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MEMORANDUM

April 10, 2002

To Our Clients and Friends

Re: Federal Reserve Board's Revisions to
Regulation Z Official Staff Commentary

The Federal Reserve Board recently issued revisions to its official staff commentary ("Official Staff Commentary")¹ to Regulation Z², which implements the Truth in Lending Act ("TILA")³. Comments on these revisions were requested in December⁴. The revisions, which are effective immediately, are described below.

Time of Disclosure

The revisions to the Official Staff Commentary clarify that creditors that use a single document for the credit contract and the TILA disclosures satisfy TILA requirements by giving a copy of the document containing the disclosures to the consumer to read and to sign, and providing the consumer a copy to keep at the time the consumer becomes obligated. Creditors are not required to give the consumer two separate copies of the document before execution, one for the consumer to keep and a second copy for the consumer to execute.

It is not sufficient for the creditor merely to show the document containing the TILA disclosures to the consumer before the consumer signs and becomes obligated. Rather, the consumer must be free to take possession of and review the disclosures in their entirety before signing.

Finance Charge

Under Regulation Z, amounts paid for credit insurance or debt cancellation coverage may be excluded from the finance charge if the creditor discloses the fee or premium for the

¹ 12 CFR part 226 (Supp. I)

² 12 CFR part 226

³ 15 U.S.C. § 1601 *et seq.*

⁴ 66 Federal Register 64381, December 13 2001

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initial term of coverage. The revision to the Official Staff Commentary clarifies that 1) creditors have the option of providing disclosures on the basis of one year of coverage where the fee or premium for the coverage is assessed periodically and the consumer is under no obligation to continue the coverage and 2) this option applies when the consumer can cancel the coverage, whether or not the consumer has made an initial payment.

Definition of Business Day

When consumers have a right to rescind a home-secured loan, they generally may exercise that right until midnight of the third business day following the later of consummation or the delivery of certain disclosures. Regulation Z defines business day for this purpose to mean all calendar days except Sundays and the federal legal holidays listed in 5 U.S.C. § 6103 (a). Of the holidays listed, four are defined by a specific date (New Year's Day, Independence Day, Veterans Day, and Christmas Day). This revision clarifies that for purposes of rescission, only the date specified in the statute for these four holidays is considered a legal holiday even if that date falls on a week-end and is observed as a holiday by the federal government on a Monday or a Friday.

A copy of this final rule can be found at www.schwartzandballen.com/WhatsNew.htm.

If you have any questions concerning these revisions to the Regulation Z Official Staff Commentary, please call Gilbert Schwartz, Robert Ballen or Tom Fox at (202) 776-0700.