CONSUMER FINANCIAL PROTECTION BUREAU | DECEMBER 2019

TILA-RESPA Integrated Disclosures for Construction Loans

Guide for combined, one-transaction disclosures

Consumer Financial Protection Bureau

Version Log

The Bureau updates this Guide on a periodic basis to reflect finalized clarifications to the rule which impacts Guide content, as well as administrative updates. Below is a version log noting the history of this document and its updates:

Date	Version	Changes
December 2019	1.0	Original Document

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Introduction

This Guide, and the TILA-RESPA Integrated Disclosures: Separate Construction Loan Disclosures Guide (Companion Guide), work with other general TRID resources, including the TILA-RESPA Integrated Disclosure Small Entity Compliance Guide (TRID Small Entity Compliance Guide) and the TILA-RESPA Integrated Disclosure Guide to the Loan Estimate and Closing Disclosure Forms (TRID Guide to Forms), to review how to provide particular disclosures on the TRID forms for construction-only and construction-permanent loans.

Both construction-only loans (i.e., usually shorter term loans with several fund disbursements where the consumer pays only accrued interest until construction is completed) and also construction-permanent loans (i.e., construction loans that convert to permanent financing once construction is completed in which the loan amount is amortized just as in a standard mortgage transaction) can be covered by the TILA-RESPA Rule (TRID Rule) if the general TRID coverage requirements are met. Comment 17(c)(6)-2. Additionally, both initial construction and subsequent construction can be covered by the TRID Rule. Comment 17(c)(6)-2.

The Construction Guides are not a complete review of the TRID Rule, but instead highlight particular sections of the disclosures based on the questions received by the Bureau. At the end of this Guide, there is more information about the TRID Rule and related implementation support from the Bureau that can support any of the other pieces not addressed by these guides.

This Guide pertains to compliance with the TRID Rule, but it is not a substitute for the rule. Only the rule and its Official Interpretations (also known as commentary) can provide complete and definitive information regarding its requirements. The discussions below provide citations to the sections of the TRID Rule on the subject being discussed. Keep in mind that the Official Interpretations, which provide detailed explanations of many of the TRID Rule's requirements, are found after the text of the rule and its appendices. The interpretations are arranged by rule section and paragraph for ease of use.

About construction loan disclosures

There are two concepts that impact how the TRID Rule applies to construction loans. As discussed in the remainder of this Guide, each of the concepts below will impact how a creditor discloses a construction loan under the TRID Rule. The first is whether the creditor choses to use combined disclosures, as discussed in this Guide, or separate disclosures, as discussed in the Companion Guide. The second is whether the creditor chooses to use Appendix D to Regulation Z to estimate certain disclosures.

Below is a discussion of these disclosure options to provide background before reviewing how they impact the TRID disclosures in the rest of this Guide and the Companion Guide.

Using separate or combined disclosures

Under Regulation Z, 12 CFR § 1026.17(c)(6)(ii), a creditor may treat a construction-permanent loan as either one, combined transaction or as two or more separate transactions.

If the creditor treats the loan as one, combined transaction, the creditor discloses both the construction and the permanent financing combined on each disclosure. If the creditor treats the loan as separate transactions, it provides a separate set of disclosures for each phase of the construction-permanent loan.

Further, § 1026.17(c)(6)(i) permits the creditor to disclose a multiple-advance construction phase as one transaction, or as a separate transaction for each advance in the construction phase.

Applying all of these concepts together, as stated in Comment 17(c)(6)-3 to the TRID Rule, a creditor has the option to disclose a multiple-advance construction-permanent loan with:

- One, combined Loan Estimate and one, combined Closing Disclosure; or
- Two or more Loan Estimates for each phase and two or more Closing Disclosures for each phase (for example, one set for the construction financing as a whole and one set for the permanent financing).

The ability to separate these transactions into two or more disclosures under § 1026.17(c)(6) is available regardless of whether the consumer initially applies for construction-only or both construction and permanent financing at application. But note that if the creditor receives a consumer's application (i.e., the six pieces of information identified in § 1026.2(a)(3)) for *both* the construction financing and the permanent financing, disclosures for both phases must be given within the timing provided in § 1026.19(e) and (f). Comment 19(e)(1)(iii)-5.

This Guide focuses on disclosing with one, combined set of disclosures. Information on disclosing with a separate Loan Estimate and Closing Disclosure for each phase of the transaction is available in the Companion Guide.

How to estimate disclosures for construction loans

Creditors must first estimate disclosures based on the best information reasonably available when the actual term is unknown to the creditor at the time disclosures are made. This applies to any loan covered by TRID, including construction and construction-permanent loans. Comments 19(e)(1)(i)-1 and 19(f)(1)(i)-2.

However, as an alternative for construction and construction-permanent loans, the creditor may use estimation methods identified in Appendix D to Regulation Z to estimate disclosures for the construction phase. Appendix D can be used in both separate and combined disclosures for construction and construction-permanent loans.

For certain construction or construction-permanent loans, the creditor knows the disbursement schedule for the construction loan, and must base disclosures on the timing and amount of these disbursements. However, in many construction or construction-permanent loans that schedule is unknown, resulting in the loan balance and the payment due on a particular date being unknown. Because of this, some disclosures require estimation.

In the case of an unknown schedule of advances, the creditor may estimate a schedule as well as the outstanding loan balance, interest, and periodic payments, all based on the best information reasonably available at the time of the disclosure and provide those disclosures accordingly.

Alternatively, the creditor may use the calculation methods in Appendix D to estimate interest on the loan, which is then used to estimate the other disclosures on the Loan Estimate and Closing Disclosure, such as the finance charge and the periodic payment.

Using Appendix D to estimate disclosures

Appendix D is divided into two parts:

- **Part I for separate disclosures.** This part may be used for construction-only loans and for construction-permanent loans where the creditor discloses each phase separately.
- **Part II for combined disclosures.** This part may be used for construction-permanent loans where the creditor chooses to provide combined disclosures.

For both parts of Appendix D there are two methods for estimating interest on the loan. The methods are based on how the creditor is calculating interest:

	INTEREST ON THE AMOUNT ADVANCED	OR	INTEREST ON THE ENTIRE COMMITMENT
Method:	The creditor assumes ½ the commitment amount is outstanding for the entire construction period and multiplies that amount by the applicable contract interest rate.		The creditor can calculate the amount of interest payable during the construction phase by multiplying the entire commitment amount by the applicable contract interest rate for the construction phase.

	The calculation of the construction financing periodic payments using the assumptions in Appendix D produces interest-only periodic payments that are equal in amount for a given interest rate.	The calculation of the construction financing periodic payments using the assumptions in Appendix D produces interest-only periodic payments that are equal in amount for a given interest rate.
When to use:	This approach is permissible if interest is payable only on the advanced amount for the time it is outstanding during the construction phase. It allows creditors to estimate the amount of interest payable during the construction phase.	This approach is permissible if interest is payable on the entire commitment amount without regard to the dates or amounts of actual disbursements.
Citation:	Appendix D, part I.A.1, Example A at the end of Part I of Appendix D, part II.A.1, and Comment App. D-7.iv.A.	Appendix D, part I.B.1, Example B at the end of Part I of Appendix D, and part II.A.2.

Example

Loan Commitment Amount: $50,000

Interest Rate: 10.5%

Construction Phase: 5 months

Periodic Payment Frequency: Monthly

INTEREST ON THE AMOUNT ADVANCED

Assuming **$25,000** outstanding for the entire construction phase (i.e.,

INTEREST ON THE ENTIRE COMMITMENT

Assuming **$50,000** outstanding for the entire construction phase (i.e.,

½ the commitment amount), the monthly and total interest for the construction phase is **$218.75** and **$1,093.75**, respectively, if, based on the best information reasonably available at the time of the disclosure, interest will be determined by dividing the interest rate by 12.	the entire commitment amount) the monthly and total interest for the construction phase is **$437.50** and **$2,187.50**, respectively, if, based on the best information reasonably available at the time of the disclosure, interest will be determined by dividing the interest rate by 12.

Ultimately, Appendix D provides an estimated interest amount, which can then be used to estimate the periodic payment. Note that the creditor may be required to do different or further calculations depending on the basis on which interest is determined (e.g., daily, weekly, every two weeks) or if the periodic payment is not interest-only.

Estimating other disclosures

Using the interest payment amount estimated with Appendix D, Appendix D and its commentary also provides methods for how the creditor is permitted to estimate:

- The APR;
- The Total of Payments; and
- The Amount Financed for purposes of the disclosures.

Additionally, the commentary to Appendix D provides additional details on how to complete TRID disclosures for construction and construction-permanent loans. These disclosures include:

- The Loan Term;
- The Loan Product;
- The Interest Rate; and
- The Projected Payments Table.

The added Appendix D commentary also provides additional details on how to comply with the TRID Rule for issues specific to construction financing, such as disclosing increases in the periodic payment when using the Appendix D methods of calculation for disclosures, or where to disclose construction costs and inspection and handling fees (including draw fees) for the construction loan disbursements. Comment App. D-7.

Completing construction loan disclosures

Using the concepts discussed above, a creditor can apply the TRID Rule to construction and construction-permanent loans.

The remainder of this Guide provides elaboration on applying those concepts and the TRID Rule to combined construction-permanent loan disclosures. It does not cover the entirety of the Loan Estimate or Closing Disclosure. Instead, it provides an overview of select disclosures based on the common questions received by the Bureau pertaining to the:

1. Loan Terms Table
2. Projected Payments Table
3. Loan Costs Table
4. Adjustable Payments Table
5. Adjustable Interest Rate Table

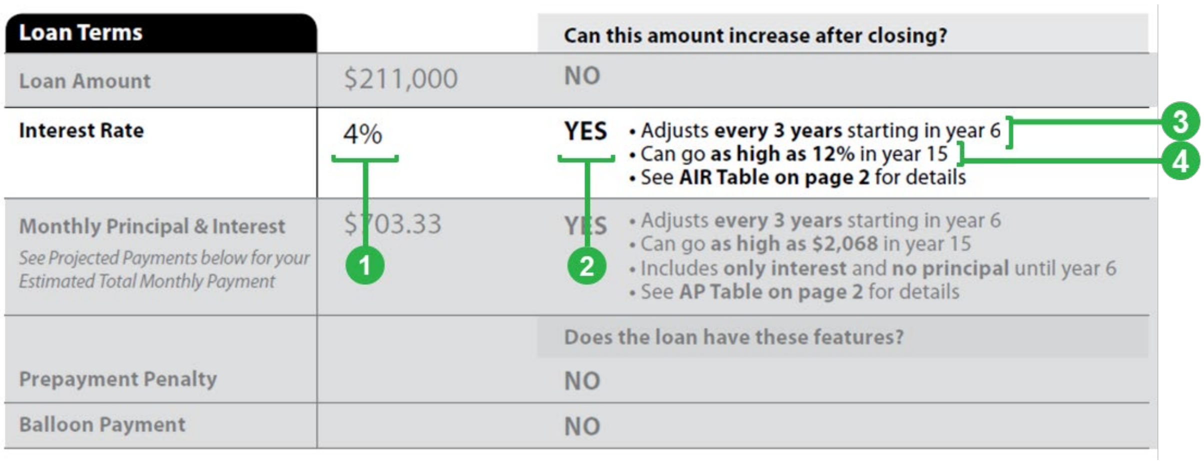
1. Loan Terms Table

The Loan Terms Table includes information about the Loan Amount, Interest Rate, Periodic Principal & Interest Payment, Prepayment Penalty, and Balloon Payment. 12 CFR § 1026.37(b). The following focuses on the Interest Rate and Periodic Principal & Interest Payment disclosures, the most common questions received by the Bureau.

For more information on the Loan Terms Table disclosures, see section 2.2.2 of the Guide to Forms.

Interest Rate Disclosure

As part of the Interest Rate disclosure in the Loan Terms Table, the creditor includes the initial interest rate applicable at consummation, a "YES" or "NO" statement as to whether the interest rate may increase after consummation, and, if "YES" is disclosed, four bullet point disclosures providing more detail on the adjustment.



Loan Terms		Can this amount increase after closing?
Loan Amount	$211,000	NO
Interest Rate	4%	**YES** • Adjusts **every 3 years** starting in year 6 • Can go **as high as 12%** in year 15 • See **AIR Table on page 2** for details
Monthly Principal & Interest *See Projected Payments below for your Estimated Total Monthly Payment*	$703.33	YES • Adjusts **every 3 years** starting in year 6 • Can go **as high as $2,068** in year 15 • Includes **only interest** and **no principal** until year 6 • See **AP Table on page 2** for details
		Does the loan have these features?
Prepayment Penalty		NO
Balloon Payment		NO

1 Initial Interest Rate

Regulation Z, 12 CFR § 1026.37(b)(2) requires the creditor to disclose the interest rate that will be applicable at consummation.

The disclosed interest rate for a combined disclosure is the interest rate applicable to the construction financing at consummation. 12 CFR § 1026.37(b)(2); Comment App. D-7.iii.

2 Increase

The creditor is also required to disclose whether or not the interest rate may increase after consummation under the terms of the loan. 12 CFR § 1026.37(b)(6). A creditor must disclose based on the terms of the legal obligation, and if any information necessary for an accurate disclosure is unknown to the creditor, the creditor must make the disclosure in good faith, based on the best information reasonably available to the creditor. Comments 37-1 and 38-1. A creditor may assume that the consumer will abide by the terms of the legal obligation throughout the term of the transaction. Comment 17(c)(1)-1.

For combined disclosures, the creditor discloses “YES” or “NO” depending on if the interest rate may increase after consummation and during either the construction phase or permanent phase. 12 CFR § 1026.37(b)(6).

A “NO” disclosure is required if the interest rate cannot increase after consummation under the terms of the legal obligation in either phase. 12 CFR § 1026.37(b)(6).

A “YES” disclosure is required if there is a possibility under the terms of the legal obligation that the interest rate may increase after consummation and during the construction phase or permanent phase. 12 CFR § 1026.37(b)(6)(ii).

A “YES” disclosure is required if, for example:

- The permanent phase interest rate will be higher than the construction phase interest rate.
- The permanent phase interest rate will not be set until the construction phase converts to the permanent phase and may increase (for example if there are no rate caps to prevent it from being set beyond the construction rate at consummation).
- Either phase has an adjustable rate where the rate may increase.
- Either phase has a step rate where the rate will increase.

See 12 CFR § 1026.37(b)(6)(ii).

Bullets

If there is a possibility under the terms of the legal obligation that the interest rate may increase after consummation, additional bullet point disclosures are required. 12 CFR § 1026.37(b)(6)(ii).

The bullets must include:

- The frequency of adjustments and timing of the first adjustment;
- The maximum interest rate and when this may first occur;
- A reference to the Adjustable Interest Rate (AIR) Table; and
- If the loan term may also increase based on the interest rate adjustments, a fourth bullet is required disclosing that fact and the maximum possible loan term.

12 CFR § 1026.37(b)(6)(ii).

The following sections discuss the first and second bullet points in this list.

3 Adjustment Frequency and Timing

If the interest rate may increase after consummation in either the construction or permanent phase of a construction-permanent loan, the creditor must disclose the frequency of adjustments and timing of the first adjustment in the first bullet for the interest rate disclosure in the Loan Terms Table. 12 CFR § 1026.37(b)(6) and (b)(6)(ii).

If the interest rate may adjust at multiple intervals, such as at conversion to the permanent phase and also at regularly scheduled rate adjustments in that permanent phase, the creditor is required to disclose only the frequency and timing of the first adjustment in the first bullet. Comment 37(b)(6)(ii)-2.

EXAMPLE OF A COMPLIANT DISCLOSURE FOR THE ADJUSTMENT FREQUENCY AND TIMING BULLET

For each example, assume:

- **Construction Phase:** The construction phase is 10 months.

- **Consummation Timing:** The transaction's permanent phase is consummated simultaneously with the transaction's construction phase.
- **Interest Rate Adjustments:** Any interest rate adjustments occur no more frequently than monthly.
- **Interest Rate Caps:** There are no caps that prevent the interest rate from increasing beyond the interest rate disclosed at or before consummation.

LOAN SITUATION	WHEN IT APPLIES	COMPLIANT DISCLOSURE (COMMENT 37(b)(6)(ii)-1; COMMENT 37(b)(6)-1)
Unknown fixed permanent phase interest rate	The construction phase has a known fixed rate, the permanent phase interest rate is fixed but unknown until it is identified at conversion to the permanent phase, and the permanent phase interest rate may increase from the interest rate disclosed at or before consummation.	"Adjusts once starting in mo. 11"
Known fixed permanent phase interest rate, but different fixed rate for the construction phase	The construction phase and permanent phase have known, but different, fixed rates, and the permanent phase rate is higher than the construction phase rate.	"Adjusts once starting in mo. 11"
Adjustable rate construction phase	The construction phase has an adjustable rate that may increase after consummation and adjusts monthly beginning in month 1.	"Adjusts every mo. starting in mo. 1"
Adjustable rate permanent phase	The construction phase has a fixed rate, but the permanent phase has an adjustable rate that adjusts yearly beginning in the first month of the permanent phase.	"Adjusts every year starting in mo. 11"

4 Maximum Interest Rate and Timing

If the interest rate may increase after consummation of a construction-permanent loan, in the second bullet for the interest rate disclosure in the Loan Terms Table the creditor must disclose the maximum interest rate and the first date when the maximum interest rate may occur. 12 CFR § 1026.37(b)(6)(ii).

For a combined disclosure, the disclosed maximum interest rate is the highest interest rate, regardless of whether it occurs during the construction or permanent phase, and the disclosed timing is the first date when that maximum interest rate may occur. The maximum rate may be specified in the legal obligation or may be based on usury laws.

EXAMPLE OF A COMPLIANT DISCLOSURE FOR MAXIMUM INTEREST RATE AND TIMING BULLET

For each example, assume:

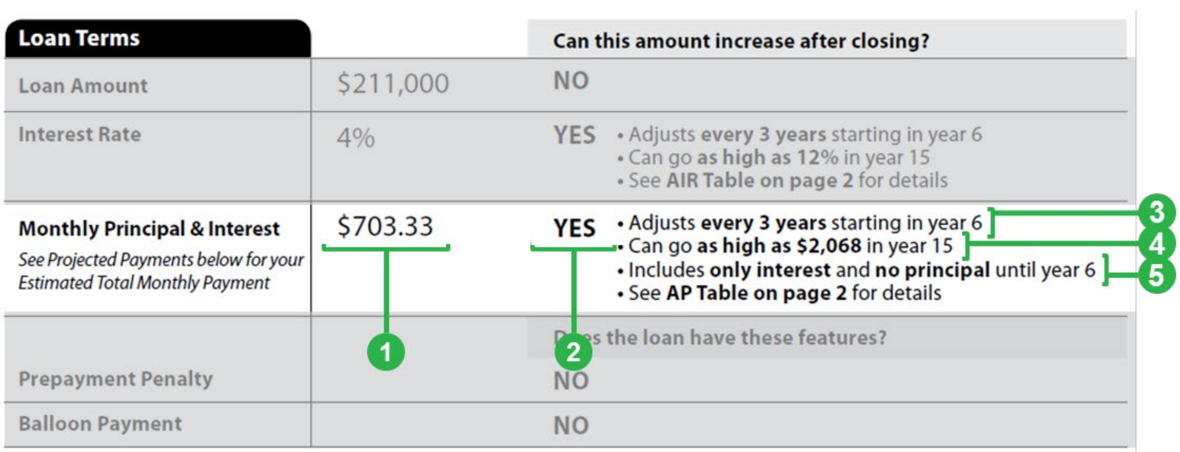
- **Construction Phase:** The construction phase is 10 months.
- **Consummation Timing:** The transaction's permanent phase is consummated at the same time as the transaction's construction phase.
- **Interest Rate Adjustments:** Any interest rate adjustments occur no more frequently than monthly.
- **Interest Rate Caps:** The construction phase interest rate has a cap at 8% (or is 8% for fixed rate examples), and the permanent phase has a cap at 10% (or is 10% for fixed rate examples).

LOAN SITUATION	WHEN THIS APPLIES	COMPLIANT DISCLOSURE (COMMENT 37(b)(6)(ii)-1; COMMENT 37(b)(6)-1)
Unknown permanent phase interest rate	The permanent phase interest rate is fixed but unknown until it is identified at conversion to the permanent phase, and it may increase from the interest rate disclosed at or before consummation.	"Can go as high as 10% in mo. 11"
Known fixed permanent phase interest rate, but	The construction phase and permanent phase have known, but different, fixed	"Goes as high as 10% in mo. 11"

different fixed rate for the construction phase	rates, and the permanent phase rate is higher than the construction phase rate.	
Adjustable rate construction phase	The construction phase has an adjustable rate that may increase after consummation and adjusts monthly beginning in month 1.	"Can go as high as 10% in mo. 11"
Adjustable rate permanent phase	The construction phase has a fixed rate, but the permanent phase has an adjustable rate that adjusts yearly beginning in the first month of the permanent phase.	"Can go as high as 10% in mo. 11"

Periodic Principal and Interest Payment Disclosure

As part of the Periodic Principal and Interest Payment disclosure in the Loan Terms Table, the creditor includes the initial periodic payment applicable at consummation, a "YES" or "NO" statement as to whether the periodic payment may increase after consummation, and, if "YES" is disclosed, four bullet point disclosures providing more detail on the adjustment.



1 Initial Periodic Principal and Interest Payment

Section 1026.37(b)(3) requires the creditor to disclose the initial periodic principal and interest payment that will be due under the terms of the legal obligation.

For combined disclosures, the initial periodic payment disclosed is the periodic payment applicable for the construction financing at consummation. 12 CFR § 1026.37(b)(3). If this amount is unknown, the creditor may use Appendix D to estimate the periodic payment or estimate the amount based on the best information reasonably available to the creditor.

2 Increase

The creditor is also required to disclose a "YES" or a "NO" for whether the payment may increase after consummation under the terms of the loan. 12 CFR § 1026.37(b)(6). A creditor complies by disclosing based on the terms of the legal obligation and may assume that the consumer will abide by the terms of the legal obligation throughout the term of the transaction. Comment 17(c)(1)-1.

For combined disclosures, the creditor discloses "YES" or "NO" depending on if the periodic payment may increase after consummation and during either the construction phase or permanent phase. 12 CFR § 1026.37(b)(6).

A "NO" disclosure is required if the payment cannot increase after consummation under the terms of the legal obligation during either the construction phase or the permanent phase. 12 CFR § 1026.37(b)(6).

A "YES" disclosure is required if there is a possibility under the terms of the legal obligation that the periodic payment may adjust after consummation and during either the construction phase or permanent phase. 12 CFR § 1026.37(b)(6)(iii).

A "YES" disclosure is required if, for example:

- The creditor is estimating the construction phase periodic payment based on Appendix D and the interest is payable only on the amount advanced for the time it is outstanding. Comment App. D-7.iv.A.

- The permanent phase periodic payment may be higher than the construction phase periodic payment because the payment will switch from interest-only during the construction phase to principal and interest during the permanent phase.
- The permanent phase periodic payment may be higher than the construction phase periodic payment because the permanent phase interest rate will not be set until the construction phase converts to the permanent phase, and the permanent phase interest rate may be higher than the construction phase interest rate.

See 12 CFR § 1026.37(b)(6)(iii).

Bullets

If under the terms of the legal obligation the payment amount may increase after consummation, § 1026.37(b)(6)(iii) requires several bulleted disclosures with the initial periodic principal and interest payment disclosure, including:

- The frequency of adjustments and timing of the first adjustment;
- The maximum possible payment and date the payment may first reach the maximum;
- The timing of any interest-only period; and
- References to the Adjustable Payments Table if any adjustments are not the result of a change to the interest rate.

The following sections discuss the first, second and third bullet points in this list.

3 Adjustment Frequency and Timing

If the periodic payment may increase after consummation, Regulation Z, 12 CFR § 1026.37(b)(6)(iii) requires disclosure of the frequency of adjustments and timing of the first periodic payment adjustment.

In determining the frequency of adjustments and timing of the first periodic payment adjustment as required by the regulation, if that first adjustment occurs in the construction phase, a creditor may want to consider:

- Whether the interest is accrued on the amount advanced or the entire commitment, as this may impact whether draws will change the consumer's periodic payment.
- Whether there are any changes between interest-only, partially amortizing, or fully amortizing periodic payments.
- When the legal obligation allows the consumer to make the first and subsequent draws, as this may impact when the consumer's payment will adjust and the frequency of that adjustment if a periodic payment adjustment may occur as a result of a draw.
- When the interest rate may first and subsequently adjust.

To determine whether to disclose the timing disclosure in months or years under § 1026.37(b)(6)(iii) will depend on whether the creditor uses Appendix D's method of estimation based on interest payable only on the amount advanced for the time it is outstanding. Comment App. D-7.iv. If the creditor is using Appendix D's method of estimation based on the interest payable only on the amount advanced for the time it is outstanding, then the creditor has optionality as to whether it uses months or years for the disclosures under § 1026.37(b)(6)(iii). Comment App. D-7.iv.B. However, if that method is not used, Comment 37(b)(6)-1 provides guidance on the use of months or years.

EXAMPLE OF A COMPLIANT DISCLOSURE FOR ADJUSTMENT FREQUENCY AND TIMING BULLET

For each example, assume:

- **Construction Phase:** The construction phase is 10 months.
- **Consummation Timing:** The transaction's permanent phase is consummated simultaneously with the transaction's construction phase.
- **Periodic Payments Frequency:** Any periodic payments are on a monthly basis.
- **Rate Type:** Fixed rate for both phases.
- **Interest-Only Period:** Interest-only loan during the construction phase.
- **Construction Loan Draws:** The contract permits draws in each month (including immediately after consummation).

LOAN SITUATION	WHEN IT APPLIES	COMPLIANT DISCLOSURES (COMMENT App. D-7.iv.B; COMMENT 37(b)(6)-1)
Estimated construction periodic payment	The interest is based only on the amount advanced and the construction phase periodic payments are estimated using Appendix D because the actual schedule of advances is not known at or before consummation.	"Adjusts every mo. starting in mo. 1" or "Adjusts every mo. starting in year 1"
Unknown fixed permanent phase interest rate	The fixed interest rate for the permanent phase is unknown at consummation, and during the construction phase interest is accrued on the entire commitment and periodic payments are known, fixed, and equal in amount.	"Adjusts once starting in mo. 11" for a combined construction-permanent disclosure if the permanent phase periodic payment may increase from the amount disclosed for the construction phase at consummation.
Change from interest-only to principal and interest	The interest is accrued on the entire commitment and periodic payments are known, fixed, and equal in amount during the construction phase, but the periodic payment amount may increase upon conversion to the permanent phase because the periodic payment is converting from interest-only periodic payments during the construction phase to principal and interest periodic payments during the permanent phase.	"Adjusts once starting in mo. 11"

4 Maximum Payment and Timing

If the periodic payment may increase after consummation of a construction-permanent loan, Regulation Z, 12 CFR § 1026.37(b)(6)(iii) requires disclosure of the amount of the maximum periodic payment and the date when the periodic payment may first equal the maximum.

For combined disclosures, the disclosure is the maximum periodic payment and the date when the periodic payment may first equal the maximum after consummation and during either the construction phase or the permanent phase. Likely, because most construction phase payments are not fully amortizing, the disclosed payment and timing will be from the permanent phase.

If the creditor is using Appendix D's method of estimation based on interest payable only on the amount advanced for the time it is outstanding, then the creditor has optionality as to whether it uses months or years for the disclosures under § 1026.37(b)(6)(iii). Comment App. D-7.iv.B. If that method is not used, Comment 37(b)(6)-1 provides guidance on the use of months or years.

EXAMPLE OF A COMPLIANT DISCLOSURE FOR MAXIMUM PAYMENT AND TIMING BULLET

For each example, assume:

- **Construction Phase:** The construction phase is 10 months.
- **Consummation Timing:** The construction and permanent phase loans are consummated simultaneously.
- **Interest Rate:** The construction phase interest rate is fixed at 8% and the permanent phase interest rate has a cap at 8% (or is fixed at 8% for the known periodic payments example).
- **Interest-Only Period:** The construction phase is an interest-only loan.
- **Construction Phase Draws:** The consumer may draw monthly but may not draw the entire commitment until month 9.

LOAN SITUATION	WHEN IT APPLIES	COMPLIANT DISCLOSURE (COMMENT App. D-7.iv; COMMENT 37(b)(6)(iii)-1; COMMENT 36(b)(6)-1)
Estimated construction periodic payment	The interest is based only on the amount advanced and the construction phase periodic payments are estimated using Appendix D, because the actual schedule of advances is not known at or before consummation.	"Can go as high as [maximum possible fully-amortizing periodic principal and interest payment based on the 8% maximum interest rate for the permanent phase] in mo. 11." or "Can go as high as [maximum possible fully-amortizing periodic principal and interest payment based on the 8% maximum interest rate for the permanent phase] in year 1"
Unknown fixed permanent phase interest rate	The fixed interest rate for the permanent phase is unknown at consummation and may increase from the rate at consummation of the construction phase, resulting in the possibility of the periodic payment increasing from the amount disclosed for the construction phase at consummation, and during the construction phase interest is accrued on the entire commitment and periodic payments are known, fixed, and equal in amount.	"Can go as high as [maximum possible fully-amortizing periodic principal and interest payment based on 8% maximum permanent phase interest rate] in mo. 11."
Known periodic payments but change from interest-only to principal and interest	The interest is accrued on the entire commitment and there are no changes in periodic payments during the construction or permanent phase, except that the periodic payment amount will increase upon conversion to the permanent phase because the periodic payment is converting from interest-only periodic payments during	"Can go as high as [principal and interest periodic payment amount during the permanent phase] in mo. 11."

	the construction phase to principal and interest periodic payments during the permanent phase.	

5 Interest-Only Period

If the periodic payment may increase after consummation and there is a period during which only interest is required to be paid, Regulation Z, 12 CFR § 1026.37(b)(6)(iii) requires disclosure of when the interest-only period will end in the Loan Terms Table.

For a combined disclosure the timing of the end of the interest-only period is the due date of the last interest-only periodic payment the consumer will make before switching to principal and interest payments.

EXAMPLE OF A COMPLIANT DISCLOSURE FOR INTEREST-ONLY PERIOD BULLET

For each example, assume:

- **Construction Phase:** The construction phase is 10 months.
- **Interest Rate Type:** Fixed rate for both phases.
- **Periodic Payments Frequency:** Any periodic payments are on a monthly basis
- **Interest-Only Period:** The 10-month construction phase and 12 months of the permanent phase at the beginning.

LOAN SITUATION	COMPLIANT DISCLOSURE (COMMENT 37(b)(6)-1; COMMENT 37(b)(6)(iii)-1)
Both the construction and permanent phases have consecutive interest-only periods	"Includes only interest and no principal until mo. 23"
Only the construction phase has an interest-only period	"Includes only interest and no principal until mo. 11"

2. Projected Payments Table

The Projected Payments Table includes payment information about Principal & Interest, Mortgage Insurance, Estimated Escrow, Estimated Total Monthly Payment, and Estimated Taxes, Insurance & Assessments. 12 CFR § 1026.37(c).

The following focuses on particular topics for the Principal & Interest, Mortgage Insurance, and Estimated Escrow payment disclosures based on the most common questions received by the Bureau.

For more information on the Projected Payments Table disclosures, see section 2.2.3 of the Guide to Forms.

Projected Payments

Payment Calculation	Years 1-5	Years 6-8	Years 9-11	Years 12-30
Principal & Interest	$703.33 *only interest*	$1,028 min $1,359 max	$1,028 min $1,604 max	$1,028 min $2,068 max
Mortgage Insurance	+ 109	+ 109	+ 109	+ —
Estimated Escrow *Amount can increase over time*	+ 0	+ 0	+ 0	+ 0
Estimated Total Monthly Payment	$812	$1,137–$1,468	$1,137–$1,713	$1,028–$2,068
Estimated Taxes, Insurance & Assessments *Amount can increase over time*	$533 a month	**This estimate includes** ☒ Property Taxes ☒ Homeowner's Insurance ☐ Other: *See Section G on page 2 for escrowed property costs. You must pay for other property costs separately.*		**In escrow?** **NO** **NO**

1 First Column and Subsequent Columns

Under Regulation Z, 12 CFR § 1026.37(c), a creditor is required to disclose the principal and interest periodic payment or range of payments in the Projected Payments Table. Additionally, multiple columns — up to four — may be required if certain triggering events are met, such as changes in the payment or balloon payments.

The first column of the Projected Payments Table discloses either the construction phase only or the construction and permanent phases combined. 12 CFR § 1026.37(c)(1)(iii)(B). If the construction phase is at least a full year, the first column discloses the construction phase periodic payment or range of payments that is either known or estimated.

If the construction and permanent phases will have the same fixed periodic payment or if the construction phase is less than a full year, the first column discloses a payment or range of payments that reflects both the construction and permanent phase periodic payments occurring during that period. 12 CFR § 1026.37(c)(1)(i) and (iii).

Subsequent columns of the Projected Payments Table may reflect the construction phase if it is greater than one year and certain triggering events occur, including when the construction phase periodic payment or range of payments may change because of an interest rate adjustment. 12 CFR § 1026.37(c)(1)(i).

Otherwise, subsequent columns required for the triggers listed in Regulation Z, 12 CFR § 1026.37(c)(1)(i) reflect the permanent phase.

Note

Note that in a combined disclosure, conversion itself (i.e., the conversion of the construction phase loan balance to the permanent phase loan balance) is not reflected as a balloon or other payment for purposes of a combined construction-permanent Projected Payments Table, and thus does not trigger a new column on its own.

2 Single vs. Range Payment

As stated above, under Regulation Z, 12 CFR § 1026.37(c), a creditor is required to disclose the principal and interest periodic payment(s) in the Projected Payments Table. If one of the triggering events identified in § 1026.37(c)(1)(iii) occurs, a creditor is required to disclose a range of payments instead of a single payment.

Triggering events for a range of payments in the Projected Payments Table include:

- There are more triggering events than can be shown in four columns and thus one column must be used to show two or more periodic payment amounts.
- The Principal & Interest payment or range of such payments may change more than once in a single year or may change (at least once) in the same year as the initial periodic payment.
- The Principal & Interest payment may adjust based on an interest rate index and the rates are not yet known (i.e., for an Adjustable Rate loan).

See 12 CFR § 1026.37(c)(1)(iii).

In general, if using Appendix D to estimate payments, if there are no interest rate changes, in most cases a single payment is disclosed for the construction phase portion.

If the construction phase is at least a full year, a range of payments may be triggered in the first column if the periodic payment may change during the first year, for example, based on an adjustable rate. 12 CFR § 1026.37(c)(1)(iii).

If the construction phase is less than a full year and the first column discloses the periodic payment for both phases, a range of payments is required unless the construction and permanent phases have the same fixed payment. A range may also be required in this column, for example, because:

- The construction phase has interest-only periodic payments and the permanent phase has amortizing periodic payments;
- There is an adjustable rate in either phase;
- The permanent phase interest rate is unknown at consummation; or
- The construction and permanent phase fixed interest rates are different.

12 CFR § 1026.37(c)(1)(iii).

When the construction phase is less than a full year and the first column is required to disclose both the construction and permanent phase periodic payments as a range, the creditor looks at the lowest and highest amounts over both the construction and permanent phases. The lowest amount would be the minimum payment in either the construction or permanent phases during that period and the highest amount would be the maximum payment in either the construction or permanent phases during that period.

A range of payments may be required in any of the subsequent columns if any of the triggers in Regulation Z, 12 CFR § 1026.37(c)(1)(iii) are met during the period disclosed in each column.

Example

For example, if the permanent phase has periodic payments that may adjust based on a rate that will be identified at conversion from the construction phase and may change from the rate disclosed at or before consummation, columns in the Projected Payments Table would disclose a range of payments reflecting the lowest and highest periodic payment that may apply during that period. If the periodic payment may change solely because of changes to the interest rate, the lowest and highest periodic payments would be based on the lowest and highest interest rates.

3 Interest-Only Disclosure

In the Projected Payments Table, if the payment or range of payments includes any payments of interest only, use the phrase "only interest" under the amount of the payment or range of payments. 12 CFR § 1026.37(c)(2)(i).

If the construction or permanent phase includes interest-only payments, the "only interest" disclosure is included in the applicable column or columns.

If a column reflects both construction and permanent phase payments, the "only interest" disclosure is included, even if only one phase has interest-only payments. 12 CFR § 1026.37(c)(2)(i).

4 Mortgage Insurance and Escrow Payments

Regulation Z, 12 CFR § 1026.37(c)(2)(ii) and (iii) require disclosure of mortgage insurance and escrow payments respectively, if applicable. When the first column exclusively discloses the construction phase and only the permanent phase requires mortgage insurance or escrow, the creditor discloses "0" in the first column of the Projected Payments Table for mortgage insurance and a hyphen or dash in the first column of the Projected Payments Table for escrow.

If the first column discloses both the construction phase and the permanent phase, the amount of the mortgage insurance premium or escrow payment (if any) for the permanent phase is disclosed in the first column. Comment App. D-7.v.C.

3. Loan Costs Table

The Loan Costs Table includes cost information about services that the creditor or mortgage broker require for consummation, such as underwriting, appraisal, and title services. 12 CFR § 1026.37(f); Comment 37(f)-1. In a transaction with construction financing, often there are fees for inspection of the property and fees for handling the construction loan funds, such as "draw fees" charged for loan disbursements (or draws) and those fees are considered loan costs.

Construction inspection and handling fees must be disclosed under the TRID Rule. Comment App. D-7.vii. The label and placement depends on when they are collected.

The following focuses on the Loan Costs Table disclosures based on the most common questions received by the Bureau. In particular, the following discusses inspection and handling fees for the staged disbursement of construction loan proceeds, including draw fees.

Loan Costs	
A. Origination Charges	**$3,110**
1 % of Loan Amount (Points)	$2,110
Application Fee	$500
Processing Fee	$500
B. Services You Cannot Shop For	**$820**
Appraisal Fee	$305
Credit Report Fee	$30
Flood Determination Fee	$35
Lender's Attorney Fee	$400
Tax Status Research Fee	$50
C. Services You Can Shop For	**$1,921**
Pest Inspection Fee	$125
Survey Fee	$150
Title – Courier Fee	$32

Other Costs	
E. Taxes and Other Government Fees	**$152**
Recording Fees and Other Taxes	$152
Transfer Taxes	
F. Prepaids	**$1,352**
Homeowner's Insurance Premium (12 months)	$1,000
Mortgage Insurance Premium (months)	
Prepaid Interest ($23.44 per day for 15 days @ 4.00%)	$352
Property Taxes (months)	
G. Initial Escrow Payment at Closing	
Homeowner's Insurance per month for mo.	
Mortgage Insurance per month for mo.	
Property Taxes per month for mo.	
H. Other	**$1,436**
Title – Owner's Title Policy (optional)	$1,436
I. TOTAL OTHER COSTS (E + F + G + H)	**$2,940**
J. TOTAL CLOSING COSTS	**$8,791**
D + I	$8,791
Lender Credits	

For more information on the Loan Costs Table disclosures, see section 2.3.1 of the Guide to Forms.

Where to disclose fees

Construction inspection and handling fees for the staged disbursement of construction loan proceeds, including draw fees, are loan costs, and must be disclosed either in the Loan Costs Table if collected at or before consummation or on an addendum if collected after consummation. Comment 37(f)-3; Comment App. D-7.vii.

> **Example**
>
> For example, if an advance is taken at consummation to finance construction inspection and handling fees, they are considered collected at consummation and are disclosed in the Loan Costs Table.
>
> However, if the creditor permits the consumer to take advances after consummation to cover construction loan inspection and handling fees, the fees are collected after consummation and would be disclosed on an addendum.

How to total fees

Disclosure of construction inspection and handling fees must be disclosed as a single total of inspection and handling fees, whether in the Loan Costs Table or on an addendum. Comment 37(f)-3. However, Regulation Z does not prohibit breaking the total down into subtotals as provided by other provisions, such as to disclose different service providers or to distinguish services for which the consumer may shop.

> **Example**
>
> For example, if the consumer can shop for some, but not all, inspection and handling fees, the creditor may disclose a total for the portion of services for which the consumer can shop in that designated section of the Loan Costs Table and a separate total in the section showing fees for which the consumer cannot shop.

Further, if the fees are paid to different service providers, creditors may disclose separate inspection and handling fee totals for each service provider.

But note, if disclosed on an addendum, Regulation Z requires a single total of the inspection and handling fees. Comment 37(f)(6)-3. Further breakdowns may be provided on the addendum in a clear and conspicuous manner, so long as the total is disclosed.

How to label fees

If disclosed on the Loan Costs Table, the label for the inspection and handling fees must be clear and conspicuous, whether disclosed as a single total or as separate totals to disclose different service providers or to distinguish services for which the consumer may shop. 12 CFR §§ 1026.37(f)(5), 37(o)(1) and 38(t)(1).

Example

For example, when disclosing as a single total, one option for labeling the total is "Inspection and Handling Fees." *See* 12 CFR § 1026.37(f)(5); Comment 37(f)(5)-1.

If disclosed on an addendum, the label "Inspection and Handling Fees Collected After Closing" is required for the total fee on the addendum. Comment 37(f)(6)-3. Any further breakdowns, if used, must be labeled in a clear and conspicuous way. 12 CFR §§ 1026.37(o)(1) and 38(t)(1).

How to estimate unknown or changed fees

When disclosing on either the Loan Costs Table or the addendum, if any part of these fees is unknown at the time of disclosure, creditors must estimate based on the best information reasonably available to them at the time they provide the disclosure.

Similarly, if the disclosures are made based on the best information reasonably available at the time of disclosure, a creditor does not violate the disclosure requirements in Regulation Z if the items disclosed change because of subsequent events after consummation (for example, if more, unanticipated inspections need to be added after consummation). 12 CFR § 1026.17(e).

4. Adjustable Payments (AP) Table

The Adjustable Payments (AP) Table includes information about Interest Only Payments, Optional Payments, Step Payments, Seasonal Payments, and other details regarding periodic Principal and Interest Payments. 12 CFR § 1026.37(i). The AP Table is required when the periodic principal and interest payments may change after consummation but not based on an adjustment to the interest rate, or if the loan is a seasonal payment product as defined in Regulation Z, 12 CFR § 1026.37(a)(10)(ii)(E). 12 CFR § 1026.37(i).

There are several common scenarios that will trigger the AP Table disclosure for combined construction-permanent disclosures.

LOAN SITUATION	ADDITIONAL STIPULATIONS	WHY AP TABLE IS REQUIRED
Interest payable only on amount advanced and periodic payments are estimated (including use of Appendix D).	▪ The periodic principal and interest payment may change because the amounts or timing of advances are unknown at consummation. ▪ The construction loan interest is payable only on the amount advanced for the time it is outstanding.	There may be a change to the periodic payment after consummation not based on an adjustment to the interest rate, because the periodic payment may change due to changes in the amount of the principal balance to which the interest rate is applied.
Transition from interest-only payments to amortizing periodic payments	▪ The construction phase has interest-only periodic payments. ▪ The permanent phase has amortizing periodic payments.	The shift from interest-only payments to principal and interest payments is a change to the periodic payment after consummation not based on an adjustment to the interest rate.

The following focuses on the AP Table disclosures based on the most common questions received by the Bureau. In particular, the following discusses disclosures for Interest Only Payments and other details regarding periodic Principal and Interest Payments.

For more information on the AP Table disclosures, see section 2.3.5 of the Guide to Forms.

Adjustable Payment (AP) Table

Interest Only Payments?	YES for your first 60 payments
Optional Payments?	NO
Step Payments?	NO
Seasonal Payments?	NO
Monthly Principal and Interest Payments	
First Change/Amount	$1,028 – $1,359 at 61st payment
Subsequent Changes	Every three years
Maximum Payment	$2,068 starting at 169th payment

1 Interest-Only Payments

Creditors must disclose whether the loan has interest-only payments and, if "YES," the period during which interest-only periodic payments are scheduled. 12 CFR § 1026.37(i)(1). Such period should be disclosed by describing the number of payments counting from the first periodic payment due after consummation. Comment 37(i)-2.

If both the construction and permanent phases have interest-only periods, the entire span of those periods should be disclosed. Comment 37(i)-2.

2 First Change/Amount

Under Principal and Interest Payments, the creditor must disclose the number of the first payment that may change, counting from the first periodic payment due after consummation, and the amount or range of the periodic principal and interest payment for such payment. 12 CFR § 1026.37(i)(5)(i).

Generally, where the amounts or timing of advances are unknown at consummation, the creditor must also disclose the amount or range corresponding to the first periodic payment that may change. 12 CFR § 1026.37(i)(5). The timing must be disclosed as the number of the earliest possible payment (e.g., the 1st payment) that may change, counting from the first periodic payment due after consummation. 12 CFR § 1026.37(i)(5); Comment 37(i)(5)-2.

Example

For example, it may be "1st payment" because the legal obligation allows draws, in an unknown amount, prior to the first payment.

However, if the creditor estimates the periodic payment using the assumption in Appendix D that applies if interest is payable only on the amount advanced for the time it is outstanding, then the creditor may omit and leave blank the amount or range corresponding to the first periodic payment that may change (but the creditor still must disclose the timing of such payment). Comment App. D-7.iv.

As another example, the AP Table is triggered because of transition from interest-only payments to amortizing payments, and in construction-permanent transactions this typically occurs at conversion to the permanent phase. In such a case, if there are interest-only periodic payments during the construction phase that do not change under the terms of the legal obligation, but the permanent phase begins with amortizing periodic payments, the first change is the payment number for the first periodic payment after conversion from the construction phase to the permanent phase.

3 Subsequent Change

Under Principal and Interest Payments, the creditor must disclose the frequency of subsequent changes to the periodic principal and interest payment. 12 CFR § 1026.37(i)(5)(ii). Comment 37(i)(5)-3 provides that if the frequency of adjustments to the periodic payment may change under the terms of the legal obligation, the disclosure should state the shortest period between adjustments that may occur.

If the periodic principal and interest payments may change more than once during the construction phase (because, for example, of changes in the amount advanced) but will not change during the permanent phase, the creditor still must disclose the shortest period between adjustments that may occur in the construction phase as the frequency of subsequent changes in the disclosure. 12 CFR § 1026.37(i)(5); Comment 37(i)(5)-3.

However, if the periodic payments change once upon conversion to the permanent phase but otherwise do not change during the construction and permanent phases under the terms of the legal obligation, the creditor should disclose "No subsequent changes" for the subsequent change disclosure. 12 CFR § 1026.37(i)(5); Comment 37(i)(5)-3.

4 Maximum Payment

Under Principal and Interest Payments, the creditor must disclose the maximum periodic principal and interest payment timing and amount. 12 CFR § 1026.37(i); Comment App. D-7.iv.

The maximum payment amount and timing is based on the maximum possible periodic principal and interest payment taking into account both the construction and permanent phases. 12 CFR § 1026.37(i)(5); Comment 37(i)(5)-4.

Example

For example, where periodic payments are interest-only for the construction phase and then, after conversion to the permanent phase, are fixed principal and interest payments that do not change, typically this maximum payment disclosure will be the timing and amount for the first permanent phase periodic payment.

5. Adjustable Interest Rate (AIR) Table

The Adjustable Interest Rate (AIR) Table includes information about the index and margin, the adjustment maximum and minimum, the change frequency, the limitations on the interest rate changes and other details regarding the interest rate adjustments. 12 CFR § 1026.37(j). The AIR Table is required when the interest rate *may* increase after consummation (versus the interest rate disclosed at or before consummation), based on changes to an index or scheduled changes to the interest rate. 12 CFR § 1026.37(j); Comment 37(j)-1. For construction-permanent transactions with a combined disclosure, the AIR Table is required if the interest rate *may increase* from the interest rate applicable to the construction financing at consummation.

In combined construction-permanent loan disclosures, increases in the interest rate from the construction phase interest rate disclosed at consummation may occur because:

- Either phase has an adjustable or step rate;
- The permanent phase fixed interest rate will be higher than the construction phase fixed interest rate (shown on the combined disclosure as a step rate loan product); or
- The permanent phase interest rate is not known at or before consummation, will be identified at conversion, and may be higher than the construction phase interest rate (e.g., the permanent phase interest rate is not capped at or below the construction phase interest rate).

How to complete the AIR Table disclosures for construction-permanent loans will depend on whether the product is an adjustable rate or step rate product.

	Adjustable Interest Rate (AIR) Table	
1	Index + Margin	MTA + 4%
2	Initial Interest Rate	4%
3	Minimum/Maximum Interest Rate	3.25%/12%
4	**Change Frequency**	
	First Change	Beginning of 61st month
	Subsequent Changes	Every 36th month after first change
5	**Limits on Interest Rate Changes**	
	First Change	2%
	Subsequent Changes	2%

The following focuses on the AIR Table disclosures based on the most common questions received by the Bureau. For more information on the AIR Table disclosures, see section 2.3.6 of the Guide to Forms.

Adjustable Rate Products

Generally, an adjustable rate product is a loan where the interest rate may increase after consummation, but the rates that will apply or the periods for which they will apply are not known at consummation. 12 CFR § 1026.37(a)(10)(i)(A). Additionally, adjustable rate products can include construction-permanent loans where there is an adjustable rate in either phase or if there is an undetermined rate, fixed or adjustable, that would be set after consummation and apply upon conversion to the permanent phase. Comment App. D-7.ii.C.

For adjustable rate construction-permanent loan products, if the interest rate *may* increase after consummation, the requirement to disclose the AIR Table is triggered and the following is required.

1 Index and Margin / Interest Rate Adjustments

When the requirement to disclose the AIR Table is triggered because of an adjustable rate that may increase after consummation, either in the construction phase or permanent phase, the creditor must disclose the interest rate index and margin labeled "Index+Margin." 12 CFR § 1026.37(j)(1); Comment 37(j)(2)-1.

Note

Note that the index and margin are components of a formula that establishes the interest rate disclosed at or before consummation and will be, based on the best information reasonably available at the time of the disclosure, used at conversion to determine the rate.

For example, the formula used at conversion for a fixed permanent phase interest rate unknown at consummation may be based on the Fannie Mae required net yield.

The creditor must *not* disclose the "Interest Rate Adjustments" because this disclosure only applies to a "Step Rate" product under § 1026.37(a)(10)(i)(B), i.e., it does not apply to an "Adjustable Rate" product under § 1026.37(a)(10)(i)(A). 12 CFR § 1026.37(j)(2); Comment 37(j)(2)-1.

2 Initial Interest Rate

The initial interest rate is the interest rate at consummation, i.e., the construction phase interest rate. 12 CFR § 1026.37(j)(3).

3 Minimum/Maximum Interest Rate

The minimum and maximum interest rates required to be disclosed are the minimum and maximum interest rates after any introductory or teaser rate expires (if any), taking into account both the construction and permanent phases. 12 CFR § 1026.37(j)(4); Comment 37(j)(4)-1.

4 Change Frequency

In the Change Frequency section, the "First Change" is required to be disclosed as the first month when the interest rate may change. 12 CFR § 1026.37(j)(5).

Example

For example, if the construction-permanent loan has a fixed rate in each phase, but the permanent phase rate is not set until conversion and may increase after consummation (when compared to the interest rate disclosed at or before consummation), the "First Change" is the month of conversion.

Note that the number of the "First Change" month is calculated from the date interest for the first scheduled periodic payment begins to accrue. 12 CFR § 1026.37(j)(5)(i). For example, if interest will not begin to accrue until 2 months after consummation and the interest rate may first change 10 months after consummation, the "First Change" is the "8^{th} month" (i.e., the 8^{th} month after interest for the first scheduled periodic payment begins to accrue).

In the Change Frequency section, the creditor is also required to disclose any subsequent adjustments to the interest rate, if any, labeled as "Subsequent Changes." 12 CFR § 1026.37(j)(5)(ii).

Example

For example, if a 10-month construction phase has a fixed rate and the permanent phase is a 5/1 ARM with an introductory rate during the first 5 years of the permanent phase that is different from the construction phase interest rate, a creditor discloses the first change as "Beginning of 11th month" (the month of the conversion to the permanent phase), and the subsequent changes as "71st month & every 12th month after" (which accounts for the yearly ARM adjustment in the permanent phase and the 5-year introductory period after the 10-month construction phase).

The creditor may leave the "Subsequent Changes" disclosure blank if there are not subsequent interest rate changes. Comments 37-1 and 38-1.

5 Limits on Interest Rate Changes

The creditor must disclose the applicable limits to the first and subsequent changes, which if not provided for in the legal obligation are based on any applicable usury or other law. 12 CFR § 1026.37(j)(6). The creditor may leave the disclosure for subsequent changes blank if there are not subsequent interest rate changes. Comments 37-1 and 38-1.

Step Rate Product

Generally, a step rate product is a loan where the interest rate will change after consummation, and the rates that will apply and the periods for which they will apply are known at consummation. 12 CFR § 1026.37(a)(10)(i)(B). Additionally, for construction-permanent loans with combined disclosures, step rate products can include loans where the construction and permanent phases both have fixed rates, but they are different.

For step rate construction-permanent loan products, if the interest rate *will* increase after consummation due to scheduled changes, then the AIR Table is triggered.

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1 Index and Margin / Interest Rate Adjustment

The creditor discloses the "Interest Rate Adjustment" as the maximum amount of any adjustments to the interest rate that are scheduled and pre-determined because the product is a step rate under § 1026.37(a)(10)(i)(B). 12 CFR § 1026.37(j)(2).

The creditor must *not* disclose the "Index+Margin" because this disclosure only applies to an "Adjustable Rate" product under § 1026.37(a)(10)(i)(A), i.e., it does not apply to an "Step Rate" product under § 1026.37(a)(10)(i)(B). 12 CFR § 1026.37(j)(1); Comments 37-1, 37(j)(2)-1, and 38-1.

2 Initial Interest Rate

The creditor must disclose the interest rate at consummation, i.e., the construction phase interest rate. 12 CFR § 1026.37(j)(3).

3 Minimum/Maximum Interest Rate

The creditor must disclose the minimum and maximum interest rates after any introductory rate or teaser rate expires (if any), taking into account both the construction and permanent phases. 12 CFR § 1026.37(j)(4).

4 Change Frequency

In the Change Frequency section, the "First Change" is required to be disclosed as the first month when the interest rate may change. 12 CFR § 1026.37(j)(5).

> **Example**
>
> For example, if the construction-permanent loan phases both have fixed rates but the permanent phase rate is higher, the "First Change" is the month of conversion.

In the Change Frequency section, the creditor is also required to disclose the frequency of any subsequent adjustments to the interest rate, labeled as "Subsequent Changes." The creditor may leave the "Subsequent Changes" disclosure blank if there are not subsequent interest rate changes. Comments 37-1 and 38-1.

5 Limits on Interest Rate Changes

The creditor must disclose the applicable limits to the first and subsequent changes, which if not provided for in the legal obligation are based on applicable usury or other law.

The creditor may leave the disclosure for subsequent changes blank if there are not subsequent interest rate changes. Comments 37-1 and 38-1.

Additional resources

For more information, you can visit www.consumerfinance.gov/policy-compliance/guidance/tila-respa-disclosure-rule/ to reference:

- The full **TRID Rule**
- The section-by-section analysis or preamble, which explains why the Bureau issued the rule, the legal authority and reasoning behind the rule, responses to comments, and analysis of the benefits, costs, and impacts of the rule
- Official Interpretations of the rule
- The **TILA-RESPA Small Entity Compliance Guide**
- The **TILA-RESPA Guide to Forms**
- Other implementation support materials (including proposed rule amendments, if applicable)

More resources related to mortgage rule implementation are available at www.consumerfinance.gov/policy-compliance/guidance/.

If you have a specific regulatory interpretation question about the TRID Rule after reviewing these materials, as well as the regulation and official commentary, you can submit it to us at reginquiries.consumerfinance.gov/. Please understand that the responses we provide are not official interpretations of the Bureau and are not a substitute for formal legal counsel or other compliance advice.

For email updates about when additional compliance resources become available, sign up for email updates about mortgage rule implementation at www.consumerfinance.gov/policy-compliance/guidance/.

Email comments about the Guide to CFPB_RegulatoryImplementation@consumerfinance.gov. Your feedback is crucial to making this Guide as helpful as possible. The Bureau welcomes your suggestions for improvements and your thoughts on its usefulness and readability.