

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. **10300**]
June 22, 1989]

TRUTH IN LENDING
**Amendments to Regulation Z Implementing the Home
Equity Loan Consumer Protection Act**

*To All Depository Institutions, and Others Concerned,
in the Second Federal Reserve District:*

Following is the text of a statement issued by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board has issued its final rules to carry out provisions of the Home Equity Loan Consumer Protection Act. The rules are effective June 7 but compliance is optional until November 7.

The new rules are in the form of amendments to the Board's Regulation Z (Truth in Lending) and generally expand the existing disclosures that must be given to consumers by lenders. They also require that the disclosures be provided at an earlier time in the application process.

In December of 1987, the Board proposed amendments to Regulation Z to change the existing disclosure requirements for home equity lines of credit secured by a consumer's principal dwelling. Subsequently, Congress adopted the Home Equity Loan Consumer Protection Act on November 23, 1988, and the Board published a proposed rule to implement the new law on January 23, 1989.

Under the new rule, creditors must give detailed disclosures, grouped together and separated from unrelated information, at the time an open-end home equity plan application is provided to the customer. This more detailed information includes:

- The payment terms of the plan.
- An example of the payments.
- The fees the creditor imposes to open or use the plan.
- An estimate of fees imposed by third parties.
- Any variable-rate features, including the index used to determine the rate.

In addition to the disclosures, creditors must also provide to the customer a brochure outlining the general features of home equity plans. Such a brochure is currently under preparation by the Board.

Disclosures and the brochure generally must be given at the time an application is given to the consumer although extra time is permitted in some cases, such as when applications are made by telephone or through intermediaries.

In addition to disclosing the index used on a variable-rate feature, the creditor must also provide the frequency of changes in the annual percentage rate and a 15-year historical table showing how the APR and payments would have been affected by changes in the value of the index.

The rule also details how the terms of home equity plans should be advertised. If an advertisement states any payment information, it must also include other cost information — such as loan fees, the periodic rate used to compute the finance charge, the maximum annual percentage rate (for variable rate plans), balloon payments, and tax implications.

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Substantive limitations on home equity plans have been imposed as well by the new rules. Generally, creditors may not terminate a plan and accelerate any outstanding balance, or change the terms of a plan after it has been opened.

Limitations are also placed on the type of index a creditor may use for variable-rate plans. A variable rate must be based on an index outside of the creditor's control and the index value must be available to the public. A creditor is prohibited from using its own "cost of funds" as an index or simply retaining the right to change rates at its discretion.

If a consumer's home (principal dwelling) serves as collateral for the line of credit, the consumer has the right of rescission until midnight of the third business day following the opening of the plan, delivery of the rescission notice, or delivery of all "material disclosures," whichever occurs last.

Enclosed — for depository institutions in this District and others who have requested notices of changes in the Board's consumer credit protection regulations — is the complete text of the amendments, which have been reprinted from the *Federal Register* of June 9. Copies of the enclosure will be furnished to others upon request directed to the Circulars Division of this Bank (Tel. No. 212-720-5215 or 5216). Questions regarding the amendments may be directed to our Compliance Examinations Department (Tel. No. 212-720-5914).

E. GERALD CORRIGAN,
President.