

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 69-205
August 14, 1969

REGULATION Z
TRUTH IN LENDING

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

Effective August 11, 1969, the Board of Governors of the Federal Reserve System has amended Section 226.8(o) of its Regulation Z, Truth in Lending, to clarify the provisions relating to discounts for prompt payment.

A copy of the Board's press statement and a copy of the amendment are enclosed.

Yours very truly,

P. E. Coldwell

President

Enclosures (2)

TITLE 12—BANKS AND BANKING
CHAPTER II—FEDERAL RESERVE SYSTEM
SUBCHAPTER A—BOARD OF GOVERNORS
OF THE FEDERAL RESERVE SYSTEM

[Reg. Z]

PART 226—TRUTH IN LENDING

Discount for Prompt Payment of
Sales Transactions

1. Effective August 11, 1969, § 226.8(o) is amended to read as follows:

**SECTION 226.8 CREDIT OTHER THAN
OPEN END—SPECIFIC DISCLOSURES**

(o) Discount for prompt payment of sales transactions.—(1) For the purposes of this paragraph, a “transaction subject to § 226.8(o)” is a credit sale transaction which is not exempt under § 226.3 and which is subject to a discount for payment on or before a specified date (e.g. 2% discount if paid within 10 days) or to a charge for delaying payment after a specified date (e.g. \$98 cash, \$100 if paid in 30 days). Both such a discount and such a charge are referred to in this paragraph as a “discount.” In the case of any transaction subject to § 226.8(o), notwithstanding the provisions of the last sentence of paragraph (a) of this section, the creditor shall disclose on the invoice or other evidence of such sale, as applicable:

- (i) The date of the sale or invoice.
- (ii) The rate of discount, the date by which or period within which the discount may be taken, and the date by which or period within which the full amount of the obligation is due and payable. (For example, “2%/10 days, net 30 days”; or “\$1 per ton/10 days, net 30 days.”)
- (iii) The information required under § 226.8(b) (4) and (5).
- (iv) The amount of the discount, designated as a “finance charge,” using that term.
- (v) If the discount shown for prompt payment exceeds 5% of the obligation to which the discount relates, the “annual percentage rate,” using that term, computed in accordance with subparagraph (2) of this paragraph, but subject to the exceptions provided under § 226.8(b) (2).

(2) For the purposes of subparagraph (1)(v) of this paragraph, the annual percentage rate shall be determined by dividing the amount of the finance charge by the least amount payable in satisfaction of the obligation and multiplying the quotient (expressed as a percentage) by a fraction in which the numerator is 12, and the denominator is the num-

ber of whole months (but not less than 1) between the first day of the monthly billing cycle in which the transaction is consummated and the first day of the monthly billing cycle in which the obligation becomes due.^{13a}

(3) In a transaction with multiple discount rates (for example 6%/10 days, 4%/20 days, net 30 days), the largest discount shall be used for purposes of disclosing the amount of the finance charge under subparagraph (1)(iv) of this paragraph and the annual percentage rate under subparagraph (1)(v) of this paragraph.^{13b}

(4) In order to determine the applicability of subparagraph (1)(v) of this paragraph and to facilitate disclosure of an annual percentage rate, if the amount of the discount for prompt payment is related, pursuant to usual business practice, to weight, quantity, or other physical measure (e.g. \$1 per ton or 1¢ per gallon) rather than expressed as a percentage of discount, that discount may be converted to an approximate discount rate and, under subparagraph (2) of this paragraph, a reasonably accurate approximation of the annual percentage rate by using approximate or projected prices per physical unit determined on the basis of past experience, current information, or projected analysis.^{13c}

(5) If by its terms a transaction subject to § 226.8(o) is payable in a single payment and no finance charge other than a discount is or may be imposed, and such discount is not utilized for the purpose of circumvention or evasion of disclosure requirements, the disclosure required by subparagraph (1) of this paragraph shall constitute compliance with the requirements of § 226.8 and under § 226.9(a) shall constitute “all other material disclosures required under this Part.”

(6) If a transaction subject to § 226.8(o) is debited to an open end credit account, disclosures shall be made as specified in subparagraph (1) of this paragraph and also as specified in § 226.7. The full amount of the obligation including the amount

^{13a} For example, a \$1,000 purchase of feed subject to terms of 6%/10 days net 30 days (or 6%/10 days, net E.O.M.; or 6%/10 days, net 10th of the following month; or 6%/20 days, net 30 days; or 6%/30 days, net 30 days; or 6% discount for cash, net 30 days) results in a finance charge of \$60, a least amount payable of \$940, and an annual percentage rate of 76.56%, which may be rounded to 76.50% or 76½%. Terms of 6%/20 days, net September 29 applied to an April purchase, assuming a calendar month billing cycle, result in an annual percentage rate of 15.31% (i.e. $6/94 \times 12/5$) which may be rounded to 15.25% or 15¼%. In this example the 29 days in September are ignored and the denominator (5) is determined by the number of whole months in the period.

^{13b} For example, terms of 6%/10 days, 4%/20 days, net 30 days would be treated like terms of 6%/10 days, net 30 days, which would represent an annual percentage rate of 76½%.

^{13c} For example, if terms of \$3 discount per ton/10 days, net 30 days are offered on fertilizer that is expected to sell in a range of about \$48 to \$52 per ton, the annual percentage rate could be approximated for preprinting as if it were 6% (i.e. \$3 on \$50)/10 days, net 30 days, that is, 76½%.

of the discount may be debited to the open end credit account, under § 226.7(b)(2), and the amount of any finance charge representing the discount need not be added to any other finance charge for the purpose of computing and disclosing the total amount of finance charge and the annual percentage rate under § 226.5(a) and § 226.7.¹³⁴

(7) If a transaction subject to § 226.8(o) is not debited to an open end credit account, but either is subject to an additional finance charge or is payable by its terms in more than one payment, disclosures shall be made as specified in subparagraph (1) of this paragraph and also as specified in paragraphs (b) and (c) of this section. In such a case, if the transaction is payable in more than one payment, the amount of the discount shall be deducted for the purpose of computing and disclosing the cash price under paragraph (c)(1) of this section and shall be added to any other finance charge for the purpose of computing and disclosing the amount of the finance charge under paragraph (c)(8)(i) of this section and the annual percentage rate under paragraph (b)(2) of this section.¹³⁵ If the transaction is payable in a single payment, the discount may be disregarded in computing and disclosing such cash price, finance charge, and annual percentage rate.¹³⁶

¹³⁴ For example, if a \$1,000 sale on terms of 2%/10 days, net 30 days, is debited to an open end account on which 1% per month is charged, the periodic statement under § 226.7(b) (assuming no other transactions in the account) would show a previous balance of \$1,000, a finance charge of \$10, and an annual percentage rate of 12%.

¹³⁵ For example, if a \$1,000 sale on terms of 2%/10 days, net 30 days is subject to an add-on finance charge of \$100 and is payable in instalments, the disclosures under § 226.8(b) and (c) would include a cash price of \$980 and a finance charge of \$120.

¹³⁶ For example, if a \$1,000 sale on August 2 not under an open end account is subject to terms of 2%/10 days, net 30 days, thereafter 8% per annum until December 1, the disclosures under § 226.8(b) and (c) would include a cash price of \$1,000, a finance charge of \$19.95, and an annual percentage rate of 8.00%.

(8) Notwithstanding the provisions of the second sentence of paragraph (a) of this section, the disclosures required under subparagraph (1) of this paragraph made on the invoice or other evidence of sale may be delivered subsequent to consummation of the transaction.

(9) Amended paragraph (o) of § 226.8 shall become effective August 11, 1969, but until March 1, 1970, any creditor may at his option use any printed forms which were prepared before such effective date in accordance with paragraph (o) of § 226.8 in effect at the time of such preparation.

2a. The purpose of this amendment is to clarify the application of the Truth in Lending Act to those cases in which a credit sale transaction is subject to a discount for prompt payment on or before a specified date or to a charge for delaying payment after a specified date.

b. The requirements of section 553 of Title 5, United States Code, with respect to notice, public participation, and deferred effective date were not followed in connection with this revocation. The effect of the amendment in general is to provide relief from a restriction and, in view of the unnecessary hardship on certain creditors in complying with the original § 226.8(o), the Board found that following such procedures would result in delay that would be contrary to the public interest.

Adopted August 8, 1969.

By order of the Board of Governors.
(Signed) Kenneth A. Kenyon
Kenneth A. Kenyon,
Deputy Secretary.

(SEAL)



FEDERAL RESERVE

press release

For immediate release.

August 11, 1969.

The Board of Governors of the Federal Reserve System today issued an amendment to its Truth in Lending Regulation Z to clarify one provision relating to discounts granted by creditors on sales to their customers for prompt payment of bills. The amendment is effective immediately.

Under the amendment, creditors offering discounts for prompt payment of single payment transactions will be required to state the "annual percentage rate" only if the discount exceeds 5 per cent. They will be required to state the discount in dollars and cents on each particular sale. The amendment also simplifies the computation of the "annual percentage rate" when it must be stated. The original provision required creditors to state the "annual percentage rate" no matter what the discount.

Many creditors, for example, offer a 2 per cent discount if a bill that is due in 30 days is paid in full within 10 days. In a case of this kind, the creditor will no longer be required to state an "annual percentage rate."

It has come to the Board's attention since the Truth in Lending law went into effect on July 1 that many creditors have discontinued the use of discounts for prompt payment. This is especially true in agricultural types of credit where there has been special difficulty with

compliance. Frequently the amounts of the discount in this area are related to weight, volume, number or other physical measure of the products such as 1 cent a gallon or \$1 a ton. The prices of these products also vary from week to week and month to month.

The Board's amendment is designed to alleviate these problems and to make it easier for creditors to continue discounts for prompt payment in this special type transaction. Most discounts of this type do not exceed 5 per cent and the "annual percentage rate" of those over 5 per cent may now be calculated more readily.

Technically, the amendment will replace Section 226.8(o) in the original Regulation Z. At the same time the Board clarified the use of discounts on single payment transactions when they are combined with open end or credit other than open end.

Although the amendment is effective immediately, creditors may use until March 1, 1970, any printed forms which were prepared before today in an effort to comply with the original provision.

A copy of the amendment is attached.