

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 71-180
August 4, 1971

INTERPRETATION TO REGULATION Z

To All Banks, Other Creditors, and Others Concerned
in the Eleventh Federal Reserve District:

The Board of Governors of the Federal Reserve System announced on July 29, 1971, the adoption of an interpretation of Regulation Z, Truth in Lending, concerning changes in the method of determining the balance on which finance charges are computed on an open end credit account plan.

The interpretation is printed on the reverse side of this circular.

Yours very truly,

P. E. Coldwell

President

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

INTERPRETATION OF REGULATION Z

§ 226.705 Open end credit—change in the method of determining the balance on which finance charges are computed

(a) The creditor of an open end credit account plan desires to change his method of determining the balance on which finance charges are computed from a method in which payments and credits made during the billing cycle are not deducted in determining such balance to a method in which such payments and credits are deducted in determining such balance. This change results in a reduction in finance charges to the customer, where full payment of the account is deferred. The question arises whether notice of such change is required to be sent to customers of open end credit accounts under § 226.7(e), since that Section

also provides that prior notice is not required if the only change is a reduction in the “periodic rate or rates, or in any minimum, fixed, check service, transaction, activity, or similar charge applicable to the account.”

(b) Where a creditor changes his method of determining the balance on which finance charges are computed from a method in which payments and credits made during the billing cycle are not deducted in determining such balance, to a method in which such payments and credits are deducted in determining such balance, § 226.7(e) requires no prior notice of such change in terms, provided no other changes in terms applicable to the account are made simultaneously which would require § 226.7(e) notification.

7/29/71