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FRB Predatory Lending

Federal Reserve System: Board of Governors

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Press Release

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For immediate release

The Federal Reserve Board on Wednesday approved the issuance of a final rule that amends its regulations aimed at curbing predatory lending.

Compliance with the amendments becomes mandatory on October 1, 2002.

The amendments to Regulation Z (Truth in Lending) broaden the scope of loans subject to the protections of the Home Ownership and Equity Protection Act (HOEPA) of 1994 by adjusting the price triggers that determine coverage under the act. The rate-based trigger is lowered by two percentage points for first-lien loans and the fee-based trigger is revised to include optional insurance premiums and similar credit protection products paid at closing. Certain acts and practices in connection with home-secured loans are prohibited, including a rule to restrict creditors from engaging in repeated refinancings of their own HOEPA loans over a short time period when the transactions are not in the borrower's interest.

HOEPA's prohibition against extending credit without regard to a consumer's repayment ability is strengthened by requiring creditors to document and verify income for HOEPA-covered loans. Disclosures received by consumers before closing for HOEPA-covered loans would include the total amount of money borrowed and whether that amount includes optional credit insurance or similar products paid at closing.

HOEPA was enacted in response to anecdotal evidence of predatory lending practices in the home-equity lending market. HOEPA imposes additional disclosure requirements. It also imposes substantive limitations, such as restrictions on short-term balloon notes, on certain home-equity loans with rates and fees above a certain percentage or amount.

HOEPA authorizes the Board to expand HOEPA's coverage and prohibit certain acts and practices in connection with mortgage lending generally. The Board published proposed amendments in December 2000, after holding public hearings on possible ways to curb predatory lending using its regulatory authority.

The term "predatory lending" encompasses a variety of practices. Oftentimes homeowners in certain communities-particularly, the elderly and minorities-are targeted with offers of high-cost, home-secured credit. The loans carry high up-front fees and may be based on the homeowners' equity in their homes, not their ability to make the scheduled payments. When homeowners have problems repaying the debt, they are often encouraged to refinance the

loan. Frequently this leads to another high-fee loan that provides little or no economic benefit to the borrower.

[2001 Banking and consumer regulatory policy](#)

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