Highlights of Proposed Rules Regarding Home-Secured Credit

The proposal would make the following changes to Regulation Z for closed-end mortgages and for home-equity lines of credit.

For closed-end mortgage loans:

- At application, lenders would have to provide consumers with a one-page list of key questions to ask about the loan being offered. The new Truth in Lending Act (TILA) disclosures are designed to answer those questions.

- The information consumers receive within three days after application would be streamlined to make it easier for consumers to use. By highlighting risky mortgage features (such as possible payment increases, or negative amortization) the disclosures would be more meaningful.

- For adjustable-rate mortgages, lenders would be required to show consumers how their payments might change, for example, by disclosing the highest monthly amount the consumer might pay during the life of the loan.

- The APR would be revised to make it a better measure of the total cost of the loan, by including most fees and settlement costs; many of these fees are currently excluded from the APR.

- The disclosures would show consumers in a simple graph how their loan's APR compares to the average rate offered to borrowers with excellent credit.

- In addition to the early cost disclosures provided at application, lenders would be required to provide final TILA disclosures that consumers must receive at least three days before the loan closing.

- For adjustable-rate mortgages, lenders would have to notify consumers 60 days in advance of a change in their monthly payment (currently notice may be given 25 days in advance).

- For loans where consumers have payment options that allow their loan balance to increase, consumers would have to receive monthly statements explaining this feature.

For all mortgage transactions the proposal would:

- Prohibit payments to a mortgage broker or the creditor’s loan officer based on the loan's interest rate or other terms.

- Prohibit a mortgage broker or loan officer from "steering" consumers to a lender offering less favorable terms in order to increase the broker's or loan officer's compensation.

For Home-Equity Lines of Credit (HELOCs):

- At application, lenders would provide improved information that would be more meaningful and easier for consumers to use. The lengthy, generic disclosure currently provided at application would be replaced with a new, one-page disclosure summarizing basic information and risks about HELOCs.

- Within three days after receiving the consumer's application, lenders would provide disclosures specifically tailored to the actual credit terms for which the consumer qualifies. These disclosures provide information about costs and risky mortgage features in a tabular format that consumers have found easier to use.

- At account opening, lenders would provide final disclosures in the same format, to facilitate comparison with the earlier disclosures.

- Throughout the life of the plan, lenders would provide enhanced periodic statements, showing the total amount of interest and fees charged for the statement period and the year to date.

- To the extent a lender can change any terms of the plan, lenders would have to notify consumers 45 days in advance of the change.

- Lenders would be prohibited from terminating an account for delinquency until the payment is more than 30 days late.

- Consumer protections that apply when a consumer's credit line has been suspended or reduced would be strengthened. Creditors would have to provide additional information about the reasons for the action and consumers' right to request reinstatement. The rules also would require lenders to promptly investigate and respond to consumers' request to have their lines reinstated.