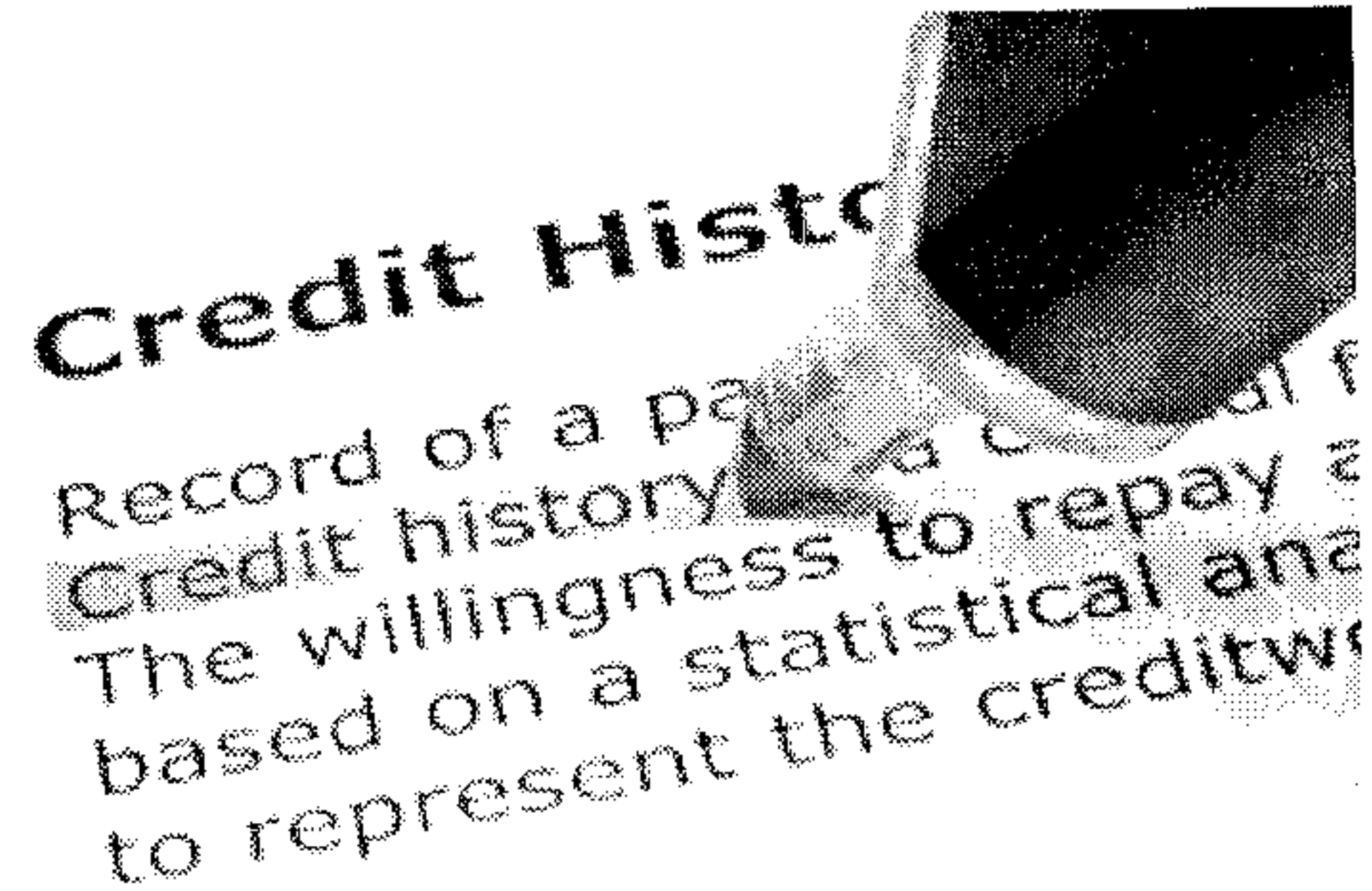


Risk-Based Notice Rule is Changing

Co-ops are being alerted to changes in a federal regulation that will affect the way they handle security deposit and consumer financing decisions in certain cases.



Co-ops are affected by a change in a federal credit regulation. (Photo By: iStockphoto)

Effective Jan. 1, 2011, the federal risk-based pricing rule, requires creditors, including co-ops, to provide a special notice to consumers, if they provide credit on materially less favorable terms than to other consumers, based on information in a credit report.

Now, as of July 21, a provision in the sweeping 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act adds new disclosures to the notices creditors must provide.

The risk-based pricing notices, as well as adverse action notices, which apply when a consumer is turned down for credit, now must include the consumer's credit score, key factors that adversely affected that credit score, and other related information.

Tracey Steiner, NRECA deputy chief member counsel, said co-ops are subject to the rule, including the additional disclosures, if they use a consumer credit report—either a numeric score or a rating partially based on a score—in connection with an application for electric service or a co-op-sponsored financing program.

That could include deciding whether to charge a security deposit, establishing a deposit amount, determining an interest rate for a loan or setting other credit terms, she said.

"It is important co-ops understand that even if they never saw the consumer's credit score before and only saw a rating, the Federal Trade Commission staff is taking the position that because the score is used in determining the rating, then co-ops will now need to obtain these scores from their service providers to include in the notices," Steiner said.

She added that the co-op service providers with whom she has talked are well aware of the rule and preparing for the upcoming deadlines.

The FTC and the Federal Reserve Board finalized the regulation and mandatory compliance will begin 30 days after the rule is published in the *Federal Register*. The rule only requires notices to consumers, and not to those applying on behalf of businesses.

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The addition of the credit score provision affects both risk-based pricing notices and adverse action notices.

Adverse action notices provide information similar to a risk-based pricing notice, but clearly tell consumers that they have been negatively affected as a result of information contained in their credit reports.

Because deciding to charge a consumer a deposit or setting a higher deposit also is adverse to his or her interests, cooperatives can choose to send a risk-based pricing notice or an adverse action notice.

The risk-based pricing rule acknowledges the overlap and says that a risk-based pricing notice is not required, if an adverse action notice will be provided instead, Steiner said.

The FTC has included revised model forms and recommended language for the risk-based pricing notices with its final rule. [Those can be found here.](#)