

Highlights of Proposed Rule Regarding Home-Secured Credit

The proposal would make the following changes to Regulation Z for home-secured credit.

Reverse mortgages:

Reverse mortgages are complex products available to older consumers, some of whom may be more vulnerable to abusive practices. To help consumers understand these complex products, creditors would be required to provide improved disclosures that explain particular features unique to reverse mortgages.

- At application, creditors must provide a new, two-page disclosure which highlights in simple language the basic features and risks of reverse mortgages.
- Within three days after receiving the consumer's application, creditors must provide transaction-specific disclosures that reflect the actual terms of the reverse mortgage being offered. These disclosures must be presented in a tabular format that consumers have found easier to use.
- At least three days before closing the loan, creditors must provide final disclosures in the same format, to facilitate comparison with the earlier disclosures.
- Creditors also must ensure that their advertisements for reverse mortgages are accurate and balanced. For example, an advertisement that states that a reverse mortgage "requires no payments" must also clearly disclose the fact that borrowers must pay taxes and required insurance.

To protect consumers from unfair practices related to reverse mortgages, the proposal would:

- Prohibit creditors from conditioning a reverse mortgage on the consumer's purchase of another financial or insurance product, so that consumers are not forced to buy financial products that can be costly or may not be beneficial, such as annuities or long-term care insurance;
- Require that a consumer receive counseling about reverse mortgages before any nonrefundable fee can be imposed (except a fee for the counseling itself) or the loan can be closed, to help ensure that consumers understand these complex products before they become obligated on the loan; and
- Prohibit creditors from steering consumers to specific reverse mortgage counselors or compensating counselors or counseling agencies, to ensure that the counseling is unbiased.

The consumer's right to rescind:

A consumer generally has three business days after closing to rescind certain home-secured loans, but this right may be extended for up to three years if the creditor fails to provide the

consumer with certain disclosures or the notice of the right to rescind. The proposed revisions would:

- Simplify and improve the notice of the right to rescind provided to consumers at closing;
- Revise the list of disclosures that, if not properly made, can trigger an extended right to rescind, to focus on disclosures that testing shows are most important to consumers; and
- Clarify creditors' obligations when the extended right to rescind is asserted, to reduce uncertainty and litigation costs.

Other provisions related to home-secured credit:

The proposal also would:

- Ensure that consumers receive new disclosures when the parties agree to modify the key terms of an existing mortgage loan;
- Ensure that for closed-end mortgage loans, consumers have time to review their loan cost disclosures before they become obligated for any fees (other than a credit report fee), by requiring lenders to refund the fees if the consumer decides to withdraw the application within three days after they receive the disclosures;
- Clarify that when a consumer requests information from the consumer's loan servicer about the owner of the loan, the servicer must provide the information within a reasonable time after the request, which generally would be 10 business days;
- Revise the definition of "higher-priced mortgage loans," which are subject to special protections for subprime loans, to ensure that prime loans are not improperly classified as such loans;
- Conform advertising rules for home-equity lines of credit to rules adopted in 2008 for closed-end mortgage loans; and
- Revise the disclosure rules related to credit insurance and debt cancellation and suspension products to ensure that consumers are fully informed of the costs and risks of these products.