

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 70-47
February 25, 1970

CONSUMER LEAFLET ON TRUTH IN LENDING

To All Member Banks
in the Eleventh Federal Reserve District:

The Board of Governors of the Federal Reserve System, as part of its responsibilities under the Truth in Lending Act, has published a leaflet entitled "What Truth In Lending Means To You". A copy is enclosed. This leaflet, written in laymen's terms, is designed to acquaint consumers with the main provisions of the Truth in Lending Act.

The Federal Reserve Bank of Dallas will be glad to make copies of this leaflet available to your bank for use in public areas where customers may pick them up or for inclusion with bank statements.

If you desire additional copies of the leaflet, we will be pleased to supply them. Member banks in our Head Office territory should contact Mr. Leon W. Cowan, Vice President at our Head Office, and member banks in our Branch territories should contact the Vice President in Charge of our appropriate branch.

Yours very truly,

P. E. Coldwell

President

Enclosure

deeply may request the free pamphlet, "What You Ought to Know About Truth in Lending," from any Federal Reserve Bank or from the Board of Governors of the Federal Reserve System, Washington, D. C. 20551.

To Find Out More

If you have any questions about Truth in Lending, you can get information from the federal agency which enforces the law for a particular business. The nine agencies involved, and the businesses they cover, are listed at the end of this leaflet. The law provides criminal penalties for willful violators.

You as an individual may sue if a businessman fails to make the required disclosures. You may sue for twice the amount of the finance charge — for a minimum of \$100, up to a maximum of \$1,000 — plus court costs and reasonable attorney's fees.

FEDERAL AGENCIES

From the list that follows, you will be able to tell which Federal agency covers a particular business. Any questions you have should be directed to that agency.

Retail, Department Stores, Consumer Finance Companies, and all other creditors not listed below

Division of Consumer Credit
Federal Trade Commission
Washington, D. C. 20580

National Banks

Comptroller of the Currency
United States Treasury Department
Washington, D. C. 20220

State Chartered Banks that are members of the Federal Reserve System

Federal Reserve Bank serving the area in which the State member bank is located.

State Chartered Nonmember Banks that are insured by the Federal Deposit Insurance Corporation

Federal Deposit Insurance Corporation Regional Director for the Region in which the nonmember insured bank is located.

Savings Institutions insured by the Federal Savings and Loan Insurance Corporation and members of the Federal Home Loan Bank System (except for savings banks insured by Federal Deposit Insurance Corporation)

The FHLB's Supervising Agent in the Federal Home Loan Bank District in which the institution is located.

Federal Credit Unions

Regional Office of the Bureau of Federal Credit Unions, serving the area in which the Federal Credit Union is located.

Airlines and other creditors subject to Civil Aeronautics Board

Director, Bureau of Enforcement
Civil Aeronautics Board
1825 Connecticut Avenue, N.W.
Washington, D. C. 20428

Meat Packers, Poultry Processors and other creditors subject to Packers and Stockyards Act

Nearest Packers and Stockyards Administration area supervisor.

Creditors subject to Interstate Commerce Commission

Office of Proceedings
Interstate Commerce Commission
Washington, D. C. 20523

*Board of Governors of the Federal Reserve System
Washington, D.C., 20551*

What Truth In Lending Means To You

We all use credit in one form or another:

- Some of us charge our purchases at department stores.
- Others buy gas and oil or restaurant meals on credit cards.
- We may buy a car or furniture on the instalment plan.
- Almost everyone signs a mortgage when he buys a house and sometimes when he arranges for a major home improvement.
- Occasionally we'll borrow money from a bank, finance company or other lenders for vacation use or, perhaps, to meet unexpected medical expenses.

In most cases, we have to pay a charge for the use of credit. The purpose of the Truth in Lending Law that went into effect July 1, 1969, is to let consumers *know exactly what that charge is, and to let them make comparisons more readily* of the charges from different credit sources. The law therefore requires creditors to state such charges in a uniform way.

Two To Remember

The law makes it easier for you to know two of the most important things about the cost of credit. One is the *finance charge* — the amount of money we pay to obtain credit. The other is the *annual percentage rate*, which provides a way of comparing credit costs regardless of the dollar amount of those costs or the length of time over which we make payments. Both the finance charge and the annual percentage rate must be displayed prominently on the forms and statements used by a creditor to make the required disclosures.

Many of us know what interest is — 6 per cent per year for example. Let's suppose you borrow \$100 for one year and pay 6 per cent — or \$6 — for that money. If you have use of the entire amount for one year you are pay-

ing an *annual percentage rate* of 6 per cent. But if you repay the \$106 in 12 equal monthly instalments, you do not have use of the entire amount for the full year. In fact, over the entire year you have the use on the average of only about half the full \$100. So the \$6 charge for credit in this case becomes an *annual percentage rate* of 11 per cent.

Some creditors levy a service charge or a carrying charge or some other charge instead of interest, or perhaps they may add these charges to the interest. Under the Truth in Lending Law they must now total all such charges, including the interest, and call the sum the *finance charge*. And then they must list the *annual percentage rate* of the total charge for credit.

The Truth in Lending Law does not fix interest rates or other credit charges. Your State may have a law setting a limit on interest rates, which would still apply.

Chances are, then, that if the monthly statements and other materials you receive from companies giving you credit look different now, it doesn't mean they've changed their rates, only their way of showing them to comply with the Truth in Lending Law. Your department store bills, for example, should now list both a monthly rate (for example, 1 per cent, 1½ per cent, or some other number) and the *annual percentage rate*. This may be 12 per cent, 18 per cent or some other percentage, but it will usually be 12 times the monthly rate.

Advertising

The law also gives a new look to the advertising of credit terms. It says that if a business is going to mention one feature of credit in its advertising, such as the amount of downpayment, it must mention all other important terms, such as the number, amount, and period of payments that follow. If an advertisement states "Only \$2 down," it must also state, for example, that you will have

to pay \$10 a week for the next two years. Here again, the intent is to provide you with full information, so that you can make informed decisions.

Cancellations

One other important provision of the law is designed for your protection in case your home is used as collateral in a credit transaction. This frequently occurs when you are having a major repair or remodeling job done on your home. Now, when you enter into a credit transaction in which your home is used as collateral, the law gives you three business days to think about it and to cancel the transaction during that period if you wish. The creditor must give you *written notice of your right to cancel*, and if you decide to cancel the transaction, you have to *notify him in writing*.

Under this right of cancellation, the contractor cannot start work until the three days are up. You may give up your right to cancel and get the work started without the three-day wait, if you notify the contractor in writing that you face a real financial emergency and need the credit immediately to finance repairs necessary to avoid danger to you, your family, or your property.

The right of cancellation does not apply when you sign a first mortgage to finance the purchase of a home.

Other Provisions

The law, and the regulations issued by the Board of Governors of the Federal Reserve System to carry it out, contain many other detailed provisions. Businessmen extending credit should of course familiarize themselves with all of these, to make sure they are complying with the law. Consumers who want to go into the matter more