

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 78-127
September 6, 1978

AMENDMENT TO AND INTERPRETATION OF REGULATION Z

Notice of Right of Rescission
In Open End Credit Plans

TO ALL BANKS, OTHER CREDITORS,
AND OTHERS CONCERNED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

Following is the text of a statement issued recently by the Board of
Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today
amended its Regulation Z--Truth-in-Lending--concerning the "cool-
ing off" period for consumers who pledge their home as security in
open end credit arrangements.

Truth-in-Lending requires that where a home is used as col-
lateral for a consumer loan the lender must give notice that the
borrower has a three-day period in which to cancel the deal.

Lenders have asked the Board how this notice should be given
when they extend open end credit that is secured by an interest in
a consumer's home. Credit card and overdraft checking arrange-
ments are examples of open end credit.

The amendment exempts from the notice requirement of Regu-
lation Z individual transactions under an open end credit arrange-
ment when the creditor and the seller are not the same or related
persons. The exemption applies, for example, to use of a bank
credit card to purchase merchandise from a retail seller.

To qualify for this exemption under arrangements where the
creditor and seller are not the same person, the amendment requires

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank:
1-800-492-4403 (intrastate) and 1-800-527-4970 (interstate). For calls placed locally, please use 651 plus
the extension referred to above.

that customers must be notified of their right to cancel mortgage-secured open end credit plans in four instances:

- When an open end credit plan is first opened,
- Whenever the credit limit is increased,
- Whenever the terms of the account are changed, and
- Whenever a security interest in a home is added to an existing open end credit arrangement.

Customers must also be reminded annually that their homes have been pledged as security for such accounts.

When the creditor and seller of goods and services are the same or related persons (for example, in the case of a revolving charge account established with a merchant under which the customer may only buy goods or services from that merchant), Regulation Z specifies that notice of the right of rescission must be given whenever a transaction occurs on an open end account secured by the customer's home.

The change in Regulation Z adopted by the Board is a modification of an amendment proposed by the Board December 5, 1977.

Enclosed is a copy of the amendment to Regulation Z, together with a Board interpretation of the amendment that contains sample notices that creditors may use to comply with certain requirements of the amendments. Questions may be directed to our Consumer Affairs Section of the Bank Supervision and Regulations Department at Ext. 6169 or 6171.

Sincerely yours,

Robert H. Boykin

First Vice President

Enclosures (2)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

TRUTH IN LENDING

INTERPRETATION OF REGULATION Z

SECTION 226.904 — RIGHT OF RESCISSION FOR CERTAIN OPEN END CREDIT ACCOUNTS

Section 226.9(g)(6) provides an exception to the right of rescission for individual transactions on an open end credit account provided, among other things, that the disclosures required by that section are made at the times specified. The question arises as to what disclosures will satisfy the requirements of §§226.9(g)(6)(iii) and (iv).

The disclosures set forth below, if accurate and when properly completed, will satisfy the requirements, as to form and content, of the indicated sections of the regulation. No specific type size or style is required. If the real property on which the security interest may arise does not include a dwelling, the creditor may substitute such words as "the property you are purchasing" for "your home" or "lot" for "home" where these words appear in the disclosures.

Section 226.9(g)(6)(iii) (Increase in line of credit)

NOTICE TO CUSTOMER REQUIRED BY FEDERAL LAW:

(Name of creditor)

HAS APPROVED AN INCREASE IN THE AMOUNT OF CREDIT AVAILABLE TO YOU ON YOUR OPEN END ACCOUNT SECURED BY YOUR HOME. ANY ADDITIONAL CREDIT YOU USE WILL ALSO BE SECURED BY YOUR HOME. YOU HAVE A RIGHT TO REFUSE TO ACCEPT THIS INCREASE. YOU MAY EXERCISE THIS RIGHT WITHIN THREE BUSINESS DAYS FROM

(Date disclosure delivered to customer)

BY NOTIFYING US 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 TO REFUSE THE INCREASE 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 REFUSE THE INCREASE IN THE CREDIT AVAILABLE ON MY ACCOUNT.

(Date) (Customer's signature)

Section 226.9(g)(6)(iii) (Change in terms)

NOTICE TO CUSTOMER REQUIRED BY FEDERAL LAW:

(Name of creditor)

INTENDS TO CHANGE THE TERMS OF YOUR OPEN END CREDIT ACCOUNT WHICH IS SECURED BY YOUR HOME. YOU HAVE A RIGHT TO REFUSE TO ACCEPT THIS CHANGE IN TERMS. IF YOU REFUSE THIS CHANGE IN TERMS, WE HAVE THE RIGHT TO REFUSE TO EXTEND ANY FURTHER CREDIT ON YOUR OPEN END ACCOUNT AND MAY REQUIRE YOU TO REPAY ANY EXISTING OBLIGATION ON YOUR ACCOUNT UNDER THE PRESENT TERMS OF THE ACCOUNT. YOU MAY EXERCISE YOUR RIGHT TO REFUSE THE CHANGE IN TERMS WITHIN THREE BUSINESS DAYS OF

(Date disclosure delivered to customer)

BY NOTIFYING US 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 TO REFUSE THE CHANGE IN TERMS 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 REFUSE THE CHANGE IN THE TERMS OF MY ACCOUNT.

(Date) (Customer's signature)

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Section 226.9(g)(6)(iv) (Annual disclosure)

NOTICE TO CUSTOMER REQUIRED BY FEDERAL LAW:

THIS IS TO REMIND YOU THAT YOUR OPEN END CREDIT ACCOUNT WITH _____

(Name of creditor)

IS SECURED BY A LIEN, MORTGAGE, OR OTHER SECURITY INTEREST ON YOUR HOME. THIS MEANS THAT YOUR FAILURE TO PAY ANY OUTSTANDING BALANCE IN ACCORDANCE WITH THE TERMS OF THE ACCOUNT COULD RESULT IN THE LOSS OF YOUR HOME.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

TRUTH IN LENDING

AMENDMENT TO REGULATION Z†

Effective August 3, 1978, Section 226.9(g)(6) is amended to read as follows:

SECTION 226.9—RIGHT TO RESCIND
CERTAIN TRANSACTIONS

* * * * *

(g) **Exceptions to general rule.** * * * *

(6) Individual transactions under an open end credit account; **provided:**

(i) That the creditor and the seller are not the same or related persons.^{14a}

(ii) That the creditor provides the disclosure required by §226.9(b) at the time the disclosures required under §226.7(a) are required to be made, or, if the security interest is not retained or acquired at the time the §226.7(a) disclosures are required to be made, at the time the security interest is retained or acquired.

(iii) That the creditor does not change the terms of a customer's account within the meaning of §226.7(f) or increase the customer's line of credit without affording the customer the opportunity to refuse the change in terms or the increase. If the customer refuses the change in terms, the creditor need not extend any further credit on the account; however, the customer shall have the right to repay any existing obligation on the account under the then existing terms of the account. At the time a disclosure of a change in terms under §226.7(f) is required to be made

or prior to an increase in the customer's line of credit, the creditor shall provide the customer with two copies of a disclosure setting forth, as applicable: the fact that the creditor intends to change the terms or increase the line of credit of the customer's account; the fact that the account is secured by the customer's real property; and the fact that the customer may refuse the change in terms and repay any existing obligation under the then existing terms of the account, or refuse the increase in the line of credit, by giving the creditor written notice within three business days of the date of the disclosure.

(iv) That at least once each calendar year the creditor furnishes to the customer a disclosure of the fact that the customer's account is secured by the customer's real property and that failure to pay any outstanding balance in accordance with the terms of the account could result in the loss of the customer's real property.

(v) That each disclosure provided pursuant hereto is made on one side of a statement separate from any other documents, that the disclosure sets forth the name of the creditor and, in the case of the disclosures required by subparagraph (iii) hereof, the creditor's address, the date on which the disclosure is furnished to the customer, the date by which the customer should give notice of refusal of the increase in the line of credit or the change in terms of the account, and the fact that one copy of the disclosure can be used for that purpose.

† For this Regulation to be complete effective August 3, 1978, retain the following:

- 1) Printed pamphlet as amended effective March 23, 1977;
- 2) Amendments effective April 11, 1977, Section 226.6, and October 10, 1977, Section 226.8;
- 3) Amendments effective July 20, 1977, Section 226.2, Section 226.4, Section 226.5, and Section 226.13;
- 4) Amendment effective March 28, 1978, Section 226.7(k)(3)(ii);
- 5) Amendment effective April 21, 1978, Section 226.1(d);
- 6) Amendment effective May 30, 1978, Section 226.6(i); and
- 7) This slip sheet.

^{14a} For purposes of §226.9(g)(6), a person is related to a creditor if that person would be deemed related to the creditor under footnote 9b to §226.7(k).