

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS 75222

Circular No. 71-53
March 4, 1971

FOUR AMENDMENTS TO REGULATION Z

To All Banks, Other Creditors, and Others Concerned
in the Eleventh Federal Reserve District:

The Board of Governors of the Federal Reserve System on February 26, 1971, approved four amendments to its Truth in Lending Regulation Z. All four amendments will be effective April 5, 1971.

One amendment will permit farmers to obtain funds, goods or services in agricultural credit transactions prior to the expiration of the three-day rescission period which applies when a person's residence is security for the transaction. This amendment does not exclude agricultural credit from the right of rescission. However, the creditor need not delay performance until after the three-day rescission period has expired.

Other new amendments will:

1. Require creditors to give 15 days' notice to active customers of any change in terms of an open end credit account. At present, creditors must give 30 days' notice of any change in terms to all customers, whether active or inactive. Under the amendment, persons with inactive accounts must be notified of changes when their account becomes active and before any increase in finance charges. No notice to any customer is required if the minimum payment or finance charges are reduced.

2. Modify the rescission notice used in credit sales of vacant lots by permitting use of the words "the property you are purchasing" for "your home" or the word "lot" for "home" where these words appear in the prescribed notice.

3. Provide special advertising requirements for financing under FHA Section 235 assistance programs.

A copy of these amendments is attached. Listed on the reverse is a current version of Regulation Z. You may obtain these items by writing the Regulations Department of this Bank.

Yours very truly,

P. E. Coldwell

President

Enclosures

CURRENT VERSION OF REGULATION Z
(March 4, 1971)

At this time, a current version of Regulation Z should consist of the following:

<u>Item</u>	<u>Date</u>
(1) "What You Ought To Know About Regulation Z" pamphlet	July 1, 1969 or September 11, 1969
(2) Amendment of §226.8(o)*	Effective August 11, 1969
(3) Pamphlet of interpretations and amendments, containing: New §226.8(p), effective November 6, 1969 Amendment of §226.9(g), effective November 6, 1969 Amendment of §226.12, effective March 12, 1970	Pamphlet issued July 31, 1970
(4) Amendment of §226.7(e)**	Effective October 23, 1970
(5) New §226.13; amendments of §226.1 and §226.12	Effective January 25, 1971
(6) Amendments of §226.7(e) and §226.9(b) and (c); and new §226.10(e)	Effective April 5, 1971

*The amendment of §226.8(o) is contained in the "What You Ought To Know" pamphlets dated September 11, 1969, but not in the earlier pamphlets.

**This amendment will be superseded April 5, 1971, by the amended §226.7 (e) furnished with this circular.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

TRUTH IN LENDING

AMENDMENTS TO REGULATION Z

Effective April 5, 1971, § 226.7(e), § 226.9(b) and § 226.9(c) are amended and § 226.10(e) is added to Part 226 as follows:

SECTION 226.7 — OPEN END CREDIT ACCOUNTS—SPECIFIC DISCLOSURES

* * * * *

(e) **Change in terms.** Not later than 15 days prior to the beginning date of the billing cycle in which any change is to be made in the terms previously disclosed to the customer of an open end credit account, the creditor shall mail or deliver a written disclosure of such change to each customer required to be furnished a statement under paragraph (b) of this section. Such disclosure shall be mailed or delivered to each other customer who subsequently activates his account not later than the date of mailing or delivery of the next required billing statement on his account. However, if the periodic rate or rates, or any minimum, fixed, check service, transaction, activity, or similar charge is increased, the creditor shall mail or deliver a written disclosure of such increase to each customer at least 15 days prior to the beginning date of the billing cycle in which the increase is imposed on his account. No notice is necessary if the only change is a reduction in the minimum periodic payment, periodic rate or rates, or in any minimum, fixed, check service, transaction, activity, or similar charge applicable to the account.

* * * * *

SECTION 226.9 — RIGHT TO RESCIND CERTAIN TRANSACTIONS

* * * * *

(b) **Notice of opportunity to rescind.** Whenever a customer has the right to rescind a transaction under paragraph (a) of this section, the creditor shall give notice of that fact to the customer by furnishing the customer with two copies of the notice

set out below, one of which may be used by the customer to cancel the transaction. Such notice shall be printed in capital and lower case letters of not less than 12 point bold-faced type on one side of a separate statement which identifies the transaction to which it relates. Such statement shall also set forth the entire paragraph (d) of this section, "Effect of rescission." If such paragraph appears on the reverse side of the statement, the face of the statement shall state: "See reverse side for important information about your right of rescission." Before furnishing copies of the notice to the customer, the creditor shall complete both copies with the name of the creditor, the address of the creditor's place of business, the date of consummation of the transaction, and the date, not earlier than the third business day following the date of the transaction, by which the customer may give notice of cancellation. Where the real property on which the security interest may arise does not include a dwelling, the creditor may substitute the words "the property you are purchasing" for "your home," or "lot" for "home," where these words appear in the notice.

Notice to customer required by Federal law:

You have entered into a transaction on _____ (date) _____ which may result in a lien, mortgage, or other security interest on your home. You have a legal right under Federal law to cancel this transaction, if you desire to do so, without any penalty or obligation within three business days from the above date or any later date on which all material disclosures required under the Truth in Lending Act have been given to you. If you so cancel the transaction, any lien, mortgage, or other security interest on your home arising from this transaction is automatically void. You are also entitled to receive a refund of any downpayment or other consideration if you cancel. If you decide to cancel this transaction, you may do so by notifying

(Name of creditor)
at _____ (Address of creditor's place of business) by
mail or telegram sent not later than midnight of

(date). You may also use
any other form of written notice identifying the
transaction if it is delivered to the above address
not later than that time. This notice may be used
for that purpose by dating and signing below.

I hereby cancel this transaction.

(date)

(customer's signature)

(c) **Delay of performance.** Except as provided in paragraph (e) of this section, the creditor in any transaction subject to this section, other than an extension of credit primarily for agricultural purposes, shall not perform, or cause or permit the performance of, any of the following actions until after the rescission period has expired and he has reasonably satisfied himself that the customer has not exercised his right of rescission:

- (1) Disburse any money other than in escrow;
- (2) Make any physical changes in the property of the customer;
- (3) Perform any work or service for the customer; or

(4) Make any deliveries to the residence of the customer if the creditor has retained or will acquire a security interest other than one arising by operation of law.

* * * * *

SECTION 226.10 — ADVERTISING CREDIT TERMS

* * * * *

(e) **Advertising of FHA Section 235 financing.** Any advertisement to aid, promote, or assist directly or indirectly the sale of residential real estate under Title II, Section 235, of the National Housing Act (12 U.S.C. 1715z) shall clearly identify those credit terms which apply to the assistance program and, except as provided in this paragraph, comply with the provisions of paragraph (d) of this section. No such advertisement shall state:

- (1) the amount of any payment scheduled to repay the indebtedness without stating the family size and income level applicable to that amount.
- (2) any rate of a finance charge, or the amount of the finance charge, expressed as an annual percentage rate based on the assistance. The annual percentage rate exclusive of the assistance may be stated, but is not required.

* * * * *