

FEDERAL RESERVE BANK OF DALLAS  
DALLAS, TEXAS 75222

Circular No. 73-132  
June 6, 1973

INTERPRETATION OF REGULATION Z

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

Enclosed is an interpretation of Regulation Z prescribing the procedures to be used by a creditor in computing the annual percentage rate disclosed to a customer on his billing statement on an open end credit account.

Yours very truly,

P. E. Coldwell,

President

Enclosure

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

TRUTH IN LENDING

INTERPRETATION OF REGULATION Z

SECTION 226.506 DAILY PERIODIC RATE;  
COMPUTATION OF THE ANNUAL  
PERCENTAGE RATE

(a) Under §§226.5(a)(1)(ii), (3) (i), and (3)(ii), the quotient used in computing the annual percentage rate in open end credit accounts must be multiplied "by the number of billing cycles in a year." The question arises as to the method which should be used to compute the annual percentage rate under those sections where a daily periodic rate (or rates) is used.

(b) In any open end credit account to which the provisions of §§226.5(a)(1)(ii) or 226.5(a)(3)(i) apply, where all or a portion of the finance charge is determined by the application of one or more daily periodic rates, the annual percentage rate may be determined (1) by dividing the total finance charge by the average of daily

balances and multiplying the quotient by the number of billing cycles in a year, or alternatively (2) by dividing the total finance charge by the sum of the daily balances and multiplying the quotient by 365.

(c) In any open end credit account to which the provisions of §226.5(a)(3)(ii) apply, where a portion of the finance charge is determined by application of one or more daily periodic rates, the phrase "sum of the balances" in footnote 5a shall also mean the "average of daily balances."

(Interprets and applies 15 U.S.C. 1606)

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