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Statement by

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Chairman, Federal Deposit Insurance Corporation

before the

National Commission on Consumer Finance

June 23, 1971
I am pleased to appear today before this Commission to testify regarding the Federal Deposit Insurance Corporation's examination for compliance with and enforcement of consumer credit protection laws. As requested, my remarks will cover three general subject areas. The first of these is our examination for compliance with and enforcement of Federal and State Truth in Lending statutes. Secondly, I shall discuss the extent of our examination for compliance with and enforcement of other State laws, particularly State consumer credit protection laws. Lastly, I shall deal with our procedures for handling consumer credit complaints or referring such complaints to other Federal or State regulatory authorities.

Before dealing with these matters directly, I would like to sketch briefly for the Commission our agency's historical development and the changing nature of our functions and responsibilities.

The Corporation was created by Congress by the Banking Act of 1933 to protect bank depositors and to maintain confidence in the Nation's money supply in the event of bank failure. We protect depositors by insuring their deposits in an insured bank, at the present time, up to $20,000 for each depositor. Incidental to this insurance function, the Corporation has been given power to examine all insured banks and to supervise certain of these, namely, insured State-chartered banks which are not members of the Federal Reserve System. There are approximately 8,100 of these at the present time. The Corporation regularly examines these banks, but State-chartered banks which are members of the Federal Reserve System are supervised and regularly
examined by the Board of Governors while nationally chartered banks are supervised and regularly examined by the Comptroller of the Currency.

The objective of our examination and supervisory efforts with respect to State nonmember banks has always been to promote safe and sound banking conditions and practices in conformity with applicable law. To this end, we regularly examine each such bank seeking to determine its financial condition and the safety of its operations. Based on the findings revealed, we offer constructive suggestions to the bank's management regarding its policies and practices. By keeping close watch, we try to avert difficulties that may lead to its failure. Nevertheless, if in spite of our efforts, unsafe and unsound conditions do develop, or the bank persists in unsafe and unsound practices, or violations of law, we may initiate proceedings to issue a cease-and-desist order against such unsafe or unsound practices or violations of law or to terminate its insurance.

In addition to these traditional functions, we have for some time exercised certain other regulatory functions with respect to State nonmember banks. These include, for example, passing on applications for deposit insurance for new banks, passing on applications for branch offices or changes in the location of existing offices, and fixing the maximum rates of interest these banks may pay on time and savings deposits.

Over approximately the last ten years, Congress has superimposed new and basically quite different responsibilities on our traditional functions.
Under the Bank Merger Act of 1960, for example, we were given responsibility for passing on the merger or consolidation of banks where the resulting bank was a State nonmember bank. In carrying out this responsibility, we are required to give the most careful consideration to the competitive impact of a particular proposal on the public, and no longer review such proposals merely for the safety and soundness of the resulting institution. Under the 1964 Amendments to the Securities Exchange Act of 1934, we were given the responsibility of requiring the filing for public scrutiny of certain financial information for State nonmember banks with 500 shareholders and assets of $1 million or more. In carrying out this function, we are concerned primarily with the interests of shareholders and other investors in bank securities, not with the interests of depositors or creditors.

Under the Civil Rights Act of 1968, we have been given certain responsibilities to assist in preventing discriminatory practices in lending for housing purposes. In this connection, we are concerned with the rights of members of minority groups who may seek to become bank customers. More recently, we have acquired certain responsibilities for protecting consumers in their use of credit. It is, of course, with these responsibilities that this Commission is especially concerned. In all of these situations, however, our new responsibilities go far beyond assuring depositors and creditors of the financial soundness of a given bank.

Truth in Lending

Under the Truth in Lending law, consumer lenders are required to disclose in a prescribed manner the cost of credit they extend for personal,
family, household or agricultural purposes. Generally speaking, this cost must be disclosed to their borrowers in absolute terms as the "Finance Charge" and in relative terms, for comparison purposes, as an "Annual Percentage Rate." In addition, if the credit extension involves a security interest in the borrower's residence, consumer lenders must inform the borrower of his right to rescind the credit transaction until midnight of the third business day following its consummation. The law also places certain restrictions on the manner in which consumer lenders may advertise for consumer credit.

While the Board of Governors of the Federal Reserve System was assigned the task of issuing regulations implementing the law, administrative responsibility for its enforcement was assigned to various Federal agencies. We have been given the responsibility for enforcing compliance with its requirements with respect to insured State banks that are not members of the Federal Reserve System. The Comptroller of the Currency has this responsibility with respect to national banks, the Board of Governors with respect to State banks which are members of the Federal Reserve System, and the Federal Home Loan Bank Board with respect to insured savings and loan associations. The same responsibility with respect to other consumer lenders is divided among the National Credit Union Administration, the Interstate Commerce Commission, the Civil Aeronautics Board, the Secretary of Agriculture, and the Federal Trade Commission, which has enforcement responsibility with respect to all consumer lenders not specifically assigned to some other
enforcement agency. The Federal Deposit Insurance Corporation has integrated this enforcement function into its other regular examination and supervisory efforts.

In order to understand how we carry out our regular examination and supervisory efforts, I should briefly explain here our field organization. For administrative and supervisory purposes, we have divided the country along State boundary lines into 14 regions. In each of these, we maintain a Regional Office headed by a Regional Director. Each Regional Director supervises and directs an office staff and complement of field examiners. We have approximately 1,580 field examiners throughout the country, including approximately 640 commissioned examiners authorized to conduct a complete examination. Each of our Regional Directors has responsibility for the regular examination of insured State nonmember banks located in his region and for making the initial effort to obtain needed improvements or corrections in the condition and operations of those banks. It should be noted in particular that all banks under our supervision are chartered by the various States -- we have no independent authority to open or close banks. Because of the concomitant interest of the various States and the Corporation in the operations of these banks, we cooperate closely with State banking authorities throughout the country in the exercise of our supervisory responsibilities.

We have assigned the immediate responsibility for enforcing compliance with the requirements of Truth in Lending to our Regional Directors as part
of their overall examination and supervisory responsibilities. In addition, we have established in our Washington Office a Truth in Lending Unit, in the Division of Bank Supervision, to coordinate our regional enforcement efforts and to process inquiries, requests, or complaints directed or referred to our Washington headquarters. The legal staff in our Washington Office and our Regional Counsel also routinely assist in handling Truth in Lending matters and are available as needed for special enforcement problems. We believe that overall our staffing is adequate to enable us to carry out our Truth in Lending enforcement responsibility, although this is a matter we have under continuing review.

Our field examiners are expected to check for compliance with the various requirements of Truth in Lending as a part of all regular examinations of State nonmember banks. Since we try to examine each of these banks once each year, this means that virtually all creditors committed to our enforcement jurisdiction under the Truth in Lending Act are checked once each year for compliance with the requirements of Truth in Lending. Our field examiners have been furnished with copies of the Truth in Lending Act and Regulation Z for their use and reference, and are provided with amendments and official interpretations, as issued. They are expected to be familiar with the basic purpose, scheme, and principal requirements of the Truth in Lending law. In order to facilitate checking for compliance in a more organized and efficient manner, we have additionally furnished each examiner with a checklist to be used as a reference and guide. This checklist, a
copy of which we attach to this statement as "Exhibit A," contains some 46 questions covering a range of areas in which Truth in Lending violations may exist.

Checking for compliance with the requirements of Truth in Lending is necessarily only a part of a bank examination. The primary emphasis during every examination continues to be directed toward evaluating a bank's assets and its lending and investment policies as well as analyzing its capital and earnings. In addition, we review the effectiveness of its internal and external controls, the soundness of its accounting procedures, and the adequacy of its fidelity bond coverage. Finally, the overall quality of its management is assessed.

During the course of an examination, our examiners are expected to review a sufficient number of credit transactions in various categories to give a fair indication of whether the bank is complying with related statutory requirements, including Truth in Lending. Violations of Truth in Lending discovered are handled in one of two ways. In many cases, our examiners will simply point out the violations found and the bank's management will make the necessary corrections before the examination is concluded. On the other hand, if the violations found are not resolved informally during the examination or appear more extensive, the examiner in charge of our examination will prepare a letter report, addressed to the bank's board of directors, listing the various violations found and requesting correction and requiring
advice as to steps to be taken to avoid similar violations in the future. This letter report, an example of which we attach to this statement as "Exhibit B," is forwarded with the completed report of examination to our Regional Office for review at the conclusion of the examination. It is then sent by our Regional Director to the bank involved and routinely followed-up as a part of his ongoing supervisory effort to secure recommended improvements and correction in the bank's policies and practices.

As a result of such letters, corrections are normally obtained. In point of fact, we recently surveyed our Regional Offices regarding the banks in which violations noted by field examiners during examinations were included in letter reports to the banks' boards of directors. With respect to all cases reported between the effective date of Truth in Lending, July 1, 1969, and March 15, 1971, the Regional Directors were asked to furnish us with a list of the banks in which they were not satisfied that corrections have been effected, with an indication of the follow-up action being taken. The survey indicated that corrections had not been accomplished in 21 of the 548 banks in which letter reports to the banks' boards of directors had been prepared. Of the 21 banks, follow-up action is being handled by the Regional Offices with respect to 19 banks and by the State banking departments with respect to two banks. Follow-up action being taken includes continuing correspondence with 19 of the banks, scheduling a meeting with the board of directors of one bank, and scheduling a review of Truth in Lending activities at the upcoming examination of one bank.
In all cases such as these, we make every effort to obtain corrections voluntarily. Nevertheless, if it becomes apparent that corrections cannot be obtained voluntarily, we may initiate administrative proceedings to issue a cease-and-desist order against any further violations. We have not had occasion thus far to resort to this administrative remedy to enforce compliance. In addition, we routinely refer possible criminal violations of Federal laws to the Department of Justice. This is normally done through letter reports to the appropriate United States Attorney outlining the basic facts as we know them and indicating the individuals and the statutory provisions believed to be involved. We have used this procedure to report apparently willful, and hence possibly criminal, violations of Truth in Lending on at least 16 occasions.

As you know, under the Truth in Lending Act, the Board of Governors of the Federal Reserve System may exempt from the requirements of disclosure any class of credit transactions within any State if it determines that under the laws of that State that class of transactions is subject to requirements substantially similar to those imposed under the Federal law, and that there is adequate provision for enforcement. Under this authority, the Board has exempted various classes of credit transactions in the States of Connecticut, Maine, Massachusetts, and Oklahoma. As a result, State nonmember banks in such States have become subject to disclosure requirements under State law substantially similar to the disclosure requirements under the Federal Truth in Lending law. Consequently, enforcing compliance with Truth in Lending in
these States is now a matter of enforcing applicable State law. Primary enforcement responsibility in this regard rests with those State authorities specifically charged with it under State law. Nevertheless, since we are concerned that the banks we supervise obey applicable law, we continue our concern with the enforcement of Truth in Lending in those States which have received exemptions from the Federal law.

Before reviewing our Truth in Lending procedures in the four States exempted from the Federal law, I should first note the types of examinations conducted by the Corporation. In about half the 50 States and in Puerto Rico, where the State authority has found it desirable, we conduct examinations together with that particular State authority. These cooperative examinations are of two types: joint and concurrent examinations. A joint examination is one conducted jointly with examiners of the State authority, where one report of examination is prepared and signed by the examiners-in-charge for both the FDIC and State. A concurrent examination is one in which simultaneous examinations are conducted by both FDIC and State examiners, each of whom prepare and submit a report of examination to the bank.

In a joint examination, the duties and workload are shared with no duplication of effort. During a concurrent examination, through division of the workload by mutual agreement of the examiners-in-charge, efforts are made to prevent as much duplication of effort as is possible, even though separate reports of examination are prepared.
Independent examinations are conducted in the other States, usually after consultation with the various banking authorities in those States.

In the case of the four States which have been exempted from the Federal Truth in Lending law, concurrent examinations are conducted in each State except Oklahoma. In the division of the workload in Massachusetts, the State examiners check for compliance with Truth in Lending as well as other applicable State laws, but in Connecticut, our examiners examine for compliance. Maine has separate consumer finance examiners who conduct Truth in Lending examinations either concurrently with or independently of the regular statutory State bank examinations. Their reports of examination are forwarded to the bank by the State banking authority as a separate part of the report of regular examination. Independent examinations are conducted by our examiners in Oklahoma, and, accordingly, they examine for compliance with the requirements of Truth in Lending as well as the banking statutes. In Oklahoma, as in other States, our examiners review any intervening State reports of examination to determine whether criticisms, including violations of any State laws that may have been set out, have been resolved.

We refer Truth in Lending complaints and violations to other Federal and State enforcement agencies in accordance with established procedures. On a State level, our Regional Directors cooperate closely on enforcement matters with the various banking authorities of the States located in their regions. As a result, all our Regional Directors furnish to the appropriate State banking authority copies of all letter reports prepared by our examiners listing violations of Truth in Lending discovered in State nonmember banks.
located in their States. Complaints involving Truth in Lending also are referred to the responsible State banking authority in those four States which have received exemptions.

Truth in Lending violations discovered by our examiners which involve creditors committed to the enforcement jurisdiction of some other Federal agency are reported by letter to that enforcement agency. This may occur, for example, where during the course of checking automobile dealer paper purchased, our examiners note apparent violations of Truth in Lending. In such case, the matter would be reported by letter to the Federal Trade Commission.

We have experienced no specific problems of a serious nature in our enforcement of Truth in Lending. When the law first became effective, we did meet some reluctance on the part of relatively few bankers to change established patterns and practices and to adopt the new terminology and approach towards expressing the cost of credit. This initial reluctance has since given way to cooperative acceptance of Truth in Lending.

Truth in Lending involves a rather complex law and regulation. This complexity is no doubt due to the complexity of the subject matter sought to be regulated and the underlying effort to treat in a uniform, comparable manner a variety of dissimilar consumer loan situations. Regardless of the reason, however, this complexity makes the law difficult to understand, and it is therefore difficult for bank officers and employees to gain a familiar working knowledge of its numerous, rather specific requirements. As a
result, the officers and employees of a number of banks who must make the various disclosures required under Truth in Lending either misinterpret the requirements or fail to make all the required disclosures in a proper manner. Since many of these violations may be caused by lack of familiarity with the law or Regulation Z, we believe it may be some time before bank personnel responsible for making disclosures become sufficiently trained and experienced to comply with the law easily and properly. Through our repeated examination checks, criticism of violations found, and the advice and guidance we furnish, we believe we are making realistic progress towards the goal of substantially complete overall compliance, insofar as State nonmember banks are concerned. Although we do not have specific data, we believe that compliance by the regulated financial institutions is substantially greater than among non-regulated lenders.

We believe, moreover, that compliance will be enhanced with increased consumer awareness of the requirements of Truth in Lending. To this end, we distributed to all insured State nonmember banks and to all noninsured banks a copy of the Federal Reserve Board's pamphlet "What Truth in Lending Means to You," a copy of which we attach to this statement. We also offered to furnish copies of this pamphlet in bulk for distribution to their customers and to date we have transmitted 900,000 copies of the pamphlet for this purpose.

We believe the Truth in Lending law may be improved in several ways. Thus, the Corporation has urged that agricultural loans be excluded from the
requirements of the law just as loans for other business purposes are excluded. The fact that credit extended to certain types of small businesses is exempt while credit to the farm operator, managing perhaps tens of thousands of dollars of capital investment, is not appears to us to be discriminatory and inconsistent. We believe this anomaly should be resolved by appropriate legislation.

We believe the Truth in Lending law is somewhat vague in delineating the responsibility of purchasers of dealer paper either to make the required disclosures or to verify that proper disclosures have been made. We have had numerous questions arise as to which party is required to make what disclosures and the extent to which the purchaser bank may rely on dealer assurances that proper disclosures have been made. Some clarification of the responsibility of the parties in such cases would seem desirable.

The advertising provisions of Truth in Lending should be strengthened in at least one respect. We understand that some bank officials, in responding to inquiries about the rates their banks charge on consumer loans, are continuing to quote orally only add-on or discount rates instead of comparable annual percentage rates. While we attempt to discourage this kind of statement from State nonmember banks, it does not presently appear to be prohibited. We believe it would be helpful in our enforcement efforts if this kind of statement were prohibited by appropriate legislation.
State Consumer Credit Protection Laws

As a supervisory agency, we are interested in seeing that all State nonmember banks which are federally insured obey all laws applicable to them, including State consumer credit protection laws. We believe that willful or careless violations of law reflect adversely on the character of management and in some instances may lead to unsafe and unsound conditions. Consequently, when and as we discover that any such bank has violated an applicable State law, we take critical exception and request the violation be corrected. If a bank persists in violating State law, we have the authority to move against it through administrative proceedings to terminate its deposit insurance or to issue a cease-and-desist order against further violations of law.

There are practical limits, however, on the extent to which we can check for compliance with State laws, given their large number and often complex nature. Moreover, we recognize that with respect to many such laws, for example, minimum wage laws, other public agencies have been given specific enforcement responsibility. As a result, we have traditionally tended to limit our special concern to the enforcement of State banking laws, that is, those State laws peculiarly applicable to banks and designed in large measure to assure the safe and sound operation of those banks. I have in mind here laws dealing, for example, with required reserves and loan limits based on bank capital or on the value of property taken as security.
Our examiners are familiar with the essential provisions and requirements of these State banking laws, and check for compliance during the course of regular examinations. To a large extent, this checking is done while our examiners review the various bank assets and records. Work papers are used in some checks where, for example, a computation may be necessary. As a rule, however, our examiners use no checklists in checking for compliance with State banking laws. Copies of such laws are readily available to our examiners during the course of an examination, should the need arise to refer to specific provisions of the law. In general, we have found this arrangement for checking satisfactory. While most violations of State banking laws are of a minor and technical nature, a substantial number of such violations are discovered and reported in the course of our examinations.

Specific checking by FDIC examiners for violations of State consumer credit protection laws is quite limited. Our examiners are generally aware of the usury rates of the States in which they examine banks and may reasonably be expected to note excessive interest rates while examining a particular bank's loan portfolio. Apart from this limited area, however, our examiners generally do not examine for possible violations of State consumer credit protection laws and ordinarily would make no specific check to discover such violations. On the other hand, if our examiners found some evidence or indication in a bank's files to alert them to the possibility that violations
of such laws existed, they would investigate further. If violations were
discovered, they would be commented on and criticized in the report of
examination in the same manner as other violations of applicable State laws.
We would expect correction of the violations reported and follow-up action
would be taken by our Regional Director. We should add that similar follow­
up action is routinely taken by our Regional Directors with respect to
violations of Federal law discovered and reported to us by State bank examiners.

We are presently reconsidering the traditional scope of our examination
for violations of State consumer protection laws because of the increasing
possibility of consumer class action suits, which if successfully prosecuted
could lead to substantial losses and materially affect a bank's financial
condition. This is especially true with respect to State nonmember commercial
banks since they tend to be smaller and less able to develop or afford the
expertise needed to keep abreast of such laws.

**Consumer Credit Complaint Procedures**

Before discussing our consumer credit complaint procedures, I think it
necessary to emphasize the Corporation's traditional role as an agency with
specific authority to act in the event State nonmember banks persist in
unsafe and unsound banking practices or in violations of law. By contrast,
we have no statutory authority to act to resolve or adjust private disputes
or differences between the banks we supervise and their customers, where
those disputes or differences do not appear to involve violations of laws,
rules, or regulations.
Our procedures upon receiving consumer credit complaints vary somewhat depending on the law involved in the complaint. If the complaint involves a Federal consumer credit protection law, such as Truth in Lending, we investigate the complaint and if we discover a violation of law, we request that the bank involved take appropriate corrective action and refrain from any further violations. As a result of this action, the bank involved may be moved to make some satisfactory settlement with the complaining consumer. In any event, we inform the complainant of the results of our investigation and in the usual case suggest that he consult an attorney to pursue the matter privately on his behalf, explaining to him that we have no authority to direct a particular settlement although a civil remedy is available.

If the complaint involves a State consumer credit protection law, we refer the complainant to the banking authority of the State that chartered the bank. We do this because the State banking authority is a State agency and primarily responsible for supervising the bank. As such, it has a special interest in enforcing State laws applicable to the bank and may have enforcement remedies not open to the Corporation.

Misdirected complaints -- that is, those that do not involve an insured State-chartered nonmember bank, such as complaints involving a national bank or an insured savings and loan association -- we refer to the Federal agency having jurisdiction.
REGULATION Z CHECKLIST

General Questions
1. Are bank management and loan personnel sufficiently knowledgeable of the Regulation?

2. (a) Have procedures been adopted in the auditing department to disclose errors and violations through internal checks?
   (b) Are these procedures periodically reviewed and, if necessary, revised to meet changing business practices?

3. (a) Has the bank's attorney reviewed all forms and procedures in use by the bank to comply with the Regulation?
   (b) Do such forms in use appear to provide for adequate disclosure?

4. Has Board of Governors exempted State from any class of credit transactions with respect to disclosure and rescission provisions? § 226.12

5. If so, is bank complying with provisions of applicable State law in this respect?

§ 226.4 Determination of Finance Charge

1. If credit life or liability insurance is excluded from the finance charge, are the requirements of § 226.4(a)(5) and (6) met?

2. Does finance charge include charge imposed on another creditor for purchasing obligation if customer is required to pay any part of such charge in any manner? § 226.4(a)(8)

3. Are the non-real property transaction charges which qualify for exclusion from the finance charge itemized and separately disclosed so as to merit exclusion under § 226.4(b)?

4. Are the real property transaction charges which qualify for exclusion reasonable in amount, etc., so as to merit exclusion under § 226.4(e)?

5. Is the amount of the finance charge (and APR) computed on basis of 1/2 year maturity for demand obligations? § 226.4(g)
§ 226.5 Determination of APR

1. (a) Are APR computations correct?
   (b) Are APR computations made to the nearest one quarter of 1%?
   (c) Is rounding off done only when computation is complete? § 226.5(b)

2. Is either the actuarial method or U.S. rule being used? § 226.5(b)

3. Is the APR for open end accounts computed as prescribed in § 226.5(a)?

§ 226.6 General Disclosure Requirements

1. Are required disclosures made clearly, conspicuously, and in meaningful sequence? § 226.6(a)

2. (a) Are the terms "FINANCE CHARGE" and "ANNUAL PERCENTAGE RATE" in print more conspicuous than other required disclosures?
   (b) Is all required terminology being used? § 226.6(a)

3. Are percentages and numbers in figures and correct in size? § 226.6(a)

4. Are plans in effect to retain records, other than in advertising, for a minimum of 2 years after disclosure date? § 226.6(i)

5. If the bank has elected to express the APR in "dollars finance charge per year per $100 of unpaid balance," is it aware that the percentage form must be used beginning January 1, 1971? § 226.6(j)

6. (a) Is the bank aware that it may use modified forms only if it has made a bona fide effort prior to July 1, 1969, to get new ones which comply? § 226.6(k)
   (b) Is the bank aware that any forms so modified must be discontinued by December 31, 1969?
   (c) Is the bank aware that it may not use a modified form for the notice of rescission?

7. (a) Do disclosures inconsistent with Regulation Z but required by State law appear in the proper place?
   (b) If any "additional information or explanations" not required by State
law is being disclosed, is it stated, utilized and placed so as not to mislead the customer or contradict, obscure, or detract attention from required disclosures? § 226.6(c)

8. (a) If the bank purchases consumer paper from dealers, has it carefully reviewed all disclosures made by the dealer to determine the completeness and accuracy of such disclosures?
(b) Is written acknowledgment of receipt of disclosure by customer included?
(c) Is the bank a creditor and therefore responsible for disclosure under § 226.6(d)?
(d) If so, is it identified as a creditor on the disclosure document?

9. (a) Has it been necessary for the bank to estimate any of its disclosure information?
(b) If so, is the estimate reasonable? § 226.6(f)

§ 226.7 Open End Accounts - Specific Disclosures

1. Have the various provisions under § 226.7(a) been properly disclosed to the customer before the first transaction is made on a new open end account established on or after July 1, 1969?

2. (a) In the case of open end accounts with collectible balances in existence on July 1, 1969, were the disclosures required under § 226.7(a) mailed or delivered to the customer by July 31, 1969?
(b) If the open end account had no balance on July 1, 1969, but is subsequently used, have the new account disclosures been mailed or delivered to the customer before or with the next billing?
(c) Has the bank established satisfactory procedures to assure that the disclosures required under § 226.7(a) for accounts which were in existence on July 1, 1969, but which had no balance on that date will be mailed or delivered to the customer before or with the next billing? § 226.7(f)

3. Do periodic statements contain the provisions set forth under § 226.7(b) (refer to list of disclosures on page 7)
4. (a) Does the face of the periodic statement contain the proper disclosures under § 226.7(c)?
(b) Are other location requirements for periodic statements met?
(c) If some disclosures are on the reverse side or on accompanying slips, does the face of the periodic statement contain the proper notice?
(d) Are the disclosures on the periodic statement located so as not to confuse or mislead the customer or obscure or detract from the information required to be disclosed? § 226.7(c)

5. Is proper notice being given of any changes in the terms of open end accounts? § 226.7(e)

§ 226.8 Credit Other Than Open End - Specific Disclosures

1. (a) Are all disclosures being given to the customer in the manner set forth in § 226.8(a)?
(b) Are they being given before the transaction is consummated?
(c) Are all blank spaces in the disclosure statement filled in before it is given to the customer?

2. (a) Are disclosures required for credit sales in compliance with the requirements of § 226.8(b)+(c)? (refer to list on page 8)
(b) Are disclosures required for loans and other non-sale credit in compliance with the requirements of § 226.8(b)+(d)? (refer to list on page 8)

3. Are all charges included in the amount of credit but which are not a part of the finance charge either added to the "unpaid balance" in accordance with § 226.8(c)(5) or included in the "amount financed" in accordance with § 226.8(d)(1)?

4. Are disclosures made in connection with loans requested by mail or telephone made within the time specified in § 226.8(g)?

5. (a) In dealer consumer sales paper involving an "add-on" agreement whereby amounts financed and finance charges on additional credit sales are added...
to an existing outstanding balance, does the agreement meet all of the requirements set forth in § 226.8(h)?

(b) If so, are disclosures in connection with subsequent sales being made within the time specified in § 226.8(h)?

(c) If not, are disclosures in connection with subsequent sales being made under the provisions of § 226.8(j)?

6. (a) If the bank is electing to consider transactions involving advances made under loan commitments to be single transactions under the provisions of § 226.8(i), are estimates of disbursement and payment dates being made?

(b) Accurately?

(c) Is the finance charge itemized in accordance with § 226.8(c)(8)(i) and § 226.8(d)(3)?

7. Do loans made for the purpose of consolidating, refinancing, or otherwise increasing the total indebtedness meet the requirements set forth in § 226.8(j)?

8. If a bank accepts a subsequent customer as an obligor under an existing obligation, are disclosures being made to the subsequent customer under § 226.8(k)?

9. Do the disclosures made in connection with extensions or deferrals on loans (except loans in which the amount of the finance charge is determined by the application of a percentage rate to the unpaid balance), where a charge is imposed for the deferral or extension, conform to the requirements set forth in § 226.8(l)?

10. Are extensions of credit involving a series of single payment obligations considered as a single transaction subject to the requirements of the Regulation? § 226.8(m)

11. Does the periodic billing statement, if elected for a non-open end transaction, disclose both the APR and the date by which payment must be made to avoid late charges? § 226.8(n)
§ 226.9 Right to Rescind Certain Transactions

1. (a) Has each customer who is qualified to rescind under § 226.9 been given the notice of opportunity to rescind required under § 226.9(b)?
   (b) Has each such customer been given two copies of such notice?
   (c) Does the form of the notice meet the requirements of § 226.9(b)?

2. (a) During the 3-day rescission period, has the bank withheld disbursement of any funds except in escrow?
   (b) Before disbursing any funds, has the bank reasonably satisfied itself that the customer has not rescinded? § 226.9(c)

3. (a) Is the bank "consummating" each transaction and delivering all disclosures required under Regulation Z before beginning to count the 3-day rescission period?
   (b) Is the bank preserving evidence of delivery of rescission notice required under § 226.9(b)?

4. (a) When waivers of the right of rescission have been taken, have the requirements for such waivers as set out in § 226.9(e) been met?
   (b) Where a waiver is taken, have only non-printed forms been used to waive or modify the right of rescission?
   (c) Do the situations described in such waivers meet the test of "bona fide immediate personal financial emergency?"

§ 226.10 Advertising Credit Terms

1. Does the bank maintain an advertising file?

2. If the bank states in an advertisement that a specific amount of credit is available or that a specific amount of downpayment will be accepted, does it usually and customarily arrange such terms?

3. Do multi-page advertisements qualify as single advertisements for purposes of disclosure? § 226.10(b)

4. Does current advertising appear to conform to the requirements for open end and non-open end advertisements? § 226.10(c) & (d)
### REGULATION Z
#### REQUIRED DISCLOSURES
OTHER THAN OPEN END CREDIT

<table>
<thead>
<tr>
<th>Description (Required Terminology in Quotes)</th>
<th>Other Credit Sales $ 226.8</th>
<th>Non-sale Credit $ 226.8</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Cash Price&quot;</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>&quot;Cash Down Payment&quot;</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>&quot;Trade-In&quot;</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>&quot;Total Down Payment&quot;</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>&quot;Unpaid Balance of Cash Price&quot;</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Proceeds</td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Other Charges (itemized)</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>&quot;Unpaid Balance&quot;</td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>&quot;Prepaid Finance Charge&quot;</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>&quot;Required Deposit Balance&quot;</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>&quot;Total Prepaid Finance Charge and Required Deposit Balance&quot;</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>&quot;Amount Financed&quot;</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>&quot;FINANCE CHARGE&quot; (itemized)</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>&quot;Total of Payments&quot;</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>&quot;Deferred Payment Price&quot;</td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>&quot;ANNUAL PERCENTAGE RATE&quot;</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Date Finance Charge begins to Accrue (if other than note date)</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Number, Amount &amp; Due Date of Payments</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>&quot;Balloon Payment&quot; &amp; condition under which can be refinanced</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Default, delinquency or similar charges</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Identification of security interest and property pledged</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Method of computing rebate, if any</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Identification of creditors</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Charges for insurance and non-requirement statement if excluded from finance charge</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Customer statement of desire to purchase insurance</td>
<td>x</td>
<td>x</td>
</tr>
</tbody>
</table>

* - Not applicable in case of credit sale of real estate or first purchase money mortgage on dwelling.

8(7-1-69)
REGULATION Z
REQUIRED DISCLOSURES
OPEN END CREDIT PERIODIC STATEMENT

Description
(Required Terminology in Quotes)

"Previous Balance"

Purchases

"Payments"

"Credits"

"FINANCE CHARGE" (itemized)
(also showing minimum charge)

"Periodic Rate" or "Periodic Rates" (showing balance to which applicable)

"ANNUAL PERCENTAGE RATE"

Balance on which Finance Charge Computed

Explanation how above balance determined

Billing Cycle Closing Date

"New Balance"

Date or Period of Payment to Avoid Additional Charge

Date & identification of purchases & credits other than payments
March 10, 1971

Board of Directors

Gentlemen:

While conducting an examination of the bank as of the close of business February 22, 1971, apparent violations of the Federal Reserve Regulation Z were noted.

These apparent violations are due to the failure on the part of bank personnel to complete the disclosure portion of the combination note and disclosure form with regard to the dollar amount of interest or the annual percentage rate and also in the failure to provide the borrower, in the case of real estate loans with a right to rescind form.

The following loans are apparent violations of Sections 226.6 and 226.8 of the regulation:

<table>
<thead>
<tr>
<th>Note #</th>
<th>Name of borrower</th>
<th>Original amount of the note</th>
</tr>
</thead>
<tbody>
<tr>
<td>51473</td>
<td>W. an</td>
<td>4,174.92</td>
</tr>
<tr>
<td>50876</td>
<td>Edc</td>
<td>226.00</td>
</tr>
<tr>
<td>50155</td>
<td>Jos</td>
<td>4,251.60</td>
</tr>
<tr>
<td>16891</td>
<td>W. baugh</td>
<td>21,127.59</td>
</tr>
<tr>
<td>17006</td>
<td>Roq</td>
<td>10,000.00</td>
</tr>
<tr>
<td>6250</td>
<td>Roq</td>
<td>19,674.69</td>
</tr>
</tbody>
</table>

The following loans are apparent violations of Section 226.9 of the regulation:

<table>
<thead>
<tr>
<th>Note #</th>
<th>Name of borrower</th>
<th>Original amount of the note</th>
</tr>
</thead>
<tbody>
<tr>
<td>17058</td>
<td>Ken et ux</td>
<td>8,000.00</td>
</tr>
<tr>
<td>16811</td>
<td>Hug 1 et ux</td>
<td>14,000.00</td>
</tr>
<tr>
<td>16290</td>
<td>Har  et ux</td>
<td>8,500.00</td>
</tr>
<tr>
<td>16644</td>
<td>Mur  y et ux</td>
<td>35,000.00</td>
</tr>
<tr>
<td>16910</td>
<td>O'C  W.</td>
<td>15,000.00</td>
</tr>
<tr>
<td>16694</td>
<td>Reb  et re</td>
<td>9,200.00</td>
</tr>
<tr>
<td>16442</td>
<td>Tyl  ad et ux</td>
<td>66,000.00</td>
</tr>
<tr>
<td>16972</td>
<td>Wul  t ux</td>
<td>10,000.00</td>
</tr>
<tr>
<td>16972</td>
<td>Car  don et ux</td>
<td>10,500.00</td>
</tr>
</tbody>
</table>

As the Truth in Lending Act provides for both civil and criminal liability, the failure to make disclosures as required by the regulation is a matter of serious concern and one which requires immediate and complete correction. It is requested that the Regional Director of this Corporation be promptly advised of steps taken to correct existing violations and also those taken to avoid future infractions.

Very truly yours,

Examiner