

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 70-96
April 16, 1970

PROPOSED AMENDMENT TO REGULATION Z

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

There is attached the text of a press release issued by the Board of Governors of the Federal Reserve System on April 13, 1970, regarding a proposed amendment to Regulation Z relating to late payment charges.

The text of the proposed amendment is also attached. Interested parties are invited to submit their views in writing for receipt by the Board of Governors not later than May 22, 1970.

Yours very truly,

P. E. Coldwell

President



FEDERAL RESERVE

press release

For immediate release

April 13, 1970.

The Board of Governors of the Federal Reserve System today issued for comment a proposal to include specifically in its Truth in Lending Regulation Z the manner in which creditors should treat the disclosure of charges that are labeled late payment and imposed on so-called "30-day accounts" and open end accounts.

The Board fixed May 22 as the deadline for the receipt of comments.

Regulation Z states that "a late payment, delinquency, default, reinstatement or other such charge is not a finance charge if imposed for actual unanticipated late payment, delinquency, default, or other such occurrence." In an interpretation issued on April 22, 1969, the Board explained that a late payment or other similar charge is considered a finance charge--and thus the transaction is subject to the disclosure provisions of Truth in Lending--when, in the ordinary course of business, the customer is permitted to continue using his credit account after the late payment or other charge is imposed.

This remains the position of the Board. However, the Board is now considering incorporating into the Regulation itself the substance of that interpretation, clarified and refined as it may be in the light of comments received. The Board said it would welcome comments on all aspects of such late payment charges as they relate to Truth in Lending in order that it may determine whether any change should be made in the future treatment of these or similar charges.

A copy of the proposal is attached.

FEDERAL RESERVE SYSTEM

(12 CFR Part 226)

(Reg. Z)

Late Payment, Delinquency, Default, And Reinstatement Charges

Pursuant to the authority contained in the Truth in Lending Act (15 U.S.C. 1601), the Board of Governors is considering amending § 226.4(c) of Part 226 to read as follows:

§ 226.4 Determination of Finance Charge.

* * *

(c) Late payment, delinquency, default, and reinstatement charges. A late payment, delinquency, default, reinstatement, or other such charge is not a finance charge if imposed for actual unanticipated late payment, delinquency, default, or other such occurrence. However, where such charge is imposed on an account which is or may be debited from time to time for purchases or other obligations and, under its terms, payment in full or of a specified amount is required when billed, and in the ordinary course of business the obligor is permitted to continue to have purchases or other obligations debited to the account after the imposition of such charge, such charge is a finance charge instead of a late payment or other such charge, and the disclosures required under § 226.7 shall be made.

* * *

The proposed amendment consists of the addition of a second sentence to existing § 226.4(c). That sentence would incorporate into the Regulation itself the substance of an interpretation (§ 226.401)

issued by the Board on April 22, 1969, which states the proper treatment of charges that are labeled late payment, delinquency, default and reinstatement, when imposed on an account which is or may be debited from time to time for purchases or other obligations. Such accounts might be either so-called 30-day accounts or open end credit accounts. The proposed amendment--like the interpretation--specifies the circumstances in which such charges are, in fact, considered finance charges requiring disclosures under § 226.7--open end credit accounts--specific disclosures.

This notice is published pursuant to § 553(b) of Title 5, United States Code, and § 262.2(a) of the Rules of Procedure of the Board of Governors of the Federal Reserve System.

To aid in the consideration of this matter by the Board and to assist the Board in determining whether any changes should be made in the future treatment of these or similar charges, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than May 22, 1970. Such material will be made available for inspection and copying upon request, except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information.

By order of the Board of Governors, April 9, 1970.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Deputy Secretary.

(SEAL)