

NeighborWorks America
Meeting with Federal Reserve Staff on April 16, 2008
Regulation Z (Truth in Lending)
Docket Number R-1305

On April 16, 2008, Eileen Fitzgerald and Steven Tuminaro of NeighborWorks America (“NWA staff”) met with staff of the Board’s Division of Consumer and Community Affairs to provide comments on the recently proposed amendments to Regulation Z to protect consumers in the mortgage market from unfair, abusive, or deceptive practices (“the proposal”). NWA staff were generally supportive of the proposal, although they had specific concerns and suggestions:

- The threshold for coverage under the proposal is a good baseline. The Board might consider adding coverage for certain non-traditional mortgage products regardless of rate, and might consider covering the whole market for certain provisions of the proposal.
- The “pattern or practice” provision of the ability-to-pay provision is inadequate, would be confusing for lenders, and would provide insufficient protection for consumers.
- The requirement for verification of income and assets is critical and should be extended for nontraditional loans.
- The Board should ban prepayment penalties. Although they may provide genuine benefit for a small subset of consumers, that benefit is far outweighed by the harm suffered by a greater number of consumers.
- The escrow requirement is a necessary step. It should be made clear that the consumers must take an affirmative action to opt out after one year, and that this authorization may not be given in advance (for instance, at closing).
- The proposed actions on yield-spread premiums (YSPs) is good but insufficient. YSPs are very problematic and should be banned, to be replaced by fees that do not vary by interest rate or loan size.
- The limitations on advertising are good. In addition, the Board should ban advertising of loans as “no cost” loans.
- Home equity loans should be covered.

NWA staff were supportive of the provisions that dealt with appraisal coercion, servicing, and the extension of early disclosures. They also support efforts to improve the effectiveness of disclosures.