

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 Board Proposes Significant Changes to Regulation Z (Truth in Lending)

The Federal Reserve Board proposed significant changes to Regulation Z (Truth in Lending) on July 23, 2009 intended to improve the disclosures consumers receive in connection with closed-end mortgages and home-equity lines of credit (HELOCs). These changes, offered for public comment, reflect the result of consumer testing conducted as part of the Board's comprehensive review of the rules for home-secured credit. The amendments would also provide new consumer protections for all home-secured credit.

"Consumers need the proper tools to determine whether a particular mortgage loan is appropriate for their circumstances," said Federal Reserve Chairman Ben S. Bernanke. "It is often said that a home is a family's most important asset, and it is the Federal Reserve's responsibility to see that borrowers receive the information they need to protect that asset."

To shop for and understand the cost of credit, consumers must be able to identify and understand the key terms of the mortgage. In formulating the proposed revisions to Regulation Z, the Board used consumer testing to ensure that the most essential information is provided at a suitable time using content and formats that are clear and conspicuous.

"Our goal is to ensure that consumers receive the information they need, whether they are applying for a fixed-rate mortgage with level payments for 30 years, or an adjustable-rate mortgage with low initial payments that can increase sharply," said Governor Elizabeth A. Duke. "With this in mind, the disclosures would be revised to highlight potentially risky features such as adjustable rates, prepayment penalties, and negative amortization."

The Board's proposed changes to Regulation Z would:

- Improve the disclosure of the annual percentage rate (APR) so it captures most fees and settlement costs paid by consumers;
- Require lenders to show how the consumer's APR compares to the average rate offered to borrowers with excellent credit;
- Require lenders to provide final Truth in Lending Act (TILA) disclosures so that consumers receive them at least three business days before loan closing; and
- Require lenders to show consumers how much their monthly payments might increase, for adjustable-rate mortgages.

The Board will also work with the Department of Housing and Urban Development to make HUD's disclosures, required by the Real Estate Settlement Procedures Act, and the disclosures mandated by TILA complementary; potentially developing a single disclosure form that creditors could use to satisfy both laws.

In developing the proposed amendments, the Board recognized that disclosures alone may not always be sufficient to protect consumers from unfair practices. To prevent mortgage loan originators from "steering" consumers to more expensive loans, the Board's proposal would:

- Prohibit payments to a mortgage broker or a loan officer that are based on the loan's interest rate or other terms; and
- Prohibit a mortgage broker or loan officer from "steering" consumers to transactions that are not in their interest in order to increase the mortgage broker's or loan officer's compensation.

The rules for home-equity lines of credit would be revised to change the timing, content, and format of the disclosures that creditors provide to consumers during the application process and throughout the life of such accounts. Currently, consumers receive lengthy, generic disclosures at the time of application. Under the proposal, consumers would receive a new one-page Board publication summarizing basic information and risks regarding HELOCs at the time of application. Shortly after application, consumers would receive new disclosures that reflect the specific terms of their credit plans. In addition, the Board's proposal would:

- Prohibit creditors from terminating an account for payment-related reasons unless the consumer is more than 30 days late in making a payment.
- Provide additional protections related to account suspensions, credit-limit reductions, and reinstatement of accounts.

The Federal Register notices are attached. The comment periods end 120 days after publication of the proposals 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
(415) 974-3214

Attachments: [Highlights of Proposed Rules Regarding Home-Secured Credit](#)

[Statement by Chairman Ben S. Bernanke](#)

[Statement by Governor Elizabeth A. Duke](#)

[Board Memorandum--Proposed Amendments to Regulation Z \(Truth in Lending\)](#)

Regulation Z--HELOC:

[Draft Federal Register notice, Regulation Z--HELOC](#)

[Key Questions to Ask About Home Equity Lines of Credit \(Attachment A\)](#)

[Summary of Findings: Design and Testing of Truth in Lending Disclosures for Home Equity Lines of Credit](#)

Model forms and samples:

1. [G-14\(A\) Early Disclosure Model Form \(Home-equity Plans\)](#)
2. [G-14\(B\) Early Disclosure Model Form \(Home-equity Plans\)](#)
3. [G-14\(C\) Early Disclosure Sample \(Home-equity Plans\)](#)
4. [G-14\(D\) Early Disclosure Sample \(Home-equity Plans\)](#)
5. [G-14\(E\) Early Disclosure Sample \(Home-equity Plans\)](#)
6. [G-15\(A\) Account-Opening Disclosure Model Form \(Home-equity Plans\)](#)
7. [G-15\(B\) Account-Opening Disclosure Sample \(Home-equity Plans\)](#)
8. [G-15\(C\) Account-Opening Disclosure Sample \(Home-equity Plans\)](#)
9. [G-15\(D\) Account-Opening Disclosure Sample \(Home-equity Plans\)](#)
10. [G-24\(A\) Periodic Statement Transactions; Interest Charges; Fees Sample \(Home-equity Plans\)](#)
11. [G-24\(B\) Periodic Statement Sample \(Home-equity Plans\)](#)
12. [G-24\(C\) Periodic Statement Sample \(Home-equity Plans\)](#)
13. [G-25 Change-in-Terms Sample \(Home-equity Plans\)](#)
14. [G-26 Rate Increase Sample \(Home-equity Plans\)](#)

Regulation Z--Closed-end Mortgages:

[Draft Federal Register notice, Regulation Z--Closed-end Mortgages](#)

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

[Fixed vs. Adjustable Rate Mortgages Early Disclosure \(Attachment B\)](#)

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

Model forms and samples:

1. [H-4\(B\) Adjustable-Rate Loan Program Model Form](#)
2. [H-4\(D\) Adjustable-Rate Loan Program Sample \(Hybrid ARM\)](#)
3. [H-4\(E\) Adjustable-Rate Loan Program Sample \(Interest Only ARM\)](#)
4. [H-4\(F\) Adjustable-Rate Loan Program Sample \(Payment Option ARM\)](#)
5. [H-4\(G\) Adjustable-Rate Adjustment Notice Model Form](#)
6. [H-4\(I\) Adjustable-Rate Adjustment Notice Sample \(Interest Only ARM\)](#)
7. [H-4\(J\) Adjustable-Rate Adjustment Notice Sample \(Hybrid ARM\)](#)
8. [H-4\(K\) Adjustable-Rate Annual Notice Model Form](#)
9. [H-4\(L\) Negative Amortization Monthly Disclosure Model Form](#)
10. [H-19\(A\) Fixed Rate Mortgage Model Form](#)
11. [H-19\(B\) Adjustable-Rate Mortgage Model Form](#)
12. [H-19\(C\) Mortgage with Negative Amortization Model Form](#)
13. [H-19\(D\) Fixed Rate Mortgage with Balloon Payment Sample](#)
14. [H-19\(E\) Fixed Rate Mortgage with Interest Only Sample](#)
15. [H-19\(F\) Step-Payment Mortgage Sample](#)
16. [H-19\(G\) Hybrid Adjustable-Rate Mortgage Sample](#)
17. [H-19\(H\) Adjustable-Rate Mortgage with Interest Only Sample](#)
18. [H-19\(I\) Adjustable-Rate Mortgage with Payment Option Sample](#)