



Understanding "Notice of Right to Cancel" - For Refinances and Home Equity Line only

One of the common documents a borrower may encounter in escrow is the "Notice of Right to Cancel." This document is also referred to as the "rescission document" or the "3-day Notice of Cancellation." This notice will be found in the loan document package, and it states that the borrower has a legal right under federal law to cancel this transaction, without cost, within THREE BUSINESS DAYS from whichever of the following events occurs last:

1. *the date of the transaction, which is _____; or*

2. *the date you receive your Truth in Lending disclosures; or*

3. *the date you receive this notice of your right to cancel. Confusion generally arises for borrowers as to when the right to cancel applies, and if so, exactly what day the borrower can rescind their approval of the loan transaction.*

When does the right to cancel apply?

The right to cancel applies to refinances or "home equity lines of credit" extended on a borrower's "primary residence." The right to cancel does not apply to borrowers who are purchasing a home, borrowers who are refinancing their second home, or on investment or rental properties.

Understanding the important dates on the document.

There are two important dates on the document. The first is the date of signing. The second is the rescission date, or final date to cancel. When the lender prepares final loan documents for an anticipated signing, he may indicate these dates by printing them in advance for the borrower on the Notice of Right to Cancel.

However, many lenders prefer to leave the dates blank on the document because the exact date of signing may not be known. In this case, the lender may print instructions on the document for determining the correct dates, or the lender may insert an instruction sheet into the loan package with the Notice of Right to Cancel. If the dates are already printed on the document in advance, but are incorrect, the instructions will provide information on how to properly correct, or how to properly interpret the dates to determine the rescission date.

Determining the rescission date.

The borrower has the right to cancel until midnight on the third day after signing. To determine the correct rescission date after signing, the borrower or his qualified escrow and loan document signing agent (Notary Public) will count three days beginning with the first day following the signing date (the transaction date is not counted). Sundays and legal federal holidays are not counted, and are therefore skipped. Saturdays are counted because banks conduct lending business on this day.

If you have questions and are confused with this issue, please contact your escrow officer for details.

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