



GC/HMU:sg
3211

NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

February 29, 1988

Office of General Counsel

Griffith L. Garwood, Director
Division of Consumer and Community Affairs
Federal Reserve Board
Washington, D.C. 20551

RE: Home Equity Brochure (Your letter to Chairman Jepsen
dated February 12, 1988)

Dear Mr. Garwood:

We have reviewed the draft brochure concerning home equity plans. We believe the brochure to be informative and well written and have no objections to having the pamphlet show that it was prepared in consultation with the National Credit Union Administration. We have these specific comments:

1. The proposed brochure should be shortened somewhat if at all possible. The larger the document, the less likely it is to be read.
2. According to your proposed regulation (52 Fed. Reg. 48702, Dec. 24, 1987) the consumer will be provided with the brochure at the time an equity plan application form is provided or before he/she pays a nonrefundable fee, whichever is earlier. We suggest that, if the brochure is to be a required distribution, it be made readily available to consumers -- at lenders' offices and elsewhere -- even before the application is provided. The brochure information will be very helpful to consumers when they are initially shopping for various types of credit plans. In many instances, by the time the consumer picks up a credit application form, he/she has already decided to use a particular credit plan.

Our Office of Examination and Insurance has provided these additional comments:

1. While the recent growth in home equity lending has heightened interest in this area, the risks to consumers are no greater than in other real estate secured loans. All loans are already

FOIA
Vol. III, B, 7, Reg. 2

Griffith L. Garwood, Director
February 29, 1988
Page Two

subject to numerous disclosure requirements through Regulation Z. To single out home equity lending for special treatment seems unnecessary. We believe that the brochure should confine itself to pointing out only those characteristics which are peculiar to home equity lending, and should not discuss provisions we believe are uncommon -- e.g., interest only and balloon payment loans, fixed rate loans, and "margins." These discussions may well cause more confusion than clarification. The brochure need only cover three key points:

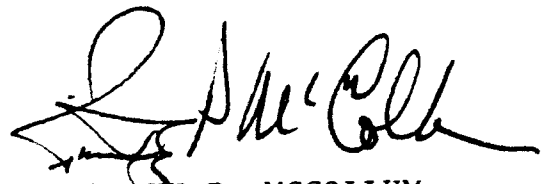
- a. The borrower's home is being used as security.
- b. The interest rate is subject to change (generally).
- c. Loan closing fees are sometimes imposed even if no credit is immediately used.

2. The document seems somewhat negative in its presentation. This would perhaps lead some consumers into believing that home equity loans should be avoided. We believe that this is a decision each consumer should make rather than the Federal government. Any revision to the document should consider approaching the subject in a totally neutral fashion.

3. The brochure, while informative, is not the type of disclosure which we believe should be required to be provided by lenders. Practically speaking, providing the information at the time of loan application would hardly deter anyone from applying for a loan. As an alternative, we recommend that the brochure be made available by lenders, but not required as a disclosure per Regulation Z.

If you have other questions, please contact Hattie Ulan at 357-1030.

Sincerely,



TIMOTHY P. MCCOLLUM
Assistant General Counsel

HMU:sg