

FEDERAL MORTGAGE LAW:
UNDERSTANDING
THE TRUTH
IN LENDING ACT

**CONTINUING
EDUCATION**

FOR

***ILLINOIS
MORTGAGE
PROFESSIONALS***

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UNDERSTANDING THE TRUTH IN LENDING ACT

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TRUTH IN LENDING ACT

Introduction

The Truth in Lending Act, commonly referred to as "TILA," was originally enacted in 1969 based upon a Congressional finding that economic stabilization would be enhanced and competition between financial institutions and other lenders engaging in the extension of consumer credit would be strengthened by borrowers' informed use of credit. Congress specifically found that the informed use of credit arises from the consumers' awareness of the cost of that credit.

TILA's stated purpose is to assure a meaningful disclosure of credit terms so that the consumer will be able to compare more readily the various credit terms available to him or her and avoid the uninformed use of credit, and to protect the consumer against inaccurate and unfair credit billing and credit card practices.

Regulation Z was issued by the Board of Governors of the Federal Reserve System to implement TILA. According to Regulation Z, its purpose is to accomplish each of the following:

- Promote the informed use of consumer credit by requiring disclosures about its terms and cost.
- Give consumers the right to cancel certain credit transactions that involve a lien on a consumer's principal dwelling.
- Regulate certain credit card practices.
- Provide a means for fair and timely resolution of credit billing disputes.
- Require a maximum interest rate to be stated in variable-rate contracts secured by the consumer's dwelling.
- Impose limitations on certain home equity plans and mortgages.
- Prohibit certain acts or practices in connection with credit secured by a consumer's principal dwelling.

Regulation Z is accompanied by an extensive supplemental commentary in which the staff of the Division of Consumer and Community Affairs of the Federal Reserve Board issues official staff interpretations of Regulation Z. Good faith compliance with the Regulation Z commentary affords creditors protection from civil liability for breach of TILA. As a result, mortgage professionals may rely on the supplemental commentary in order to interpret the ultimate meaning of Regulation Z and TILA.

Coverage and Organization of TILA and Regulation Z

Coverage

In general, TILA and Regulation Z apply to each individual or business that offers or extends credit when all of the following conditions are met:

- The credit is offered or extended to consumers.
- The offering or extension of consumer credit is done "regularly".

- The credit is subject to a finance charge or is payable by a written agreement in more than four (4) installments.
- The credit is primarily for personal, family or household purposes.

With respect to the second condition listed above, a party “regularly” extends credit if it extended credit more than twenty-five (25) times (or more than five (5) times for transactions secured by a dwelling) in the preceding calendar year; if the party did not meet these numerical standards in the preceding calendar year, the standards are applied to the current calendar year. In addition, a party will be deemed to “regularly” extend credit if, in any 12-month period, the party does either of the following:

- Originates more than one credit extension secured by the consumer’s principal dwelling and which has rates and fees above certain amounts described in Regulation Z.
- Makes one or more such high rate or high cost home loan through a mortgage broker.

Notwithstanding the four (4) general conditions indicated above, when a credit card is involved, certain provisions of TILA and Regulation Z apply even if the credit is not subject to a finance charge, or is not payable by a written agreement in more than four (4) installments, or if the credit card is to be used for business purposes.

Exempt Transactions

TILA and Regulation Z do not apply to any of the following types of transactions:

- Extension of credit primarily for a business, commercial or agricultural purpose.
- Extension of credit to other than a natural person.
- Extension of credit not secured by real property, or by personal property used or expected to be used as the principal dwelling of the consumer, in which the amount financed exceeds \$25,000 or in which there is an express written commitment to extend credit in excess of \$25,000.
- Extension of credit that involves public utility services if the charges for service or delayed payment are filed with or regulated by a government unit.
- Transactions in securities or commodities accounts in which credit is extended by a party registered with the Securities and Exchange Commission or the Commodity Futures Trading Commission.
- An installment agreement for the purchase of home fuels in which no finance charge is imposed.
- Student loans made, insured or guaranteed pursuant to federal law.

Organization of Regulation Z

Regulation Z is divided into subparts and appendices as follows:

- Subpart A contains general information. It sets forth:
 - The authority, purpose, coverage, and organization of the regulation.
 - The definitions of basic terms.

- The transactions that are exempt from coverage.
 - The method of determining the finance charge.
- Subpart B contains the rules for open-end credit. It requires that initial disclosures and periodic statements be provided, as well as additional disclosures for credit and charge card applications and for certain home equity plans.
 - Subpart C relates to closed-end credit. It contains rules on disclosures, treatment of credit balances, annual percentage rate calculations, rescission requirements, and advertising.
 - Subpart D contains rules on oral disclosures, Spanish language disclosure in Puerto Rico, record retention, effect on state laws, state exemptions, and rate limitations.
 - Subpart E contains special rules for mortgage transactions. Specifically, Subpart E requires certain disclosures and provides limitations for loans that have rates and fees above specified amounts. Subpart E also requires disclosures, including the total annual loan cost rate, for reverse mortgage transactions. Finally, Subpart E prohibits specific acts and practices in connection with mortgage transactions.
 - Subpart F contains requirements for electronic communications between a creditor and a consumer.
 - Several appendices contain information such as the procedures for determinations about state laws, state exemptions and issuance of staff interpretations, special rules for certain kinds of credit plans, a list of enforcement agencies, and the rules for computing annual percentage rates in closed-end credit transactions and total annual loan cost rates for reverse mortgage transactions.

Definitions of Open-End Credit and Closed-End Credit

As indicated above, Subpart B of Regulation Z contains rules for open-end credit. Regulation Z defines “open-end credit” as consumer credit extended by a creditor under a plan in which all of the following occur:

- The creditor reasonably contemplates repeated transactions.
- The creditor may impose a finance charge from time to time on an outstanding unpaid balance.
- The amount of credit that may be extended to the consumer during the term of the plan (up to any limit set by the creditor) is generally made available to the extent that any outstanding balance is repaid.

Subpart C of Regulation Z contains rules for closed-end credit. Regulation Z defines “closed-end credit” as all consumer credit other than “open-end credit.”

Summary – Coverage and Organization

TILA and Regulation Z apply to two major categories of personal, family or household consumer credit transactions:

- Open-end credit.
- Closed-end credit.

Regulation Z is specifically organized to separately set forth rules for open-end credit (Subpart B) and closed-end credit (Subpart C). Other portions of Regulation Z set forth general rules for all types of personal, family and household consumer credit, and certain portions of Regulation Z set forth specific rules for particular types of credit transactions.

These materials will examine the portions of TILA and Regulation Z which most strongly impact the mortgage industry and the day-to-day responsibilities of mortgage professionals.

Finance Charge

In general, Regulation Z applies to individuals or businesses which extend personal, family or household consumer credit subject to a finance charge.

Definition of “Finance Charge”

Regulation Z defines the “finance charge” as the cost of consumer credit as a dollar amount. It includes any charge payable directly or indirectly by the consumer and imposed directly or indirectly by the creditor as an incident to or a condition of the extension of credit. It does not include any charge of a type payable in a comparable cash transaction.

With respect to the prior sentence, the supplemental commentary to Regulation Z explains, for example, that taxes, license fees or registration fees paid by both cash and credit customers do not constitute finance charges.

In addition to direct charges by the creditor, the finance charge also includes fees and amounts charged by a third party if the creditor does either of the following:

- Retains the use of a third party as a condition of or incident to the extension of credit, even if the consumer can choose the third party.
- Retains a portion of the third party charge, to the extent of the portion retained.

However, Regulation Z provides special rules relating to two types of third party charges -- closing agent charges and mortgage broker fees:

- Closing Agent Charges* – Fees charged by a third party that conducts the loan closing (such as a settlement agent, attorney, or escrow or title company) are finance charges only if the creditor does one of the following:
 - Requires the particular services for which the consumer is charged.
 - Requires the imposition of the charge.
 - Retains a portion of the third party charge, to the extent of the portion retained.
- Mortgage Broker Fees* – Fees charged by a mortgage broker (including fees paid by the consumer directly to the broker or to the creditor for delivery to the broker) are finance charges even if the creditor does not require the consumer to use a mortgage broker and even if the creditor does not retain any portion of the charge.

Examples of Charges Included In and Excluded From the “Finance Charge”

Regulation Z explains that the finance charge includes the following types of charges:

- Interest, time price differential, and any amount payable under an add-on or discount system of additional charges.
- Service, transaction, activity, and carrying charges, including any charge imposed on a checking or other transaction account to the extent that the charge exceeds the charge for a similar account without a credit feature.
- Points, loan fees, assumption fees, finder's fees, and similar charges.
- Appraisal, investigation, and credit report fees.
- Premiums or other charges for any guarantee or insurance protecting the creditor against the consumer's default or other credit loss.
- Charges imposed on a creditor by another person for purchasing or accepting a consumer's obligation, if the consumer is required to pay the charges in cash, as an addition to the obligation, or as a deduction from the proceeds of the obligation.
- Premiums or other charges for credit life, accident, health, or loss-of-income insurance, written in connection with a credit transaction.
- Premiums or other charges for insurance against loss of or damage to property, or against liability arising out of the ownership or use of property, written in connection with a credit transaction.
- Discounts for the purpose of inducing payment by a means other than the use of credit.
- Charges or premiums paid for debt cancellation coverage written in connection with a credit transaction, whether or not the debt cancellation coverage is insurance under applicable law.

On the other hand, the following charges are not finance charges, even if generally included in the above list of items:

- Application fees charged to all applicants for credit, whether or not credit is actually extended.
- Charges for actual unanticipated late payment, for exceeding a credit limit, or for delinquency, default, or a similar occurrence.
- Charges imposed by a financial institution for paying items that overdraw an account, unless the payment of such items and the imposition of the charge were previously agreed upon in writing.
- Fees charged for participation in a credit plan, whether assessed on an annual or other periodic basis.
- Seller's points.
- Interest forfeited as a result of an interest reduction required by law on a time deposit used as security for an extension of credit.
- The following fees in a transaction secured by real property or in a residential mortgage transaction, if the fees are *bona fide* and reasonable in amount:

- Fees for title examination, abstract of title, title insurance, property survey, and similar purposes.
 - Fees for preparing loan-related documents, such as deeds, mortgages, and reconveyance or settlement documents.
 - Notary and credit report fees.
 - Property appraisal fees or fees for inspections to assess the value or condition of the property if the service is performed prior to closing, including fees related to pest infestation or flood hazard determinations.
 - Amounts required to be paid into escrow or trustee accounts if the amounts would not otherwise be included in the finance charge.
- Discounts offered to induce payment for a purchase by cash, check, or other means.

In addition, specific exclusions exist for certain types of credit insurance premiums and property insurance premiums, and voluntary debt cancellation fees. Certain itemized and disclosed security interest charges may be excluded from the finance charge:

- Taxes and fees prescribed by law and paid to public officials for searching, perfecting, releasing or satisfying a security interest.
- The premium for insurance in lieu of perfecting a security interest.
- Any tax levied on security instruments or loan documents if the payment of the tax is a requirement for recording the document.

Regulation Z further provides that the creditor may not deduct from the finance charge any interest, dividends or other income to be received by the consumer on deposits or investments. The finance charge must show the full amount notwithstanding the ultimate benefit of such income to the consumer.

Summary – Finance Charge

The finance charge is a crucial element of TILA's disclosure requirements described later in these materials. As a result, Regulation Z and the related supplementary commentary expend significant resources to spell out the specific definition of "finance charge." The inclusions and exclusions are explained and clarified in order to eliminate judgment by creditors when preparing the actual finance charge disclosures required by TILA and Regulation Z.

Mortgage professionals must be aware of the specific inclusions and exclusions related to the finance charge in order to comply with the critical TILA disclosure requirements. The supplemental commentary to Regulation Z repeatedly states that when a creditor is unable to determine whether an item should be included in the finance charge, that creditor should include the item in the finance charge, rather than exclude the item.

Open-End Credit

Subpart B of Regulation Z implements TILA's requirements regarding open-end credit. As indicated above, "open-end credit" is consumer credit extended by a creditor under a plan in which all of the following occur:

- The creditor reasonably contemplates repeated transactions.

- The creditor may impose a finance charge from time to time on an outstanding unpaid balance.
- The amount of credit that may be extended to the consumer during the term of the plan (up to any limit set by the creditor) is generally made available to the extent that any outstanding balance is repaid.

Home equity lines of credit are the best example of open-end credit mortgage indebtedness, while credit cards are the most common form of open-end credit.

Regulation Z governs open-end credit through all of the following methods:

- Disclosure requirements.
- Rules regarding prompt crediting of payments.
- Rules regarding treatment of credit balances.
- Rules restricting issuance of credit cards.
- Other rules affecting credit cards.
- Rules regarding billing error resolution.
- Rules regarding home equity plans.
- Implementation of consumer right of rescission.
- Rules regarding advertising of open-end credit.

The following sections of these materials discuss the above-listed items which directly affect the mortgage industry and the day-to-day duties of a mortgage professional. These materials do not elaborate upon sections of Regulation Z which exclusively affect credit cards and related transactions.

Disclosure Requirements

The very purpose of TILA is to assure a meaningful disclosure of credit terms. Regulation Z strives to achieve that purpose by imposing various disclosure requirements upon creditors extending open-end credit. Disclosures include initial disclosures, periodic statements, credit card application and solicitation disclosures, and specific disclosures for home equity plans.

Disclosures must be made clearly and conspicuously in writing in a form which the consumer may keep. The terms “finance charge” and “annual percentage rate,” when required to be disclosed with a corresponding amount or percentage rate, must be more conspicuous than any other required disclosure. The “annual percentage rate” or “APR” is a measure of the cost of credit, expressed as a yearly rate.

If a disclosure becomes inaccurate because of an event which occurs after the creditor mails or delivers the disclosure, the resulting inaccuracy is not a violation of Regulation Z, but new disclosures may be required.

Regulation Z permits a creditor to provide any written disclosure through electronic communication. “Electronic communication” means a message transmitted electronically in a format that allows visual text to be displayed on equipment, including a computer monitor. Electronic transmission may occur either by sending the disclosure to the consumer’s e-mail address, or by making the disclosure available at another location such as an internet website. If the creditor chooses to make the disclosure

available at another location such as a website, the creditor must alert the consumer of the disclosure's availability by sending a notice to either the consumer's e-mail address or the consumer's postal address. The notice shall identify the account involved and the address of the website or other location where the disclosure is available. If the creditor makes the disclosure available at another location such as a website, the disclosure must remain available at least ninety (90) days from the date the disclosure first becomes available or from the date of the notice alerting the consumer of the disclosure, whichever is later.

Initial Disclosure Statement

An initial disclosure statement must be furnished by the creditor before the first transaction is made under a plan of open-end credit. In the initial disclosure statement the creditor shall disclose to the consumer each of the following items, to the extent applicable:

- ❑ *Finance Charge* – The creditor must disclose the circumstances under which a finance charge will be imposed and an explanation of how it will be determined, as follows:
 - A statement of when finance charges begin to accrue, including an explanation of whether or not any time period exists within which any credit extended may be repaid without incurring a finance charge. Even if such a time period is provided in the disclosure statement, a creditor may, at its option and without further disclosure, impose no finance charge when payment is received after the time period's expiration.
 - A disclosure of each periodic rate that may be used to compute the finance charge, the range of balances to which it is applicable, and the corresponding annual percentage rate. If a creditor is offering a variable rate plan, the creditor shall also disclose: (i) The circumstances under which the rate may increase; (ii) any limitations on the increase; and (iii) the effect of an increase. When different periodic rates apply to different types of transactions, the types of transactions to which the periodic rates apply shall also be disclosed.
 - An explanation of the method used to determine the balance on which the finance charge may be computed.
 - An explanation of how the amount of any finance charge will be determined, including a description of how any finance charge other than the periodic rate will be determined. Note that even if no finance charge is imposed when the outstanding balance is less than a certain amount, no disclosure is required of that fact or of the balance below which no finance charge will be imposed.
- ❑ *Other charges* – The creditor must also disclose the amount of any charge other than a finance charge that may be imposed as part of the plan, or an explanation of how the charge will be determined.
- ❑ *Security interests* – The creditor shall disclose the fact that it has or will acquire a security interest in the property purchased under the plan, or in other property identified by item or type.

- ❑ *Statement of billing rights* – The disclosure shall include a statement that outlines the consumer’s rights and the creditor’s responsibilities regarding billing rights and that is substantially similar to the statement found in Appendix G to Regulation Z.
- ❑ *Home equity plan information* – The creditor shall make the following disclosures, as applicable:
 - A statement of the conditions under which the creditor may take certain action such as terminating the plan or changing the terms.
 - The payment information regarding the length of the draw period and any repayment period and an explanation of how the minimum period payment will be determined and the timing of the payments for both the draw period and any repayment period.
 - A statement that negative amortization may occur.
 - A statement of any limitations on the number of extensions of credit and the amount of credit that may be obtained during any time period, as well as any minimum outstanding balance and minimum draw requirements, stated as dollar amounts or percentages.
 - A statement regarding potential tax implications of the transaction indicating that the consumer should consult a tax advisor regarding the deductibility of interest and charges under the plan.
 - A statement that the annual percentage rate imposed under the plan does not include costs other than interest.
 - Certain variable rate disclosures.

Later in these materials we discuss the statement of billing rights and the home equity plan information in greater detail.

Periodic Statement

In addition to the initial disclosure statement for open-end credit plans, Regulation Z also requires that the creditor furnish the consumer with a periodic statement disclosing certain items. Specifically, Regulation Z requires that the periodic statement include the following items:

- ❑ *Previous balance* – Each periodic statement must include the account balance outstanding at the beginning of the billing cycle.
- ❑ *Identification of transactions* – The creditor shall identify credit transactions on or with the first periodic statement that reflects the transaction by furnishing an actual copy of the receipt or other credit document, or by otherwise identifying the amount and name of the transaction. Note that failure to disclose this information shall not be deemed a failure to comply with Regulation Z if: (1) The creditor maintains procedures reasonably adapted to obtain and provide the information; and (2) the creditor treats an inquiry for clarification or documentation as a notice of a billing error as required under Regulation Z.
- ❑ *Credits* – Each periodic statement must also disclose any credit to the account during the billing cycle, including the amount and the date of crediting. The date

need not be provided if a delay in crediting does not result in any finance charge or other charge.

- ❑ *Periodic rates* – The creditor must disclose each periodic rate that may be used to compute the finance charge, the range of balances to which it is applicable, and the corresponding annual percentage rate. If a variable rate plan is involved, the creditor shall disclose the fact that the periodic rate will vary. If different periodic rates apply to different types of transactions, the types of transactions to which the periodic rates apply shall also be disclosed.
- ❑ *Balance on which finance charge computed* – The periodic statement must include the amount of the balance to which a periodic rate was applied and an explanation of how that balance was determined. When a balance is determined without first deducting all credits and payments made during the billing cycle, that fact and the amount of the credits and payments shall be disclosed.
- ❑ *Amount of finance charge* – The creditor must disclose the amount of any finance charge debited or added to the account during the billing cycle, using the term *finance charge*. The components of the finance charge shall be individually itemized and identified to show the amount(s) due to the application of any periodic rates and the amount(s) of any other type of finance charge. If there is more than one periodic rate, the amount of the finance charge attributable to each rate need not be separately itemized and identified.
- ❑ *Annual percentage rate* – When a finance charge is imposed during the billing cycle, the annual percentage rates must be disclosed, using the term *annual percentage rate*.
- ❑ *Other charges* – The periodic statement must include the amounts, itemized and identified by type, of any charges other than finance charges debited to the account during the billing cycle.
- ❑ *Closing date of billing cycle; new balance* – The closing date of the billing cycle and the account balance outstanding on that date must be disclosed in each periodic statement.
- ❑ *Free-ride period* – The creditor must disclose the date by which or the time period within which the new balance or any portion of the new balance must be paid to avoid additional finance charges. Even if such a time period is provided, a creditor may, at its option and without disclosure, impose no finance charge when payment is received after the time period's expiration.
- ❑ *Address for notice of billing errors* – The address to be used for notice of billing errors. Alternatively, the address may be provided on the billing rights statement described later in these materials.

Subsequent disclosure requirements

Beyond the initial disclosure statement and the periodic statements, Regulation Z imposes a number of subsequent disclosure requirements, including the following:

- ❑ *Furnishing statement of billing rights* – A statement of billing rights must be mailed or delivered to the consumer at least once per calendar year, at intervals of not less than six (6) months nor more than eighteen (18) months. The statement of billing rights must be mailed either to all consumers or to each

consumer entitled to receive a periodic statement. Alternatively, the creditor may mail or deliver on or with each periodic statement a form statement disclosing billing rights substantially similar to that in Appendix G of Regulation Z.

- ❑ *Disclosures for supplemental credit devices and additional features* – The same finance charge disclosures required in the Initial Disclosure Statement must be sent to the consumer whenever a credit feature is added or a credit device is mailed or delivered and the finance charge terms for the feature or device differ from the disclosures previously delivered to the consumer.
- ❑ *Change in terms* – Whenever any term required to be disclosed in the initial disclosure statement is changed or the required minimum periodic payment is increased, the creditor must mail or deliver written notice of the change to each consumer who may be affected. In most cases, the notice must be mailed or delivered at least fifteen (15) days prior to the effective date of the change.

Prompt Crediting of Payments

TILA governs open-end credit, in part, through Regulation Z's implementation of rules regarding prompt crediting of payments. Regulation Z specifically provides:

- ❑ *General rule* – A creditor shall credit a payment to the consumer's account as of the date of receipt, except when a delay in crediting does not result in a finance charge or other charge or except as provided in the next paragraph.
- ❑ *Specific requirements for payments* – If a creditor specifies, on or with the periodic statement, requirements for the consumer to follow in making payments, but accepts a payment that does not conform to the requirements, the creditor shall credit the payment within five (5) days of receipt.
- ❑ *Adjustment of account* – If a creditor fails to credit a payment in time to avoid the imposition of finance or other charges, the creditor shall adjust the consumer's account so that the charges imposed are credited to the consumer's account during the next billing cycle.

As a result of these Regulation Z requirements, a creditor will be deemed in violation of TILA if the creditor does not appropriately credit the consumer's payment. This provides important consumer protection by creating an actionable TILA claim in the event that a creditor inappropriately handles a consumer's payment.

Treatment of Credit Balances

In addition to protecting consumers from improper crediting of payments, Regulation Z contains special provisions relating to credit balances where the consumer is owed money by the creditor.

When a credit balance in excess of \$1 is created on a credit account (through transmittal of funds to a creditor in excess of the total balance due on an account, through rebates of unearned finance charges or insurance premiums, or through amounts otherwise owed or held for the benefit of a consumer), the creditor shall do all of the following:

- ❑ Credit the amount of the credit balance to the consumer's account.
- ❑ Refund any part of the remaining credit balance within seven (7) business days from receipt of a written request from the consumer.

- ❑ Make a good faith effort to refund to the consumer by cash, check, or money order, or credit to a deposit account of the consumer, any part of the credit balance remaining in the account for more than six (6) months. No further action is required if the consumer's current location is not known to the creditor and cannot be traced through the consumer's last known address or telephone number.

Billing Error Resolution

As described above, the Initial Disclosure Statement must include a statement describing the consumer's billing rights. Subsequent disclosures regarding billing rights are also required, either annually or with each periodic statement Regulation Z details these consumer rights, and Appendix G to Regulation Z includes sample forms of disclosure which describe the consumer's billing rights.

Both of the disclosure forms provide the consumer straightforward explanations of the consumer's billing rights and the creditor's related obligations. Proper delivery of this disclosure should help to minimize consumer confusion regarding billing practices and challenges of errors.

Home Equity Plans

Home equity plans are open-end credit plans secured by the consumer's dwelling.

Regulation Z requires that home equity plan creditors must provide certain disclosures to consumers. The creditor (and parties other than the creditor, such as a mortgage broker, who provide applications to consumers for home equity plans) must provide the home equity brochure published by the Board of Governors of the Federal Reserve System, or a suitable substitute for that brochure. The home equity brochure presents certain consumer protection information warning the consumer to shop and investigate the terms of credit prior to entering into a home equity plan arrangement.

In addition to the home equity brochure, home equity plan creditors must provide the following disclosures, as applicable:

- ❑ *Retention of information* – A statement that the consumer should make or otherwise retain a copy of the disclosures.
- ❑ *Conditions for disclosed terms* –
 - A statement of the time by which the consumer must submit an application to obtain specific terms disclosed and an identification of any disclosed term that is subject to change prior to opening the plan.
 - A statement that, if a disclosed term changes prior to opening the plan and the consumer therefore elects not to open the plan, the consumer may receive a refund of all fees paid in connection with the application. (This does not apply to index fluctuations for a variable-rate plan.)
- ❑ *Security interest and risk to home* – A statement that the creditor will acquire a security interest in the consumer's dwelling and that loss of the dwelling may occur in the event of default.
- ❑ *Possible actions by creditor* –

- A statement that, under certain conditions, the creditor may terminate the plan and require payment of the outstanding balance in full in a single payment and impose fees upon termination, prohibit additional extensions of credit or reduce the credit limit, and, as specified in the initial agreement, implement certain changes in the plan.
 - A statement that the consumer may receive, upon request, information about the conditions under which such actions may occur. (Alternatively, the creditor may include information regarding those conditions in the disclosure.)
- Payment terms* – The payment terms of the home equity plan, including:
- The length of the draw period and any repayment period.
 - An explanation of how the minimum periodic payment will be determined and the timing of the payments. If paying only the minimum periodic payments may not repay any of the principal or may repay less than the outstanding balance, a statement of this fact, as well as a statement that a balloon payment may result.
 - The disclosure must include an example, based on a \$10,000 outstanding balance and a recent annual percentage rate, showing the minimum periodic payment, any balloon payment, and the time it would take to repay the \$10,000 outstanding balance if the consumer made only those payments and obtained no additional extensions of credit.

If different payment terms may apply to the draw and any repayment period, or if different payment terms may apply within either period, the disclosures shall reflect the different payment terms.

- Annual percentage rate* – For fixed-rate home equity plans, a recent annual percentage rate imposed under the plan and a statement that the rate does not include costs other than interest.
- Fees imposed by creditor* – An itemization of any fees imposed by the creditor to open, use, or maintain the plan, stated as a dollar amount or percentage, and when such fees are payable.
- Fees imposed by third parties to open a home equity plan* – A good faith estimate, stated as a single dollar amount or range, of any fees that may be imposed by persons other than the creditor to open the plan, as well as a statement that the consumer may receive, upon request, a good faith itemization of such fees. In lieu of the statement, the itemization of such fees may be provided.
- Negative amortization* – A statement that negative amortization may occur and that negative amortization increases the principal balance and reduces the consumer's equity in the dwelling.
- Transaction requirements* – Any limitations on the number of extensions of credit and the amount of credit that may be obtained during any time period, as well as any minimum outstanding balance and minimum draw requirements, stated as dollar amounts or percentages.

- ❑ *Tax implications* – A statement that the consumer should consult a tax advisor regarding the deductibility of interest and charges under the plan.
- ❑ *Disclosures for variable rate plans* – For a plan in which the annual percentage rate is variable, the following disclosures must be provided, as applicable:
 - The fact that the annual percentage rate, payment or term may change due to the variable-rate feature.
 - A statement that the annual percentage rate does not include costs other than interest.
 - The index used in making rate adjustments and a source of information about the index.
 - An explanation of how the annual percentage rate will be determined, including an explanation of how the index is adjusted, such as by the addition of a margin.
 - A statement that the consumer should ask about the current index value, margin, discount or premium, and annual percentage rate.
 - A statement that the initial annual percentage rate is not based on the index and margin used to make later rate adjustments, and the period of time such initial rate will be in effect.
 - The frequency of changes in the annual percentage rate.
 - Any rules relating to changes in the index value and the annual percentage rate and resulting changes in the payment amount, including for example, an explanation of payment limitations and rate carryover.
 - A statement of any annual or more frequent periodic limitations on changes in the annual percentage rate (or a statement that no annual limitation exists), as well as a statement of the maximum annual percentage rate that may be imposed under each payment option.
 - The minimum periodic payment required when the maximum annual percentage rate for each payment option is in effect, for a \$10,000 outstanding balance, and a statement of the earliest date or time the maximum rate may be imposed.
 - A historical example, based on a \$10,000 extension of credit, illustrating how annual percentage rates and payments would have been affected by index value changes implemented according to the terms of the plan. The historical example shall be based on the most recent 15 years of index values (selected for the same time period each year) and shall reflect all significant plan terms, such as negative amortization, rate carryover, rate discounts and rate and payment limitations, that would have been affected by the index movement during the period.
 - A statement that rate information will be provided on or with each statement.

In addition to the extensive litany of disclosures required for home equity plans, Regulation Z also imposes certain limitations on creditors extending home equity credit. Specifically, no home equity creditor may, by contract or otherwise:

- ❑ Change the annual percentage rate unless each of the following is true:
 - Such change is based on an index that is not under the creditor's control.
 - Such index is available to the general public.
- ❑ Terminate a plan and demand repayment of the entire outstanding balance in advance of the original term (except for certain reverse mortgage transactions) unless one of the following is true:
 - There is fraud or material misrepresentation by the consumer in connection with the plan.
 - The consumer fails to meet the repayment terms of the agreement for any outstanding balance.
 - Any action or inaction by the consumer adversely affects the creditor's security for the plan, or any right of the creditor in such security.
 - Federal law dealing with credit extended by a depository institution to its executive officers specifically requires that as a condition of the plan the credit shall become due and payable on demand, provided that the creditor includes such a provision in the initial agreement.
- ❑ Change any term, except that a creditor may:
 - Provide in the initial agreement that it may prohibit additional extensions of credit or reduce the credit limit during any period in which the maximum annual percentage rate is reached. A creditor also may provide in the initial agreement that specified changes will occur if a specified event takes place (for example, that the annual percentage rate will increase a specified amount if the consumer leaves the creditor's employment).
 - Change the index and margin used under the plan if the original index is no longer available, the new index has a historical movement substantially similar to that of the original index, and the new index and margin would have resulted in an annual percentage rate substantially similar to the rate in effect at the time the original index becomes unavailable.
 - Make a specified change if the consumer specifically agrees to it in writing at that time.
 - Make a change that will unequivocally benefit the consumer throughout the remainder of the plan.
 - Make an insignificant change to terms.
 - Prohibit additional extensions of credit or reduce the credit limit applicable to an agreement during any period in which:
 - The value of the dwelling that secures the plan declines significantly below the dwelling's appraised value for purposes of the plan.
 - The creditor reasonably believes that the consumer will be unable to fulfill the repayment obligations under the plan because of a material change in the consumer's financial circumstances.

- The consumer is in default of any material obligation under the agreement.
 - The creditor is precluded by government action from imposing the annual percentage rate provided for in the agreement.
 - The priority of the creditor's security interest is adversely affected by government action to the extent that the value of the security interest is less than 120 percent of the credit line.
 - The creditor is notified by its regulatory agency that continued advances constitute an unsafe and unsound practice.
- For reverse mortgage transactions that are subject to Regulation Z, no creditor may terminate a plan and demand repayment of the entire outstanding balance in advance of the original term except in one of the following circumstances:
- In the case of default.
 - If the consumer transfers title to the property securing the note.
 - If the consumer ceases using the property securing the note as the primary dwelling.
 - Upon the consumer's death.

In addition, Regulation Z prohibits any lender or mortgage broker from imposing a nonrefundable fee in connection with an application for a home equity plan until three (3) business days after the consumer receives the disclosures and brochure required as described above. Any fees paid by the consumer shall be refunded if the consumer elects not to open the home equity plan because a disclosed term (other than a change due to fluctuations in the index in a variable-rate plan) changes before the plan is opened.

Each mortgage professional offering home equity plans to consumers should become familiar with all of these unique disclosure requirements and other responsibilities in order to comply with TILA and Regulation Z.

Right of Rescission

One of TILA's most recognizable requirements is the "right of rescission" described in Regulation Z. For any open-end credit plan in which a security interest will be acquired in a consumer's principal dwelling, each consumer whose ownership interest will be subject to the security interest shall have the right to rescind:

- The plan when the plan is opened.
- Each credit extension made under the credit plan other than an extension made in accordance with a previously established credit limit for the plan.
- A security interest when added or increased to secure an existing plan.
- An increase when a credit limit on the plan is increased.

Note, however, that the right to rescind does not apply to a residential mortgage transaction to finance the acquisition or initial construction of the dwelling for which the security interest is given to the creditor. For example, the right of rescission does not apply to any mortgage loan obtained in connection with the initial purchase of a

consumer's home. In addition, the right of rescission does not apply to a construction mortgage loan taken in connection with the initial construction of a home on land already owned by the consumer. On the other hand, the right of rescission will apply to any refinance transaction in connection with the consumer's home. The right of rescission will also apply to the opening of a home equity line of credit secured by a residence already owned by the consumer.

Each time the right of rescission arises, the creditor must deliver to the consumer two (2) copies of a notice describing and explaining the right to rescind. (If the creditor delivers notices by electronic communication, then the creditor may only deliver one (1) copy of the notice.) The notice shall identify the transaction or occurrence which gives rise to the right to rescind, and must clearly and conspicuously disclose each of the following:

- The fact that the creditor is acquiring (or retaining) a security interest in the consumer's principal dwelling.
- The consumer's right to rescind.
- An explanation of how to exercise the right to rescind, with a form for that purpose, designating the address of the creditor's place of business.
- The effects of rescission.
- The date the rescission period expires.

The consumer may exercise the right to rescind until midnight of the third business day following the last to occur of:

- The actual event which gave rise to the right of rescission (for example, the opening of a plan, or the increase in a credit limit).
- Delivery of the required creditor's notice describing and explaining the right to rescind (as described above).
- Delivery of all material Regulation Z disclosures that are relevant to the open-end credit plan.

For purposes of calculating the time permitted to exercise the right of rescission, "business day" means all calendar days except Sundays and federal holidays: New Year's Day, the Birthday of Martin Luther King, Jr., Washington's Birthday (President's Day), Memorial Day, Independence Day, Labor Day, Columbus Day, Veterans Day, Thanksgiving Day, and Christmas Day.

If the required notice and material disclosures are not delivered, the right to rescind shall expire three (3) years after the event giving rise to the right of rescission, or upon transfer of all of the consumer's interest in the property, or upon sale of the property, whichever occurs first.

A consumer must exercise the right of rescission by delivering written notice to the creditor within the permitted three (3) business days (or such longer time, if the disclosures and notice of right of rescission have not been delivered to the consumer). Written notice is considered given when mailed, or when filed for telegraphic transmission, or, if sent by another means, when delivered to the creditor's designated place of business.

As an example of the calculation of the three business day period, if an open-end credit account is opened on Friday, June 1, and all material disclosures and notice of the right

of rescission have been delivered to the consumer on Thursday, May 31, then the rescission period will expire at midnight of the third business day following June 1 – at the end of the day of Tuesday, June 5. (The three business days after Friday, June 1 would be Saturday, June 2, Monday, June 4, and Tuesday, June 5.)

The right of rescission may only be waived or modified by the consumer if the consumer determines that the extension of credit is needed to meet a *bona fide* personal financial emergency before the end of the rescission period. To waive or modify the right to rescind, the consumer shall give the creditor a dated written statement that describes the emergency, specifically modifies or waives the right to rescind, and bears the signature of all the consumers entitled to rescind (for example, a husband and wife). Printed forms may not be used for this purpose.

Unless a consumer has waived the right to rescind due to emergency circumstances as described above, no money will be disbursed to the consumer until after the rescission period has expired and the creditor is satisfied that the consumer has not rescinded. The consumer must wait to receive funds until the day following the final day of the rescission period. Under our above example, the consumer would be permitted to receive funds on Wednesday, June 6.

If a consumer rescinds a transaction, the security interest giving rise to the right of rescission becomes void, and the consumer shall not be liable for any amount, including any finance charge. Within twenty (20) calendar days after receipt of a notice of rescission, the creditor shall return any money or property that has been given to anyone in connection with the rescinded transaction, including application fees. Within such time, the creditor shall also cause the termination of the security interest in the consumer's dwelling.

By rescinding a transaction, the consumer only rescinds the specific event giving rise to the most recent right of rescission. For example, a consumer may determine to rescind an increase in the credit limit for an existing line of credit. While the consumer may rescind that credit limit increase and an intended draw within the required three (3) business day period, the rescission does not terminate the creditor's security interest with respect credit to previously extended under the credit line. The rescission only affects the most recent credit limit increase.

Mortgage professionals must learn the notice and timing requirements regarding the TILA right of rescission. Borrowers will expect the mortgage professional to explain the meaning of the right of rescission and the related notices, and the professional can enhance his or her relationship with the borrower by possessing a complete understanding of the right of rescission.

Advertising

Another method of TILA's regulation of open-end credit is implemented through Regulation Z's requirements and restrictions regarding the advertising of open-end credit:

- Actually available terms* – If an advertisement for credit states specific credit terms, it shall state only those terms that actually are or will be arranged or offered by the creditor.
- Advertisement of terms that require additional disclosures* – If any of the terms required to be disclosed in the Initial Disclosure Statement is set forth in an

advertisement, the advertisement shall also clearly and conspicuously set forth the following:

- Any minimum, fixed, transaction, activity or similar charge that could be imposed.
- Any periodic rate that may be applied expressed as an annual percentage rate as determined under Regulation Z. If the plan provides for a variable periodic rate, that fact shall be disclosed.
- Any membership or participation fee that could be imposed.

☐ *Catalogs or other multiple page advertisements; electronic advertisements –*

- If a catalog or other multiple-page advertisement, or an advertisement using electronic communication, gives information in a table or schedule in sufficient detail to permit determination of the disclosures required by paragraph (b) of this section, it shall be considered a single advertisement if:
 - The table or schedule is clearly and conspicuously set forth.
 - Any statement of terms set forth in the Initial Disclosure Statement appearing anywhere else in the catalog or advertisement clearly refers to the page or location where the table or schedule begins.
- A catalog or other multiple-page advertisement or an advertisement using electronic communication complies with this paragraph if the table or schedule of terms includes all appropriate disclosures for a representative scale of amounts up to the level of the more commonly sold higher-priced property or services offered.

☐ *Additional requirements for home equity plans –*

- *Advertisement of terms that require additional disclosures –* If any of the terms required to be disclosed under Regulation Z or the payment terms of the plans are set forth, affirmatively or negatively, in an advertisement for a home equity plan subject to the requirements of Regulation Z, the advertisement also shall clearly and conspicuously set forth the following:
 - Any loan fee that is a percentage of the credit limit under the plan and an estimate of any other fees imposed for opening the plan, stated as a single dollar amount or a reasonable range.
 - Any periodic rate used to compute the finance charge, expressed as an annual percentage rate.
 - The maximum annual percentage rate that may be imposed in a variable-rate plan.
- *Discounted and premium rates –* If an advertisement states an initial annual percentage rate that is not based on the index and margin used to make later rate adjustments in a variable-rate plan, the advertisement also shall state the period of time such rate will be in effect, and, with equal prominence to the initial rate, a reasonably current annual percentage rate that would have been in effect using the index and margin.

- *Balloon payment* – If an advertisement contains a statement about any minimum periodic payment, the advertisement also shall state, if applicable, that a balloon payment may result.
- *Tax implications* – An advertisement that states that any interest expense incurred under the home equity plan is or may be tax deductible may not be misleading in this regard.
- *Misleading terms* – An advertisement may not refer to a home equity plan as “free money” or contain a similarly misleading term.

Summary – Open-End Credit

TILA establishes an extensive framework of governance over open-end credit plans. Through its disclosure requirements and other rules, Regulation Z implements TILA’s regulatory scheme.

Mortgage professionals dealing with open-end credit, such as home equity plans, must become familiar with the specific disclosure requirements in order to competently prepare and deliver those disclosures. In addition, each professional must understand the right of rescission, including the circumstances under which that right arises and the process and timing for the consumer’s exercise of the right.

As an added bonus, an understanding of Regulation Z’s provisions regarding open-end credit plans will help the mortgage professional who may be interested in migrating toward a position involving other types of consumer credit finance. In any event, the importance of these provisions cannot be overstated.

Closed-End Credit

Subpart C of Regulation Z implements TILA’s requirements regarding closed-end credit. Closed-end credit includes all consumer credit which is not open-end credit.

Many mortgage professionals deal exclusively with closed-end credit, such as purchase money mortgage transactions or refinance mortgage transactions. Unlike open-end credit (for example, home equity plans), these closed-end credit products do not permit additional borrowing by consumer. While the closed-end credit plan may provide for a series of advances, the borrower will not be entitled to re-borrow an amount after that amount is paid off.

Regulation Z governs closed-end credit through each of the following methods, some of which also are methods used for governing open-end credit:

- Disclosure requirements.
- Rules regarding residential mortgage and variable-rate transactions.
- Rules regarding treatment of credit balances.
- Rules regarding determination and accuracy of the annual percentage rate.
- Implementation of consumer right of rescission.
- Rules regarding advertising of closed-end credit.

Disclosure Requirements

As with the disclosures required for open-end credit, disclosures for closed-end credit must be made clearly and conspicuously in writing, in a form that the consumer may keep. The disclosures shall be grouped together, shall be segregated from everything else, and shall not contain any information not directly related to the required disclosures.

For closed-end credit, the creditor shall make the required disclosures before consummation (funding) of the transaction. If a disclosure becomes inaccurate because of an event that occurs after the creditor delivers the required disclosures, the inaccuracy is not a violation of Regulation Z, although new disclosures may be required. In particular, for “regular” transactions, new disclosures will be required prior to consummation of the transaction if the annual percentage rate at the time of consummation varies from the annual percentage rate disclosed earlier by more than 1/8 of 1 percentage point. In “irregular” transactions (such as transactions with multiple advances, irregular payment periods or irregular payment amounts), new disclosures will be required prior to consummation of the transaction if the annual percentage rate at the time of consummation varies from the annual percentage rate disclosed earlier by more than 1/4 of 1 percentage point.

Pursuant to Regulation Z, for each transaction, the creditor shall disclose the following information, as applicable:

- ❑ *Creditor* – The identity of the creditor making the disclosures.
- ❑ *Amount financed* – The “*amount financed*,” using that term, and a brief description such as “*the amount of credit provided to you or on your behalf.*” The amount financed is calculated by:
 - Determining the principal loan amount or the cash price (subtracting any down payment).
 - Adding any other amounts that are financed by the creditor and are not part of the finance charge.
 - Subtracting any prepaid finance charge.
- ❑ *Itemization of amount financed* –
 - A separate written itemization of the amount financed, including:
 - The amount of any proceeds distributed directly to the consumer.
 - The amount credited to the consumer’s account with the creditor.
 - Any amounts paid to other persons by the creditor on the consumer’s behalf. The creditor shall identify those persons.

Note that good faith estimates of settlement costs provided for transactions subject to RESPA may be substituted for these disclosures.

- The creditor need not comply with the prior paragraph if the creditor provides a statement that the consumer has the right to receive a written itemization of the amount financed, together with a space for the consumer to indicate whether it is desired, and the consumer does not request it.

- ❑ *Finance charge* – The “finance charge,” using that term, and a brief description such as “the dollar amount the credit will cost you.”
 - *Mortgage loans* – In a transaction secured by real property or a dwelling, the disclosed finance charge and other disclosures affected by the disclosed finance charge (including the amount financed and the annual percentage rate) shall be treated as accurate if the amount disclosed as the finance charge is either:
 - understated by no more than \$100.
 - greater than the amount required to be disclosed.
 - *Other credit* – In any other transaction, the amount disclosed as the finance charge shall be treated as accurate if, in a transaction involving an amount financed of \$1,000 or less, it is not more than \$5 above or below the amount required to be disclosed; or, in a transaction involving an amount financed of more than \$1,000, it is not more than \$10 above or below the amount required to be disclosed.
- ❑ *Annual percentage rate* – The “annual percentage rate,” using that term, and a brief description such as “the cost of your credit as a yearly rate.” Note that for any transaction involving a finance charge of \$5 or less on an amount financed of \$75 or less, or a finance charge of \$7.50 or less on an amount financed of more than \$75, the creditor need not disclose the annual percentage rate.
- ❑ *Variable rate* –
 - If the annual percentage rate may increase after consummation in a transaction not secured by the consumer’s principal dwelling or in a transaction secured by the consumer’s principal dwelling with a term of one year or less, the creditor must make the following disclosures:
 - The circumstances under which the rate may increase.
 - Any limitations on the increase.
 - The effect of an increase.
 - An example of the payment terms that would result from an increase.
 - If the annual percentage rate may increase after consummation in a transaction secured by the consumer’s principal dwelling with a term greater than one year, the creditor must make the following disclosures:
 - The fact that the transaction contains a variable-rate feature.
 - A statement that variable-rate disclosures have been provided earlier.
- ❑ *Payment schedule* – The number, amounts, and timing of payments scheduled to repay the obligation.
 - In a demand obligation with no alternate maturity date, the creditor may comply with this paragraph by disclosing the due dates or payment periods of any scheduled interest payments for the first year.

- In a transaction in which a series of payments varies because a finance charge is applied to the unpaid principal balance, the creditor may comply with this paragraph by disclosing the following information:
 - The dollar amounts of the largest and smallest payments in the series.
 - A reference to the variations in the other payments in the series.
- ❑ *Total of payments* – The “*total of payments*,” using that term, and a descriptive explanation such as “*the amount you will have paid when you have made all scheduled payments.*” In any transaction involving a single payment, the creditor need not disclose the total of payments.
- ❑ *Demand Feature* – If the obligation has a demand feature, that fact shall be disclosed. When the disclosures are based on an assumed maturity of one year, that fact shall also be disclosed.
- ❑ *Total sale price* – In a credit sale, the “*total sale price*,” using that term, and a descriptive explanation (including the amount of any down payment) such as “*the total price of your purchase on credit, including your down payment of \$_____.*” The total sale price is the sum of the cash price, the finance charge and other amounts financed by the creditor which are not part of the finance charge.
- ❑ *Prepayment* –
 - When an obligation includes a finance charge computed from time to time by application of a rate to the unpaid principal balance, a statement indicating whether or not a penalty may be imposed if the obligation is prepaid in full.
 - When an obligation includes a finance charge other than the finance charge described in the preceding paragraph, a statement indicating whether or not the consumer is entitled to a rebate of any finance charge if the obligation is prepaid in full.
- ❑ *Late payment* – Any dollar or percentage charge that may be imposed before maturity due to a late payment, other than a deferral or extension charge.
- ❑ *Security interest* – The fact that the creditor has or will acquire a security interest in the property purchased as part of the transaction, or in other property identified by item or type.
- ❑ *Insurance and debt cancellation* – The items required in order to exclude certain insurance premiums and debt cancellation fees from the finance charge.
- ❑ *Certain security interest charges* – The disclosures required in order to exclude from the finance charge certain fees prescribed by law or certain premiums for insurance in lieu of perfecting a security interest.
- ❑ *Contract reference* – A statement that the consumer should refer to the appropriate contract document for information about nonpayment, default, the right to accelerate the maturity of the obligation, and prepayment rebates and penalties. At the creditor’s option, the statement may also include a reference to the contract for further information about security interests and, in a residential

mortgage transaction, about the creditor's policy regarding assumption of the obligation.

- ❑ *Assumption policy* – In a residential mortgage transaction, a statement whether or not a subsequent purchaser of the dwelling from the consumer may be permitted to assume the remaining obligation on its original terms.
- ❑ *Required deposit* – If the creditor requires the consumer to maintain a deposit as a condition of the specific transaction, a statement that the annual percentage rate does not reflect the effect of the required deposit.

In addition to all of the initial disclosures described above, Regulation Z imposes certain subsequent disclosure for refinancing transactions. A refinancing occurs when an existing obligation that was subject to the closed-end credit provisions of Regulation Z is satisfied and replaced by a new obligation undertaken by the same consumer. A refinancing is a new transaction requiring new disclosures to the consumer. The new finance charge shall include any unearned portion of the old finance charge that is not credited to the existing obligation.

Special Rules Regarding Certain Residential Mortgage and Variable-Rate Transactions

In addition to the general disclosure requirements described above, Regulation Z sets forth specific rules for certain residential mortgage transactions and variable rate transactions.

With respect to residential mortgage transactions which are subject to RESPA, Regulation Z requires that the creditor shall make good faith estimates of the disclosures required by Regulation Z before consummation (funding) of the transaction, or shall deliver or place them in the mail not later than three (3) business days after the creditor receives the consumer's written application, whichever is earlier. This requirement aligns the timing of the Regulation Z disclosures with the timing of the good faith estimate required by RESPA.

For variable-rate transactions, Regulation Z requires that if the annual percentage rate may increase after consummation of a transaction secured by the consumer's principal dwelling with a term greater than one year, the following disclosures must be provided at the time an application form is provided or before the consumer pays a non-refundable fee, whichever is earlier. (These disclosures may be delivered or placed in the mail not later than three (3) business days following receipt of a consumer's application when the application reaches the creditor by telephone, or through an intermediary agent or broker.)

- ❑ The booklet titled *Consumer Handbook on Adjustable Rate Mortgages* published by the Federal Reserve Board and the Federal Home Loan Bank Board, or a suitable substitute. This booklet is commonly referred to as the "CHARM Booklet."
- ❑ A loan program disclosure for each variable-rate program in which the consumer expresses an interest. The following disclosures, as applicable, shall be provided:
 - The fact that the interest rate, payment, or term of the loan can change.

- The index or formula used in making adjustments, and a source of information about the index or formula.
- An explanation of how the interest rate and payment will be determined, including an explanation of how the index is adjusted, such as by the addition of a margin.
- A statement that the consumer should ask about the current margin value and current interest rate.
- The fact that the interest rate will be discounted, and a statement that the consumer should ask about the amount of the interest rate discount.
- The frequency of interest rate and payment changes.
- Any rules relating to changes in the index, interest rate, payment amount, and outstanding loan balance including, for example, an explanation of interest rate or payment limitations, negative amortization, and interest rate carryover.
- At the option of the creditor, either of the following:
 - A historical example, based on a \$10,000 loan amount, illustrating how payments and the loan balance would have been affected by interest rate changes implemented according to the terms of the loan program disclosure. The example shall reflect the most recent 15 years of index values. The example shall reflect all significant loan program terms, such as negative amortization, interest rate carryover, interest rate discounts, and interest rate and payment limitations, that would have been affected by the index movement during the period.
 - The maximum interest rate and payment for a \$10,000 loan originated at the original interest rate (index value plus margin, adjusted by the amount of any discount or premium) in effect as of an identified month and year for the loan program disclosure assuming the maximum periodic increases in rates and payments under the program; and the initial interest rate and payment for that loan and a statement that the periodic payment may increase or decrease substantially depending on changes in the rate.
- An explanation of how the consumer may calculate the payments for the loan amount to be borrowed based on either:
 - The most recent payment shown in the historical example set forth above.
 - The initial interest rate used to calculate the maximum interest rate and payment as described above.
- The fact that the loan program contains a demand feature.
- The type of information that will be provided in notices of adjustments and the timing of such notices.
- A statement that disclosure forms are available for the creditor's other variable-rate loan programs.

The CHARM Booklet is particularly helpful to consumers, as it carefully explains Adjustable Rate Mortgages in lay terms.

In addition to the initial disclosure rules for residential mortgage transactions and variable-rate transactions, Regulation Z imposes the following subsequent disclosure requirements for particular circumstances:

- ❑ *Assumptions* – An assumption occurs when a creditor expressly agrees in writing with a subsequent consumer to accept that consumer as a primary obligor on an existing residential mortgage transaction. Before the assumption occurs, the creditor shall make new disclosures to the subsequent consumer, based on the remaining obligation.
- ❑ *Variable-Rate Adjustments* – An adjustment to the interest rate with or without a corresponding adjustment to the payment in a variable-rate transaction is an event requiring new disclosures to the consumer. At least once each year during which an interest rate adjustment is implemented without an accompanying payment change, and at least 25, but no more than 120, calendar days before a payment at a new level is due, the following disclosures, as applicable, must be delivered or placed in the mail:
 - The current and prior interest rates.
 - The index values upon which the current and prior interest rates are based.
 - The extent to which the creditor has foregone any increase in the interest rate.
 - The contractual effects of the adjustment, including the payment due after the adjustment is made, and a statement of the loan balance.
 - The payment that would be required to fully amortize the loan at the new interest rate over the remainder of the loan term.

Rules Regarding Treatment of Credit Balances

Regulation Z's rules regarding closed-end credit specifically provide that when a credit balance in excess of One Dollar (\$1) is created in connection with a transaction (whether through transmittal of funds to a creditor in excess of the total balance due on an account, through rebates of unearned finance charges or insurance premiums, or through amounts otherwise owed or held for the benefit of a consumer), the creditor shall do all of the following:

- ❑ Credit the amount of the credit balance to the consumer's account.
- ❑ Refund any part of the remaining credit balance, upon the written request of the consumer.
- ❑ Make a good faith effort to refund to the consumer by cash, check, money order, or credit to a deposit account of the consumer, any part of the credit balance remaining in the account for more than six (6) months, except that no further action is required if the consumer's current location is not known to the creditor and cannot be traced through the consumer's last known address or telephone number.

Rules Regarding Determination and Accuracy of Annual Percentage Rate

As discussed earlier in these materials, the annual percentage rate (APR) is a measure of the cost of credit, expressed as a yearly rate. The annual percentage rate relates the amount and timing of value received by the consumer to the amount and timing of payments made.

As a general rule, when disclosed in connection with a closed-end credit transaction, the annual percentage rate shall be considered accurate if it is not more than 1/8 of 1 percentage point above or below the properly calculated annual percentage rate. In "irregular" transactions (such as transactions with multiple advances, irregular payment periods or irregular payment amounts), the annual percentage rate shall be considered accurate if it is not more than 1/4 of 1 percentage point above or below the properly calculated annual percentage rate. Regulation Z provides formulas and tables which may be used to correctly calculate the annual percentage rate. Most mortgage professionals rely on computer programs which calculate the correct annual percentage rate based upon the finance charge components input by the professional.

Right of Rescission

Regulation Z implements a consumer right of rescission for closed-end credit transactions. In fact, Regulation Z's provisions regarding the consumer's right to rescind a closed-end credit transaction are very similar to the regulation's provisions regarding the consumer's right to rescind an open-end credit transaction.

In a closed-end credit transaction in which a security interest is acquired in a consumer's principal dwelling, each consumer whose ownership is subject to the security interest shall have the right to rescind the transaction. As with open-end credit transactions, the right to rescind does not apply to a closed-end residential mortgage transaction to finance the acquisition or initial construction of the dwelling. In addition, the right to rescind does not apply to a refinancing or consolidation of the same creditor of an extension of closed-end credit already secured by the consumer's principal dwelling. (The right to rescind shall apply, however, to the extent the new amount financed exceeds the unpaid principal balance, any earned unpaid finance charge on the existing debt and amounts attributed solely to the costs of the refinancing or consolidation.)

In a closed-end transaction subject to rescission, a creditor must deliver to the consumer two (2) copies of the notice of the right to rescind to the consumers entitled to rescind. (Only one (1) copy need be delivered if by electronic communication.) The notice shall be on a separate document that identifies the transaction and shall clearly and conspicuously disclose the following:

- The retention or acquisition of a security interest in the consumer's principal dwelling.
- The consumer's right to rescind the transaction.
- An explanation of how to exercise the right to rescind, with a form for that purpose, designating the address of the creditor's place of business.
- The effects of rescission.
- The date the rescission period expires.

For closed-end credit transactions, the consumer may exercise the right to rescind until midnight of the third business day following consummation, delivery of the notice of

rescission, or delivery of all material disclosures, whichever occurs last. "Business days" are calculated in the same manner as calculated for open-end credit transactions.

If the required notice of rescission or material disclosures are not delivered, the right to rescind shall expire three (3) years after consummation, upon transfer of all of the consumer's interest in the subject dwelling, or upon sale of the dwelling, whichever occurs first.

The consumer's ability to waive the right of rescission is the same for closed-end credit transactions as for open-end credit transactions. Similarly, the effect of the consumer's rescission is the same for both open-end and closed-end credit transactions.

Advertising

Regulation Z provides specific requirements and restrictions regarding the advertising of closed-end credit which differ slightly from its requirements regarding advertising of open-end credit:

- ❑ *Actually available terms* – If an advertisement for credit states specific credit terms, it shall state only those terms that actually are or will be arranged or offered by the creditor.
- ❑ *Advertisement of rate of finance charge* – If an advertisement states a rate of finance charge, it shall state the rate as an "annual percentage rate," using that term. If the annual percentage rate may be increased after consummation, the advertisement shall state that fact. The advertisement shall not state any other rate, except that a simple annual rate or periodic rate that is applied to an unpaid balance may be stated in conjunction with, but not more conspicuously than, the annual percentage rate.
- ❑ *Advertisement of terms that require additional disclosures* – If any of the following terms (sometimes referred to as "trigger terms") is set forth in an advertisement:
 - The amount or percentage of any down payment.
 - The number of payments or period of repayment.
 - The amount of any payment.
 - The amount of any finance charge.

then the advertisement also must state all of the following terms:

- The amount or percentage of the down payment.
 - The terms of repayment.
 - The *annual percentage rate*, using that term, and, if applicable, the fact that the rate may be increased after consummation.
- ❑ *Catalogs or other multiple-page advertisements; electronic advertisements* –
 - If a catalog or other multiple-page advertisement, or an advertisement using electronic communication, gives information in a table or schedule in sufficient detail to permit determination of the three (3) disclosures required above, it shall be considered a single advertisement if:
 - The table or schedule is clearly and conspicuously set forth.

- Any statement of terms of the “trigger terms” appearing anywhere else in the catalog or advertisement clearly refers to the page or location where the table or schedule begins.
- A catalog or other multiple-page advertisement or an advertisement using electronic communication complies with Regulation Z if the table or schedule of terms includes all appropriate disclosures for a representative scale of amounts up to the level of the more commonly sold higher-priced property or services offered.

Summary – Closed-End Credit

TILA’s provisions regarding closed-end credit affect every mortgage professional. The professional must comply with all of Regulation Z’s rules regarding closed-end credit, including disclosure, the right of rescission and advertising. The forms and booklets included in these materials can be valuable resources to assist compliance with these laws and regulations.

Miscellaneous Provisions

Subpart D of Regulation Z contains some miscellaneous provisions which affect both open-end credit and closed-end credit transactions:

- *Record Retention* – As a general rule, a creditor shall retain evidence of compliance with Regulation Z for two (2) years after the date disclosures are required to be made or action is required to be taken. The creditor shall retain evidence that it performed actions required by Regulation Z, as well as evidence that the creditor made required disclosures. Evidence of compliance does not necessarily mean actual paper copies of disclosure statements or other business records. Computer reproduction of information is also acceptable.
- *Oral Disclosures of Annual Percentage Rate* – In an oral response to a consumer’s inquiry about the cost of open-end credit, only the annual percentage rate or rates shall be stated, except that the periodic rate or rates also may be stated. If the annual percentage rate cannot be determined in advance because there are finance charges other than a periodic rate, the corresponding annual percentage rate shall be stated, and other cost information may be given.

In an oral response to a consumer’s inquiry about the cost of closed-end credit, only the annual percentage rate shall be stated, except that a simple annual rate or periodic rate also may be stated if it is applied to an unpaid balance. If the annual percentage rate cannot be determined in advance, the annual percentage rate for a sample transaction shall be stated, and other cost information for the consumer’s specific transaction may be given.

- *Limitation on rates* – A creditor shall include in any consumer credit contract secured by a dwelling and subject to TILA and Regulation Z the maximum interest rate that may be imposed during the term of the obligation when either:
 - In the case of open-end credit, the annual percentage rate may increase during the plan.
 - In the case of closed-end credit, the annual percentage rate may increase after consummation.

Special Rules for Certain Home Mortgage Transactions

The Home Ownership and Equity Protection Act of 1994 (HOEPA) amended TILA and Regulation Z by adding a new framework of regulation for certain home mortgage transactions. The requirements and limitations with respect to these home mortgage transactions are in addition to and not in lieu of those contained in other portions of TILA and Regulation Z.

Subpart E of Regulation Z implements the original HOEPA provisions and more recent amendments to HOEPA.

HOEPA was implemented in order to provide consumers additional protection against certain predatory lending practices. While HOEPA does not attempt to regulate all forms of potential predatory lending, the law requires additional disclosures and imposes restrictions on certain forms of mortgage lending which are particularly likely to attract predatory intentions: (1) high cost home mortgage loans and (2) reverse mortgages. Among other factors, these loan products attract predatory lenders (and brokers) because the profits may be very high and the consumer may be in too weak of a position to shop the product. The consumer's inability to shop the product may arise out of desperation to obtain a loan, or as a result of the consumer's demographic (for example, elderly).

The two distinct classes of home mortgage transactions addressed by HOEPA, and which are extremely susceptible to predatory lending, are discussed below.

Section 32 Mortgages

"Section 32 Mortgages" are high cost home mortgage loans which earn their name from the provisions found in Section 226.32 of Regulation Z. A Section 32 Mortgage transaction is a closed-end consumer credit transaction that is secured by the consumer's principal dwelling, and in which either:

- ❑ The annual percentage rate at consummation (funding of the loan) will exceed the yield on certain United States Treasury securities by more than either:
 - Eight (8) percentage points for first lien-loans.
 - Ten (10) percentage points for subordinate-lien loans.

For this comparison, we use the United States Treasury securities having comparable periods of maturity to the mortgage loan maturity, based upon the yield as of the 15th day of the month immediately preceding the month in which the application for the extension of credit is received by the creditor.

-or-

- ❑ The total points and fees payable by the consumer at or before loan closing will exceed the greater of eight percent (8%) of the total loan amount, or, for 2005, \$510. (The \$510 figure is adjusted annually on January 1 by the annual percentage change in the Consumer Price Index reported the preceding June 1.) "Points and fees" includes: all components of the finance charge (except interest); all compensation paid to mortgage brokers; many closing costs which may not be part of the finance charge; and premiums or other charges for credit life, accident, health or loss-of-income insurance, or debt-cancellation coverage paid by the consumer in connection with the credit transaction.

Section 32 Mortgage transactions do not include any of the following:

- Residential mortgage transactions to finance the acquisition or initial construction of the dwelling for which the security interest is given to the creditor.
- Reverse mortgage transactions.
- Open-end credit plans, including any home equity line of credit. On the other hand, closed-end home equity installment loans are considered Section 32 Mortgage transactions. Under the home equity installment loan, multiple advances may be made to the consumer, but the consumer is never entitled to re-borrow any principal amount which it pays off during repayment of the loan. The home equity line of credit, on the other hand, permits re-borrowing of principal amounts in accordance with the terms of the plan.

Disclosures for Section 32 Mortgages

In addition to other disclosures required by Regulation Z, in any Section 32 Mortgage transaction the creditor shall disclose the following in conspicuous type size:

- Notices* – The following statement: “You are not required to complete this agreement merely because you have received these disclosures or have signed a loan application. If you obtain this loan, the lender will have a mortgage on your home. You could lose your home, and any money you have put into it, if you do not meet your obligations under the loan.”
- Annual percentage rate* – The annual percentage rate.
- Regular payment; balloon payment* – The amount of the regular monthly (or other periodic) payment and the amount of any balloon payment.
- Variable-rate* – For variable-rate transactions, a statement that the interest rate and monthly payment may increase, and the amount of the single maximum monthly payment, based on the maximum interest rate required to be disclosed.
- Amount borrowed* – For a mortgage refinancing, the total amount the consumer will borrow, as reflected by the face amount of the note; and where the amount borrowed includes premiums or other charges for optional credit insurance or debt-cancellation coverage, that fact shall be stated, grouped together with the disclosure of the amount borrowed. The disclosure of the amount borrowed shall be treated as accurate if it is not more than \$100 above or below the amount required to be disclosed.

Each of the above disclosures must be furnished to the consumer at least three (3) business days prior to consummation of the mortgage transaction. If the creditor later changes any term that makes the disclosures inaccurate, new disclosures shall be provided to the consumer. A creditor may provide the new disclosures by telephone if the consumer initiates the change in terms and if, at consummation, the creditor provides new written disclosures and the consumer and creditor sign a statement indicating that the new disclosures were provided by telephone at least three (3) days prior to the consummation of the transaction.

The three day waiting period for the above disclosures may only be modified or waived by the consumer in the event of a *bona fide* personal emergency. In that case, the consumer shall give the creditor a dated written statement that describes the emergency, specifically modifies or waives the three (3) day waiting period, and bears

the signature of all the consumers entitled to the waiting period. Printed forms for this purpose are prohibited.

Limitations on Section 32 Mortgages

A Section 32 Mortgage shall not include any of the following terms:

- Balloon Payment* – For a loan with a term of less than five (5) years, a payment schedule with regular periodic payments that when aggregated do not fully amortize the outstanding principal balance. This limitation on balloon payments does not apply to: (i) loans with terms of five (5) years or greater or (ii) loans with maturities of less than one year, if the purpose of the loan is a “bridge” loan connected with the acquisition or construction of a dwelling intended to become the consumer’s principal dwelling.
- Negative Amortization* – A payment schedule with regular period payments that cause the principal balance to increase.
- Advance Payments* – A payment schedule that consolidates more than two periodic payments and pays them in advance from the proceeds.
- Increased Interest Rate* – An increase in the interest rate after default.
- Rebates* – A refund calculated by a method less favorable than the federally-approved actuarial method for rebates of interest arising from a loan acceleration due to default.
- Prepayment Penalties* – A penalty for paying all or part of the principal before the date on which the principal is due. Note, however, that a Section 32 Mortgage transaction may provide for a prepayment penalty if all of the following are true:
 - The penalty can be exercised only for the first five (5) years following consummation.
 - The source of the prepayment funds is not a refinancing by the creditor or an affiliate of the creditor.
 - At consummation, the consumer’s total monthly debts (including amounts owed under the mortgage) do not exceed 50% of the consumer’s monthly gross income, as verified by the consumer’s signed financial statement, a credit report, and payment records for employment income.
- Due-on-Demand Clause* – A demand feature that permits the creditor to terminate the loan in advance of the original maturity date and to demand repayment of the entire outstanding balance, except in one of the following circumstances:
 - There is fraud or material misrepresentation by the consumer in connection with the loan.
 - The consumer fails to meet the repayment terms of the agreement for any outstanding balance.
 - There is any action or inaction by the consumer that adversely affects the creditor’s security for the loan, or any right of the creditor in such security.

Prohibited Acts by Creditors in Connection with Section 32 Mortgages

A creditor extending credit under any Section 32 Mortgage shall not do any of the following:

- ❑ *Home Improvement Contracts* – The creditor shall not pay a contractor under a home improvement contract from the proceeds of a Section 32 Mortgage, other than either:
 - By an instrument payable to the consumer, or jointly to the consumer and the contractor.
 - At the election of the consumer, through a third-party escrow agent in accordance with terms established in a written agreement signed by the consumer, the creditor, and the contractor prior to the disbursement.
- ❑ *Notice to Assignee* – The creditor shall not sell or otherwise assign a Section 32 Mortgage without furnishing the following statement to the purchaser or assignee:

“Notice: This is a mortgage subject to special rules under the federal Truth in Lending Act. Purchasers or assignees of this mortgage could be liable for all claims and defenses with respect to the mortgage that the borrower could assert against the creditor.”
- ❑ *Loan Flipping* – Within one year of having extended credit for a Section 32 Mortgage, the creditor shall not refinance the loan into another Section 32 Mortgage to the same borrower, unless the refinancing is in the borrower’s interest. Similarly, an assignee holding or servicing the Section 32 Mortgage loan shall not, for the remainder of the one-year period following the date of origination of the loan, refinance the loan into another Section 32 Mortgage to the same borrower, unless the refinancing is in the borrower’s interest. These types of practices are commonly referred to as “Loan Flipping.” A creditor (or assignee) is prohibited from engaging in acts or practices to evade this provision, including a pattern or practice of arranging for the refinancing of its own loans by affiliated or unaffiliated creditors, or modifying a loan agreement (whether or not the existing loan is satisfied and replaced by the new loan) and charging a fee.
- ❑ *Repayment Ability* – The creditor shall not engage in a pattern or practice of making Section 32 Mortgage loans to consumers based on the consumers’ collateral without regard to the consumer’s repayment ability, including the consumer’s current and expected income, current obligations, and employment. There is a presumption that a creditor has violated this prohibition if the creditor engages in a pattern or practice of making Section 32 Mortgage loans without verifying and documenting consumers’ repayment ability.
- ❑ *False Loan Structuring* – The creditor shall not structure a home-secured loan as an open-end plan to evade the requirements applicable to Section 32 Mortgages. For example, a creditor may not structure a high cost loan as a home equity line of credit if the consumer does not intend to take additional draws typical of a home equity line of credit. Such a false loan structure will not avoid the HOEPA requirements for high cost Section 32 Mortgages.

Reverse Mortgages

A reverse mortgage transaction is a non-recourse consumer credit obligation in which both of the following occur:

- A security interest is created in the consumer's principal dwelling.
- Any principal, interest, or shared appreciation or equity is due and payable (other than in the case of default) only after one of the following events:
 - The consumer dies
 - The dwelling is transferred
 - The consumer ceases to occupy the dwelling or principal dwelling

Most often, reverse mortgages require a consumer to provide a lender a security interest in a home in exchange for a stream of payments. Upon the sale of the home or the death of the consumer, the lender requires repayment. Reverse mortgages may be attractive to retired individuals seeking to convert home equity into a liquid source of funds.

HOEPA requires that for reverse mortgage transactions, in addition to the other disclosures required by TILA and Regulation Z, the creditor must provide the following disclosures:

- Notice* – A statement that the consumer is not obligated to complete the reverse mortgage transaction merely because the consumer has received the required disclosures or has signed an application for a reverse mortgage loan.
- Total annual loan cost rates* – A good-faith projection of the total cost of the credit, determined in accordance with Regulation Z and expressed as a table of “total annual loan cost rates,” using that term.
- Itemization of pertinent information* – An itemization of loan terms, charges, the age of the youngest borrower and the appraised property value.
- Explanation of table* – An explanation of the table of total annual loan cost rates.

Summary – Special Rules for Certain Home Mortgage Transactions

Regulation Z implements HOEPA's framework attempting to address predatory lending in high cost Section 32 Mortgage loans and reverse mortgage transactions.

HOEPA's regulations covering Section 32 Mortgages have been criticized as a weak approach to predatory lending, since the disclosures and restrictions only apply to loans with extremely high rates or fees. Predatory lenders may still prey upon consumers by keeping interest rates just below the HOEPA thresholds, as HOEPA's disclosures and restrictions (such as limitations on loan flipping) would not apply to those loans.

HOEPA's strengths include additional disclosures which help promote consumers' ability to shop for loan products. The ability to choose between products significantly lowers the likelihood that a consumer will be forced to accept a harmful mortgage product. In addition, the educational value of the disclosures helps make the consumer aware that he/she is able to shop between various products with different rates and fees.

Numerous parties have called for further federal regulation addressing predatory lending. In addition, many states have passed high cost lending laws and regulations which build upon HOEPA's framework for predatory lending.

Mortgage professionals should expect continuing reform in coming years, as the federal and state governments seek to curb predatory lending and improve consumers' knowledge about the mortgage industry and their ability to successfully shop for all forms of loan products.

TILA Enforcement and Penalties

TILA and Regulation Z may be enforced through private actions by consumers and by administrative action by federal regulatory agencies

In general, if a creditor fails to comply with any requirements of TILA or Regulation Z, the creditor may be held liable to the consumer for actual damages to the consumer and the cost of any legal action together with reasonable attorneys fees in a successful action.

In certain cases, the creditor may also be held liable for twice the amount of the finance charge involved, but not less than \$100 or more than \$1,000. In the case of closed-end credit transactions secured by the consumer's dwelling, the creditor may be liable for twice the amount of the finance charge involved, but not less than \$200 or more than \$2,000.

In addition, anyone who willingly and knowingly fails to comply with any requirement of TILA may be fined not more than \$5,000 or imprisoned not more than one year, or both.

Mortgage professionals must recognize that the above remedies are cumulative, so the creditor may be liable for both the actual damages and legal costs plus the additional fines or penalties described above. These potential penalties highlight the impact of incorrect disclosures or failure to otherwise comply with TILA and Regulation Z. The mortgage professional's livelihood depends on proper compliance with TILA and Regulation Z.

Conclusion

TILA is one of the landmark federal laws affecting the mortgage industry. TILA and Regulation Z affect many of the mortgage professional's daily activities, whether the professional engages in extending open-end credit, closed-end credit, or both.

Mortgage professionals who understand TILA's and Regulation Z's requirements will be able to properly comply with this important law and educate the consumer regarding the benefits of disclosure and shopping for the best loan product.

FINAL EXAMINATION AND ANSWER SHEET AT BACK OF BOOK

NOTES

NOTES

UNDERSTANDING THE TRUTH IN LENDING ACT – FINAL EXAM

1. The stated purpose of the Truth in Lending Act is to assure a meaningful disclosure of credit terms.
2. Regulation Z was issued by the Board of Governors of the Federal Reserve System to implement the Truth in Lending Act.
3. Regulation Z defines the “finance charge” as the cost of consumer credit as a dollar amount.
4. In addition to direct charges by the creditor, the finance charge also includes fees and amounts charged by a third party if the creditor retains a portion of the third party charge.
5. The Truth in Lending Act requires disclosures must be made clearly and conspicuously in writing in a form which the consumer may keep.
6. For home equity plans each periodic statement must include the account balance outstanding at the beginning of the billing cycle.
7. The Initial Disclosure Statement for a home equity plan must include a statement describing the consumer’s billing rights.
8. Traditional fixed rate loans for home purchases are a type of closed-end credit transaction.
9. Regulation Z does not govern the advertising of closed-end credit.
10. For closed-end credit, the creditor must make the required disclosures within 10 days following the consummation (funding) of the transaction.
11. If a disclosure becomes inaccurate because of an event that occurs after the creditor delivers the required disclosures, the inaccuracy is not a violation of Regulation Z.
12. The term “amount financed” should be described to the consumer with words like “the amount of credit provided to you or on your behalf” or other similar wording.
13. Variable rate loans are exempt from the disclosure requirements of Regulation Z.
14. Applicants for adjustable rate loans are to receive the CHARM booklet.
15. The three (3) day right to rescind applies to a closed-end residential mortgage transaction to finance the acquisition of a dwelling.
16. The Home Ownership and Equity Protection Act (HOEPA) was implemented in order to provide consumers additional protection against certain predatory lending practices.
17. High cost home mortgage loans and reverse mortgages are particularly likely to attract predatory lending practices.
18. High cost home mortgage loans are not allowed to include a balloon payment.
19. Loan flipping is one way the borrower can benefit from a high cost home mortgage loan.
20. HOEPA eliminated the need for disclosures by lenders making reverse mortgage loans.

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9.	<input type="radio"/>	<input type="radio"/>	19.	<input type="radio"/>	<input type="radio"/>
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