

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 74-355
December 31, 1974

REGULATION Z

(Proposed Amendments to the Truth in Lending Regulation)

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

On December 18, 1974, the Board of Governors of the Federal Reserve System proposed two amendments to its Truth in Lending Regulation. These amendments would: (1) Require creditors to disclose in a clear and conspicuous manner the finance charge and terms involved in the use of cash advance checks, and (2) Require disclosure to the customer--prior to the signing of a loan agreement--of any variable rate interest clause that is part of the contract.

To aid in the consideration of these matters by the Board, interested persons are invited to submit in writing relevant data, views, or arguments to the Secretary, The Board of Governors of the Federal Reserve System, Washington, D. C. 20551, or to any Federal Reserve Bank for transmittal to the Board, to be received at the Board not later than January 31, 1975.

A copy of the Board's press release and proposed amendments are attached for your information.

Yours very truly,

Ernest T. Baughman

President

Attachments

FEDERAL RESERVE SYSTEM

[12 CFR PART 226]

[Reg. Z]

TRUTH IN LENDING

Credit Other Than Open End--Specific Disclosures

1. Pursuant to the authority contained in the Truth in Lending Act (15 U.S.C. § 1601 et seq.), the Board of Governors proposes to amend Part 226 (Regulation Z). The proposed amendment would require creditors to disclose to customers, in advance of their becoming obligated on a credit contract, a variable interest rate clause if the contract, note, or other instrument so provides.

Amend § 226.8(b) to read as follows:

§ 226.8--CREDIT OTHER THAN OPEN END--SPECIFIC DISCLOSURES

* * * * *

(b) Disclosures in sale and nonsale credit. * * *

(8) If the contract, note, or other instrument so provides, the fact that the annual percentage rate is prospectively subject to change; the conditions under which such rate may be changed; and if applicable, the maximum and minimum limits of such rates stipulated in the note, contract, or other instrument evidencing the obligation.

* * * * *

2. The proposed amendment to § 226.8(b) stipulates disclosure requirements for other than open end credit when the contract, note, or other instrument provides that the annual percentage rate is prospectively subject to change. That possibility of change, the conditions under which the change may occur, and any maximum or minimum rates must be included with the other Truth in Lending

disclosures to be given to the consumer prior to consummation of the original extension of credit.

3. Should the Board adopt the proposed amendment after considering the comments received on it, an effective date would be set far enough in advance to allow for the orderly change of forms where necessary. This notice is published pursuant to section 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 (12 C. F. R. 262.2(a)).

To aid in the consideration of these matters by the Board, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, the Board of Governors of the Federal Reserve System, Washington, D. C. 20551, or to any Federal Reserve Bank for transmittal to the Board, to be received at the Board not later than Jan. 31, 1975. Such materials 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, December 18, 1974.

(Signed) Theodore E. Allison

Theodore E. Allison
Secretary to the Board

[SEAL]



FEDERAL RESERVE

press release

For Immediate Release

December 18, 1974

The Board of Governors of the Federal Reserve System today proposed two amendments to its Truth in Lending Regulation Z that would:

1. Require creditors to disclose in a clear and conspicuous manner the finance charges and terms involved in the use of cash advance checks.

2. Require disclosure to the customer -- prior to the signing of a loan agreement -- of any variable rate interest clause that is part of the contract.

Comment on the proposals should be received by the Board not later than January 31, 1975.

A number of banks operating credit card plans have been sending blank checks to credit card holders that can be used to obtain cash advances on a credit card account. Under the proposed amendment, a disclosure statement specifically related to the charge imposed when these checks are used would be required the first time the cash advance check or other similar credit device was sent to a customer.

The proposed amendment on variable rate clauses would require disclosure of the fact that the annual percentage rate is subject to change, the conditions under which the rate may be changed, and the range of rates that may apply in a specific case. This disclosure would be required prior to the signing of a loan agreement to make it possible for the customer to compare the variable rate contract with alternative sources of credit that contain no such provision.

A copy of each of the proposed amendments is attached.

FEDERAL RESERVE SYSTEM

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[12 C.F.R. Part 226]

[Reg. Z]

TRUTH IN LENDING

Open End Credit Accounts--Specific Disclosures

1. Pursuant to the authority contained in the Truth in Lending Act (15 U.S.C. § 1604), the Board of Governors proposes to amend Part 226 (Regulation Z). The proposed amendment would require creditors sending blank checks or other credit devices to credit card holders which are intended to be used in connection with such accounts to include a clear disclosure statement of the charges and other pertinent credit information specifically related to the use of the blank checks or other credit devices delivered. Such a disclosure statement would be required only the first time the blank checks or other credit devices are sent to the customer, but not when later renewed or resupplied.

2. The Board proposes to amend § 226.7 by the addition of a new paragraph (f) to read as follows:

§ 226.7--OPEN END CREDIT ACCOUNTS--SPECIFIC DISCLOSURES

* * * * *

(f) Delivery of new credit devices for use in open end accounts.

If a creditor of an open end credit account mails or delivers, other than as a renewal or resupply, a blank check, draft, or order or other credit device to a customer or cardholder for use in connection with such account, such blank check, draft, or order or other credit device shall be accompanied by a single written statement setting forth clearly and conspic-

uously those disclosures in paragraph (a) of this section which specifically relate to the use of the credit devices delivered. Such disclosure statement shall be separate from any other disclosures or promotional material delivered at the same time.

3. The proposed amendment to § 226.7 adds new disclosure requirements in the event that creditors deliver to their open end account customers blank checks for use in activating the cash advance feature of such accounts. Such disclosures must be sent at the time such blank checks are first issued to the customer and must clearly state the charges and terms involved in their use. Similar disclosures would also be required to accompany the first delivery of any other credit device for use in connection with open end credit accounts.

Should the Board adopt the proposed amendment after considering the comments received on it, an effective date would be set far enough in advance to allow for the orderly change of forms where necessary.

This notice is published pursuant to Section 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 (12 C. F. R. 262.2(a)).

To aid in the consideration of these matters by the Board, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, the Board of Governors of the Federal Reserve System, Washington, D.C. 20551, or to any Federal Reserve Bank for transmittal to the Board, to be received at the Board not later than Jan., 31, 1975. Such materials 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, December 18, 1974

(Signed) Theodore E. Allison

Theodore E. Allison
Secretary of the Board

[SEAL]