

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 73-288

November 9, 1973

INTERPRETATION OF REGULATION Z (Use of "Annual Percentage Rate" in Oral Communications)

To All Member Banks and Others Concerned
in the Eleventh Federal Reserve District:

The Board of Governors of the Federal Reserve System is concerned that some creditors have continued to refer to the add-on and discount rates in their communication with consumers. Several recent surveys by consumer groups have shown that some banks respond to telephoned consumer inquiries about the cost of credit in terms of the add-on or discount rate, rather than the "annual percentage rate" as required under Truth-in-Lending.

The Board is concerned about this practice and it recently issued an interpretation of its Regulation Z dated June 29, 1973, which provides that the total cost of credit should generally be quoted in terms of the "annual percentage rate" only. This interpretation was forwarded to you under our Circular No. 73-172, dated July 13, 1973.

In order to reemphasize the importance of this interpretation we enclose a copy of Governor Jeffrey M. Bucher's letter and a copy of the interpretation.

Yours very truly,

P. E. Coldwell,

President

Enclosure



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

JEFFREY M. BUCHER
MEMBER OF THE BOARD

October 31, 1973

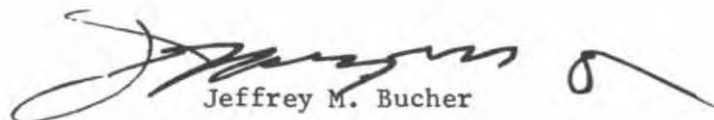
TO CHIEF EXECUTIVE OFFICERS OF ALL STATE MEMBER BANKS

The Federal Reserve Board is concerned that, despite the enactment of Truth in Lending, add-on and discount rates are still being used in answering consumer inquiries about the cost of credit. As a result the Board has issued an interpretation to Regulation Z which specifically prohibits such quotations. The interpretation provides that oral statements to consumers about the cost of credit should generally be in terms of an "annual percentage rate" only. A copy of the text of this interpretation, § 226.101--Use of "Annual Percentage Rates" in Oral Communications, is attached.

I suggest that if you have not already done so, you take steps to alert your employees to the requirements of this interpretation. It is particularly important that those employees who communicate with the public, either by telephone, face to face, or in writing, observe these provisions. Compliance with the interpretation will be checked periodically by representatives of the Federal Reserve Bank serving your District.

Similar letters are being sent to banks under the jurisdiction of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

Sincerely yours,


Jeffrey M. Bucher

Attachment

Board of Governors of the Federal Reserve System

Regulation Z

§ 226.101 Use of "annual percentage rate" in oral communications.

Under § 226.1(a)(2), a stated purpose of the Truth in Lending Act and Regulation Z is to assure that every customer who has need for consumer credit is given meaningful information with respect to the cost of that credit so that he may readily compare the various credit terms available to him from different sources and avoid the uninformed use of credit. Under § 226.6(a), a creditor is required to make disclosures using certain prescribed terminology, including the "annual percentage rate." The question arises as to the propriety of a creditor quoting annual rates other than "annual percentage rate" in response to consumer inquiries about the cost of credit, where such other rates could not be used in an advertisement under the proscriptions of § 226.10.

The Truth in Lending Act and Regulation Z are intended to facilitate "shopping" between competitive credit plans. If a customer inquires about the cost of credit and the creditor responds by quoting an add-on or discount rate, he may mislead the customer since the use of such rates is prohibited in consumer credit advertising and such rates are significantly lower than the annual percentage rate which must be shown on the creditor's disclosure statement. The quotation of these rates can frustrate the stated purpose of the Act and prevent the customer from making an informed use of credit.

In response to any oral inquiry by a customer about the cost of credit, a creditor when quoting annual rates should use only those rates permitted to be used in advertisements under § 226.10. Irrespective of the method used by the creditor to compute finance charges, the annual rate of the creditor's total finance charges should be quoted only in terms of the "annual percentage rate."

6/29/73