

11. Late Payments

The charge for late payments is: _____

12. Option to Purchase

[You have an option to purchase the leased furniture prior to the end of the term. The price will be \$_____/ the method of determining the price].

[You have no option to purchase the leased vehicle.]

Appendix B to Part 213—Federal Enforcement Agencies

The following list indicates which federal agency enforces Regulation M (12 CFR part 213) for particular classes of business. Any questions concerning compliance by a particular business should be directed to the appropriate enforcement agency. Terms that are not defined in the Federal Deposit Insurance Act (12 U.S.C. 1813(s)) shall have the meaning given to them in the International Banking Act of 1978 (12 U.S.C. 3101).

1. *National banks and federal branches and federal agencies of foreign banks.*

District office of the Office of the Comptroller of the Currency for the district in which the institution is located.

2. *State member banks, branches and agencies of foreign banks (other than federal branches, federal agencies, and insured state branches of foreign banks), commercial lending companies owned or controlled by foreign banks, and organizations operating under section 25 or 25A of the Federal Reserve Act.*

Federal Reserve Bank serving the District in which the institution is located.

3. *Nonmember insured banks and insured state branches of foreign banks.*

Federal Deposit Insurance Corporation Regional Director for the region in which the institution is located.

4. *Savings institutions insured under the Savings Association Insurance Fund of the FDIC and federally chartered savings banks insured under the Bank Insurance Fund of the FDIC (but not including state-chartered savings banks insured under the Bank Insurance Fund).*

Office of Thrift Supervision regional director for the region in which the institution is located.

5. *Federal credit unions.*

Regional office of the National Credit Union Administration serving the area in which the federal credit union is located.

6. *Air carriers.*

Assistant General Counsel for Aviation Enforcement and Proceedings, Department of Transportation, 400 Seventh Street, S.W., Washington, DC 20590.

7. *Those subject to Packers and Stockyards Act.*

Nearest Packers and Stockyards Administration area supervisor.

8. *Federal Land Banks, Federal Land Bank Associations, Federal Intermediate Credit Banks, and Production Credit Associations.*

Farm Credit Administration, 490 L'Enfant Plaza, S.W., Washington, DC 20578.

9. *All other lessors (lessors operating on a local or regional basis should use the address of the FTC regional office in which they operate).*

Division of Credit Practices, Bureau of Consumer Protection, Federal Trade Commission, Washington, DC 20580.

Appendix C to Part 213—Issuance of Staff Interpretations

Officials in the Board's Division of Consumer and Community Affairs are authorized to issue official staff interpretations of this Regulation M (12 CFR part 213). These interpretations provide the formal protection afforded under section 130(f) of the act. Except in unusual circumstances, interpretations will not be issued separately but will be incorporated in an official commentary to Regulation M, which will be amended periodically. No staff interpretations will be issued approving lessor's forms, statements, or calculation tools or methods.

By order of the Board of Governors of the Federal Reserve System, September 12, 1995.

William W. Wiles,

Secretary of the Board.

[FR Doc. 95-23048 Filed 9-19-95; 8:45 am]

BILLING CODE 6210-01-P

FEDERAL RESERVE SYSTEM

12 CFR Part 213

[Regulation M; Docket No. R-0893]

Consumer Leasing

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed official staff interpretation.

SUMMARY: The Board is publishing for comment proposed revisions to the official staff commentary to Regulation M which implements the Consumer Leasing Act. The Consumer Leasing Act requires lessors to provide uniform cost and other disclosures about consumer lease transactions. The Board is issuing this proposal to revise the commentary that applies and interprets the requirements of Regulation M pursuant to the Board's policy of periodically reviewing its regulations and official interpretations. A proposal to revise Regulation M is published elsewhere in today's issue of the Federal Register.

DATES: Comments must be received by November 17, 1995.

ADDRESSES: Comments should refer to Docket No. R-0893, and be mailed to Mr. William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, NW, Washington, DC 20551. Comments also may be delivered to Room B-2222 of the Eccles Building

between 8:45 a.m. and 5:15 p.m. weekdays, or to the guard station in the Eccles Building courtyard on 20th Street, NW (between Constitution Avenue and C Street) any time. Comments may be inspected in Room MP-500 of the Martin Building between 9 a.m. and 5 p.m. weekdays, except as provided in 12 CFR section 261.8 of the Board's rules regarding the availability of information.

FOR FURTHER INFORMATION CONTACT: Kyung Cho-Miller, Obrea O. Poindexter, or W. Kurt Schumacher, Staff Attorneys, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, Washington, DC 20551, at (202) 452-2412 or 452-3667; for the hearing impaired *only*, contact Dorothea Thompson, Telecommunications Device for the Deaf, at (202) 452-3544.

SUPPLEMENTARY INFORMATION:

I. General

The Consumer Leasing Act (CLA), 15 U.S.C. 1667-1667e, governs consumer leasing transactions and is implemented by the Board's Regulation M (12 CFR part 213). Effective May 13, 1982, an official staff commentary (Supplement I-CL-1 to 12 CFR part 213) was published to interpret the regulation. The commentary is designed to provide guidance to lessors in applying the regulation to specific transactions and is intended to be updated periodically to address significant questions that arise. It is anticipated that the proposed revisions to the Regulation M commentary will be adopted in final form in the Spring of 1996 with compliance optional until October 1, 1996, the uniform effective date for mandatory compliance.

II. The Review of Regulation M

The Board's Regulatory Planning and Review Program calls for the periodic review of a regulation and its official interpretations with four goals in mind: to clarify and simplify regulatory language; to determine whether regulatory amendments are needed to address technological and other developments; to reduce undue regulatory burden on the industry; and to delete obsolete provisions. The official staff commentary has never been

substantially revised or reviewed. The Board initially began a review of Regulation M according to the goals of its review program in November 1993, when it published an advance notice of proposed rulemaking on Regulation M (58 FR 61035, November 19, 1993). In its advance notice, the Board solicited comments generally on the provisions of Regulation M and the CLA, including coverage, exempt transactions, and general format and disclosure requirements. In addition, the Board identified specific issues about disclosures of early termination charges, broadcast media advertising of leases, and segregation of leasing disclosures from other information. Most of the seventy comment letters on the advanced notice addressed those issues. The proposed revisions to the regulation are published elsewhere in today's issue of the Federal Register.

III. Discussion of Proposed Revisions

The following discussion covers the proposed revisions to the Regulation M commentary section-by-section. Most of the discussion focuses on new comments and significant revisions to existing comments.

Introduction

Comments I-3, I-4, and I-6 are deleted as obsolete or unnecessary.

Section 213.1—Authority, Scope, Purpose, and Enforcement

Current	Proposed
1-2	Deleted as unnecessary.

Section 213.2—Definitions

2(a) Definitions

Current	Proposed
2(a)(2)-1	2(a)(2)-1 and -2.
2(a)(2)-2	2(a)(2)-3.
	2(a)(3)-1 new.
2(a)(4)-1	2(a)(10)-1.
2(a)(4)-2	2(a)(10)-4.
2(a)(4)-3	2(a)(10)-2.
	2(a)(6)-3 new.
2(a)(6)-3 through -6 .	2(a)(6)-4 through 7.
2(a)(7)-1	2(a)(9)-1.
2(a)(8)-1	2(a)(10)-3.
2(a)(9)-1	2(a)(12)-1.
2(a)(12)-1	2(a)(14)-1.
2(a)(14)-1 through -6	2(a)(15)-1 through -6.
	2(a)(17)-1 incorporates list from the regulatory definition of security interest.
2(a)(15)-1 through -3	2(a)(17)-2 through -4.
2(a)(17)-1 through -3	2(a)(19)-1 through -4.
2(a)(17)-4 and -5	2(a)(19)-5 and -6.

Current	Proposed
2(a)(18)-1 through -3	2(a)(20)-1 through -3.
2(b)-1 and -2	Deleted.

2(a)(2) Advertisement

Comment 2(a)(2)-1 would be revised to incorporate examples of advertisements, currently in § 213.2(a)(2).

2(a)(3) Agricultural Purpose

Proposed comment 2(a)(3)-1 incorporates the portion of current § 213.2(a)(3) and the statutory definition in section 103(s) of the Truth in Lending Act which describes agricultural products.

2(a)(6) Consumer Lease

Comment 2(a)(6)-2 would be revised to provide additional guidance on when a lease is deemed to exceed four months and, therefore, covered under the act and regulation. An example has been added to clarify that a month-to-month lease with a penalty for cancelling within the first year is deemed to be a consumer lease subject to the act and regulation.

Proposed comment 2(a)(6)-3 provides guidance on the total contractual obligation for purposes of determining whether a lease is covered under the regulation, and clarifies that the total contractual obligation may be different from the total lease obligation which applies only to open-end leases.

Comment 2(a)(6)-7, currently comment 2(a)(6)-6, would be revised to add another example of a lease deemed incidental to a service. The narrow list of exceptions in the existing commentary of leases incidental to a service is exhaustive, rather than illustrative. Questions have arisen about Regulation M coverage of cellular phones leased in conjunction with obtaining cellular service. Cellular service providers typically offer customers the opportunity to lease or purchase cellular telephones when subscribing for cellular service. The leasing of a cellular telephone is not incidental to obtaining cellular service and is, thus, covered under the regulation.

2(a)(7) Estimated Lease Charge

Proposed comment 2(a)(7)-1 clarifies that a monthly or other periodic payment paid at or before consummation is not included in the calculation of the estimated lease charge, as it is reflected in the total periodic payment disclosure. Any refundable charge such as a security

deposit would also not be included in the calculation.

2(a)(8) Gross Cost

Proposed comment 2(a)(8)-1 provides guidance in making the proposed disclosure in § 213.5(p). Amounts consisting of fees and other charges paid out of pocket at consummation by the lessee are included in the gross cost figure.

2(a)(10) Lessor

Proposed comment 2(a)(10)-1 incorporates the existing regulatory definition of "arrange for leasing of personal property" (in § 213.2(a)(4) and provisions in the current commentary) into the proposed commentary under the definition of lessor.

Section 213.4—General Disclosure Requirements

4(a) General requirements

Current	Proposed
4(a)-1	Revised to adopt "legal obligation" terminology of Regulation Z.
4(a)-2	Moved to proposed § 213.4(f) of the regulation on minor variations that may be disregarded in making disclosures.
4(a)-3	4(a)(1)-1.
4(a)-5	Deleted as no longer applicable.
4(a)(1)-1	4(a)-2 (deleted the word "or format"); 4(a)-3.
4(a)(1)-2	Deleted as no longer applicable.
4(a)(2)-1	Deleted.
4(a)(2)-2	4(a)(1)-2.
4(a)(2)-3	4(a)(1)-3.
4(a)(2)-4	4(a)(1)-4.
4(a)(2)-5	4(a)(1)-5.
	4(a)(2)-1 new.
4(a)(4)-1	Deleted as unnecessary because of revised position in proposed § 213.4(a)(5).
4(a)(4)-2	Deleted as unnecessary because of revised position in proposed § 213.4(a)(5).

4(a)(2) Segregation of Certain Disclosures

Proposed comment 4(a)(2)-1 provides guidance in making the segregated disclosures required by § 213.4(a)(2).

4(b) Additional Information

Comment 4(b)-1 would be revised by deleting the second sentence.

4(d)(2) Open-End Purchase Option Lease

Comment 4(d)(2)-1, currently comment 4(d)-6, would be revised to clarify that this paragraph only applies to open-end leases. No substantive change is intended.

4(e) Effect of Subsequent Occurrence

Proposed comment 4(e)-3 incorporates the first sentence of footnote 1 of the regulation.

Section 213.5—Content of Disclosures

All of the comments in § 213.4(g) would be redesignated according to a new proposed § 213.5.

Current	Proposed
4(g)-1	Deleted as unnecessary.
4(g)-2	5-1.
4(g)(1)-1	Deleted as unnecessary.
4(g)(2)-1	Deleted as unnecessary 5(b)-1 new (incorporated from the instructions to the model form in the current appendix C-2).
4(g)(2)-2	5(b)-2 (incorporates current comment 2(b)-2).
4(g)(2)-3	5(b)-3.
4(g)(3)-1 and -2	5(c)-1 and -2.
4(g)(4)-1	5(d)-1.
4(g)(5)-1	5(e)-1 and -2.
4(g)(5)-2	Deleted as unnecessary.
4(g)(5)-3	5(e)-3 and -4.
4(g)(5)-4	5(e)-5.
4(g)(6)-1 and -2	5(f)-1 and -2. 5(f)-3 new.
4(g)(7)-1 through -3	5(g)-1 through -3.
4(g)(8)-1	5(h)-1.
4(g)(9)-1	5(i)-1.
4(g)(10)-1 through -5	5(j)-1 through -5.
4(g)(11)-1 through -3	5(k)-1 through -3.
4(g)(12)-1 through -3	5(l)-1 through -3; the word "capitalized" in comment 2 is deleted. 5(l)-4 new. 5(l)-5 new.
4(g)(14)-1 through -3	5(n)-1 through -3.
4(g)(15)-1	5(o)-1.
4(g)(15)-2	5(o)(1)-1.
4(g)(15)-3	5(o)(1)-2.
4(g)(15)-4	5(o)-2.
4(g)(15)-5	5(o)(2)-1.
4(g)(15)-6	5(o)(2)-2; the word "capitalized" is deleted. 5(o)(2)-3 new. 5(p)-1 new.

5(b) Total Amount Due at Lease Signing

Proposed comment 5(b)-1 incorporates a definition of "capitalized cost reduction" from the instructions in current appendix C-1.

Comment 5(b)-2 would incorporate the first sentence of current comment 2(b)-2.

5(d) Fees and Taxes

Comment 5(d)-1 is revised to provide guidance on taxes that should be

disclosed pursuant to this paragraph. If the tax is payable by the lessor (such as a gas guzzler tax), but the tax is passed on to the consumer and the existence of the tax is indicated in the consumer's lease documents—for example on the lease agreement—or the sticker or tag affixed to the personal property—then the tax should be disclosed pursuant to this paragraph. However, if the existence of the tax is not indicated, and the tax is absorbed by the lessor as a cost of doing business, then the tax should not be disclosed under this section.

5(f) Insurance

Proposed comment 5(f)-3 is added to indicate that this paragraph applies to voluntary and required insurance provided in connection with a lease transaction.

5(l) Early Termination

Proposed comment 5(l)-4 provides guidance in disclosing a full description of the method used to determine the amount of an early termination charge. A full description of the complete early termination method must be disclosed by lessors outside of the segregated disclosures. However, given the complexity of the methods involved, a lessor is permitted—in giving the "full description" of its early termination method—to include a reference to the name of a generally accepted method of computing the unamortized gross or capitalized cost portion of its early termination charge. For example, a lessor may state that the "constant yield" method would be utilized in obtaining the unamortized portion of the gross cost, but the lessor would also have to specify how that figure—and any other term or figure—is used in computing the total early termination charge that would be imposed upon the consumer. A lessor referring to a named method in this manner must provide a written explanation of that method if requested by the consumer.

Proposed comment 5(l)-5 provides guidance on what value such as the fair market value or the wholesale value should be used when calculating the required example of an early termination charge based on termination at the end of the first year.

5(o) Liability at End of Lease Term Based on Estimated Value

The proposed regulation reformats this section, currently section 213.4(g)(15), for clarity. The commentary has been similarly reformatted.

Proposed comment 5(o)(2)-3 states the intent of section 183(a) of the CLA

that lessors must pay the lessees' attorney's fees in all actions brought by lessors under this subsection, even if those actions are decided in favor of the lessee.

5(s) Statement Referencing Nonsegregated Disclosures

Proposed comment 5(s)-1 provides guidance in making the proposed new disclosure referencing and alerting consumers to read CLA required disclosures not included among the segregated disclosures. It is only necessary to refer to the applicable items, thus, the lessor may delete inapplicable items from the disclosure.

Section 213.6—Renegotiations, Extensions, and Assumptions

Current	Proposed
4(h)-1	6-1.
4(h)-2	First sentence moved to regulation; second sentence moved to 6-1.
4(h)-3	Moved to the regulation.
4(h)-4	Moved to the regulation.
4(h)-5	6(b)-1. 6(b)-2 new.
4(h)-6	6-2.
4(h)-7	Moved to the regulation.
4(h)-8	Moved to the regulation.
4(h)-9	Moved to the regulation.

Section 213.6 of the proposed regulations contain the disclosure rules governing leases that are renegotiated, extended or assumed (currently in section 213.4(h) and the commentary). Many of the commentary provisions have been moved to the regulation. For example, the definitions of a renegotiation and an extension would be included in the regulation. (This change parallels the approach under Regulation Z for refinancings and assumptions, section 226.20.) Other commentary provisions have been reformatted to conform to the proposed regulatory changes.

Comment 6(b)-1, currently comment 4(h)-5, would be revised to clarify that where a consumer lease is extended on a month-to-month basis for more than 6 months, new disclosures are required at the beginning of the seventh month, and also at the start of each seventh month thereafter. This revision incorporates into the commentary a longstanding interpretation originally issued under leasing provisions that were a part of Regulation Z (Truth in Lending) prior to 1982.

Proposed comment 6(b)-2 also incorporates a longstanding interpretation originally issued under the pre-1982 leasing provisions in Regulation Z that disclosures for a consumer lease, as defined by the

regulation, extended on a month-to-month basis for more than 6 months should reflect the month-to-month nature of the transaction.

Section 213.8—Advertising

Current	Proposed
5(a)-1	8(a)-1.
5(a)-2	8(a)-2.
5(b)-1	8(c)-1.
5(b)-2	8(c)-2.
5(c)-1	8(b)-1.
	8(b)-2 new.
5(c)-2	8(d)(1)-1.
	8(d)(2)-1 new.
5(d)-1	8(e)-1.
	8(e)-2 new.
	8(f)-1 new.
	8(f)(1)-2 new.

8(b) Clear and Conspicuous Standard

Proposed 8(b)-2 provides that lease disclosures must appear on a television screen for at least five seconds, which parallels the "five second rule" adopted by the Federal Trade Commission.

8(e) Alternative Disclosures—Merchandise Tags

Proposed comment 8(e)-2 clarifies that merchandise tags are generally considered a multiple item lease.

8(f) Alternative Disclosures—Television or Radio Advertisements

8(f)(1) Toll-Free Number or Print Advertisement

Proposed comment 8(f)(1)-1 clarifies that a newspaper circulated nationally qualifies as a publication in general circulation.

Section 213.10 Relations to State Laws

Section 213.10 in the proposed regulation combines and simplifies current §§ 213.7 and 213.8. The comments to these sections have been deleted as unnecessary.

Appendix A Model Forms

Under the proposed rule, the model forms are moved to appendix A. Comment app. A-2 would be deleted. Minor revisions would be made to other comments in this appendix. For example, comment app. A-1 would be revised to indicate that changes to the headings, format, and the content of the segregated disclosures should be minimal. Also the definition of a closed-end lease in comment app. A-3 would be deleted because a definition would be added in the regulation.

IV. Form of Comment Letters

As discussed above, comment letters should refer to Docket No. R-0893. The Board requests that, when possible,

comments be prepared using a standard courier type-face with a type-size of 10 or 12 characters per inch. This will enable the Board to convert the text into machine-readable form through electronic scanning, and will facilitate automated retrieval of comments for review. Comments may also be submitted on 3½ inch or 5 ¼ inch computer diskettes in any IBM-compatible DOS-based format, but must be accompanied by an original document in paper form.

List of Subjects in 12 CFR Part 213

Advertising, Federal Reserve System, Reporting and recordkeeping requirements, Truth in lending.

For the reasons set forth in the preamble, 12 CFR part 213, as proposed to be amended by a document published elsewhere in today's issue of the Federal Register, is further proposed to be amended as follows:

PART 213—CONSUMER LEASING (REGULATION M)

1. The authority citation for part 213 continues to read as follows:

Authority: 15 U.S.C. 1604

2. Supplement I-CL-1 to Part 213—Official Staff Commentary to Regulation M would be revised to read as follows:

Supplement I-CL-1 to Part 213—Official Staff Commentary to Regulation M

Introduction

1. *Official status.* This commentary is the vehicle by which the staff of the Division of Consumer and Community Affairs of the Federal Reserve Board issues official staff interpretations of Regulation M (12 CFR part 213). Good faith compliance with this commentary affords protection from liability under section 130(f) of the Truth in Lending Act (15 U.S.C. 1640). Section 130(f) protects lessors from civil liability for any act done or omitted in good faith in conformity with any interpretation issued by a duly authorized official or employee of the Federal Reserve System.

2. *Procedures for requesting interpretations.* Under appendix C of Regulation M, anyone may request an official staff interpretation. Interpretations that are adopted will be incorporated in this commentary following publication in the Federal Register. No official staff interpretations are expected to be issued other than by means of this commentary.

3. *Comment designations.* Each comment in the commentary is identified by a number and the regulatory section or paragraph that it interprets. The comments are designated with as much specificity as possible according to the particular regulatory provision addressed. For example, some of the comments to § 213.4(a) are further divided by subparagraph, such as comment

4(a)(1)-1 and comment 4(a)(1)-2. In other cases, comments have more general application and are designated, for example, as comment 4(a)-1. This introduction may be cited as comments I-1 through I-3. An appendix may be cited as comments app. A-1.

Section 213.1—Authority, Scope, Purpose, and Enforcement

1. *Foreign applicability.* Regulation M applies to all persons (including branches of foreign banks or leasing companies located in the United States) that offer consumer leases to residents (including resident aliens) of any state as defined in § 213.2(a)(18). The regulation does not apply to a foreign branch of a U.S. bank or leasing company leasing to a U.S. citizen residing or visiting abroad or to a foreign national abroad.

Section 213.2—Definitions

2(a) Definitions

2(a)(2) Advertisement

1. *Coverage.* Only commercial messages that promote consumer lease transactions requiring disclosures are advertisements. Messages inviting, offering, or otherwise announcing generally to prospective customers the availability of consumer leases, whether in visual, oral, or print media, are covered by the definition. The term includes the following:

- i. Print media.
- ii. Broadcast media, including radio and television messages.
- iii. Catalogs and fliers.
- iv. Direct mail literature.
- v. Printed material on any interior or exterior sign or display, in any window display, in any point-of-transaction literature or price tag which is delivered or made available to a lessee or prospective lessee in any manner whatsoever.
- vi. Telephone solicitations.

2. *Exceptions.* The term does not include the following:

- i. Direct personal contacts, such as follow-up letters, cost estimates for individual lessees, or oral or written communications relating to the negotiation of a specific transaction.
- ii. Informational material distributed only to businesses.
- iii. Notices required by federal or state law, if the law mandates that specific information be displayed and only the information so mandated is included in the notice.
- iv. News articles, the use of which is controlled by the news medium.
- v. Market research or educational materials that do not solicit business.

3. *Persons covered.* See the commentary to § 213.8(a).

2(a)(3) Agricultural purpose

1. *Agricultural products.* Agricultural products include horticultural, viticultural, and dairy products, livestock, wildlife, poultry, bees, forest products, fish and shellfish, and any products thereof, including processed and manufactured products, and any and all products raised or produced on farms and any processed or manufactured products thereof.

2(a)(6) Consumer lease

1. *Primary purposes.* A lessor must determine in each case if the leased property will be used primarily for personal, family, or household purposes. If some question exists as to the primary purpose for a lease, the lessor is, of course, free to make the disclosures, and the fact that disclosures are made in such circumstances is not controlling on the question of whether the transaction was exempt. The primary purpose of a lease is generally determined before or at consummation and a lessor need not provide Regulation M disclosures where there is a subsequent change in primary usage.

2. *Period of time.* To be a consumer lease, the initial term of the lease must be more than four months. Thus, a lease of personal property for four months, three months or on a month-to-month or week-to-week basis (even though the lease actually extends beyond four months) is not a consumer lease and is not subject to the disclosure requirements of the regulation. A lease with a penalty for cancelling during the first four months is considered to have a term of more than four months. A month-to-month or week-to-week extension of a lease that was originally for four months or less is not a consumer lease, even if the extension actually lasts for more than four months. See the comments on § 213.6(b) for guidance on extensions of covered leases. To illustrate:

i. A month-to-month lease with a penalty for terminating before one year, such as the forfeiture of a security deposit, is a consumer lease covered by this definition.

ii. A three-month lease extended on a month-to-month basis and terminated after one year is not a consumer lease covered by this definition.

3. *Total contractual obligation.* The term total contractual obligation includes all nonrefundable amounts a lessee is contractually obligated to pay under a lease for the purpose of determining whether the lease is covered by this regulation. The total contractual obligation is not necessarily the same as the total lease obligation defined in § 213.2(a)(19).

4. *Organization.* A consumer lease does not include a lease made to an organization, such as a corporation or a government agency or instrumentality. A lease to an organization is outside the requirements of the regulation even if the property is used (by an employee, for example) primarily for personal, family or household purposes. Likewise, a lease made to an organization is not a consumer lease even if it is guaranteed by or subsequently assigned to a natural person.

5. *Credit sale.* A lease that meets the definition of a credit sale in Regulation Z, 12 CFR 226.2(a)(16), is not a consumer lease. Regulation Z defines a credit sale, in part, as "a bailment or lease (unless terminable without penalty at any time by the consumer) under which the consumer:

i. Agrees to pay as compensation for use a sum substantially equivalent to, or in excess of, the total value of the property and services involved; and

ii. Will become (or has the option to become), for no additional consideration or for nominal consideration, the owner of the

property upon compliance with the agreement."

6. *Safe deposit boxes.* A lease of a safe deposit box is not a consumer lease for purposes of this regulation.

7. *Leases of personal property incidental to a service.* The following leases of personal property are deemed incidental to a service and are not consumer leases subject to the requirements of the regulation:

i. Home entertainment systems requiring the consumer to lease equipment that enables a television to receive the transmitted programming.

ii. Burglar alarm systems requiring the installation of leased equipment that triggers a telephone call when a home is burglarized.

iii. Propane gas service where the consumer is required to lease a propane tank to receive the service.

2(a)(7) Estimated lease charge

1. *Advance periodic payment and refundable charges.* A first monthly (or other periodic payment) paid at or before consummation which is included in the total periodic payment disclosure and refundable charges are not included in the calculation of the estimated lease charge.

2(a)(8) Gross cost

1. *Fees and other charges paid at lease signing.* This figure includes all nonrefundable fees and charges required to be paid before or at lease signing as well as those fees and charges which are capitalized over the lease term.

2(a)(9) Lessee

1. *Guarantors.* Guarantors are not lessees for purposes of the regulation.

2(a)(10) Lessor

1. *Arranger of a lease.* To "arrange" for the lease of personal property means to provide or offer to provide a lease which is or will be extended by another person under a business or other relationship pursuant to which the person arranging the lease (a) receives or will receive a fee, compensation, or other consideration for the service; or (b) has knowledge of the lease terms and participates in the preparation of the contract documents required in connection with the lease.

To illustrate:

i. An automobile dealer who, pursuant to a business relationship, completes the necessary lease agreement before forwarding it to the leasing company (to whom the obligation is payable on its face) for execution is "arranging" for the lease.

ii. An automobile dealer who, receiving no fee for the service, refers a customer to a leasing company that will prepare all relevant contract documents is not "arranging" for the lease.

2. *Consideration.* The term "other consideration" used in the definition of arranger in comment 2(a)(10)-1 refers to an actual payment corresponding to a fee or similar compensation. It does not refer to intangible benefits, such as the advantage of increased business, which may flow from the relationship between the parties.

3. *Assignees.* An assignee may be a lessor for purposes of the regulation in circumstances such as those described in

Ford Motor Credit Co. v. Cenance, 452 U.S. 155 (1981). In that case, the U.S. Supreme Court held that an assignee was a creditor for purposes of previous Regulation Z because of its substantial involvement in the credit transaction.

4. *Multiple lessors.* See the commentary to § 213.4(c).

2(a)(12) Organization

1. *Coverage.* The term includes joint ventures and persons operating under a business name.

2(a)(14) Personal property

1. *Coverage.* Whether property is considered personal property depends on state or other applicable law. For example, a mobile home or houseboat may be considered personal property in one state but real property in another.

2(a)(15) Realized value

1. *General.* Realized value is not a required disclosure. It refers to the value of the property at early termination or at the end of the lease term. It may be either the retail or wholesale value. Realized value is relevant only to leases in which the lessee's liability at early termination or at the end of the lease term is the difference between the estimated value of the property and its realized value.

2. *Options.* Subject to the contract and to state or other applicable law, the lessor may choose any of the three methods for calculating the realized value in determining the lessee's liability at the end of the lease term or at early termination. If the lessor sells the property prior to making that determination, the price received for the property is the realized value. If the lessor does not sell the property prior to making that determination, the lessor may choose either the highest offer or the fair market value as the realized value.

3. *Exclusions.* The realized value may exclude any amount attributable to taxes.

4. *Disposition charges.* Disposition charges may not be subtracted in determining the realized value. If the lessor charges the lessee a fee to cover the disposition expenses, the fee must be disclosed at consummation under § 213.5(e). Disposition charges may be estimated in accordance with § 213.4(d), and this does not prevent the lessor from collecting the actual disposition costs incurred.

5. *Offers.* In determining the highest offer for disposition, the lessor need not consider offers that an offeror has withdrawn or is unable or unwilling to perform.

6. *Appraisals.* The lessor may obtain an appraisal of the leased property to determine its realized value. Such an appraisal, however, is not the one addressed in section 183(c) of the act and § 213.5(n); those provisions refer to the lessee's right to an independent professional appraisal.

2(a)(17) Security interest and security

1. *Coverage.* The terms include, but are not limited to, security interests under the Uniform Commercial Code, real property mortgages, deeds of trust, and other consensual or confessed liens whether or not recorded, mechanic's, materialman's, artisan's, and other similar liens, vendor's liens in both real and personal property, any

lien on property arising by operation of law, and any interest in a lease when used to secure payment or performance of an obligation.

2. *State or other applicable law.* Other than those listed, only interests that are security interests under state or other applicable law are encompassed by the definition. For example, any interest the lessor may have in the leased property falls within this definition only if it is considered a security interest under state or other applicable law.

3. *Disclosable interests.* For purposes of the regulation, a security interest is an interest taken by the lessor to secure performance of the lessee's obligation. For example, if a bank that is not a lessor makes a loan to a leasing company and takes assignments of consumer leases generated by that company to secure the loan, the bank's security interest in the lessor's receivables is not a security interest for purposes of this regulation.

4. *Insurance.* The lessor's right to insurance proceeds or unearned insurance premiums is not a security interest for purposes of this regulation.

2(a)(19) Total lease obligation

1. *Disclosure.* The total lease obligation is disclosed under § 213.5(o)(1). It is relevant only to open-end leases.

2. *Periodic payments; disclosure distinguished.* Certain items that may be paid periodically are not part of the lessee's total lease obligation. Therefore, the amount of the scheduled periodic payments for purposes of calculating the total lease obligation may be less than the amount of the periodic payments disclosed under § 213.5(c).

3. *Periodic payments; inclusions.* The total of scheduled periodic payments under the lease for purposes of calculating the total lease obligation is composed of the following items:

i. Any portion of the periodic payments attributable to depreciation, cost of money, and profit.

ii. Taxes in some cases. See the commentary to § 213.5(o)(1).

iii. The cost of mechanical breakdown protection contracts.

4. *Periodic payments; exclusions.* The total of scheduled periodic payments under the lease for purposes of calculating the total lease obligation does not include the following:

i. Any amount not paid periodically.

ii. Any portion of periodic payments attributable to official fees, registration, certificate of title, or license fees.

iii. Taxes in some cases. See the commentary to § 213.5(o)(1).

iv. At the lessor's option, the capitalized cost of service contracts and insurance premiums may be either included or excluded from this calculation.

5. *Initial payments.* The following amounts are not included among the payments at consummation when calculating the total lease obligation:

i. Refundable security deposits.

ii. Official fees and charges disclosable under § 213.5(d).

iii. Other charges disclosable under § 213.5(e).

iv. The cost of a mechanical breakdown protection contract purchased at consummation.

6. *Estimated value.* See the commentary to § 213.4(d) regarding the use of estimates and section 183(a) of the act regarding the criteria for estimating the value of the leased property at the end of the lease term.

2(a)(20) Value at consummation

1. *Disclosure.* The value at consummation is relevant only to open-end leases and is disclosed and subtracted from the total lease obligation under § 213.5(o)(1).

2. *Taxes.* The value at consummation includes taxes paid by the lessor in connection with the acquisition of leased property and amortized over the lease term. See the commentary to § 213.5(o)(1).

3. *Other amounts.* The definition of the value at consummation explicitly permits the lessor to include a profit or markup (without separate itemization). The lessor may include costs of doing business, such as insurance that the lessor purchases on its own behalf. See the commentary to § 213.5(f). The lessor may not include in this amount other items (such as maintenance or extended warranty insurance) that are purchased by the lessee.

Section 213.4—General Disclosure Requirements

4(a) General requirements

1. *Basis of disclosures.* The disclosures must reflect the terms of the legal obligation between the parties. For example:

i. In a three-year lease with a one-year minimum term after which there is no penalty for termination, disclosures should be based on the full three-year term of the lease. The one-year minimum term is only relevant to the early termination provisions of §§ 213.5(l), (m) and (n).

2. *Clear and conspicuous standard.* The clear and conspicuous standard requires that disclosures be in a reasonably understandable form. For example, while the regulation requires no mathematical progression, the disclosures must be presented in a way that does not obscure the relationship of the terms to each other. Appendix A contains model forms that meet this standard, although lessors are not required to use the forms. In addition, although no minimum typesize is mandated, the disclosures must be legible, whether typewritten, handwritten, or printed by computer.

3. *Multipurpose disclosure forms.* Lessors are not precluded from using a multipurpose disclosure form that enables a lessor to designate the specific disclosures applicable to a given transaction, consistent with the requirement that disclosures be clearly and conspicuously provided.

4. *Number of transactions.* Lessors have flexibility in handling lease transactions that may be viewed as multiple transactions. For example:

i. When a lessor leases two items to the same lessee on the same day, the lessor may disclose the leases as either one or two lease transactions.

ii. When a lessor sells insurance or other incidental services in connection with a lease, the lessor may disclose in one of two

ways: a single lease transaction or a lease and a credit sale transaction.

4(a)(1) Form of disclosures

1. *Form of disclosures.* In making disclosures lessors may cross-reference rather than repeat items that are disclosed among the segregated disclosures. In addition, when a required disclosure consists of a total amount only, lessors need not separately itemize each component part of the total charge. Similarly, if a required disclosure must be separately itemized, a total amount is not required.

2. *Identification of parties.* While disclosures must always be made clearly and conspicuously, lessors are not required to use the word "lessor" and "lessee" when identifying those parties.

3. *Multiple lessors and multiple lessees.* In transactions involving multiple lessors and lessees, the disclosure statement must identify all the lessors and lessees; however, § 213.4(c) permits a single lessor to make all the disclosures for a single lessee.

4. *Lease disclosures integrated in lease contract.* Contract terms or disclosures that are not required by the regulation may be added to the disclosure statement so long as the required disclosures are made together and the lessor adheres to the limits of § 213.4(b) governing the inclusion of additional information.

5. *Lessee's signature.* The regulation does not require the lessee to sign the disclosure statement, whether disclosures are separately provided or are part of the lease contract.

Nevertheless, for contract or evidentiary purposes, the lessor may want a lessee to sign the disclosure statement or an acknowledgement of receipt.

4(a)(2) Segregation of certain disclosures

1. *Permissible related or additional information among segregated disclosures.* The disclosures required to be segregated under this paragraph must contain only the information required or permitted to be included among the segregated disclosures (see § 213.5 and its commentary for guidance on information required or permitted in the segregated disclosures.) The segregated disclosures in § 213.4(a)(2) may be provided on a separate document and other CLA disclosures provided in the lease contract, so long as all disclosures are given at the same time.

4(b) Additional information

1. *State law disclosures.* If state law disclosures are not inconsistent with the act and regulation under § 213.10, in accordance with the standard set forth in § 213.4(b) for providing additional information, the lessor may make those disclosures along with the nonsegregated disclosures required under the regulation.

4(c) Multiple lessors or lessees

1. *Multiple lessors.* If a lease transaction involves more than one lessor, the lessors may choose which of them will make the disclosures. All disclosures for the transaction must be given, even if the lessor making the disclosures would not otherwise have been obligated to make a particular disclosure.

4(d) Use of estimates

4(d)(1) Standard

1. *Time of estimated disclosure.* The lessor may use estimates to make disclosures if necessary information is unknown or unavailable at the time the disclosures are made. For example:

i. Section 213.5(d) requires the lessor to disclose the total amount payable by the lessee during the lease term for official and license fees, registration, certificate of title fees, or taxes. If these amounts are subject to indeterminable increases or decreases over the course of the lease, the lessor may estimate its disclosures based on the rates or charges in effect at the time of the disclosure.

2. *Basis of estimates.* Estimates must be made on the basis of the best information reasonably available at the time disclosures are made. The "reasonably available" standard requires that the lessor, acting in good faith, exercise due diligence in obtaining information. The lessor normally may rely on the representations of other parties in obtaining information. For example, the lessor might look to the consumer to determine the purpose for which leased property will be used, to insurance companies for the cost of insurance, or to an automobile manufacturer or dealer for the date of delivery.

3. *Estimated value of leased property at termination.* When the lessee's liability at the end of the lease term is based on the estimated value of the leased property (see § 213.5(o)), the estimate must be reasonable and based on the best information reasonably available to the lessor. That standard permits a lessor to use a generally accepted trade publication listing estimated current or future market prices for the leased property, rather than investing in the most sophisticated computer equipment to determine the estimated value at the end of the lease term. The lessor should rely on other information, its experience, or reasonable belief, if those sources provide the best information. For example:

i. An automobile lessor offering a three-year open-end lease intends to assign a wholesale value to the vehicle at the end of the lease term. The lessor may disclose as an estimate a wholesale value derived from a generally accepted trade publication listing current wholesale values, if the trade publication is the best information available.

ii. Same facts as above, except that the lessor discloses an estimated value derived by adjusting the value quoted in the trade publication because, in its experience, the trade publication values either understate or overstate the prices actually received in local used-vehicle markets. The lessor may adjust estimated values quoted in trade publications based on the lessor's experience or reasonable belief that the values will be understated or overstated.

4. *Retail or wholesale value.* The lessor may choose either a retail or a wholesale value in estimating the value of leased property at termination, provided that choice is consistent with the lessor's general practice or intention when determining the value of the property at the end of the lease term.

5. *Labelling estimates.* Generally, only the disclosure for which the exact information is unknown is labelled as an estimate.

Nevertheless, when several disclosures are affected because of the unknown information, the lessor has the option of labelling as an estimate either every affected disclosure or only the disclosure primarily affected.

4(d)(2) Open-end purchase option lease

1. *Understating the estimated value.* In non-purchase-option open-end leases, the lessor must not use a value lower than that indicated by the best information available when disclosing the estimated value of leased property at the end of the lease term under § 213.5(o).

4(e) Effect of subsequent occurrence

1. *Subsequent occurrences.* Examples of subsequent occurrences include:

i. An agreement between the lessee and lessor to change from a monthly to a weekly payment schedule.

ii. The addition of insurance or a security interest by the lessor because the lessee has not performed obligations contracted for in the lease.

iii. An increase in official fees or taxes.

iv. An increase in insurance premiums or coverage caused by a change in the law.

v. Late delivery of an automobile caused by a strike.

2. *Redisclosure.* When a disclosure becomes inaccurate because of a subsequent occurrence, the lessor need not make new disclosures unless new disclosures are required under § 213.6.

3. *Lessee's failure to perform.* The act is not violated if a previously given disclosure becomes inaccurate when a lessee fails to perform obligations under the contract and a lessor takes actions that are necessary and proper in such circumstances to protect its interest.

Section 213.5—Content of Disclosures

1. *Other required disclosures.* The disclosure statement must include the date and identify the lessor and the lessee. See the commentary to § 213.4(a)(1). The lessor need only be identified by name; an address may be provided but is not required.

5(b) Total amount due at lease signing

1. *Capitalized cost reduction.* Capitalized cost reduction is a payment in the nature of a downpayment which reduces the amount of the leased property to be amortized over the term of the lease.

2. *Consummation.* When a contractual relationship is created between the lessor and the lessee is a matter to be determined under state or other applicable law; the regulation does not make that determination.

3. *Fees payable upon delivery.* This provision does not apply to fees paid at delivery, when delivery occurs after consummation. For example, the lessee agrees to pay registration fees, sales taxes, and a delivery charge in one lump sum on the date the automobile is delivered, sometime after consummation. None of these charges is an initial payment under § 213.5(b) because they are paid after consummation of the lease. The registration fees and sales taxes

are disclosed under § 213.5(d), and the delivery charge is disclosed as an "other charge" under § 213.5(e).

5(c) Payment schedule

1. *Itemization not required.* Although the model forms in appendix A itemize the components of the periodic payments, a lessor may but is not required to do so. Some of the components must be disclosed separately if their disclosure is required by other provisions of the regulation, such as official fees and lessee's insurance.

2. *Periodic payments.* The phrase "number, amount, and due dates or periods of payments" requires the disclosure of all payments made periodically. The disclosed payments must include all amounts, such as maintenance and insurance charges, that are paid periodically. In addition, the lessor must disclose the total of the periodic payments. In an open-end lease, however, the lessor may disclose as the total of periodic payments the sum of the scheduled periodic payments referred to in § 213.2(a)(19). See the commentary to § 213.2(a)(19).

5(d) Fees and taxes

1. *Taxes.* Taxes that are included in the value at consummation are not disclosed pursuant to this paragraph. See the commentary to § 213.2(a)(20). Taxes payable by the lessor that are separately imposed on the consumer and thus noted in the lease documentation must be disclosed under this paragraph. However, taxes payable by the lessor and absorbed as a cost of doing business are not disclosed under this paragraph.

5(e) Other charges

1. *Coverage.* Section 213.5(e) requires the disclosure of charges that are anticipated by the parties as incident to the normal operation of the lease agreement.

2. *Excluded charges.* This section does not require disclosure of charges that are imposed when the lessee terminates early or fails to abide by the lease agreement, such as charges for:

i. Late payment.

ii. Default.

iii. Early termination.

iv. Deferral of payments.

v. Extension of the lease.

3. *Relationship to other provisions.* The other charges mentioned in § 213.5(e) are charges that are not required to be disclosed under another provision of § 213.5.

4. *Other charges.* Examples of charges not disclosed under this section include:

i. A delivery charge that is paid after consummation is disclosed as an "other charge." A delivery charge that is paid at consummation, however, is disclosed as part of the total initial charges under § 213.5(b), not as an "other charge."

ii. Occasionally, the price of a mechanical breakdown protection (MBP) contract is disclosed as an "other charge." More often, the price of MBP is reflected in the periodic payment disclosure under § 213.5(c), in which case it is not disclosed as an "other charge." In states where MBP is regarded as insurance, however, the cost should be disclosed in accordance with § 213.5(f), not as an "other charge." See the commentary to § 213.5(f).

5. *Lessee's liabilities at the end of the lease term.* Liabilities that the lease imposes upon the lessee at the end of the scheduled lease term and that must be disclosed under this section include, but are not limited to, disposition and "pick-up" charges.

5(f) Insurance

1. *Lessor's insurance.* Insurance that is purchased by the lessor primarily for its own benefit, and that is absorbed as a business expense and not separately charged to the lessee, need not be disclosed under this section even if it provides an incidental benefit to the lessee.

2. *Mechanical breakdown protection.* Whether mechanical breakdown protection (MBP) purchased in conjunction with a lease should be treated as insurance is determined by state or other applicable law. In states that do not treat MBP as insurance, the lessor need not make § 213.5(f) disclosures. The lessor may, however, disclose the § 213.5(f) information in such cases in accordance with the additional information provision in § 213.4(b).

3. *Voluntary insurance.* Insurance not required but provided by the lessor must be disclosed under this section.

5(g) Warranties or guarantees

1. *Brief identification.* The statement identifying warranties may be brief and need not describe or list all warranties applicable to specific parts such as for air conditioning, radio, or tires in an automobile. For example, manufacturer's warranties may be identified simply by a reference to the standard manufacturer's warranty.

2. *Warranty disclaimers.* A disclaimer of warranties is not required by the regulation, but the lessor may give a disclaimer as additional information in accordance with § 213.4(b).

3. *State law.* Whether an express warranty or guaranty exists is determined by state or other law.

5(h) Maintenance responsibilities

1. *Standards for wear and use.* No disclosure is required for lessors that do not set standards for wear and use (such as excess mileage.) See the commentary to § 213.5(o).

5(i) Security interest

1. *Disclosable security interests.* See § 213.2(a)(17) and accompanying commentary to determine what security interests must be disclosed.

5(j) Penalties and other charges for delinquency

1. *Collection costs.* The automatic imposition of collection costs or attorney fees upon default must be disclosed under § 213.5(j). Collection costs or attorney fees that are not imposed automatically, but are contingent upon expenditure of amounts in conjunction with a collection proceeding or upon the employment of an attorney to effect collection, need not be disclosed.

2. *Charges for early termination.* When default is a condition for early termination of a lease, default charges must also be disclosed under § 213.5(l). The § 213.5 (j) and (l) disclosures may be combined. Examples of combined disclosures are provided in the model lease disclosure forms in appendix A.

3. *Simple-interest leases.* In a simple-interest accounting lease, the additional lease charge that accrues on the lease balance when a periodic payment is made after the due date does not constitute a penalty or other charge for late payment. Similarly, continued accrual of the lease charge after termination of the lease because the lessee fails to return the leased property does not constitute a default charge. In either case, if the additional charge accrues at a rate higher than the normal lease charge, the lessor must disclose the amount of or the method of determining the additional charge under § 213.5(j).

4. *Extension charges.* Extension charges that exceed the lease charge in a simple-interest accounting lease or that are added separately are disclosed under § 213.5(j).

5. *Reasonableness of charges.* Pursuant to section 183(b) of the act, penalties or other charges for delinquency, default, or early termination may be specified in the lease but only in an amount that is reasonable in light of the anticipated or actual harm caused by the delinquency, default, or early termination, the difficulties of proof of loss, and the inconvenience or nonfeasibility of otherwise obtaining an adequate remedy.

5(k) Purchase option

1. *Mandatory disclosure of no purchase option.* Although generally the lessor need only make the specific required disclosures that apply to a transaction, it must disclose affirmatively that the lessee has no option to purchase the leased property when the purchase option is inapplicable.

2. *Existence of purchase option.* Whether a purchase option exists is determined by state or other applicable law. The lessee's right to submit a bid to purchase property at termination of the lease is not an option to purchase under § 213.5(k) if the lessor is not required to accept the lessee's bid and the lessee does not receive preferential treatment.

3. *Purchase option fees.* A purchase option fee must be disclosed under this paragraph unless the lessor discloses the fee under § 213.5(e) as an "other charge."

5(l) Early termination

1. *Default.* When default is also a condition for early termination of a lease, default charges must be disclosed under this paragraph. See the commentary to § 213.5(j).

2. *Lessee's liability at early termination.* When the lessee is liable for the difference between the unamortized cost and the realized value at early termination, the amount or the method of determining the amount of the difference must be disclosed under this paragraph.

3. *Reasonableness of charges.* See the commentary to § 213.5(j).

4. *Description of the method.* A full description of the method of determining any early termination charge is required by the act and this regulation. Lessors should attempt to provide clear and understandable descriptions to consumers of their early termination charges. Descriptions that are full, accurate, and not intended to be misleading are in compliance with the act and this regulation, even if complex. (And, of course, the statute requires that the early termination charges themselves be

reasonable.) In providing a full description of an early termination method, a lessor may use the name of a generally accepted method of computing the unamortized cost (also known as the "adjusted lease balance") portion of its early termination charges. For example, a lessor may state that the "constant yield" method would be utilized in obtaining the adjusted lease balance, but the lessor would have to specify how that figure, and any other term or figure, is used in computing the total early termination charge imposed upon the consumer. Additionally, if a lessor refers to a named method in this manner, the lessor would have to provide a written explanation of that method if requested by the consumer.

5. *Example.* The figure used to calculate the early termination example must be calculated in the same manner the residual value is calculated for purposes of § 213.5(r). Therefore, if a lessor uses the fair market value to estimate the value of the property at the end of the lease, the example must also be calculated using the fair market value.

5(n) Right of appraisal

1. *Disclosure inapplicable.* When the lessee is liable at the end of the lease term or at early termination for unreasonable wear or use but not for the estimated value of the leased property, the lessor need not disclose the lessee's right to an independent appraisal. For example:

i. The automobile lessor may reasonably expect a lessee to return an undented car with four good tires at the end of the lease term. Even though it holds the lessee liable for the difference between a dented car with bald tires and the value of a car in reasonably good repair, the lessor is not required to disclose the lessee's appraisal right.

2. *Lessor's appraisal.* The lessor may obtain an appraisal of the leased property to determine its realized value. Such an appraisal, however, is not the one addressed in section 183(c) of the act and in § 213.5(o) of the regulation, and the lessor still must disclose the lessee's independent right to an appraisal under § 213.5(n).

3. *Time restriction on appraisal.* Neither the act nor the regulation specifies any time period in which the lessee must exercise the appraisal right. The lessor may require a lessee to obtain the appraisal within a reasonable time after termination of the lease. The regulation does not define what is a "reasonable time."

5(o) Liability at end of lease term based on estimated value

1. *Coverage.* The disclosure under § 213.5(o) limiting the lessee's liability for the value of the leased property does not apply at early termination.

2. *Leases with a minimum term.* If a lease has an alternative minimum term, the § 213.5(o) disclosures governing the liability limitation are not applicable for the minimum term. See the commentary to § 213.4(a).

5(o)(1) Value at consummation and total lease obligation

1. *Total lease obligation.* The requirement that the total lease obligation be itemized is satisfied by disclosing the three components

in the definition of total lease obligation in § 213.2(a)(19) with their corresponding amounts. The lessor may cross-reference the individual components disclosed in the segregated disclosures, as done in the model forms in appendix A-1.

2. *Taxes.* Taxes included in the value at consummation are included in the total lease obligation. Taxes not included in the value at consummation may, but need not, be included in the total lease obligation at the lessor's option. See the commentary to § 213.2(a)(20).

5(o)(2) Excess liability

1. *Average payment allocable to a monthly period.* The phrase "average payment allocable to a monthly period" is based on the periodic payment used to compute the total lease obligation. See the commentary to § 213.2(a)(19).

2. *Charges not subject to rebuttable presumption.* The limitation on liability applies only to liability that is based on the estimated value of the property at the end of the lease term. The lessor also may recover additional charges from the lessee at the end of the lease term. Examples of such additional charges include:

- i. Disposition charges.
- ii. Excess mileage charges.
- iii. Late payment and default charges.
- iv. Amounts by which the unamortized

cost exceeds the estimated residual value that have accrued in simple interest accounting leases because the lessee has made late payments.

3. *Lessor's payment of attorney's fees.* Section 183(a) of the act requires that the lessor pay the lessee's attorney's fees in all actions brought by the lessor under this paragraph, whether successful or not.

5(p) Gross cost

1. *Basis.* The gross cost is the amount that the periodic and other payments and terms of the lease are based upon, and is intended to be used by consumers to compare a lease with similar lease and non-lease transactions.

5(s) Statement referencing nonsegregated disclosures

1. *Content.* A lessor may delete inapplicable items, for example, when the contract documents contain no information regarding a purchase option.

Section 213.6—Renegotiations, Extensions and Assumptions

1. *Coverage.* Section 213.6 applies only to existing leases that are covered by the requirements of the regulation. It therefore does not apply to the renegotiation or extension of leases with an initial term of four months or less, because such leases are not covered by the definition of consumer lease in § 213.2(a)(6). Whether and when a lease is satisfied and replaced by a new lease is determined by state or other applicable law.

2. *Inapplicable disclosures.* Disclosures that are inapplicable to the terms of a renegotiation or extension need not be given. For example:

i. If the term for which extension disclosures are given is one month and the lessee will pay no official fees and taxes

during that month, no disclosure of those amounts is necessary.

ii. If a renegotiation involves no initial charges, no disclosure of initial charges is necessary.

6(b) Extensions

1. *Time of extension disclosures.* If a consumer lease is extended for a specified term greater than six months, at the time the extension is agreed to, new disclosures are required. If the lease is extended on a month-to-month basis and exceeds six months, new disclosures are required at the commencement of the seventh month, and at the commencement of each seventh month thereafter. If a consumer lease is extended for several terms, one of which will exceed six months beyond the originally scheduled termination date of the lease, new disclosures are required at the commencement of the term that will exceed 6 months beyond the originally scheduled termination date.

2. *Content of disclosures for month-to-month extensions.* The disclosures for a lease extended on a month-to-month basis for more than six months should reflect the month-to-month nature of the transaction.

Section 213.8—Advertising

8(a) General rule

1. *Persons covered.* All "persons" must comply with the advertising provisions in this section, not just those that meet the definition of lessor in § 213.2(a)(10). Thus, automobile dealers, merchants, and others who are not themselves lessors must comply with the advertising provisions of the regulation if they advertise consumer lease transactions. Pursuant to section 184(c) of the act, the owner and personnel of the medium in which an advertisement appears or through which it is disseminated, however, are not subject to civil liability for violations under section 185(b) of the act.

2. *"Usually and customarily."* This paragraph does not prohibit the advertising of a single item or the promotion of new leasing programs, but prohibits the advertising of terms that are not and will not be available. Thus, an advertisement may state terms that will be offered for only a limited period or terms that will become available at a future date.

8(b) Clear and conspicuous standard

1. *Standard.* Section 213.8 prescribes no specific rules for the format of the necessary disclosures. The terms need not be printed in a certain type size and need not appear in any particular place in the advertisement.

2. *Television advertisements.* In lease television advertisements, the lease disclosures required under paragraph 8(d) or the alternate disclosures under paragraph 8(f)(1) must be visible for at least five seconds to satisfy the requirements of this paragraph.

8(c) Catalogs and multi-page advertisements

1. *General rule.* The multiple-page advertisements referred to in this paragraph are advertisements consisting of a numbered series of pages—for example, a supplement to a newspaper. A mailing comprised of several separate flyers or pieces of promotional material in a single envelope is not a single multiple-page advertisement.

2. *Cross-references.* A multiple-page advertisement is a single advertisement (requiring only one set of lease disclosures) if it contains a table, chart, or schedule clearly stating sufficient information for the reader to determine the disclosures required under § 213.8(d)(2) (i) through (vi). If one of the triggering terms listed in § 213.8(d)(1) appears on another page of the catalog or other multiple-page advertisement, that page must clearly refer to the specific page where the table, chart, or schedule begins.

8(d)(1) Triggering terms

1. *Triggering terms.* When triggering terms appear in lease advertisements, the additional terms enumerated in § 213.8(d)(2) (i) through (vi) must also appear. An example of one or more typical leases with a statement of all the terms applicable to each may be used. The additional terms must be disclosed even if the triggering term is not stated explicitly, but is readily determinable from the advertisement. For example, if an advertisement states a five-year lease term with monthly payments, the number of required payments—a triggering term—is readily apparent.

8(d)(2) Additional terms

1. *Lease transaction.* An advertisement must clearly and conspicuously disclose that the transaction is a lease.

8(e) Alternative disclosures—merchandise tags

1. *Alternative disclosure rule.* This section provides a method for using merchandise tags without including all the required disclosures on the tags. As an alternative to this disclosure method, a merchandise tag may state all the necessary terms on one or both sides of the tag. If the terms are on both sides of the tag, both sides must be accessible to the consumer.

2. *Multiple item leases.* Multiple item leases which utilize merchandise tags requiring additional disclosures may use the alternate disclosure rule.

8(f) Alternative disclosures—television or radio advertisements

8(f)(1) Toll-free number or print advertisement

1. *Publication in general circulation.* A referral to a written advertisement appearing in a newspaper circulated nationally, for example, The Wall Street Journal, meets the general circulation requirement in § 213.8(f)(1)(ii).

2. *Toll-free number, local or collect calls.* In complying with the disclosure requirement of this paragraph, generally a lessor must provide a toll-free number for nonlocal calls made from an area code other than the one used in the lessor's dialing area. Alternatively, a lessor may provide any telephone number that allows a consumer to call for information and reverse the phone charges.

Section 213.9—Record Retention

1. *Manner of retaining evidence.* A lessor must retain evidence of having performed required actions and of having made required disclosures. Such records may be retained on microfilm, microfiche, computer, or by any

other method designed to reproduce records accurately, as well as paper form. The lessor need retain only enough information to reconstruct the required disclosures or other records.

Appendix A—Model Forms

1. *Permissible changes.* Although use of the model forms is not required, lessors using them properly will be deemed to be in compliance with the regulation. The content, format, and headings for the segregated disclosures must be substantially similar to those contained in the model forms, therefore, any changes in the segregated disclosures should be minimal. Generally, lessors may make certain changes in the format or content of the forms and may delete any disclosures that are inapplicable to a transaction without losing the act's protection from liability. The changes to the model forms may not be so extensive as to

affect the substance and the clarity of the forms.

2. *Examples of acceptable changes.*

- i. Using the first person, instead of the second person, in referring to the lessee.
- ii. Using "lessee," "lessor," or names instead of pronouns.
- iii. Rearranging the sequence of the nonsegregated disclosures.
- iv. Incorporating certain state "plain English" requirements.
- v. Deleting inapplicable disclosures by whiting out, blocking out, filling in "N/A" (not applicable) or "0," crossing out, leaving blanks, checking a box for applicable items, or circling applicable items. (This should permit use of multi-purpose standard forms.)
- vi. Adding language or symbols to indicate estimates.

3. *Model closed-end or net vehicle lease disclosure.* Model A-2 is designed for a closed-end or net lease of a vehicle. Item 9(c) is included for those closed-end leases in

which the lessee's liability at early termination is based on the vehicle's estimated value. (See section 213.5(n))

4. *Model furniture lease disclosures.* Model A-3 is a closed-end lease disclosure statement designed for a typical furniture lease. It does not include a disclosure of the appraisal right at early termination that is required under § 213.5(n) because few closed-end furniture leases base the lessee's liability at early termination on the estimated value of the leased property. Of course, the disclosure should be added, if it is applicable.

By order of the Board of Governors of the Federal Reserve System, acting through the Secretary of the Board under delegated authority.

William W. Wiles,

Secretary of the Board.

[FR Doc. 95-23049 Filed 9-19-95; 8:45 am]

BILLING CODE 6210-01-P