

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7976]
October 22, 1976

AMENDMENT 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 October 13, by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today announced adoption of regulatory amendments to carry out provisions of the Consumer Leasing Act of 1976 requiring disclosure of terms under which personal property is leased.

The amendment to Regulation Z (Truth in Lending) will become effective March 23, 1977, when the Consumer Leasing Act becomes effective. The Act requires accurate, meaningful disclosure of the terms of leases of personal property, basically automobiles and furniture, leased primarily for personal, family or household use, for more than four months and for which the total contractual obligation is less than \$25,000. Enforcement will be the responsibility of the same agencies that enforce Truth in Lending.¹

The disclosures required by the Act have been added as a new section (Section 226.15) of Regulation Z. Other amendments have been made elsewhere in the Regulation to comply with the Act, including the provisions of sections dealing with general disclosures, definitions, advertising and exemptions of States with substantially similar laws.

To assist in compliance with the new law the Board will propose sample disclosure forms for use with leases of personal property subject to the Act. Proper use of these forms will ensure compliance with the Board's regulation.

The consumer leasing amendments to Regulation Z reflect consideration of written suggestions and comment received by the Board following publication of proposed consumer leasing disclosure rules on July 1, 1976 and consideration of testimony received in a hearing held by the Board on August 3, 1976.

The main disclosures required are:

1. A brief description of the leased property adequate to identify it to both parties to the lease.
2. The total amount of any payment or payments the lessee is to pay at the consummation of the lease, such as a refundable security deposit, advance payment or the like.
3. The number, amount and due dates of periodic payments and their total.
4. The total amount of taxes, fees and other charges involved.
5. Identification of those responsible for maintaining or servicing the leased property.
6. How any penalty or delinquency charge will be determined, and the amount.
7. A statement whether the lessee has an option to purchase the property at the end of the lease term, or earlier, and at what price.
8. A statement of the conditions under which either party to the lease may terminate it, and how any penalty or other charge will be determined.
9. A statement that the lessee shall be responsible for the difference between the estimated value of the property leased and its realized value at the end of the lease or upon earlier termination, if such liability exists.
10. A statement that in an open-end lease the lessee may obtain a professional appraisal of the property by an independent third party at the end of the lease or upon earlier termination, and that this appraisal will be binding.

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.

11. Where the lessee's liability at the end of the lease term is based upon the estimated value of the property:

—A statement of the value of the property at the consummation of the lease, the itemized total lease obligation at the end of the lease, and the difference between them.

—Where the estimated value of the leased property exceeds three times the average monthly lease payment for the property concerned, a statement that there is a rebuttable presumption that the estimated value is unreasonable and can only be collected by legal action of the lessor, taken at his expense, with certain exceptions.

The final regulation permits lessors to understate the estimated value of the property in leases with a purchase option as a safety factor in open-end automobile leasing.

At the same time, the Board exempted from the amendments many applications of the Act to leases of personal property that are incidental to the lease of real property, such as furniture in a rented, furnished apartment.

In letters to the Senate and House Banking Committees, the Board said neither the Act nor its legislative history mention combined leases of real and personal property. After considering all comments received on this question, the Board concluded that an exemption provides the most equitable solution pending specific legislative action, and imposes the smaller burden on consumers and lessors.

A new paragraph has been added to the advertising requirements of the regulation to permit the use of merchandise tags without full advertising disclosures where a number of items is being leased, so long as the tags clearly and conspicuously refer to a posted schedule of required disclosures.

The requirement in the July 1 proposal that all disclosures be made on a single page has been dropped.

The consumer leasing requirements do not apply to:

—Transactions over \$25,000.

—Agricultural credit transactions.

—Leases of personal property that are incident to the lease of real property and which provide that the lessee (1) has no liability for the value of the property at the end of the lease other than for abnormal wear and tear and (2) has no option to purchase the property leased.

In submitting the amendment for publication in the *Federal Register*, the Board of Governors made the following additional statement, which has been reprinted from the *Federal Register* of October 15, 1976:

Title 12—Banks and Banking

CHAPTER II—FEDERAL RESERVE SYSTEM

Subchapter A—Board of Governors of the Federal Reserve System

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

PART 226—TRUTH IN LENDING

Amendments to Regulation Z To Implement the Consumer Leasing Act

On July 9, 1976, the Board published for comment proposed amendments to Regulation Z implementing the Consumer Leasing Act of 1976 (41 FR 28313). The Board also conducted an informal public hearing on the proposed amendments on August 3, 1976, at which five persons testified.

Forty-seven written comments on the proposal were received. The written comments and hearing testimony have been analyzed and careful consideration has been given to them. On the basis of the comments and testimony and its own analysis, the Board has adopted final amendments to implement the Act.

Several commenters requested that the Board issue a separate leasing regulation rather than incorporate the leasing amendments into Regulation Z. The Board still believes that the incorporation of the leasing regulation into Regulation Z permits utilization of terms and concepts previously defined under Regulation Z and substantially limits duplication of provisions. Confusion among lessors unfamiliar with Regulation Z can be greatly reduced, the Board

believes, by education efforts, which may include the issuance of approved lease disclosure forms.

A detailed discussion of the revisions to the amendments follows:

1. Technical changes have been made in § 226.1(c) by (1) limiting the protection from civil and criminal liability granted to creditors who act in conformity with duly authorized staff opinion letters to Sections 112 and 130 of the Act, and (2) adding a statement concerning the provisions of § 185(b) which imposes civil liability for lessor violations of the advertising provisions of Section 184 when such violations result in actual damages.

2. The definition "aggregate cost of the lease" has been redesignated "total lease obligation" in order to reflect more accurately the concept embodied in the definition.

The Board wishes to clarify that for purposes of this definition and the calculations of which it is an element, the term "scheduled periodic payments under the lease" includes that portion of the payments attributable to depreciation, cost of money, lessor's profit and taxes, but excludes, in leases where such charges are included in the periodic payments, charges for maintenance and insurance.

The words "fair market" have been deleted from the third element of the definition, "the estimated value of the leased property at the end of the lease term," to permit the use of underesti-

mation in determination of the figure.

3. The words "fair market" have been deleted from the definition "value at consummation" because the amount used in the definition may not approximate a "fair market value" as it permits inclusion of a lessor markup. The Board believes that the legislative history of the Consumer Leasing Act is clear that such a markup is permissible (see 122 Cong. Rec., S. 1025, February 2, 1976).

4. The definition "realized value" has been amended to exclude any deduction for actual disposition costs. It is the Board's position that such costs should be disclosed at consummation of the lease and should not be used to circumvent the limitations imposed by section 183(a) of the Act on the lessee's end-term liability.

The Board also wishes to clarify that the methods of disposition presented in the definition of "realized value" are alternatives and may be chosen at the lessor's option. The use of the right of appraisal (§ 226.15(b)(14)) by the lessee and lessor constitutes a binding determination of realized value.

5. A new paragraph has been added to § 226.3 which deals with exempted transactions. This paragraph exempts from the requirements of the Act lease transactions of personal property incidental to leases of real property which provide that (1) the lessee has no liability for the value of the property at the end of the term other than for abnormal wear and tear, and (2) there is no option to purchase the leased property.

It is the Board's position that the definition of "consumer lease" excludes such leases as it is limited to "a contract for the use of personal property" (emphasis added) and a lease for a furnished apartment is a real property lease to which the personal property is incidental.

Neither the Act nor the legislative history mentions leases of personal property incident to leases of real property. The Board believes that such an exemption is justified by the increased costs and the decreased availability of advertising information and services associated with furnished apartments, which may be generated by requiring compliance with the Act by such lessors.

6. Section 226.6(f) has been amended to permit lessors to understate in purchase option leases the estimated value of the property at the end of the lease term. This will allow lessors to use a "safety factor" when estimating this value.

7. A new paragraph, § 226.10(h), has been added to the advertising provisions to permit use of triggering terms in merchandise tags for items normally used in multiple-item leases without full advertising disclosures, provided that such tags clearly and conspicuously refer to a prominently posted sign or display which contains a table or schedule of items to be disclosed under § 226.10(g).

The table or schedule of lease terms may be similar to that used in credit transactions as set forth in Interpretation § 226.1002, which will be amended to include lease advertisements.

8. The Board makes the following comments concerning § 226.15:

(a) The requirement of § 226.15(a) that disclosures be made on one side of a single page of a separate disclosure statement has been deleted. A number of commenters questioned their ability to provide the required disclosures, a number of which are textural rather than numerical, on a single page. Thus, lessors would be permitted to make disclosures on both sides of a separate disclosure statement.

(b) Certain arithmetical disclosures have been rearranged to provide a more meaningful sequence of disclosures.

(c) Security deposits, as used in §§ 226.15(b) (2) and (9), have been limited to refundable cash deposits to distinguish them from other types of security interests. Further, a security deposit disclosed under § 226.15(b) (2) need not be further disclosed under § 226.15 (b) (9).

(d) Section 226.15(b) (5) has been changed to incorporate in the total of "all other charges" the amount of any liabilities imposed upon the lessee at the end of the term (formerly § 226.15(b) (13)), excluding the difference between the estimated and realized values.

(e) The warranty disclosure (§ 226.15 (b) (7)) has been amended to require only that the lessor provide a statement identifying any express warranties or guarantees made by the lessor or manufacturer and available to the lessee. This paragraph permits the lessor to refer to any express warranties without the nec-

essity of reproducing them in the disclosure statement.

(f) The lessor is under no obligation to set standards for wear and use. However, such standards, if they are set, must be reasonable and must be disclosed in accordance with § 226.15(b) (8).

(g) Section 226.15(b) (14), dealing with the right of appraisal, has been limited, as provided in § 183(c) of the Act, to leases where the lessee's liability at the end of the term is based upon the estimated value of the leased property.

(h) The Board solicited comments on a proposed exemption from the renegotiation and extension requirements (§ 226.15(c)) for multiple item leases. As a result of the comments received, the Board now changes the exemption by increasing the threshold change in the monthly payment above which new disclosures must be made from 10 to 25 per cent.

The Board also exempts from the new disclosure requirement lease extensions for a total of six months or less, either on a month-to-month basis or otherwise. If a lease is extended for more than six months new disclosures must be made.

The Board believes that the addition or subtraction of items from a multiple item lease, resulting in relatively small changes in the monthly payments, as well as short term extensions, are primarily accommodations to consumers and that requiring new disclosures in these limited situations would inconvenience lessees and lessors without a corresponding increase in consumer protection.

Enclosed is a copy of the amendment to Regulation Z, effective March 23, 1977, which has been reprinted from the *Federal Register*. Inquiries thereon may be directed to our Bank Regulations Department. Additional copies of the amendment will be furnished upon request.

PAUL A. VOLCKER,
President.

Board of Governors of the Federal Reserve System

TRUTH IN LENDING

AMENDMENT TO REGULATION Z

Effective March 23, 1977, Regulation Z is amended as follows:

A. Section 226.1 is amended as follows:

§ 226.1 [Amended]

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

(a) *Authority, scope, purpose, etc.*,

(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 (mm) of § 226.2, to all persons who are lessors, as defined in paragraph (oo) 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:

(2) * * * 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 li-

ability 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 under sections 130 and 112 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, interpretation or approval 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. Section 185 (b) provides for civil liability under section 130 for any lessor who fails to comply with any requirement imposed under section 184 to any person who suffers actual damage from the violation. 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.

B. Section 226.2 is amended as follows:

§ 226.2 [Amended]

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:

For this Regulation to be complete, retain:

- 1) Regulation Z pamphlet, effective October 28, 1975.
- 2) Amendments effective July 30 and August 6, 1976.
- 3) Amendment dated August 27, 1976.
- 4) This slip sheet.

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(h) "Arrange for the extension of credit or for 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):

* * * * *

(mm) "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.

(nn) "Lessee" means a natural person who leases under, or who is offered, a consumer lease.

(oo) "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.

(pp) "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.

(qq) "Realized value" means (1) the price received by the lessor for the leased property at disposition, (2) the highest offer for disposition, or (3) the fair market value at the end of the lease term.

(rr) "Total lease obligation" equals the total of (1) the scheduled periodic payments under the lease, (2) any nonrefundable 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 value of the leased property at the end of the lease term.

(ss) "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.

C. Section 226.3 is amended by adding a new § 226.3(f) to read as follows:

§ 226.3 Exempted transactions.

* * * * *

(f) *Certain lease transactions.* Lease transactions of personal property which are incident to the lease of real property and which provide that (1) the lessee has no liability for the value of the property at the end of the lease term except for abnormal wear and tear, and (2) the lessee has no option to purchase the leased property.

D. Section 226.6 is amended as follows:

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

§ 226.6 [Amended]

(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 § 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 § 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 disclosures 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.

Notwithstanding the requirement of this paragraph that the estimate be based on the best information available, a lessor is not precluded in a purchase option lease from understating the estimated value of the leased property at the end of the term in computing the total lease obligation as required in § 226.15(b) (15) (i).

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.

E. 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 new paragraphs (a) (2), (g) and (h) 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 required payments, or that any or no downpayment or other pay-

ment 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 difference, if any, between the estimated value of the lease property and its realized value at the end of the lease term, if the lessee has such liability.

(h) *Multiple-item leases; merchandise tags.* If a merchandise tag for an item normally included in a multiple-item lease sets forth information which would require additional disclosures under paragraph (g) of this section, such merchandise tag need not contain such additional disclosures, provided it clearly and conspicuously refers to a sign or display which is prominently posted in the lessor's showroom. Such sign or display shall contain a table or schedule of those items of information to be disclosed under paragraph (g) of this section.

F. Section 226.12 is amended 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).

* * * * *
G. A new section 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 page and above the place for the lessee's signature; or

(2) 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 refundable security deposit paid by cash, check or similar means, advance payment, capitalized cost reduction or any trade-in allowance, appropriately identified, to be paid by the les-

see at consummation of the lease.

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

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

(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. This total includes the amount of any liabilities the lease imposes upon the lessee at the end of the term, but excludes the potential difference between the estimated and realized values, required to be disclosed under § 226.15(b)(15)(i).

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

(7) A statement identifying any express warranties or guarantees available to the lessee made by the lessor or manufacturer with respect to the leased property.

(8) 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.

(9) A description of any security interest, other than a security deposit disclosed under paragraph (b)(2) of this section, 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 of 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 that the lessee shall be liable for the difference between the estimated value of the property and its realized value at early termination or the end of the lease term, if such liability

exists.

(14) Where the lessee's liability at early termination or at the end of the lease term is based on the estimated value of the leased property, 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 of the value which could be realized at sale of the leased property by an independent third party agreed to by the lessee and the lessor, which appraisal shall be final and binding on the parties.

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

(i) The value of the property at consummation of the lease, the itemized total lease obligation at the end of the lease term, and the difference between them.

(ii) That there is a rebuttable presumption that the estimated 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 attorney's fees, and that this provision regarding the presumption and attorney's fees does not apply to the extent the excess of estimated value over realized value is due to unreasonable wear or use, or excessive use.

(iii) A statement that the requirements of paragraph (b)(15)(ii) of this section do not preclude the right of a willing lessee to make any mutually agreeable final adjustment regarding such excess liability.

(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 (1) 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 25 per cent, or (2) a lease which is extended for not more than six months on a month-to-month basis or otherwise.

By order of the Board of Governors,
October 8, 1976.

THEODORE E. ALLISON,
Secretary of the Board.

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