

FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 8233
December 12, 1977

PROPOSED AMENDMENT TO REGULATION Z
Notice of Right of Rescission in Open End Credit Plans

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

Following is the text of a statement by the Board of Governors of the Federal Reserve System relating to a proposed amendment to its Regulation Z:

The Board of Governors of the Federal Reserve System today issued for comment a proposed amendment to its Regulation Z — Truth in Lending — concerning the right of consumers to be notified that they may cancel open end credit plans within three days if their home is pledged as security.

The Board requested comment by February 1, 1978.

The Truth in Lending Act, and Regulation Z, provide that consumers who pledge their home as security for credit have a three-day "cooling-off period" during which they may rescind the arrangement. The proceeds of the loan may not be disbursed during this period.

Some lenders, who wish to extend open end credit lines secured by an interest in a consumer's home, have asked the Board how notice should be given of this right of rescission in such cases. Credit card and overdraft arrangements are examples of open end credit.

The Board proposed that consumers must be notified of their right to cancel open end credit arrangements involving their homes as security during the three-day cooling off period in three instances:

- When an open end credit plan is first opened,
- Whenever the credit limit is increased, and
- If a security interest in a home is added to an open end credit arrangement.

Printed on the reverse side is the text of the proposed amendment. Comments on the proposal should be submitted by February 1, 1978, and may be sent to our Consumer Affairs Division.

PAUL A. VOLCKER,
President.

(Over)

FEDERAL RESERVE SYSTEM

[Reg.Z; Docket No. R-0134]

Right of Rescission

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed rule.

SUMMARY: This proposed rule seeks to clarify the application of the right of rescission in connection with open end credit accounts. Regulation Z provides that in the case of any credit transaction in which a security interest is taken in the principal residence of the consumer, the consumer shall have three business days to rescind that transaction. The regulation requires creditors to disclose this right to the consumer, and the credit proceeds may not be disbursed during the three-day period. Questions have been raised on the application of these provisions to open end credit plans. The Board's proposal would clarify these provisions by requiring creditors to give the required notice of the right of rescission to consumers who pledge their homes as security for an open end line of credit at the time the open end account is entered into as well as prior to any subsequent increase in the line of credit underlying the account. The Board views this proposal as consistent with the congressional purpose in creating the right of rescission and with its efforts to simplify Truth in Lending disclosures without sacrificing the Act's consumer protection features.

DATE: Comments must be received on or before February 1, 1978.

ADDRESS: Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. All material submitted should include Docket No. R-0134.

FOR FURTHER INFORMATION CONTACT: Glenn E. Loney, Acting Chief, Fair Credit Practices Section, Division of Consumer Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (202-452-2412).

SUPPLEMENTARY INFORMATION: The Board of Governors of the Federal Reserve System is publishing for comment a proposed amendment to Regulation Z designed to clarify the application of the right of rescission to open end credit accounts. Section 226.9(a) of the regulation provides customers with a right to rescind any consumer credit transaction in which a security interest is taken in the customer's home. When the right of rescission exists, Section 226.9(b) requires creditors to give consumers notice of that right. These provisions could be interpreted as providing a right to rescind and requiring notice of that right each time a transaction takes place under an open end credit plan.

The Board understands that it was Congress' purpose in enacting the right of rescission to permit consumers to reconsider important credit transactions in which a security interest is taken in their homes. Accord-

ingly, Congress provided consumers with a three-day cooling-off period in which to reconsider such credit decisions. The Board believes that this purpose will be served by providing the right to rescind and notice of that right in an open end credit context upon the opening of such an account and upon any subsequent increase in the underlying line of credit associated with the account. As a technical matter, the proposal also calls for providing the right of rescission and notice of the right at the time a security interest is taken covering an open end account if a security interest was not taken at the time the account was opened.

A requirement that the right of rescission notice be given with each transaction under an account, in the Board's view, would unduly frustrate and complicate the administration of open end credit plans without substantially increasing the customer's awareness of the significance of pledging his or her home as security for such credit.

Pursuant to the authority granted in 15 U.S.C. Section 1604 (1970), the Board proposes to amend Regulation Z, 12 C.F.R. Part 226, 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 that the disclosure required under paragraph (b) of this section is made 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, prior to the time a security interest is retained or acquired, and in any case prior to the time of any subsequent increase in the line of credit.

To aid in the consideration of the proposal by the Board, interested persons are invited to submit relevant data, comments or arguments. All such materials should be submitted in writing to Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, and should be received not later than February 1, 1978. All materials submitted should include the Docket Number R-0134. Such information will be made available for inspection and copying upon request, except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information (12 C.F.R. 261.6(a)).

This notice is published pursuant to § 553(b) of Title 5 United States Code and Section 262.2(a) of the Rules of Procedure of the Board of Governors of the Federal Reserve System (12 C.F.R. 262.2(a)).