
Truth In Lending

Regulation Z

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

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.*



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 Prepaid Fin.Charges	5,000
□ (equals) Amount Financed	95,000

A good check up on Finance Charge Accuracy.

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%		

ARM Payment Schedule

The Way It Might Actually Happen:

2006	12 pmts @ 4.875%	
2007	12 pmts @ 5.75%	Index = 3.00
2008	12 pmts @ 6.375%	Index = 3.625
2009	12 pmts @ 8.00%	Index = 5.25
2010	12 pmts @ 8.75%	Index = 6.00
2011	12 pmts @ 7.125%	Index = 4.375
2012	12 pmts @ 9.00%	Index = 6.25
2013	12 pmts @ 10.875	Index = 8.125

etc, etc, etc.

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), as of the date when the Rate for the Loan is set.

Borrower's Right to Cancel

- Rescission Applies to:
 - Refinance & Second Mortgage Transactions
 - Owner Occupied Primary Residences
 - Offering Rescission When Not Required.
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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

- Let's Talk About the Borrower's Right to Waive their Right to Cancel.....Or, Let's Not !!!
 - The "Blood & Guts" Rule.
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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.

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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