

**Supporting Statement for the
Recordkeeping and Disclosure Requirements Associated with
Regulation V (Fair Credit Reporting) (OMB No. 7100-0308)**
(Risk-Based Pricing Notices and Disclosure Exceptions)
(Docket No. R-1316) (RIN 7100-AD22)

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), revised, without extension, the recordkeeping and disclosure requirements associated with Regulation V, which implements the Fair Credit Reporting Act (FCRA) (OMB No. 7100-0308).¹ The Board is required to renew these requirements every three years pursuant to the Paperwork Reduction Act of 1995 (PRA), which classifies disclosure and recordkeeping requirements of a regulation as “required information collections.”²

Regulation V requires financial institutions that (1) extend credit and regularly in the ordinary course of business furnish information to a nationwide consumer reporting agency (CRA) and (2) furnish negative information to a CRA regarding credit extended to a customer must provide a clear and conspicuous notice to the customer, in writing, about furnishing this negative information.³ Under the affiliate marketing provision⁴ of Regulation V, financial institutions are prohibited from using certain information received from an affiliate to make a solicitation to a consumer unless the consumer is given notice and a reasonable opportunity to opt out of such solicitations, and the consumer does not opt out. Under the Red Flags provisions⁵ of Regulation V financial institutions are required to develop and implement a written identity theft prevention program to detect, prevent, and mitigate identity theft in connection with the opening of certain accounts or certain existing accounts. In addition, credit and debit card issuers, under certain circumstances, are required to assess the validity of notifications of changes of address.

On May 19, 2008, the Federal Reserve published a joint⁶ notice of proposed rulemaking (73 FR 28966) to implement the provisions in section 311 of the Fair and Accurate Credit Transactions Act (FACT Act) of 2003, which amends the FCRA. As required by section 311, the agencies are proposing rules that generally require a creditor to provide a risk-based pricing notice to a consumer when the creditor uses a consumer report to grant or extend credit to the consumer on material terms that are materially less favorable than the most favorable terms available to a substantial proportion of consumers from or through that creditor. The proposed rules also provide for two alternative means by which creditors can determine when they are offering credit on material terms that are materially less favorable. The proposed rules also include certain exceptions to the general rule, including exceptions for creditors that provide a

¹ FCRA was enacted in 1970 and is codified at 15 U.S.C. § 1681 et seq. Regulation V is located at 12 C.F.R. Part 222. 2 44 U.S.C. § 3501 et seq.

³ Section 217 of the FACT Act defines the term “negative information” to mean information concerning a customer’s delinquencies, late payments, insolvency, or any form of default.

⁴ Affiliate Marketing Opt-out Notice Requirements (Section 214)

⁵ Red Flags - Sections 114 and 315 of the FACT Act,

⁶ Federal Trade Commission (FTC)

consumer with a disclosure of the consumer's credit score in conjunction with additional information that provides context for the credit score disclosure. The comment period for this notice expired on August 8, 2008. The agencies received 2 comments from industry groups that specifically addressed paperwork burden. On January 15, 2010, a joint notice of final rulemaking was published in the *Federal Register* adopting the amendments largely as proposed, with mandatory compliance by January 1, 2011 (75 FR 2724).

The current annual paperwork burden for complying with Regulation V requirements is estimated to be 345,564 hours. The final rule would impose a one-time increase in the annual burden by 726,920 hours, from 345,564 to 1,072,484 hours. In addition, the Federal Reserve estimates that, on a continuing basis, the proposed requirements would increase the annual burden by 1,090,380 hours from 345,564 to 1,435,944 hours. The total annual burden would increase by 1,817,300 hours, from 345,564 to 2,162,864 hours.

Background and Justification

On December 4, 2003, the President signed into law the FACT Act. In general, the FACT Act enhanced the ability of consumers to combat identity theft, increased the accuracy of consumer reports, and allowed consumers to exercise greater control regarding the type and amount of marketing solicitations they receive. The FACT Act also restricted the use and disclosure of sensitive medical information. To bolster efforts to improve financial literacy among consumers, the FACT Act created a new Financial Literacy and Education Commission empowered to take appropriate actions to improve the financial literacy programs, education programs, grants, and materials of the Federal Government. Lastly, to promote increasingly efficient national credit markets, the FACT Act established uniform national standards in key areas of regulation.

On June 15, 2004, the Federal Reserve published a final rule (69 FR 33281) adopting model forms that all financial institutions may use to comply with the notice requirement under section 217 of the FACT Act, relating to furnishing negative information.⁷ Because a financial institution is allowed to send this notice prior to, or within thirty days after, it furnishes negative information, the model forms contain alternative language that a financial institution may use, depending on whether the notice is provided prior to, or after, furnishing negative information. The provisions in section 217 were effective December 1, 2004.⁸

⁷ Under section 217, the term "financial institution" is defined broadly to have the same meaning as in the privacy provisions of the Gramm-Leach-Bliley Act of 1999 (GLB Act), which defines financial institution to mean "any institution the business of which is engaging in financial activities as described in section 4(k) of the Bank Holding Company Act of 1956," whether or not affiliated with a bank. 15 U.S.C. 6809(3). Thus, the term "financial institution" includes not only institutions regulated by the Federal Reserve and other federal banking agencies, but also includes other financial entities, such as merchant creditors and debt collectors that extend credit and report negative information. 16 CFR 313.3(k) (65 FR 33646 and 33655, May 24, 2000). Federal Reserve-covered institutions are defined by Regulation V as: banks that are members of the Federal Reserve System (other than national 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, organizations operating under section 25 or 25A of the Federal Reserve Act (12 U.S.C. 601 et seq., and 611 et seq.), and bank holding companies and affiliates of such holding companies (other than depository institutions and consumer reporting agencies).

⁸ 69 FR 6526 (February 11, 2004).

On November 7, 2007, the Federal Reserve published a joint⁹ notice of final rulemaking (72 FR 62910) to implement the affiliate marketing provisions in section 214 of the FACT Act. The regulation generally prohibits a person from using information received from an affiliate to make a solicitation for marketing purposes to a consumer, unless the consumer is given notice and an opportunity and simple method to opt out of the making of such solicitations. Compliance with the provisions in section 214 is mandatory effective October 1, 2008.

On November 9, 2007, the Federal Reserve published a joint¹⁰ notice of final rulemaking (72 FR 63718) to implement the provisions in sections 114 and 315 (Red Flags) of the FACT Act. Section 114 requires each financial institution to develop and implement a written identity theft prevention program to detect, prevent, and mitigate identity theft in connection with the opening of certain accounts or certain existing accounts. Section 114 also requires credit and debit card issuers, under certain circumstances, to assess the validity of notifications of changes of address. Section 315 provides guidance regarding reasonable policies and procedures that a user of consumer reports must employ when a CRA sends the user a notice of address discrepancy. Compliance with the provisions in sections 114 and 315 is mandatory effective November 1, 2008.

On July 1, 2009, the Federal Reserve published a joint¹¹ notice of final rulemaking (74 FR 31484) to implement the provisions in section 312 of the FACT Act of 2003, which amends the FCRA. Section 312, requires the agencies to issue guidelines for use by entities that furnish information about consumers to a CRA regarding the accuracy and integrity of the information that they furnish. The agencies also prescribed regulations requiring furnishers to establish reasonable policies and procedures for implementing the guidelines. In addition, the agencies issued regulations identifying the circumstances under which a furnisher must reinvestigate disputes about the accuracy of information contained in a consumer report based on a direct request from a consumer. Compliance with the provisions in section 312 is mandatory effective July 1, 2010.

Description of Information Collection

Notice to CRA (Section 217)¹²

A financial institution generally may provide the notice about furnishing negative information on or with any notice of default, any billing statement, or any other materials provided to the customer, so long as the notice is clear and conspicuous. After providing such notice, the financial institution may submit additional negative information to a CRA described in section 603(p) of the FACT Act, with respect to the same transaction, extension of credit, account, or customer without providing additional notice to the customer. Section 217

⁹ Office of the Comptroller of the Currency (OCC), Treasury; Federal Deposit Insurance Corporation (FDIC); Office of Thrift Supervision (OTS), Treasury; and National Credit Union Administration (NCUA)

¹⁰ OCC, FDIC, OTS, NCUA, and FTC

¹¹ OCC, FDIC, OTS, NCUA, and FTC

¹² (12 CFR, Part 222, appendix B)

specifically provides, however, that the notice may not be included in the initial disclosures provided under section 127(a) of the Truth in Lending Act (15 U.S.C. 1637(a)).¹³

Section 217 also provides certain safe harbors for institutions concerning their efforts to comply with the notice requirement. A financial institution is deemed to be in compliance with the notice requirement if it uses the Federal Reserve's model form, or uses the model form and rearranges its format. In addition, section 217 provides that a financial institution is not liable for failure to perform the duties required by this section if, at the time of the failure, the institution maintained reasonable policies and procedures to comply with the section or the institution reasonably believed that the institution was prohibited by law from contacting the customer.

Affiliate Marketing Opt-out Notice Requirements (Section 214)¹⁴

Affiliate marketing opt-out notice requirements provide that when a company communicates certain information about the consumer to an affiliate, the affiliate may not use that information to make solicitations for marketing purposes to the consumer unless the consumer is given a notice and an opportunity to opt-out of that use of the information and the consumer does not opt-out. In general contents of opt-out notice must be clear, conspicuous, and concise, and must accurately disclose the name of the affiliate(s) providing the notice.

The notice must be provided by an affiliate that has or has previously had a pre-existing business relationship with the consumer; or as part of a joint notice from two or more members of an affiliated group of companies, provided that at least one of the affiliates on the joint notice has or has previously had a pre-existing business relationship with the consumer.

The election of a consumer to opt out must be effective for a period of at least five years beginning when the consumer's opt-out election is received and implemented, unless the consumer subsequently revokes the opt-out in writing or, if the consumer agrees, electronically. An opt-out period of more than five years may be established, including an opt-out period that does not expire unless revoked by the consumer. A consumer may opt out at any time.

Red Flags Provision - Identity Theft (Section 114)¹⁵

Section 114 requires each financial institution to (1) create an Identity Theft Prevention Program (Program); (2) report to the board of directors, a committee thereof or senior management, at least annually, on compliance with the regulation; and (3) train staff to implement the Program. In addition, the final rule requires each credit and debit card issuer (card issuer) to establish policies and procedures to (1) assess the validity of a change of address notification before honoring a request for an additional or replacement card received during at least the first 30 days after it receives the notification and (2) notify the cardholder in writing, electronically, or orally, or use another means of assessing the validity of the change of address.

¹³ The collection of information under Regulation Z is assigned OMB No. 7100-0199 for purposes of the PRA.

¹⁴ (12 CFR, Parts: 222.21– 222.27)

¹⁵ (12 CFR, Parts: 222.82 and 222.90)

Red Flags Provision - Address Discrepancies (Section 315)¹⁶

Section 315 requires each user of consumer reports¹⁷ to (1) develop reasonable policies and procedures it employs when it receives a notice of address discrepancy from a CRA and (2) to furnish an address the user reasonably confirmed is accurate to the CRA from which it receives a notice of address discrepancy.

Procedures to Enhance the Accuracy and Integrity of Information Furnished to Consumer Reporting Agencies (Section 312)¹⁸

Policies and procedures – Each furnisher is required to establish and implement reasonable written policies and procedures regarding the accuracy and integrity of the information relating to consumers that it furnishes to a CRA. The policies and procedures must be appropriate to the nature, size, complexity, and scope of each furnisher’s activities.

Notice of determination – Upon making a determination that a dispute is frivolous or irrelevant, the furnisher must notify the consumer of the determination not later than five business days after making the determination, by mail or, if authorized by the consumer for that purpose, by any other means available to the furnisher.

Contents of notice of determination that a dispute is frivolous or irrelevant – A notice of determination that a dispute is frivolous or irrelevant must include the reasons for such determination and identify any information required to investigate the disputed information, which notice may consist of a standardized form describing the general nature of such information.

Proposed Revisions

Risk-Based Pricing Notices and Disclosure Exceptions (Section 311)¹⁹

In general, Section 311 requires a creditor, including **credit card issuers**, to provide a risk-based pricing notice to a consumer if that creditor both: (1) uses a consumer report in connection with an application for, or a grant, extension, or other provision of, credit to that consumer that is primarily for personal, family, or household purposes; and (2) based in whole or in part on the consumer report, grants, extends, or otherwise provides credit to that consumer on material terms that are materially less favorable than the most favorable terms available to a substantial proportion of consumers from or through that creditor. Alternatively, a **credit card issuer** may provide a risk-based pricing notice to a consumer when:

- a consumer applies for a credit card either in connection with an application program, such as a direct-mail offer or a take-one application, or in response to a solicitation under 12 CFR 226.5a, and more than a single possible purchase annual percentage rate may

16 (12 CFR, Part 222.91)

17 A consumer report is provided by a CRA and indicates a pattern of activity that is inconsistent with the history and usual pattern of activity of an applicant or customer, *such as*: a. A recent and significant increase in the volume of inquiries. b. An unusual number of recently established credit relationships. c. A material change in the use of credit, especially with respect to recently established credit relationships. d. An account was closed for cause or identified for abuse of account privileges by a financial institution or creditor.

18 (12CFR, Parts: 222.42(a), 222.43(e)(2), and 222. 43(e)(3))

19 (12CFR, Parts: 222.72(a) and 222.72(c))

- apply under the program or solicitation and
- based in whole or in part on a consumer report, the credit card issuer provides a credit card to the consumer with an annual percentage rate that is greater than the lowest annual percentage rate available in connection with the application or solicitation.

In general, a **credit card issuer** must provide a risk-based pricing notice to a consumer if the person:

- uses a consumer report in connection with a **review of credit** that has been extended to the consumer and
- based in whole or in part on the consumer report, increases the annual percentage rate.

To ease creditors' burden and cost of complying with the notice and disclosure requirements model forms are available in Appendices B and H of the regulation.

Time Schedule for Information Collection

The notice requirement in Section 217 specifies that an institution must provide the required notice to the customer prior to, or no later than thirty days after, furnishing the negative information to a nationwide CRA. After providing the notice, the institution may submit additional negative information to a nationwide CRA with respect to the same transaction, extension of credit, account, or customer without providing additional notice to the customer. If a financial institution has provided a customer with a notice prior to the furnishing of negative information, the institution is not required to furnish negative information about the customer to a nationwide CRA.

The notice requirement in Section 214 specifies that an institution must not use eligibility information about a consumer that it receives from an affiliate to make a solicitation to the consumer about the bank's products or services, unless the consumer is provided a reasonable opportunity to opt out. The consumer is given 30 days from the date the notice is sent to elect to opt out by any reasonable means.

The notice requirement in Section 114 specifies that an institution assess the validity of a change of address notification before honoring a request for an additional or replacement card received during at least the first 30 days after it receives the notification. The notice requirement in Section 312 specifies that an institution, upon making a determination that a dispute is frivolous or irrelevant, must notify the consumer of the determination not later than five business days after making the determination, by mail or, if authorized by the consumer for that purpose, by any other means available to the furnisher.

The notice requirements in Section 311 specifies that providing risk-based pricing notices in connection with extensions of closed-end and open-end credit, as well as credit account reviews. For closed-end transactions the notice must be provided to the consumer before consummation of the transaction, but not earlier than the time the decision to approve an application for, or a grant, extension, or other provision of, credit is communicated to the consumer by the person required to give the notice. For open-end credit, the notice must be

provided to the consumer before the first transaction is made under the plan, but not earlier than the time the decision to approve an application for, or a grant, extension, or other provision of credit is communicated to the consumer. Finally, for account reviews, the notice must be provided to the consumer at the time the decision to increase the annual percentage rate based on a consumer report is communicated to the consumer by the person required to give the notice, or if no notice of the increase in the annual percentage rate is provided to the consumer prior to the effective date of the change, no later than five days after the effective date of the change in the annual percentage rate.

Consultation Outside the Agency and Discussion of Public Comments

On May 19, 2008, the Federal Reserve published a joint²⁰ notice of proposed rulemaking (73 FR 28966) to implement the provisions in section 311 of the Fair and Accurate Credit Transactions Act (FACT Act) of 2003, which amends the FCRA. The comment period for this notice expired on August 8, 2008. The agencies received 2 comments from industry groups that specifically addressed paperwork burden. In general, the commenters asserted that the hourly estimate for compliance should be considerably higher than the agencies projected. The commenters did not provide specific estimates of additional burden hours that would result from the proposal.

The agencies continue to believe that 40 hours is a reasonable estimate of the average amount of time to modify existing database systems. The agencies have provided two alternative methods which creditors could use to determine which consumers must receive a risk-based pricing notice. The methods are intended to simplify compliance with the risk-based pricing requirement when it is not operationally feasible to make direct comparisons between consumers. Moreover, the agencies have provided exceptions to the final rule, whereby creditors may fulfill their compliance obligation by providing credit score disclosures to consumers who apply for and are granted credit. Because creditors may provide credit score disclosures to consumers without regard to the terms offered, supplying these disclosures would eliminate the need for a creditor to perform an analysis to determine which consumers must receive a disclosure. The agencies also believe that the availability of model notices may significantly reduce the cost of compliance with the final rules. On January 15, 2010, a joint notice of final rulemaking was published in the *Federal Register* adopting the amendments largely as proposed, with mandatory compliance by January 1, 2011 (75 FR 2724).

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

²⁰ Federal Trade Commission (FTC)

Legal Status

The Board's Legal Division has determined that the FCRA, as amended, authorizes the Federal Reserve to issue regulations to carry out the provisions of the Act (15 U.S.C. §§1681b, 1681c, 1681m, and 1681s). Because the records are maintained at state member banks and the notices are not provided to the Federal Reserve, no issue of confidentiality arises under the Freedom of Information Act.

Estimate of Respondent Burden

The current annual respondent burden for this information collection is estimated to be 155,892 hours. Approximately 30,000 financial institutions furnish information to CRAs. The Federal Reserve believes that providing the notice to consumers (under Section 217) would not significantly burden financial institutions because many provide a standardized notice to consumers routinely in connection with account openings prior to furnishing negative information. The Federal Reserve estimates that financial institutions would take approximately 15 minutes annually to update their notices with changes such as contact information.

Under the affiliate marketing provisions (Section 214), the Federal Reserve estimates that the average amount of time for a financial institution to prepare and distribute an initial notice as required to consumers would be approximately 18 hours. The Federal Reserve estimates that the average consumer would take approximately 5 minutes to respond to the notice and opt-out.

Under the Red Flags provisions (Sections 114 and 315), the Federal Reserve estimates the annual burden per respondent is 41 hours; 25 hours to develop a program, 4 hours to prepare an annual report, 4 hours for training, 4 hours for developing policies and procedures to assess the validity of changes of address, and 4 hours for developing policies and procedures to respond to notices of address discrepancy.

Under the procedures to enhance the accuracy and integrity of information furnished to consumer reporting agencies (Section 312), the Federal Reserve estimates the annual burden per respondent is 40 hours (24 hours to implement written policies and procedures and training associated with the written policies and procedures, 8 hours to amend procedures for handling complaints received directly from consumers, 8 hours to implement the new dispute notice requirement) plus 14 minutes per notice for distribution.

The Federal Reserve estimates that there are 18,173 respondents regulated by the federal financial regulatory agencies²¹ potentially affected by the risk-based pricing Section 311 notice and disclosure requirements. The Federal Reserve estimates that the 18,173 respondents would take, on average, 40 hours (1 business week) to reprogram and update systems, provide employee training, and modify model notices with respondent information²² to comply with the

²¹ Federal Reserve, OCC, FDIC, OTS, NCUA, and the U.S. Department of Housing and Urban Development (HUD)

²² These modifications may include corrections or updates to telephone numbers, mailing addresses, or Web site addresses that may change over time, the addition of graphics or icons, such as the creditor's corporate logo, the alteration of the shading or color contained in the model forms, and the use of a different form of graphical presentation to depict the distribution of credit scores.

new requirements. This one-time annual burden is estimated to be 726,920 hours. In addition, the Federal Reserve estimates that, on a continuing basis, respondents would take 5 hours a month to modify and distribute notices to consumers. This annualized burden is estimated to be 1,090,380 hours. The total annual burden would increase by 1,817,300 hours, from 345,564 to 2,162,864 hours. This represents 41.73 percent of total annual Federal Reserve System paperwork burden.

	<i>Estimated number of respondents</i>	<i>Estimated average annual frequency</i>	<i>Estimated average time per response</i>	<i>Estimated annual burden hours</i>
<i>Current</i>				
CRA notice (Section 217)	30,000	1	15 minutes	7,500
AM opt-out notice (Section 214)				
Financial Institutions	2,619	1	18 hours	47,142
Consumer Response	638,380	1	5 minutes	53,198
Red Flags (Sections 114 and 315)	1,172	1	41 hours	48,052
CRA (Section 312)				
Policy & procedures	1,172	1	40 hours	46,880
Irrelevant dispute notices	611,966	1	14 minutes	<u>142,792</u>
	Total			345,564
<i>Proposed</i>				
CRA notice (Section 217)	30,000	1	15 minutes	7,500
AM opt-out notice (Section 214)				
Financial Institutions	2,619	1	18 hours	47,142
Consumer Response	638,380	1	5 minutes	53,198
Red Flags (Sections 114 and 315)	1,172	1	41 hours	48,052
CRA (Section 312)				
Policy & procedures	1,172	1	40 hours	46,880
Irrelevant dispute notices	611,966	1	14 minutes	142,792
Risk-based pricing (Section 311)²³				
One-time update	18,173	1	40 hours	726,920
Notice to consumers (on-going)	18,173	12	5 hours	<u>1,090,380</u>
	Total			2,162,864
	<i>Change</i>			<i>1,817,300</i>

²³ The Federal Reserve estimated the burden for entities regulated by the Federal Reserve, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Office of Thrift Supervision, National Credit Union Administration, and the U.S. Department of Housing and Urban Development pursuant to the FCRA. Such entities are identified in section 621(b)(1)–(3) of the FCRA (15 U.S.C. 1681s(b)(1)–(3)) and may include, among others, state member banks, national banks, insured nonmember banks, savings associations, federally-chartered credit unions, and other mortgage lending institutions.

The current estimated cost to the public for this information collection is \$10,565,855.²⁴ Under the final, rule to implement the new requirements, the revisions are estimated to increase the estimated cost to the public by \$59,062,250 to \$69,628,105.

Estimated Cost to the Federal Reserve System

Since the Federal Reserve does not collect any information, the cost to the Federal Reserve System is negligible.

²⁴ Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rate (75% Administrative or Junior Analyst @ \$25, 25% Managerial or Technical @ \$55, 0% Senior Management @ \$100, and 0% Legal Counsel @ \$144). Hourly rate estimates for each occupational group are averages using data from the Bureau of Labor and Statistics (BLS), Occupational Employment and Wages 2007, <http://www.bls.gov/news.release/ocwage.nr0.htm> Occupations are defined using the BLS Occupational Classification System, <http://www.bls.gov/soc/>