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Final EFT rules proposed

Rules implementing the remainder of the Electronic Fund Transfer Act have been proposed by the Federal Reserve Board of Governors. The act is intended to protect consumers who use services for the electronic transfer of their funds. The rules would take effect May 10, 1980.

The rules govern financial institutions' responsibility to protect the rights of their customers who use EFT accounts. They would exempt certain automatic transfers from the other regulations but generally provide that customers be informed of all activity in their accounts and be given the opportunity without penalty to challenge errors in the accounts.

(A previously reported proposal that would limit customers' liability for unauthorized transfers effective August 1, rather than next May, is pending. A decision is expected in early June.)

The proposed rules would require that financial institutions:

- Disclose the terms, including customer liability, of the EFT agreement at the time of contract or before the first electronic transfer is made.
- Provide receipts of transactions conducted at EFT terminals, and periodic (usually monthly) statements.
- Notify customers within two days if prearranged deposits have or have not been made, or, in the alternative, provide a telephone number customers can call to verify the deposits. If an automatic deposit is not made and the customer has overdrawn the account on the assumption it was, the institution must cover the overdraft or use a prearranged automatic loan, and notify the customer.
- Credit an automatic deposit and make the funds available to the customer on the day received, if the deposit is made before the opening of business; if received after opening, the funds must be available at the start of the following business day.
- Notify customers in advance of preauthorized payments that vary from the authorized amount, such as utility bills.
- Allow customers to stop any preauthorized payment, orally or in writing, up to three business days before it is scheduled to be paid.
- Investigate customer allegations of errors in their electronic accounts within 10 days, or, should the investigation take longer, recredit the contested amount in the interim.
- Maintain records showing compliance with the act for two years, or longer if the institution is involved in an enforcement or judicial proceeding.

The proposed rules would also exempt from the timely reporting requirements most electronic transfers made automatically by agreement, such as from checking to savings accounts, loan payments, service charges and crediting of interest, as well as those arising from mutual fund, pension and profit-sharing plan transactions.

The Fed will hold a public hearing in Washington June 18 and 19 on the proposals. Requests to appear must be received by June 8. Written comments must be received by July 2. Write the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. Refer to Docket No. R-0221.

For further information about the proposals, call the Consumer Affairs Division, (800) 325-7517 (in Missouri, (800) 392-7237), Ext. 8443.

'Insider' loan rule changed

Several significant changes to the new rules regulating loans to bank officials have been made by the Federal Reserve Board of Governors.

The changes were made after more than 200 comments were received on amendments to Regulation O, Loans to Executive Officers, Directors and Principal Shareholders of Member Banks, which implements Title I of the Financial Institutions Regulatory and Interest Rate Control Act.

The changes:

- Exclude a member bank's loan to its parent bank holding company or a non-bank subsidiary of the holding company from a 10 percent lending limit, because such loans are already subject to a 10 to 20 percent limit under another section of the Federal Reserve Act;
- Eliminate the requirement for board of directors' approval of an extension of credit to a bank official when it is made under a line of credit previously approved by the board;
- Include subordinated notes and debentures for the purpose of determining capital and surplus;
- Exclude nominal inadvertent overdrafts from the prohibition against covering them for officials; and
- Exempt amortized loans (including residential mortgage loans) made prior to March 10 from the deadlines for compliance with the lending limits.

The regulation applies to loans by member banks to executive officers and principal shareholders of the bank, its parent bank holding company and other subsidiaries of the holding company. Principal shareholders are defined generally as those who control more than 10 percent of any class of voting shares (18 percent if the bank is located in a community of fewer than 30,000 people).

The regulation establishes an aggregate lending limit of 10 percent of the bank's capital and surplus for loans to officials, prohibits covering their overdrafts, requires that credit be extended to them on substantially the same terms given other borrowers, and requires that extensions of credit to officials that would exceed $25,000 be approved in advance by the majority of the board of directors.

In addition to regulating loans to insiders themselves, the rules apply to loans made to companies controlled by, and political or campaign committees controlled by or benefiting, bank officials.

For information about the regulation call the Bank Supervision and Regulation Department at (800) 325-7517 (in Missouri, (800) 392-7237), Ext. 8434.

Correspondent loan preference banned

Banks that maintain correspondent relationships are forbidden to extend credit on preferential terms to each other's directors, executive officers and principal shareholders under a proposed regulation implementing a section of the Financial Institutions Regulatory and Interest Rate Control Act.

The proposed regulation to implement titles VIII and IX of FIRA would also prohibit establishing a correspondent relationship where preferential loans to officials exist, and require annual reports that would disclose most loans to "insiders."

Federal Reserve Board of Governors' officials said the regulation had attracted considerable comment from bankers, which was still being analyzed as this was written. The essential prohibition against preferential loan terms, however, is not expected to be changed.

Title VIII prohibits loans from one bank to directors, executive officers and principal shareholders of a correspondent bank unless they are made on substantially the same terms available to other borrowers and do not involve more than the normal risk of repayment. It also forbids the establishment of a correspondent relationship between banks where preferential loans to each other's officials exist. Executive officers and principal shareholders (generally, those who own or control more than 10 percent of voting stock) must report to their bank annually all loans made to them by correspondent banks. The bank must report the total of such loans to regulatory agencies.

Title IX requires banks to report annually the aggregate amount of loans to executive officers and principal shareholders and their related interests. Information on directors is excluded unless they are covered by the other categories.

The prohibition against preferential lending became effective March 10, but the Board of Governors warned that "banks should eliminate the preferential terms on such loans (previously in force) as soon as practicable."

The proposed regulation applies to all federally insured banks and members of the Federal Reserve System.

For information call the Bank Supervision and Regulation Department at (800) 325-7517 (in Missouri, (800) 392-7237), Ext. 8436.

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Fed seeks comment on credit scores

The Fed Board of Governors is seeking comment on how Regulation B, Equal Credit Opportunity, should apply to certain aspects of credit scoring systems. The systems give numerical weight to information about the applicant that can be used to help predict the likelihood the applicant will repay the loan.

The regulation forbids discrimination in lending on the basis of sex, marital status, age, race and certain other general considerations. It also prohibits certain specific activities, such as discounting an applicant's income from part-time work, pensions and alimony. It is the application of these specific anti-discrimination rules the Fed is seeking comment on.

Officials seek comment on rules intended to avoid discrimination when creditors who use a scoring system:

- Assign a score to the number of sources of income or jobs an applicant has.
- Do not assign a score to income from part-time employment, pensions or alimony.
- Use judgment or Regulation B model-statement criteria to deny credit without sufficient specificity to inform the customer why the loan was denied and what steps he could take to remedy the deficiency.

The regulation defines creditor to include those, such as automobile dealers, home improvement contractors and real estate brokers, who regularly steer customers to financial institutions.

Comments must be received no later than June 20 by the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C., 20551. Refer to Docket No. R-203.

For further information about the proposal call the Consumer Affairs Division at (800) 325-7517 (in Missouri, (800) 392-7237), Ext. 8443.