 29.3 Index.

Changes in the interest rate charged on an adjustable-rate mortgage loan must be linked to changes in the index specified in the loan documents, *i.e.*, a 1 basis point (1 basis point = .01 percentage point) change in the index must be translated into a 1 basis point change of the same direction in the contract interest rate except as otherwise provided in § 29.4(b). A national bank may use as an interest rate index any measure of market rates of interest that is readily available to and verifiable by the borrower and is beyond the control of the bank. The index for an adjustable-rate mortgage loan shall be either single values of the chosen measure or a moving average of the chosen measure calculated over a specified period. The initial index value shall be the most recently available index value on the date that the lender commits to the initial interest rate on the loan. Subsequent interest rate changes shall be based on the most recently available index value at the date for notifying borrowers of impending changes in the interest rate.

§ 29.4 Rate changes.

(a) *Frequency of changes.* Interest rate changes on an adjustable-rate mortgage loan shall occur at intervals specified in the loan documents.

(b) *Required and permitted rate changes.* Interest rate changes on adjustable-rate mortagage loans shall be subject to the following provisions:

(1) Interest rate increases permitted in accordance with this Part shall be at the option of the bank.

(2) Interest rate decreases warranted by decreases in the index shall be mandatory except to the extent they would exceed limitations established pursuant to § 29.4(b)(3); to the extent that rate increases fully reflecting increases in the index have not been implemented by the bank, either at its option or because of limitations on interest rate adjustments as permitted in § 29.4(b)(3); or to the extent that the bank has previously voluntarily reduced the interest rate on an adjustable-rate mortgage loan.

(3) Banks offering adjustable-rate mortgage loans may establish in the loan documents limitations on maximum or minimum interest rate increases or decreases, minimum increments of interest rate increases or decreases, and procedures for rounding the interest rate on the loan to the nearest percentage point or some fraction thereof.

(4) Voluntary interest rate reductions not related to index changes and changes in the index that do not result in equal changes in the interest rate (including differences between changes in the index rate and changes in the interest rate due to rounding) shall, to the extent not offset by subsequent movements of the index, be carried over and be available at succeeding rate change dates.

(5) A national bank may decrease the contract rate on an adjustable-rate mortgage at any time and by any amount beyond the decreases required by the rules contained in this Part.

(c) *Method of rate changes.* Interest rate changes to an adjustable-rate mortgage loan may be implemented through changes in the amount of the installment payment or the rate of amortization or any combination of these two methods, according to a schedule agreed upon by the borrower and the bank in the loan documents or as agreed upon by the parties at the time of an interest rate change. Notwithstanding the foregoing, installment payments shall be required for an adjustable-rate mortgage loan that are sufficient to reduce the outstanding principal balance of the loan beginning no later than during the twenty-first year and are sufficient to amortize the entire principal of the loan without a substantial ballon payment by the end of the thirtieth year. These methods are permissible regardless of any state-law prohibitions on the charging of interest on interest. Such prohibitions are expressly preempted, provided the interest rate charged by the national bank does not exceed the applicable usury limit, if any.

§ 29.5 Prepayment fees.

National banks offering or purchasing adjustable-rate mortgage loans may impose penalties for prepayments regardless of any state-law prohibitions of such fees, which prohibitions are expressly preempted.

§ 29.6 As[illegible]ion.

National banks offering or purchasing adjustable-rate mortgage loans that include due-on-sale clauses are not required to allow those loans to be assumed by new purchasers of the mortgaged property or to allow new purchasers to take title to such property subject to the lien of an adjustable-rate mortgage loan made pursuant to this Part, regardless of any limitations on the validity or enforceability of due-on-sale clauses found in state law, which limitations are expressly preempted. If a national bank does allow such a loan to be assumed or a purchaser to take title to property subject to the lien of an adjustable-rate mortgage loan made pursuant to this Part, the interest rate and any other loan terms may be reset as of the date of assumption. In order for an adjustable-rate mortgage loan to qualify for the benefits of this section, the loan note must contain a clause stating that the loan is due on sale or must contain some other provision indicating that the loan may be assumed or the property purchased subject to the bank's mortgage lien only at the bank's discretion.

§ 29.7 Disclosure.

(a) A national bank offering adjustable-rate mortgage loans shall disclose in writing on the earlier of the date on which the bank first provides written information concerning adjustable-rate mortgage loans available from the bank or provides a loan application form to the prospective borrower, the following items:

(1) The fact that the interest rate may change and a brief description of the general nature of an adjustable-rate mortgage loan;

(2) The index used, including the name of at least one readily available source in which it is published. If the index is based on a cost of funds rate for any group of financial institutions subject to limitations on the interest they may pay certain classes of depositors, a bank must describe that fact and point out that the removal of interest rate ceilings will likely result in an upward bias on future movements of the index, regardless of movements in market interest rates;

(3) A 10-year series updated at least annually showing the values of the index on at least a semiannual basis, presented in a table. The table should show either single values of the measure of interest rates or an average of single values, consistent with the bank's adjustable-rate mortgage loan program;

(4) The frequency with which the interest rate and payment levels will be adjusted;

(5) The method used to calculate the initial monthly payment, if that payment differs from the fully amortizing payment;

(6) Any rules relating to changes in the interest rate, installment payment amount, and/or increases in the outstanding loan balance;

(7) A description of the method by which interest rate changes will be implemented, including an explanation of negative amortization and balloon payments, if they may occur in connection with the loan;

(8) A statement, if appropriate, of the rules or conditions relating to refinancing of short-term and demand mortgage loans, prepayment, and assumption;

(9) A statement, if appropriate, of fees that will be charged by the bank and/or any other persons in connection with the adjustable-rate mortgage loan, including fees due at loan closing, prepayment fees and fees that will be charged for interest rate or payment adjustments and a statement of when and how such fees will be charged;

(10) A schedule of the dollar amounts of the installment payments (principal and interest), and the outstanding loan balance at each payment adjustment date on a $10,000 adjustable-rate mortgage loan that might occur under the bank's adjustable-rate mortgage loan program. The initial interest rate should be a commitment rate offered by the bank within the preceding 12-month period.

(b) At least 30 days and no more than 45 days before any interest rate change may take effect, the bank must notify the borrower in writing of the following items:

(1) The current and proposed new interest rate;

(2) The base index value and the index values upon which the current interest rate and the new interest rate are based;

(3) The extent to which the bank has forgone any increase in the mortgage interest rate;

(4) The monthly payment due after implementation of the interest rate adjustment and/or other contractural effects of the rate change;

(5) The amount of the monthly payment, if different from that given in response to item 4, that would be required to fully amortize the loan at the new interest rate over the remainder of the loan term;

(6) The amount of the prepayment penalty, if any, that will be charged if the borrower chooses to prepay the loan rather than accept an interest rate increase.

(c) If under the bank's adjustable-rate mortgage program, a payment change may occur at a different date than an interest rate change, at least 30 days and no more than 45 days before any such payment change may take effect, the bank must notify the borrower in writing of the following items:

(1) An explanation of the circumstances that have led to such a payment change;

(2) The monthly payment due after implementation of the payment adjustment;

(3) The amount of the monthly payment, if different from that given in response to item 2, that would be required to fully amortize the loan at the new interest rate over the remainder of the loan term;

(4) The amount of any prepayment penalty that will be charged if the borrower chooses to prepay the loan.

(b) A national bank making any loan to finance or refinance the purchase of and secured by a lien on a one- to four-family dwelling which is either payable on demand or at the end of a term which, including any terms for which the bank has promised to refinance the loan, is shorter than the term of the amortization schedule, must include the following notice displayed prominently and in capital letters in or affixed to the loan application form and in or affixed to the loan note:

THIS LOAN IS PAYABLE IN FULL [AT THE END OF —— YEARS *or* ON DEMAND]. [AT MATURITY *or* IF THE BANK DEMANDS PAYMENT] YOU MUST REPAY THE ENTIRE PRINCIPAL BALANCE OF THE LOAN AND UNPAID INTEREST THEN DUE. THE BANK IS UNDER NO OBLIGATION TO REFINANCE THE LOAN AT THAT TIME. YOU WILL THEREFORE BE REQUIRED TO MAKE PAYMENT OUT OF OTHER ASSETS YOU MAY OWN, OR YOU WILL HAVE TO FIND A LENDER WILLING TO LEND YOU THE MONEY AT PREVAILING MARKET RATES, WHICH MAY BE CONSIDERABLY HIGHER THAN THE INTEREST RATE ON THIS LOAN. IF YOU REFINANCE THIS LOAN AT MATURITY, YOU MAY HAVE TO PAY SOME OR ALL CLOSING COSTS NORMALLY ASSOCIATED WITH A NEW LOAN, EVEN IF YOU OBTAIN REFINANCING FROM THE SAME BANK.

Fixed-rate short-term or demand loans for which this notice has been properly given will not be characterized as adjustable-rate mortgage loans.

(e) At the date on which the initial interest rate on an adjustable-rate mortgage loan is determined, the bank must inform the borrower of the initial index value against which interest rate changes will be measured. This initial index value must be included in the note which the borrower signs. The borrower must be given a copy of that note no later than at loan closing.

Dated: May 4, 1982.

C. T. Conover,

Comptroller of the Currency.

[FR Doc. 82-14851 Filed 5-1-82; 8:45 am]

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4-0031791067-010 03/08/83
ICS ABAEMSB WSH
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TOPEKA, KS

DATE: 8 MARCH 1983

TO: ALL STATE BANKERS ASSOCIATIONS (ABA)

FROM: BRIAN MEYER

SUBJECT: WASHINGTON WIRE, TUESDAY, MARCH 8, 1983

THE COMPTROLLER'S OFFICE HAS ISSUED A FINAL RULE REVISING ITS REGULATION ON ADJUSTABLE RATE MORTGAGES. THE OFFICE SAID THAT THE REVISIONS WILL MAKE IT EASIER FOR NATIONAL BANKS TO DESIGN ARM INSTRUMENTS, AND ADDED THAT IT EXPECTS THE FLOW OF BANK FUNDS INTO HOME MORTGAGE LENDING TO INCREASE AS A RESULT. THE REVISIONS ELIMINATE THE LIMITS ON THE FREQUENCY OF PAYMENT AND INTEREST RATE ADJUSTMENTS, AND ON THE SIZE OF INTEREST RATE ADJUSTMENTS. ALSO REMOVED ARE THE NEGATIVE AMORTIZATION CAP AND THE REQUIREMENTS THAT THE MONTHLY PAYMENT BE RESET AT A FULLY AMORTIZING LEVEL AT LEAST ONCE EVERY FIVE YEARS. INSTEAD, THE REVISIONS REQUIRE THAT THE MONTHLY PAYMENT BE RE-SET AT A LEVEL SUFFICIENT TO BEGIN REDUCING THE OUTSTANDING DEBT NO LATER THAN DURING THE 21ST YEAR. THE REVISED REGULATION ALSO ELIMINATES THE REPORTING REQUIREMENT FOR PAYMENT-CAPPED MORTGAGES. HOWEVER, CHANGES IN THE ARM INTEREST RATES ARE STILL TIED TO AN INTEREST RATE INDEX, AND MOST OF THE EXISTING DISCLOSURE REQUIREMENTS ARE RETAINED.

END OF MESSAGE

0950 EST

ABAKSBA TPK

Testimony of the

Kansas Credit Union League

on HB 2071, AML Regulation Clarifier

presented to the

Senate Commercial and Financial Institutions Committee

March 15, 1983

by Marvin C. Umholtz
Governmental Affairs Director

Mr. Chairman, Members of the Committee:

Thank you for the opportunity to appear before this Committee to provide comments on HB 2071. My remarks will be brief since the Committee heard extensive testimony on the issues surrounding AML's when SB 50, the AML regulation authority repealer, was discussed.

We support the clarifying change recommended by the Kansas Bankers Association (KBA) in HB 2071. The amendment clarifies that K.A.R. 104-1-1 applies only to loans made primarily for personal, family or household purposes, and not business or agricultural purpose loans.

The amendments in the bill would assist in alleviating any financial community concerns as to whether the state adjustable mortgage loan (AML) regulations do or do not apply to adjustable business or agricultural loans backed by real estate. With the amendment, they clearly would not.

Thank you for the opportunity to address the Committee. I stand ready to address questions at the direction of the Chairman.

Attachment II

RE: H.B. 2489 (Usury Publication Date) Amendments

Amend subsection (b) of section one of 1983 H.B. 2489 to read as follows:

> (b) The maximum rate of interest per annum for notes secured by all real estate mortgages and contracts for deed to real estate executed on or after the effective date of this act shall be at an amount equal to 1-1/2 percentage points above the ~~average weighted~~ yield of 30 year fixed rate conventional home mortgages committed for delivery within 61 to 90 days accepted under the federal home loan mortgage corporation's daily offerings for sale ~~weekly purchase program effective~~ on the ~~first~~ last day in which commitments for such mortgages were received of each month unless otherwise specifically authorized by law. Such interest rate shall be computed for each calendar month and be effective on the first day thereof. The secretary of state shall publish notice of such maximum interest rate (~~in the first~~ not later than the second) issue of the Kansas register published each month. The initial rate of interest upon any conventional loan evidenced by a note secured by a real estate mortgage shall not exceed the rate quoted in the application executed by the borrower on the day on which application for such conventional loan is made.

Attachment III

Federal Home Loan Mortgage Corporation
1776 G Street NW, P.O. Box 37248
Washington, D.C. 20013

William R. Thomas, Jr.
Executive Vice President
Marketing and Mortgage Operations

March 4, 1983

TO: All Seller/Servicers

We are pleased to announce program changes that will address your need for greater flexibility in swapping of portfolio loans and managing your new originations. These changes significantly alter the way Freddie Mac purchases loans, and offer you immediate knowledge of whether you have a commitment. Under the new procedure, offer and acceptance will occur by telephone, with confirmation thereafter by the Purchase Contract.

This letter constitutes an amendment to the Purchase Documents and should be retained for reference. The changes which are reflected in this letter will be incorporated into the Purchase Documents at their next revision.

MANDATORY DELIVERY PROGRAM IMPROVEMENTS

Effective March 15, 1983, Freddie Mac will discontinue the weekly auction for mandatory delivery programs and implement the following changes:

- Expand the number of delivery periods for several programs.
- Accept daily offers on all mandatory delivery programs at posted yields.
- Change delivery requirements to make processing more efficient.

New Delivery Periods

For the standard Immediate Delivery Purchase Program for Conventional Home Mortgages ("30-Year Fixed-Rate Program"), Sellers may choose to commit to deliver mortgages within the following periods after the Purchase Contract Date of Acceptance:

- Within 30 days.
- Within 60 days.
- Within 61-90 days.
- Within 91-120 days.

Attachment IV

The chart below summarizes all of the delivery periods now available for our mandatory programs.

Delivery Period	30-Yr Fixed	No-Cap ARM	HIL	Multifamily	Guarantor
0-30 Day	X				
0-60 Day	X	X	X	X	
0-90 Day					X
61-90 Day	X				
91-120 Day	X				
0-180 Day					X

New Offer Procedures

Offers in excess of $25,000,000 will be considered on an individually negotiated basis through your Freddie Mac regional office. Sellers should contact their Freddie Mac Regional Marketing Representative for details.

For offers of $25,000,000 or less, on each business day, for each delivery period and for each mandatory program, Freddie Mac will announce the required net yield or (for Guarantor commitments) the required spread at which it will consider offers. Because Freddie Mac will accept offers at the posted yield or spread, the noncompetitive auctions will be discontinued on March 15, 1983.

By 10:00 a.m., Washington, D.C. time each business day, Freddie Mac will announce on the Commitment Information Line (202-789-4500) the posted required net yields for the 30-Year Fixed-Rate, No Cap ARM, HIL and Multifamily programs; and the required spread for the Guarantor Program. The posted required net yields and Guarantor spread will also be available on page 7119 of Telerate and from your Freddie Mac regional office.

Sellers may enter into Purchase Contracts on a first come, first served basis between 10:00 a.m. and 2:00 p.m., Washington, D.C. time, unless Freddie Mac has ceased making commitments on that day for the desired program and/or delivery period. Sellers may obtain commitments by calling Freddie Mac's Commitment Line (202-789-2200). In making an offer, Seller must identify the amount, the program and the delivery period for which the commitment is desired. If commitments are available as desired, Seller must also supply the information specified in section 2.102(1)(a)-(e) and (h) of the Sellers' Guide. Unless advised by the Commitment Line operator that commitments are no longer available on that day for a particular program and/or delivery period, Seller may obtain one commitment for each delivery period for each program. Once the telephone commitment has been made, Seller will have a binding commitment by Freddie Mac. All telephone commitments are tape recorded. Freddie Mac will generally mail the confirming Purchase Contract on the business day following the day the telephone commitment is made.

Sellers may receive a summary of the day's commitment activity by calling the Freddie Mac Commitment Results Line (202-789-4488) after 3:00 p.m., Washington, D.C. time.

The minimum commitment for each delivery period is as follows:

- $100,000 for all mandatory programs other than the Guarantor and HIL programs.
- $1,000,000 for the Guarantor Program.
- $25,000 for the HIL Program.

Under the Multifamily Program, $7,500,000 remains the maximum commitment amount.

For the 61-90 day and 91-120 day delivery periods, loans may not be delivered before the 61st or 91st day after the date of the commitment (the Purchase Contract Date of Acceptance, as stated on the Purchase Contract).

New Partial Delivery Requirements

In order to provide more flexibility in delivery, we are changing certain partial delivery requirements, effective March 15. We hope that this will assist in processing transactions more efficiently.

- For each Purchase Contract for the 30-Year Fixed-Rate Program, ARMs and Guarantor, a Seller may submit mortgages in partial deliveries only if each partial delivery consists of mortgages having an aggregate unpaid principal balance of at least $1,000,000. If the Purchase Contract is for less than $1,000,000, partial delivery is not allowed.
- For each Purchase Contract for HILs, a Seller may submit mortgages in partial deliveries only if each partial delivery consists of mortgages having an aggregate unpaid principal balance of at least $25,000.

EIGHT-MONTH FORWARD COMMITMENT PURCHASE PROGRAM

The hours during which offers will be accepted for the Eight-Month Forward Commitment Purchase Program have been changed to correspond to those established for the mandatory delivery programs. On the Eight-Month Forward commitment day (the second Tuesday of each month) Sellers may obtain telephone commitments on the Commitment Line between 10:00 a.m. and 2:00 p.m., Washington, D.C. time. All other procedures for obtaining these commitments remain the same.

SELLER ELIGIBILITY FOR NEW PROGRAMS

Any Seller which has been approved to participate in Freddie Mac's present Conventional Home Mortgage Program may participate without further application in

all other Freddie Mac home mortgage programs except the HIL program, for which separate application is still required. Sellers qualified for Freddie Mac's Quick Funding Program (QFP), as described in Section 3.503 of the Sellers' Guide, for the Conventional Home Mortgage Program are also qualified for QFP in all other Freddie Mac mortgage programs except HIL and Multifamily.

GUARANTOR PROGRAM IMPROVEMENTS

180 Day Optional Delivery Commitments

In the near future, we expect to offer 0-180 day Guarantor commitments on an optional delivery basis. You will receive advance notice of this change.

Lower Threshold for Negotiated Commitments

Effective immediately, Sellers may enter into individually negotiated Guarantor commitments with their Regional Marketing Representatives for amounts of $10,000,000 or more. Sellers are also invited to discuss new optional delivery alternatives for individually negotiated transactions. Alternatively, Sellers may use the Freddie Mac Commitment Line to make Guarantor commitments by telephone, up to a maximum of $25,000,000. Commitments of more than $25,000,000 must still be made on an individually negotiated basis.

Eligibility of Payment-in-Advance Loans

A number of Sellers have requested that we purchase what they call "payment-in-advance" loans. Payments on these loans are based on the amortization method of individual loan accounting with interest calculated in arrears as required by Section 1.106 of Part II of the Servicers' Guide; however, interest on the loans is due 30 days in advance of the normal due date established for loans paying interest-in-arrears.

We are pleased to announce that, effective immediately, we will swap payment-in-advance loans under the Guarantor Program under the following conditions:

- Each such loan must have been closed prior to January 1, 1982.
- The interest that is collected in advance must be accounted for one month in advance along with the applicable principal in FHLMC Payments Account and Escrow Accounts as required by Section 1.114 of Part II of the Servicers' Guide.
- The gross interest paid by the mortgagor must be accurately reflected on the reports sent by the Seller/Servicer to Freddie Mac.

Please note that submission of loans having "prepaid interest" continues to be prohibited under Section 1.106 of Part II of the Servicers' Guide. Prepaid interest loans differ from payment-in-advance loans in that the interest is calculated on the principal balance outstanding as of the first of the month.

* * * * * *

These changes will be incorporated into the Sellers' Guide at its next revision, and into a future revision of the HIL Sellers' Manual. In the meantime, this letter constitutes an amendment to the Guide and Manual.

We hope these changes will be beneficial to you. If you have any questions regarding them, please contact your regional office.

Cordially,

William R. Thomas, Jr.

William R. Thomas, Jr.
Executive Vice President
Marketing and Mortgage Operations