

REGULATORY ALERT

**NATIONAL CREDIT UNION ADMINISTRATION
1775 DUKE STREET, ALEXANDRIA, VA 22314**

DATE: October 2008 NO: 08-RA-06

TO: All Federally-Insured Credit Unions

**SUBJ: Amendments to the Home Mortgage Provisions
of Regulation Z (Truth in Lending)**

Dear Board of Directors:

The Federal Reserve Board recently approved a final rule for home mortgage loans to better protect consumers and facilitate responsible lending. The rule prohibits unfair, abusive or deceptive home mortgage lending practices and restricts certain other mortgage practices. The final rule also establishes advertising standards and requires certain mortgage disclosures be given to consumers earlier in the mortgage lending process. These rules apply to all credit unions providing mortgage loans to their members.

The rule, **for all mortgages:**

- Requires advertising to contain additional information about rates, monthly payments, and other loan features. The rule also bans seven deceptive or misleading advertising practices, including representing that a rate or payment is “fixed” when it can change.

The rule, **for all closed-end mortgages secured by a consumer’s principal dwelling:**

- Prohibits certain servicing practices, such as failing to credit a payment to a member’s account as of the date the payment is received; failing to provide a payoff statement within a reasonable period of time; and “pyramiding” late fees.
- Prohibits a credit union or broker from coercing or encouraging an appraiser to misrepresent the value of the home.
- Requires a credit union to provide a good faith estimate of the loan costs, including a schedule of payments, within three days after a member applies for any mortgage loan secured by a member’s principal dwelling, such as a home improvement loan or a loan to refinance an existing loan.

The rule created a newly defined category of “higher-priced mortgage loans” secured by a member’s principal dwelling. The Federal Reserve Board will publish an index based on the “average prime offer rate.” A loan is higher-priced if it is a first-lien mortgage with an annual percentage rate that is 1.5 percentage points or more than the index, or a subordinate–lien mortgage that is 3.5 percentage points or more than the index.

The rule, **for these higher-priced loans:**

- Prohibits a credit union from making a loan without regard to the borrowers’ ability to repay the loan from income and assets other than the home’s value.
- Prohibits the credit union from relying on income or assets that it does not verify to determine repayment ability.
- Bans any prepayment penalty if the payment can change during the initial four years. For other higher-priced loans, a prepayment penalty period cannot last more than two years.
- Requires that the lender establish an escrow account for the payment of property taxes and homeowners’ insurance for first-lien loans. The credit union may offer the borrower the opportunity to cancel the escrow account after one year.

Compliance with the new rules, other than the escrow requirement, is mandatory for all applications received on or after October 1, 2009. The escrow requirement has an effective date of April 1, 2010 for site-built homes, and October 1, 2010 for manufactured homes.

A copy of the *Highlights of Final Rule Amending Home Mortgage Provisions of Regulation Z (Truth in Lending)*, as well as a complete copy of the Federal Register Notice may be obtained at <http://federalreserve.gov/newsevents/press/bcreg/20080714a.htm>.

If you have any questions regarding the Final Rule Amending Home Mortgage Provisions of Regulation Z (Truth in Lending), please contact your district examiner, regional office, or state supervisory authority.

Sincerely,

/s/

Michael E. Fryzel
Chairman