

CHAPTER 11
ADJUSTABLE MORTGAGE LOANS
[Prior to 3/25/87, Auditor of State[130] Ch 11]

197—11.1(534) Authorization.

11.1(1) A state-chartered savings and loan association may make, purchase or participate in adjustable mortgage loans which are described in these rules.

11.1(2) This Chapter 11 establishes rules for preparing a mortgage note with adjustable interest rates and payments which qualifies as an approved loan plan under Iowa Code section 534.21(1). Property improvement loans made under Iowa Code section 534.103 and loans of less than a first lien made pursuant to Iowa Code section 534.72 may also be made under this Chapter 11. Any loan which is a consumer loan as defined in Iowa Code section 537.1301(14) may be made under any loan plan consistent with the provisions of Iowa Code chapter 537.

197—11.2(534) Description.

11.2(1) An adjustable mortgage loan is a loan that permits adjustment of the interest rate. Adjustments to the interest rate may be implemented through changes in the payment amount, the outstanding principal loan balance, or the loan term, including any combination thereof.

11.2(2) The total term of any loan shall not exceed 40 years.

11.2(3) Adjustments to a loan granted pursuant to these rules shall reflect the movement of one of the indices authorized under subrule 11.3(3).

11.2(4) Adjustments to the principal loan balance are permissible only if the initial payment amount is sufficient to fully amortize the loan and if the payment amount is adjusted at least every five years to a level sufficient to amortize the loan at the then-existing interest rate and principal balance over the remaining term of the loan.

11.2(5) Loans granted pursuant to these rules are subject to other loan limitations as provided under Iowa Code section 534.21. However, if a loan had a permissible loan-to-value ratio when it was originally granted, it will be assumed to continue to meet those requirements throughout the term of the loan.

11.2(6) Prepayment in full or in part of the outstanding principal loan balance may be made as provided in Iowa Code section 534.21(10).

11.2(7) An association which has granted an adjustable mortgage loan shall obtain and retain in the loan application file a certification signed by the prospective borrower indicating that the borrower has received the disclosure materials specified in these rules before electing to take the adjustable mortgage loan.

11.2(8) For the purposes of these rules it is the intent that adjustments to the various loan terms shall not interrupt the underlying security interest of the lender. The lien on the security property shall continue in place until the debt is fully retired.

197—11.3(534) Index.

11.3(1) Adjustments to the interest rate of an adjustable mortgage loan shall correspond directly to the movement of an index authorized by subrule 11.3(3), subject to the rate-adjustment limitations, if any, that the loan contract may provide. The initial index value shall be the most recently available value of the index at, or within three months prior to, the date of the closing of the loan. The amount of rate adjustment shall reflect the difference between the initial index value and either the index value most recently available as of the date of the rate adjustment, if the payment is not simultaneously adjusted, or the index value most recently available as of the date of notification of the payment adjustment.

11.3(2) Where the movement of the index permits an adjustment rate increase, the association may decline to increase the interest rate by the indicated amount. The association may decrease the interest rate at any time during the loan term.

11.3(3) For the purpose of adjusting the interest rate, an association must use an interest rate index that is readily verifiable by the borrower and is beyond the control of the association. An association may use:

- a.* The national average mortgage contract rate for major lenders on the purchase of previously occupied homes, as computed by the Federal Home Loan Bank Board, published in the board's journal and made available in news releases;
- b.* The average cost of funds to FSLIC-insured savings and loan associations, either for all Federal Home Loan Bank Board districts or a particular district or districts, as computed semiannually by the Federal Home Loan Bank Board, published in the board's journal, and made available in news releases;
- c.* The monthly average of weekly auction rates on United States Treasury bills with a maturity of three months or six months, as published in the Federal Reserve Bulletin and made available by the Federal Reserve Board;
- d.* The monthly average yield on United States Treasury securities adjusted to a constant maturity of one, two, three or five years, as published in the Federal Reserve Bulletin and made available by the Federal Reserve Board;
- e.* Any other interest rate index that meets the requirements of this subrule and has been approved in writing by the superintendent of savings and loan associations.

197—11.4(534) Costs of fees.

11.4(1) The borrower may not be charged any costs or fees in connection with regularly scheduled adjustments to the interest rate, payment, outstanding principal loan balance or loan term.

11.4(2) Reserved.

197—11.5(534) Notification of payment adjustment.

11.5(1) At least 30 but not more than 45 days before the adjustment of the payment, the association shall send written notification to the borrower containing the following information:

- a.* The fact that the payment on the loan with the association, secured by a mortgage on property located at the appropriate 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 the rate is based, the period of time for which that interest rate will be in effect, the next following payment adjustment date, the rate adjustment dates, if any, between the upcoming payment adjustment date and the next following payment adjustment date;
- d.* The payment amount as of the payment adjustment date;
- e.* The date(s), if any, on which the rate was adjusted since the last payment adjustment, the rates on each adjustment date, and the index values corresponding to each 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 type of prepayment penalty which may be imposed if the borrower pays off the entire loan or a part of it, depending on the type of security property; and
- h.* The title and telephone number of an association employee who can answer questions about the notice.

11.5(2) Reserved.

197—11.6(534) Disclosure.

11.6(1) An applicant must be given, at the time of receipt of an application, or upon request, a disclosure notice in 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). State regulations place no limit on the amount by which the interest rate may be adjusted either 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). This does not mean that the particular loan agreement you sign must, by law, permit unlimited interest rate changes. It merely means that, if you desire to have certain rate adjustment limitations placed in your loan agreement, that is a matter you should negotiate 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, state 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 such 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, because of adjustments to the interest rate, the payment amount is either too small to cover interest due on the loan, or larger than is 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 an association 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, or provide for corresponding adjustments to the principal loan balance.

Index

Adjustments to the interest rate of an AML must correspond directly to the movement of an index, subject to such rate-adjustment limitations as 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 taking such an increase is optional by the lender, you should be aware that the lender has this right and may become contractually obligated to exercise it.

[Name and description of index to be used for applicant's loan, initial index value (if known) or date of initial index value, a source or sources where the index may be readily obtained by the borrower, and the high and low index rates during the previous calendar year.]

Key Terms of Savings and Loan Association's Adjustable Mortgage 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. Important information relating specifically to your loan will be contained in the loan agreement.

[Provide summary of basic terms of the loan, including the loan term, the frequency of rate changes, the frequency of payment changes, the maximum rate change, if any, at one time, the maximum rate change, if any, over the life of the loan, the maximum payment change, if any, at one time, minimum increments, if any, of rate changes, and whether there will be adjustments to the principal loan balance, in the following format:

Loan term
Frequency of rate changes
Frequency of payment changes]

How Your Adjustable Mortgage Loan Would Work

Initial Interest Rate

The initial interest rate offered by _____ Savings and Loan Association on your AML will be established and disclosed to you on [commitment date, etc.] based on market conditions at the time.

[Insert a short description of each of the key terms of the type of AML to be offered to the borrower, using headings where appropriate.]

Notice of payment adjustments

_____ Savings and Loan Association will send you notice of an adjustment to the payment amount at least 30 but not more than 45 days before it becomes effective. [Describe what information the notice will contain.]

Prepayment penalty

You may prepay an AML in whole or in part without penalty at any time during the term of the loan, if you have mortgaged your single family dwelling or duplex, in which you reside, as security for the loan. If the security property is other than one of the above, a penalty may be assessed to you for early loan prepayment which is not greater than that as provided by law.

Fees

You will be charged fees by _____ Savings and Loan Association and by other persons in connection with the origination of your AML. The association 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 term initiated by the lender.

Example of operation of your type of AML

[Set out an example of the operation of the type of AML to be offered to the borrower, including, where appropriate, the use of a table.]

11.6(2) Reserved.

These rules are intended to implement Iowa Code section 534.21(1).

[Filed emergency after Notice 7/2/81, Notice 5/27/81—published 7/22/81, effective 7/2/81]

[Filed emergency after Notice 2/12/82, Notice 12/9/81—published 3/3/82, effective 3/3/82]

[Filed emergency 3/10/87—published 3/25/87, effective 3/10/87]