

RULES and REGULATIONS

FEDERAL RESERVE SYSTEM

12 CFR Part 226

(Regulation Z; Docket No. R-0828)

Depository Institutions Disaster Relief Act of 1993: Truth in Lending Act

Friday, February 11, 1994

***6532** AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Order; temporary exceptions.

SUMMARY: The Depository Institutions Disaster Relief Act of 1993 temporarily authorizes the Board to take immediate action to make exceptions to the Truth in Lending Act and Regulation Z (which implements the Act) for transactions in an area the President has declared to be a major disaster area. In accordance with this law, the Board is granting temporary relief from certain provisions of Regulation Z governing waivers by consumers of the right to rescind certain home-secured loans, so that borrowers in disaster-affected communities in California can gain easier access to loan funds for emergency purposes. The relief from Regulation Z provided that a consumer's need to obtain funds immediately shall be regarded as a bona fide personal financial emergency for purposes of Regulation Z, and the use of preprinted forms for consumers to waive the right of rescission is permitted; provided that the home securing the extension of credit is located in the disaster area. A consumer must still provide the creditor with a ***6533** signed, dated waiver statement that a personal financial emergency exists.

DATES: This order is effective as of February 11, 1994, and expires in the areas of California affected by the earthquake on October 31, 1994.

FOR FURTHER INFORMATION CONTACT: Jane Jensen Gell, Staff Attorney, or Adrienne Hurt, Managing Counsel (202/452-2412), Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System. For the hearing impaired only, Telecommunications Device for the Deaf (TDD), Dorothea Thompson (202/452-3544), Board of Governors of the Federal Reserve System, 20th and C Streets, NW., Washington, DC 20551.

SUPPLEMENTARY INFORMATION: On January 17, 1994, an earthquake devastated areas in California. The President declared the affected communities major disaster areas. To facilitate recovery from major disasters, the Depository Institutions Disaster Relief Act of 1993 (DIDRA), Pub. L. 103-76, 107 Stat. 752 (1993), was enacted into law on August 12, 1993. Section 2 of DIDRA authorizes the Board, until February 12, 1994, to take immediate action to make temporary exceptions to the Truth in Lending Act (TILA) and Regulation Z for transactions in an area the President has declared to be a major disaster area, pursuant to section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, 42 U.S.C. 5170.

Under the TILA and Regulation Z, with some exceptions, a consumer has the right to cancel a credit obligation that is secured by the consumer's principal dwelling. Because of the risk of loss of the consumer's home in the event of default, there is a mandatory waiting period for three days before funds can be disbursed in order to give consumers an opportunity to reflect on the loan terms and to elect to cancel the transaction.

A consumer may modify or waive this right of rescission to meet a bona fide personal financial emergency. Regulation Z, 12 CFR 226.15(e) and 23(e), require

that the consumer must provide the creditor a written, signed and dated waiver statement that describes the emergency. The wavier statement may not be executed on a preprinted form.

Based on the Board's experience in monitoring compliance with Regulation Z, the Board has determined that the three-day waiting period that provides a consumer the opportunity to rescind a loan, and the restriction on the use of a preprinted form to execute a waiver of the right of rescission, may disadvantage borrowers in the major disaster areas who are in immediate need of the loan proceeds. Therefore, the Board believes that granting relief in these situations can reasonably be expected to produce benefits to the public that outweigh possible adverse effects. [FN1]

FN1 Similar action has been taken by the Board in connection with areas declared major disaster areas as a result of floods in the Midwest (58 FR 40582 (1993)), hurricanes in Florida, Louisiana and Hawaii and civil unrest in California (57 FR 53545 (1992)).

Accordingly, pursuant to its authority under section 2 of DIDRA, provided that the dwelling securing the extension of credit is located in an area of California that was declared a major disaster by the President under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, 42 U.S.C. 5170, as a result of the January 17, 1994 earthquake in California, [FN2] the Board hereby:

FN2 Such areas now include Los Angeles, Orange, and Ventura counties.

(1) Determines that a consumer's need to obtain funds immediately shall be regarded as a bona fide personal financial emergency for purposes of § § 226.15(e) and 226.23(e) of Regulation Z; and

(2) Grants relief from § § 226.15(e) and 226.23(e) of Regulation Z to permit the use of preprinted forms for consumers to waive the right of rescission. The Board notes that consumers must still provide creditors with signed, dated waiver statements in these transactions. The relief from Regulation Z provided in this Order shall expire on October 31, 1994

By order of the Board of Governors of the Federal Reserve System, dated February 7, 1994.

William W. Wiles,

Secretary of the Board.

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