

HELOC Compliance Explained: Disclosures, Documentation & Beyond

Presented by:

Molly Stull

Brode Consulting Services, Inc.

molly@brodeconsulting.com

www.brodeconsulting.com

March 2026



1

Today's Presenter

Molly Stull

Brode Consulting Services, Inc.

Molly launched her banking career as a teller while earning her undergraduate degree — an unexpected start that sparked a lifelong journey in the financial industry. Over the years, she's held leadership roles, guided de novo institutions from inception, and helped organizations navigate enforcement actions. Since 2015, Molly has energized banks, credit unions, associations, and state leagues nationwide with dynamic training sessions. She also provides regulatory compliance reviews and BSA/AML audits with a practical, solutions-focused approach. Molly believes that when employees understand the "why" behind processes, they execute with precision and purpose. She holds a bachelor's degree from the University of Akron and an MBA from Ashland University.



2

2

HELOC Overview

- Regulatory Citations
- Documentation Requirements for a HELOC
- Rescission
- Calculations
- Changes – Can /Can't Do
- Issues

3

3

Correct Section: Subpart B – Open-End Credit 1026.XX

5. General disclosure requirements
6. Account-opening disclosures
7. Periodic statement
8. Identifying transactions on periodic statement
9. Subsequent disclosure requirements
10. Payments
11. Treatment of credit balances; account termination
12. Special credit card provisions
13. Billing error resolution
14. Determining the APR
15. Right of rescission
16. Advertising

The screenshot shows the CFPB website interface. At the top left is the CFPB logo (Consumer Financial Protection Bureau). Below the logo are two main navigation tabs: "Consumer Education" (with a dropdown arrow) and "Rules & Regulations" (which is currently selected). Under the "Rules & Regulations" tab, there is a breadcrumb trail: "/ Interactive Bureau Regulations / 12 CFR Part 1026". Below this, there is a list of subparts with expandable icons (blue plus signs):

- Subpart A - General § 1026.1-§ 1026.4
- Subpart B - Open-End Credit § 1026.5-§ 1026.16
- Subpart C - Closed-End Credit § 1026.17-§ 1026.24

4

4

1026.40

Requirements for Home Equity Plans

- Applies to open-end credit plans secured by consumer's dwelling
- Disclosure
 - Content
 - Delivery
- Changes
 - What's allowed – what's not!

5

5

Application



Is a written application required?

- **Regulation B – ECOA**
- **Written Application Required**

Creditors are required to take **written applications** in the case of credit primarily for the purchase or refinancing of a dwelling occupied as a principal residence and secured by the dwelling.

(c) Written applications. A creditor shall take written applications for the dwelling-related types of credit covered by § 1002.13(a).

- Model application forms – Appendix B of Reg. B

6

6

Model Applications



1. Open-end, unsecured transactions
2. Closed-end, secured transactions
3. Closed-end transactions
4. Community property states
5. Residential mortgage dwelling-related loans

***Use is optional, but if used then deemed to be acting in compliance!

7

7

Intent to Apply Jointly

Applies to all loans!

2

*A person's intent to be a joint applicant must be **evidenced at the time of application.***

3. Evidence of joint application. A person's intent to be a joint applicant must be evidenced at the time of application. Signatures on a promissory note may not be used to show intent to apply for joint credit. On the other hand, signatures or initials on a credit application affirming applicants' intent to apply for joint credit may be used to establish intent to apply for joint credit. (See appendix B.) The method used to establish intent must be distinct from the means used by individuals to affirm the accuracy of information. For example, signatures on a joint financial statement affirming the veracity of information are not sufficient to establish intent to apply for joint credit.

8

8

Regulation B – ECOA

- **Provision of Appraisals and Other Valuations**

Creditors must provide an applicant a copy of all valuations developed in conjunction with an application for credit that is to be secured by a **first lien** on a dwelling.

- **Prohibition on Charging for Valuation Copies**

Creditors may require applicants to pay a reasonable fee for the cost of having an appraisal or other written valuation completed but may not charge applicants for providing copies of the completed valuation.

9

9

Regulation B – ECOA

Appraisal Notice

- Within 3 business days of application
- First lien on a dwelling
- Applies even if denied

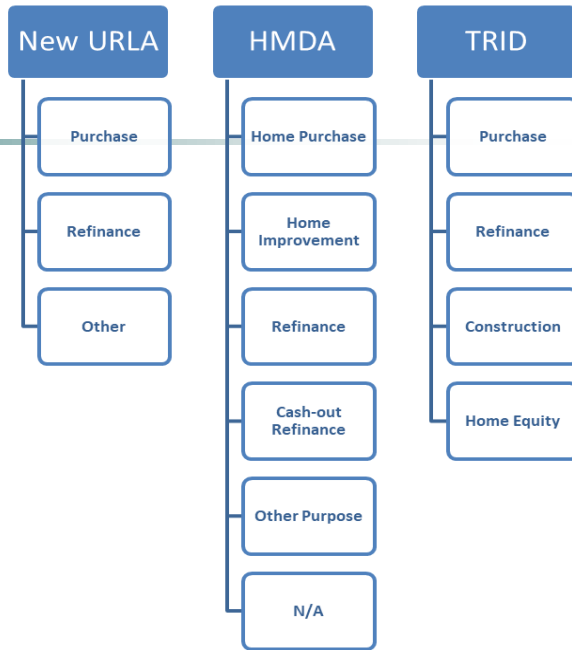
Timing of Decision

- Decision must be communicated within 30 days of a completed application.

10

10

Purpose



11

11

Purpose – Examples



LOAN EXAMPLES	URLA PURPOSE (BORROWER COMPLETES)	HMDA PURPOSE	TRID PURPOSE
<ul style="list-style-type: none"> Applicant does not own land Applying for financing to acquire the land and construct a dwelling Financing will cover construction and permanent phases 	PURCHASE	PURCHASE	PURCHASE
<ul style="list-style-type: none"> Applicant already owns land free and clear Applying for financing to construct a dwelling Financing will cover the construction phase only and will later be replaced with permanent financing 	OTHER	NOT A COVERED LOAN	CONSTRUCTION
<ul style="list-style-type: none"> Applicant owns home free and clear and is requesting a loan secured by this property Proceeds will be used to purchase another dwelling 	REFINANCE	PURCHASE	HOME EQUITY
<ul style="list-style-type: none"> Applicant owns home free and clear and is requesting a loan secured by this property The proceeds will be used to make improvements to the subject property 	REFINANCE	HOME IMPROVEMENT	HOME EQUITY

12

12



Monitoring Information

- **Reg C (HMDA):**
 - Required for most closed-end mortgage loans, including home-improvement loans
 - **Optional for HELOCs** unless they meet reporting thresholds
- **Reg B:**
 - Required for **purchase** or **refinance** of a dwelling to be occupied as a principal residence
 - Definitions are **CRITICAL!**

13

13



SAFE Act – NMLS Info

- **The Secure and Fair Enforcement for Mortgage Licensing Act**
 - MLO = Mortgage Loan Originator
 - NMLSR = Nationwide Mortgage Licensing System & Registry
 - Before acting as an MLO and initial written communication
 - **Applies to HELOCs**
- **12 CFR 1026.36(g)**
 - Name & NMLS # for the financial institution and MLO should be on:
 - Credit Application, LE, CD, Note, & Security Instrument
 - **Does not apply to HELOCs**

14

14

Consumer Protection in Sales of Insurance

- Initial Insurance Disclosure
 - At time of application
- Final Insurance Disclosure
 - Before completion of the sale
 - Not a deposit
 - Not guaranteed
 - FDIC insurance does not apply
 - Investment risk

15

15

Privacy Notice



Notice Requirement – 12 CFR 1016.4(a)

- Notice reflecting its privacy policies and practices to each borrower.

Timing of Notice – 12 CFR 1016.4(c)(3)(iv)

- Provided no later than when an individual establishes a borrowing relationship.

Method of Delivery – 12 CFR 1016.9

- A printed copy of the privacy notice may be hand-delivered, mailed, or posted on an electronic site with receipt acknowledged by the consumer.

16

16

Affiliated Business Arrangement

Regulation X – RESPA

Arrangement in which a FI is referring business related to settlement services to an entity with which it has an affiliate relationship.

- Separate Piece of Paper
- Timing
 - Optional Use: No later than time of referral
 - Required Use: Time of loan application

17

17

Homeownership Counseling Notice

RESPA

- **Multiple Applicants** – The list is only required to be provided to one applicant with **primary** liability on the mortgage loan obligation.
- Must be provided within **three (3) business days** following application.
- The list may be **provided electronically** but is subject to the E-SIGN Act.
- The lender may but is not required to offer the loan applicants the option of generating the list from a **zip code different than their home address.**

18

18

Ability to Repay (ATR) Qualified Mortgages (QM)



EXEMPT!

1026.43(a) Scope:

Other than...

(1) A home equity line of credit subject to 1026.40.

19

19

CIP & OFAC

- Customer Identification Program (CIP)
 - CIP Notice
- Office of Foreign Assets Control (OFAC)
 - Are they on the "List?"

Does this apply?

ABSOLUTELY!



20

20

Regulation V Fair Credit Reporting Act (FCRA)

- Notice of Negative Information
- Fraud or Active Duty Alerts
- Red Flags for Identity Theft
- Risk-Based Pricing / Credit Score Exception Notice
 - H-3: Your Credit Score and the Price You Pay for Credit
 - H-4: Your Credit Score and the Price You Pay for Credit
 - Loans not secured by residential real property
- Notice to Home Loan Applicant

Your Credit Score															
Your credit score	[Insert credit score] Score: [Insert source] Date: [Insert date score was created]														
Understanding Your Credit Score															
What you should know about credit scores	Your credit score is a number that reflects the information in your credit report. Your credit report is a record of your credit history. It includes information about whether you pay your bills on time and how much you owe to creditors. Your credit score can change, depending on how your credit history changes.														
How we use your credit score	Your credit score can affect whether you can get a loan and how much you will have to pay for that loan.														
The range of scores	Scores range from a low of [Insert bottom number in the range] to a high of [Insert top number in the range]. Generally, the higher your scores, the more likely you are to be offered better credit terms.														
How your score compares to the scores of other consumers	<table border="1"> <caption>% of Consumers in Various Score Ranges</caption> <thead> <tr> <th>Score Range</th> <th>% of Consumers</th> </tr> </thead> <tbody> <tr> <td>30-399</td> <td>13%</td> </tr> <tr> <td>400-499</td> <td>15%</td> </tr> <tr> <td>500-599</td> <td>23%</td> </tr> <tr> <td>600-699</td> <td>37%</td> </tr> <tr> <td>700-799</td> <td>15%</td> </tr> <tr> <td>800-899</td> <td>12%</td> </tr> </tbody> </table>	Score Range	% of Consumers	30-399	13%	400-499	15%	500-599	23%	600-699	37%	700-799	15%	800-899	12%
Score Range	% of Consumers														
30-399	13%														
400-499	15%														
500-599	23%														
600-699	37%														
700-799	15%														
800-899	12%														

21

21

Credit Score Exception Notice



- If your financial institution chooses to provide an exception notice in lieu of a risk-based pricing notice, it must be provided to the consumer **as soon as reasonable** after requesting the consumer's credit score.
- **No later than consummation** for closed-end loans or when the first transaction is made for open-end credit.

22

22



Flood Disaster Protection Act

- Requirement to purchase insurance – Applies
 - Include all loans secured by collateral in a SFHA
- Standard determination form & notice - Applies
- FAQs
 - Escrow requirements N/A (Escrow 1)
 - Draw does not trigger a new determination (Other Security Interests 2)
 - Total of all loans or each draw Other Security Interests 3

23

23



Flood Insurance Renewals

- Exam the Renewal Policies!
- Review the HELOC Agreement
 - Reducing the line
 - Restricting the line
 - Force placing flood insurance
 - Calling the loan

24

24

Right of Rescission

Regulation Z – TILA

• General

If a security interest will be retained or acquired in a consumer's principal dwelling, each consumer whose ownership interest is subject to the security interest has the right to rescind the transaction within three days of consummation or account opening

• Exclusions

The following transactions are not subject to the rescission rules:

- Residential mortgage transactions (purchase or construction loan)
- No cash-out refinance with the same creditor – applies ONLY to closed-end loans & is not applicable to HELOCs
- Additional advances under a multiple advance loan

25

25

Right of Rescission

Regulation Z – TILA

• Notice Requirements

Each consumer with rescission rights **must receive two copies** of a notice disclosing the following:

- The retention or acquisition of a security interest in the consumer's principal dwelling
- The consumer's right to rescind the transaction
- How to exercise that right, including a form for doing so
- The effects of rescission
- The date the rescission period expires

26

26

Right of Rescission Regulation Z – TILA

- **Model Forms** –
 - Section H – Closed-end
 - Section G is for open-end!
- **Disbursement** – Can't disburse until after the rescission period
 - Sundays and Federal holidays are not counted as business days for rescission.
- **Waiver** – Bona-Fide Personal Emergency
- **Extended Rescission Period** – Up to 3 Years!
 - Who has had this happen? Fees, interest...

27

27

Waiver of Right to Rescind Period

- Bona fide personal financial emergency
- Written statement
- Specific
- Signed by those entitled to rescind
- Example:
 - Foreclosure sale in which the funds must be available during the waiting period

28

28

Customer's Statement of Non-Rescission (Optional)

Some financial institutions ask their borrowers to sign a form **stating that they have not exercised** their right of rescission.

This occurs because the borrowers could have placed the form in the mail and the funds would be disbursed prior to the bank receiving the exercised rescission.

Should this form be completed at loan closing?

29

29

Borrower Exercises Right to Rescind

- Needs to be in writing
- Does not need to be on the loan rescission form
- Any consumer with right can exercise that right
- Lender Actions:
 - Take action to cancel security interest (20 days to begin this process)
 - Within 20 calendar days after receipt of notice of rescission, must refund:

• Application fees	Appraisal fee	Credit report fee
• Finance charges	Title search fee	
 - Amounts NOT refundable include money given by the consumer to a third party such as for a building permit.

30

30

HOEPA – Applies to HELOCs

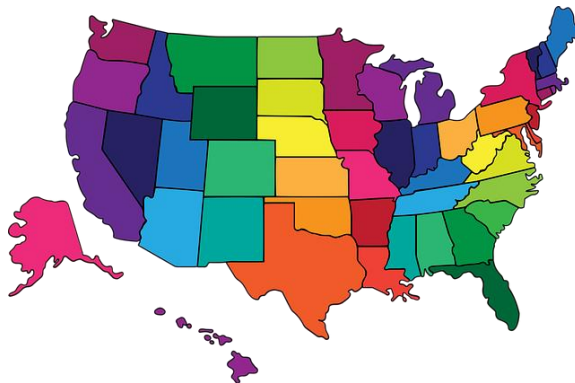
- Coverage Tests
 1. APR
 2. Points & Fees – Adjusts annually
 3. Prepayment Penalty
 - Third-party charges waived at origination can be subject to payment if the loan is closed sooner than 36 months
 - Appraisal fee

31

31

State Laws

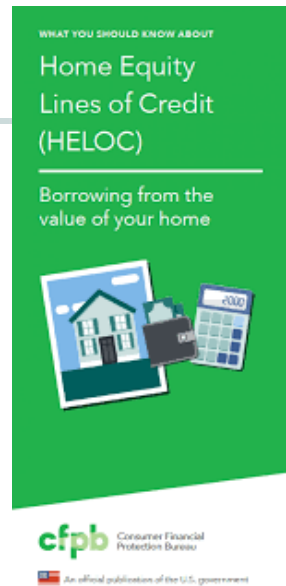
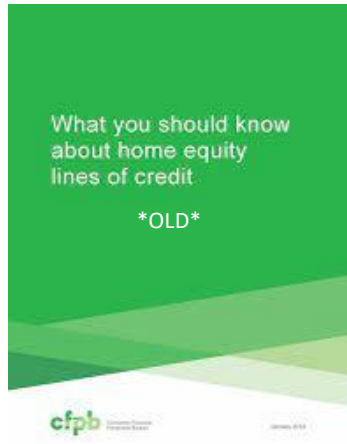
- Prepayment penalty prohibited



32

32

HELOC Brochure (CFPB)



33

33

HELOC Disclosure (FI)



- 12 CFR 1026.40
- Both provided **at the time the application** is provided!
 - Application on website?
 - Emailed application to applicant?
- Phone applications – placed in mail within three business days following receipt of application
- Content (1026.40(d))
 - Very specific requirements

34

34

Periodic Statement

1026.7(a)

- Mailing
 - Grace period – 21 days prior to the date on which the grace period expires.
 - Regardless – Must be mailed or delivered at least 14 days prior to the date on which they are treated as late.

35

35

Periodic Statement

- Points
- Loan fees
- Similar finance charges
 - Paid prior to the issuance of the first periodic statement need **not be disclosed** on the periodic statement
 - HOWEVER, if they are financed:
 - **Disclosed as part** of the **finance charge**
 - NOT factored into the **APR**

36

36

Change in Terms Critical to Know Options!



- APR – Can change if:
 - Index is not under the creditor's control
 - Index is available to the general public
- Terminate the plan & demand payment if:
 - Fraud/misrepresentation
 - Consumer fails to meet the repayment terms
 - Action or inaction that adversely affects the security
 - Federal law – executive officer

37

37

A Creditor May...



- Prohibit additional extensions of credit or reduce the credit limit if the **maximum APR** is reached
- Change the index and margin if the **original index is no longer available**
- Make a **change agreed** to by the **consumer**
- Make a change that **will benefit the consumer** throughout the remainder of the plan
- Make an **insignificant change** to terms

38

38

A Creditor May...



- Prohibit additional extensions of credit or reduce the credit limit:
 - If the value of the dwelling that secures the plan declines significantly below the dwelling's appraised value
 - If the creditor reasonably believes that the consumer will be unable to fulfill the repayment obligations of the plan because of a material change in the consumer's financial circumstances
 - Default

39

39

A Creditor May...



- The creditor is precluded by government action from imposing the APR provided by the agreement
- The priority of the creditor's security interest is adversely affected by government action to the extent that the value of the security interest is less than 120% of the credit line
- Creditor is notified by its regulatory agency that continued advances constitute an unsafe and unsound practice

40

40

A Creditor May...



...Cancel a debit card associated with a HELOC.

What are your thoughts?

41

41

Declining Home Values

Is there a Significant Decline?

		Initial Application	Current Analysis
House Appraised Value (at origination)		\$100,000	\$90,000
Less First Mortgage Amount	(-)	\$50,000	\$50,000
Equals Equity	=	\$50,000	\$40,000
Less HELOC Credit Limit	(-)	\$30,000	\$30,000
Equals Residual Equity	=	\$20,000	\$10,000
Reduced by 50%	X	.50	
Equals Significant Decline in Value	=	\$10,000	

42

42

For Every Action There Is a REACTION!

- Notice to restrict credit
 - Each consumer affected
 - 3 business days after the action is taken
 - Specific reasons for the action
 - If the creditor **REQUIRES** the **CONSUMER** to request reinstatement of credit privileges
 - Must state if the creditor requires this request to be in writing

43

43

Adverse Action Notice

- Reg B
 - HELOC agreement states that the creditor can suspend or reduce the credit limit in the event of a significant decline in value, and AA notice is **NOT REQUIRED**
 - If suspension does not impact all of the creditor's HELOC accounts and the applicant has not previously agreed, then AA notice is **REQUIRED**

44

44



Fees

- Appraisal & credit report fees
 - Bona fide and reasonable – can collect
 - Unless prohibited by state law
 - No fee to reinstate a credit line once the condition is cured can be charged

45

45



Things to Consider

How are you going to address any outstanding checks written on the account?

46

46

Reinstatement

- Once the condition has been satisfied that caused the reduction or freeze, the line must be restored as soon as possible.
- **Option:** Can shift responsibility to the consumer to request reinstatement.
 - **Notice** must be provided.
 - Reinstatement request – creditor may require request to be in writing.

47

47

Reasons for Prohibiting Additional Extensions or to Reduce the Credit Limit

- A. **Value** of the dwelling that secures the plan **declines significantly** below the dwelling's appraised value for purposes of the plan;
- B. Creditor **reasonably** believes that the consumer will be unable to fulfill the repayment obligations under the plan because of a **material change in the consumer's financial circumstances**;
- C. Consumer is in **default** of any material obligations under the agreement;

48

48

Reasons for Prohibiting Additional Extensions or to Reduce the Credit Limit

- D. Creditor is **precluded by government action** from imposing the annual percentage rate (APR) provided for in the agreement;
- E. Priority of the creditor's security interest is adversely affected by **government action** to the extent that the value of the security interest is less than 120 percent of the credit line; or
- F. Creditor is notified by its **regulatory agency** that continued advances constitute an unsafe and unsound practice.

49

49

Things to Consider

What is your process if a borrower requests suspension of future draws?

50

50

Draw Period is Ending...Now What?

- *Interagency Guidance on Home Equity Lines of Credit Nearing Their End-of Draw Periods* (Issued July 1, 2014)
- Manage the expectations...
 - Contact borrowers
 - Internal guidelines
 - Reporting

51

51

Errors – Items to Watch

- **Interest Rates**
 - Timing – date would start, monthly vs quarterly
 - Teaser interest rates expired prior to end of teaser period
- **Fees Imposed by Creditor**
 - Amounts Inconsistent or not listed
 - Annual fee did not match actual fee being charged
- **Interest Calculation Method**

52

52

Monitoring/Auditing



- Compare interest rate changes to index
- Accuracy of finance charge on statement
- Interest calculated accurately
- Annual fees assessed compared to disclosure
- Computer parameters accurate
- Verify after system updates

53

53

In Closing...

Thank you so much for joining this webinar!

Have a great day!

If you have any further questions, please contact Molly Stull at molly@brodeconsulting.com

Brode Consulting Services, Inc.
www.brodeconsulting.com



54

54