

Federal Reserve Bank of San Francisco  
101 Market Street, San Francisco, California 94105

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To State Member Banks, Bank  
Holding Companies, Financial Holding  
Companies, and Foreign Bank Offices  
in the Twelfth Federal Reserve District

**Federal Reserve Proposes Enhanced Consumer Protections and Disclosures for Home Mortgage Transactions**

The Federal Reserve Board proposed on August 16, 2010 enhanced consumer protections and disclosures for home mortgage transactions. The proposal includes significant changes to Regulation Z (Truth in Lending) and represents the second phase of the Board's comprehensive review and update of the mortgage lending rules in the regulation. The proposed changes reflect the results of consumer testing by the Board, which has begun accepting public comment. The latest proposal would:

- Improve the disclosures consumers receive for reverse mortgages and impose rules for reverse mortgage advertising to ensure advertisements contain accurate and balanced information;
- Prohibit certain unfair practices in the sale of financial products with reverse mortgages;
- Improve the disclosures that explain a consumer's right to rescind certain mortgage transactions and clarify the responsibilities of the creditor if a consumer exercises the right; and
- Ensure that consumers receive new disclosures when the parties agree to modify the key terms of an existing closed-end mortgage loan.

Under the proposal, the timing, content, and format of reverse mortgage disclosures would be changed to make the disclosures more useful to consumers. Currently, consumers typically receive lengthy disclosures when applying that do not explain the particular features unique to reverse mortgages. Under the proposed rules, however, consumers would receive disclosures on or with the application form, using simple language to highlight the basic features and risks of reverse mortgages. Shortly after filling out the application, consumers would receive transaction-specific disclosures that reflect the actual terms of the reverse mortgage being offered.

In developing the proposal, the Board recognized that disclosures alone may not always be sufficient to protect consumers from unfair practices related to reverse mortgages. Reverse mortgages are complex products available to older consumers, some of whom may be more vulnerable to abusive practices. The proposed rules address concerns that in order to obtain a reverse mortgage, some consumers have been forced to buy financial products that can be costly or may not be beneficial, such as annuities or long-term care insurance. The Board's proposed rules for reverse mortgages would address these concerns by:

- Prohibiting creditors from conditioning a reverse mortgage on the consumer's purchase of another financial or insurance product; and
- Requiring that a consumer receive counseling about reverse mortgages before a creditor can impose nonrefundable fees for a reverse mortgage or close the loan.

In addition, the Board is proposing amendments pertaining to all types of mortgages that would:

- Ensure that for all mortgage loans, consumers have time to review their loan cost disclosures before they become obligated for fees, by requiring lenders to refund the fees if the consumer decides to withdraw the application within three days after they receive the disclosures; and
- Clarify that when a consumer requests information from their loan servicer about the owner of the loan, the servicer must provide the information within a reasonable time, which generally would be 10 business days.

The first phase of the Board's regulatory review of mortgage lending rules commenced with the publication of two proposals in August 2009 that would significantly improve the (more) disclosures for closed-end home mortgage loans and open-end home equity lines of credit. After considering the comments received on the recent proposal, the Board plans to issue final rules that combine the 2009 and 2010 proposals.

The comment period ends 90 days after publication of the proposal in the Federal Register, which is expected shortly.

### **Additional Information**

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's website, at <http://www.frbsf.org/banking/letters>.

For additional information, please contact:

Federal Reserve Bank of San Francisco  
Banking Supervision and Regulation  
(801) 322-7853

**Attachments:** [Federal Register notice](#)

[Highlights of Proposed Rule Regarding Home-Secured Credit](#)

[Key Questions to Ask About Your Mortgage](#)

### **Reverse Mortgages**

[Summary of Findings: Design and Testing of Truth in Lending Disclosures for Reverse Mortgages](#)

[Key Questions to Ask about Your Reverse Mortgage \(Attachment A\)](#)

1. [Open-End Reverse Mortgage Early Disclosure Model Form](#)
2. [Open-End Reverse Mortgage Account-Opening Disclosure Model Form](#)
3. [Closed-End Reverse Mortgage Model Form](#)
4. [Open-End Reverse Mortgage Early Disclosure Sample](#)
5. [Open-End Reverse Mortgage Account-Opening Disclosure Sample](#)
6. [Closed-End Reverse Mortgage Sample](#)
7. [Shared Appreciation Model Clause](#)

### **Rescission**

[Summary of Findings: Design and Testing of Truth in Lending Disclosures for Rescission Notices](#)

*HELOCs:*

1. [Rescission Model Form](#)
2. [Rescission Sample \(When Opening an Account\)](#)
3. [Rescission Sample \(When Increasing the Credit Limit\)](#)

*Closed-end Mortgages:*

1. [Rescission Model Form \(General\)](#)
2. [Rescission Sample \(General\)](#)
3. [Rescission Model Form \(New Advance of Money with the Same Creditor\)](#)

**Credit Protection**

[Summary of Findings: Design and Testing of Periodic Statements for Home Equity Lines of Credit, Disclosure about Changes to Home Equity Line Credit Limits, and Disclosures about Credit Protection Products](#)

*HELOCs:*

1. [Credit Insurance, Debt Cancellation Coverage, or Debt Suspension Coverage Model Form](#)
2. [Credit Life Insurance Sample](#)
3. [Disability Debt Cancellation Coverage Sample](#)
4. [Unemployment Debt Suspension Coverage Sample](#)

*Closed-end Mortgages:*

1. [Credit Insurance, Debt Cancellation Coverage, or Debt Suspension Coverage Model Form](#)
2. [Credit Life Insurance Sample](#)
3. [Disability Debt Cancellation Coverage Sample](#)
4. [Unemployment Debt Suspension Coverage Sample](#)