3-Day Right of Rescission Rule

Cancelling Your Mortgage Loan | Zillow

IN THIS ARTICLE:

Federal law requires that consumers refinancing first mortgages or obtaining second mortgages have three days to cancel these loans after they sign their final loan documents. Here's what you need to know about this 'three day right of rescission' rule.

Background on Right to Cancel Rule

The right to cancel a refinance or home equity loan (often called a second mortgage) is granted by a provision of the Truth In Lending Act (TILA), a body of laws first enacted in 1968 that protect consumers by standardizing how closing costs are disclosed and closing processes are managed.

One of the disclosures on refinances and home equity loans says that you have three days to cancel a loan. The Consumer Financial Protection Bureau (CFPB) enforces this consumer right with lenders.

How the Right to Cancel Rule Works

Under TILA disclosure rules, the closing documents you'll sign for a refinance or home equity loan will include two copies of a notice explaining your right to cancel the transaction.

If you know you're not going to cancel at the last minute, you can indicate on these documents (or other accompanying documents) that you wish to waive your right to cancel.

But if you don't waive this right, you have until midnight of the third business day after signing your mortgage closing documents to cancel your loan. The first business day after the closing is day one, and Sundays and holidays don't count.

For example, if you signed closing papers on a Thursday before Labor Day Weekend (which includes a Monday holiday), you have until Tuesday midnight to cancel because day one of your rescission period is Friday, day two is Saturday, and day three is Tuesday.

Also note that if you didn't get two copies of the right to cancel in your closing package, you have the right to cancel your loan for up to three years.

How to Process Your Cancellation

Your cancellation must be in writing. Phone requests or even face-to-face requests are not acceptable.

You can use the cancellation forms in your closing package to cancel, or you can send your own letter to the lender.

The CFPB advises that whatever form of written notice you use, make sure it's delivered or mailed before midnight of the third business day, and keep a copy and any evidence that it was delivered or mailed on time.

If you do cancel, your lender must refund any transactional costs within 20 days of your cancellation, and you must return any loan funds or fees the lender has paid to you.

If you cancel the refinance and it therefore doesn't pay off your existing loan, you must keep current on your existing loan.