Press Release

July 23, 2009

Statement by Governor Elizabeth A. Duke

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Thank you, Mr. Chairman.

The Committee on Consumer and Community Affairs is pleased to bring these two proposals before the Board. At the outset, I want to recognize the contribution that Governor Tarullo, my fellow committee member, made to this effort. His testimony before the Senate Banking Committee prevents him from joining us this morning.

Before I turn to staff for the details, I would like to highlight elements of the proposals and the process for their development.

As part of the Federal Reserve's comprehensive review of all disclosures provided to consumers under Truth in Lending, substantial revisions to credit card disclosures were finalized in December, 2008. The proposals we will act on today are the next step in that process, covering closed-end mortgages and home-equity lines of credit. To ensure that new disclosures are useful to consumers, we have used consumer testing to explore how consumers process information and understand important features of financial products. This has been quite an informative exercise. Through testing, we were able to get a better understanding of the way consumers identify and evaluate key terms pertaining to the costs and risks of closed-end mortgages and home-equity lines of credit. The disclosure proposals that resulted from this process are quite risk focused.

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. With this in mind, the disclosures would be revised to highlight potentially risky features such as adjustable rates, prepayment penalties, and negative amortization. Consumers also need reliable cost information. To this end, we propose revisions to both the form and timing of disclosures.

Some of the most dramatic changes to disclosures would be:

- At application, lenders would provide consumers with a one-page list of key questions to ask about the loan offered. The new disclosures are designed to answer those questions.
- Lenders would be required to show consumers in a simple graph, how the consumer’s APR compares to

the average rate offered to borrowers with excellent credit.

- For adjustable-rate mortgages, lenders would be required to show consumers how their payments might change, for example, by disclosing the highest monthly amount the consumer might pay during the life of the loan.
- In addition to receiving cost disclosures three days after application, under the proposed rules, consumers must receive an accurate final TILA disclosure at least three business days before the loan closing. This would give consumers the opportunity to review the disclosures outside of the pressured environment of the loan closing and eliminate last-minute surprises.

The second proposal represents an entirely new disclosure regime for home-equity lines of credit (or HELOCs). The proposal addresses the timing, content, and format of the disclosures creditors provide throughout the life of these credit plans.

Currently, consumers receive a lengthy disclosure when they apply for a home-equity line of credit. This is a pre-printed, generic disclosure explaining how the creditor's program is structured. It is dense and legalistic, and difficult for consumers to use. This disclosure would be replaced with a one-page list of key questions consumers should ask and is supplemented by a reference to a Federal Reserve website for additional information.

Within three days after receiving the consumer's application, creditors would provide disclosures specifically tailored to the actual credit terms for which the consumer qualifies. These disclosures would be in a format that consumers have found easier to use.

In the current economic environment, many consumers have seen their home equity lines suspended or reduced. Today's proposal would also strengthen the consumer protections that apply in such cases. Creditors would have to provide additional information to consumers so that consumers will understand the reasons for the action and their right to request reinstatement. The rules would also better define creditors' responsibilities in promptly investigating and responding to consumers who request reinstatement of their credit lines.

I believe these additional consumer protections and enhanced disclosures better reflect consumers' need to understand today's complex mortgage products and represent a significant step forward in consumer protection.

Before turning to Sandy Braunstein, who is the Director of our Division of Consumer and Community Affairs, I want to express my appreciation to her and her staff for their extraordinary effort and outstanding work over many months in developing these proposals.

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