

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 7919
July 16, 1976]

**PROPOSED AMENDMENTS TO REGULATION Z
Implementing the Consumer Leasing Act of 1976**

*To All Member Banks, and Others Concerned,
in the Second Federal Reserve District:*

Following is the text of a statement issued July 1 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today issued for comment proposed amendments to its Truth in Lending Regulation Z to implement the Consumer Leasing Act of 1976 requiring disclosure of terms under which personal property is leased.

The Board will receive comment through August 16, 1976.

The Consumer Leasing Act of 1976 becomes effective March 23, 1977. It applies to the leasing for personal, family or household use of personal property (such as automobiles, furniture, sick room equipment and the like) for which the total contractual obligation is less than \$25,000. The Act places certain limits on the liability of the person leasing the property (the lessee) at the end of the lease term, requires meaningful and accurate disclosure by the firm to whom the property belongs (the lessor) in lease contracts and regulates the terms of lease advertising. The Act requires the Board to write implementing regulations. Enforcement will be by the same agencies as enforce Truth in Lending.¹

In a statement accompanying its proposals, the Board said:

"In developing the proposed amendments the Board has attempted to maintain the stated Congressional aim of neutrality regarding various business entities engaged in consumer leasing and noninterference with the ability of particular lessors to carry on business. The proposed amendments (to Regulation Z) are intended to provide consumers with certain basic information which is both meaningful and useful in securing the lease of personal property."

The principal features of the proposed amendment to Regulation Z to implement the Consumer Leasing Act are:

- The disclosures required to implement the Act have been added as a new section (Section 226.15) of Regulation Z.
- Other additions have been made to the Regulation's definitions section, its general disclosure section, its section concerning advertising and the section of the Regulation providing for exemption of State regulated leasing where State law is essentially similar to the Federal law.
- To facilitate comparisons by consumers of different lease contracts, the Board proposed to add to Regulation Z definitions of certain key terms: "aggregate cost of the lease," "fair market value (of the property leased) at consummation" of the lease and "realized value" of the property leased. The proposal included an example of one way to illustrate, in dollar terms, the use of these terms in disclosures to consumers.

It is intended that the disclosures required under the Regulation should make it possible for the consumer to make an approximate comparison of the total cost of leasing personal property with the cost of buying the same property.

It is also intended that these disclosures would inform consumers as to whether they would owe anything additional at the end of the lease term. To this end, the Board's proposals would require, in open end leases, a statement of certain limits the Act places on the liability of the lessee at the end of the lease term, and of the fact that the lessee may have an opportunity to have the leased property appraised, as part of the process of determining any final liability over and above the monthly payments made during the lease term.

The Act established a rebuttable presumption that any such residual liability of the lessee should not exceed three monthly payments. This presumption can be rebutted, i.e., overturned, only by a successful law suit. In such a suit the lessor must pay the lessee's attorney's fees.

In inviting comment on its proposals, the Board asked particularly for comment relating to the requirements it is proposing relating to the residual liability of the lessee.

¹ Enforcement agencies are: Comptroller of the Currency, Board of Directors of the Federal Deposit Insurance Corporation, Federal Home Loan Bank Board (acting directly or through the Federal Savings and Loan Corporation), Administrator of the National Credit Union Administration, Civil Aeronautics Board, Secretary of Agriculture, Farm Credit Administration, Board of Governors of the Federal Reserve System, and the Federal Trade Commission.

Printed below is an excerpt from the *Federal Register* of July 9, 1976, containing the text of the proposed amendments. Comments thereon should be submitted by August 16, 1976, and may be sent to our Bank Regulations Department.

PAUL A. VOLCKER,
President.

FEDERAL RESERVE SYSTEM

[12 CFR Part 226]

[Reg. Z; Docket No. R-0048]

TRUTH IN LENDING

Proposed Amendments to Regulation Z to Implement the Consumer Leasing Act

The Board is publishing for comment proposed amendments to Regulation Z ("the Regulation") to implement the Consumer Leasing Act of 1976 ("the Act") (Pub. L. 94-240) enacted on March 23, 1976, which amended the Truth in Lending Act (15 U.S.C. Chapter 41, 1601 et seq.). The Act, which requires the Board to issue implementing regulations and becomes effective March 23, 1977, provides for the disclosure of certain information in leases of personal property primarily for personal, family or household purposes, where the total contractual obligation is less than \$25,000, and the term is greater than four months. The Act also limits the liability of the lessee at the end of the lease term and assures meaningful and accurate disclosures in advertising of leasing terms.

The Board has set forth the proposed regulations implementing the Act as amendments to Regulation Z. This step eliminates the duplication of sections of Regulation Z that would be necessary for a separate leasing regulation. It also provides a simple format for lease disclosures and permits lessors, many of whom may be familiar with Regulation Z, to refer to a body of experience gained under that Regulation. Many of the amendments are technical; they merely implement the statutory language. The major leasing disclosure provisions have been added as a new section (§ 226.15), and other additions have been made to the definitional section (§ 226.2), the general disclosure section (§ 226.6), the advertising section (§ 226.10), and the exemption of State regulated transactions section (§ 226.12).

A more detailed discussion of the proposal follows.

1. The findings and purpose of the Consumer Leasing Act are incorporated in § 226.1 of the Regulation. This section also outlines where responsibility for administrative enforcement resides and the penalties and liabilities for noncompliance. The proposed amendments also make reference to section 185(b) of the Act which provides for lessor liability under section 130 of Truth in Lending to any person who suffers actual damage because of a violation of the lease advertising requirements.

2. The definitions of the terms "consumer lease," "lessee," "lessor" and "personal property" as found in the Act are included in § 226.2 with the other definitions of Regulation Z. It was not neces-

sary to include the terms "security" and "security interest" as those terms are presently defined in § 226.2(gg). The Board proposes three additional definitions to add clarity to the Regulation and to facilitate comparison of lease terms by consumers. The proposed terms are: "aggregate cost of the lease," "fair market value at consummation" and "realized value." The following example is provided to illustrate the use of the terms "aggregate cost of the lease" and "fair market value at consummation." It is merely an example and is not intended to set a pattern or form for disclosure. The example also provides the differential required to be disclosed in proposed § 226.15(b) (15) (i).

Example of Disclosure under § 226.15(b) (15) (i):

Fair market value at consummation (cost to lessor of lease property including markup)	\$5,800
Monthly payments (24-month lease):	
Rental	100
Lease charge	20
Total	120
Total of periodic payments	2,880
1. Total of periodic payments	2,880
2. Cash payment or trade-in allowance	400
3. Estimated fair market value of lease property at end term	3,000
Aggregate cost of the lease	6,280
Aggregate cost of the lease	6,280
Fair market value at consummation	-5,800
	480

The Board asks that comments be addressed to these definitions as well as to any need for additional definitions. The existing definitions of "advertisement" (§ 226.2(d)), "arrange for the extension of credit" (§ 226.2(h)), consummation (§ 226.2(kk)), and one pertaining to the construction of regulatory terms (§ 226.2(jj)) also have been adjusted to accommodate the Consumer Leasing Act. Appropriate letter designations for the definitions will be provided in the final regulations.

3. Those paragraphs of § 226.6 relating to inconsistent State requirements, additional information, multiple creditors and customers, unknown information estimates, effect of subsequent occurrences and preservation and inspection of evidence of compliance are modified to include references to leasing where necessary to provide general standards and guidance in making lease disclosures. Attention is directed to § 226.6(f) which permits estimates where information required to be disclosed is unknown at the time of disclosure.

4. The advertising provisions of the Consumer Leasing Act (section 184) are incorporated into the existing advertis-

ing provisions of Regulation Z. The general advertising rule is expanded to prohibit a lease advertisement at specific amounts or terms unless the lessor customarily leases or will lease the property for those amounts or at those terms. Provision is made for the use of charts or tables in multi-page or catalog lease advertising. The Board is interested in receiving comments concerning any special problems posed by the advertising disclosure requirements including those regarding merchandise tags used on property to be leased which is on display for potential lessees.

5. As is available under Truth in Lending, any State may apply for and receive an exemption from the Act's requirements of certain State regulated leasing transactions and the Board will subsequently provide procedures and criteria for exemption applications. The regulation provides that in order for an exemption to be granted, the State law must either be substantially similar to the Federal Act or afford greater protection and benefit to lessees than does the Federal law. An applying State must also demonstrate that there is adequate provision for enforcement.

6. Most of the lease disclosure requirements reflect the specific provisions contained in the Consumer Leasing Act. Generally, the disclosures must be made together on one side of either the lease contract or a separate disclosure statement. Because of the practical difficulty in multiple item leases of describing all the property leased on one page together with the other required disclosures, the Regulation permits the use of a separate statement or statements containing the description incorporated by reference in the disclosure statement.

In addition to the disclosures enumerated in the Act, the Board proposes to require, in open end leases, a statement of the limits placed by the Act on the lessee's liability at the end of the lease term and of the fact that the lessee has the opportunity to procure an appraisal of the leased property. These have been included because the enumerated disclosure in section 182 that the lessee may have end term liability is incomplete without a statement of the limitations on that liability which the additional disclosure would supply. Similarly, disclosure of the presumptions concerning end term liabilities would be unfair to lessors without disclosing that agreements which negate those presumptions can be made between lessor and lessee and an appraisal agreed to by both parties can be obtained.

7. Another provision requires new lease disclosures when a lease is renegotiated or extended. This provision would not apply in multiple item leases where a new item is provided or a previously leased

item is returned and the change in the average monthly payment is 10 per cent or less. The Board is interested in learning whether the 10 per cent adjustment is sufficient to cover such minor changes in the lessee's obligation. Additionally, comment should be directed to other terms that may change in a renegotiation or extension and the need for redisclosure in those instances.

The Board invites comment on the proposed amendments generally and especially in those instances indicated in the previous discussion. In developing the proposed amendments, the Board has attempted to maintain the stated Congressional aim of neutrality regarding various business entities engaged in consumer leasing and noninterference with the ability of particular lessors to carry on business. The proposed amendments are intended by the Board to provide consumers with certain basic information which is both meaningful and useful in securing the lease of personal property.

The deadline for receipt of written comments on the proposed amendments is August 16, 1976. Comments should be addressed to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. Comments should include a reference to Docket No. R-0048. A date for public hearings will be set during the comment period.

Pursuant to the authority granted in 15 U.S.C. 1604 (1968) the Board proposes to amend Regulation Z, 12 CFR Part 226, as follows:

§ 226.1 [Amended]

Section 226.1 is amended as follows:

(1) By revising the last sentence of paragraph (a) (1) to read as follows:

(a) (1) * * * Except as otherwise provided herein, this part, within the context of its related provisions, applies to all persons who are creditors, as defined in paragraph (s) of § 226.2, and in the case of consumer leases, as defined in paragraph (nn) of § 226.2, to all persons who are lessors, as defined in paragraph (gg) of § 226.2.

(2) In paragraph (a) (2) by inserting the words "and consumer lease" between the words "Advertising of consumer credit" and "terms must comply" and by adding the following sentence before the last sentence of the paragraph:

* * * This Part is also designed to assure that lessees of personal property are given meaningful disclosures of lease terms, to delimit the ultimate liability of lessees in leasing personal property and to require meaningful and accurate disclosures of lease terms in advertisements.

(3) In paragraph (b) (1) by inserting a comma after the word "creditors" deleting the word "and" between the words "creditors" and "credit" and inserting the words "and lessors" between the words "issuers" and "is."

(4) By amending paragraph (c) to read as follows:

(c) *Penalties and liabilities.* Section 112 of the Act provides criminal liability for willful and knowing failure to comply

with any requirement imposed under the Act and this Part. Section 134 provides for criminal liability for certain fraudulent activities related to credit cards. Section 130 provides for civil liability in individual or class actions for any creditor or lessor who fails to comply with any requirement imposed under Chapter 2, Chapter 4 or Chapter 5 of the Act and the corresponding provisions of this Part. Section 130 also provides creditors or lessors a defense against civil and criminal liability for any act done or omitted in good faith in conformity with the provisions of this Part or any interpretation thereof by the Board, or with any interpretations or approvals issued by a duly authorized official or employee of the Federal Reserve System, notwithstanding that after such act or omission has occurred, such rule, regulation or interpretation is amended, rescinded or otherwise determined to be invalid for any reason. Section 130 further provides that a multiple failure to disclose in connection with a single account or single consumer lease shall permit but a single recovery. Section 115 provides for civil liability for an assignee of an original creditor where the original creditor has violated the disclosure requirements and such violation is apparent on the face of the instrument assigned, unless the assignment is involuntary. Pursuant to section 108 of the Act, violations of the Act or this Part constitute violations of other Federal laws which may provide further penalties.

§ 226.2 [Amended]

Section 226.2 is amended as follows:

(1) In paragraph (d) by inserting the words "or lessee or prospective lessee" between the words "prospective customer" and "in."

(2) By amending paragraph (h) to read as follows:

(h) "Arrange for the extension of credit or for the lease of personal property" means to provide or offer to provide consumer credit or a lease which is or will be extended by another person under a business or other relationship pursuant to which the person arranging such credit or lease.

(1) Receives or will receive a fee, compensation, or other consideration for such service, or

(2) Has knowledge of the credit or lease terms and participates in the preparation of the contract documents required in connection with the extension of credit or the lease. It does not include honoring a credit card or similar device where no finance charge is imposed at the time of that transaction.

(3) In paragraph (jj) by deleting the word "and" after the words "consumer loan" and adding the words "and 'lease' to mean 'consumer lease'" after the words "consumer credit transaction."

(4) In paragraph (kk) by inserting the words "or a lessor and lessee" between the words "customer" and "irrespective."

(5) By adding the following after paragraph (ll):

"Aggregate cost of the lease" equals the total of (1) the scheduled periodic payments under the lease, (2) any non-refundable cash payment required of the lessee or agreed upon by the lessor and lessee or any trade-in allowance made at consummation and (3) the estimated fair market value of the leased property at the end of the lease term.

"Consumer lease" means a contract in the form of a bailment or lease for the use of personal property by a natural person primarily for personal, family or household purposes, for a period of time exceeding four months, for a total contractual obligation not exceeding \$25,000, whether or not the lessee has the option to purchase or otherwise become the owner of the property at the expiration of the lease. It does not include a lease which meets the definition of a credit sale in § 226.2(t), nor does it include a lease for agricultural, business or commercial purposes or one made to an organization.

"Fair market value at consummation" equals the cost to the lessor of the leased property including, if applicable, any increase or markup by the lessor prior to consummation.

"Lessee" means a natural person who leases under or is offered a consumer lease.

"Lessor" means a person who in the ordinary course of business regularly leases, offers to lease or arranges for the leasing of personal property under a consumer lease.

"Personal property" means any property which is not real property under the law of the State where it is located at the time it is offered or made available for lease.

"Realized value" means the price received by the lessor for the leased property at disposition, the highest offer for disposition or the fair market value at the end of the lease term, less any adjustment for costs incurred or to be incurred by the lessor in conjunction with the disposition if not previously charged to the lessee.

§ 226.6 [Amended]

Section 226.6 is amended as follows:

(1) By adding a new § 226.6(b) (3) to read as follows:

(b) (3) (i) A State law which is similar in nature, purpose, scope, intent, effect or requisites to a section of chapter 5 of the Act is not inconsistent with the Act or this Part within the meaning of section 186(a) of the Act if the lessor can comply with the State law without violating this Part. If a lessor cannot comply with a State law without violating a provision of this Part which implements a section of chapter 5 of the Act, such State law is inconsistent with the requirements of the Act and this part within the meaning of section 186(a) of the Act and is preempted.

(ii) A State, through its Governor, Attorney General, or other appropriate official having primary enforcement or interpretative responsibilities for its consumer leasing law, may apply to the Board for a determination that the State law offers greater protection and benefit to lessees than a comparable provision(s) of chapter 5 of the Act and its implementing provision(s) in this part, or is

otherwise not inconsistent with chapter 5 of the Act and this Part, or for a determination with respect to any issues not clearly covered by § 226.6(b) (3) (i) as to the consistency or inconsistency of a State law with chapter 5 of the Act or its implementing provisions in this Part.

(2) In paragraph (c) by inserting the words "or lessor's" between the words "creditor's" and "option" and by inserting the words "or lessee" between the words "customer" and "or" in the first sentence, and by inserting the words "or lessor" between the words "creditor" and "who elects" in the second sentence.

(3) By revising paragraphs (d), (e) and (f) to read as follows:

(d) *Multiple creditors or lessors; joint disclosure.* If there is more than one creditor or lessor in a transaction, each creditor or lessor shall be clearly identified and shall be responsible for making only those disclosures required by this Part which are within his knowledge and the purview of his relationship with the customer or lessee. If two or more creditors or lessors make a joint disclosure, each creditor or lessor shall be clearly identified. The disclosures required under paragraphs (b) and (c) of § 226.8 shall be made by the seller if he extends or arranges for the extension of credit. Otherwise disclosures shall be made as required under paragraphs (b) and (d) of § 226.8 and paragraph (b) of § 226.15.

(e) *Multiple customers or lessees; disclosure to one.* In any transaction other than a credit transaction which may be rescinded under the provisions of § 226.9, if there is more than one customer or lessee, the creditor or lessor need furnish a statement of disclosures required by this part to only one of them other than an endorser, comaker, guarantor, or a similar party.

(f) *Unknown information estimate.* If at the time disclosure must be made, an amount or other item of information required to be disclosed, or needed to determine a required disclosure, is unknown or not available to the creditor or lessor and the creditor or lessor has made a reasonable effort to ascertain it, the creditor or lessor may use an estimated amount or an approximation of the information, provided the estimate or approximation is clearly identified as such, is reasonable, is based on the best information available to the creditor or lessor and is not used for the purpose of circumventing or evading the disclosure requirements of this Part.

(4) By revising the footnote to paragraph (g) to read as follows:

* Such acts, occurrences, or agreements include the failure of the customer or lessee to perform his obligations under the contract and such actions by the creditor or lessor as may be proper to protect his interests in such circumstances. Such failure may result in the liability of the customer or lessee to pay delinquency charges, collection costs, or expenses of the creditor or lessor for perfection or acquisition of any security interest or amounts advanced by the creditor or lessor on behalf of the customer or lessee in connection with insurance, repairs to or preservation of collateral.

(5) In paragraph (i) by inserting the words "or lessor" between the words "creditor" and "for" in the first sentence and between the words "creditor" and "shall" in the last sentence.

Section 226.10 is amended by redesignating the introductory text of § 226.10 (a) as § 226.10(a) (1), § 226.10(a) (1) as § 226.10(a) (1) (i) and § 226.10(a) (2) as § 226.10(a) (1) (ii), and by adding a new § 226.10(a) (2). Section 226.10 reads as follows:

§ 226.10 Advertising credit and lease terms.

(a) General Rule. * * *

(2) No advertisement to aid, promote or assist directly or indirectly any consumer lease may state that a specific lease of any property at specific amounts or terms is available unless the lessor usually and customarily leases or will lease such property at those amounts or terms.

(b) *Catalogs and multi-page advertisements.* If a catalog or other multiple-page advertisement sets forth or gives information in sufficient detail to permit determination of the disclosures required by this section in a table or schedule of credit or lease terms, such catalog or multiple-page advertisement shall be considered a single advertisement provided:

(1) The table or schedule and the disclosures made therein are set forth clearly and conspicuously; and

(2) Any statement of credit or lease terms appearing in any place other than in that table or schedule of credit or lease terms clearly and conspicuously refers to the page or pages on which that table or schedule appears, unless that statement discloses all of the credit or lease terms required to be stated under this section. For the purpose of this subparagraph, cash price is not a credit term.

(g) *Advertising of consumer leases.* No advertisement to aid, promote or assist directly or indirectly any consumer lease shall state the amount of any payment, the number of the required payments, or that any or no downpayment or other payment is required at consummation of the lease unless the advertisement also states clearly and conspicuously each of the following items of information as applicable:

(1) That the transaction advertised is a lease.

(2) The total amount of any payment such as a security deposit or capitalized cost reduction required at the consummation of the lease or that no such payments are required.

(3) The number, amounts, due dates or periods of scheduled payments, and the total of such payments under the lease.

(4) A statement of whether or not the lessee has the option to purchase the lease property and at what price and time. The method of determining the price may be substituted for disclosure of the price.

(5) A statement of the amount or method of determining the amount of any liabilities the lease imposes upon the lessee at the end of the term and a statement that the lessee shall be liable for the differential, if any, between the estimated fair market value of the lease property and its realized value at the end of the

lease term, if the lessee has such liability.

Section 226.12 is amended to read as follows:

§ 226.12 Exemption of certain State regulated transactions.

(a) *Exemption for State regulated transactions.* In accordance with the provisions of Supplements II, IV, V, and VI to Regulation Z, any State may make application to the Board for exemption of any class of transactions within the State from the requirements of chapters 2, 4 or 5 of the Act and the corresponding provisions of this part, *Provided, That:*

(1) The Board determines that under the law of that State, that class of transactions is subject to requirements substantially similar to those imposed under chapter 2 or chapter 4 of the Act, or both, or under chapter 5, and the corresponding provisions of this part; or in the case of chapter 4, the consumer is afforded greater protection than is afforded under chapter 4 of the Act, or in the case of chapter 5, the lessee is afforded greater protection and benefit than is afforded under chapter 5 of the Act, and

(2) There is adequate provision for enforcement.

(b) *Procedures and criteria.* The procedures and criteria under which any State may apply for the determination provided for in paragraph (a) of this section are set forth in Supplement II to Regulation Z with respect to disclosure and rescission requirements (sections 121-131 of chapter 2), Supplement IV with respect to the prohibition of the issuance of unsolicited credit cards and the liability of the cardholder for unauthorized use of a credit card (sections 132-133 of chapter 2), in Supplement V with respect to fair credit billing requirements (sections 161-171 of chapter 4) and in Supplement VI with respect to consumer leasing (sections 181-186 of chapter 5).

A new § 226.15 is added to read as follows:

§ 226.15 Consumer leasing.

(a) *General requirements.* Any lessor shall, in accordance with § 226.6 and to the extent applicable, make the disclosures required by paragraph (b) of this section with respect to any consumer lease. Such disclosures shall be made prior to the consummation of the lease on a dated written statement which identifies the lessor and the lessee, and a copy of such statement shall be given to the lessee at that time. All of the disclosures shall be made together on either:

(1) The contract or other instrument evidencing the lease on the same side of the page and above the place for the lessee's signature; or

(2) One side of a separate statement which identifies the lease transaction.

In any lease of multiple items, the description required by § 226.15(b) (1) may be provided on a separate statement or statements which are incorporated by reference in the disclosure statement required by § 226.15(a).

(b) *Specific disclosure requirements.* In any lease subject to this section the following items, as applicable, shall be disclosed:

(1) A brief description of the leased property, sufficient to identify the property to the lessee and lessor.

(2) The total amount of any payment, such as a security deposit, advance payment, capitalized cost reduction or any trade-in allowance, appropriately identified, to be paid by the lessee at the consummation of the lease.

(3) The amount paid or payable by the lessee during the lease term for official fees, registration, certificate of title, license fees or taxes.

(4) The number, amount and due dates or periods of payments scheduled under the lease and the total amount of such periodic payments.

(5) The total amount of all other charges, individually itemized, payable by the lessee to the lessor, which are not included in the periodic payments.

(6) A statement of any express warranties or guarantees made by the lessor with respect to the leased property, and an identification of any express warranties or guarantees made by the manufacturer and available to the lessee with respect to the leased property. If no express warranties or guarantees are made as to the leased property, that fact shall be disclosed.

(7) An identification of the party responsible for maintaining or servicing the leased property together with a brief description of the responsibility, and a statement of reasonable standards for wear and use, if the lessor sets such standards.

(8) A brief identification of insurance required in connection with the lease provided or paid for by the lessor including the types and amounts of coverages and cost to the lessee or, if not provided or paid for by the lessor, the types and amounts of coverages required of the lessee.

(9) A description of any security interest held or to be retained by the lessor in connection with the lease and a clear identification of the property to which the security interest relates.

(10) The amount or method of determining the amount of any penalty or other charge for delinquency, default or late payments.

(11) A statement whether or not the lessee has the option to purchase the leased property and, if at the end of the lease term, at what price, and, if prior to the end of the lease term, at what time and the price or method of determining the price.

(12) A statement of the conditions under which the lessee or lessor may terminate the lease prior to the end of the lease term and the amount or method of determining the amount of any penalty or other charge for early termination.

(13) A statement of the amount or method of determining the amount of any liabilities the lease imposes upon the lessee at the end of the lease term.

(14) A statement that the lessee shall be liable for the differential between the estimated fair market value of the property and its realized value at early termination or the end of the lease term.

(15) Where the lessee's liability at the end of the lease term is based upon the estimated fair market value of the leased property:

(i) The fair market value of the property at consummation of the lease, the itemized aggregate cost of the lease at the end of the lease term, and the differential between them.

(ii) That there is a rebuttable presumption that the estimated fair market value of the leased property at the end of the lease term is unreasonable and not in good faith to the extent that it exceeds

the realized value by more than three times the average payment allocable to a monthly period, and that the lessor cannot collect the amount of such excess liability unless the lessor brings a successful action in court in which the lessor pays the lessee's attorneys fees, and that this presumption and attorney's fees provision do not apply to the extent the excess of estimated fair market value over realized value is due to unreasonable wear or use, or excessive use.

(iii) A statement that the provisions of § 226.15(b)(15)(ii) do not preclude the right of a willing lessee to make any mutually agreeable final adjustment regarding such excess liability, provided such agreement is reached after the end of the lease term.

(16) A statement that the lessee may obtain at the end of the lease term or at early termination, at the lessee's expense, a professional appraisal by an independent third party agreed to by the lessee and the lessor of the value which could be realized at sale of the leased property which shall be final and binding on the parties.

(c) *Renegotiations or extensions.* If any existing lease is renegotiated or extended, such renegotiation or extension shall be considered a new lease subject to the disclosure requirements of this Part, except that the requirements of this paragraph shall not apply to a lease of multiple items where a new item(s) is provided or a previously leased item(s) is returned, and the average payment allocable to a monthly period is not changed by more than 10 per cent.

By order of the Board of Governors,
July 1, 1976.

THEODORE E. ALLISON,
Secretary of the Board.

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