Module 1: Truth-in-Lending Act and Regulation Z

Unit 1: Truth in lending Act and Regulation Z Review

UNIT 1 LEARNING OBJECTIVES

This unit will teach the student to:

- identify the purpose of the Truth-in-Lending Act (TILA) and Regulation Z (Reg Z);
- understand and identify the financing events which trigger disclosures required by Reg Z; and
- determine the threshold at which a lender becomes a Reg Z lender.

TILA HISTORY

The Truth-in-Lending Act (TILA) was established in 1968 to provide consumers with information about the costs of credit. TILA’s goal was to create a better-informed consumer base to force lenders to provide more stable lending products.

The housing crash and the financial crisis hit the U.S. economy in 2007. At the center of the maelstrom were the housing and mortgage industries. During the Millennium Boom, the government mandate to increase homeownership allowed upwards of $2 trillion dollars in cheap, short-term money to be loaned at enticingly low teaser rates.

As a result of this aggressive lending environment, underwriting guidelines became lax. Exotic loans snared borrowers who did not fully understand the complicated and often deceptive financial agreements they were signing.

The resultant crash left the U.S. economy in tatters. It became clear the framework of consumer protection in place during the boom years, including the TILA, was not enough to provide discipline to an industry used to writing its own rules.

On July 21, 2010, the federal Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law. One of the aims of the Dodd-Frank Act was to better protect consumers from unfair, abusive and deceptive lending and servicing practices prevalent during the boom of the early 2000s.

The Dodd-Frank Act established the Consumer Financial Protection Bureau (CFPB) as the central consumer protection authority. Among the laws assigned to the CFPB was the TILA. Prior to CFPB’s inception, the Federal Reserve Board of Governors (The Board) had authority over the TILA. The transfer of authority from the Board to the CFPB occurred on July 21, 2011.
The Dodd-Frank Act amended the TILA to provide additional consumer protections, particularly in the realm of loans and lending.

**Comprehension check**

You must answer this question before you may proceed to the next page.

Which government agency currently has regulatory oversight over the Truth in Lending Act (TILA)?

- The Consumer Financial Protection
- The Federal Reserve
- The Federal Trade Commission
- The Supreme Court

**TRANSACTIONS COVERED BY REG Z**

Federal disclosures under TILA are designed to give borrowers standardized loan information for easy comprehension of loan terms and pricing. *Regulation Z (Reg Z)* implements the TILA disclosure requirements on federally defined *consumer financing*. [12 Code of Federal Regulations §1026.1]

*Consumer financing*, also called *Reg Z financing* or *personal-use financing*, arises out of:

- real estate loans, their assumption or refinance;
- personal property loans; and
- carryback financing by dealers.

Only individuals and trusts for tax or estate planning are considered consumers under *Reg Z*. [12 CFR §1026.2(a)(11)]

*Reg Z mandates disclosures* on a loan transaction or carryback sale only if the loan funds or carryback notes are:

- used primarily to purchase real estate, personal property or services for personal, family or household use, called a *personal use*;
- from a lender or carried back by a seller who regularly finances loans or extends credit on sales; and
- repayable with *interest*, or, if no interest, payable in five or more installments. [12 CFR §1026.1(c)(1)]
This course contains 8 MODULEs of reading. Each module is broken down into UNITs. Each UNIT is broken down into PAGES.

Each page is timed. To move on to the next page, you will click on the “NEXT” button in the lower right-hand corner of the reading page. The “NEXT” button will only appear once you’ve spent the minimum required time on the page. After finishing each module, you have access to a PDF copy of the material.

Click on the “Student Homepage” link at the bottom of your reading window to save your place. If you simply leave the reading open, you will be timed out for inactivity after 6 minutes, per NMLS regulations.

You’re also required to answer periodic assessment questions throughout the reading. You do not have to pass these assessments, but you do need to answer them to progress to the next part of the course.

Feedback is provided on your answer immediately after you select an answer choice.

Each module has a 5-question multiple-choice quiz. You have to pass the quiz with a 70% to progress to the next part of the course. You have unlimited attempts to pass each quiz.

Quiz questions are randomized, thus you will see more of the content if you retake the quizzes multiple times.

After each quiz attempt, you will be provided with feedback on how you did on the quiz.

The course has a 25-question multiple-choice exam. Exam questions are randomized. The passing score is 70%.

You have 4 attempts to pass the exam. The first 3 retakes are available immediately. If you do not pass the exam in the 4 attempts, you will be required to wait 24 hours before you have another 4 attempts.