

Consumer Lending

Open-end

**You've Got Questions
We've Got Answers**

Closed-end



**Oak Tree
Business
Systems, Inc.**

FUNDAMENTAL FORMS THAT FOLLOW THE APPLICATION

Open-end Lending

Credit Line Account Agreement & Disclosure

When issued in conjunction with the application, your **Credit Line Account Agreement and Disclosure**—or OTBS 016—is the contract and the required Regulation Z Federal Disclosure for open-end consumer lending. No signature is required by the borrower on this document. New Federal Regulations require the summary table be displayed on this product in order to make the document more informative to the consumer.

For new borrowers, this document should be given out prior to the time of a borrower's first credit advance for any open-end feature category. For those members who already have one or more open-end features, the disclosure should be given out when feature categories are requested. A member may apply for one or all Feature Categories on the initial application or at a later date.

If a credit limit is assigned, the specific credit limit should be communicated to the member on a separate document, such as an approval letter.

The exact specifications for Minimum Periodic Payment are included in this document, as is the description of how Finance Charges are calculated. Specific current Interest Rates may be identified in this agreement or shown separately on an Additional Disclosure.

Your 016 can be constructed to support both secured and unsecured lending. For secured lending, this form will contain many provisions required to properly support the various aspects of open-end, collateralized consumer loans (such as a repossession clause in the default provision, a property insurance requirement, etc.).

Closed-end Lending

Credit Line Account Consumer Loan Agreement

Documenting fixed or variable rate, or fixed and variable rate, secured or unsecured consumer installment loans, the **Credit Line Account Consumer Loan Agreement**—or OTBS 011—is a closed-end contract that combines: (1) the required federal disclosure; (2) Credit Insurance Disclosure; (3) the Promissory Note; and (4) the Security Agreement.

There are four boxes in the Security section located in the Federal Box. If the loan is secured by personal property, one or more of these boxes should be checked according to the type of loan.

In all cases, the Simple Interest Rate or Variable Interest Rate section below the Federal Box must be complete. Normally this rate will be the same as the APR. Sometimes the APR can change due to certain fees that are classified as finance charges. In such

instances, the actual rate being used to calculate interest accrual must be specified.

In addition to capturing the signature of all borrowers and co-borrowers, if there is an owner of the collateral who is NOT going to be responsible for the loan, the box "Owner of Collateral (other than borrower)" should be checked.

While credit insurance is not required for credit, the disclosure should still be completed and signed. If credit insurance has been elected, it will be necessary to generate the corresponding Credit Insurance Certificate. Contact your Credit Insurance agent for further details.

Depending on the structure of the form OTBS 011 can instead be identified as any of the following: 011A, 011CC, 012, 012A, 112, or 112A.

THE BOTTOM LINE

Open-end Lending

Open-End Loans. These are loans for which: (a) The Credit Union reasonably contemplates repeated transactions by borrowers; and (b) A finance charge can be imposed from time to time on any outstanding unpaid balance; and (c) The amount of credit extended to borrowers during the term of the plan (up to any limit set by the Credit Union) is generally made available to the extent that any outstanding balance is repaid.

Essentially, an open-end loan (often called a "line of credit" or "revolving line of credit") is a pre-approved loan between a financial institution and borrower that may be used repeatedly up to a certain limit and can subsequently be paid back prior to payments coming due.

Closed-end Lending

Closed-End Loans. A closed-end loan is an extension of credit in which the proceeds are dispersed in full when the loan closes. The loan then must be repaid, including any interest and finance charges, by a specified date. The loan may require periodic principal and interest payments, or may require the entire payment of principal at maturity. In a closed-end loan, the borrower cannot change: (a) number and amount of installments; (b) maturity date; and/or (c) credit terms.



In Oak Tree's continuing efforts to provide our credit unions with updated and current information, we are providing the enclosed information to your financial institution highlighting the specific requirements to differentiate open-end consumer lending and closed-end consumer lending. As many of you know, federal regulators have made recent changes to lending structures in an effort to make lending documents easier for the borrower to understand. It is our business practice to continually educate and advise our financial institutions as to the most effective way to execute these regulatory requests. Oak Tree is committed to providing sound guidance and a forms solution that provides extraordinary value to your lending practices.

The only forms company you'll ever need!

Oak Tree has been serving credit unions like yours for over 30 years. In that time, we have developed documents that support the lending and savings activities needed by credit unions throughout the country. The Oak Tree "Advantage" includes compliance support, training, data linking services, regulatory updates, and much more.

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