

Senators Say Mortgage Rule Will Hurt Borrowers

A group of Democratic senators, backed by consumer and liberal groups, are pushing the Federal Reserve to abandon a proposal that critics charge will make it easier for predatory lenders to foreclose on borrowers. The Fed proposal aims to change when a borrower can seek to cancel a housing loan that violates disclosure requirements under the truth-in-lending law.

Critics argue it would make a key timing change in making borrowers pay off a loan before it is canceled and likely result in many borrowers winding up in foreclosure. Six Democrats from the Senate Banking Committee wrote to the Fed in criticizing the new proposal.

Currently, borrowers have up to three years to take lenders to court in trying to cancel a loan and prove that required loan term disclosures were never made. If the loan is canceled, a borrower has to pay off the loan's principal but can deduct interest and other fees from the total that would have been paid.

The Fed proposal would make borrowers pay off the loan before it is canceled, critics say. Then, borrowers would lose leverage in renegotiating their loans and many would likely land in foreclosure, they argue.

The Fed has said the current system is confusing and needs to be clarified.

Source: ["Senators Press Fed to Abandon Mortgage Rule Tweak," Reuters News \(Jan. 5, 2011\)](#)