FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 8449
November 8, 1978

AMENDMENT TO INTERPRETATION OF 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:

The Board of Governors of the Federal Reserve System has amended an interpretation of Regulation Z, "Truth in Lending," to modify a sample notice, regarding a consumer's right of rescission, that a creditor may use to comply with certain disclosure requirements of the regulation when the creditor proposes a change in the terms of an open end credit plan secured by the consumer's residence. The amendment modifies a sample notice that was sent to you with our Circular No. 8401, dated August 10, 1978. Use by a creditor of the sample notice as originally suggested will not, however, be a violation of the requirements of Regulation Z.

Enclosed is a copy of the amendment to the Regulation Z interpretation. Questions regarding the amendment may be directed to our Consumer Affairs Division (Tel. No. 212-791-5921).

PAUL A. VOLCKER,
President.

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Board of Governors of the Federal Reserve System

TRUTH IN LENDING

AMENDMENT TO INTERPRETATION OF REGULATION Z

(effective October 31, 1978)

[Reg. Z]

PART 226—TRUTH IN LENDING

Right of Rescission

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final interpretation.

SUMMARY: The Board hereby adopts an amendment to interpretation § 226.904 of regulation Z concerning disclosures which creditors may use to satisfy certain requirements of the regulation in connection with open end credit plans secured by consumer's residences. Specifically, the amendment modifies the sample disclosure which creditors may use to advise consumers of their rights when a change in the underlying terms of such a credit plan is proposed by a creditor. The amended disclosure is intended to emphasize these rights of the consumer. However, use by a creditor of the disclosure as originally promulgated by the Board shall not constitute a violation of the regulation.

EFFECTIVE DATE: October 31, 1978.

FOR FURTHER INFORMATION CONTACT:

Glenn E. Loney, Section Chief, Division of Consumer Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, 202-452-3867.

SUPPLEMENTARY INFORMATION: On August 3, 1978, the Board published (43 FR 34111) an amendment to regulation Z, § 226.9(g)(6) of the regulation, creating an exception to the rescission provisions of the regulation for individual transactions under certain open end credit accounts secured by consumers' residences. Under the terms of that amendment, consumers would not have the right to cancel each individual transaction on such accounts, provided that the specific requirements of the amendment are met.

The amendment provides, among other things, that a creditor may not change the underlying terms of an open end account secured by a customer's home without affording the customer an opportunity to refuse the change in terms. If the customer refuses the proposed change in terms, the creditor need not extend any further credit on the account; however, the customer retains the right to continue to repay any existing obligation on the account under the then existing terms of the account. The amendment requires that a creditor that proposes to change the terms of a customer's account disclose these rights to the customer.

Interpretation § 226.904 of regulation Z, published by the Board together with the amendment, provides, among other things, a sample disclosure which creditors may use to satisfy, as to form and content, the amendment's disclosure requirements in connection with a proposed change in terms. For convenient reference, that sample disclosure is reproduced below:

Section 226.9(g)(6)(iii) (Change in Terms)

NOTICE TO CUSTOMER REQUIRED BY FEDERAL LAW:

(Name of creditor) ————————————

Intends to change the terms of your open end credit account which is secured by your home. You have a right to refuse to accept this change in terms. If you refuse this change in terms, we have the right to refuse to extend any further credit on your open end account and may require you to repay any existing obligation on your account under the present terms of the account. You may exercise your right to refuse the change in terms within three business days of (date disclosure delivered to customer) ———————— by notifying us at (address of creditor's place of business) ———————— by mail or telegram sent not later than midnight of (date) ————————. You may also use any other form of written notice to refuse the change in terms if it is delivered to the above address not later than that time. This notice may be used for that purpose by dating and signing below.

I hereby refuse the change in the terms of my account.

(date) ————————————————

————————————————

(customer's signature)

It has been suggested to the Board that the foregoing disclosure, specifically the third sentence thereof, may not sufficiently inform consumers of the rights which they have in the event of a proposed change in terms of open end credit accounts secured by their homes and, further, that the impression may be created that the right to pay any existing obligation without the change in terms is, in fact, a penalty to consumers who refuse such a change.

The Board believes that it may benefit consumers to modify the disclosure set forth above to further emphasize consumers' rights in connection with changes in the terms of open end accounts secured by their homes and to avoid any implication that these rights constitute a penalty. However, by amending the disclosure, the Board does not intend that use of the disclosure as originally published shall constitute a violation of regulation Z.

Inasmuch as the following amendment to interpretation § 226.904 constitutes an interpretive rule within the meaning of 5 U.S.C. § 553 (1976), and, further, because the amendment provides only a sample disclosure which creditors may but need not use, the Board finds that publication of the amendment for public comment prior to final adoption and a delay in the effective date of the amendment are unnecessary.

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Accordingly, pursuant to the authority granted in 15 U.S.C. 1604 (1976), the Board hereby amends official Board interpretation of regulation Z, 12 CFR 226.904, effective immediately, by deleting the third sentence of the disclosure captioned "Section 226.9(g)(6)(iii) (Change in terms)" which reads, "If you refuse this change in terms, we have the right to refuse to extend any further credit on your account and may require you to repay any existing obligation on your account under the present terms of the account" and substituting therefor "If you refuse this change in terms, you have the right to continue to repay your existing obligation under the present terms of the account. However, we would then have the right to refuse to extend any further credit, except pursuant to these new terms", so that the disclosure reads as follows:

Section 226.9(g)(6)(iii) (Change in Terms)

NOTICE TO CUSTOMER REQUIRED BY FEDERAL LAW:

(Name of Creditor) ————————————

Intends to change the terms of your open end credit account which is secured by your home. You have a right to refuse to accept this change in terms. If you refuse this change in terms, you have the right to continue to repay your existing obligation under the present terms of the account. However, we would then have the right to refuse to extend any further credit, except pursuant to these new terms. You may exercise your right to refuse the change in terms within three business days of (date disclosure delivered to customer) ———————— by notifying us at (address of creditor's place of business) ———————— by mail or telegram sent not later than midnight of (date) ————————. You may also use any other form of written notice to refuse the change in terms if it is delivered to the above address not later than that time. This notice may be used for that purpose by dating and signing below.

I hereby refuse the change in the terms of my account.

(date) ————————————————————

————————————————————

(customer's signature)

By order of the Board of Govenors, October 23, 1978.

THEODORE E. ALLISON,
Secretary of the Board.

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