

# FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 72-260  
November 16, 1972

## AMENDMENTS AND INTERPRETATION OF REGULATION Z (Credit Card Liability and Disclosures Relating to Open-End Credit Accounts)

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 November 6, 1972, the adoption of amendments to its Truth in Lending Regulation Z dealing with credit card liability and disclosures relating to open-end credit accounts.

One amendment clarifies that all credit cards--whether they are to be used for personal, family, household, agricultural, business or commercial purposes--are covered by the maximum liability limit of \$50 for unauthorized use, and may be issued only upon the request of a prospective cardholder. This amendment is effective December 15, 1972.

Other amendments, effective June 1, 1973, will:

1. Require the disclosure of a nominal annual percentage rate on billing statements in open-end credit accounts even where no finance charges are imposed during the billing cycle. Many creditors are already making this disclosure.
2. Require disclosure of minimum finance charges on billing statements.
3. Incorporate into the regulation two earlier interpretations dealing with computation of the annual percentage rate and disclosure of the balance on which it is computed.

These amendments are basically the same as the proposals announced by the Board on June 26 and August 4. Technical adjustments in the language were made in the light of public comment received since that time.

An effective date of June 1, 1973, for the disclosure amendments will allow time for those lenders and businesses which are affected by the amendments to reprint disclosure statements and change their computer programming, if necessary, to take account of the changes in the regulation.

At the same time, the Board issued an interpretation detailing the application of the regulation to open-end credit plans with variable rate features. Copies of the amendments and interpretation are attached.

Yours very truly,

P. E. Coldwell,

President

Attachments

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

TRUTH IN LENDING

INTERPRETATION OF REGULATION Z

SECTION 226.707 DISCLOSURES —  
VARIABLE PERIODIC RATES

(a) Under the terms of some open end credit plans the periodic rates of finance charges and corresponding annual percentage rates are tied to a fluctuating base rate, for example, the "prime rate." Consequently, both the periodic rates and annual percentage rates may change from time to time with changes in the base rate. The question arises as to the proper disclosure, if any, which should be made under § 226.7(a)(4), § 226.7(b)(5), § 226.7(a)(6), § 226.7(e) and § 226.10(c)(4) in connection with such plans.

(b) Where any creditor's open end credit plan provides that the account is subject to variations in any periodic rate of finance charge, the creditor need not comply with § 226.7(e) with respect to any prospective change in any periodic rate or corresponding annual percentage rate applicable to the account, *provided* that in connection with

the disclosures made pursuant to paragraph 226.7(a)(4) the creditor has disclosed that such rates are subject to change, the conditions under which such rates may be changed, and, if applicable, the maximum and minimum limits of such rates. The requirements of § 226.7(b)(5) and § 226.10(c)(4) may be complied with by similarly disclosing the method of computing the periodic or annual percentage rates which are subject to variation. In disclosing an annual percentage rate or rates under § 226.7(b)(6) where there have been variations during the billing cycle, the computations as specified in § 226.5(a)(1)(ii), § 226.5(a)(2), § 226.5(a)(3)(i) or § 226.5(a)(3)(ii), as applicable, should be used.

\* \* \* \* \*

11/2/72

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

AMENDMENTS

REGULATION Z †

Effective December 15, 1972, § 226.13(a)(4), 13(b) and 13(c) are amended to read as set forth below:

SECTION 226.13 — CREDIT CARDS —  
ISSUANCE AND LIABILITY

(a) **Supplemental definitions applicable to this section.**

(4) **“Cardholder”** means any person to whom a credit card is issued for personal, family, household, agricultural, business, or commercial purposes, or any person who has agreed with the card issuer to pay obligations arising from the issuance

of a credit card to another person for such purposes.

(b) **Issuance of credit cards.** Regardless of whether a credit card is to be used for personal, family, household, agricultural, business or commercial purposes, no credit card shall be issued to any person except:

(1) In response to a request or application therefor, or

(2) As a renewal of, or in substitution for, an accepted credit card whether such card is issued by the same or a successor card issuer.

(c) **Conditions of liability of cardholder.** A cardholder shall be liable for unauthorized use of each credit card issued only if,

---

† For this Regulation to be completed as amended effective December 15, 1972, retain:

- 1) Printed Pamphlet on Regulation Z containing amendments and interpretations through September 11, 1969.
- 2) Printed Pamphlet on Regulation Z containing amendments and interpretations (September 12, 1969 — October 31, 1971).
- 3) Amendment (Section 226.9(a)) effective October 1, 1971.
- 4) Amendment (Section 226.6) effective December 31, 1971.
- 5) Interpretation effective June 21, 1972.
- 6) Interpretation effective November 2, 1972.
- 7) Amendment (Sections 226.5(a)(3), 226.7(a)(4) and 226.7(b)(5) & (6) and 226.7(c)) effective June 1, 1973.
- 8) This slip sheet.

# BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

## AMENDMENTS

### REGULATION Z †

Effective June 1, 1973, § 226.5(a)(3), 226.7(a)(4), 226.7(b)(5) and (6) and 226.7(c) of Regulation Z are amended to read as set forth below, and § 226.702 and § 226.704 are revoked:

#### SECTION 226.5—DETERMINATION OF ANNUAL PERCENTAGE RATE

##### (a) General Rule—open end credit accounts

\* \* \* \* \*

(3) Where the finance imposed during the billing cycle is or includes

(i) any minimum, fixed, or other charge not due to the application of a periodic rate, other than a charge with respect to any specific transaction during the billing cycle, by dividing the total finance charge for the billing cycle by the amount of the balance(s) to which applicable and multiplying the quotient (expressed as a percentage) by the number of billing cycles in a year; or

(ii) any charge with respect to any specific transaction during the billing cycle (even if the total finance charge also includes any other minimum, fixed, or other charge not due to the application of a periodic rate), by dividing the total finance charge imposed during the billing cycle by the total of all balances and other amounts on which any finance charge was imposed during the billing cycle without duplication and multiplying the quotient (expressed as a percentage) by the number of billing cycles in a year,<sup>5a/</sup> except that the annual percentage rate shall not be less than the largest rate determined by multiplying each periodic rate imposed during the billing cycle by the number of periods in a year; or

(iii) any minimum, fixed, or other charge not due to the application of a periodic rate and the total finance charge imposed during the billing cycle does not exceed 50 cents for a monthly or longer billing cycle, or the pro rata part of 50 cents for a billing cycle shorter than monthly, at the creditors option, by multiplying each applicable periodic rate by the number of periods in a year, notwithstanding the provisions of subdivisions (i) and (ii) of this subparagraph.

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 of determining the balance to 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 1½% 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 1½% 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  $3.5\% \times 12 = 42\%$ .

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  $2.25\% \times 12 = 27\%$ .

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  $2.5\% \times 12 = 30\%$ .

##### 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 1½% 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  $1\frac{2}{3}\% \times 12 = 20\%$ .

#### SECTION 226.7—OPEN END CREDIT ACCOUNTS—SPECIFIC DISCLOSURES

##### (a) Opening new account,

\* \* \* \* \*

<sup>5a</sup> In determining the denominator of the fraction under § 226.5(a)(3)(ii) no amount will be used more than once when adding the sum of the balances to which periodic rates

(4) Where one or more periodic rates may be used to compute the finance charge, each such rate, the range of balances to which it is applicable, and the corresponding annual percentage rate determined by multiplying the periodic rate by the number of periods in a year.<sup>6a/</sup>

\* \* \* \* \*

(b) **Periodic statements required.**

\* \* \* \* \*

(5) Each periodic rate, using the term "periodic rate" (or "rates"), that may be used to compute the finance charge (whether or not applied during the billing cycle), the range of balances to which it is applicable, and the corresponding annual percentage rate determined by multiplying the periodic rate by the number of periods in a year. The words "corresponding annual percentage rate," "corresponding nominal annual percentage rate" "nominal annual percentage rate" or "annual percentage rate" (or "rates") may be used to describe the corresponding annual percentage rate. The requirements of § 226.6(a) of this Part with respect to disclosing the term "annual percentage rate" more conspicuously than other required terminology shall not be applicable to the disclosure made under this subparagraph, although such term (or words incorporating such term) may, at the creditor's option, be shown as conspicuously as the terminology required under subparagraph 6 of this paragraph. Where a minimum charge may be applicable to the account, the amount of such minimum charge shall be disclosed.<sup>9a</sup>

<sup>6a</sup> A creditor imposing minimum charges is not required to adjust the disclosure of the range of balances to which each periodic rate would apply in order to reflect the range of the balances below which the minimum charge applies. If a creditor does not impose a finance charge when the outstanding balance is less than a certain amount, the creditor is not required to disclose that fact or the balance below which no such charge will be imposed.

<sup>9a</sup> A creditor imposing minimum charges is not required to adjust the disclosure of the range of balances to which each periodic rate would apply in order to reflect the range of the balances below which the minimum charge applies. If a creditor does not impose a finance charge when the outstanding balance is less than a certain amount, the creditor is not required to disclose that fact or the balance below which no such charge will be imposed.

(6) When a finance charge is imposed during the billing cycle, the annual percentage rate or rates determined under § 226.5(a) using the term "annual percentage rate" (or "rates").

\* \* \* \* \*

(c) **Location of disclosures.** The disclosures required by paragraph (b) of this section shall be made on the face of the periodic statement, except that, at the creditor's option:

(1) Itemization of the amount and date of each extension of credit (or the date such extension of credit was debited to the account) required to be disclosed under paragraph (b) (2) of this section an itemization of the amount of the "credits" disclosed under paragraph (b)(3) of this section, and of the amount of any finance charge required to be disclosed under paragraph (b)(4) of this section, may be made on the reverse side of the periodic statement or on a separate accompanying statement(s), provided that the totals of such respective amounts are disclosed on the face of the periodic statement; and

(2) The disclosures required under paragraph (b)(5) and (b)(8) of this section, except the balance on which the finance charge was computed may be made on the reverse side of the periodic statement or on the face of a single supplemental statement which shall accompany the periodic statement.

(3) If the creditor exercises any of the options provided under this paragraph, the face of the periodic statement shall contain one of the following notices, as applicable: "NOTICE: See reverse side for important information" or "NOTICE: See accompanying statement(s) for important information" or "NOTICE: See reverse side and accompanying statement(s) for important information," and the disclosures shall not be separated so as to confuse or mislead the customer or obscure or detract attention from the information required to be disclosed.

\* \* \* \* \*

† For this Regulation to be completed as amended effective June 1, 1973 retain:

- 1) Printed Pamphlet on Regulation Z containing amendments and interpretations through September 11, 1969.
- 2) Printed Pamphlet on Regulation Z containing amendments and interpretations (September 12, 1969 — October 31, 1971).
- 3) Amendment (Section 226.9(a)) effective October 1, 1971.
- 4) Amendment (Section 226.6) effective December 31, 1971.
- 5) Interpretation effective June 21, 1972.
- 6) Interpretation effective November 2, 1972.
- 7) Amendment (Section 226.13 (a)(4) 13(b) & 13(c) ) effective December 15, 1972.
- 8) This slip sheet.