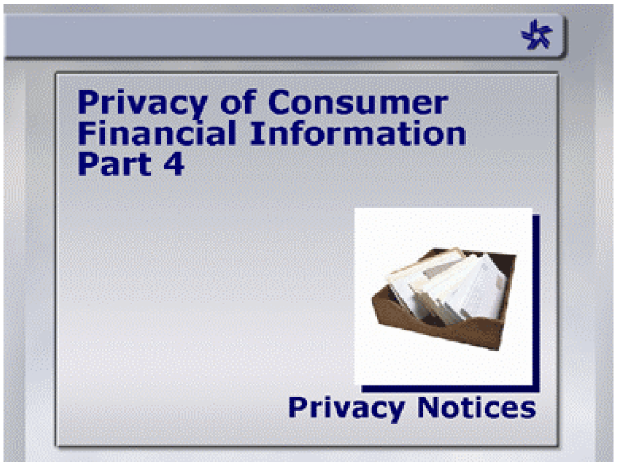
Privacy of Consumers' Financial Information
Part 4
Privacy Notices

Resources provided through FFIEC InfoBase

April 2001

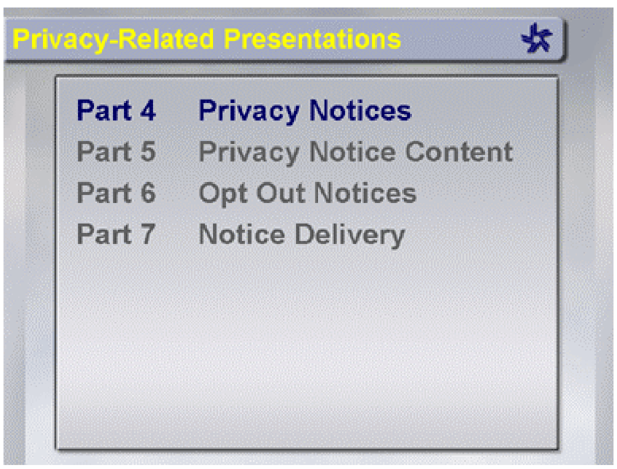
Slides



Narration

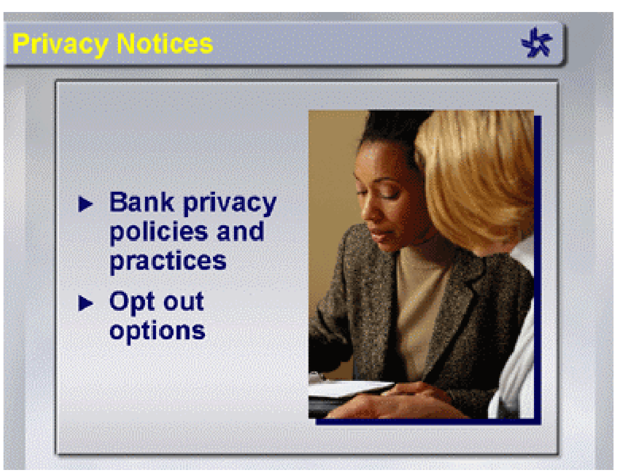
The privacy regulation requires banks to provide several types of privacy notices, also referred to as disclosures or simply notices, to its consumers and customers.

Because privacy-related notifications will be a rather important part of your examinations, there are several presentations on this and related topics.



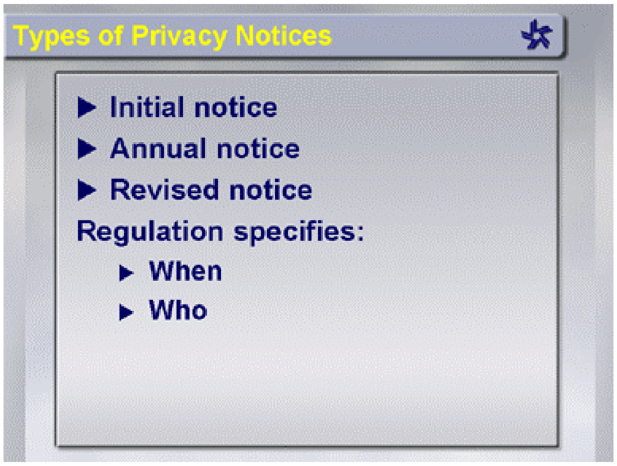
This presentation addresses the types of privacy notices that the rule requires, and the next presentation discusses the content requirements for those different types of notices.

Next we'll discuss opt out notices, and, finally, we'll take a look at regulation requirements for how a bank must deliver privacy-related notifications to its customers.



Privacy notices are intended to inform individuals of a bank's policies and practices as they relate to a consumer's nonpublic personal information. That is, they are intended to explain if and with whom a bank plans to share such information.

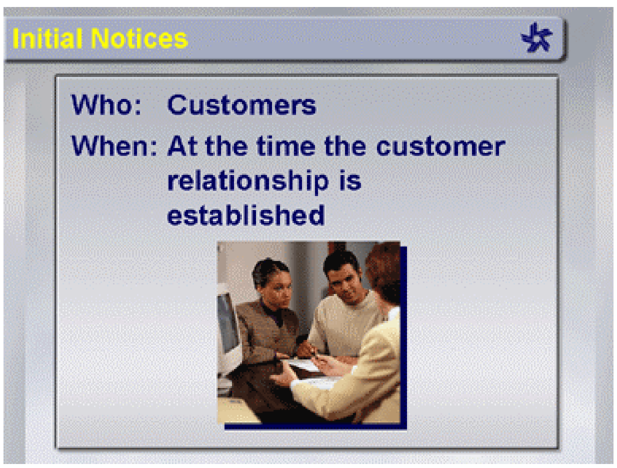
In addition, privacy notices must explain methods available for individuals to "opt out" of the bank sharing their nonpublic personal information with nonaffiliated third parties. More details about opt out notices are covered in a later presentation.



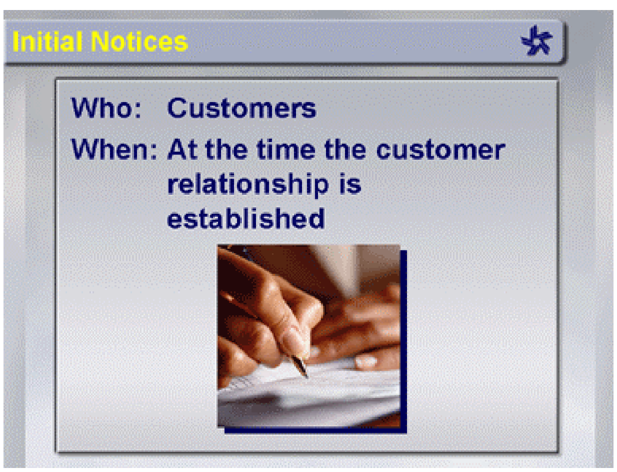
There are three types of privacy notices defined in the regulations: an initial notice, an annual notice, and a revised notice.

The regulation specifies when and to whom a bank is required to give each type of privacy notification.

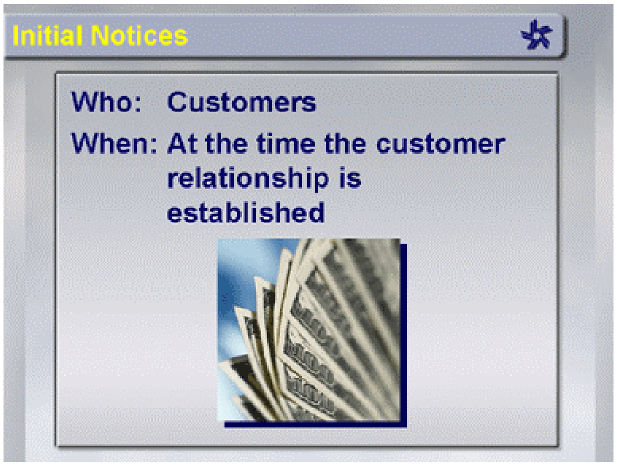
Let's look at the when and who for each type of privacy notice.



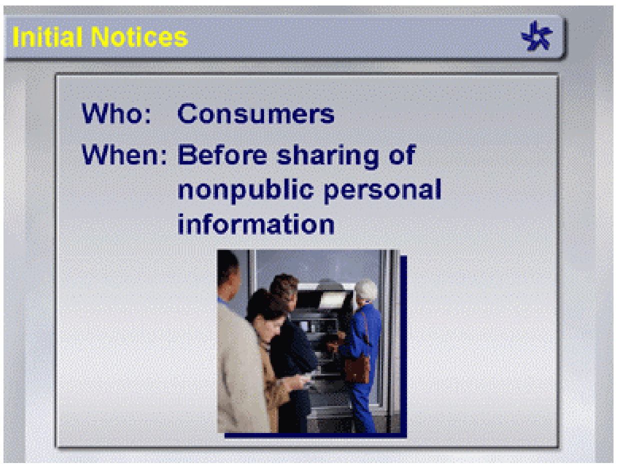
The regulation requires that all customers receive an initial notice no later than the time that a customer relationship is established and prior to the bank's disclosure of any of their nonpublic personal information to a nonaffiliated third party.



An initial notice would be required in such situations as a customer opening a deposit account

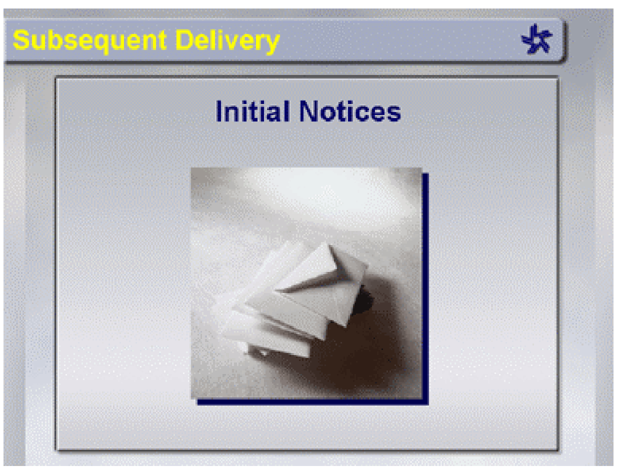


or obtaining a loan from the institution.



On the other hand, a consumer who is not a customer must receive an initial notice only if the institution intends to share his or her nonpublic personal information. If the financial institution does not intend to share a consumer's nonpublic personal information with nonaffiliated third parties, no initial notice is required.

There are, however, some limited situations in which the regulation allows a bank to delay delivery of initial privacy notices.



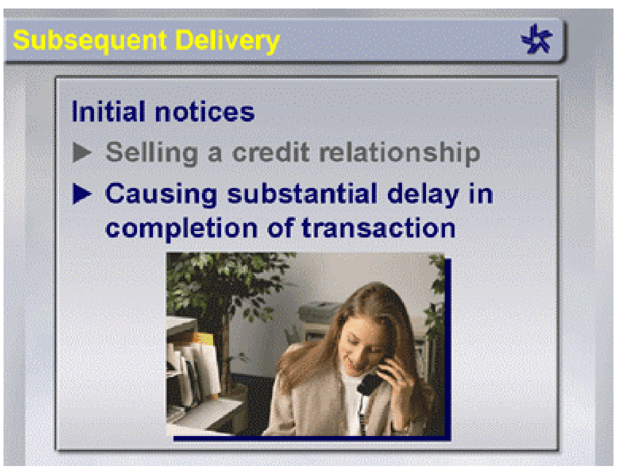
The objective served by this subsequent delivery provision is to recognize a few, very limited, situations when it is more advantageous to the consumer to carry through the transaction as quickly as possible.

The financial institution should not interpret these situations as a license to delay notice delivery indefinitely or to begin sharing information prematurely.

Let's look at a couple of examples of when the rule considers subsequent delivery to be acceptable.

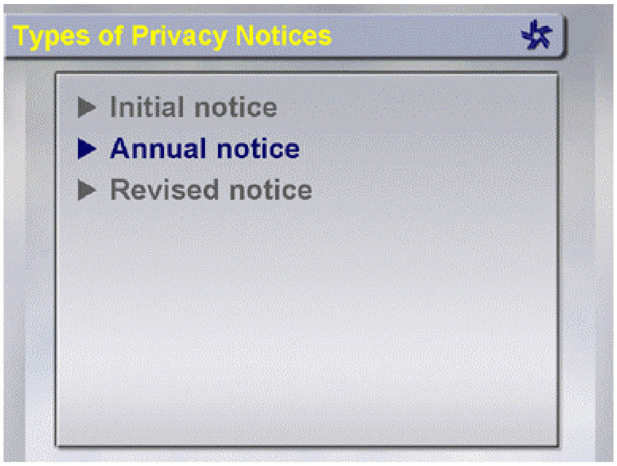
One example would be when a bank sells a credit relationship to another financial institution, thereby creating a new customer relationship between the second institution and the customer.

The regulation stipulates that when the customer relationship is not at the customer's election, the bank can delay giving the initial notice.

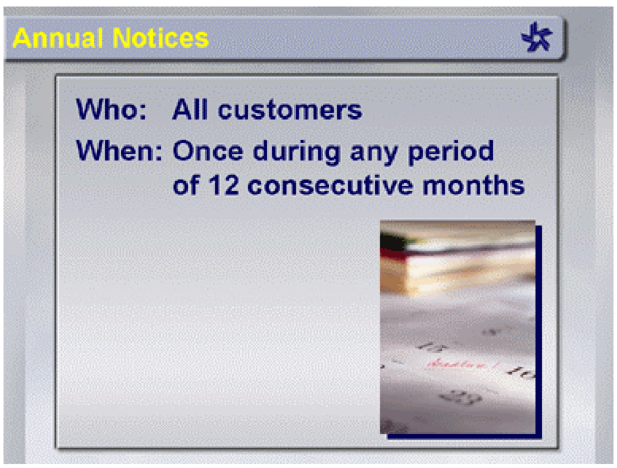


An institution can also delay providing an initial notice when the customer agrees to accept a delayed notice and when providing a more timely notice would substantially delay completion of the transaction.

The most common situation in which this condition would occur is when a transaction is made over the phone and there is no physical way to provide a notice at exactly the time the customer relationship is developed.



Now let's look at the requirements for annual notices.

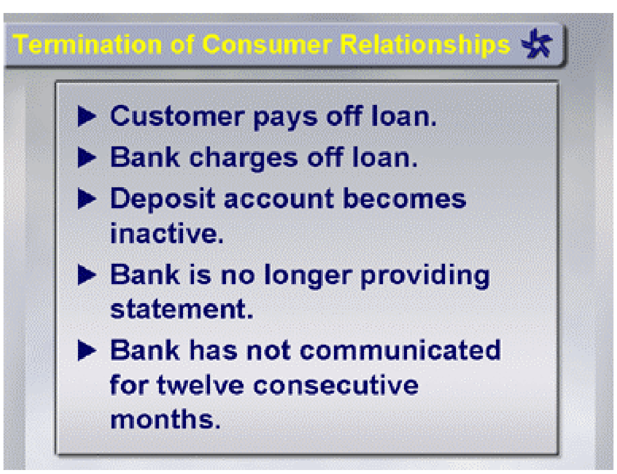


Annual notices must be sent to all customers. The rule defines annually as at least once in any twelve consecutive months during the customer relationship.

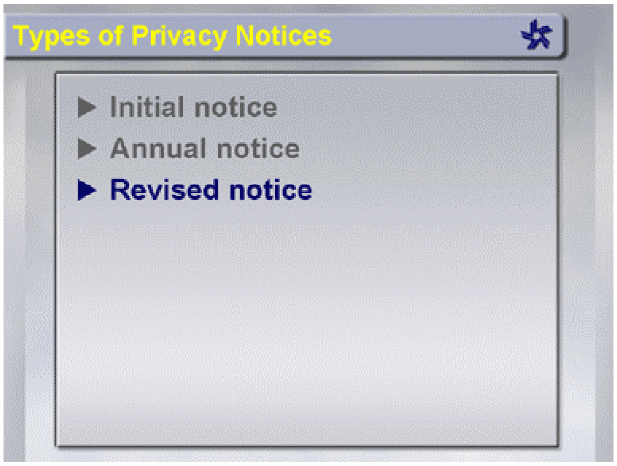
Banks will likely have many different ways to cycle through annual notices.

For example, a bank might keep track of when the initial notice is given to a group of customers and send annual notices every twelve months thereafter. Or, it might send annual notices to all customers on a particular date; thus, repeating notification to customers whose initial notice was issued only a few months earlier.

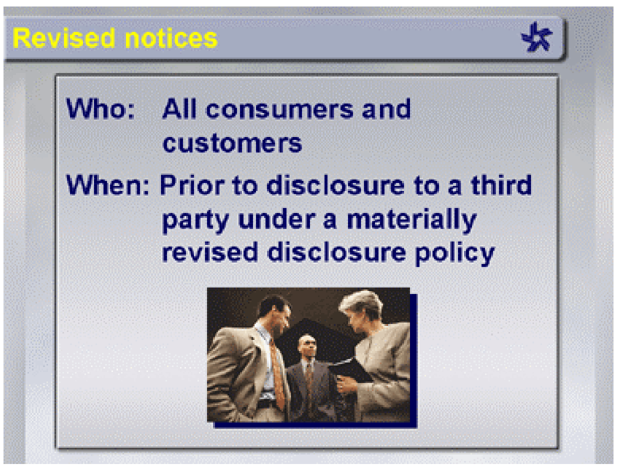
Annual notices must be sent to each customer until the customer relationship is terminated.



As stipulated in the regulation, customer relationships are terminated when they cease to be of a continuing nature. Examples of such terminations may include a customer paying off a loan, a bank charging off a loan, a deposit account becoming inactive (under existing bank policy), a bank no longer providing a statement under an open-end credit plan, or a bank not communicating with the consumer for a period of twelve consecutive months (other than to send annual privacy notices or promotional material.)

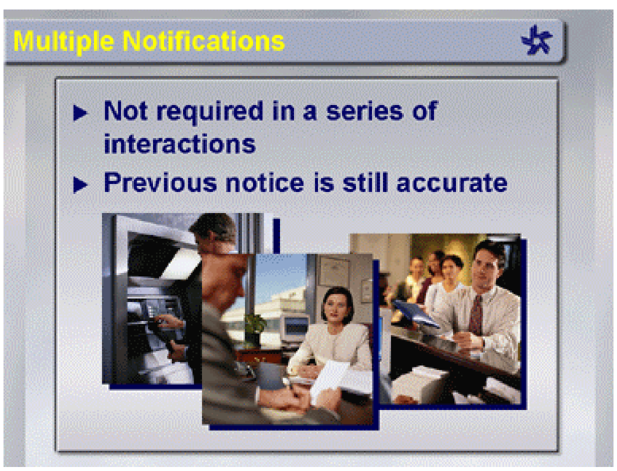


Now let's look at the requirements for revised notices.



Revised notices are required for all consumers and all customers prior to a bank's disclosure of nonpublic personal information to a third party. This is true when there is a change in the bank’s information sharing practices that involves a consumer’s ability to opt out.

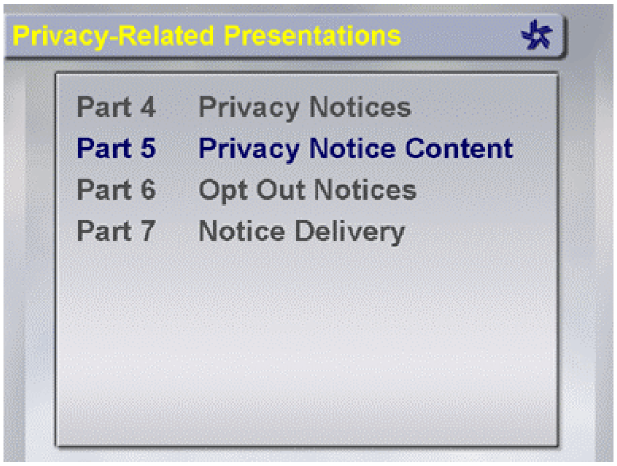
For example, revised notices are required if the bank begins to disclose a new category of nonpublic personal information to a nonaffiliated third party, or if the bank intends to start disclosing information a that involves opt out to a new category of third parties.



The regulation does not require multiple notifications when an institution participates in a series of interactions that would individually create customer relationships.

This is the case as long as the previous notice that the customer received—be it an initial, annual, or revised notice—is still accurate at the time the new interaction takes place.

For example, if an institution provides an initial notification at the time an individual opens a checking account, it need not provide a second notification when the same customer later takes out an auto loan, if the first notice is accurate with respect to the auto loan.



Now that you have an understanding of the different types of privacy notices, let's look at what content the regulation requires a bank to include in its notices.