Truth in Lending Act Summary

The **Truth in Lending Act** (**TILA**) of 1968 is United States federal law designed to promote the informed use of consumer credit, by requiring disclosures about its terms and cost to standardize the manner in which costs associated with borrowing are calculated and disclosed.[1]

TILA also gives consumers the right to cancel certain credit transactions that involve a lien on a consumer's principal dwelling, regulates certain credit card practices, and provides a means for fair and timely resolution of credit billing disputes. With the exception of certain high-cost mortgage loans, TILA does not regulate the charges that may be imposed for consumer credit. Rather, it requires uniform or standardized disclosure of costs and charges so that consumers can shop. It also imposes limitations on home equity plans that are subject to the requirements of 12 C.F.R. 1026.40 and certain "higher-priced" mortgage loans (HPMLs) that are subject to the requirements of 12 C.F.R. 1026.35. The regulation prohibits certain acts or practices in connection with credit secured by a consumer's principal dwelling.

History

The Truth in Lending Act was originally Title I of the Consumer Credit Protection Act, Pub.L. 90–321, 82 Stat. 146, enacted June 29, 1968. The regulations implementing the statute, which are known as "Regulation Z", are codified at 12 C.F.R. 226. Most of the specific requirements imposed by TILA are found in Regulation Z, so a reference to the requirements of TILA usually refers to the requirements contained in Regulation Z, as well as the statute itself.[2]

From TILA's inception, the authority to implement the statute by issuing regulations was given to the Federal Reserve Board (FRB). However, effective July 21, 2011, TILA's general rule making authority was transferred to the Consumer Financial Protection Bureau (CFPB), whose authority was established pursuant to provisions enacted by the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act in July of 2010. Any forthcoming regulations implementing the statute, which are also formally referred to as Regulation Z, will be codified at 12 C.F.R. 1026 and attempt to mirror the FRB's Regulation Z whenever feasible.[3] The Federal Reserve will retain some limited rule making authority under TILA for loans made by certain motor vehicle dealers, and for certain other provisions.

Organization

The regulation is divided into subparts.

Subpart B relates to open-end credit lines (revolving credit accounts), which includes credit card accounts and home-equity lines of credit (HELOCs).

Subpart C relates to closed-end credit, such as home-purchase loans and motor vehicle loans with a fixed loan term. It contains rules on disclosures, treatment of credit balances, annual percentage rate calculations, right of rescission, non-requirements, and advertising.

Subpart D contains rules on oral disclosures, Spanish language disclosure in Puerto Rico, record retention, effect on state laws, state exemptions (which only apply to states that had Truth in Lending-type laws prior to the Federal Act), and rate limitations.

Subpart E contains special rules for mortgage transactions.[4]

- § 1026.32 frames the requirements for certain closed-end home mortgages.
- § 1026.33 are requirements for reverse mortgage mortgages, including the total annual loan cost rate and transaction disclosures.
- § 1026.34 prohibits acts or practices in connection with "high-cost" mortgages.
- § 1026.35 prohibits acts or practices in connection with "higher-priced" mortgage loans (HPMLs).
- § 1026.36 prohibits acts or practices in connection with credit secured by a dwelling.
- § 1026.39 deals with mortgage transfer disclosure guidelines.
- § 1026.40 sets the requirements for home equity plans.
- § 1026.42 aims to promote valuation independence.

Several appendices contain information such as the procedures for determinations about state laws, state exemptions and issuance of staff interpretations, special rules for certain kinds of credit plans, a list of enforcement agencies, model disclosures which if used properly will ensure compliance with the Act, and the rules for computing annual percentage rates in closed-end credit transactions and total annual loan cost rates for reverse mortgage transactions.

References

1. Dlabay, Les R.; Burrow, James L.; Brad, Brad (2009). *Intro to Business*. Mason, Ohio: South-Western Cengage Learning. p. 469. ISBN 978-0-538-44561-0.
2. "Federal Reserve System Banking Information and Regulation". *Board of Governors of the Federal Reserve System*. FRB. July 30, 2008.
3. "CFPB Lays Out Implementation Plan for New Mortgage Rules". *Consumer Financial Protection Bureau* (Press release). CFPB. February 13, 2013.
4. "12 C.F.R. 1026, Subpart E, §§ 31–45 (2013 Edition)". *Code of Federal Regulations*. GPO. January 1, 2013.

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