



FEDERAL RESERVE BANK
OF DALLAS

ROBERT D. McTEER, JR.
PRESIDENT
AND CHIEF EXECUTIVE OFFICER

DALLAS, TEXAS
75265-5906

October 31, 1997

Notice 97-101

TO: The Chief Executive Officer of each
financial institution and others concerned
in the Eleventh Federal Reserve District

SUBJECT

**Revised Regulation M (Consumer Leasing);
Consumer Compliance Supervision Program**

DETAILS

Following a review under its Regulatory Planning and Review Program, the Board has published a revised Regulation M, which implements the Consumer Leasing Act on October 7, 1996. The final rule contains a significant number of substantive revisions to the regulation. It essentially establishes a new disclosure scheme that should substantially improve consumer understanding of automobile transactions. The new disclosure scheme requires the preparation of new forms and the reprogramming of computer software.

Mandatory compliance with the revised rule was to begin on October 1, 1997; however, the Board has delayed compliance until January 1, 1998. The delay facilitates compliance with the regulation and ensures that consumers receive accurate and meaningful disclosures.

The above information was originally published in the *Federal Register* dated September 30, 1997. The Board has recently published a correction to clarify that the delay of the mandatory compliance date for the revised regulation applies not only to the final rule published in the *Federal Register* in October 1996, but also to an amendment published on April 1, 1997 (62 FR 15364), and the official staff commentary published on April 4, 1997 (62 FR 16053).

In addition, the Board has approved a risk-focused consumer compliance supervision program and extended the consumer examination frequency schedule for state member banks and foreign banking organizations. These actions will enhance the effectiveness of the Federal

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Reserve System's consumer compliance examination program, reduce the burden of examinations for supervised institutions, and more effectively deploy Federal Reserve System examination resources.

Implementation of the new program will be phased in during 1998.

ATTACHMENTS

A copy of the Board's notices as they appear on pages 51006-07, Vol. 62, No. 189 of the *Federal Register* dated September 30, 1997, and page 53733, Vol. 62, No. 200 of the *Federal Register* dated October 16, 1997, is attached. Also attached is the Board's press release regarding the consumer compliance supervision program.

MORE INFORMATION

For more information, please contact Eugene Coy at (214) 922-6201. For additional copies of this Bank's notice, contact the Public Affairs Department at (214) 922-5254.

Sincerely yours,

A handwritten signature in cursive script that reads "Robert D. McTeer, Jr." The signature is written in dark ink and is positioned below the typed name "Robert D. McTeer, Jr.".

transactions. The new disclosure scheme required the preparation of new forms and the reprogramming of computer software. Mandatory compliance with the revised rule was to begin on October 1, 1997. The Board is delaying that compliance date until January 1, 1998, to facilitate compliance with the regulation and to ensure that consumers receive accurate and meaningful disclosures.

DATES: The mandatory compliance date for the final rule published at 61 FR 52246 (Oct. 7, 1996) is delayed until January 1, 1998.

FOR FURTHER INFORMATION CONTACT:

Kyung H. Cho-Miller or Obrea O. Poindexter, Staff Attorneys, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, Washington, DC 20551, at (202) 452-2412 or 452-3667. For users of Telecommunications Device for the Deaf (TDD), please contact Dorothea Thompson at (202) 452-3544.

SUPPLEMENTARY INFORMATION: The Consumer Leasing Act (CLA), 15 U.S.C. 1667-1667e, was enacted into law in 1976 as an amendment to the Truth in Lending Act (TILA), 15 U.S.C. 1601 *et seq.* The Board was given rulewriting authority, and its Regulation M (12 CFR part 213) implements the CLA.

The CLA generally governs consumer leases of personal property involving \$25,000 or less and a term of more than four months. An automobile lease is the most common type of consumer lease covered by the CLA. Like the credit provisions of the TILA, the CLA requires lessors to provide uniform cost and other disclosures in consumer lease transactions and in lease advertising. Prior to entering into a lease agreement, lessors must give consumers fifteen to twenty disclosures, including the amount of initial charges to be paid, an identification of leased property, a payment schedule, the responsibilities for maintaining the leased property, and the liability for terminating a lease early.

Following a review under the Board's Regulatory Planning and Review Program, the Board published a revised Regulation M on October 7, 1996 (61 FR 52246), and a new staff commentary on April 4, 1997 (62 FR 16053). The final rule, which contains a significant number of substantive revisions to the regulation, essentially establishes a new disclosure scheme that should substantially improve consumer understanding of automobile lease transactions. The new disclosure scheme required the preparation of new forms and the reprogramming of computer software.

FEDERAL RESERVE SYSTEM

12 CFR Part 213

[Regulation M; Docket No. R-0892]

Consumer Leasing; Delay of Compliance Date

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule; delay of compliance date.

SUMMARY: Following a review under the Board's Regulatory Planning and Review Program, the Board published a revised Regulation M, which implements the Consumer Leasing Act on October 7, 1996. The final rule contains a significant number of substantive revisions to the regulation. It essentially establishes a new disclosure scheme that should substantially improve consumer understanding of automobile

The Board has been asked by representatives of the automobile leasing industry—including leasing companies, automobile dealerships, and vendor support services—to delay the mandatory compliance date of the new Regulation M rules beyond October 1, 1997. The request is based on the current state of implementation of the new leasing software at the 22,500 new-car dealerships that arrange for automobile leases provided through approximately 9,000 independent lessors. Based on the information that they have shared, less than half of the dealerships have the necessary software programs in place that would enable them to produce computer-generated disclosure statements by October 1, 1997. In some cases, they would have in place only one of the five or six lessor programs that they typically make available to consumers. The alternative is to complete the leasing forms manually, with resultant delays and a great potential for errors that would subsequently have to be corrected.

The Board believes that consumers will not be well served by proceeding on the October 1 schedule. Accordingly, to better ensure that consumers receive accurate and meaningful lease disclosures, the Board has delayed the mandatory compliance date to January 1, 1998.

By order of the Board of Governors of the Federal Reserve System, September 25, 1997.

William W. Wiles,

Secretary of the Board.

[FR Doc. 97-25921 Filed 9-29-97; 8:45 am]

BILLING CODE 6210-01-M

FEDERAL RESERVE SYSTEM**12 CFR Part 213**

[Regulation M; Docket Nos. R-0892, R-0952, and R-0961]

Consumer Leasing; Delay of Compliance Date; Correction

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule; delay of compliance date; correction.

SUMMARY: This document corrects the preamble to the document published in the **Federal Register** on September 30, 1997 (62 FR 51006), regarding the delay of the mandatory compliance date for Regulation M, which implements the Consumer Leasing Act. This correction clarifies that the delay of the mandatory compliance date for the revised regulation applies not only to the final rule published in the **Federal Register** in October 1996, but also to an amendment published on April 1, 1997 (62 FR 15364), and the official staff commentary published on April 4, 1997 (62 FR 16053).

DATES: The date for mandatory compliance with the final rule published on October 7, 1996 (61 FR 52246), an amendment published on April 1, 1997 (62 FR 15364), and the official staff commentary published on April 4, 1997 (62 FR 16053), is delayed until January 1, 1998.

FOR FURTHER INFORMATION CONTACT: Kyung H. Cho-Miller or Obrea O. Poindexter, Staff Attorneys, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, Washington, DC 20551,

at (202) 452-2412 or 452-3667. For users of Telecommunications Devices for the Deaf (TDDs), please contact Diane Jenkins at (202) 452-3544.

Correction

In the Board document for Docket R-0892 published on September 30, 1997, beginning on page 51006 in the **Federal Register**, the Dates section is corrected to read:

Dates: The date for mandatory compliance with the final rule published on October 7, 1996 (61 FR 52246), an amendment published on April 1, 1997 (62 FR 15364), and the official staff commentary published on April 4, 1997 (62 FR 16053), is delayed until January 1, 1998.

By order of the Board of Governors of the Federal Reserve System, acting through the Secretary of the Board under delegated authority, October 8, 1997.

William W. Wiles,

Secretary of the Board.

[FR Doc. 97-27276 Filed 10-15-97; 8:45 am]

BILLING CODE 6210-01-P

FEDERAL RESERVE press release



For immediate release

September 25, 1997

The Federal Reserve Board has approved a risk-focused consumer compliance supervision program and extended the consumer examination frequency schedule for state member banks and foreign banking organizations.

Implementation of the new program will be phased in during 1998.

These actions will enhance the effectiveness of the Federal Reserve System's consumer compliance examination program, reduce the burden of examinations for supervised institutions, and more effectively deploy Federal Reserve System examination resources.

The new frequency guidelines extend the examination cycle from 18-24 months to 36 months for state member banks having an exemplary compliance history and assets of less than \$250 million. An exemplary compliance history is defined as two satisfactory or better ratings for both consumer compliance and the Community Reinvestment Act.

Banks with assets greater than \$250 million will be examined every 24 months, while banks with performance problems will be examined once every 12 months.

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The consumer examinations performed under the new program will be conducted concurrently with examinations for fair lending laws and the CRA, both of which are covered under separate but complimentary programs that reflect the new frequency schedule.

An essential component of the new examination approach is the correlation of two risk elements:

- regulation risk -- which involves an evaluation of the potential consequences to the consumer or the bank of noncompliance with consumer protection laws and regulations; and
- product risk -- where examiners will identify the potential risks associated with financial products or services relative to a bank's market position, management expertise, and business orientation.

The relationships between these two risk elements will then be correlated to determine the level of review necessary to verify a bank's compliance posture. The primary advantage of this examination approach is that it targets examination resources to higher risk areas without compromising the integrity of the examination process.

The new program also places a greater emphasis on outreach and monitoring activities.

The outreach components of the program will be designed to foster compliance through regular contacts with state member banks. These contacts will be conducted apart from examination and supervisory activities, and will include such items as training seminars and advisory visits.

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Monitoring efforts will be performed between examinations and will be designed to alert examiners to any potential deterioration in a bank's consumer compliance posture. The conclusions drawn from the monitoring process will be considered when establishing the scope, timing, and staffing of future examinations.