FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 69-126
May 20, 1969

To Banks, Other Financial Institutions,
Trade Associations, and Others Concerned
in the Eleventh Federal Reserve District:

Attached for your information are copies of eighteen interpretations of Regulation Z, Truth in Lending, announced by the Board of Governors of the Federal Reserve System in its press releases, also attached, of April 2, April 22, and May 5, 1969.

Yours very truly,

P. E. Coldwell

President

Enclosures (21)

FEDERAL RESERVE
press release

For immediate release April 2, 1969

The Board of Governors of the Federal Reserve System announced today the approval of five interpretations of provisions in its Truth in Lending Regulation Z which goes into effect on July 1. A copy of each interpretation is attached.

<u>REGULATION Z, TRUTH IN LENDING--Use of ranges or brackets to determine periodic rate of finance charge on open end accounts</u>.

Section 226.5(a)(1) of Regulation Z, in effect, gives a creditor the option in certain circumstances of stating (1) two or more separate annual percentage rates (e.g., the rate on a $700 balance might be stated as 18% on balance to $500 and 12% on balance over $500), or (2) a single annual percentage rate determined by the "quotient method" resulting from applying the rates to a total balance (e.g., in the example above, an annual percentage rate of 16-1/4% on a $700 balance).

Section 226.5(a)(2), which relates to the use of ranges or brackets to compute periodic finance charges, does not prevent a creditor who uses such brackets from exercising the options referred to in section 226.5(a)(1).

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Regulation Z--Truth in Lending--Overstatement of Annual Percentage Rate.

Section 226.6(h) of Regulation Z provides that in certain circumstances the disclosure of an annual percentage rate which is greater than that required to be disclosed under the Regulation does not in itself constitute a violation of the Regulation. Under this section may a disclosure regarding an annual percentage rate (e.g. "the annual percentage rate does not exceed 18%") be preprinted on a contract or periodic statement and comply with disclosure requirements when the actual rate will at times be lower (e.g. 15%) for some transactions?

Section 226.5 specifies the methods which shall be employed in determining annual percentage rates. Section 226.6(h) is not intended to provide an alternative to these requirements, but is merely to provide appropriate relief to a creditor who overstates accidentally. Any disclosure of an annual percentage rate whether preprinted or otherwise which overstates the annual percentage rate determined in accordance with section 226.5 other than through inadvertence does not comply with requirements.

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REGULATION Z, TRUTH IN LENDING--Transition Period--Using existing forms, suitably altered or supplemented.

Section 226.6(k) of Regulation Z provides that, in some circumstances, if a creditor has been unable to obtain needed new printed forms by July 1, 1969, he may use existing forms until new ones are obtained, but not later than December 31, 1969. In such instances, the existing forms must be suitably altered or supplemented to make necessary disclosures clearly and conspicuously. The requirement that existing forms be supplemented is met by attachments or enclosures.

Also in some instances, creditors encounter unavoidable delays in obtaining necessary equipment or computer programs needed to utilize new printed forms. Such delays can produce problems comparable to those involved in delays in obtaining printed forms. In such a situation, a creditor, under §226.6(k), may continue to use existing forms until the means of utilizing the new forms are available, but in no event later than December 31, 1969, and subject, of course, to the conditions applicable under § 226.6(k): namely, that the creditor must have taken bona fide steps prior to July 1, 1969, to obtain the necessary equipment or computer programs, and the existing forms must be "altered or supplemented as necessary to assure that all of the items of information the creditor is required to disclose are set forth clearly and conspicuously."

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REGULATION Z, TRUTH IN LENDING--Disclosures in transaction involving multiple customers.

Section 226.6(e) states the general rule that, except in the case of a rescindable transaction under § 226.9, where there are multiple customers in a transaction, the creditor is only required to make disclosures to one of them. However, in determining which customer shall receive disclosures, the creditor may not select a customer who is secondarily liable, such as an endorser, comaker (when designated as surety), guarantor, or a similar party. This does not prohibit the creditor from also furnishing disclosures to such persons who are secondarily liable.

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REGULATION Z, TRUTH IN LENDING--Periodic Statements--Finance charge resulting from more than one periodic rate.

Section 226.7(b)(4) of Regulation Z requires that a periodic statement for open end credit show the amount of any finance charge, and that the statement also itemize and identify that portion of the finance charge that is due to application of one or more periodic rates and that portion due to any other charge such as minimum, fixed, check service, transaction, activity, or similar charge.

This does not require the statement to state separately the portions of a finance charge due to application of two or more periodic rates. For example, if a creditor charges 1-1/2% per month on the first $500 of a balance and 1% per month on amounts over $500, the monthly charge on a $600 balance would be $8.50, which must be shown. However, it would not be necessary to itemize the two components ($7.50 and $1.00) of the $8.50 charge. Under section 226.7(b)(5), the periodic rates that may apply to the account, and the applicable range of balances must, of course, be shown, but this could be preprinted.

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FEDERAL RESERVE

press release

For immediate release. April 22, 1969

The Board of Governors of the Federal Reserve System announced today the approval of six interpretations of provisions in its Truth in Lending Regulation Z which goes into effect on July 1. A copy of each interpretation is attached.

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§226.401 Service charges on accounts not paid within a given period of time

(a) Some vendors bill their customers for property or services purchased under the terms of a credit plan which requires that the full amount of each billing be paid within a stipulated period after billing, with no privilege of paying in instalments. If the bill is not paid within that stipulated period of time, the vendor imposes a service charge periodically on the unpaid balance until the account is paid in full. The question arises as to whether Regulation Z applies to such transactions.

(b) When in the ordinary course of business a vendor's billings are not paid in full within that stipulated period of time, and under such circumstances the vendor does not, in fact, regard such accounts in default, but continues or will continue to extend credit and imposes charges periodically for delaying payment of such accounts from time to time until paid, the charge so imposed comes within the definitions of a "finance charge" [§226.2(q)] applicable in each case to the amount of the unpaid balance of the account. Under such circumstances the credit so extended comes within the definition of "open end credit" in §226.2(r), the vendor is a creditor as defined in §226.2(m), and the disclosures required for open end credit accounts under §226.7 shall be made.

4/22/69

§ 226.604 Inconsistent State requirements.

(a) Section 226.6(b) of Regulation Z indicates types of State law requirements that are inconsistent with Regulation Z, and §226.6(c) indicates the methods of dealing with such inconsistent requirements of State law.

(b) Whether State laws are inconsistent with Regulation Z necessarily depends on the nature of the State laws. Section 226.6(b)(1) provides that State law is inconsistent to the extent that it "requires a creditor to make disclosures different from the requirements of this part with respect to form, content, terminology, or time of delivery." This refers to disclosures of the kinds of information covered by Regulation Z, and not to other or collateral information such as a statement telling the customer that he should read the contract carefully, or that there should be no blanks in the contract. Similarly, it does not refer to headings that State law may require on a contract such as "Retail Installment Contract." Similarly, a specification in a State law that certain size type must be used is not necessarily inconsistent with the requirements of Regulation Z.

4/22/69

§226.702 <u>Location of statement of how the balance was determined</u>.

(a) Section 226.7(b)(8) requires the creditor of an open end credit account to disclose on the periodic statement, "the balance on which the finance charge was computed, and a statement of how that balance was determined." Under §226.7(c) which relates to the location of disclosures there is no specific reference to the placement of the "statement of how that balance was determined" when separated from the balance to which it relates. The question arises as to where, under such circumstances, this required statement shall appear on the periodic statement.

(b) If separated from the balance to which it relates, the required statement of how the balance was determined may be placed on the face of the periodic statement, the reverse side of the periodic statement, or on an enclosed supplement; however, where such statement and balance do not appear together, the statement shall make clear the balance to which it refers.

4/22/69

§226.801 <u>Location of disclosures when contract, security agreement, and evidence of transaction are combined in a single document</u>

(a) Some creditors incorporate the terms of a contract, a security agreement, and evidence of a transaction in a single document. These documents are designed for processing by mechanical and electronic equipment. If all of the required disclosures under §226.8 should be placed on the face of such a document, the creditor will be unable to utilize conventional accounting and record keeping equipment because of the size of the resulting document. The question arises as to whether required disclosures may be made on the face and the reverse side of such a document.

(b) Where a creditor elects to combine disclosures with the contract, security agreement, and evidence of a transaction in a single document, the disclosures required under §226.8 shall, in accordance with §226.6, be made on the face of that document, on its reverse side, or on both sides, provided that the amount of the finance charge and the annual percentage rate shall appear on the face of the document, and, if the reverse side is used, the printing on both sides of the document shall be equally clear and conspicuous, both sides shall contain the statement, "NOTICE: See other side for important information," and the place for the customer's signature shall be provided following the full content of the document.

4/22/69

§226.1001 Advertising of credit terms in other than open end credit

(a) The statement of certain credit terms in advertisements such as "no downpayment", the amount of any installment payments, dollar amount of finance charge, number of payments, etc., as provided in §226.10(d)(2), requires that certain other terms also be stated in the same advertisement. The question arises as to how a creditor may advertise credit terms in a meaningful way when all of his credit sales or loans are not made on the same basis.

(b) The advertising of credit terms may be made by giving one or more examples of typical extensions of credit and stating all of the terms applicable to each example. In any such case, the advertiser shall set forth one or more examples which are, in fact, typical of the type of credit and terms usually and customarily made available by the creditor to present and prospective customers and each shall be clearly and conspicuously identified as examples of typical transactions.

4/22/69

§226.1002 Catalogs-tables or schedule of credit terms

(a) Under §226.10(b) in order that a catalog may qualify as a single advertisement, among other things, it must include a table or schedule of credit terms. It has been the practice of catalog houses to include such tables in catalogs; however, such tables generally state amounts of purchases, amounts of finance charges, and number and amount of payments for brackets up to a certain level and then contain an instruction to include a specified dollar amount in computing the finance charge by application of a percentage rate on any purchase in excess of that level. Tables to show the actual terms including annual percentage rates for all purchases into thousands of dollars would be unwieldy, present a formidable appearance, and may be more confusing than helpful to the user. The question arises as to whether a creditor who publishes a catalog is required to include tables in detailed amounts from the minimum up to, for example, $5000, his highest priced cataloged merchandise.

(b) Tables or schedules of terms in catalogs must include all amounts up to a level of the more commonly sold higher priced property or services which are offered for sale, but in no event greater than $1000 unless the creditor elects to do so. If the creditor offers property or service for sale at prices higher than the uppermost level covered by his table, he shall state the method by which the finance charge is computed on larger amounts, how the amount of payments and the number and periods of payments are determined and state, for each representative amount in increments of not more than $500 up to the highest priced property or service offered, the annual percentage rate. Any catalog which contains such a table or schedule of credit terms will comply with requirements of §226.10(b) provided all other requirements are met and such catalog shall be considered adequate for the purpose of §226.8(g)(1).

4/22/69

FEDERAL RESERVE

press release

For immediate release. May 5, 1969.

The Board of Governors of the Federal Reserve System announced today the approval of seven interpretations of provisions in its Truth in Lending Regulation Z which goes into effect on July 1. A copy of each interpretation is attached.

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§ 226.201 Lay-Away Plans as extensions of credit

(a) Many vendors offer Lay-Away Plans under which they retain the merchandise for a customer until the cash price is paid in full and the customer has no contractual obligation to make payments and may, at his option, revoke a purchase made under the plan and request and receive prompt refund of any amounts paid toward the cash price of the merchandise.

(b) A purchase under such a Lay-Away Plan shall not be considered an extension of credit subject to the provisions of Regulation Z.

§ 226.402 Term of insurance coverage

(a) Under § 226.4(a)(5) and (6) certain disclosures of insurance premium costs, if applicable, are required. The question arises as to whether such amounts of cost disclosed must include the cost of insurance for the full term of the transaction.

(b) Under § 226.4(h) the cost of insurance for the full period of insurance coverage which the creditor will require shall be disclosed if the cost of the insurance premium is required to be included in the finance charge. However, if the cost of insurance is not required to be included in the finance charge, the cost to be disclosed need only be the cost of premiums for the term of the initial policy or policies written in connection with the transaction, accompanied by a statement of the type of insurance and the term thereof.

§ 226.703 Finance charge based on average daily balance in open end credit accounts

(a) Section 226.7(b)(8) requires that periodic statements for open end accounts shall disclose, among other things, "The balance on which the finance charge was computed, and a statement of how that balance was determined." In some instances, creditors compute a finance charge on the average daily balance by application of a monthly periodic rate. In such case, this information is adequately disclosed if the statement gives the amount of the average daily balance on which the finance charge was computed, and also states how the balance is determined. In other instances, the finance charge is computed on the balance each day by application of a daily periodic rate and such charges are accumulated and debited to the account in a single amount for the billing cycle. The question arises whether the periodic statement must show for each day of the billing cycle a balance on which a finance charge was computed.

(b) If a daily periodic rate is used, the balance to which it is applicable shall be stated as follows:

(1) A balance for each day in the billing cycle; or

(2) The sum of the daily balances during the billing cycle, or

(3) The average daily balance during the billing cycle in which case the creditor shall state on the face of the periodic statement, its reverse side, or on an enclosed supplement that the average daily balance is multiplied by the number of days in the billing cycle and the periodic rate applied to the product to determine the amount of the finance charge.

In each case the annual percentage rate shall be determined and disclosed by multiplying the daily periodic rate by 365.

§ 226.704 <u>Annual percentage rate computation where transaction charges are imposed on open end credit accounts</u>

(a) Section 226.7(b)(6) prescribes the method by which an annual percentage rate is computed where the creditor of the open end credit account imposes finance charges with respect to specific transactions during the billing cycle.

(b) In determining the denominator of the fraction under § 226.7(b)(6), no amount will be used more than once when adding the sum of the balances to which periodic rates apply to the sum of the amounts financed to which specific transaction charges apply. In every case the full amount of transactions to which specific transaction charges apply shall be included in the denominator. Other balances or parts of balances shall be included according to the manner in which a periodic rate is applied, as illustrated in the following examples of accounts on monthly billing cycles:

1. Previous balance - none

   A specific transaction of $100 occurs on first day of the billing cycle.

   The average daily balance is $100.

   A specific transaction charge of 3% is applicable to the specific transactions.

   The periodic rate is 1-1/2% applicable to the average daily balance.

   The numerator is the amount of the finance charge, which is $4.50.

The denominator is the amount of the transaction (which is $100), plus the amount by which the balance to which the periodic rate applies exceeds the amount of specific transactions (such excess in this case is 0), totaling $100.

The annual percentage rate is the quotient (which is 4.5%) multiplied by 12 (the number of months in a year), i.e. 54%.

2. Previous balance - $100

   A specific transaction of $100 occurs at midpoint of the billing cycle.

   The average daily balance is $150.

   A specific transaction charge of 3% is applicable to the specific transaction.

   The periodic rate is 1-1/2% applicable to the average daily balance.

   The numerator is the amount of finance charge, which is $5.25.

   The denominator is the amount of the transaction (which is $100), plus the amount by which the balance to which the periodic rate applies exceeds the amounts of specific transactions (such excess in this case is $50), totaling $150.

   As explained in example 1, the annual percentage rate is 3.5% x 12 = 42%.

3. If, in example 2, the periodic rate applies only to the previous balance, the numerator is $4.50 and the denominator is $200 (the amount of the transaction, $100, plus the balance to which only the periodic rate is applicable, the $100 previous balance).

   As explained in example 1, the annual percentage rate is 2.25% x 12 = 27%.

4. If, in example 2, the periodic rate applies only to an adjusted balance (previous balance less payments and credits) and the customer made a payment of \$50 at midpoint of billing cycle, the numerator is \$3.75 and the denominator is \$150 (the amount of the transaction, \$100, plus the balance to which only the periodic rate is applicable, the \$50 adjusted balance). As explained in example 1, the annual percentage rate is 2.5% x 12 = 30%.

5. Previous balance - \$100

   A specific transaction (check) of \$100 occurs at the midpoint of the billing cycle.

   The average daily balance is \$150.

   The specific transaction charge is 25 cents per check. The periodic rate is 1-1/2% applied to the average daily balance. The numerator is the amount of the finance charge, which is \$2.50, and includes the 25 cents check charge and the \$2.25 resulting from the application of the periodic rate. The denominator is the full amount of the specific transaction (which is \$100) plus the amount by which the average daily balance exceeds the amount of the specific transaction (which in this case is \$50), totaling \$150. As explained in example 1, the annual percentage rate would be 1-2/3% x 12 = 20%.

(c) Regardless of such method of computation, the annual percentage rate to be disclosed shall be not less than the periodic rate multiplied by the number of periods in a year or the rate as may otherwise be determined under § 226.5(a).

§ 226.802 Disclosures on mail or telephone orders

(a) Under § 226.8(g), disclosures may be made at any time not later than the date the first payment is due under certain conditions. The question arises as to when disclosures shall be made on mail or telephone orders where the information outlined in § 226.8(g)(1) and (2) is not available to the customer or prospective customer.

(b) Under the circumstances set forth in the above question, the creditor shall make the disclosures required under Regulation Z as follows:

1. With respect to credit sales, not later than at the time of delivery of the property or first performance of service ordered.
2. With respect to loans, not later than at the time proceeds of the loan are disbursed.
3. Except that if the transaction is subject to the provisions of § 226.9, the disclosures shall be made before the transaction is consummated.

§ 226.803 Disclosures when discounts apply for prompt payment

(a) Under § 226.8(o), disclosures shall be made on the billing statement whereas under § 226.8(a) disclosures shall be made before the transaction is consummated. The question arises as to which provision prevails.

(b) The provisions of § 226.8(o) prevail under the conditions set forth in that paragraph unless the transaction is also subject to the provisions of § 226.9 in which event the disclosures shall be made before the transaction is consummated.

§ 226.804 Series of sales-content of agreement

(a) Under § 226.8(h), if a credit sale is one of a series of transactions made under an agreement providing for the addition of a current sale to an existing outstanding balance and the customer has approved in writing the annual percentage rate or rates and certain other requirements are met, disclosures may be made at any time not later than the date the first payment for that sale is due.

(b) The question arises as to how the annual percentage rate or rates should be shown in an agreement where, for example, an 18% annual percentage rate applies to the first $500 of balance, a 12% annual percentage rate applies to all balances over $500, and the mix of the two rates on transactions over $500 will produce a gradually decreasing annual percentage rate as the amount of balance over $500 increases.

(c) In addition to meeting the other requirements of § 226.8(h), if two or more annual percentage rates apply to ranges of balances, the agreement need only state each annual percentage rate and the range of balances to which it applies. However, the disclosures which must be made not later than the date the first payment is due must include the actual annual percentage rate applicable to that sale.