



THE RIGHT OF RESCISSION

The Truth-in-Lending Act

The Truth in Lending Act (TILA), passed in 1968, provides several protections to borrowers. One protection under the TILA is the "Right of Rescission". The right to rescind an agreement and receive all funds back, no questions asked, was developed to protect consumers entering certain contracts.

WHAT IS RIGHT OF RESCISSION?

The right of rescission provides that after signing a mortgage refinance, home equity loan or home equity line of credit contract, the borrower can cancel the loan — so long as he/she does so within three business days.

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Lenders are required to provide borrowers with disclosures including a notice of rescission. By law, borrowers should receive two copies of the notice of the right to rescind. The notice should identify the transaction as well as clearly and conspicuously disclose how to rescind as well as the date the rescission period expires.



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Once the borrowers have received the loan disclosure documents and closed on the loan, they will have three business days to back out of the loan if they change their mind. The clock begins at midnight the night that they close on the loan or when the borrowers get the loan disclosure documents, whichever is later.



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If a borrower chooses to exercise their right of rescission, the written notice must be sent to the lender within the three-day time period. However, the lender does not have to receive the notice within the three days. It's ideal to send the notice by certified mail or fax. That way, there's proof of when you sent it.



Once the right of rescission has been invoked, the lender must refund any loan fees within 20 days.



WHAT RIGHT OF RESCISSION COVERS

- Refinancing for primary residences when doing with a new lender
- Cash-out refinance, but right of rescission only applies to cash out amount
- HELOC, but does not apply if 100% of the line is used for a purchase transaction



WHAT RIGHT OF RESCISSION DOES **NOT** COVER

- Purchase of a new home
- Refinancing with their current lender
- Refinancing of a vacation home or investment property

HOW THE 3-DAY COUNTDOWN IS TRIGGERED

1. The borrower must sign the promissory note

2. The borrower must receive the Closing Disclosure

3. The borrower must receive two copies that explain their right to rescind

HOW BORROWERS EXERCISE THEIR RIGHT OF RESCISSION

As part of the required loan disclosure documents, the lender has to give the borrower a notice of the right of rescission. By law, this notice must include how to exercise the right of rescission, a form to do so and the address of where the form should be sent. The Borrower simply fills out the form and sends it within the required time frame to exercise their right to rescission.

If the required disclosure documents were never provided, then instead of three days, the borrowers now have three years to rescind. Borrowers can also mail a letter stating their intent to rescind.

If there are multiple borrowers, any of the them can exercise their right to cancel, which would make the cancellation effective for all borrowers.

QUESTIONS?

REACH OUT TO OUR QC TEAM AT: CSCQC@CITADELSERVICING.COM