

# FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 68-224  
October 22, 1968

## PROPOSED REGULATION ON TRUTH IN LENDING

To Trade Associations and Others Concerned  
in the Eleventh Federal Reserve District:

On October 16, 1968, the Board of Governors of the Federal Reserve System published for public comment a proposed new regulation to implement the Federal Truth in Lending Act (Title I of the Consumer Credit Protection Act) which was signed into law on May 29 of this year. The Truth in Lending Act and the implementing regulation will go into effect July 1, 1969.

The principal purpose of the law, and the regulation implementing it, is to provide a mechanism for improving customer knowledge of credit terms and thus to increase his ability to compare the terms available from various sources of credit.

Provisions of the law and the proposed regulation will apply to banks, savings and loan associations, department stores, credit card issuers, automobile dealers, credit unions, finance companies, residential mortgage brokers, and others who extend or arrange for the extension of consumer credit.

Enclosed is a copy of the proposed regulation, and a press release which describes some of its more important features. This information is being furnished to you because it appears that it will be of interest to members of your association, or organizations with which you are associated.

Requests for additional copies of the proposed regulation or the press release should be forwarded to James O. Russell, Chief Examiner, Federal Reserve Bank of Dallas, Station K, Dallas, Texas 75222.

Written comments on the proposed regulation may be forwarded to this Bank, and should be received not later than Monday, November 18. The Board of Governors plans to publish the regulation in final form early in 1969, well in advance of the effective date.

Yours very truly,

P. E. Coldwell

President

Enclosure



# FEDERAL RESERVE

press release

For release in morning papers,  
Wednesday, October 16, 1968

The Board of Governors of the Federal Reserve System today published for public comment a proposed new regulation to implement the Truth in Lending Act -- Title I of the Consumer Credit Protection Act which was signed into law last May 29 by President Johnson. Congress directed the Board to write the regulation for the Truth in Lending provisions which go into effect next July 1.

The principal purpose of the law, and the regulation implementing it, is to provide a mechanism for improving customer knowledge of credit terms and thus to increase his ability to compare the terms available from various sources of credit.

Provisions of the law and the proposed regulation will apply to banks, savings and loan associations, department stores, credit card issuers, automobile dealers, credit unions, finance companies, residential mortgage brokers, and others who extend or arrange for the extension of consumer credit.

In general, the proposed regulation covers:

-- Disclosures which must be made by creditors, including a statement of the dollar amount of the finance charge and the annual percentage rate. It also spells out the items to be included in the finance charge and the method for determining the annual percentage rate.

-- The right of a customer to cancel some types of credit arrangements within three business days after a credit transaction is made if the customer's residence is used as collateral. This right may be waived by the customer in a bona fide personal financial emergency.

-- Standards for the advertising of credit terms in any newspaper, magazine, leaflet, flyer, or catalog, on radio, television or a public address system, in direct mail literature, window display, billboard or any other manner.

Written comments from interested persons will be received over the next 30 days through the 12 Federal Reserve Banks at Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas and San Francisco.

Work on the proposed regulation began even before the Truth in Lending measure was signed into law last May. A Federal Reserve task force drafted the language of the proposed regulation aided by outside consultants and an Advisory Committee on Truth in Lending composed of 20 men and women active in the consumer credit field and in consumer groups. The proposed regulation incorporates provisions of law and is designed as a complete handbook on Truth in Lending that consumers and creditors can use without need to shuffle back and forth between the Act and the regulation.

Vice Chairman J. L. Robertson, to whom the Board has assigned special responsibility for this activity, said the proposed regulation will be reviewed in the light of comments received and revised where appropriate. He added that the Advisory Committee on Truth in Lending will meet again on December 12 and 13 to advise on the final regulation to be formally published early in 1969.

Governor Robertson said the Board, hopefully with the cooperation of consumer and lender groups, will soon launch an educational campaign to acquaint both creditors and consumers with provisions of the Truth in Lending regulation.

Although Congress directed the Board to write the Truth in Lending regulation, actual enforcement of the regulation and the law will be carried out by nine federal agencies -- The Comptroller of the Currency for national banks; the Federal Reserve Board for State banks which are members of the Federal Reserve System; the Federal Deposit Insurance Corporation, for State insured nonmember banks; the Federal Home Loan Bank Board, for insured savings and loan associations; the Bureau of Federal Credit Unions, the Interstate Commerce Commission, the Civil Aeronautics Board, and Agriculture Department and the Federal Trade Commission.

Compliance will be enforced by the Federal Trade Commission except where administrative enforcement is specifically committed by the statute to another federal agency.

Consumer credit is defined in the proposed regulation as credit offered or extended to a natural person primarily for personal, family, household, or agricultural purposes and for which a finance charge is or may be imposed or which is repayable in more than four instalments.

The proposed regulation would also bar a merchant or other creditor from advertising only a portion of his credit terms -- such as so much money down and so much a week -- unless he also included the total price, number of payments, and other specific terms.

#### Exemptions

As required by law, the regulation exempts business and commercial credit (except agricultural credit) as well as credit to governments, governmental agencies and instrumentalities, and organizations such as corporations, estates, cooperatives and partnerships. Also exempt are consumer credit transactions other than real property transactions in which the amount financed exceeds \$25,000. Real property transactions are covered by the regulation no matter how large the amount financed.

#### Specific Disclosures

The proposed regulation spells out the specific disclosures which must be made by creditors under each type of credit arrangement -- open end, which includes the many revolving charge accounts offered by department stores; and credit other than open end, which includes all other types of consumer loans and instalment type credit.

Under the proposed regulation, a person opening a new open end credit account must first be advised in writing by the creditor of these provisions:

-- The conditions under which a finance charge may be imposed and the time in which any outstanding credit may be repaid without incurring a finance charge.

-- The method for determining the balance upon which a finance charge may be imposed, and the method for determining the amount of the finance charge.

-- Where one or more periodic rates may be used to compute the finance charge, each rate must be stated as well as the range of balances to which it applies and the corresponding annual percentage rate.

-- The conditions under which any other charges may be imposed and the method by which they will be determined.

-- The conditions under which the creditor may retain or acquire any security interest in any property under a credit arrangement.

-- The minimum periodic payment required.

In the case of any open end credit accounts existing on July 1, 1969, the creditor must send a notice to the customer not later than July 31, 1969, listing the same provisions he is required to disclose to new credit customers.

For all open end accounts having a debit balance of more than one dollar or on which a finance charge is imposed, the regulation would require the creditor to send the customer a periodic statement listing somewhat similar disclosures.

The regulation also details the disclosures which a creditor would be required to make in the case of a credit sale, loan, or other extension of credit other than open end. In this case, the regulation spells out when such terminology as CASH PRICE, TOTAL DOWNPAYMENT, UNPAID BALANCE OF CASH PRICE, OTHER CHARGES, AMOUNT FINANCED and TOTAL FINANCE CHARGE must be used.

A creditor would not be required to send a periodic billing statement to customers in connection with an extension of credit other than open end. But if he decided to do so, the regulation specifies the disclosures which must be included in such a statement.

#### Right to Rescind

The Truth in Lending Act gives a customer the right to cancel a credit transaction within three business days in cases where the creditor retains a security interest in any real property used by the customer as his residence or is expected to be used by him for this purpose. A first mortgage used to purchase a residence, however, carries no such cancellation right. The cancellation right, for example, does apply when a residence is used as collateral for a consumer loan or is subjected to a mechanic's lien as a result of a credit transaction.

Under the proposed regulation, a creditor would be required to give a customer a printed notification of his right to rescind. The notice would include this language: "YOU HAVE A LEGAL RIGHT TO CANCEL THIS TRANSACTION FOR ANY REASON WITHOUT ANY PENALTY OR OBLIGATION AND VOID ANY LIEN, MORTGAGE OR OTHER SECURITY INTEREST TO WHICH YOUR HOME IS SUBJECTED BY REASON OF THIS TRANSACTION. . . IF YOU DECIDE TO CANCEL. YOU MAY USE THIS NOTICE FOR THAT PURPOSE BY DATING AND SIGNING BELOW."

The customer would have three business days following the date of the transaction to exercise his right of cancellation. The regulation would define a business day as any calendar day except Sunday and New Year's Day, Washington's Birthday, Memorial Day, Independence Day, Labor Day, Veterans Day, Thanksgiving and Christmas.

Advertising

In general, no advertisement may state that a specific installment, downpayment, or amount of credit can be arranged unless the creditor customarily arranges terms of this type. Equal emphasis must be given to all credit terms.

No advertisement for credit may set forth a specific credit term unless all other terms are also stated clearly and conspicuously.

TABLE FOR COMPUTING ANNUAL PERCENTAGE RATE FOR LEVEL MONTHLY PAYMENT PLANS

EXAMPLE

Finance charge = \$30.50; Total amount financed = \$200; Number of monthly payments = 24.

SOLUTION

Step 1 - Divide the finance charge by the total amount financed and multiply by \$100. This gives the finance charge per \$100 of amount financed. That is, \$30.50 ÷ \$200 = .1525 x \$100 = \$15.25.

Step 2 - Follow down the left hand column of the table to the line for 24 months. Follow across this line until you find the nearest number to \$15.25. In this example \$15.25 is closest to \$15.23. Reading up the column of figures shows an annual percentage rate of 14.00%.

Table with 18 columns for Annual Percentage Rate (10.00 to 14.00) and 24 rows for Number of Payments (1 to 60). The table is used to determine the APR based on the number of payments and the finance charge per \$100 of amount financed.

BOARD OF GOVERNORS  
of the  
FEDERAL RESERVE SYSTEM

TRUTH IN LENDING

DRAFT OF PROPOSED  
REGULATION Z  
(12 CFR 226)

Effective July 1, 1969

October 16, 1968.



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DRAFT OF PROPOSED

REGULATION Z

(12 CFR 226)

Effective July 1, 1969

TRUTH IN LENDING

SECTION 226.1--AUTHORITY, SCOPE, PURPOSE, ETC.

(a) Authority, Scope, and Purpose.--This Part comprises the regulations which are issued by the Board of Governors of the Federal Reserve System pursuant to Title I (Truth in Lending Act) and Title V (General Provisions) of the Consumer Credit Protection Act (Public Law 90-321; 82 Stat. 146 et seq.) which appear in the Appendix. Except as otherwise provided herein, this Part applies to all persons who in the ordinary course of business extend, or arrange for the extension of, credit for personal, family, household, or agricultural purposes.

This Part implements the purpose of the Act, which is to assure that every customer who has need for loan or sale credit for the purposes stated above is given meaningful information as to the cost of credit, in most cases expressed in dollars of finance charge and an annual percentage rate computed on the declining unpaid balance. Other relevant terms must also be disclosed so that the customer may readily compare the various credit terms available to him and use consumer credit on an informed basis to his best advantage. This Part also implements a provision of the Act under which a customer has a right to cancel a credit transaction which involves a lien on his residence, other than a purchase-money first lien, and void that lien without any liability by notifying the creditor of his cancellation within three business days.

All advertising of consumer credit terms must comply with specific standards, and certain credit terms may not be advertised unless they are made available to all who qualify. Certain provisions of the Act are incorporated in this Part to facilitate their use. Neither the Act nor this Part controls consumer credit charges, or interferes with trade practices except to the extent that such practices may be inconsistent with the purpose of the Act.

(b) Administrative Enforcement.--As set forth more fully in section 108 of the Act, administrative enforcement of the Act and this Part as to certain creditors is assigned to the Federal agencies which otherwise regulate or supervise those creditors; namely, Comptroller of the Currency, Board of Directors of the Federal Deposit Insurance Corporation, Federal Home Loan Bank Board (acting directly or through the Federal Savings and Loan Insurance Corporation), Director of the Bureau of Federal Credit Unions, Interstate Commerce Commission, Civil Aeronautics Board, Secretary of Agriculture, and Board of Governors of the Federal Reserve System.

Except to the extent that administrative enforcement is specifically committed to other agencies, compliance with the requirements imposed under the Act and this Part will be enforced by the Federal Trade Commission.

(c) Preservation and Inspection of Records.--Evidence of compliance with this Part shall be preserved by the creditor for the life of the transaction to which it relates or for a period of not less than two years from the date of that transaction, whichever is longer.

Each creditor shall, when directed by the appropriate administrative enforcement agency designated in section 108 of the Act, permit that agency to inspect its relevant records and evidence of compliance with this part.

(d) Penalties and Liabilities.--Section 112 of the Act provides for criminal liability for willful and knowing failure to comply with any requirement imposed under the Act and this Part, and section 130 of the Act provides for civil liability on the part of any creditor who fails to disclose any information required under Chapter 2 of the Act and this Part.

SECTION 226.2--DEFINITIONS AND RULES OF CONSTRUCTION

For the purposes of this Part, unless the context otherwise requires, the following definitions and rules of construction apply:

(a) "Act" refers to the Truth in Lending Act (Title I of the Consumer Credit Protection Act).

(b) "Advertisement" means any commercial message in any newspaper, magazine, leaflet, flyer or catalog, on radio, television or public address system, in direct mail literature or other printed material, on any interior or exterior sign or display, in any window display, in any point-of-transaction literature or price tag, or which is delivered or made available in any manner whatsoever.

(c) "Agricultural purpose" means a purpose related to the production, harvest, exhibition, marketing, transportation, processing, or manufacture of agricultural products by a natural person who cultivates, plants, propagates, or nurtures agricultural products. "Agricultural products" includes agricultural, horticultural, viticultural, and dairy products, livestock, wildlife, poultry, bees, forest products, fish and shellfish, and any products thereof, including processed and manufactured products, and any and all products raised or produced on farms and any processed or manufactured products thereof.

(d) "Billing cycle" means the time interval for which a creditor bills a customer.

(e) "Board" refers to the Board of Governors of the Federal Reserve System.

(f) "Cash price" means the price at which the creditor would, in the ordinary course of business, sell for cash the property or services which are the subject of a consumer credit transaction. It may include the cash price of accessories or services related to the sale such as delivery, installation, alterations, modifications, and improvements, but shall not include any charges of the types described in section 226.4.

(g) "Comparative Index of Credit Cost" means that relative measure of the cost of credit under an open end credit account, computed in accordance with section 226.12, which is the expression of "average effective annual percentage rate of return" and "projected rate of return" which appear in section 127(a)(5) of the Act.

(h) "Consumer credit" or "consumer loan" means credit offered or extended to a natural person, in which the money, property, or service which is the subject of the transaction is primarily for personal, family, household, or agricultural purposes and for which either a finance charge is or may be imposed or which is payable in more than four instalments.

(i) "Credit" means the right granted by a creditor to a customer to defer payment of debt or to incur debt and defer its payment or to purchase goods or services and defer payment therefor. (See also paragraph (w).)

(j) "Creditor" means a person who in the ordinary course of business extends or arranges for the extension of consumer credit, or offers to extend or arrange for the extension of such credit, whether in connection with loans, sales of property or services, or otherwise.

(k) "Credit sale" means any sale with respect to which consumer credit is extended or arranged by the seller. The term includes any contract



in the form of a bailment or lease if the bailee or lessee contracts to pay as compensation for use a sum substantially equivalent to or in excess of the aggregate value of the property and services involved and it is agreed that the bailee or lessee will become, or for no other or for a nominal consideration has the option to become, the owner of the property upon full compliance with his obligations under the contract.

(l) "Customer" means a natural person to whom consumer credit is or will be extended.

(m) "Dwelling" means a residential-type structure containing one but not more than four family housing units, whether or not the customer resides or expects to reside in the structure.

(n) "Open end credit" means consumer credit extended on an account pursuant to an agreement between a creditor and a customer under which (1) the creditor may permit the customer to make purchases or obtain loans, from time to time, directly from the creditor or indirectly by use of a credit card, check, or other device, as the agreement may provide; (2) the credit so extended and related charges are debited to the customer's account; and (3) a finance charge may be imposed periodically by the creditor on an outstanding unpaid balance.

(o) "Organization" means a corporation, government or governmental subdivision or agency, trust, estate, partnership, cooperative, or association.

(p) "Period" means a day, week, month, or other regular subdivision of a year.

- (q) "Periodic rate" means a percentage rate of finance charge which is or may be imposed by a creditor against an unpaid balance in an open end credit account for a period or billing cycle.
- (r) "Person" means a natural person or an organization.
- (s) "Real property" means property which is real property under the law of the State in which it is located.
- (t) "Residence" means a dwelling in which the customer resides or expects to reside.
- (u) "Security interest" and "security" mean any interest in property which secures payment or performance of an obligation. The terms include, but are not limited to, security interests under the Uniform Commercial Code, real property mortgages and deeds of trust, mechanic's, materialmen's, artisan's, and other similar liens, vendor's liens in both real and personal property, the interest of the seller in a contract for the sale of real property, and any interest in a lease when used to secure payment or performance of an obligation.
- (v) "State" means any State, the Commonwealth of Puerto Rico, the District of Columbia, and any territory or possession of the United States.
- (w) In the succeeding sections of this Part, unless the context indicates otherwise, the term "credit" shall be construed to mean "consumer credit," the term "loan" to mean "consumer loan," and the term "transaction" to mean "consumer credit transaction."
- (x) A transaction shall be considered consummated at the time a bilateral contractual relationship is created between a creditor and a customer irrespective of the time of performance of either party.

(y) Captions and catchlines are intended solely as aids to convenient reference, and no inference as to the intent of any provision of this Part may be drawn from them.

SECTION 226.3--EXEMPTED TRANSACTIONS

This Part does not apply to:

- (a) Business or Governmental Credit.--Credit transactions involving extensions of credit for business or commercial purposes, <sup>1/</sup> or to governments or governmental agencies or instrumentalities, or to organizations.
- (b) Certain Transactions in Securities or Commodities Accounts.--Transactions in securities or commodities accounts with a broker-dealer registered with the Securities and Exchange Commission.
- (c) Non-Real Property Credit Over \$25,000.--Credit transactions, other than real property transactions, in which the amount financed <sup>2/</sup> exceeds \$25,000, or in which the transaction is pursuant to an express commitment by the creditor to extend credit in excess of \$25,000. For this purpose, a real property transaction is an extension of credit in connection with which a security interest in real property is or will be retained or acquired.
- (d) Certain Public Utility Bills.--Transactions of a public utility under public utility tariffs involving services for which charges are imposed for delayed payment, or discounts are allowed for early payment, if such public utility establishes to the Board's satisfaction, by certification of a State regulatory body, that its charges for public utility services and its related delayed payment charges or early payment discounts are regulated by that body.

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<sup>1/</sup> See section 226.2(h).

<sup>2/</sup> For this purpose, the amount financed is the amount which is required to be disclosed under section 226.8(b)(7), or section 226.8(c)(5), as applicable, or would be so required if the transaction were subject to this Part.

SECTION 226.4--DETERMINATION OF FINANCE CHARGE

(a) General Rule.--Except as otherwise provided in this section, the amount of the finance charge in connection with any transaction shall be determined as the sum of all charges, payable directly or indirectly by the customer, and imposed directly or indirectly by the creditor as an incident to or a condition of the extension of credit, including any of the following types of charges, whether paid or payable by the customer, the seller, or any person on behalf of the customer to the creditor or to a third party with the knowledge or consent of the creditor:

- (1) Interest, time price differential, and any amount payable under a discount or other system of additional charges.
- (2) Service, transaction, activity, or carrying charge.<sup>3/</sup>
- (3) Loan fee, points, finder's fee, or similar charge
- (4) Fee for an appraisal, investigation, or credit report.
- (5) Charges or premiums for credit life, accident, health, or loss of income insurance, written in connection with<sup>4/</sup> any credit transaction unless

(A) the coverage of the customer by the insurance is not a factor in the approval by the creditor of the extension of credit, and this fact is clearly disclosed in writing to the customer applying for or obtaining the extension of credit; and

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<sup>3/</sup> These charges include any additional charge for the handling of checks, sales slips, for making account entries, for account maintenance or otherwise, imposed in connection with an account only during the time any balance therein represents an extension of credit.

<sup>4/</sup> A policy of insurance owned by the customer, which is assigned to the creditor or otherwise made payable to the creditor to satisfy a requirement imposed by the creditor, is not insurance "written in connection with" a credit transaction if the policy was not purchased by the customer for the purpose of being used in connection with that extension of credit.

(B) in order to obtain the insurance in connection with the extension of credit, the customer is required to give specific affirmative written indication of his desire to do so after written disclosure to him of the cost thereof.

(6) Charges or premiums for insurance, written in connection with<sup>5/</sup> any credit transaction, against loss of or damage to property or against liability arising out of the ownership or use of property, unless a clear and specific statement in writing is furnished by the creditor to the customer setting forth the cost of the insurance if obtained from or through the creditor, if applicable, and stating that the customer may choose the agent or other person through which the insurance is to be obtained.<sup>6/</sup>

(7) Premium or other charge for any other guarantee or insurance protecting the creditor against the obligor's default or other credit loss.

(8) Charges of the following types when added to the credit extended, unless itemized and disclosed:

(A) Fees and charges prescribed by law which actually are or will be paid to public officials for determining the existence of, or for perfecting or releasing or satisfying any security related to, the credit transaction.

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<sup>5/</sup> A policy of insurance owned by the customer, which is assigned to the creditor or otherwise made payable to the creditor to satisfy a requirement imposed by the creditor, is not insurance "written in connection with" a credit transaction if the policy was not purchased by the customer for the purpose of being used in connection with that extension of credit.

<sup>6/</sup> A creditor's reservation or exercise of the right to refuse to accept an insurer or agent offered by the customer, for reasonable cause, does not require inclusion of the premium in the finance charge.

(B) The premium payable for any insurance in lieu of perfecting any security interest otherwise required by the creditor in connection with the transaction, but the premium shall be included if it exceeds the fees and charges described in (A) which would otherwise be payable.

(C) Taxes imposed upon the customer.

(D) License fees.

(E) Certificate of title fees.

(F) Registration fees.

(9) Any charge imposed by a creditor upon another creditor for purchasing or accepting a written order, sales draft, or similar obligation to be debited to a customer's open end credit account, unless there is a written agreement between the two creditors providing that the customer shall not be required to pay any part of that charge through any increase in price or otherwise, and in fact the customer is not required to do so.

(b) Excluded Charges, Real Property Transactions.--The following charges in connection with any extension of credit secured by an interest in real property, provided they are bona fide, reasonable in amount, and not for the purpose of circumvention or evasion of this Part, shall not be included in the finance charge:

(1) Fees or premiums for title examinations, title insurance, or similar purposes.

(2) Fees for preparation of a deed, settlement statement, or other documents.

- (3) Escrows for future payments of taxes and insurance.
  - (4) Fees for notarizing deeds and other documents.
  - (5) Appraisal fees.
  - (6) Credit reports.
- (c) Prohibited Offsets.--Interest, dividends, or other income received or to be received by the customer on deposits or on investments in real or personal property in which a creditor holds a security interest shall not be deducted from the amount of the finance charge or otherwise taken into consideration in computing the annual percentage rate.
- (d) Demand Obligations.--Obligations payable on demand shall be considered to have a maturity of six months for the purpose of computing the amount of the finance charge and the annual percentage rate.
- (e) Computation of Insurance Premiums.--If any insurance premium is required to be included as a part of the finance charge, the amount to be included shall be the premium for coverage extending over the period of time the creditor will require the customer to maintain insurance coverage in connection with the transaction. For the purpose of computing the amount of insurance premiums included in the finance charge, it shall be assumed that the rates and classifications applicable at the time the credit is extended apply over the full time during which coverage is required, unless the creditor knows or has reason to know that other rates or classifications will be applicable, in which case such other rates or classifications shall be used to the extent appropriate.



SECTION 226.5--DETERMINATION OF ANNUAL PERCENTAGE RATE

(a) General Rule--Open End Credit Accounts.--The annual percentage rate or rates for open end credit accounts shall be computed to the nearest hundredth of one percent and shall be determined as follows:

(1) Where the finance charge is exclusively the product of the application of one or more periodic rates, by multiplying each periodic rate by the number of billing cycles in a year to determine each annual percentage rate, except that if the finance charge is the product of the application of two or more periodic rates, at the creditor's option, a single annual percentage rate may be determined by dividing the total finance charge by the sum of the balances to which applicable and multiplying the quotient (expressed as a percentage) by the number of billing cycles in a year.

(2) Where the finance charge exceeds 50 cents for a monthly or longer billing cycle, or the pro rata part of 50 cents for a billing cycle shorter than monthly,<sup>7/</sup> and is or includes a minimum, fixed, or other charge not due to the application of a periodic rate, the annual percentage rate shall be determined by dividing the total finance charge by the amount of the balance to which applicable and multiplying the quotient (expressed as a percentage) by the number of billing cycles in a year.

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<sup>7/</sup> Where the finance charge is not more than 50 cents for a monthly or longer billing cycle, or the pro rata part of 50 cents for a billing cycle shorter than monthly, and is or includes a minimum, fixed, or other charge, the annual percentage rate or rates may be determined by multiplying each applicable periodic rate by the number of billing cycles in a year irrespective of such minimum, fixed, or other charge.

(b) General Rule--Other Credit.--The annual percentage rate for credit other than open end credit shall be determined in accordance with the actuarial method as described in paragraph (a) of section 226.11, or by the use of charts or tables which conform to the requirements of paragraph (b) of section 226.11.

(1) Regulation Z Tables.--The Regulation Z tables produced by the Board may be used to determine the annual percentage rate in commonly encountered transactions. An annual percentage rate determined in accordance with the instructions for the use of these tables will comply with the requirements of this Part. The tables are available at cost from the Board in Washington, D.C., the Federal Reserve Banks and branches, and the other agencies responsible for administrative enforcement of the Act and this Part.

(2) Computation by Other Method.--In any instance where circumstances require that a creditor determine an annual percentage rate by a method other than that provided in paragraph (a) of section 226 11, the creditor may use the constant ratio method of computation, as set forth in paragraph (g) of section 226.11, provided such use is not for the purpose of circumvention or evasion of the requirements of this Part.

(3) Minor Irregularities.--If an obligation is payable in equal instalments at scheduled equal intervals, except for one or both of the irregularities described in (A) and (B) below, and the period from the date credit is extended to the date the final payment is due is not less than three months in the case of weekly payments,

six months in the case of biweekly or semimonthly payments, or one year in the case of monthly payments, in determining the annual percentage rate, the creditor may, at his option, treat the following irregularities as if they were regular in amount or time, as the case may be:

(A) The amount of one payment is unequal, but not more than fifty per cent greater nor fifty per cent less than the amount of a regular payment; or

(B) The interval between the date credit is extended and the date the first payment is due is unequal, but not less than 5 days for an obligation payable in weekly instalments, not less than 10 days for an obligation payable in biweekly or semimonthly instalments, or not less than 20 days for an obligation payable in monthly instalments.

(4) Finance Charge Applicable to Range of Balances.--Where a creditor imposes the same finance charge for all balances within a specified range and requires payments of equal amount, except for a final payment which may be for a lesser amount, and requires all payments to be made at equal intervals, the annual percentage rate shall be determined as prescribed in subparagraph (b)(5) of section 226.11.

(c) Error in a Table or Chart.--In the event an error occurs in disclosure of an annual percentage rate because of a corresponding error in a table or chart acquired in good faith by the creditor, that error in disclosure shall not, in itself, be considered a violation of this Part provided that upon discovery of the error, that creditor makes no further disclosure

based on that table or chart and immediately notifies the Board or a Federal Reserve Bank in writing of the error and identifies the inaccurate table or chart by giving the name and address of the person responsible for its production and its serial number. Nothing in this paragraph shall affect the possible civil liability of any creditor under section 130 of the Act.

(d) Rounding.--Any annual percentage rate determined in accordance with paragraph (a) or (b) may, for the purpose of disclosure, be rounded to the nearest quarter of one per cent in the case of annual percentage rates of two per cent or more and to the nearest one-eighth of one per cent in the case of annual percentage rates of less than two per cent. (For example, 18.31% may be rounded to 18.25%, which also may be expressed as 18-1/4%.)

SECTION 226.6--GENERAL DISCLOSURE REQUIREMENTS

(a) Clear and Conspicuous Disclosure.--Disclosures required by sections 226.7 and 226.8 shall be made clearly and conspicuously in the order and terminology set forth in the applicable section or in substantially similar order or in other terminology conveying substantially the same meaning, except that where the terms ANNUAL PERCENTAGE RATE, ANNUAL PERCENTAGE RATE OF FINANCE CHARGE, or COMPARATIVE INDEX OF CREDIT COST are specified, no alternative terminology may be used.

(b) Use of Figures--Size of Type.--All numerical amounts and percentages shall be stated in figures. Except as provided in section 226.9(b), terminology identifying disclosures, numerical amounts, and percentages shall be printed in not less than 10 point roman bold face type numerals and capital letters, .079 inch computer type, elite size typewritten capital letters, or legibly handwritten in equivalent size figures and letters,

(c) Additional Information.--Additional information or explanations may be supplied with any disclosure required or in any advertisement subject to section 226.10, but none shall be stated, utilized, placed, or subsequently omitted so as to contradict, mislead, confuse, obscure, or detract attention from the information required to be disclosed by this Part.

(d) Copy to Customer.--At the time disclosures are made, the creditor shall furnish the customer with a duplicate of the instrument or statement by which the disclosures required by this Part are made. Such copy shall clearly identify the creditor by name and address.

(e) Multiple Creditors; Joint Disclosure.--If there is more than one creditor in a transaction, each creditor shall be responsible for the disclosures required by this Part. If two or more creditors make a joint disclosure, each shall be clearly identified by name and address.

(f) Unknown Information Estimate.--If at the time disclosures must be made, an amount or other item of information required to be disclosed, or needed to determine a required disclosure, is unknown or not available to the creditor, and the creditor has made a reasonable effort to ascertain it, the creditor may use an estimated amount or an approximation of the information, provided the estimate or approximation is clearly identified as such, is reasonable, is based on the best information available to the creditor, and is not used for the purpose of circumventing or evading the disclosure requirements of this Part.

(g) Overstatement.--The disclosure of an amount or percentage which is greater than the amount or percentage required to be disclosed under this Part does not in itself constitute a violation of this Part, provided that the overstatement is not for the purpose of circumvention or evasion of disclosure requirements.

(h) Transitional Period.--Prior to January 1, 1970, any creditor may utilize existing supplies of printed forms, irrespective of type size, for the purpose of complying with the disclosure requirements of this Part, except that required under paragraph (b) of section 226.9, provided such forms are altered or supplemented as necessary to assure that all of the items of information the creditor is required to disclose to the customer are set forth clearly and conspicuously.

(f) Percentage Rate as Dollars Per Hundred.--Prior to January 1, 1971, any rate required under this Part to be disclosed as a percentage rate may, at the option of the creditor, be expressed in the form of the corresponding ratio of dollars per hundred dollars using the term DOLLARS FINANCE CHARGE PER YEAR PER \$100 OF UNPAID BALANCE. (For example, an add-on finance charge of 4% on an obligation payable in 36 equal monthly instalments is equivalent to an annual percentage rate (rounded to the nearest quarter of one percent) of 7.50% which may be stated as \$7.50 FINANCE CHARGE PER YEAR PER \$100 OF UNPAID BALANCE.)

SECTION 226.7--OPEN END CREDIT ACCOUNTS--SPECIFIC DISCLOSURES

(a) Opening New Account.--Before opening any open end credit account, the creditor shall disclose to the customer in a single written statement, in terminology consistent with the requirements of paragraph (b), each of the following items, to the extent applicable:

(1) The conditions under which a finance charge may be imposed directly or indirectly, including the time period, if any, within which any credit extended may be paid without incurring a finance charge.

(2) The method of determining the balance upon which a finance charge may be imposed.

(3) The method of determining the amount of the finance charge, including the determination of any minimum, fixed, check service, activity, or similar charge, which may be imposed as a finance charge.

(4) Where one or more periodic rates may be used to compute the finance charge, each such rate, the range of balances to which it is applicable, and the corresponding annual percentage rate determined by multiplying the periodic rate by the number of billing cycles in a year.

(5) If the creditor so elects, the Comparative Index of Credit Cost in accordance with section 226.12.

(6) The conditions under which any other charges may be imposed, and the method by which they will be determined.



(7) The conditions under which the creditor may retain or acquire any security interest in any property to secure the payment of any credit extended on the account, and a description of the interest or interests which may be so retained or acquired.

(8) The minimum periodic payment required.

(b) Periodic Statements Required.--The creditor of any open end credit account shall transmit to the customer, for each billing cycle at the end of which there is an outstanding debit balance in excess of \$1 in that account or with respect to which a finance charge is imposed, a statement, or statements in accordance with paragraph (c), which the customer may retain, setting forth each of the following items to the extent applicable:

(1) The outstanding balance in the account at the beginning of the billing cycle using the term PREVIOUS BALANCE.

(2) The amount, date, and type of each extension of credit during the billing cycle and, unless previously furnished, a brief identification<sup>8/</sup> of any goods or services purchased, and the amount of any other charge not part of the finance charge.

(3) Each amount credited to the account during the billing cycle for payments, returns, rebates of finance charges, and adjustments, using appropriate descriptive terminology, and unless previously furnished, a brief identification<sup>8/</sup> of each item credited.

(4) The amount of any finance charge, using the term FINANCE CHARGE, debited to the account during the billing cycle, itemized

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<sup>8/</sup> Identification may be made on an accompanying slip or by symbol relating to an identification list printed on the statement.

and identified to show the amounts, if any, due to the application of periodic rates and the amount of any other charge included, such as a minimum, fixed, check service, or activity charge,<sup>9/</sup> using appropriate descriptive terminology.

(5) Each periodic rate, using the term PERIODIC RATE (or RATES), that may be used to compute the finance charge (whether or not applied during the billing cycle), and the range of balances to which it is applicable.

(6) The annual percentage rate or rates determined under section 226.5(a) identified by the term ANNUAL PERCENTAGE RATE (or RATES) OF FINANCE CHARGE, and where there is more than one rate, the part of the balance to which each is applicable.

(7) If the creditor so elects, the Comparative Index of Credit Cost in accordance with section 226.12.

(8) The balance on which the finance charge was computed and a statement of how the balance was determined. If the balance is determined without first deducting all credits during the billing cycle, that fact and the amount of such credits shall also be disclosed.

(9) The outstanding balance in the account at the end of the billing cycle, using the term NEW BALANCE, accompanied by the statement, PAY THIS AMOUNT BEFORE \_\_\_\_\_ (date) \_\_\_\_\_ TO AVOID ADDITIONAL FINANCE CHARGES, or a statement of the same meaning, if that is the case.

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<sup>9/</sup> These charges include any additional charge for the handling of checks, sales slips, for making account entries, for account maintenance or otherwise, imposed in connection with an account only during the time any balance therein represents an extension of credit.

(c) Location of Disclosures.--The disclosures required by paragraph (b) may be made on the periodic statement and its reverse side, or on the periodic statement supplemented by separate statement forms provided they are enclosed together and delivered to the customer at the same time, and further provided that

(1) the disclosure required by subparagraph (1), the respective totals of the amounts required to be disclosed under subparagraphs (2), (3), and (4) and the disclosure required by subparagraph (9), appear in that order on the face of the periodic statement;

(2) the charges and credits required to be disclosed under subparagraph (2) and (3), if not itemized on the statement, are disclosed on separate slips which identify each charge and credit, and show the dates and amounts thereof;

(3) the disclosures required by subparagraphs (4), (5), (6), and (8) appear on the face of a single supplemental statement;

(4) the face of the periodic statement states the following, as applicable, in type size consistent with the requirements of section 226.6(b): NOTICE: SEE REVERSE SIDE FOR IMPORTANT INFORMATION or NOTICE: SEE ACCOMPANYING STATEMENT (STATEMENTS) FOR IMPORTANT ACCOUNT INFORMATION; and

(5) the disclosures are not separated so as to confuse or mislead the customer or obscure or detract attention from the information required to be disclosed.

(d) Change in Terms.--If any change is to be made in terms previously disclosed to the customer, the creditor shall give the customer written disclosure of such proposed change not less than 30 days prior to the effective date of such change or 30 days prior to the beginning of the billing cycle within which such change will become effective, whichever is the earlier date.

(e) Open End Accounts Existing on July 1, 1969.--In the case of any open end credit account in existence on July 1, 1969, the items described in paragraph (a), to the extent applicable, shall be disclosed in a notice mailed or delivered to the customer not later than July 31, 1969.

SECTION 226.8--CREDIT OTHER THAN OPEN END--SPECIFIC DISCLOSURES

(a) General Rule.--Any creditor when extending other than open end credit shall, to the extent applicable, make the disclosures required by this section. Except as provided in paragraphs (g) and (h), such disclosures shall be made before the transaction is consummated. The disclosures shall be made on either

- (1) the face of the note or other instrument evidencing the obligation; or
- (2) the face of a separate statement identifying the transaction, no smaller in paper size than the note or other instrument evidencing the obligation.

(b) Credit Sales.--In the case of a credit sale, in addition to the items required to be disclosed under paragraph (d), the following items, as applicable, shall be disclosed:

- (1) The cash price of the property or service purchased, using the term CASH PRICE.
- (2) The downpayment, consisting of all amounts to be credited against the cash price as downpayment using, as applicable, the term TOTAL DOWNPAYMENT, and itemized as to downpayment in money, using the term CASH DOWNPAYMENT, and downpayment in property, using the term TRADE-IN.
- (3) The difference between the amounts described in paragraphs (1) and (2) using the term UNPAID BALANCE OF CASH PRICE.

(4) All charges, individually itemized, which are included in the amount financed but which are not part of the finance charge, using the term OTHER CHARGES for the total.

(5) The sum of (3) and (4) using the term UNPAID BALANCE.

(6) Any amounts required to be deducted under paragraph (e) using, as applicable, the terms PREPAID FINANCE CHARGE and REQUIRED DEPOSIT BALANCE, and the total of such items using the term TOTAL PREPAID FINANCE CHARGE AND REQUIRED DEPOSIT BALANCE.

(7) The difference between (5) and (6) using the term AMOUNT FINANCED.

(8) Except in the case of a sale of a dwelling,

(A) the total amount of the finance charge, with description of each amount included, using the term TOTAL FINANCE CHARGE,

(B) the sum of (1), (4), and (8)(A) using the term TIME SALE PRICE, and

(C) the sum of (5) and (8)(A) (equal to the total amount of all payments) using the term TIME BALANCE.

(c) Loans and Other Nonsale Credit.--In the case of a loan or extension of credit which is not a credit sale, in addition to the items required to be disclosed under paragraph (d), the following items, as applicable, shall be disclosed:

(1) The amount of the loan or other credit extended using the term AMOUNT OF LOAN or AMOUNT OF CREDIT, as applicable.

(2) Any amounts required to be deducted under paragraph (e) using, as applicable, the terms PREPAID FINANCE CHARGE and REQUIRED DEPOSIT BALANCE, and the total of such items using the term TOTAL PREPAID FINANCE CHARGE AND REQUIRED DEPOSIT BALANCE.

(3) The difference between (1) and (2) using the term, AVAILABLE CREDIT.

(4) All charges individually itemized and described which are to be included in the amount financed, but which are not part of the finance charge, using the term OTHER CHARGES for the total.

(5) The sum of (3) and (4), using the term AMOUNT FINANCED.

(6) Except in the case of a loan secured by a first lien or equivalent security interest on a dwelling and made to finance the purchase of that dwelling,

(A) the total amount of the finance charge, with description of each amount included, using the term TOTAL FINANCE CHARGE, and

(B) the sum of (1), (4), and (6)(A), (equals total amount of all payments) using the term TIME LOAN BALANCE.

(d) Additional Disclosures in Sale and Nonsale Credit.--In any transaction subject to this section, in addition to the items required to be disclosed under paragraphs (b) and (c), the following items, as applicable, shall be disclosed:

(1) The finance charge expressed as an annual percentage rate, using the term ANNUAL PERCENTAGE RATE OF FINANCE CHARGE, except in the case of a finance charge

(A) which does not exceed \$5 and is applicable to an amount financed not exceeding \$75, or

(B) which does not exceed \$7.50 and is applicable to an amount financed exceeding \$75.

A creditor may not divide an extension of consumer credit into two or more transactions to avoid the disclosure of an annual percentage rate.

(2) The number, amount, and due dates or periods of payments scheduled to repay the indebtedness. If a final payment is more than one and one-half times the amount of regularly scheduled equal payments, the creditor shall identify the amount of the final payment by the term BALLOON FINAL PAYMENT and shall state the conditions, if any, under which that payment may be refinanced if not paid when due.

(3) The default, delinquency, or similar charges payable in the event of late payments.

(4) A description of any security interest held or to be retained or acquired by the creditor in connection with the extension of credit, and a clear identification<sup>10/</sup> of the property to which the security interest relates. If after-acquired property will be subject to the security interest, this fact shall be stated. If other or future indebtedness is or may be secured by any such property, this fact shall be clearly set forth.

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<sup>10/</sup> An identification of the property sufficient to satisfy the requirements of the then current Uniform Commercial Code promulgated by the National Conference of Commissioners on Uniform State Laws will satisfy this requirement.



(5) A description of any penalty charge for prepayment of the principal of the obligation that may be imposed by the creditor or his assignee with an explanation of the manner in which such penalty may be computed, and conditions under which it may be imposed.

(6) If the obligation includes a finance charge, identification of the method of computing the unearned portion of the finance charge and a statement of the amount of any fixed or other charge that may be deducted from the amount of any rebate that will be credited to the obligation or refunded to the customer in the event of prepayment.

(e) Finance Charge Payable Separately or Withheld; Required Deposit

Balances.--In determining the amount financed, to the extent any finance charge is payable separately, in cash or otherwise, to the creditor or, with the creditor's knowledge, to another person, or is withheld by the creditor from the proceeds of the credit extended,<sup>11/</sup> and to the extent any deposit balance other than an escrow account under section 226.4(b) is required<sup>12/</sup> as a condition of the extension of credit, an equivalent amount shall

(1) in a credit sale, be deducted as provided in paragraph (b)(6);

(2) in other extensions of credit, be deducted as provided in paragraph (c)(2).

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<sup>11/</sup> Finance charges deducted as provided by this paragraph shall, nevertheless, be included in determining the finance charge under section 226.4.

<sup>12/</sup> A deposit balance which was in existence more than fifteen days prior to the extension of credit is not considered a required deposit balance for the purpose of this paragraph, except to the extent the creditor requires the customer to increase that balance.

(f) First Lien to Finance Construction of Dwelling. --In any case where a security interest is to be retained or acquired by a creditor in connection with the financing of the initial construction of a dwelling, or in connection with a previously committed loan to satisfy that construction loan and provide permanent financing of that dwelling, whether or not the customer previously owned the land on which that dwelling is to be constructed, such security interest shall be considered a first lien against that dwelling to finance the purchase of that dwelling.

(g) Orders by Mail, Telephone, or Other Communication. --If a creditor receives a purchase order or a request for an extension of credit by mail, telephone, or written communication without personal solicitation, and (1) in the case of credit sales, the cash price, the downpayment, the finance charge, the time sale price, the annual percentage rate, and the number, frequency, and amount of payments are set forth in the creditor's current catalog or other printed material distributed to the public, or (2) in the case of loans or other extensions of credit, the amount of the loan, the finance charge, the time loan balance, the number, frequency, and amount of payments, and the annual percentage rate for each representative amount or range of credit are set forth in the creditor's printed material distributed to the public, in the contract of loan, or in other printed material delivered to the customer, then the disclosures required under this section may be made any time not later than the date the first payment is due.

(h) Series of Sales. --If a credit sale is one of a series of transactions made pursuant to an agreement providing for the addition of the amount

financed plus the finance charge for the current sale to an existing outstanding balance, and (1) the customer has approved in writing both the annual percentage rate or rates and the method of computing the finance charge or charges, and (2) the creditor retains no security interest in any property as to which he has received payments aggregating the amount of the sale price including any finance charges attributable thereto, then the disclosures required under this section for the current sale may be made at any time not later than the date the first payment for that sale is due. For the purposes of this paragraph, in the case of items purchased on different dates, the first purchased shall be deemed first paid for, and in the case of items purchased on the same date, the lowest priced shall be deemed first paid for.

(i) Advances Under Loan Commitments. --If a loan is one of a series of loans made pursuant to a written agreement under which a creditor is committed to extend a specified amount of credit to a customer, and the customer has approved in writing the annual percentage rate or rates, the method of computing the finance charge or charges, and any other terms, the agreement shall be considered a transaction, and the disclosures required under this section need be made only at the time of consummation of the agreement.

(j) Refinancing, Consolidating or Increasing. --Any extension of credit with respect to refinancing, consolidating, or increasing an existing obligation shall be considered a new transaction subject to the disclosure requirements of this Part. For purposes of such disclosure, if any unearned portion of the finance charge is not credited to the existing obligation, it shall be added to the new finance charge and shall not be included in the new amount financed.

(k) Deferrals or Extensions.--If the creditor defers or extends payment under an existing obligation and imposes a finance charge for the period of deferral or extension, the creditor shall disclose to the customer at the time of the deferral or extension

- (1) the amount deferred or extended;
- (2) the date to which payment is deferred or extended; and
- (3) the amount of the finance charge for the deferral or extension.

(l) Series of Single Payment Obligations.--Any extension of credit involving a series of single payment obligations shall be considered a single transaction subject to the disclosure requirements of this section.

(m) Permissible Periodic Statements.--If a creditor transmits a periodic billing statement other than a delinquency notice, payment coupon book, or payment passbook, in connection with an extension of credit made on or after July 1, 1969, it shall be in a form which the customer may retain and shall be subject to the following requirements:

(1) Such statement shall set forth the following items to the extent applicable:

(A) The outstanding balance in the account at the beginning of the billing cycle using the term PREVIOUS BALANCE.

(B) The amount, date, and type of each extension of credit during the billing cycle and, unless previously furnished, a brief identification<sup>13/</sup> of any goods or services purchased, and the amount of any other charge not part of the finance charge.

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<sup>13/</sup> Identification may be made on an accompanying slip or by symbol relating to an identification list printed on the statement.

(C) Each amount credited to the account during the billing cycle for payments, returns, rebates of finance charges, and adjustments, using appropriate descriptive terminology and, unless previously furnished, a brief identification<sup>14/</sup> of each.

(D) The amount of any finance charge, using the term FINANCE CHARGE, added to the account during the billing cycle, itemized and identified to show the amount of the balance on which imposed.

(E) The annual percentage rate of the finance charge as of the close of the billing cycle, using the term ANNUAL PERCENTAGE RATE OF FINANCE CHARGE.

(F) The outstanding balance in the account at the end of the billing cycle, using the term NEW BALANCE, accompanied by the statement, PAY THIS AMOUNT BEFORE \_\_\_\_\_ (date) \_\_\_\_\_ TO AVOID ADDITIONAL FINANCE CHARGES, or a statement of the same meaning, if that is the case.

(2) Such statement need contain only the following, to the extent applicable, if it relates only to a single transaction, all required disclosures have been made, and nothing has occurred since the consummation of the transaction to change the terms originally disclosed:

(A) The annual percentage rate of the total finance charge using the term ANNUAL PERCENTAGE RATE OF FINANCE CHARGE.

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<sup>14/</sup> Identification may be made on an accompanying slip or by symbol relating to an identification list printed on the statement.

(B) The date by which, or the period (if any) within which, payment must be made in order to avoid additional finance charges or other charges.

(3) If disclosures are made pursuant to subparagraph (m)(1), they may be made on the periodic billing statement and its reverse side, or on the periodic billing statement supplemented by separate forms provided they are enclosed together and delivered to the customer at the same time, and further provided that

(A) the disclosure required by subparagraph (A), the respective totals of the amounts required to be disclosed under subparagraphs (B), (C), and (D) and the disclosure required by subparagraph (F), appear in that order on the face of the periodic billing statement;

(B) the disclosures required by subparagraphs (D) and (E) appear on the face of single supplemental statement;

(C) the face of the periodic statement states the following, as applicable, in type size consistent with the requirements of section 226.6(b); NOTICE: SEE REVERSE SIDE FOR IMPORTANT INFORMATION or NOTICE: SEE ACCOMPANYING STATEMENT (STATEMENTS) FOR IMPORTANT ACCOUNT INFORMATION; and

(D) the disclosures are not separated so as to confuse or mislead the customer or obscure or detract attention from the information required to be disclosed.

(n) Charge for Delaying Payment.--Except as provided under section 226.3(d), the amount of any discount allowed for payment of an obligation on or before a specified date, or charge for delaying payment after a specified

date, shall be disclosed on the billing statement as a finance charge imposed on the least amount payable in satisfaction of the obligation (amount financed) for the period of time between the specified date and the due date of the obligation, or in the absence of a designated due date, the date the billing cycle ends. Except as provided in subparagraph (d)(1), each such billing statement shall, in addition to stating the amount of that FINANCE CHARGE, using that term, state the ANNUAL PERCENTAGE RATE OF FINANCE CHARGE, using that term, as a percentage accurate to the nearest hundredth of one per cent, determined by (1) dividing the amount of the finance charge by the amount financed; (2) dividing the quotient so obtained by the number of days between the specified date and the due date of the obligation, or in the absence of a designated due date, the date the billing cycle ends; and (3) multiplying the quotient so obtained by 360. (For example, a \$1,000 purchase of grain, subject to terms of 2%/10 days, net 30 days, results in a FINANCE CHARGE of \$20 and an amount financed of \$980 for a period of 20 days. The ANNUAL PERCENTAGE RATE OF FINANCE CHARGE is 36.73% which may be rounded to 36.75% or 36-3/4%.)

SECTION 226.9--RIGHT TO RESCIND CERTAIN TRANSACTIONS

- (a) General Rule.--Except in the creation or retention of a first lien or equivalent security interest against a residence to finance the acquisition of that residence, in the case of any credit transaction in which a security interest is or will be retained or acquired in any real property which is used or is expected to be used as the residence of the customer, the customer shall have the right to rescind that transaction until midnight of the third business day<sup>15/</sup> following the consummation of that transaction or the delivery of the disclosures required under this section and all other material disclosures required under this Part, whichever is later, by notifying the creditor by mail, telegram, or other writing of his intention to do so. Where mail is used, notification shall be considered given at the time of mailing; when telegram is used, notification shall be considered given at the time of filing; and notification by other writing shall be considered given at the time delivered to the creditor's designated place of business.
- (b) Disclosure; Opportunity to Rescind.--In addition to all other disclosures required by this Part, the creditor shall clearly and conspicuously disclose to the customer the customer's right of rescission by the following notice which shall be furnished in duplicate to the customer and printed in type which is not less than twelve point roman bold

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<sup>15/</sup> For the purposes of this section, a business day is any calendar day except Sunday, New Year's Day, Washington's Birthday, Memorial Day, Independence Day, Labor Day, Veterans' Day, Thanksgiving, and Christmas.



face capital letters and numerals on the face of the disclosure statement, the document creating the obligation, or on any other document which also identifies the transaction to which it relates:

NOTICE TO CUSTOMER:

YOU HAVE A LEGAL RIGHT TO CANCEL THIS TRANSACTION FOR ANY REASON WITHOUT ANY PENALTY OR OBLIGATION AND VOID ANY LIEN, MORTGAGE, OR OTHER SECURITY INTEREST TO WHICH YOUR HOME IS SUBJECTED BY REASON OF THIS TRANSACTION, AND RECEIVE A REFUND OF ANY DOWNPAYMENT OR OTHER CONSIDERATION BY

NOTIFYING: \_\_\_\_\_ (name of creditor)

AT \_\_\_\_\_ (address of creditor's place of business)

OF SUCH CANCELLATION BY MAIL OR TELEGRAM SENT NOT LATER THAN MIDNIGHT OF \_\_\_\_\_ (date) OR BY ANY OTHER FORM OF WRITTEN NOTICE

IDENTIFYING THE TRANSACTION DELIVERED TO THAT ADDRESS NOT LATER THAN THAT TIME. IF YOU DECIDE TO CANCEL, YOU MAY USE THIS NOTICE FOR THAT PURPOSE BY DATING AND SIGNING BELOW. FOR YOUR PROTECTION, THE USE OF REGISTERED OR CERTIFIED MAIL WITH RETURN RECEIPT REQUESTED IS SUGGESTED.

I HEREBY CANCEL THIS TRANSACTION.

\_\_\_\_\_ (date)

\_\_\_\_\_ (customer's signature)

(c) Delay of Performance.--The creditor shall not disburse any money other than in escrow, make any deliveries, make any physical changes in the property of the customer, or perform any work or service for the customer until he has reasonably satisfied himself that the customer has not exercised his right of rescission.

(d) Nature of Security Interest.--For the purposes of this section any lien upon a residence in favor of a creditor, vendor, contractor, subcontractor, supplier of material or services, or any of their employees, that may result as a consequence of agreement of the parties, delivery of material, work performed, or services rendered pursuant to a transaction shall be regarded as a security interest retained or acquired in real property.

(e) Effect of Rescission.--When a customer exercises his right to rescind under paragraph (a), he is not liable for any finance or other charge, and any security interest becomes void upon such a rescission. Within ten days after receipt of a notice of rescission, the creditor shall return to the customer any money or property given as earnest money, downpayment, or otherwise, and shall take any action necessary or appropriate to reflect the termination of any security interest created under the transaction. If the creditor has delivered any property to the customer, the customer may retain possession of it. Upon the performance of the creditor's obligations under this section, the customer shall tender the property to the creditor, except that if return of the property in kind would be impracticable or inequitable, the customer shall tender its reasonable value. Tender shall be made at the location of the property or at the residence of the customer, at the option of the customer. If the creditor does not take possession of the property within ten days after tender by the customer, ownership of the property vests in the customer without obligation on his part to pay for it.

(f) Waiver of Right of Rescission.--If (1) the customer has determined that an extension of credit must be obtained, (2) the creditor will not or cannot grant the extension of credit without retaining or acquiring a security interest in the residence of the customer, and (3) a delay of three business days in performance of the creditor's obligation under the transaction will jeopardize the peace of mind, welfare, health, or safety of natural persons or endanger property which the customer owns or for which he is responsible, the customer may modify or waive the right of rescission to which he is entitled under this section by furnishing the creditor a separate dated and signed personal statement describing the situation requiring immediate remedy, and modifying or waiving his right of rescission.

(g) First Lien to Construct Residence.--In any case where a security interest is to be retained or acquired by a creditor in connection with the financing of the initial construction of the residence of the customer, or in connection with a previously committed loan to satisfy that construction loan and provide permanent financing of that residence, whether or not the customer previously owned the land on which that residence is to be constructed, such security interest shall be considered a first lien against that residence to finance the acquisition of that residence.

SECTION 226.10--ADVERTISING CREDIT TERMS

(a) General Rule.--No advertisement to aid, promote, or assist directly or indirectly any extension of credit may state

- (1) that a specific periodic credit amount or instalment amount can be arranged, unless the creditor usually and customarily arranges credit payments or instalments for that period and in that amount;
- (2) that a specified downpayment will be accepted in connection with any extension of credit, unless the creditor usually and customarily arranges downpayments in that amount; or
- (3) any credit terms less conspicuously or with less emphasis than any other credit terms. For this purpose, cash price is not a credit term.

(b) Catalogs.--If a catalog or other multiple-page advertisement sets forth the disclosures required by this section in a credit terms table, such catalog or multiple-page advertisement shall be considered a single advertisement provided:

- (1) The table and the disclosures made therein are set forth clearly and conspicuously, and
- (2) Any statement of credit terms appearing in any place other than in the credit terms table clearly and conspicuously refers to the page or pages on which that table appears, unless that statement discloses all of the credit terms required to be stated under this section.

(c) Advertising of Open End Credit.--No advertisement to aid, promote, or assist directly or indirectly the extension of open end credit may set forth any of the terms described in paragraph (a) of section 226.7, the Comparative Index of Credit Cost, or that no downpayment, a specified downpayment, or a specified periodic payment is required unless it also clearly and conspicuously sets forth all the following items in terminology consistent with the requirements of section 226.7:

(1) The time period, if any, within which any credit extended may be repaid without incurring a finance charge.

(2) The method of determining the balance upon which a finance charge may be imposed.

(3) The method of determining the amount of the finance charge, including the determination of any minimum, fixed, check service, activity, or similar charge, imposed as a finance charge.

(4) Where one or more periodic rates may be used to compute the finance charge, each such rate, the range of balances to which it is applicable, and the corresponding annual percentage rate determined by multiplying the periodic rate by the number of billing cycles in a year.

(5) The conditions under which any other charges may be imposed, and the method by which they will be determined.

(d) Advertising Credit Other Than Open End.--No advertisement to aid, promote, or assist directly or indirectly any credit sale including the sale of residential real estate, loan, or other extension of credit, other than open end credit, subject to the provisions of this Part, shall state

(1) the rate of a finance charge unless it also states the rate of that charge expressed as an ANNUAL PERCENTAGE RATE, using that term;

(2) the amount of the downpayment or that no downpayment is required, the amount of any instalment payment, the dollar amount of any finance charge, or the number of instalments or the period of repayment, unless it states all of the following items in terminology consistent with the requirements of section 226.8:

(A) The cash price or the amount of the loan, as applicable.

(B) The amount of the downpayment or that no downpayment is required.

(C) The number, amount, and due dates or period of payments scheduled to repay the indebtedness if the credit is extended.

(D) The rate of the finance charge expressed as an annual percentage rate.

(E) Except in the case of the sale of a dwelling or a purchase money loan secured by a first lien on a dwelling, the time sale price or time loan balance, as appropriate.

SECTION 226.11--CALCULATION OF ANNUAL PERCENTAGE RATE

(a) General Rule.--The annual percentage rate applicable to any extension of credit, other than open end credit, shall be determined as that nominal annual percentage rate which will yield a sum equal to the amount of the finance charge when it is applied periodically to the unpaid balances of the amount financed, calculated according to the actuarial method of allocating payments made on a debt between the amount financed and the amount of the finance charge, pursuant to which a payment which exceeds the amount of the finance charge is applied first to the accumulated finance charge and the balance is applied to the unpaid amount financed. If the payment is not sufficient to pay the finance charge for the period, or if there is no payment, the amount by which the finance charge for the period exceeds the payment becomes a part of the accumulated finance charge.

(b) Charts and Tables.--A creditor may use a chart or table for the purpose of determining the annual percentage rate provided:

- (1) It is prepared by the appropriate adaptation of the formula in paragraph (e) or (f), as applicable;
- (2) It bears the name and address of the person responsible for its production and a serial number which shall be the same for each chart or table so produced with like numerical content and configuration;

(3) All dollar amounts and percentage figures are accurate to the nearest two decimal places; and

(4) It permits, except as provided in subparagraph (5) below, determination of the annual percentage rate to the nearest one-eighth of one per cent up to and including two per cent and the nearest one-quarter of one per cent above two per cent where the range of rates covered by the chart or table includes such rates.

(5) In addition to the requirements of subparagraphs (1), (2), and (3) above, it is prepared to show the annual percentage rate on the median balance within each range where a creditor imposes the same finance charge for all balances within a specified range and requires payments at equal intervals and in equal amounts, except for a final payment which may be for a lesser amount, subject to the following requirements:

(A) If the annual percentage rate determined on the median balance understates the annual percentage rate determined on the lowest balance in that range by more than eight per cent of the rate on the lowest balance, then the annual percentage rate for that range shall be computed upon any balance lower than the median balance within that range so that any understatement will not exceed eight per cent of the rate on the lowest balance, and

(B) The annual percentage rates to be used in making the determination required under subparagraph (A) shall be



computed in accordance with subparagraph (e)(1)(A) where all payments are equal and in accordance with subparagraph (e)(1)(B) where the final payment is less than another payment.

(c) Time Factors.--For the purposes of utilizing the formulas set forth in subparagraphs (e), (f), and (g), the common interval to be used in computations is a month, semi-month, week, or day, whichever is the largest, and is evenly divisible into the smallest interval between advances or between payments. For this purpose, each calendar month shall be considered an equal period of time. The following shall be applicable in the determination of the common interval:

(1) The term of the transaction commences on the date of its consummation, except that if the finance charge does not begin to accrue until a later date, the creditor may, at his option, consider the term of the transaction as beginning on the date the finance charge begins to accrue.

(2) The intervals between date of consummation and date of first advance thereafter or date of first payment thereafter are intervals for the purposes of this paragraph.

(3) If variations from monthly intervals are less than eleven days, from semi-monthly intervals are less than six days, and from weekly intervals are less than three days, such intervals may be considered as whole intervals, provided that if such variations occur in more than twenty per cent of the number of intervals in a transaction, then the common interval shall be

the next lowest of a semi-month, week, or day, so as to reduce the frequency of variations within the twenty per cent maximum limitation.

(d) Symbols.--Except where otherwise provided in this section, the following definitions of symbols apply:

$U_j$  = the amount of credit advanced directly or indirectly at the end of the  $j$ th interval.

$q_j$  = the number of intervals from the date of consummation to the  $j$ th advance.

$m$  = the number of advances made by the creditor.

$P_j$  = the amount of the payment made at the end of the  $j$ th interval.

$v_j$  = the number of intervals from the date of consummation to the  $j$ th payment.

$n$  = the number of payments.

$k$  = the number of intervals in a year.

$i$  = rate of finance charge per interval.

$R$  = annual percentage rate expressed as a decimal number which shall be converted into a percentage rate by moving the decimal point two places to the right.

(e) Instalment Transactions.--The following relationship among the terms of a credit transaction applies to all transactions except those involving a single advance by the creditor and a single payment by the customer:

$$\frac{U_1}{(1+i)^{q_1}} + \frac{U_2}{(1+i)^{q_2}} + \dots + \frac{U_m}{(1+i)^{q_m}} = \frac{P_1}{(1+i)^{v_1}} + \frac{P_2}{(1+i)^{v_2}} + \dots + \frac{P_n}{(1+i)^{v_n}}$$

R is determined as follows:

- If intervals are months,  $R = 12i$ .
- If intervals are semi-months,  $R = 24i$ .
- If intervals are weeks,  $R = 52i$ .
- If intervals are days,  $R = 365i$ .

(1) Transactions Involving a Single Advance by Creditor

(A) Payments at equal intervals, even amounts.

Assume creditor advances \$1000, and customer is to make 24 equal monthly payments of \$47.50 starting one month from date of consummation.

Intervals are months.

$$\begin{array}{ll} U_1 = \$1000 & q_1 = 0 \\ P_1 = \$47.50 & v_1 = 1 \\ P_2 = \$47.50 & v_2 = 2 \\ \dots & \dots \\ P_{24} = \$47.50 & v_{24} = 24 \end{array}$$

The equation is adapted as follows:

$$1000 = \frac{47.50}{(1+i)^1} + \frac{47.50}{(1+i)^2} + \dots + \frac{47.50}{(1+i)^{24}}$$

$$i = 0.01076$$

$$R = 12i = 12 \times .01076 = .1291 \text{ or } 12.91\%$$

(B) Payments at equal intervals, uneven amounts.

Assume creditor advances \$1000, and customer is to make 3 payments of \$200 each at the end of the 3rd, 6th, and 9th months and a \$600 payment at the end of one year from the date of consummation.

Intervals are months.

$$\begin{array}{ll} U_1 = \$1000 & q_1 = 0 \\ P_1 = \$200 & v_1 = 3 \end{array}$$

$$\begin{array}{ll} P_2 = \$200 & v_2 = 6 \\ P_3 = \$200 & v_3 = 9 \\ P_4 = \$600 & v_4 = 12 \end{array}$$

The equation is adapted as follows:

$$1000 = \frac{200}{(1+i)^3} + \frac{200}{(1+i)^6} + \frac{200}{(1+i)^9} + \frac{600}{(1+i)^{12}}$$

$$i = .02075$$

$$R = 12i = 12 \times .02075 = .2491 \text{ or } 24.91\%.$$

(C) Payments at unequal intervals, even amounts:

Assume creditor advances \$1000, customer is to make 4 payments of \$290 each at the end of 2nd, 6th, 8th, and 12th months after consummation.

Intervals are months.

$$\begin{array}{ll} U_1 = \$1000 & q_1 = 0 \\ P_1 = \$290 & v_1 = 2 \\ P_2 = \$290 & v_2 = 6 \\ P_3 = \$290 & v_3 = 8 \\ P_4 = \$290 & v_4 = 12 \end{array}$$

The equation is adapted as follows:

$$1000 = \frac{290}{(1+i)^2} + \frac{290}{(1+i)^6} + \frac{290}{(1+i)^8} + \frac{290}{(1+i)^{12}}$$

$$i = .021873$$

$$R = 12i = 12 \times .021873 = .26247 \text{ or } 26.25\%.$$

(D) Payments at unequal intervals, unequal amounts:

Assume creditor advances \$1000, and customer is to make payments as follows: \$200 at end of 2nd month, \$300 at end of 5th month, \$350 at end of 8th month and \$300 at end of 12th month.

Intervals are months.

$$\begin{array}{ll} U_1 = \$1000 & q_1 = 0 \\ P_1 = \$200 & v_1 = 2 \\ P_2 = \$300 & v_2 = 5 \\ P_3 = \$350 & v_3 = 8 \\ P_4 = \$300 & v_4 = 12 \end{array}$$

The equation is adapted as follows:

$$1000 = \frac{200}{(1+i)^2} + \frac{300}{(1+i)^5} + \frac{350}{(1+i)^8} + \frac{300}{(1+i)^{12}}$$

$$i = .019886$$

$$R = 12i = 12 \times .019886 = .23864 \text{ or } 23.86\%.$$

(E) Payment intervals greater than one year:

Assume creditor advances \$1000, and customer is to make 2 payments of \$550 each at the end of the 18th and 36th months from the date of consummation.

Intervals are months.

$$\begin{array}{ll} U_1 = \$1000 & q_1 = 0 \\ P_1 = \$550 & v_1 = 18 \\ P_2 = \$550 & v_2 = 36 \end{array}$$

The equation is adapted as follows:

$$1000 = \frac{550}{(1+i)^{18}} + \frac{550}{(1+i)^{36}}$$

$$i = .003555$$

$$R = 12i = 12 \times .003555 = .04266 \text{ or } 4.27\%.$$

(2) Transaction Involving Multiple Advances by Creditor

Assume a college loan in which a creditor plans to make 8 advances to the borrower: \$1800 each September 1 for 4 years and \$1000 each January 1 for 4 years. The borrower is to make 50 regular equal monthly payments of \$240 beginning July 1 prior to the first advance in September.

Intervals are all months.

$U_1 = \$1800$	$q_1 = 2$
$U_2 = \$1000$	$q_2 = 6$
$U_3 = \$1800$	$q_3 = 14$
$U_4 = \$1000$	$q_4 = 18$
$U_5 = \$1800$	$q_5 = 26$
$U_6 = \$1000$	$q_6 = 30$
$U_7 = \$1800$	$q_7 = 38$
$U_8 = \$1000$	$q_8 = 42$
$P_1 = \$240$	$v_1 = 0$
$P_2 = \$240$	$v_2 = 1$
$P_3 = \$240$	$v_3 = 2$
$\dots$	$\dots$
$P_{50} = \$240$	$v_{50} = 49$

The equation is applied as follows:

$$\frac{1800}{(1+i)^2} + \frac{1000}{(1+i)^6} + \frac{1800}{(1+i)^{14}} + \frac{1000}{(1+i)^{18}} + \frac{1800}{(1+i)^{26}} +$$

$$\frac{1000}{(1+i)^{30}} + \frac{1800}{(1+i)^{38}} + \frac{1000}{(1+i)^{42}} = 240 + \frac{240}{(1+i)^1} +$$

$$\frac{240}{(1+i)^2} + \dots + \frac{240}{(1+i)^{49}}$$

$$i = .02522$$

$$R = 12i = 12 \times .02522 = .30265 \text{ or } 30.27 \%$$

(3) Transactions Involving Required Deposit Balances

(A) Required constant deposit balance.

Assume creditor advances \$1000 and requires that the customer maintain a deposit balance of \$200 during the twelve-month loan. The customer is to make 12 equal monthly payments of \$90 starting one month from date of consummation. The deposit balance will be released to the customer upon final payment of the advance.

Intervals are all months.

$U_1 = \$800$	$q_1 = 0$
$U_2 = \$200$	$q_2 = 12$
$P_1 = \$90$	$v_1 = 1$
$P_2 = \$90$	$v_2 = 2$
...	...
$P_{12} = \$90$	$v_{12} = 12$

The equation is applied as follows:

$$800 + \frac{200}{(1+i)^{12}} = \frac{90}{(1+i)^1} + \frac{90}{(1+i)^2} + \dots + \frac{90}{(1+i)^{12}}$$

$$i = .018524$$

$$R = 12i = 12 \times .018524 = .22230 \text{ or } 22.23 \%$$

(B) Required variable deposit balance.

Assume creditor advances \$5000 and requires a \$1000 deposit balance which is to be released in amounts of \$500 per quarter beginning at the end of the first quarter immediately following consummation. Customer is to make 6 equal monthly payments of \$900 beginning one month following consummation.

Intervals are all months.

$U_1 = \$4000$	$q_1 = 0$
$U_2 = \$500$	$q_2 = 3$
$U_3 = \$500$	$q_3 = 6$
$P_1 = \$900$	$v_1 = 1$
$P_2 = \$900$	$v_2 = 2$
. . .	. . .
$P_{12} = \$900$	$v_{12} = 12$

The equation is applied as follows:

$$4000 + \frac{500}{(1+i)^3} + \frac{500}{(1+i)^6} = \frac{900}{(1+i)^1} + \frac{900}{(1+i)^2} + \dots + \frac{900}{(1+i)^6}$$

$$i = .029932$$

$$R = 12i = 12 \times .029932 = .35919 \text{ or } 35.92\%$$

(C) Transaction where customer is required to make periodic deposits into a restricted savings account.

Assume creditor advances \$1000, and customer is to make 12 equal monthly payments of \$110, \$90 of which is to be applied to repayment of the advance and the finance charge and \$20 of which is to be deposited into a savings account. The savings account will be released to the customer upon final payment of the advance.

Intervals are months.



$$\begin{array}{ll}
U_1 = \$1000 & q_1 = 0 \\
U_2 = \$240 & q_2 = 12 \\
P_1 = \$110 & v_1 = 1 \\
P_2 = \$110 & v_2 = 2 \\
. . . & . . . \\
P_{12} = \$110 & v_{12} = 12
\end{array}$$

The equation is applied as follows:

$$1000 + \frac{240}{(1+i)^{12}} = \frac{110}{(1+i)^1} + \frac{110}{(1+i)^2} + \dots + \frac{110}{(1+i)^{12}}$$

$$i = .014822$$

$$R = 12i = 12 \times .014822 = .17787 \text{ or } 17.79 \%$$

(f) Single Advance and Single Payment Transactions.--The following relationship among the terms of a credit transaction applies to those transactions involving a single advance by the creditor and a single payment by the customer:

$$R = \left( \frac{k}{v_1} \right) \left( \frac{P-U}{U} \right)$$

(1) Transactions with maturities of 12 months or less.

Assume creditor advances \$1000, and customer agrees to make a single payment of \$1100 eight months from the date of consummation.

Intervals are months.

$$\begin{array}{ll}
U_1 = \$1000 & q_1 = 0 \\
P_1 = \$1100 & v_1 = 8
\end{array}$$

The equation is applied as follows:

$$R = \left( \frac{12}{8} \right) \left( \frac{1100 - 1000}{1000} \right)$$

$$R = .1500 \text{ or } 15.00\%.$$

(2) Transactions with maturities of more than 12 months.

Assume creditor advances \$1000, and customer is to make one payment of \$1212.42 seventeen months from date of consummation.

Intervals are months.

$$U_1 = \$1000 \qquad q_1 = 0$$

$$P_1 = \$1212.42 \qquad v_1 = 17$$

The equation is applied as follows:

$$R = \left( \frac{12}{17} \right) \left( \frac{1212.42 - 1000}{1000} \right)$$

$$R = .1500 \text{ or } 15.00\%.$$

(g) Approximation of Annual Percentage Rate.--Creditors who qualify under the provisions of subparagraph (b) (2) of section 226.5 may approximate the annual percentage rate by using the constant ratio method.

(1) The following is the relationship among the terms of a credit transaction involving a single advance under the constant ratio method:

$$R' = \frac{\left( \frac{D}{U} \right) k}{T_P}$$

(2) The following is the relationship among the terms of a credit transaction involving multiple advances under the constant ratio method:

$$R' = \frac{\left(\frac{D}{U}\right) k}{T_P - T_U}$$

(3) For the purposes of this paragraph, the symbols set forth in paragraph (d) shall apply, as applicable, as shall the following symbols:

$R'$  = the approximate annual percentage rate expressed as a decimal number which shall be converted into a percentage rate by moving the decimal point two places to the right.

$D$  = finance charge in dollars.

$T_P$  = the number of intervals from the date of consummation to the central point of the payments.

$$= \frac{P_1 v_1 + P_2 v_2 + \dots + P_n v_n}{P_1 + P_2 + \dots + P_n}$$

$T_U$  = the number of intervals from the date of consummation to the central point of the advances.

$$= \frac{U_1 q_1 + U_2 q_2 + \dots + U_m q_m}{U_1 + U_2 + \dots + U_m}$$

(4) Transactions Involving a Single Advance by Creditor:

(A) Payments at equal intervals, even amounts. The amount  $U$  is financed by 24 monthly payments of  $P$  each starting one month from date of consummation. The finance charge is  $D$ .  $T_P$  in the case of payments at equal intervals of even amounts, whether beginning one or more intervals after date of con-

summation, is determined by taking the average of the times to first and last payment. That is,  $\frac{1 + 24}{2} = 12-1/2$  months in this example so that  $R' = \frac{\left(\frac{D}{U}\right) 12}{12-1/2}$ . If D were \$140 and U were \$1000, the result would be 0.1344 or 13.44%. The annual percentage rate determined by the actuarial method is 12.91%. The constant ratio method always overstates the annual percentage rate determined by the actuarial method in the case of single payments and payments at equal intervals of even amounts, the extent of overstatement being greater with higher rates of finance charge and longer terms of payment.

(B) Single Payment.--Assume creditor advances \$1000 (amount financed), and customer is to make one payment of \$1052.64 eight months from date of consummation. The formula is applied as follows:

$$R' = \frac{\left(\frac{52.64}{1000}\right) 12}{8} = .07396 \text{ or } 7.90\%.$$

(C) Payments Irregular in Amounts and/or Intervals.--Assume creditor advances \$1000 (amount financed), and customer is to repay \$1120 in accordance with the schedule below. The weighted average time ( $T_p$ ) in months is determined by computing column (3) and dividing its total by the total payments.

(1) Payment $P_j$	(2) Months until payment $v_j$	(3) (1) x (2) $P_j v_j$
\$ 50	1	50
60	3	180
60	4	240
100	5	500
100	7	700
300	8	2400
300	10	3000
<u>150</u>	<u>11</u>	<u>1650</u>
\$1120		8720

Weighted average time ( $T_P$ ) is  $\frac{8720}{1120} = 7.79$  months.

$$R' = \frac{\left(\frac{120}{1000}\right) 12}{7.79} = .18485 \text{ or } 18.49\%.$$

(5) Transactions Involving Multiple Advances by Creditor

Assume transaction is consummated on April 15 under the terms of which creditor makes equal advances of \$900 on April 15, July 15, and November 15, and customer is to make 24 regular equal monthly payments of \$120 beginning May 15.

$$T_P \text{ measured from April 15} = \frac{1 + 24}{2} = 12-1/2 \text{ months.}$$

$$T_U \text{ measured from April 15} = \frac{900(0) + 900(3) + 900(7)}{2700} =$$

3.33 months.

$$R' = \frac{\left(\frac{180}{2700}\right) 12}{12.50 - 3.33} = .0872 \text{ or } 8.72\%.$$

SECTION 226.12--COMPARATIVE INDEX OF CREDIT  
COST FOR OPEN END CREDIT

(a) General Rule. --Any creditor who elects to disclose the Comparative Index of Credit Cost on open end credit accounts

- (1) shall compute the Comparative Index of Credit Cost in accordance with paragraph (b);
- (2) shall recompute the Comparative Index of Credit Cost in accordance with paragraph (b) based upon any new open end credit account terms to be adopted and shall disclose the new Comparative Index of Credit Cost in accordance with subparagraph (c)(2) concurrently with the notice required under section 226.7(b);
- (3) shall, when making such disclosure under the provisions of sections 226.7(a)(5) or 226.7(b)(7), make the disclosure to all open end credit account customers; and
- (4) shall not utilize such disclosure so as to contradict, mislead, confuse, obscure, or detract attention from the required disclosures.

(b) Computation of Comparative Index of Credit Cost. --The Comparative Index of Credit Cost shall be computed by applying the terms of the creditor's open end credit account plan to the following hypothetical factors:

- (1) A single transaction in the amount of \$100 is debited on the first day of a billing cycle to an open end credit account having no previous balance.

(2) The creditor shall impose all finance charges including periodic, fixed, minimum or other charges applicable to such account in amounts and on dates consistent with his policy of imposing such charges upon open end credit accounts.

(3) The exact amount of the required minimum periodic payment is paid in each subsequent and successive billing cycle until the amount of the single transaction, together with applicable finance charges, is paid in full. The creditor shall select and disclose a common payment date, which shall be the same relative date within each billing cycle, provided that in no event shall it be prior to the tenth day of each subsequent billing cycle.

(4) The Comparative Index of Credit Cost shall be expressed and disclosed as a percentage accurate to the nearest hundredth of one per cent and shall be determined by dividing the total amount of the finance charges imposed by the sum of the daily balances and multiplying the quotient so obtained by 360. For this purpose, each billing cycle shall be considered to have an equal number of days.

(c) Form of Disclosure.--(1) Any disclosure of the Comparative Index of Credit Cost shall be made in the form of the following statement:

Our COMPARATIVE INDEX OF CREDIT COST under the terms of our open end credit account plan is \_\_\_\_% per year, computed on the basis of a single transaction of \$100 debited on the first day of a

Billing cycle to an account having no previous balance, and paid in required minimum consecutive instalments on the \_\_\_\_\_ day of each succeeding billing cycle until the transaction and all finance charges are paid in full. The actual percentage cost of credit on your account may be higher or lower depending on the dates and amounts of charges and payments.

(2) Any newly computed Comparative Index of Credit Cost shall be disclosed in the form of the statement prescribed in subparagraph (1), except that the statement shall be preceded by the words "Effective as of \_\_\_\_\_ (date) \_\_\_\_\_," with the words "will be" substituted for the word "is" in the second line of the statement.



SECTION 226.13--EXEMPTION OF CERTAIN STATE REGULATED TRANSACTIONS

Pursuant to the provisions of section 123 of the Act, the Board has determined that the specified classes of transactions in the States designated in Supplement I to this Part are exempt from the requirements of Chapter 2 of the Act and the corresponding provisions of this Part.

REGULATION Z  
APPENDIX  
STATUTORY PROVISIONS

Titles I and V of the Consumer Credit Protection Act (82 Stat. 146; 15 U.S.C. 1601-1665) provide as follows:

TITLE I—CONSUMER CREDIT COST  
DISCLOSURE

Chapter	Section
1. GENERAL PROVISIONS.....	101
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CHAPTER 1—GENERAL PROVISIONS

Sec.

- 101. Short title.
- 102. Findings and declaration of purpose.
- 103. Definitions and rules of construction.
- 104. Exempted transactions.
- 105. Regulations.
- 106. Determination of finance charge.
- 107. Determination of annual percentage rate.
- 108. Administrative enforcement.
- 109. Views of other agencies.
- 110. Advisory committee.
- 111. Effect on other laws.
- 112. Criminal liability for wilful and knowing violation.
- 113. Penalties inapplicable to governmental agencies.
- 114. Reports by Board and Attorney General.

§ 101. Short title

This title may be cited as the Truth in Lending Act.

§ 102. Findings and declaration of purpose

The Congress finds that economic stabilization would be enhanced and the competition among the various financial institutions and other firms engaged in the extension of consumer credit would be strengthened by the informed use of credit. The informed use of credit results from an awareness of the cost thereof by consumers. It is the purpose of this title to assure a meaningful disclosure of credit terms so that the consumer will be able to compare more readily the various credit terms available to him and avoid the uninformed use of credit.

§ 103. Definitions and rules of construction

(a) The definitions and rules of construction set forth in this section are applicable for the purposes of this title.

(b) The term "Board" refers to the Board of Governors of the Federal Reserve System.

(c) The term "organization" means a corporation, government or governmental subdivision or agency, trust, estate, partnership, cooperative, or association.

(d) The term "person" means a natural person or an organization.

(e) The term "credit" means the right granted by a creditor to a debtor to defer payment of debt or to incur debt and defer its payment.

(f) The term "creditor" refers only to creditors who regularly extend, or arrange for the extension of, credit for which the payment of a finance charge is required, whether in connection with loans, sales of property or services, or otherwise. The provisions of this title apply to any such creditor, irrespective of his or its status as a natural person or any type of organization.

(g) The term "credit sale" refers to any sale with respect to which credit is extended or arranged by

the seller. The term includes any contract in the form of a bailment or lease if the bailee or lessee contracts to pay as compensation for use a sum substantially equivalent to or in excess of the aggregate value of the property and services involved and it is agreed that the bailee or lessee will become, or for no other or a nominal consideration has the option to become, the owner of the property upon full compliance with his obligations under the contract.

(h) The adjective "consumer", used with reference to a credit transaction, characterizes the transaction as one in which the party to whom credit is offered or extended is a natural person, and the money, property, or services which are the subject of the transaction are primarily for personal, family, household, or agricultural purposes.

(i) The term "open end credit plan" refers to a plan prescribing the terms of credit transactions which may be made thereunder from time to time and under the terms of which a finance charge may be computed on the outstanding unpaid balance from time to time thereunder.

(j) The term "State" refers to any State, the Commonwealth of Puerto Rico, the District of Columbia, and any territory or possession of the United States.

(k) Any reference to any requirement imposed under this title or any provision thereof includes reference to the regulations of the Board under this title or the provision thereof in question.

(l) The disclosure of an amount or percentage which is greater than the amount or percentage required to be disclosed under this title does not in itself constitute a violation of this title.

#### § 104. Exempted transactions

This title does not apply to the following:

(1) Credit transactions involving extensions of credit for business or commercial purposes, or to government or governmental agencies or instrumentalities, or to organizations.

(2) Transactions in securities or commodities accounts by a broker-dealer registered with the Securities and Exchange Commission.

(3) Credit transactions, other than real property transactions, in which the total amount to be financed exceeds \$25,000.

(4) Transactions under public utility tariffs, if the Board determines that a State regulatory body regulates the charges for the public utility services involved, the charges for delayed payment, and any discount allowed for early payment.

#### § 105. Regulations

The Board shall prescribe regulations to carry out the purposes of this title. These regulations may contain such classifications, differentiations, or other provisions, and may provide for such adjustments and exceptions for any class of transactions, as in the judgment of the Board are necessary or proper to effectuate the purposes of this title, to prevent circumvention or evasion thereof, or to facilitate compliance therewith.

#### § 106. Determination of finance charge

(a) Except as otherwise provided in this section, the amount of the finance charge in connection with any consumer credit transaction shall be determined as the sum of all charges, payable directly or indirectly by the person to whom the credit is extended, and imposed directly or indirectly by the creditor as an

incident to the extension of credit, including any of the following types of charges which are applicable:

(1) Interest, time price differential, and any amount payable under a point, discount, or other system of additional charges.

(2) Service or carrying charge.

(3) Loan fee, finder's fee, or similar charge.

(4) Fee for an investigation or credit report.

(5) Premium or other charge for any guarantee or insurance protecting the creditor against the obligor's default or other credit loss.

(b) Charges or premiums for credit life, accident, or health insurance written in connection with any consumer credit transaction shall be included in the finance charge unless

(1) the coverage of the debtor by the insurance is not a factor in the approval by the creditor of the extension of credit, and this fact is clearly disclosed in writing to the person applying for or obtaining the extension of credit; and

(2) in order to obtain the insurance in connection with the extension of credit, the person to whom the credit is extended must give specific affirmative written indication of his desire to do so after written disclosure to him of the cost thereof.

(c) Charges or premiums for insurance, written in connection with any consumer credit transaction, against loss of or damage to property or against liability arising out of the ownership or use of property, shall be included in the finance charge unless a clear and specific statement in writing is furnished by the creditor to the person to whom the credit is extended, setting forth the cost of the insurance if obtained from or through the creditor, and stating that the person to whom the credit is extended may choose the person through which the insurance is to be obtained.

(d) If any of the following items is itemized and disclosed in accordance with the regulations of the Board in connection with any transaction, then the creditor need not include that item in the computation of the finance charge with respect to that transaction:

(1) Fees and charges prescribed by law which actually are or will be paid to public officials for determining the existence of or for perfecting or releasing or satisfying any security related to the credit transaction.

(2) The premium payable for any insurance in lieu of perfecting any security interest otherwise required by the creditor in connection with the transaction, if the premium does not exceed the fees and charges described in paragraph (1) which would otherwise be payable.

(3) Taxes.

(4) Any other type of charge which is not for credit and the exclusion of which from the finance charge is approved by the Board by regulation.

(e) The following items, when charged in connection with any extension of credit secured by an interest in real property, shall not be included in the computation of the finance charge with respect to that transaction:

(1) Fees or premiums for title examination, title insurance, or similar purposes.

(2) Fees for preparation of a deed, settlement statement, or other documents.

(3) Escrows for future payments of taxes and insurance.

(4) Fees for notarizing deeds and other documents.

(5) Appraisal fees.

(6) Credit reports.

**§ 107. Determination of annual percentage rate**

(a) The annual percentage rate applicable to any extension of consumer credit shall be determined, in accordance with the regulations of the Board,

(1) in the case of any extension of credit other than under an open end credit plan, as

(A) that nominal annual percentage rate which will yield a sum equal to the amount of the finance charge when it is applied to the unpaid balances of the amount financed, calculated according to the actuarial method of allocating payments made on a debt between the amount financed and the amount of the finance charge, pursuant to which a payment is applied first to the accumulated finance charge and the balance is applied to the unpaid amount financed; or

(B) the rate determined by any method prescribed by the Board as a method which materially simplifies computation while retaining reasonable accuracy as compared with the rate determined under subparagraph (A).

(2) in the case of any extension of credit under an open end credit plan, as the quotient (expressed as a percentage) of the total finance charge for the period to which it relates divided by the amount upon which the finance charge for that period is based, multiplied by the number of such periods in a year.

(b) Where a creditor imposes the same finance charge for balances within a specified range, the annual percentage rate shall be computed on the median balance within the range, except that if the Board determines that a rate so computed would not be meaningful, or would be materially misleading, the annual percentage rate shall be computed on such other basis as the Board may by regulation require.

(c) The annual percentage rate may be rounded to the nearest quarter of 1 per centum for credit transactions payable in substantially equal installments when a creditor determines the total finance charge on the basis of a single add-on, discount, periodic, or other rate, and the rate is converted into an annual percentage rate under procedures prescribed by the Board.

(d) The Board may authorize the use of rate tables or charts which may provide for the disclosure of annual percentage rates which vary from the rate determined in accordance with subsection (a)(1)(A) by not more than such tolerances as the Board may allow. The Board may not allow a tolerance greater than 8 per centum of that rate except to simplify compliance where irregular payments are involved.

(e) In the case of creditors determining the annual percentage rate in a manner other than as described in subsection (c) or (d), the Board may authorize other reasonable tolerances.

(f) Prior to January 1, 1971, any rate required under this title to be disclosed as a percentage rate may, at the option of the creditor, be expressed in

the form of the corresponding ratio of dollars per hundred dollars.

**§ 108. Administrative enforcement**

(a) Compliance with the requirements imposed under this title shall be enforced under

(1) section 8 of the Federal Deposit Insurance Act, in the case of

(A) national banks, by the Comptroller of the Currency.

(B) member banks of the Federal Reserve System (other than national banks), by the Board.

(C) banks insured by the Federal Deposit Insurance Corporation (other than members of the Federal Reserve System), by the Board of Directors of the Federal Deposit Insurance Corporation.

(2) section 5(d) of the Home Owners' Loan Act of 1933, section 407 of the National Housing Act, and sections 6(i) and 17 of the Federal Home Loan Bank Act, by the Federal Home Loan Bank Board (acting directly or through the Federal Savings and Loan Insurance Corporation), in the case of any institution subject to any of those provisions.

(3) the Federal Credit Union Act, by the Director of the Bureau of Federal Credit Unions with respect to any Federal credit union.

(4) the Acts to regulate commerce, by the Interstate Commerce Commission with respect to any common carrier subject to those Acts.

(5) the Federal Aviation Act of 1958, by the Civil Aeronautics Board with respect to any air carrier or foreign air carrier subject to that Act.

(6) the Packers and Stockyards Act, 1921 (except as provided in section 406 of that Act), by the Secretary of Agriculture with respect to any activities subject to that Act.

(b) For the purpose of the exercise by any agency referred to in subsection (a) of its powers under any Act referred to in that subsection, a violation of any requirement imposed under this title shall be deemed to be a violation of a requirement imposed under that Act. In addition to its powers under any provision of law specifically referred to in subsection (a), each of the agencies referred to in that subsection may exercise, for the purpose of enforcing compliance with any requirement imposed under this title, any other authority conferred on it by law.

(c) Except to the extent that enforcement of the requirements imposed under this title is specifically committed to some other Government agency under subsection (a), the Federal Trade Commission shall enforce such requirements. For the purpose of the exercise by the Federal Trade Commission of its functions and powers under the Federal Trade Commission Act, a violation of any requirement imposed under this title shall be deemed a violation of a requirement imposed under that Act. All of the functions and powers of the Federal Trade Commission under the Federal Trade Commission Act are available to the Commission to enforce compliance by any person with the requirements imposed under this title, irrespective of whether that person is engaged in commerce or meets any other jurisdictional tests in the Federal Trade Commission Act.

(d) The authority of the Board to issue regulations under this title does not impair the authority of any

other agency designated in this section to make rules respecting its own procedures in enforcing compliance with requirements imposed under this title.

**§ 109. Views of other agencies**

In the exercise of its functions under this title, the Board may obtain upon request the views of any other Federal agency which, in the judgment of the Board, exercises regulatory or supervisory functions with respect to any class of creditors subject to this title.

**§ 110. Advisory committee**

The Board shall establish an advisory committee to advise and consult with it in the exercise of its functions under this title. In appointing the members of the committee, the Board shall seek to achieve a fair representation of the interests of sellers of merchandise on credit, lenders, and the public. The committee shall meet from time to time at the call of the Board, and members thereof shall be paid transportation expenses and not to exceed \$100 per diem.

**§ 111. Effect on other laws**

(a) This title does not annul, alter, or affect, or exempt any creditor from complying with, the laws of any State relating to the disclosure of information in connection with credit transactions, except to the extent that those laws are inconsistent with the provisions of this title or regulations thereunder, and then only to the extent of the inconsistency.

(b) This title does not otherwise annul, alter or affect in any manner the meaning, scope or applicability of the laws of any State, including, but not limited to, laws relating to the types, amounts or rates of charges, or any element or elements of charges, permissible under such laws in connection with the extension or use of credit, nor does this title extend the applicability of those laws to any class of persons or transactions to which they would not otherwise apply.

(c) In any action or proceeding in any court involving a consumer credit sale, the disclosure of the annual percentage rate as required under this title in connection with that sale may not be received as evidence that the sale was a loan or any type of transaction other than a credit sale.

(d) Except as specified in sections 125 and 130, this title and the regulations issued thereunder do not affect the validity or enforceability of any contract or obligation under State or Federal law.

**§ 112. Criminal liability for willful and knowing violation**

Whoever willfully and knowingly

(1) gives false or inaccurate information or fails to provide information which he is required to disclose under the provisions of this title or any regulation issued thereunder,

(2) uses any chart or table authorized by the Board under section 107 in such a manner as to consistently understate the annual percentage rate determined under section 107(a)(1)(A), or

(3) otherwise fails to comply with any requirement imposed under this title,

shall be fined not more than \$5,000 or imprisoned not more than one year, or both.

**§ 113. Penalties inapplicable to governmental agencies**

No civil or criminal penalty provided under this title for any violation thereof may be imposed upon

the United States or any agency thereof, or upon any State or political subdivision thereof, or any agency of any State or political subdivision.

**§ 114. Reports by Board and Attorney General**

Not later than January 3 of each year after 1969, the Board and the Attorney General shall, respectively, make reports to the Congress concerning the administration of their functions under this title, including such recommendations as the Board and the Attorney General, respectively, deem necessary or appropriate. In addition, each report of the Board shall include its assessment of the extent to which compliance with the requirements imposed under this title is being achieved.

**CHAPTER 2—CREDIT TRANSACTIONS**

Sec.

- 121. General requirement of disclosure.
- 122. Form of disclosure; additional information.
- 123. Exemption for State-regulated transactions.
- 124. Effect of subsequent occurrence.
- 125. Right of rescission as to certain transactions.
- 126. Content of periodic statements.
- 127. Open end consumer credit plans.
- 128. Sales not under open end credit plans.
- 129. Consumer loans not under open end credit plans.
- 130. Civil liability.
- 131. Written acknowledgment as proof of receipt.

**§ 121. General requirement of disclosure**

(a) Each creditor shall disclose clearly and conspicuously, in accordance with the regulations of the Board, to each person to whom consumer credit is extended and upon whom a finance charge is or may be imposed, the information required under this chapter.

(b) If there is more than one obligor, a creditor need not furnish a statement of information required under this chapter to more than one of them.

**§ 122. Form of disclosure; additional information**

(a) Regulations of the Board need not require that disclosures pursuant to this chapter be made in the order set forth in this chapter, and may permit the use of terminology different from that employed in this chapter if it conveys substantially the same meaning.

(b) Any creditor may supply additional information or explanations with any disclosures required under this chapter.

**§ 123. Exemption for State-regulated transactions**

The Board shall by regulation exempt from the requirements of this chapter any class of credit transactions within any State if it determines that under the law of that State that class of transactions is subject to requirements substantially similar to those imposed under this chapter, and that there is adequate provision for enforcement.

**§ 124. Effect of subsequent occurrence**

If information disclosed in accordance with this chapter is subsequently rendered inaccurate as the result of any act, occurrence, or agreement subsequent to the delivery of the required disclosures, the inaccuracy resulting therefrom does not constitute a violation of this chapter.

**§ 125. Right of rescission as to certain transactions**

(a) Except as otherwise provided in this section, in the case of any consumer credit transaction in

which a security interest is retained or acquired in any real property which is used or is expected to be used as the residence of the person to whom credit is extended, the obligor shall have the right to rescind the transaction until midnight of the third business day following the consummation of the transaction or the delivery of the disclosures required under this section and all other material disclosures required under this chapter, whichever is later, by notifying the creditor, in accordance with regulations of the Board, of his intention to do so. The creditor shall clearly and conspicuously disclose, in accordance with regulations of the Board, to any obligor in a transaction subject to this section the rights of the obligor under this section. The creditor shall also provide, in accordance with regulations of the Board, an adequate opportunity to the obligor to exercise his right to rescind any transaction subject to this section.

(b) When an obligor exercises his right to rescind under subsection (a), he is not liable for any finance or other charge, and any security interest given by the obligor becomes void upon such a rescission. Within ten days after receipt of a notice of rescission, the creditor shall return to the obligor any money or property given as earnest money, downpayment, or otherwise, and shall take any action necessary or appropriate to reflect the termination of any security interest created under the transaction. If the creditor has delivered any property to the obligor, the obligor may retain possession of it. Upon the performance of the creditor's obligations under this section, the obligor shall tender the property to the creditor, except that if return of the property in kind would be impracticable or inequitable, the obligor shall tender its reasonable value. Tender shall be made at the location of the property or at the residence of the obligor, at the option of the obligor. If the creditor does not take possession of the property within ten days after tender by the obligor, ownership of the property vests in the obligor without obligation on his part to pay for it.

(c) Notwithstanding any rule of evidence, written acknowledgment of receipt of any disclosures required under this title by a person to whom a statement is required to be given pursuant to this section does no more than create a rebuttable presumption of delivery thereof.

(d) The Board may, if it finds that such action is necessary in order to permit homeowners to meet bona fide personal financial emergencies, prescribe regulations authorizing the modification or waiver of any rights created under this section to the extent and under the circumstances set forth in those regulations.

(e) This section does not apply to the creation or retention of a first lien against a dwelling to finance the acquisition of that dwelling.

#### § 126. Content of periodic statements

If a creditor transmits periodic statements in connection with any extension of consumer credit other than under an open end consumer credit plan, then each of those statements shall set forth each of the following items:

(1) The annual percentage rate of the total finance charge.

(2) The date by which, or the period (if any) within which, payment must be made in order to avoid additional finance charges or other charges.

(3) Such of the items set forth in section

127(b) as the Board may by regulation require as appropriate to the terms and conditions under which the extension of credit in question is made.

#### § 127. Open end consumer credit plans

(a) Before opening any account under an open end consumer credit plan, the creditor shall disclose to the person to whom credit is to be extended each of the following items, to the extent applicable:

(1) The conditions under which a finance charge may be imposed, including the time period, if any, within which any credit extended may be repaid without incurring a finance charge.

(2) The method of determining the balance upon which a finance charge will be imposed.

(3) The method of determining the amount of the finance charge, including any minimum or fixed amount imposed as a finance charge.

(4) Where one or more periodic rates may be used to compute the finance charge, each such rate, the range of balances to which it is applicable, and the corresponding nominal annual percentage rate determined by multiplying the periodic rate by the number of periods in a year.

(5) If the creditor so elects,

(A) the average effective annual percentage rate of return received from accounts under the plan for a representative period of time; or

(B) whenever circumstances are such that the computation of a rate under subparagraph (A) would not be feasible or practical, or would be misleading or meaningless, a projected rate of return to be received from accounts under the plan.

The Board shall prescribe regulations, consistent with commonly accepted standards for accounting or statistical procedures, to carry out the purposes of this paragraph.

(6) The conditions under which any other charges may be imposed, and the method by which they will be determined.

(7) The conditions under which the creditor may retain or acquire any security interest in any property to secure the payment of any credit extended under the plan, and a description of the interest or interests which may be so retained or acquired.

(b) The creditor of any account under an open end consumer credit plan shall transmit to the obligor, for each billing cycle at the end of which there is an outstanding balance in that account or with respect to which a finance charge is imposed, a statement setting forth each of the following items to the extent applicable:

(1) The outstanding balance in the account at the beginning of the statement period.

(2) The amount and date of each extension of credit during the period, and, if a purchase was involved, a brief identification (unless previously furnished) of the goods or services purchased.

(3) The total amount credited to the account during the period.

(4) The amount of any finance charge added to the account during the period, itemized to show the amounts, if any, due to the application of percentage rates and the amount, if any, imposed as a minimum or fixed charge.

(5) Where one or more periodic rates may be

used to compute the finance charge, each such rate, the range of balances to which it is applicable, and, unless the annual percentage rate (determined under section 107(a)(2)) is required to be disclosed pursuant to paragraph (6), the corresponding nominal annual percentage rate determined by multiplying the periodic rate by the number of periods in a year.

(6) Where the total finance charge exceeds 50 cents for a monthly or longer billing cycle, or the pro rata part of 50 cents for a billing cycle shorter than monthly, the total finance charge expressed as an annual percentage rate (determined under section 107(a)(2)), except that if the finance charge is the sum of two or more products of a rate times a portion of the balance, the creditor may, in lieu of disclosing a single rate for the total charge, disclose each such rate expressed as an annual percentage rate, and the part of the balance to which it is applicable.

(7) At the election of the creditor, the average effective annual percentage rate of return (or the projected rate) under the plan as prescribed in subsection (a)(5).

(8) The balance on which the finance charge was computed and a statement of how the balance was determined. If the balance is determined without first deducting all credits during the period, that fact and the amount of such payments shall also be disclosed.

(9) The outstanding balance in the account at the end of the period.

(10) The date by which, or the period (if any) within which, payment must be made to avoid additional finance charges.

(c) In the case of any open end consumer credit plan in existence on the effective date of this subsection, the items described in subsection (a), to the extent applicable, shall be disclosed in a notice mailed or delivered to the obligor not later than thirty days after that date.

**§ 128. Sales not under open end credit plans**

(a) In connection with each consumer credit sale not under an open end credit plan, the creditor shall disclose each of the following items which is applicable:

(1) The cash price of the property or service purchased.

(2) The sum of any amounts credited as down-payment (including any trade-in).

(3) The difference between the amount referred to in paragraph (1) and the amount referred to in paragraph (2).

(4) All other charges, individually itemized, which are included in the amount of the credit extended but which are not part of the finance charge.

(5) The total amount to be financed (the sum of the amount described in paragraph (3) plus the amount described in paragraph (4)).

(6) Except in the case of a sale of a dwelling, the amount of the finance charge, which may in whole or in part be designated as a time-price differential or any similar term to the extent applicable.

(7) The finance charge expressed as an annual percentage rate except in the case of a finance charge

(A) which does not exceed \$5 and is

applicable to an amount financed not exceeding \$75, or

(B) which does not exceed \$7.50 and is applicable to an amount financed exceeding \$75.

A creditor may not divide a consumer credit sale into two or more sales to avoid the disclosure of an annual percentage rate pursuant to this paragraph.

(8) The number, amount, and due dates or periods of payments scheduled to repay the indebtedness.

(9) The default, delinquency, or similar charges payable in the event of late payments.

(10) A description of any security interest held or to be retained or acquired by the creditor in connection with the extension of credit, and a clear identification of the property to which the security interest relates.

(b) Except as otherwise provided in this chapter, the disclosures required under subsection (a) shall be made before the credit is extended, and may be made by disclosing the information in the contract or other evidence of indebtedness to be signed by the purchaser.

(c) If a creditor receives a purchase order by mail or telephone without personal solicitation, and the cash price and the deferred payment price and the terms of financing, including the annual percentage rate, are set forth in the creditor's catalog or other printed material distributed to the public, then the disclosures required under subsection (a) may be made at any time not later than the date the first payment is due.

(d) If a consumer credit sale is one of a series of consumer credit sales transactions made pursuant to an agreement providing for the addition of the deferred payment price of that sale to an existing outstanding balance, and the person to whom the credit is extended has approved in writing both the annual percentage rate or rates and the method of computing the finance charge or charges, and the creditor retains no security interest in any property as to which he has received payments aggregating the amount of the sales price including any finance charges attributable thereto, then the disclosure required under subsection (a) for the particular sale may be made at any time not later than the date the first payment for that sale is due. For the purposes of this subsection, in the case of items purchased on different dates, the first purchased shall be deemed first paid for, and in the case of items purchased on the same date, the lowest priced shall be deemed first paid for.

**§ 129. Consumer loans not under open end credit plans**

(a) Any creditor making a consumer loan or otherwise extending consumer credit in a transaction which is neither a consumer credit sale nor under an open end consumer credit plan shall disclose each of the following items, to the extent applicable:

(1) The amount of credit of which the obligor will have the actual use, or which is or will be paid to him or for his account or to another person on his behalf.

(2) All charges, individually itemized, which are included in the amount of credit extended but which are not part of the finance charge.

(3) The total amount to be financed (the sum of the amounts referred to in paragraph (1) plus the amounts referred to in paragraph (2)).