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*Truth In Lending*

*Regulation Z*

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*An Introduction to the Truth In Lending Act's Impact on Mortgage Lending.*

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# *Truth In Lending Act (Reg Z)*

- Consumer Credit Protection Act (1968)
  - Truth In Lending Act (Title I)
  - Regulation Z (Implements TILA – 1969)
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# *The Purpose of TILA*

- To disclose the *True Cost of Credit*.
  - As a Percentage (*Annual Percentage Rate*)
  - As a Dollar Amount (*Finance Charge*)
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# *Annual Percentage Rate (APR)*

- Modifies the rate of interest applicable to a loan, considering the effect of non-interest Finance Charges paid by the consumer.
  - TILA requires the disclosure of an APR whenever an Interest Rate is referenced, either orally or in writing.
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# *Finance Charges*

- Section 226.4 – Finance Charge
    - (a) Definition
    - (b) Examples of F/C
    - (c) Exclusions from F/C
    - (c) (7) Real Estate Exclusions
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# *Finance Charge (2)*

- ***Prepaid Finance Charges*** are those which are paid by the consumer at or before closing.
  - ***Prepaid Finance Charges*** are a primary factor in the variance between the APR and the Interest Rate.
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# *Finance Charge (3)*

- Bottom Line –
  - *Any Fee not specifically excluded from the Finance Charge in 226.4(c)(7) is, in fact, a Finance Charge.*



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# *Accuracy Requirements*

- Annual Percentage Rate (APR)
    - Accurate within .00125 for Regular Transactions.
    - Accurate within .0025 for Irregular Transactions.
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# *Accuracy Requirements*

## ■ Finance Charges

- Lender is open to civil liability if F/C is understated by more than \$100.00
  - Lender may have Rescission liability if F/C is understated by more than \$35.00.
  - No Liability for Overstatement of F/C.
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# *Accuracy Requirements*

- Finance Charge trumps APR.
    - TILA Amendments of 1995 established that if Finance Charge was “within tolerance”, then the APR will be considered accurate as well.
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# *Truth In Lending Disclosure*

- Material Disclosures
    - APR
    - Finance Charge
    - Amt Financed
    - Payment Schedule
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# *Truth In Lending Disclosure*

- Calculate the Amt Financed by Hand

□ Loan Amt	\$100,000
□ (less) Total Finance Charges	5,000
□ (equals) Amount Financed	95,000

A good check up on Finance Charge Accuracy.

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# *Truth In Lending Disclosure*

- Other Information on TILA Disclosure
    - Variable Rate box
    - Prepayment Penalty info
    - Late Fee info
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# *Adjustable Rate Mortgages & TILA*

## ■ Disclosures

- CHARMS Booklet - an introduction to ARMs for the consumer
  - ARM Disclosure - discloses information about the particular ARM program being considered.
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# *Adjustable Rate Mortgages & TILA*

- Index + Margin = Fully Indexed Rate
  - Rate Caps - Periodic & Lifetime
  - The ARM Payment Schedule
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# *ARM Payment Schedule*

## EXAMPLE

### One Year ARM

Index	3.50%	Margin	2.75%
	Rate Caps		2/6
	Start Rate 4.875%		

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# *ARM Payment Schedule*

The Way It Might Actually Happen:

2006	12 pmts @ 4.875%
2007	12 pmts @ 5.75%
2008	12 pmts @ 6.375%
2009	12 pmts @ 8.00%
2010	12 pmts @ 8.75%
2011	12 pmts @ 7.125%
2012	12 pmts @ 9.00%
2013	12 pmts @ 10.875

etc, etc, etc.

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# *ARM Payment Schedule*

- The Way it Gets Disclosed on the TILA

12 pmts @ 4.875%

348 pmts @ 6.25%

The max rate to be disclosed on the TILA, and around which the payment schedule is built is the Fully Indexed Rate (Index + Margin).

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# *Borrower's Right to Cancel*

- Rescission Applies to:
    - Refinance & Second Mortgage Transactions
    - Owner Occupied Primary Residences
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# *Borrower's Right to Cancel*

- All borrowers / owners have three (business) days to reconsider the terms of the loan, and change their minds.
  - For Rescission purposes, a Business Day does not include Sundays or Federal Holidays.
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# *Borrower's Right to Cancel*

- The 3 day period begins once:
    - The Transaction has occurred;
    - The Borrower has received the Final TILA disclosure;
    - The Borrower has received an Accurate Notice of their Right to Cancel.
  
  - Proceeds may not be disbursed until the 3 day rescission period has concluded.
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# *Borrower's Right to Cancel*

- Violations can extend the Rescission period from 3 days to 3 years.
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# *Borrower's Right to Cancel*

- Right to Cancel is Exercised. Now What.
  - Borrower gives back any proceeds received.
  - Lender releases any liens and obligations.
  - Lender refunds any fees paid by borrower during the loan process.

20 Days to correct situation.

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# *Other TILA Stuff*

- Advertising Credit Terms
  - Fed Trade Commission's *"How to Advertise Consumer Credit & Lease Terms"*

<http://www.ftc.gov/bcp/online/pubs/buspubs/creditad.htm>

- HOEPA (Section 32)
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