



REGULATION Z

The federal government regulates the lending practices of mortgage lenders through the Truth-In-Lending Law (Regulation Z).

The Truth-In-Lending Law, enforced through Regulation Z, requires that credit institutions inform borrowers of the true cost of obtaining credit so that the borrower can compare the costs of various lenders and avoid the uninformed use of credit. All real estate transactions made for personal or agricultural purposes are covered. The regulation does not apply to business or commercial loans.

Regulation Z requires that the customer be fully informed of all finance charges, as well as the true annual interest rate, before a transaction is consummated. In the case of a mortgage loan made to finance the purchase of a dwelling, the lender must compute and disclose the annual percentage rate (APR) in a written Truth-In-Lending statement provided to the mortgagee.

Three-day right of rescission. In the case of most consumer credit transactions covered by Regulation Z, the borrower has three days in which to rescind the transaction merely by notifying the lender. This right of rescission does not apply to residential purchase-money first mortgage loans, but does apply to refinances. In an emergency the right to rescind may be waived in writing to prevent a delay in funding.

Advertising: Regulation Z provides strict regulation of real estate advertisements that include mortgage financing terms. General phrases like “liberal terms available” may be used, but if specifics are given they must comply with this act. The APR, which includes all charges, rather than the interest rate alone, must be stated.

Specific credit terms, known as “triggering terms” such as the down payment, monthly payment, dollar amount of the finance charge or term of the loan, may not be advertised unless the following information is set forth as well: cash price; required down payment; number; amounts and due dates of all payments; and APR. The total of all payments to be made over the term of the mortgage must also be specified unless the advertised credit refers to a first mortgage to finance acquisition of a dwelling.

Penalties. Regulation Z provides substantial penalties for noncompliance, ranging from a fine of \$5,000 to \$10,000 for each day the misleading advertising continues to a year’s imprisonment.