

August 5, 1991

Curt Coffman  
President  
Energy One Federal Credit Union  
220 W. 7th  
Tulsa, Oklahoma 74119-2034

Re: Regulation Z (Your June 24, 1991, Letter)

Dear Mr. Coffman:

You have asked what type of disclosure notice is necessary when the Energy One Federal Credit Union (FCU) charges less than the initial disclosed rate on its open end home equity line of credit. If the FCU charges a lower rate than initially disclosed no notice to the member is required. However, a notice to the member is required if the FCU raises the rate, even if the increase is still less than the initially disclosed rate.

#### BACKGROUND

The FCU offers an open end home equity line of credit. The loan agreement states that the variable interest rate is indexed to the NACIR plus 2 percent. The FCU charges less than the disclosed interest rate when circumstances permit. The FCU does not notify the member when charging less than the disclosed interest rate.

#### ANALYSIS

Section 226.5b of Regulation Z, 12 C.F.R. ~226.5b, sets forth disclosure requirements for home equity plans. The official staff commentary to Regulation Z (12 C.F.R. Part 226, Supp. I, Comment 226.5b(f)(3)(iv)) states in part that:

Creditors are permitted to temporarily reduce the rate or fees charged during the plan (though a change in terms notice may be required under ~226.9(c) when the rate or fees are returned to their original level). . .

As you correctly point out in you letter, Section 226.9(c) of Regulation Z does not require a new disclosure to the member when the FCU decides to charge an interest rate lower than initially disclosed. Therefore, under the facts you present, no disclosure to the member is necessary when lowering the interest rate. It is important to note, however, that if the FCU raises the interest rate, even if lower than the initially disclosed interest rate, Section 226.9(c) of Regulation Z requires a change in terms notice be sent to the member.

As you may know, NCUA has no official authority to interpret Regulation Z; that authority belongs to the Federal Reserve Board. We spoke with an attorney at the Federal Reserve Board, who confirmed our opinion that no disclosure is required under the circumstances described in your letter. Should you have any further questions on this issue, we suggest that you contact the Federal Reserve Board's consumer information service at (202) 452-3667.

Sincerely,

James J. Engel  
Deputy General Counsel

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