



CREDIT PRACTICES UNDER

THE FEDERAL RESERVE ACT



assistance program, or because the applicant has in good faith exercised rights under the ECOA or any of the other federal laws or regulations which are administered by the Bureau.

lenders like consumer creditors must avoid unlawful

discrimination and are subject to the penalties provided by the

the ECOA Act if they fail to do so. This has been the case since

the Act.

The ECOA does not apply to what is often called "trade

credit" or a term that covers credit arrangements

between a buyer and a seller, or between a refiner and a

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Some of the procedures that apply to those of you who extend

business credit -- for example, credit cards to other companies,

officers or employees -- for business use by the company, its

officers or employees, or for business use by the company, its

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understand that those changes have been a source of confusion for some of you. I will try to explain how the law has changed and

discrimination, the procedural requirements obligation to avoid

This consumer credit for all of the credit that you extend;

You may, however, choose to follow the alternative procedures for

I will first explain the procedures required for consumer

alternative procedures for business creditors, then the alternative

and how the business credit procedures have been changed by

recent law. Consumer credit means credit extended to a natural

person primarily for personal, family, or household purposes. A

creditor who receives an application for consumer credit must

the applicant or the action taken on the application now by

the creditor of receiving a completed application. If

The notice

notice given to the applicant must be in writing.

and address of the federal agency that enforces the ECOA as to

that particular creditor. Regulation B provides "safe harbor" protection

assure that your notice will comply with the law. In the case of

er than banks, including most of you, the

most creditors other

The notice must also contain the creditor's name and address.

and the date of the adverse action taken. For example, Regulation B is

ation B is:

The "safe harbor" provision in Regul

institutions against credit applicants

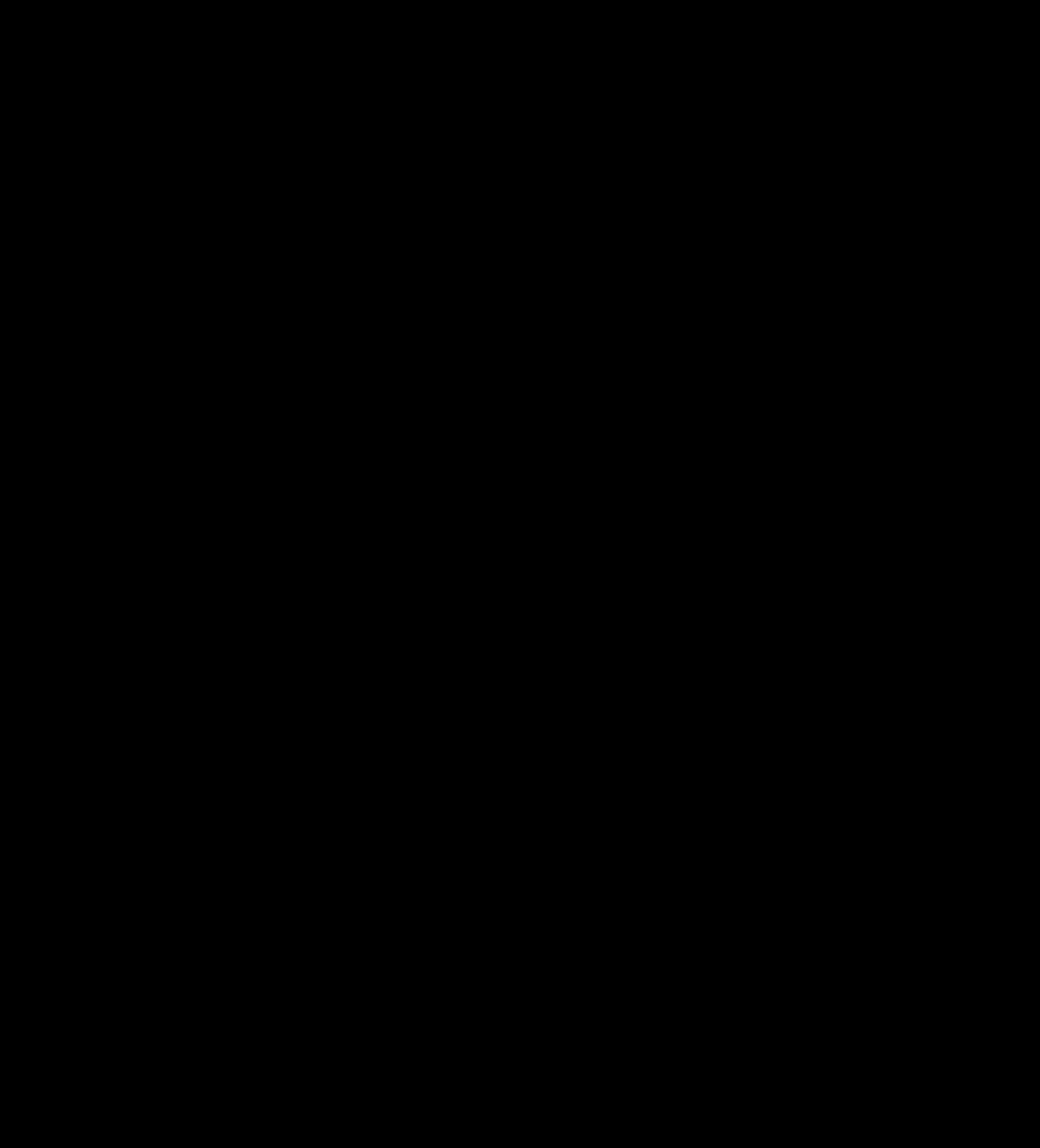
and federal Equal Credit Opportunity

religion, national origin

creditors from discriminating aga

on the basis of race, color

of credit, lowering of a previously established credit limit, or



... those ... although creditors usually were not permitted to check the

... their marital status. Creditors were ... seeking consumer credit

... permitted to raise this question with applicants for business

... credit. Although ...

... the action taken on their applications, they could do ... credit of the

... in writing, if they chose. Creditors also ... so orally, rather than

... did not have to tell rejected applicants for business

... about their rights under the FCRA or of their right to

... the application

... the creditor have to provide it. Finally, with respect to

... requested that records be kept for longer, in which case the

... creditor was required to keep the record for the



would create notification and recordkeeping requirements like

consumer credit.

those to

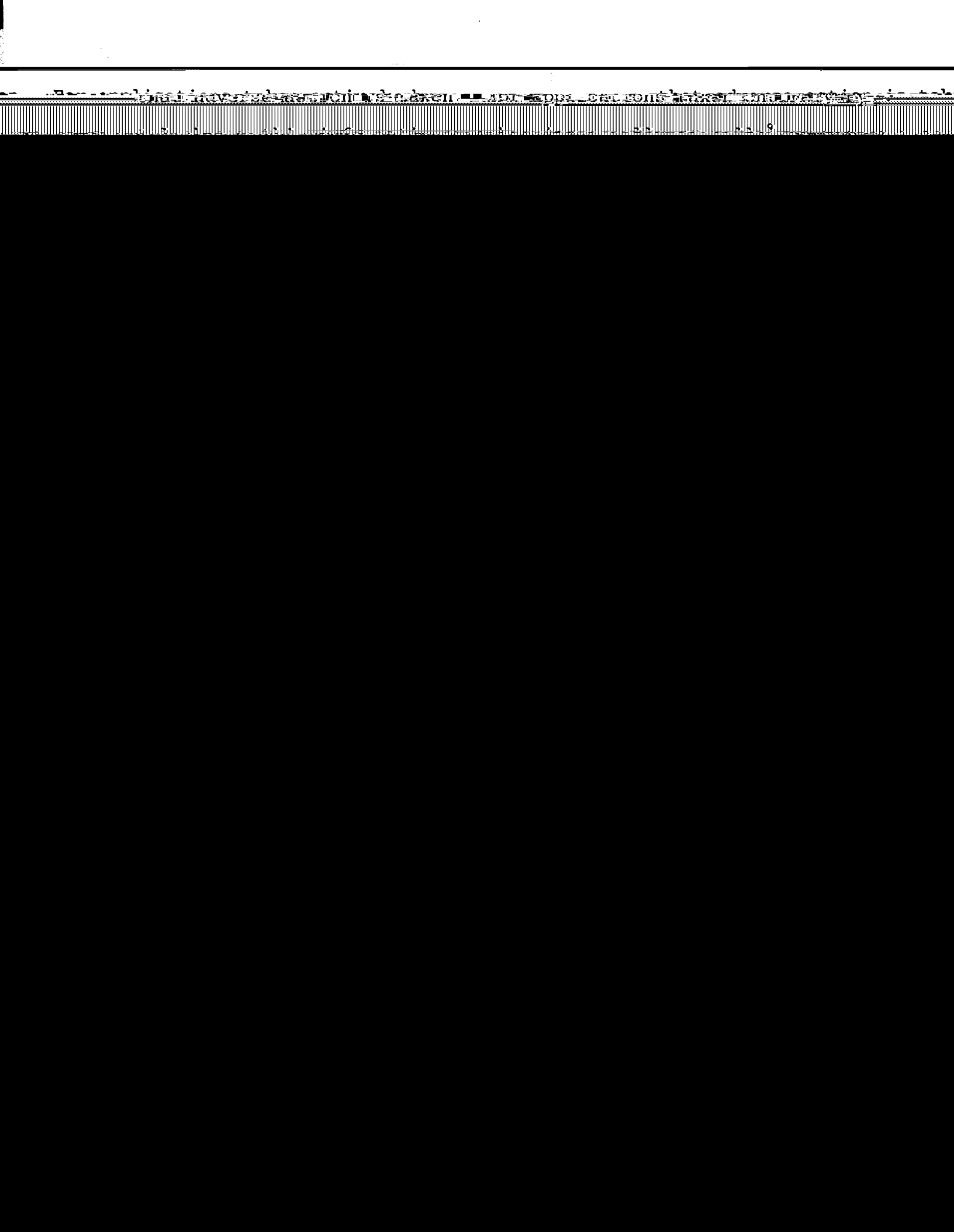
not mention small

Although the text of the 1988 Act did

applications from small businesses that are more like but still

earning \$1 million or less in annual revenues

businesses. As a result, there are now three



a reasons for the adverse action,

request simply for the

For consumer credit, you must:

Provide written notice of adverse action to credit applicants within 30 days of receiving

the application.

Include a statement of reasons for the

adverse action on all the applications.

and

Reasons;

records for 25 months.

-- Keep the

For consumer credit, you must:

For each business

Provide oral or written notice of adverse

action within

30 days.

a written adverse action notice, or orally in response to a telephone application;

Inform the applicant that he or she has the right to request a copy of the information used in the adverse action notice, either at the time of the adverse action notice or within 60 days of the date of the adverse action notice.

Keep records for 60 days (unless the

applicant requests that records be retained

or requests a statement of reasons in which

case you must keep records for 12 months)

The purpose of having three compliance procedures is to give  
creditors who serve business greater flexibility. Although you