

FEDERAL RESERVE BANK OF DALLAS  
DALLAS, TEXAS 75222

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TRUTH IN LENDING  
REPRINT OF REGULATION Z

TO ALL BANKS AND OTHERS CONCERNED  
IN THE ELEVENTH FEDERAL RESERVE DISTRICT:

The Board of Governors of the Federal Reserve System has reprinted its Regulation Z, "Truth in Lending," incorporating the amendments to and interpretations of that Regulation through September 30, 1974.

This booklet should replace the existing booklet as amended on September 11, 1969, and subsequent amendments and interpretations there-  
to should be removed from your binder and may be destroyed. A copy of the new pamphlet is enclosed.

Sincerely yours,

T. W. Plant

First Vice President

Enclosure

**BOARD OF GOVERNORS**  
**of the**  
**FEDERAL RESERVE SYSTEM**

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**TRUTH IN LENDING**

**REGULATION**



**(12 CFR 226)**  
**Effective July 1, 1969**

**Amended September 30, 1974**

# CONTENTS

## REGULATION Z

|   | Page |   | Page |
|---|------|---|------|
| <b>Sec. 226.1—Authority, Scope, Purpose, etc.</b> . . . . | 5    | (b) Inconsistent State requirements . . . . .         | 13   |
| (a) Authority, scope, and purpose . . . . .               | 5    | (c) Additional information . . . . .                  | 13   |
| (b) Administrative enforcement . . . . .                  | 5    | (d) Multiple creditors; joint disclosure . . . .      | 13   |
| (c) Penalties and liabilities . . . . .                   | 6    | (e) Multiple customers; disclosure to one . . .       | 13   |
| <b>Sec. 226.2—Definitions and Rules of Construc-</b>      |      | (f) Unknown information estimate . . . . .            | 13   |
| <b>tion</b> . . . . .                                     | 6    | (g) Effect of subsequent occurrence . . . . .         | 13   |
| (a) Act . . . . .   | 6    | (h) Overstatement . . . . .                           | 14   |
| (b) Advertisement . . . . .                               | 6    | (i) Preservation and inspection of evidence           | 14   |
| (c) Agricultural purpose . . . . .                        | 6    | of compliance . . . . .                               | 14   |
| (d) Amount financed . . . . .                             | 6    | (j) Leap year . . . . .                               | 14   |
| (e) Annual percentage rate . . . . .                      | 6    | <b>Sec. 226.7—Open End Credit Accounts—Specific</b>   |      |
| (f) Arrange for the extension of credit . . .             | 6    | <b>Disclosures</b> . . . . .                          | 14   |
| (g) Billing cycle . . . . .                               | 6    | (a) Opening new account . . . . .                     | 14   |
| (h) Board . . . . .                                       | 6    | (b) Periodic statements required . . . . .            | 14   |
| (i) Cash price . . . . .                                  | 6    | (c) Location of disclosures . . . . .                 | 15   |
| (j) Comparative Index of Credit Cost . . .                | 6    | (d) Finance charge imposed at time of                 | 16   |
| (k) Consumer credit or consumer loan . . .                | 6    | transaction . . . . .                                 | 16   |
| (l) Credit . . . . .                                      | 7    | (e) Change in terms . . . . .                         | 16   |
| (m) Creditor . . . . .                                    | 7    | <b>Sec. 226.8—Credit Other Than Open End—Spe-</b>     |      |
| (n) Credit sale . . . . .                                 | 7    | <b>cific Disclosures</b> . . . . .                    | 16   |
| (o) Customer . . . . .                                    | 7    | (a) General rule . . . . .                            | 16   |
| (p) Dwelling . . . . .                                    | 7    | (b) Disclosures in sale and nonsale credit            | 16   |
| (q) Finance charge . . . . .                              | 7    | (c) Credit sales . . . . .                            | 17   |
| (r) Open end credit . . . . .                             | 7    | (d) Loans and other nonsale credit . . . . .          | 18   |
| (s) Organization . . . . .                                | 7    | (e) Finance charge payable separately or              | 18   |
| (t) Period . . . . .                                      | 7    | withheld; required deposit balance . .                | 18   |
| (u) Periodic rate . . . . .                               | 7    | (f) First lien to finance construction of             | 18   |
| (v) Person . . . . .                                      | 7    | dwelling . . . . .                                    | 18   |
| (w) Real property . . . . .                               | 7    | (g) Orders by mail or telephone . . . . .             | 18   |
| (x) Real property transaction . . . . .                   | 7    | (h) Series of sales . . . . .                         | 19   |
| (y) Residence . . . . .                                   | 7    | (i) Advances under loan commitments . . .             | 19   |
| (z) Security interest and security . . . . .              | 7    | (j) Refinancing, consolidating or increasing          | 19   |
| (aa) State . . . . .                                      | 7    | (k) Assumption of an obligation . . . . .             | 19   |
| (bb) Omission of word "consumer" . . . . .                | 7    | (l) Deferrals or extensions . . . . .                 | 19   |
| (cc) Consummation of transaction . . . . .                | 8    | (m) Series of single payment obligations . .          | 19   |
| (dd) Captions and catchlines . . . . .                    | 8    | (n) Permissible periodic statements . . . . .         | 20   |
| <b>Sec. 226.3—Exempted Transactions</b> . . . . .         | 8    | (o) Discount for prompt payment of sales              | 20   |
| (a) Business or governmental credit . . . .               | 8    | transactions . . . . .                                | 20   |
| (b) Certain transactions in security or com-              | 8    | (p) Agricultural credit—information not de-           | 21   |
| modities accounts . . . . .                               | 8    | terminable . . . . .                                  | 21   |
| (c) Non-real property credit over \$25,000 .              | 8    | <b>Sec. 226.9—Right to Rescind Certain Transac-</b>   |      |
| (d) Certain public utility bills . . . . .                | 8    | <b>tions</b> . . . . .                                | 22   |
| <b>Sec. 226.4—Determination of Finance Charge</b> . .     | 8    | (a) General rule . . . . .                            | 22   |
| (a) General rule . . . . .                                | 8    | (b) Notice of opportunity to rescind . . . .          | 22   |
| (b) Itemized charges excludable . . . . .                 | 9    | (c) Delay of performance . . . . .                    | 23   |
| (c) Late payment, delinquency, default, and               | 9    | (d) Effect of rescission . . . . .                    | 23   |
| reinstatement charges . . . . .                           | 9    | (e) Waiver of right of rescission . . . . .           | 23   |
| (d) Overdraft charges . . . . .                           | 9    | (f) Joint ownership . . . . .                         | 23   |
| (e) Excludable charges, real property trans-              | 9    | (g) Exceptions to general rule . . . . .              | 23   |
| actions . . . . .   | 9    | <b>Sec. 226.10—Advertising Credit Terms</b> . . . . . | 24   |
| (f) Prohibited offsets . . . . .                          | 9    | (a) General rule . . . . .                            | 24   |
| (g) Demand obligations . . . . .                          | 9    | (b) Catalogs and multi-page advertisements            | 24   |
| (h) Computation of insurance premiums . .                 | 9    | (c) Advertising of open end credit . . . . .          | 24   |
| <b>Sec. 226.5—Determination of Annual Percentage</b>      |      | (d) Advertising of credit other than open             | 24   |
| <b>Rate</b> . . . . .                                     | 9    | end . . . . .   | 24   |
| (a) General rule—open end credit accounts                 | 9    | (e) Advertising of FHA Section 235 fi-                | 25   |
| (b) General rule—other credit . . . . .                   | 10   | nanancing . . . . .                                   | 25   |
| (c) Charts and tables . . . . .                           | 11   | <b>Sec. 226.11—Comparative Index of Credit Cost</b>   |      |
| (d) Minor irregularities . . . . .                        | 12   | <b>for Open End Credit</b> . . . . .                  | 25   |
| (e) Approximation of annual percentage                    | 12   | (a) General rule . . . . .                            | 25   |
| rate—other credit . . . . .                               | 12   | (b) Computation of Comparative Index of               | 25   |
| <b>Sec. 226.6—General Disclosure Requirements</b> . .     | 12   | Credit Cost . . . . .                                 | 25   |
| (a) Disclosures; general rule . . . . .                   | 12   | (c) Form of disclosure . . . . .                      | 26   |

|  | Page |   | Page |
|--|------|---|------|
| <b>Sec. 226.12—Exemption of Certain State Regulated Transactions</b> | 26   | (b) Issuance of credit cards                    | 27   |
| (a) Exemption for State regulated transactions                       | 26   | (c) Conditions of liability of cardholder       | 27   |
| (b) Procedures and criteria  | 26   | (d) Other conditions of liability               | 27   |
| (c) Civil liability  | 26   | (e) Notice to cardholder                        | 27   |
| (d) Exemptions granted   | 26   | (f) Notice to card issuer                       | 28   |
| <b>Sec. 226.13—Credit Cards—Issuance and Liability</b>               | 26   | (g) Action to enforce liability                 | 28   |
| (a) Supplemental definitions applicable to this section              | 26   | (h) Effect on other applicable law or agreement | 28   |

## TRUTH IN LENDING ACT

### STATUTORY APPENDIX

|   | Page |  | Page |
|---|------|--|------|
| <b>TITLE I—CONSUMER CREDIT</b>                              |      |  |      |
| <b>COST DISCLOSURE</b>                                      |      |  |      |
| <b>Chapter 1—General Provisions</b>                         |      |  |      |
| § 101. Short title  | 29   | § 124. Effect of subsequent occurrence                 | 34   |
| § 102. Findings and declaration of purpose                  | 29   | § 125. Right of rescission as to certain transactions  | 34   |
| § 103. Definitions and rules of construction                | 29   | § 126. Content of periodic statements                  | 35   |
| § 104. Exempted transactions                                | 30   | § 127. Open end consumer credit plans                  | 35   |
| § 105. Regulations  | 30   | § 128. Sales not under open end credit plans           | 36   |
| § 106. Determination of finance charge                      | 30   | § 129. Consumer loans not under open end credit plans  | 37   |
| § 107. Determination of annual percentage rate              | 31   | § 130. Civil liability                                 | 37   |
| § 108. Administrative enforcement                           | 32   | § 131. Written acknowledgment as proof of receipt      | 38   |
| § 109. Views of other agencies                              | 32   | § 132. Issuance of credit cards                        | 38   |
| § 110. Advisory Committee                                   | 33   | § 133. Liability of holder of credit card              | 38   |
| § 111. Effect on other laws                                 | 33   | § 134. Fraudulent use of credit card                   | 38   |
| § 112. Criminal liability for willful and knowing violation | 33   | <b>Chapter 3—Credit Advertising</b>                    |      |
| § 113. Penalties inapplicable to governmental agencies      | 33   | § 141. Catalogs and multiple-page advertisements       | 39   |
| § 114. Reports by Board and Attorney General                | 33   | § 142. Advertising of downpayments and installments    | 39   |
| <b>Chapter 2—Credit Transactions</b>                        |      | § 143. Advertising of open end credit plans            | 39   |
| § 121. General requirement of disclosure                    | 34   | § 144. Advertising of credit other than open end plans | 39   |
| § 122. Form of disclosure; additional information           | 34   | § 145. Nonliability of media                           | 39   |
| § 123. Exemption for State-regulated transactions           | 34   | <b>TITLE V—GENERAL PROVISIONS</b>                      |      |
|   |      | § 501. Severability                                    | 40   |
|   |      | § 502. Captions and catchlines for reference only      | 40   |
|   |      | § 503. Grammatical usages                              | 40   |
|   |      | § 504. Effective dates                                 | 40   |

## INTERPRETATIONS OF REGULATION Z

### Section of Regulation Z to Which Interpretation Relates

|  | Page |   | Page   |
|--|------|---|--|
| <b>I. Section 226.1—Authority, Scope, Purpose, Etc.</b>          |      | § 226.202                                       | Security interest—confessions of judgment—cognovit notes |
| § 226.101 Use of “annual percentage rate” in oral communications | 41   | § 226.203                                       | Open end credit distinguished from other credit          |
| <b>II. Section 226.2—Definitions and Rules of Construction</b>   |      |   |  |
| § 226.201 Lay-Away Plans as extensions of credit                 | 41   | <b>III. Section 226.3—Exempted Transactions</b> |  |
|  |      | § 226.301                                       | Agricultural purposes—when exempt from the Regulation    |

|   | Page |  | Page |
|---|------|--|------|
| § 226.302 Credit for business or commercial purposes—more than 4 family units .....                               | 42   | ance on which finance charges are computed .....   | 49   |
| <b>IV. Section 226.4—Determination of Finance Charge</b>  |      | § 226.706 Open end credit—allocation of payments .....   | 49   |
| § 226.401 Service charges on accounts not paid within a given period of time .....                                | 42   | § 226.707 Disclosures — variable periodic rates .....  | 49   |
| § 226.402 Term of insurance coverage .....  | 43   | <b>VIII. Section 226.8—Credit Other Than Open End—Specific Disclosures</b>   |      |
| § 226.403 Disclosure of cost of property insurance when not obtainable from or through the creditor ...           | 43   | § 226.801 Location of disclosures when contract, security agreement, and evidence of transaction are combined in a single document ..... | 50   |
| § 226.404 Premiums for vendor's single interest insurance required by creditor .....                              | 43   | § 226.802 Disclosures on mail or telephone orders .....  | 50   |
| § 226.405 Property insurance written in connection with a transaction—obtained from or through the creditor ..... | 44   | § 226.803 Disclosures when discounts apply for prompt payment .....  | 50   |
| § 226.406 Seller's points and discounts under Regulation Z .....  | 44   | § 226.804 Series of sales—content of agreement .....   | 51   |
| § 226.407 Charges for membership in open end credit plan .....  | 44   | § 226.805 Series of sales as distinguished from refinancing, consolidating, or increasing .....  | 51   |
| <b>V. Section 226.5—Determination of Annual Percentage Rate</b>   |      | § 226.806 Deposit balances applied toward satisfaction of customer's obligation .....  | 51   |
| § 226.501 Use of ranges or brackets to determine periodic rate of finance charge on open end accounts ..          | 45   | § 226.807 Assumption of an obligation—disclosures .....  | 51   |
| § 226.502 Annual percentage rate on single add-on rate transactions .....   | 45   | § 226.808 Disclosure of amount of scheduled payments .....   | 52   |
| § 226.503 Minor irregularities — maximum irregular period limits .....  | 45   | § 226.809 Disclosures for certain student loans .....  | 52   |
| § 226.504 Treatment of "Pick-Up Payment" in an instalment contract .....  | 45   | § 226.810 Disclosures—variable interest rates .....  | 53   |
| § 226.505 Application of the minor irregularities provisions in determining the amount of the finance charge ..   | 46   | § 226.811 Renewals of notes .....  | 53   |
| § 226.506 Daily periodic rate; computation of the annual percentage rate ..                                       | 47   | § 226.812 Advances under open end real estate mortgages for agricultural purposes .....  | 53   |
| <b>VI. Section 226.6—General Disclosure Requirements</b>  |      | § 226.813 Disclosures on multiple advance loans .....  | 54   |
| § 226.601 Overstatement of annual percentage rate .....   | 47   | § 226.814 Premiums for insurance added to an existing balance .....  | 56   |
| § 226.602 (Rescinded effective 3/1/74)  |      | § 226.815 Disclosure for demand loans ...  | 56   |
| § 226.603 Disclosures in transaction involving multiple customers .....   | 47   | § 226.816 Mortgages with demand features ..  | 57   |
| § 226.604 Inconsistent State requirements ..  | 48   | § 226.817 Reduction in annual percentage rate .....  | 57   |
| § 226.605 (Rescinded effective 3/1/74)  |      | § 226.818 Refund of unearned finance charge; prepayment penalty ....   | 57   |
| <b>VII. Section 226.7—Open End Credit Accounts—Specific Disclosures</b>   |      | § 226.819 Prepaid finance charges; add-ons and discounts .....   | 58   |
| § 226.701 Periodic statements — Finance charge resulting from more than one periodic rate .....                   | 48   | <b>IX. Section 226.9—Right to Rescind Certain Transactions</b>   |      |
| § 226.702 (Revoked effective 6/1/73)  |      | § 226.901 Waiver of security interests—effect on the right of rescission ..  | 58   |
| § 226.703 Finance charge based on average daily balance in open end credit accounts .....                         | 48   | § 226.902 "Customers" and joint owners of property under the right of rescission .....   | 59   |
| § 226.704 (Revoked effective 6/1/73)  |      | § 226.903 Refinancing and increasing—disclosures and effects on the right of rescission .....  | 59   |
| § 226.705 Open end credit—change in the method of determining the bal-  |      | <b>X. Section 226.10—Advertising Credit Terms</b>  |      |
|   |      | § 226.1001 Advertising of credit terms in other than open end credit ....  | 59   |
|   |      | § 226.1002 Catalogs—tables or schedules of credit terms .....  | 60   |

## APPENDICES

|  |    |   |    |
|--|----|---|----|
| Appendix A Questions and Answers .....                 | 61 | Appendix C Sample Page from Annual Percentage Rate Tables ..... | 71 |
| Appendix B Form of Notice of Right of Rescission ..... | 69 | Appendix D Federal Enforcement Agencies ..                      | 72 |

## REGULATION



(12 CFR 226)  
Effective July 1, 1969

Amended September 30, 1974

## TRUTH IN LENDING

### REGULATION \*

#### \*\*SECTION 226.1—AUTHORITY, SCOPE, PURPOSE, ETC.

(a) **Authority, scope, and purpose.** (1) This Part comprises the regulations issued by the Board of Governors of the Federal Reserve System pursuant to Title I (Truth in Lending Act) and Title V (General Provisions) of the Consumer Credit Protection Act, as amended (15 U.S.C. § 1601 et seq.). Except as otherwise provided herein, this Part applies to all persons who in the ordinary course of business regularly extend, or offer to extend, or arrange, or offer to arrange, for the extension of consumer credit as defined in paragraph (k) of § 226.2, and to all persons who issue credit cards.

(2) This Part implements the Act, the purpose of which is to assure that every customer who has need for consumer credit is given meaningful information with respect to the cost of that credit which, in most cases, must be expressed in the dollar amount of finance charge, and as an annual percentage rate computed on the unpaid balance of the amount financed. Other relevant credit information must also be disclosed so that

the customer may readily compare the various credit terms available to him from different sources and avoid the uninformed use of credit. This Part also implements the provision of the Act under which a customer has a right in certain circumstances to cancel a credit transaction which involves a lien on his residence. Advertising of consumer credit terms must comply with specific requirements, and certain credit terms may not be advertised unless the creditor usually and customarily extends such terms. This Part also contains prohibitions against the issuance of unsolicited credit cards and limits on the cardholder's liability for unauthorized use of a credit card. Neither the Act nor this Part is intended to control charges for consumer credit, or interfere with trade practices except to the extent that such practices may be inconsistent with the purpose of the Act.

(b) **Administrative enforcement.** (1) As set forth more fully in section 108 of the Act, administrative enforcement of the Act and this Part with respect to certain creditors and credit card issuers is assigned to the Comptroller of the Currency, Board of Directors of the Federal Deposit Insurance Corporation, Federal Home Loan Bank Board (acting directly or through the Federal Savings and Loan Insurance Corporation), Administrator of the National Credit Union Admin-

\* This text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 226, cited as 12 CFR 226. The words "this Part", as used herein, mean Regulation Z.

\*\* Amended 1/25/71.

istration, Interstate Commerce Commission, Civil Aeronautics Board, Secretary of Agriculture, and Board of Governors of the Federal Reserve System.

(2) Except to the extent that administrative enforcement is specifically committed to other authorities, compliance with the requirements imposed under the Act and this Part will be enforced by the Federal Trade Commission.

(c) **Penalties and liabilities.** Section 112 of the Act provides for criminal liability for willful and knowing failure to comply with any requirement imposed under the Act and this Part, and section 130 of the Act provides for civil liability on the part of any creditor who fails to disclose any information required under Chapter 2 of the Act and under the corresponding provisions of this Part. Section 134 provides for criminal liability for the fraudulent use of a credit card to obtain goods or services having a retail value aggregating \$5,000 or more. Pursuant to section 108 of the Act, violations of the Act or this Part constitute violations of other Federal laws which may provide further penalties.

#### SECTION 226.2—DEFINITIONS AND RULES OF CONSTRUCTION

For the purposes of this Part, unless the context indicates otherwise, the following definitions and rules of construction apply:

(a) **"Act"** refers to the Truth in Lending Act (Title I of the Consumer Credit Protection Act).

(b) **"Advertisement"** means any commercial message in any newspaper, magazine, leaflet, flyer or catalog, on radio, television or public address system, in direct mail literature or other printed material, on any interior or exterior sign or display, in any window display, in any point-of-transaction literature or price tag which is delivered or made available to a customer or prospective customer in any manner whatsoever.

(c) **"Agricultural purpose"** means a purpose related to the production, harvest, exhibition, marketing, transportation, processing, or manufacture of agricultural products by a natural person who cultivates, plants, propagates, or nurtures those agricultural products. "Agricultural products" includes agricultural, horticultural, viticultural, and dairy products, livestock, wildlife, poultry, bees, forest products, fish and shellfish, and any pro-

ducts thereof, including processed and manufactured products, and any and all products raised or produced on farms and any processed or manufactured products thereof.

(d) **"Amount financed"** means the amount of credit of which the customer will have the actual use determined in accordance with paragraphs (c)(7) and (d)(1) of § 226.8.

(e) **"Annual percentage rate"** means the annual percentage rate of finance charge determined in accordance with § 226.5.

(f) **"Arrange for the extension of credit"** means to provide or offer to provide consumer credit which is or will be extended by another person under a business or other relationship pursuant to which the person arranging such credit receives or will receive a fee, compensation, or other consideration for such service or has knowledge of the credit terms and participates in the preparation of the contract documents required in connection with the extension of credit. It does not include honoring a credit card or similar device where no finance charge is imposed at the time of that transaction.

(g) **"Billing cycle"** means the time interval between regular periodic billing statement dates. Such intervals may be considered equal intervals of time unless a billing date varies more than 4 days from the regular date.

(h) **"Board"** refers to the Board of Governors of the Federal Reserve System.

(i) **"Cash price"** means the price at which the creditor offers, in the ordinary course of business, to sell for cash the property or services which are the subject of a consumer credit transaction. It may include the cash price of accessories or services related to the sale such as delivery, installation, alterations, modifications, and improvements, and may include taxes to the extent imposed on the cash sale, but shall not include any other charges of the types described in § 226.4.

(j) **"Comparative Index of Credit Cost"** means the relative measure of the cost of credit under an open end credit account, computed in accordance with § 226.11, and is the expression of the "average effective annual percentage rate of return" and the "projected rate of return" which appear in section 127(a)(5) of the Act.

(k) **"Consumer credit"** means credit offered or

extended to a natural person, in which the money, property, or service which is the subject of the transaction is primarily for personal, family, household, or agricultural purposes and for which either a finance charge is or may be imposed or which, pursuant to an agreement, is or may be payable in more than 4 instalments. "Consumer loan" is one type of "consumer credit."

(l) **"Credit"** means the right granted by a creditor to a customer to defer payment of debt, incur debt and defer its payment, or purchase property or services and defer payment therefor. (See also paragraph (bb) of this section.)

(m) **"Creditor"** means a person who in the ordinary course of business regularly extends or arranges for the extension of consumer credit, or offers to extend or arrange for the extension of such credit.

(n) **"Credit sale"** means any sale with respect to which consumer credit is extended or arranged by the seller. The term includes any contract in the form of a bailment or lease if the bailee or lessee contracts to pay as compensation for use a sum substantially equivalent to or in excess of the aggregate value of the property and services involved and it is agreed that the bailee or lessee will become, or for no other or for a nominal consideration has the option to become, the owner of the property upon full compliance with his obligations under the contract.

(o) **"Customer"** means a natural person to whom consumer credit is offered or to whom it is or will be extended, and includes a comaker, endorser, guarantor, or surety for such natural person who is or may be obligated to repay the extension of consumer credit.

(p) **"Dwelling"** means a residential-type structure which is real property and contains one or more family housing units, or a residential condominium unit wherever situated.

(q) **"Finance charge"** means the cost of credit determined in accordance with § 226.4.

(r) **"Open end credit"** means consumer credit extended on an account pursuant to a plan under which (1) the creditor may permit the customer to make purchases or obtain loans, from time to time, directly from the creditor or indirectly by use of a credit card, check, or other device, as the plan may provide; (2) the customer has the privilege of paying the balance in full or in in-

stalments; and (3) a finance charge may be computed by the creditor from time to time on an outstanding unpaid balance. The term does not include negotiated advances under an open end real estate mortgage or a letter of credit.

(s) **"Organization"** means a corporation, trust, estate, partnership, cooperative, association, government, or governmental subdivision, agency, or instrumentality.

(t) **"Period"** means a day, week, month, or other subdivision of a year.

\*(u) **"Periodic rate"** means a percentage rate of finance charge which is or may be imposed by a creditor against a balance for a period. (See also § 226.5(a)(3).)

(v) **"Person"** means a natural person or an organization.

(w) **"Real property"** means property which is real property under the law of the State in which it is located.

(x) **"Real property transaction"** means an extension of credit in connection with which a security interest in real property is or will be retained or acquired.

(y) **"Residence"** means any real property in which the customer resides or expects to reside. The term includes a parcel of land on which the customer resides or expects to reside.

(z) **"Security interest"** and **"security"** means any interest in property which secures payment or performance of an obligation. The terms include, but are not limited to, security interests under the Uniform Commercial Code, real property mortgages, deeds of trust, and other consensual or confessed liens whether or not recorded, mechanic's, materialmen's, artisan's, and other similar liens, vendor's liens in both real and personal property, the interest of a seller in a contract for the sale of real property, any lien on property arising by operation of law, and any interest in a lease when used to secure payment or performance of an obligation.

(aa) **"State"** means any State, the District of Columbia, the Commonwealth of Puerto Rico, and any territory or possession of the United States.

(bb) Unless the context indicates otherwise, "credit" shall be construed to mean "consumer credit," "loan" to mean "consumer loan," and

\* Amended 11/1/73.



“transaction” to mean “consumer credit transaction.”

(cc) A transaction shall be considered consummated at the time a contractual relationship is created between a creditor and a customer irrespective of the time of performance of either party.

(dd) Captions and catchlines are intended solely as aids to convenient reference, and no inference as to the intent of any provision of this part may be drawn from them.

#### SECTION 226.3—EXEMPTED TRANSACTIONS

This Part does not apply to the following:

(a) **Business or governmental credit.** Extensions of credit to organizations, including governments, or for business or commercial purposes, other than agricultural purposes.

(b) **Certain transactions in security or commodities accounts.** Transactions in securities or commodities accounts with a broker-dealer registered with the Securities and Exchange Commission.

(c) **Non-real property credit over \$25,000.** Credit transactions, other than real property transactions, in which the amount financed<sup>1</sup> exceeds \$25,000, or in which the transaction is pursuant to an express written commitment by the creditor to extend credit in excess of \$25,000.

(d) **Certain public utility bills.** Transactions under public utility tariffs involving services provided through pipe, wire, or other connected facilities, if the charges for such public utility services, the charges for delayed payment, and any discount allowed for early payment are filed with, reviewed by, or regulated by an agency of the Federal Government, a State, or a political subdivision thereof.

#### SECTION 226.4—DETERMINATION OF FINANCE CHARGE

(a) **General rule.** Except as otherwise provided in this section, the amount of the finance charge in connection with any transaction shall be deter-

mined as the sum of all charges, payable directly or indirectly by the customer, and imposed directly or indirectly by the creditor as an incident to or as a condition of the extension of credit, whether paid or payable by the customer, the seller, or any other person on behalf of the customer to the creditor or to a third party, including any of the following types of charges:

(1) Interest, time price differential, and any amount payable under a discount or other system of additional charges.

(2) Service, transaction, activity, or carrying charge.<sup>2</sup>

(3) Loan fee, points, finder's fee, or similar charge.

(4) Fee for an appraisal, investigation, or credit report.

(5) Charges or premiums for credit life, accident, health, or loss of income insurance, written in connection with<sup>3</sup> any credit transaction unless

(i) the insurance coverage is not required by the creditor and this fact is clearly and conspicuously disclosed in writing to the customer; and

(ii) any customer desiring such insurance coverage gives specifically dated and separately signed affirmative written indication of such desire after receiving written disclosure to him of the cost of such insurance.

(6) Charges or premiums for insurance, written in connection with<sup>4</sup> any credit transaction, against loss of or damage to property or against liability arising out of the ownership or use of property, unless a clear, conspicuous, and specific statement in writing is furnished by the creditor to the customer setting forth the cost of the insurance if

<sup>2</sup> These charges include any charges imposed by the creditor in connection with a checking account to the extent that such charges exceed any charges the customer is required to pay in connection with such an account when it is not being used to extend credit.

<sup>3</sup> A policy of insurance owned by the customer, which is assigned to the creditor or otherwise made payable to the creditor to satisfy a requirement imposed by the creditor, is not insurance “written in connection with” a credit transaction if the policy was not purchased by the customer for the purpose of being used in connection with that extension of credit.

<sup>4</sup> A policy of insurance owned by the customer, which is assigned to the creditor or otherwise made payable to the creditor to satisfy a requirement imposed by the creditor, is not insurance “written in connection with” a credit transaction if the policy was not purchased by the customer for the purpose of being used in connection with that extension of credit.

<sup>1</sup> For this purpose, the amount financed is the amount which is required to be disclosed under § 226.8(c)(7), or (d)(1), as applicable, or would be so required if the transaction were subject to this Part.

obtained from or through the creditor and stating that the customer may choose the person through which the insurance is to be obtained.<sup>5</sup>

(7) Premium or other charge for any other guarantee or insurance protecting the creditor against the customer's default or other credit loss.

(8) Any charge imposed by a creditor upon another creditor for purchasing or accepting an obligation of a customer if the customer is required to pay any part of that charge in cash, as an addition to the obligation, or as a deduction from the proceeds of the obligation.

(b) **Itemized charges excludable.** If itemized and disclosed to the customer, any charges of the following types need not be included in the finance charge:

(1) Fees and charges prescribed by law which actually are or will be paid to public officials for determining the existence of or for perfecting or releasing or satisfying any security related to the credit transaction.

(2) The premium payable for any insurance in lieu of perfecting any security interest otherwise required by the creditor in connection with the transaction, if the premium does not exceed the fees and charges described in subparagraph (1) of this paragraph which would otherwise be payable.

(3) Taxes not included in the cash price.

(4) License, certificate of title, and registration fees imposed by law.

(c) **Late payment, delinquency, default, and reinstatement charges.** A late payment, delinquency, default, reinstatement, or other such charge is not a finance charge if imposed for actual unanticipated late payment, delinquency, default or other such occurrence.

(d) **Overdraft charges.** A charge imposed by a bank for paying checks which overdraw or increase an overdraft in a checking account is not a finance charge unless the payment of such checks and the imposition of such finance charge were previously agreed upon in writing.

(e) **Excludable charges, real property transactions.** The following charges in connection with any real property transaction, provided they are bona fide, reasonable in amount, and not for the purpose of circumvention or evasion of this Part,

shall not be included in the finance charge with respect to that transaction:

(1) Fees or premiums for title examination, abstract of title, title insurance, or similar purposes and for required related property surveys.

(2) Fees for preparation of deeds, settlement statements, or other documents.

(3) Amounts required to be placed or paid into an escrow or trustee account for future payments of taxes, insurance, and water, sewer, and land rents.

(4) Fees for notarizing deeds and other documents.

(5) Appraisal fees.

(6) Credit reports.

(f) **Prohibited offsets.** Interest, dividends, or other income received or to be received by the customer on deposits or on investments in real or personal property in which a creditor holds a security interest shall not be deducted from the amount of the finance charge or taken into consideration in computing the annual percentage rate.

(g) **Demand obligations.** Obligations other than those debited to an open end credit account which are payable on demand shall be considered to have a maturity of one-half year for the purpose of computing the amount of the finance charge and the annual percentage rate, except that where such an obligation is alternatively payable upon a stated maturity, the stated maturity shall be used for the purpose of such computations.

(h) **Computation of insurance premiums.** If any insurance premium is required to be included as a part of the finance charge, the amount to be included shall be the premium for coverage extending over the period of time the creditor will require the customer to maintain such insurance. For this purpose, rates and classifications applicable at the time the credit is extended shall be applied over the full time during which coverage is required, unless the creditor knows or has reason to know that other rates or classifications will be applicable, in which case such other rates or classifications shall be used to the extent appropriate.

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

(a) **General rule—open end credit accounts.** The annual percentage rates for open end credit

<sup>5</sup> A creditor's reservation or exercise of the right to refuse to accept an insurer offered by the customer, for reasonable cause, does not require inclusion of the premium in the finance charge.

accounts shall be computed so as to permit disclosure with an accuracy at least to the nearest quarter of 1 per cent. Such rate or rates shall be determined in accordance with § 226.7(a)(4) for purposes of disclosure before opening an account, § 226.10(c)(4) for purposes of advertising, and in the following manner for purposes of disclosure on periodic statements:

(1) Where the finance charge is exclusively the product of the application of one or more periodic rates

(i) by multiplying each periodic rate by the number of periods in a year; or

(ii) at the creditor's option, if the finance charge is the result of the application of two or more periodic rates, by dividing the total finance charge for the billing cycle by the sum of the balances to which the periodic rates were applied and multiplying the quotient (expressed as a percentage) by the number of billing cycles in a year.

(2) Where the creditor imposes all periodic finance charges in amounts based on specified ranges or brackets of balances, the periodic rate shall be determined by dividing the amount of the finance charge for the period by the amount of the median balance within the range or bracket of balances to which it is applicable, and the annual percentage rate shall be determined by multiplying that periodic rate (expressed as a percentage) by the number of periods in a year. Such ranges or brackets of balances shall be subject to the limitations prescribed in subdivision (iv) of paragraph (c)(2) of this section.

\*(3) Where the finance charge 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 creditor's 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.

(b) **General rule—other credit.** Except as otherwise provided in this section, the annual percentage rate applicable to any extension of credit, other than open end credit, shall be that nominal annual percentage rate determined as follows:

(1) In accordance with the actuarial method of computation so that it may be disclosed with an accuracy at least to the nearest quarter of 1 per cent. The mathematical equation and technical instructions for determining the annual percentage rate in accordance with the requirements of this paragraph are set forth in Supplement I to Regulation Z which is incorporated in this Part by reference. Supplement I to Regulation Z may be obtained from any Federal Reserve Bank or from the Board in Washington, D.C., 20551, upon written request.

(2) At the option of the creditor, by application of the United States Rule so that it may be disclosed with an accuracy at least to the nearest quarter of 1 per cent. Under this rule, the finance charge is computed on the unpaid balance for the actual time the balance remains unpaid and if the amount of a payment is insufficient to pay the accumulated finance charge, the unpaid accumulated finance charge continues to accumulate to be paid from the proceeds of subsequent payments and is not added to the amount financed.

\* Amended 6/1/73.

See p. 11 for footnote 5a.

(c) **Charts and tables.** (1) The Regulation Z Annual Percentage Rate Tables produced by the Board may be used to determine the annual percentage rate, and any such rate determined from these tables in accordance with instructions contained therein will comply with the requirements of this section. Volume I contains table FRB—100-M covering 1 to 60 monthly payments, table FRB—200-M covering 61 to 120 monthly payments, table FRB—300-M covering 121 to 480 monthly payments, and table FRB—100-W covering 1 to 104 weekly payments. Volume I also contains instructions for use of the tables in regular transactions and most irregular transactions which involve only odd first and final payments and odd first payment periods. Volume II contains factor tables and instructions for their use in connection with the tables in Volume I in the computation of annual percentage rates in any type of irregular payment or payment period transaction and in transactions involving multiple advances. Each volume is available from the Board in Washington, D.C., 20551, and the Federal Reserve Banks.

(2) Any chart or table other than the Board's

Regulation Z Annual Percentage Rate Tables also may be utilized for the purpose of determining the annual percentage rate provided:

(i) It is prepared in accordance with the general rule set forth in paragraph (b) (1) or (2) of this section;

(ii) It bears the name and address of the person responsible for its production, an identification number assigned to it by that person which shall be the same for each chart or table so produced with like numerical content and configuration and, if prepared for use in connection with irregular transactions, an identification of the method of computation ("Actuarial" or "U.S. Rule");

(iii) Except as provided in subdivision (iv) of this subparagraph, it permits determination of the annual percentage rate to the nearest one-quarter of 1 per cent for the range of rates covered by the chart or table; and

(iv) If applicable to ranges or brackets of balances, it discloses the amount of the finance charge and the annual percentage rate on the median balance within each range or bracket of balances where a creditor imposes

<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 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  $1\frac{1}{2}\%$  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  $1\frac{1}{2}\%$  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 pe-

riodic 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  $1\frac{1}{2}\%$  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  $1\frac{3}{4}\% \times 12 = 20\%$ .

the same finance charge for all balances within a specified range or bracket of balances, and provided further that if the annual percentage rate determined on the median balance understates the annual percentage rate determined on the lowest balance in that range or bracket by more than 8 per cent of the rate on the lowest balance, then the annual percentage rate for that range or bracket shall be computed upon any balance lower than the median balance within that range so that any understatement will not exceed 8 per cent of the rate on the lowest balance within that range or bracket of balances.

(3) In the event an error in disclosure of the amount of a finance charge or an annual percentage rate occurs because of a corresponding error in a chart or table acquired or produced in good faith by the creditor, that error in disclosure shall not, in itself, be considered a violation of this Part provided that upon discovery of the error, that creditor makes no further disclosure based on that chart or table and promptly notifies the Board or a Federal Reserve Bank in writing of the error and identifies the inaccurate chart or table by giving the name and address of the person responsible for its production and its identification number.

(d) **Minor irregularities.** In determining the annual percentage rate a creditor may, at his option, consider the payment irregularities set forth in this paragraph as if they were regular in amount or time, as applicable, provided that the transaction to which they relate is otherwise payable in equal instalments scheduled at equal intervals.

(1) If the period from the date on which the finance charge begins to accrue and the date the final payment is due is not less than 3 months in the case of weekly payments, 6 months in the case of biweekly or semimonthly payments, or 1 year in the case of monthly payments, either or both of the following:

(i) The amount of 1 payment other than any downpayment is not more than 50 per cent greater nor 50 per cent less than the amount of a regular payment; or

(ii) The interval between the date on which the finance charge begins to accrue and the date the first payment is due is not less than 5 days for an obligation otherwise payable in

weekly instalments, not less than 10 days for an obligation otherwise payable in biweekly or semimonthly instalments, or not less than 20 days for an obligation otherwise payable in monthly instalments.

(2) If the period from the date on which the finance charge begins to accrue and the date the final payment is due is less than 3 months in the case of weekly payments, 6 months in the case of biweekly or semimonthly payments, or 1 year in the case of monthly payments, either or both of the following:

(i) The amount of 1 payment other than any downpayment is not more than 25 per cent greater nor 25 per cent less than the amount of a regular payment; or

(ii) The interval between the date on which the finance charge begins to accrue and the date the first payment is due is not less than 6 days for an obligation otherwise payable in weekly instalments, not less than 12 days for an obligation otherwise payable in biweekly or semimonthly instalments, or not less than 25 days for an obligation otherwise payable in monthly instalments.

(e) **Approximation of annual percentage rate—other credit.** In an exceptional instance when circumstances may leave a creditor with no alternative but to determine an annual percentage rate applicable to an extension of credit other than open end credit by a method other than those prescribed in paragraphs (b) or (c) of this section, the creditor may utilize the constant ratio method of computation provided such use is limited to the exceptional instance and is not for the purpose of circumvention or evasion of the requirements of this Part. Any provision of State law authorizing or requiring the use of the constant ratio method or any method of computing a percentage rate other than those prescribed in paragraphs (b) and (c) of this section does not justify failure of the creditor to comply with the provisions of those paragraphs, as applicable.

#### SECTION 226.6—GENERAL DISCLOSURE REQUIREMENTS

\*(a) **Disclosures; general rule.** The disclosures required to be given by this Part shall be made

\* Amended 11/1/73.

clearly, conspicuously, in meaningful sequence, in accordance with the further requirements of this section, and at the time and in the terminology prescribed in applicable sections. Except with respect to the requirements of § 226.10, where the terms "finance charge" and "annual percentage rate" are required to be used, they shall be printed more conspicuously than other terminology required by this Part and all numerical amounts and percentages shall be stated in figures and shall be printed in not less than the equivalent of 10 point type, .075 inch computer type, or elite size typewritten numerals, or shall be legibly handwritten.

(b) **Inconsistent State requirements.** With respect to disclosures required by this Part, State law is inconsistent with the requirements of the Act and this Part, within the meaning of section 111(a) of the Act, to the extent that it

(1) Requires a creditor to make disclosures different from the requirements of this Part with respect to form, content, terminology, or time of delivery;

(2) Requires disclosure of the amount of the finance charge determined in any manner other than that prescribed in § 226.4; or

(3) Requires disclosure of the annual percentage rate of the finance charge determined in any manner other than that prescribed in § 226.5.

(c) **Additional information.** At the creditor's option, additional information or explanations may be supplied with any disclosure required by this Part, but none shall be stated, utilized, or placed so as to mislead or confuse the customer or contradict, obscure, or detract attention from the information required by this Part to be disclosed. Any creditor who elects to make disclosures specified in any provision of State law which, under paragraph (b) of this section, is inconsistent with the requirements of the Act and this Part may

(1) Make such inconsistent disclosures on a separate paper apart from the disclosures made pursuant to this Part, or

(2) Make such inconsistent disclosures on the same statement on which disclosures required by this Part are made; provided:

(i) All disclosures required by this Part appear separately and above any other disclosures,

(ii) Disclosures required by this Part are identified by a clear and conspicuous heading indicating that they are made in compliance with Federal law, and

(iii) All inconsistent disclosures appear separately and below a conspicuous demarcation line, and are identified by a clear and conspicuous heading indicating that the statements made thereafter are inconsistent with the disclosure requirements of the Federal Truth in Lending Act.

(d) **Multiple creditors; joint disclosure.** If there is more than one creditor in a transaction, each creditor shall be clearly identified and shall be responsible for making only those disclosures required by this Part which are within his knowledge and the purview of his relationship with the customer. If two or more creditors make a joint disclosure, each creditor shall be clearly identified. The disclosures required under paragraphs (b) and (c) of § 226.8 shall be made by the seller if he extends or arranges for the extension of credit. Otherwise disclosures shall be made as required under paragraphs (b) and (d) of § 226.8.

(e) **Multiple customers; disclosure to one.** In any transaction other than a transaction which may be rescinded under the provisions of § 226.9, if there is more than one customer, the creditor need furnish a statement of disclosures required by this Part to only one of them other than an endorser, comaker, guarantor, or a similar party.

(f) **Unknown information estimate.** If at the time disclosures must be made, an amount or other item of information required to be disclosed, or needed to determine a required disclosure, is unknown or not available to the creditor, and the creditor has made a reasonable effort to ascertain it, the creditor may use an estimated amount or an approximation of the information, provided the estimate or approximation is clearly identified as such, is reasonable, is based on the best information available to the creditor, and is not used for the purpose of circumventing or evading the disclosure requirements of this Part.

(g) **Effect of subsequent occurrence.** If information disclosed in accordance with this Part is subsequently rendered inaccurate as the result of any act, occurrence, or agreement subsequent to the delivery of the required disclosures, the inac-

curacy resulting therefrom does not constitute a violation of this Part.<sup>6</sup>

(h) **Overstatement.** The disclosure of the amount of the finance charge or a percentage which is greater than the amount of the finance charge or percentage required to be disclosed under this Part does not in itself constitute a violation of this Part: *Provided*, That the overstatement is not for the purpose of circumvention or evasion of disclosure requirements.

(i) **Preservation and inspection of evidence of compliance.** Evidence of compliance with the requirements imposed under this Part, other than advertising requirements under § 226.10, shall be preserved by the creditor for a period of not less than 2 years after the date each disclosure is required to be made. Each creditor shall, when directed by the appropriate administrative enforcement authority designated in section 108 of the Act, permit that authority or its duly authorized representative to inspect its relevant records and evidence of compliance with this Part.

\*(j) **Leap year.** Any variance in the amount of any finance charge, payment, percentage rate, or other term required under this Part to be disclosed, or stated in any advertisement, which occurs by reason of the addition of February 29 in each leap year, may be disregarded, and such term may be disclosed or stated without regard to such variance.

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

(a) **Opening new account.** Before the first transaction is made on any open end credit account, the creditor shall disclose to the customer in a single written statement, which the customer may retain, in terminology consistent with the requirements of paragraph (b) of this section, each of the following items, to the extent applicable:

\*Such acts, occurrences, or agreements include the failure of the customer to perform his obligations under the contract and such actions by the creditor as may be proper to protect his interests in such circumstances. Such failure may result in the liability of the customer to pay delinquency charges, collection costs, or expenses of the creditor for perfection or acquisition of any security interest or amounts advanced by the creditor on behalf of the customer in connection with insurance, repairs to or preservation of collateral.

\* Added as § 226.6(l) 12/31/71, redesignated 226.6(j) 3/1/74. (Sections 226.6(j) and 226.6(k) effective July 1, 1969, deleted effective 3/1/74).

(1) The conditions under which a finance charge may be imposed, including an explanation of the time period, if any, within which any credit extended may be paid without incurring a finance charge.

(2) The method of determining the balance upon which a finance charge may be imposed.

(3) The method of determining the amount of the finance charge, including the method of determining any minimum, fixed, check service, transaction, activity, or similar charge, which may be imposed as a finance charge.

\*(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>

(5) If the creditor so elects, the Comparative Index of Credit Cost in accordance with § 226.11.

(6) The conditions under which any other charges may be imposed, and the method by which they will be determined.

(7) The conditions under which the creditor may retain or acquire any security interest in any property to secure the payment of any credit extended on the account, and a description or identification of the type of the interest or interests which may be so retained or acquired.

(8) The minimum periodic payment required.

(b) **Periodic statements required.** Except in the case of an account which the creditor deems to be uncollectable or with respect to which delinquency collection procedures have been instituted, the creditor of any open end credit account shall mail or deliver to the customer, for each billing cycle at the end of which there is an outstanding debit balance in excess of \$1 in that account or with respect to which a finance charge is imposed, a statement or statements which the customer may retain, setting forth in accordance with paragraph (c) of this section each of the following items to the extent applicable:

\* Amended 6/1/73.

<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.

(1) The outstanding balance in the account at the beginning of the billing cycle, using the term "previous balance."

(2) The amount and date of each extension of credit or the date such extension of credit is debited to the account during the billing cycle and, unless previously furnished, a brief identification<sup>7</sup> of any goods or services purchased or other extension of credit.

(3) The amounts credited to the account during the billing cycle for payments, using the term "payments," and for other credits including returns, rebates of finance charges, and adjustments, using the term "credits," and unless previously furnished a brief identification<sup>8</sup> of each of the items included in such other credits.

(4) The amount of any finance charge, using the term "finance charge," debited to the account during the billing cycle, itemized and identified to show the amounts, if any, due to the application of periodic rates and the amount of any other charge included in the finance charge, such as a minimum, fixed, check service, transaction, activity, or similar charge,<sup>9</sup> using appropriate descriptive terminology.

\*(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 conspicu-

ously 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>

\*(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").

(7) If the creditor so elects, the Comparative Index of Credit Cost in accordance with § 226.11.

(8) The balance on which the finance charge was computed, and a statement of how that balance was determined. If the balance is determined without first deducting all credits during the billing cycle, that fact and the amount of such credits shall also be disclosed.

(9) The closing date of the billing cycle and the outstanding balance in the account on that date, using the term "new balance," accompanied by the statement of the date by which, or the period, if any, within which, payment must be made to avoid additional finance charges.

\*(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 and 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 to-

<sup>7</sup> Identification may be made on an accompanying slip or by symbol relating to an identification list printed on the statement.

<sup>8</sup> Identification may be made on an accompanying slip or by symbol relating to an identification list printed on the statement.

<sup>9</sup> These charges include any charges imposed by the creditor for the issuance, payment, or handling of checks, for account maintenance or otherwise, to the extent that such charges exceed any similar charges the customer is required to pay when an account is not being used to extend credit.

\* Amended 6/1/73.

<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.

\* Amended 6/1/73.



tals 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.

(d) **Finance charge imposed at time of transaction.** Any creditor, other than the creditor of the open end credit account, who imposes a finance charge at the time of honoring a customer's credit card, any other device, or form of identification for a purchase of property or services or for a cash advance to be debited to the customer's open end credit account shall make the disclosures required under paragraphs (b)(2) and (d) of § 226.8, *Credit other than open end—specific disclosures*, at the time of that transaction, and the annual percentage rate to be disclosed shall be determined by dividing the amount of the finance charge by the amount financed and multiplying the quotient (expressed as a percentage) by 12. If disclosure is made under this paragraph, the creditor of the open end credit account need make no further disclosure with respect to the finance charge on that transaction.

\*(e) **Change in terms.** Not later than 15 days prior to the beginning date of the billing cycle in which any change is to be made in the terms previously disclosed to the customer of an open end credit account, the creditor shall mail or deliver a written disclosure of such change to each customer required to be furnished a statement under paragraph (b) of this section. Such disclosure shall be mailed or delivered to each other customer who subsequently activates his account not

later than the date of mailing or delivery of the next required billing statement on his account. However, if the periodic rate or rates, or any minimum, fixed, check service, transaction, activity, or similar charge is increased, the creditor shall mail or deliver a written disclosure of such increase to each customer at least 15 days prior to the beginning date of the billing cycle in which the increase is imposed on his account. No notice is necessary if the only change is a reduction in the minimum periodic payment, periodic rate or rates, or in any minimum, fixed, check service, transaction, activity, or similar charge applicable to the account.

(Section 226.7(f) effective 7/1/69, deleted effective 3/1/74)

#### SECTION 226.8—CREDIT OTHER THAN OPEN END—SPECIFIC DISCLOSURES

(a) **General rule.** Any creditor when extending credit other than open end credit shall, in accordance with § 226.6 and to the extent applicable, make the disclosures required by this section with respect to any transaction consummated on or after July 1, 1969. Except as provided in paragraphs (g) and (h) of this section, such disclosures shall be made before the transaction is consummated. At the time disclosures are made, the creditor shall furnish the customer with a duplicate of the instrument or a statement by which the required disclosures are made and on which the creditor is identified. All of the disclosures shall be made together on either

(1) The note or other instrument evidencing the obligation on the same side of the page and above or adjacent to the place for the customer's signature; or

(2) One side of a separate statement which identifies the transaction.

(b) **Disclosures in sale and nonsale credit.** In any transaction subject to this section, the following items, as applicable, shall be disclosed:

(1) The date on which the finance charge begins to accrue if different from the date of the transaction.

(2) The finance charge expressed as an annual percentage rate, using the term "annual percentage rate," except in the case of a finance charge

(i) which does not exceed \$5 and is applicable to an amount financed not exceeding \$75, or

\* Amended 10/23/70 and to its present form 4/5/71.

(ii) which does not exceed \$7.50 and is applicable to an amount financed exceeding \$75. A creditor may not divide an extension of credit into two or more transactions to avoid the disclosure of an annual percentage rate, nor may any other percentage rate be disclosed if none is stated in reliance upon subdivisions (i) or (ii) of this subparagraph.

(3) The number, amount, and due dates or periods of payments scheduled to repay the indebtedness and, except in the case of a loan secured by a first lien or equivalent security interest on a dwelling made to finance the purchase of that dwelling and except in the case of a sale of a dwelling, the sum of such payments using the term, "total of payments."<sup>10</sup> If any payment is more than twice the amount of an otherwise regularly scheduled equal payment, the creditor shall identify the amount of such payment by the term "balloon payment" and shall state the conditions if any, under which that payment may be refinanced if not paid when due.

(4) The amount, or method of computing the amount, of any default, delinquency, or similar charges payable in the event of late payments.

(5) A description or identification of the type of any security interest held or to be retained or acquired by the creditor in connection with the extension of credit, and a clear identification of the property to which the security interest relates or, if such property is not identifiable, an explanation of the manner in which the creditor retains or may acquire a security interest in such property which the creditor is unable to identify. In any such case where a clear identification of such property cannot properly be made on the disclosure statement due to the length of such identification, the note, other instrument evidencing the obligation, or separate disclosure statement shall contain reference to a separate pledge agreement, or a financing statement, mortgage, deed of trust, or similar document evidencing the security interest, a copy of which shall be furnished to the customer by the creditor as promptly as practicable. If after-acquired property will be subject to the security interest, or if other or future indebtedness is or may be secured by any such property,

this fact shall be clearly set forth in conjunction with the description or identification of the type of security interest held, retained or acquired.

(6) A description of any penalty charge that may be imposed by the creditor or his assignee for prepayment of the principal of the obligation (such as a real estate mortgage) with an explanation of the method of computation of such penalty and the conditions under which it may be imposed.

\*(7) Identification of the method of computing any unearned portion of the finance charge in the event of prepayment in full of an obligation which includes precomputed finance charges and a statement of the amount or method of computation of any charge that may be deducted from the amount of any rebate of such unearned finance charge that will be credited to an obligation or refunded to the customer. If the credit contract does not provide for any rebate of unearned finance charges upon prepayment in full, this fact shall be disclosed.

(c) **Credit sales.** In the case of a credit sale, in addition to the items required to be disclosed under paragraph (b) of this section, the following items, as applicable, shall be disclosed:

(1) The cash price of the property or service purchased, using the term "cash price."

(2) The amount of the downpayment itemized, as applicable, as downpayment in money, using the term "cash downpayment," downpayment in property, using the term "trade-in" and the sum, using the term "total downpayment."

(3) The difference between the amounts described in subparagraphs (1) and (2) of this paragraph, using the term "unpaid balance of cash price."

(4) All other charges, individually itemized, which are included in the amount financed but which are not part of the finance charge.

(5) The sum of the amounts determined under subparagraphs (3) and (4) of this paragraph, using the term "unpaid balance."

(6) Any amounts required to be deducted under paragraph (e) of this section using as applicable, the terms "prepaid finance charge" and "required deposit balance," and, if both are applicable, the total of such items using the term "total prepaid finance charge and required deposit balance."

\* Amended 1/1/74.

<sup>10</sup> The disclosures required by this sentence need not be made with respect to interim student loans made pursuant to federally insured student loan programs under Public Law 89-329, Title IV Part B of the Higher Education Act of 1965, as amended.

(7) The difference between the amounts determined under subparagraphs (5) and (6) of this paragraph, using the term "amount financed."

(8) Except in the case of a sale of a dwelling:

(i) The total amount of the finance charge, with description of each amount included, using the term "finance charge," and

(ii) The sum of the amounts determined under subparagraphs (1), (4), and (8)(i) of this paragraph, using the term "deferred payment price."

(d) **Loans and other nonsale credit.** In the case of a loan or extension of credit which is not a credit sale, in addition to the items required to be disclosed under paragraph (b) of this section, the following items, as applicable, shall be disclosed:

(1) The amount of credit, excluding items set forth in paragraph (e) of this section, which will be paid to the customer or for his account or to another person on his behalf, including all charges, individually itemized, which are included in the amount of credit extended but which are not part of the finance charge, using the term "amount financed."

(2) Any amount referred to in paragraph (e) of this section required to be excluded from the amount in subparagraph (1) of this paragraph, using, as applicable, the terms "prepaid finance charge" and "required deposit balance," and, if both are applicable, the total of such items using the term, "total prepaid finance charge and required deposit balance."

(3) Except in the case of a loan secured by a first lien or equivalent security interest on a dwelling and made to finance the purchase of that dwelling, the total amount of finance charge,<sup>11</sup> with description of each amount included, using the term "finance charge."

(e) **Finance charge payable separately or withheld; required deposit balances.** The following amounts shall be disclosed and deducted in a credit sale in accordance with paragraph (c)(6) of this section, and in other extensions of credit shall be excluded from the amount disclosed under paragraph (d)(1) of this section, and shall be disclosed in accordance with paragraph (d)(2) of this section:

(1) Any finance charge paid separately, in cash or otherwise, directly or indirectly to the creditor or with the creditor's knowledge to another person, or withheld by the creditor from the proceeds of the credit extended.<sup>12</sup>

(2) Any deposit balance or any investment which the creditor requires the customer to make, maintain, or increase in a specified amount or proportion as a condition to the extension of credit except:

(i) An escrow account under paragraph (e)(3) of § 226.4,

(ii) A deposit balance which will be wholly applied toward satisfaction of the customer's obligation in the transaction,

(iii) A deposit balance or investment which was in existence prior to the extension of credit and which is offered by the customer as security for that extension of credit, and

(iv) A deposit balance or investment which was acquired or established from the proceeds of an extension of credit made for that purpose upon written request of the customer.

(f) **First lien to finance construction of dwelling.** In any case where a first lien or equivalent security interest in real property is retained or acquired by a creditor in connection with the financing of the initial construction of a dwelling, or in connection with a loan to satisfy that construction loan and provide permanent financing of that dwelling, whether or not the customer previously owned the land on which that dwelling is to be constructed, such security interest shall be considered a first lien against that dwelling to finance the purchase of that dwelling.

(g) **Orders by mail or telephone.** If a creditor receives a purchase order or a request for an extension of credit by mail, telephone, or written communication without personal solicitation, the disclosures required under this section may be made any time not later than the date the first payment is due, provided:

(1) In the case of credit sales, the cash price, the downpayment, the finance charge, the deferred payment price, the annual percentage rate, and the number, frequency, and amount of payments are set forth in or are determinable from the creditor's catalog or other printed material distributed to the public; or

<sup>11</sup> The disclosure required by this subparagraph need not be made with respect to interim student loans made pursuant to federally insured student loan programs under Public Law 89-329, Title IV Part B of the Higher Education Act of 1965, as amended.

<sup>12</sup> Finance charges deducted or excluded as provided by this paragraph shall, nevertheless, be included in determining the finance charge under § 226.4.

(2) In the case of loans or other extensions of credit, the amount of the loan, the finance charge, the total scheduled payments, the number, frequency, and amount of payments, and the annual percentage rate for representative amounts or ranges of credit are set forth in or are determinable from the creditor's printed material distributed to the public, in the contract of loan, or in other printed material delivered or made available to the customer.

(h) **Series of sales.** If a credit sale is one of a series of transactions made pursuant to an agreement providing for the addition of the amount financed plus the finance charge for the current sale to an existing outstanding balance, then the disclosures required under this section for the current sale may be made at any time not later than the date the first payment for that sale is due, provided:

(1) The customer has approved in writing both the annual percentage rate or rates and the method of treating any unearned finance charge on an existing outstanding balance in computing the finance charge or charges; and

(2) The creditor retains no security interest in any property as to which he has received payments aggregating the amount of the sale price including any finance charges attributable thereto. For the purposes of this subparagraph, in the case of items purchased on different dates, the first purchased shall be deemed first paid for, and in the case of items purchased on the same date, the lowest priced shall be deemed first paid for.

(i) **Advances under loan commitments.** If a loan is one of a series of advances made pursuant to a written agreement under which a creditor is or may be committed to extend credit to a customer up to a specified amount, and the customer has approved in writing the annual percentage rate or rates, the method of computing the finance charge or charges, and any other terms, the agreement shall be considered a single transaction, and the disclosures required under this section at the creditor's option need be made only at the time the agreement is executed.

(j) **Refinancing, consolidating, or increasing.** If any existing extension of credit is refinanced, or two or more existing extensions of credit are consolidated, or an existing obligation is increased, such transaction shall be considered a new trans-

action subject to the disclosure requirements of this Part. For the purpose of such disclosure, any unearned portion of the finance charge which is not credited to the existing obligation shall be added to the new finance charge and shall not be included in the new amount financed. Any increase in an existing obligation to reimburse the creditor for undertaking the customer's obligation in perfecting, protecting or preserving the security shall not be considered a new transaction subject to this Part. Any advance for agricultural purposes made under an open end real estate mortgage or similar lien shall not be considered a new transaction subject to the disclosure requirements of this section, provided:

(1) The maturity of the advance does not exceed 2 years;

(2) No increase is made in the annual percentage rate previously disclosed; and

(3) All disclosures required by this Part were made at the time the security interest was acquired by the creditor or at any time prior to the first advance made on or following the effective date of this part.

(k) **Assumption of an obligation.** Any creditor who accepts a subsequent customer as an obligor under an existing obligation shall make the disclosures required by this Part to that customer before he becomes so obligated. If the obligation so assumed is secured by a first lien or equivalent security interest on a dwelling, and the assumption is made for the subsequent customer to acquire that dwelling, that obligation shall be considered a loan made to finance the purchase of that dwelling.

(l) **Deferrals or extensions.** In the case of an obligation other than an obligation upon which the amount of the finance charge is determined by the application of a percentage rate to the unpaid balance, if the creditor imposes a charge or fee for deferral or extension, the creditor shall disclose to the customer

(1) The amount deferred or extended;

(2) The date to which, or the time period for which payment is deferred or extended; and

(3) The amount of the charge or fee for the deferral or extension.

(m) **Series of single payment obligations.** Any extension of credit involving a series of single payment obligations shall be considered a single

transaction subject to the disclosure requirements of this Part.

(n) **Permissible periodic statements.** If a creditor transmits a periodic billing statement<sup>13</sup> other than a delinquency notice, payment coupon book, or payment passbook, or a statement, billing, or advice relating exclusively to amounts to be paid by the customer as escrows for payment of taxes, insurance, and water, sewer, and land rents, it shall be in a form which the customer may retain and shall set forth

(1) The annual percentage rate or rates; and

(2) The date by which, or the period, if any, within which payment must be made in order to avoid late payment or delinquency charges.

**\*(o) Discount for prompt payment of sales transactions.** (1) For the purposes of this paragraph, a "transaction subject to § 226.8(o)" is a credit sale transaction which is not exempt under § 226.3 and which is subject to a discount for payment on or before a specified date (e.g. 2% discount if paid within 10 days) or to a charge for delaying payment after a specified date (e.g. \$98 cash, \$100 if paid in 30 days). Both such a discount and such a charge are referred to in this paragraph as a "discount." In the case of any transaction subject to § 226.8(o), notwithstanding the provisions of the last sentence of paragraph (a) of this section, the creditor shall disclose on the invoice or other evidence of such sale, as applicable:

(i) The date of the sale or invoice.

(ii) The rate of discount, the date by which or period within which the discount may be taken, and the date by which or period within which the full amount of the obligation is due and payable. (For example, "2%/10 days, net 30 days"; or "\$1 per ton/10 days, net 30 days.")

(iii) The information required under § 226.8(b)(4) and (5).

(iv) The amount of the discount, designated as a "finance charge," using that term.

(v) If the discount shown for prompt payment exceeds 5% of the obligation to which the dis-

count relates, the "annual percentage rate," using that term, computed in accordance with subparagraph (2) of this paragraph, but subject to the exceptions provided under § 226.8(b)(2).

(2) For the purposes of subparagraph (1)(v) of this paragraph, the annual percentage rate shall be determined by dividing the amount of the finance charge by the least amount payable in satisfaction of the obligation and multiplying the quotient (expressed as a percentage) by a fraction in which the numerator is 12, and the denominator is the number of whole months (but not less than 1) between the first day of the monthly billing cycle in which the transaction is consummated and the first day of the monthly billing cycle in which the obligation becomes due.<sup>13a</sup>

(3) In a transaction with multiple discount rates (for example 6%/10 days, 4%/20 days, net 30 days), the largest discount shall be used for purposes of disclosing the amount of the finance charge under subparagraph (1)(iv) of this paragraph and the annual percentage rate under subparagraph (1)(v) of this paragraph.<sup>13b</sup>

(4) In order to determine the applicability of subparagraph (1)(v) of this paragraph and to facilitate disclosure of an annual percentage rate, if the amount of the discount for prompt payment is related, pursuant to usual business practice, to weight, quantity, or other physical measure (e.g. \$1 per ton or 1¢ per gallon) rather than expressed as a percentage of discount, that discount may be converted to an approximate discount rate and, under subparagraph (2) of this paragraph, a reasonably accurate approximation of the annual percentage rate by using approximate or projected prices per physical unit determined

<sup>13a</sup> For example, a \$1,000 purchase of feed subject to terms of 6%/10 days, net 30 days (or 6%/10 days, net E.O.M.; or 6%/10 days, net 10th of the following month; or 6%/20 days, net 30 days; or 6%/30 days, net 30 days; or 6% discount for cash, net 30 days) results in a finance charge of \$60, a least amount payable of \$940, and an annual percentage rate of 76.56%, which may be rounded to 76.50% or 76½%. Terms of 6%/20 days, net September 29 applied to an April purchase, assuming a calendar month billing cycle, result in an annual percentage rate of 15.31% (i.e.  $6/94 \times 12/5$ ) which may be rounded to 15.25% or 15¼%. In this example the 29 days in September are ignored and the denominator (5) is determined by the number of whole months in the period.

<sup>13b</sup> For example, terms of 6%/10 days, 4%/20 days, net 30 days would be treated like terms of 6%/10 days, net 30 days, which would represent an annual percentage rate of 76½%.

<sup>13</sup> Any statement, notice, or reminder of payment due on any transaction payable in instalments which is mailed or delivered periodically to the customer in advance of the due date of the instalment shall be a periodic billing statement for the purpose of this paragraph.

\* Amended 8/11/69.

on the basis of past experience, current information, or projected analysis.<sup>13c</sup>

(5) If by its terms a transaction subject to § 226.8(o) is payable in a single payment and no finance charge other than a discount is or may be imposed, and such discount is not utilized for the purpose of circumvention or evasion of disclosure requirements, the disclosure required by subparagraph (1) of this paragraph shall constitute compliance with the requirements of § 226.8 and under § 226.9(a) shall constitute "all other material disclosures required under this Part."

(6) If a transaction subject to § 226.8(o) is debited to an open end credit account, disclosures shall be made as specified in subparagraph (1) of this paragraph and also as specified in § 226.7. The full amount of the obligation including the amount of the discount may be debited to the open end credit account, under § 226.7(b)(2), and the amount of any finance charge representing the discount need not be added to any other finance charge for the purpose of computing and disclosing the total amount of finance charge and the annual percentage rate under § 226.5(a) and § 226.7.<sup>13d</sup>

(7) If a transaction subject to § 226.8(o) is not debited to an open end credit account, but either is subject to an additional finance charge or is payable by its terms in more than one payment, disclosures shall be made as specified in subparagraph (1) of this paragraph and also as specified in paragraphs (b) and (c) of this section. In such a case, if the transaction is payable in more than one payment, the amount of the discount shall be deducted for the purpose of computing and disclosing the cash price under paragraph (c)(1) of this section and shall be added to any other finance charge for the purpose of computing and disclosing the amount of the finance charge under paragraph (c)(8)(i) of this section and the annual percentage rate under paragraph (b)(2) of this

section.<sup>13e</sup> If the transaction is payable in a single payment, the discount may be disregarded in computing and disclosing such cash price, finance charge, and annual percentage rate.<sup>13f</sup>

(8) Notwithstanding the provisions of the second sentence of paragraph (a) of this section, the disclosures required under subparagraph (1) of this paragraph made on the invoice or other evidence of the sale may be delivered subsequent to consummation of the transaction.

(9) Amended paragraph (o) of § 226.8 shall become effective August 11, 1969, but until March 1, 1970, any creditor may at his option use any printed forms which were prepared before such effective date in accordance with paragraph (o) of § 226.8 in effect at the time of such preparation.

**\*(p) Agricultural credit—information not determinable.** (1) In any transaction subject to this section, if the amount or date of any advance or payment in connection with an extension of credit for agricultural purposes under a written agreement is to be determined by production, seasonal needs, or similar operational factors, and is not determinable at the time of execution of the agreement, disclosures may be made at the creditor's option in accordance with this paragraph, provided the use of this paragraph is not for the purpose of circumvention or evasion of this Part.

(2) If a creditor elects to make disclosures under this paragraph, he shall disclose the following items in accordance with § 226.8(a), which shall constitute compliance with the requirements of § 226.8, and under § 226.9(a) shall constitute "all other material disclosures required under this Part":

(i) The method of computing the amount of the finance charge including an identification of each component thereof in accordance with § 226.4;

(ii) Any item required to be disclosed under § 226.8(b)(3) which is determinable at the time

<sup>13c</sup> For example, if terms of \$3 discount per ton/10 days, net 30 days are offered on fertilizer that is expected to sell in a range of about \$48 to \$52 per ton, the annual percentage rate could be approximated for preprinting as if it were 6% (i.e. \$3 on \$50)/10 days, net 30 days, that is, 76½%.

<sup>13d</sup> For example, if a \$1,000 sale on terms of 2%/10 days, net 30 days, is debited to an open end account on which 1% per month is charged, the periodic statement under § 226.7(b) (assuming no other transactions in the account) would show a previous balance of \$1,000, a finance charge of \$10, and an annual percentage rate of 12%.

<sup>13e</sup> For example, if a \$1,000 sale on terms of 2%/10 days, net 30 days is subject to an add-on finance charge of \$100 and is payable in instalments, the disclosures under § 226.8(b) and (c) would include a cash price of \$980 and a finance charge of \$120.

<sup>13f</sup> For example, if a \$1,000 sale on August 2 not under an open end account is subject to terms of 2%/10 days, net 30 days, thereafter 8% per annum until December 1, the disclosures under § 226.8(b) and (c) would include a cash price of \$1,000, a finance charge of \$19.95, and an annual percentage rate of 8.00%.

\*Added 11/6/69.

the disclosures are required to be made under this paragraph;

(iii) The disclosures, as applicable, required under § 226.8(b)(4), (5), (6), and (7) and the items described in § 226.8(e)(1) and (2);

(iv) The disclosures, as applicable, required under § 226.8(o)(1), (2), (3), (4), (5), (8), and (9).

(3) Disclosures made pursuant to subparagraph (2)(i), (ii), and (iii) of this paragraph need be made only on the agreement or on a separate statement as specified in § 226.8(a).

(4) If a creditor making disclosures pursuant to this paragraph transmits a periodic billing statement of the type described in paragraph (n) of § 226.8, such statement shall be in a form which the customer may retain and shall set forth the date by which, or the period, if any, within which payment must be made in order to avoid late payment or delinquency charges.

#### SECTION 226.9—RIGHT TO RESCIND CERTAIN TRANSACTIONS

(a) **General rule.** Except as otherwise provided in this section, in the case of any credit transaction in which a security interest is or will be retained or acquired in any real property which is used or is expected to be used as the principal residence of the customer, the customer shall have the right to rescind that transaction until midnight of the third business day<sup>14</sup> following the date of consummation of that transaction or the date of delivery of the disclosures required under this section and all other material disclosures required under this Part, whichever is later, by notifying the creditor by mail, telegram, or other writing of his intention to do so. Notification by mail shall be considered given at the time mailed; notification by telegram shall be considered given at the time filed for transmission; and notification by other writing shall be considered given at the time delivered to the creditor's designated place of business.

\*(b) **Notice of opportunity to rescind.** Whenever a customer has the right to rescind a transaction under paragraph (a) of this section, the creditor shall give notice of that fact to the customer by furnishing the customer with two copies of the notice set out below, one of which may be used by the customer to cancel the transaction.

\*Amended 4/5/71.

See page 23 for footnote 14.

Such notice shall be printed in capital and lower case letters of not less than 12 point bold-faced type on one side of a separate statement which identifies the transaction to which it relates. Such statement shall also set forth the entire paragraph (d) of this section, "Effect of rescission." If such paragraph appears on the reverse side of the statement, the face of the statement shall state: "See reverse side for important information about your right of rescission." Before furnishing copies of the notice to the customer, the creditor shall complete both copies with the name of the creditor, the address of the creditor's place of business, the date of consummation of the transaction, and the date, not earlier than the third business day following the date of the transaction, by which the customer may give notice of cancellation. Where the real property on which the security interest may arise does not include a dwelling, the creditor may substitute the words "the property you are purchasing" for "your home," or "lot" for "home," where these words appear in the notice.

#### Notice to customer required by Federal law:

**You have entered into a transaction on**

(date) **which may result in a lien,**

**mortgage, or other security interest on your home.**

**You have a legal right under Federal law to cancel this transaction, if you desire to do so, without any penalty or obligation within three business days from the above date or any later date on which all material disclosures required under the Truth in Lending Act have been given to you.**

**If you so cancel the transaction, any lien, mortgage, or other security interest on your home arising from this transaction is automatically void.**

**You are also entitled to receive a refund of any downpayment or other consideration if you cancel. If you decide to cancel this transaction, you may do so by notifying**

(Name of creditor)

**at (Address of creditor's place of business) by mail or telegram sent not later than midnight of (date).**

**You may also use any other form of written notice identifying the transaction if it is delivered to the above address not later than that time. This notice may be used for that purpose by dating and signing below.**

**I hereby cancel this transaction.**

(date)

(customer's signature)

**\*(c) Delay of performance.** Except as provided in paragraph (e) of this section, the creditor in any transaction subject to this section, other than an extension of credit primarily for agricultural purposes, shall not perform, or cause or permit the performance of, any of the following actions until after the rescission period has expired and he has reasonably satisfied himself that the customer has not exercised his right of rescission:

- (1) Disburse any money other than in escrow;
- (2) Make any physical changes in the property of the customer;
- (3) Perform any work or service for the customer; or
- (4) Make any deliveries to the residence of the customer if the creditor has retained or will acquire a security interest other than one arising by operation of law.

**(d) Effect of rescission.** When a customer exercises his right to rescind under paragraph (a) of this section, he is not liable for any finance or other charge, and any security interest becomes void upon such a rescission. Within 10 days after receipt of a notice of rescission, the creditor shall return to the customer any money or property given as earnest money, downpayment, or otherwise, and shall take any action necessary or appropriate to reflect the termination of any security interest created under the transaction. If the creditor has delivered any property to the customer, the customer may retain possession of it. Upon the performance of the creditor's obligations under this section, the customer shall tender the property to the creditor, except that if return of the property in kind would be impracticable or inequitable, the customer shall tender its reasonable value. Tender shall be made at the location of the property or at the residence of the customer, at the option of the customer. If the creditor does not take possession of the property within 10 days after tender by the customer, ownership of the property vests in the customer without obligation on his part to pay for it.

\* Amended 4/5/71.

<sup>14</sup>For the purpose of this section, a business day is any calendar day except Sunday and those legal public holidays specified in Section 6103(a) of Title 5 of the United States Code (New Year's Day, Washington's Birthday, Memorial Day, Independence Day, Labor Day, Columbus Day, Veterans Day, Thanksgiving Day and Christmas Day). Amended 10/1/71.

**(e) Waiver of right of rescission.** A customer may modify or waive his right to rescind a transaction subject to the provisions of this section provided:

(1) The extension of credit is needed in order to meet a bona fide immediate personal financial emergency of the customer;

(2) The customer has determined that a delay of 3 business days in performance of the creditor's obligation under the transaction will jeopardize the welfare, health or safety of natural persons or endanger property which the customer owns or for which he is responsible; and

(3) The customer furnishes the creditor with a separate dated and signed personal statement describing the situation requiring immediate remedy and modifying or waiving his right of rescission. The use of printed forms for this purpose is prohibited.

**(f) Joint ownership.** For the purpose of this section, "customer" shall include two or more customers where joint ownership is involved, and the following shall apply:

(1) The right of rescission of the transaction may be exercised by any one of them, in which case the effect of rescission in accordance with paragraph (d) of this section applies to all of them; and

(2) Any waiver of the right of rescission provided in paragraph (e) of this section is invalid unless signed by all of them.

**(g) Exceptions to general rule.** This section does not apply to:

(1) The creation, retention, or assumption of a first lien or equivalent security interest to finance the acquisition of a dwelling in which the customer resides or expects to reside.

(2) A security interest which is a first lien retained or acquired by a creditor in connection with the financing of the initial construction of the residence of the customer, or in connection with a loan committed prior to completion of the construction of that residence to satisfy that construction loan and provide permanent financing of that residence, whether or not the customer previously owned the land on which that residence is to be constructed.

(3) Any lien by reason of its subordination at any time subsequent to its creation, if that lien was exempt from the provisions of this section when it was originally created.



**\*(4) Any advance for agricultural purposes made pursuant to either:**

(i) Paragraph (j) of § 226.8 under an open end real estate mortgage or similar lien, provided the disclosure required under paragraph (b) of this section was made at the time the security interest was acquired by the creditor or at any time prior to the first advance made on or following the effective date of this Part, or

(ii) Paragraph (p) of § 226.8 under a written agreement, provided the disclosure required under paragraph (b) of this section was made at the time the written agreement was executed by the customer.

#### SECTION 226.10—ADVERTISING CREDIT TERMS

(a) **General rule.** No advertisement to aid, promote, or assist directly or indirectly any extension of credit may state

(1) That a specific amount of credit or installment amount can be arranged unless the creditor usually and customarily arranges or will arrange credit amounts or instalments for that period and in that amount; or

(2) That no downpayment or that a specified downpayment will be accepted in connection with any extension of credit, unless the creditor usually and customarily accepts or will accept downpayments in that amount.

(b) **Catalogs and multi-page advertisements.** If a catalog or other multiple-page advertisement sets forth or gives information in sufficient detail to permit determination of the disclosures required by this section in a table or schedule of credit terms, such catalog or multiple-page advertisement shall be considered a single advertisement provided:

(1) The table or schedule and the disclosures made therein are set forth clearly and conspicuously, and

(2) Any statement of credit terms appearing in any place other than in that table or schedule of credit terms clearly and conspicuously refers to the page or pages on which that table or schedule appears, unless that statement discloses all of the credit terms required to be stated under this section. For the purpose of this subparagraph, cash price is not a credit term.

\* Amended 11/6/69.

**\*(c) Advertising of open end credit.** No advertisement to aid, promote, or assist directly or indirectly the extension of open end credit may set forth any of the terms described in paragraph (a) of § 226.7, the Comparative Index of Credit Cost, or that a specified downpayment or periodic payment is required (either in dollars or as a percentage), the period of repayment or any of the following items, unless it also clearly and conspicuously sets forth all the following items in terminology prescribed under paragraph (b) of § 226.7:

(1) An explanation of the time period, if any, within which any credit extended may be paid without incurring a finance charge.

(2) The method of determining the balance upon which a finance charge may be imposed.

(3) The method of determining the amount of the finance charge, including the determination of any minimum, fixed, check service, transaction, activity, or similar charge, which may be imposed as a finance charge.

(4) Where one or more periodic rates may be used to compute the finance charge, each corresponding annual percentage rate determined by multiplying the periodic rate by the number of periods in a year and, where there is more than one corresponding annual percentage rate, the range of balances to which each is applicable.<sup>15</sup>

**\*(d) Advertising of credit other than open end.** No advertisement to aid, promote, or assist directly or indirectly any credit sale including the sale of residential real estate, loan, or other extension of credit, other than open end credit, subject to the provisions of this Part, shall state

(1) The rate of the finance charge except as an "annual percentage rate," using that term. No other rate of finance charge may be stated, except that:

(i) where the total finance charge includes, as a component, interest computed at a simple annual

\* Amended 11/1/73.

<sup>15</sup> A creditor imposing minimum charges is not required to adjust the disclosure of the range of balances to which each 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.

rate, the simple annual rate may be stated in conjunction with, but not more conspicuously than, the annual percentage rate, or

(ii) where the finance charge is computed solely by the application of a periodic rate to an unpaid balance, the periodic rate may be stated in conjunction with, but not more conspicuously than, the annual percentage rate.

(2) That no downpayment is required, or the amount of the downpayment or of any instalment payment required (either in dollars or as a percentage), the dollar amount of any finance charge, the number of instalments or the period of repayment, or that there is no charge for credit, unless it also clearly and conspicuously sets forth all of the following items in terminology prescribed under § 226.8:

(i) the cash price or the amount of the loan, as applicable.

(ii) in a credit sale, the amount of the downpayment required or that no downpayment is required, as applicable.

(iii) the number, amount, and due dates or period of payments scheduled to repay the indebtedness if the credit is extended.

(iv) the amount of the finance charge expressed as an annual percentage rate. The exemptions from disclosure of an annual percentage rate permitted in paragraph (b)(2) of § 226.8 shall not apply to this subdivision.

(v) except in the case of the sale of a dwelling or a loan secured by a first lien on a dwelling to purchase that dwelling, the deferred payment price in a credit sale, or the total of payments in a loan or other extension of credit which is not a credit sale, as applicable.

**\*(e) Advertising of FHA Section 235 financing.** Any advertisement to aid, promote, or assist directly or indirectly the sale of residential real estate under Title II, Section 235, of the National Housing Act (12 U.S.C. 1715z) shall clearly identify those credit terms which apply to the assistance program and, except as provided in this paragraph, comply with the provisions of paragraph (d) of this section. No such advertisement shall state:

(1) the amount of any payment scheduled to repay the indebtedness without stating the family size and income level applicable to that amount.

(2) any rate of a finance charge, or the amount

of the finance charge, expressed as an annual percentage rate based on the assistance. The annual percentage rate exclusive of the assistance may be stated, but is not required.

#### SECTION 226.11—COMPARATIVE INDEX OF CREDIT COST FOR OPEN END CREDIT

(a) **General rule.** Any creditor who elects to disclose the Comparative Index of Credit Cost on open end credit accounts

(1) Shall compute the Comparative Index of Credit Cost in accordance with paragraph (b) of this section.

(2) Shall recompute the Comparative Index of Credit Cost in accordance with paragraph (b) of this section based upon any new open end credit account terms to be adopted and shall disclose the new Comparative Index of Credit Cost in accordance with paragraph (c)(2) of this section concurrently with the notice required under paragraph (e) of §226.7.

(3) Shall, when making such disclosure under the provisions of subparagraphs (a)(5) and (b)(7) of § 226.7, make the disclosure to all open end credit account customers; and

(4) Shall not utilize such disclosure so as to mislead, or confuse the customer or contradict, obscure, or detract attention from the required disclosures.

(b) **Computation of Comparative Index of Credit Cost.** The Comparative Index of Credit Cost for each open end credit plan shall be computed by applying the creditor's terms of that plan to the following hypothetical factors:

(1) A single transaction in the amount of \$100 is debited on the first day of a billing cycle to an open end credit account having no previous balance.

(2) The creditor imposes all finance charges including periodic, fixed, minimum or other charges applicable to such account in amounts and on dates consistent with his policy of imposing such charges upon open end credit accounts.

(3) The exact amount of the required minimum periodic payment is paid on the last day of each subsequent and successive billing cycle until the amount of the single transaction, together with applicable finance charges, is paid in full.

(4) The Comparative Index of Credit Cost shall be expressed and disclosed as a percentage

\* Added 4/5/71.

accurate to the nearest quarter of 1 per cent and shall be determined by dividing the total amount of the finance charges imposed by the sum of the daily balances and multiplying the quotient so obtained (expressed as a percentage) by 365.

(c) **Form of disclosure.** Any creditor who elects to disclose the Comparative Index of Credit Cost shall:

(1) Make the disclosure in the form of the following statement: "Our Comparative Index of Credit Cost under the terms of our open end credit account plan is \_\_\_% per year, computed on the basis of a single transaction of \$100 debited on the first day of a billing cycle to an account having no previous balance, and paid in required minimum consecutive instalments on the last day of each succeeding billing cycle until the transaction and all finance charges are paid in full. The actual percentage cost of credit on your account may be higher or lower depending on the dates and amounts of charges and payments."

(2) Disclose any newly computed Comparative Index of Credit Cost in the form of the statement prescribed in subparagraph (1) of this paragraph, except that the statement shall be preceded by the words "Effective as of \_\_\_\_\_ (date) \_\_\_\_\_," and the words "will be" shall be substituted for the word "is" in the second line of the statement.

#### \*SECTION 226.12—EXEMPTION OF CERTAIN STATE REGULATED TRANSACTIONS

(a) **Exemption for State regulated transactions.** In accordance with the provisions of Supplements II and IV to Regulation Z, any State may make application to the Board for exemption of any class of transactions within that State from the requirements of Chapter 2 of the Act and the corresponding provisions of this Part: *Provided*, That

(1) Under the law of that State, that class of transactions is subject to requirements substantially similar to those imposed under Chapter 2 of the Act and the corresponding provisions of this Part; and

(2) There is adequate provision for enforcement.

(b) **Procedures and criteria.** The procedures and criteria under which any State may apply for

the determination provided for in paragraph (a) of this section are set forth in Supplement II to Regulation Z with respect to disclosure and rescission requirements (§§ 121-131 of Chapter 2) and Supplement IV with respect to the prohibition of the issuance of unsolicited credit cards and the liability of the cardholder for unauthorized use of a credit card (§§ 132-133 of Chapter 2).

(c) **Civil liability.** In order to assure that the concurrent jurisdiction of Federal and State courts created in section 130(e) of the Act shall continue to have substantive provisions to which such jurisdiction shall apply, and generally to aid in implementing the Act with respect to any class of transactions exempted pursuant to paragraph (a) of this section and Supplement II, the Board pursuant to sections 105 and 123 hereby prescribes that:

(1) No such exemptions shall be deemed to extend to the civil liability provisions of sections 130 and 131; and

(2) After an exemption has been granted, the disclosure requirements of the applicable State law shall constitute the disclosure requirements of this Act, except to the extent that such State law imposes disclosure requirements not imposed by this Act. Information required under such State law with the exception of those provisions which impose disclosure requirements not imposed by this Act shall, accordingly, constitute the "information required under this Chapter" (Chapter 2 of the Act) for the purpose of section 130(a).

(d) **Exemptions granted.** Exemptions granted by the Board to particular classes of credit transactions within specified States are set forth in Supplement III to Regulation Z.

#### \*SECTION 226.13—CREDIT CARDS—ISSUANCE AND LIABILITY

(a) **Supplemental definitions applicable to this section.** In addition to the definitions set forth in § 226.2, as applicable, the following definitions apply to this section:

(1) **"Accepted credit card"** means any credit card which the cardholder has requested or applied for and received, or has signed, or has used, or has authorized another person to use for the purpose of obtaining money, property, labor, or services on credit. Any credit card issued in

\* Amended 3/12/70 and to its present form 1/25/71.

\* Added 1/25/71.

renewal of, or in substitution for, an accepted credit card becomes an accepted credit card when received by the cardholder whether such card is issued by the same or a successor card issuer.

(2) **"Adequate notice"** means a printed notice to a cardholder which sets forth the pertinent facts clearly and conspicuously so that a person against whom it is to operate could reasonably be expected to have noticed it and understood its meaning.

(3) **"Card issuer"** means any person who issues a credit card, or the agent of such person with respect to such card.

(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.

(5) **"Credit"** means the right to defer payment of debt, incur debt and defer its payment, or to obtain money, property, labor or services and defer payment therefor.

(6) **"Credit card"** means any card, plate, coupon book, or other single credit device existing for the purpose of being used from time to time upon presentation to obtain money, property, labor, or services on credit.

(7) **"Unauthorized use"** means the use of a credit card by a person other than the cardholder

(i) who does not have actual, implied, or apparent authority for such use, and

(ii) from which the cardholder receives no benefit.

(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,

(1) The credit card is an accepted credit card;

(2) Such liability does not exceed the lesser of

\$50 or the amount of money, property, labor, or services obtained by such use prior to notification of the card issuer pursuant to paragraph (f) of this section;

(3) The card issuer has given adequate notice to the cardholder of his potential liability on the credit card or within two years preceding the unauthorized use; and

(4) The card issuer has provided the cardholder with an addressed notification requiring no postage to be paid by the cardholder which may be mailed by the cardholder in the event of the loss, theft, or possible unauthorized use of the credit card.

(d) **Other conditions of liability.** In addition to the conditions of liability in paragraph (c) of this section, no cardholder shall be liable for the unauthorized use of any credit card which was issued after January 24, 1971, and, regardless of the date of its issuance, after January 24, 1972, no cardholder shall be liable for the unauthorized use of any credit card, unless the card issuer has provided a method whereby the user of such card can be identified as the person authorized to use it, such as by signature, photograph, or fingerprint on the credit card or by electronic or mechanical confirmation.

(e) **Notice to cardholder.** The notice to cardholder pursuant to paragraph (c)(3) of this section may be given by printing the notice on the credit card, or by any other means reasonably assuring the receipt thereof by the cardholder. An acceptable form of notice must state that liability shall not exceed \$50 (or any lesser amount), that notice of loss, theft, or possible unauthorized use may be given orally or in writing, and the name and address of the party to receive the notice. It may include any additional information which is not inconsistent with the provisions of this section. An example of an acceptable notice is as follows:

"You may be liable for the unauthorized use of your credit card [or other term which describes the credit device]. You will not be liable for unauthorized use which occurs after you notify [name of card issuer or his designee] at [address] orally or in writing of loss, theft, or possible unauthorized use. In any case liability shall not exceed [insert \$50 or any lesser amount under other applicable law or under any agreement with the cardholder]."

\* Amended 12/15/72.

(f) **Notice to card issuer.** For the purposes of this section, a cardholder notifies a card issuer by taking such steps as may be reasonably required in the ordinary course of business to provide the card issuer with the pertinent information with respect to loss, theft, or possible unauthorized use of any credit card, whether or not any particular officer, employee, or agent of the card issuer does, in fact, receive such notice or information. Irrespective of the form of notice provided under paragraph (c)(4) of this section, at the option of the cardholder, notice may be given to the card issuer or his designee in person or by telephone or by letter, telegram, radiogram, cablegram, or other written communication which sets forth the pertinent information. Notice by mail, telegram, radiogram, cablegram, or other written communication shall be considered given at the time of re-

ceipt or, whether or not received, at the expiration of the time ordinarily required for transmission, whichever is earlier.

(g) **Action to enforce liability.** In any action by a card issuer to enforce liability for the use of a credit card, the burden of proof is upon the card issuer to show that the use was authorized or, if the use was unauthorized, then the burden of proof is upon the card issuer to show that the conditions of liability for the unauthorized use of a credit card, as set forth in paragraphs (c) and (d) of this section, have been met.

(h) **Effect on other applicable law or agreement.** Nothing in this section imposes liability upon a cardholder for the unauthorized use of a credit card in excess of his liability for such use under other applicable law or under any agreement with the card issuer.

**STATUTORY APPENDIX**

Titles I and V of Act of May 29, 1968,  
as amended October 26, 1970

**§ 1. Short title of entire Act**

This Act may be cited as the Consumer Credit Protection Act.

**TITLE I—CONSUMER CREDIT COST DISCLOSURE**

[15 U.S.C. §§ 1601 et seq.]

| Chapter                      | Section |
|------------------------------|---------|
| 1. GENERAL PROVISIONS .....  | 101     |
| 2. CREDIT TRANSACTIONS ..... | 121     |
| 3. CREDIT ADVERTISING .....  | 141     |

**CHAPTER 1—GENERAL PROVISIONS**

| Sec.   |
|--|
| 101. Short title.  |
| 102. Findings and declaration of purpose.                  |
| 103. Definitions and rules of construction.                |
| 104. Exempted transactions.                                |
| 105. Regulations.  |
| 106. Determination of finance charge.                      |
| 107. Determination of annual percentage rate.              |
| 108. Administrative enforcement.                           |
| 109. Views of other agencies.                              |
| 110. Advisory committee.                                   |
| 111. Effect on other laws.                                 |
| 112. Criminal liability for willful and knowing violation. |
| 113. Penalties inapplicable to governmental agencies.      |
| 114. Reports by Board and Attorney General.                |

**§ 101. Short title**

This title may be cited as the Truth in Lending Act.

**§ 102. Findings and declaration of purpose**

The Congress finds that economic stabilization would be enhanced and the competition among the various financial institutions and other firms engaged in the extension of consumer credit

would be strengthened by the informed use of credit. The informed use of credit results from an awareness of the cost thereof by consumers. It is the purpose of this title to assure a meaningful disclosure of credit terms so that the consumer will be able to compare more readily the various credit terms available to him and avoid the uninformed use of credit.

**§ 103. Definitions and rules of construction**

(a) The definitions and rules of construction set forth in this section are applicable for the purposes of this title.

(b) The term "Board" refers to the Board of Governors of the Federal Reserve System.

(c) The term "organization" means a corporation, government or governmental subdivision or agency, trust, estate, partnership, cooperative, or association.

(d) The term "person" means a natural person or an organization.

(e) The term "credit" means the right granted by a creditor to a debtor to defer payment of debt or to incur debt and defer its payment.

(f) The term "creditor" refers only to creditors who regularly extend, or arrange for the extension of, credit for which the payment of a finance charge is required, whether in connection with loans, sales of property or services, or otherwise. The provisions of this title apply to any such creditor, irrespective of his or its status as a natural person or any type of organization.

(g) The term "credit sale" refers to any sale with respect to which credit is extended or arranged by the seller. The term includes any contract in the form of a bailment or lease if the bailee or lessee contracts to pay as compensation for use a sum substantially equivalent to or in excess of the aggregate value of the property and services involved and it is agreed that the bailee or lessee will become, or for no other or a nominal consideration has the option to become, the owner of the property upon full compliance with his obligations under the contract.

(h) The adjective "consumer", used with reference to a credit transaction, characterizes the transaction as one in which the party to whom credit is offered or extended is a natural person, and the money, property, or services which are the subject of the transaction are primarily for personal, family, household, or agricultural purposes.

(i) The term "open end credit plan" refers to a plan prescribing the terms of credit transactions which may be made thereunder from time to time and under the terms of which a finance charge may be computed on the outstanding unpaid balance from time to time thereunder.

\*(j) The term "adequate notice", as used in section 133, means a printed notice to a cardholder which sets forth the pertinent facts clearly and conspicuously so that a person against whom it is to operate could reasonably be expected to have noticed it and understood its meaning. Such notice may be given to a cardholder by printing the notice on any credit card, or on each periodic statement of account, issued to the cardholder, or by any other means reasonably assuring the receipt thereof by the cardholder.

\*(k) The term "credit card" means any card, plate, coupon book or other credit device existing for the purpose of obtaining money, property, labor, or services on credit.

\*(l) The term "accepted credit card" means any credit card which the cardholder has requested and received or has signed or has used, or authorized another to use, for the purpose of obtaining money, property, labor, or services on credit.

\*(m) The term "cardholder" means any person to whom a credit card is issued or any person who has agreed with the card issuer to pay obligations arising from the issuance of a credit card to another person.

\*(n) The term "card issuer" means any person who issues a credit card, or the agent of such person with respect to such card.

\*(o) The term "unauthorized use", as used in section 133, means a use of a credit card by a person other than the cardholder who does not have actual, implied, or apparent authority for such use and from which the cardholder receives no benefit.

\*\*\*(p) The term "State" refers to any State, the Commonwealth of Puerto Rico, the District of Columbia, and any territory or possession of the United States.

\*\*\*\*(q) Any reference to any requirement imposed under this title or any provision thereof includes reference to the regulations of the Board under this title or the provision thereof in question.

\* Added 10/26/70.

\*\* Redesignated 10/26/70.

\*(r) The disclosure of an amount or percentage which is greater than the amount or percentage required to be disclosed under this title does not in itself constitute a violation of this title.

#### § 104. Exempted transactions

This title does not apply to the following:

(1) Credit transactions involving extensions of credit for business or commercial purposes, or to government or governmental agencies or instrumentalities, or to organizations.

(2) Transactions in securities or commodities accounts by a broker-dealer registered with the Securities and Exchange Commission.

(3) Credit transactions, other than real property transactions, in which the total amount to be financed exceeds \$25,000.

(4) Transactions under public utility tariffs, if the Board determines that a State regulatory body regulates the charges for the public utility services involved, the charges for delayed payment, and any discount allowed for early payment.

#### § 105. Regulations

The Board shall prescribe regulations to carry out the purposes of this title. These regulations may contain such classifications, differentiations, or other provisions, and may provide for such adjustments and exceptions for any class of transactions, as in the judgment of the Board are necessary or proper to effectuate the purposes of this title, to prevent circumvention or evasion thereof, or to facilitate compliance therewith.

#### § 106. Determination of finance charge

(a) Except as otherwise provided in this section, the amount of the finance charge in connection with any consumer credit transaction shall be determined as the sum of all charges, payable directly or indirectly by the person to whom the credit is extended, and imposed directly or indirectly by the creditor as an incident to the extension of credit, including any of the following types of charges which are applicable:

(1) Interest, time price differential, and any amount payable under a point, discount, or other system of additional charges.

(2) Service or carrying charge.

(3) Loan fee, finder's fee, or similar charge.

(4) Fee for an investigation or credit report.

(5) Premium or other charge for any guaran-

\* Redesignated 10/26/70.

tee or insurance protecting the creditor against the obligor's default or other credit loss.

(b) Charges or premiums for credit life, accident, or health insurance written in connection with any consumer credit transaction shall be included in the finance charge unless

(1) the coverage of the debtor by the insurance is not a factor in the approval by the creditor of the extension of credit, and this fact is clearly disclosed in writing to the person applying for or obtaining the extension of credit; and

(2) in order to obtain the insurance in connection with the extension of credit, the person to whom the credit is extended must give specific affirmative written indication of his desire to do so after written disclosure to him of the cost thereof.

(c) Charges or premiums for insurance, written in connection with any consumer credit transaction, against loss of or damage to property or against liability arising out of the ownership or use of property, shall be included in the finance charge unless a clear and specific statement in writing is furnished by the creditor to the person to whom the credit is extended, setting forth the cost of the insurance if obtained from or through the creditor, and stating that the person to whom the credit is extended may choose the person through which the insurance is to be obtained.

(d) If any of the following items is itemized and disclosed in accordance with the regulations of the Board in connection with any transaction, then the creditor need not include that item in the computation of the finance charge with respect to that transaction:

(1) Fees and charges prescribed by law which actually are or will be paid to public officials for determining the existence of or for perfecting or releasing or satisfying any security related to the credit transaction.

(2) The premium payable for any insurance in lieu of perfecting any security interest otherwise required by the creditor in connection with the transaction, if the premium does not exceed the fees and charges described in paragraph (1) which would otherwise be payable.

(3) Taxes.

(4) Any other type of charge which is not for credit and the exclusion of which from the finance charge is approved by the Board by regulation.

(e) The following items, when charged in connection with any extension of credit secured by an interest in real property, shall not be included in the computation of the finance charge with respect to that transaction:

(1) Fees or premiums for title examination, title insurance, or similar purposes.

(2) Fees for preparation of a deed, settlement statement, or other documents.

(3) Escrows for future payments of taxes and insurance.

(4) Fees for notarizing deeds and other documents.

(5) Appraisal fees.

(6) Credit reports.

#### § 107. Determination of annual percentage rate

(a) The annual percentage rate applicable to any extension of consumer credit shall be determined, in accordance with the regulations of the Board,

(1) in the case of any extension of credit other than under an open end credit plan, as

(A) that nominal annual percentage rate which will yield a sum equal to the amount of the finance charge when it is applied to the unpaid balances of the amount financed, calculated according to the actuarial method of allocating payments made on a debt between the amount financed and the amount of the finance charge, pursuant to which a payment is applied first to the accumulated finance charge and the balance is applied to the unpaid amount financed; or

(B) the rate determined by any method prescribed by the Board as a method which materially simplifies computation while retaining reasonable accuracy as compared with the rate determined under subparagraph (A).

(2) in the case of any extension of credit under an open end credit plan, as the quotient (expressed as a percentage) of the total finance charge for the period to which it relates divided by the amount upon which the finance charge for that period is based, multiplied by the number of such periods in a year.

(b) Where a creditor imposes the same finance charge for balances within a specified range, the annual percentage rate shall be computed on the median balance within the range, except that if the Board determines that a rate so computed would not be meaningful, or would be materially misleading, the annual percentage rate shall be



computed on such other basis as the Board may by regulation require.

(c) The annual percentage rate may be rounded to the nearest quarter of 1 per centum for credit transactions payable in substantially equal installments when a creditor determines the total finance charge on the basis of a single add-on, discount, periodic, or other rate, and the rate is converted into an annual percentage rate under procedures prescribed by the Board.

(d) The Board may authorize the use of rate tables or charts which may provide for the disclosure of annual percentage rates which vary from the rate determined in accordance with subsection (a)(1)(A) by not more than such tolerances as the Board may allow. The Board may not allow a tolerance greater than 8 per centum of that rate except to simplify compliance where irregular payments are involved.

(e) In the case of creditors determining the annual percentage rate in a manner other than as described in subsection (c) or (d), the Board may authorize other reasonable tolerances.

(f) Prior to January 1, 1971, any rate required under this title to be disclosed as a percentage rate may, at the option of the creditor, be expressed in the form of the corresponding ratio of dollars per hundred dollars.

#### § 108. Administrative enforcement

(a) Compliance with the requirements imposed under this title shall be enforced under

(1) section 8 of the Federal Deposit Insurance Act, in the case of

(A) national banks, by the Comptroller of the Currency.

(B) member banks of the Federal Reserve System (other than national banks), by the Board.

(C) banks insured by the Federal Deposit Insurance Corporation (other than members of the Federal Reserve System), by the Board of Directors of the Federal Deposit Insurance Corporation.

(2) section 5(d) of the Home Owners' Loan Act of 1933, section 407 of the National Housing Act, and sections 6(i) and 17 of the Federal Home Loan Bank Act, by the Federal Home Loan Bank Board (acting directly or through the Federal Savings and Loan Insurance Corporation), in the case of any institution subject to any of those provisions.

(3) the Federal Credit Union Act, by the Director of the Bureau of Federal Credit Unions with respect to any Federal credit union.

(4) the Acts to regulate commerce, by the Interstate Commerce Commission with respect to any common carrier subject to those Acts.

(5) the Federal Aviation Act of 1958, by the Civil Aeronautics Board with respect to any air carrier or foreign air carrier subject to that Act.

(6) the Packers and Stockyards Act, 1921 (except as provided in section 406 of that Act), by the Secretary of Agriculture with respect to any activities subject to that Act.

(b) For the purpose of the exercise by any agency referred to in subsection (a) of its powers under any Act referred to in that subsection, a violation of any requirement imposed under this title shall be deemed to be a violation of a requirement imposed under that Act. In addition to its powers under any provision of law specifically referred to in subsection (a), each of the agencies referred to in that subsection may exercise, for the purpose of enforcing compliance with any requirement imposed under this title, any other authority conferred on it by law.

(c) Except to the extent that enforcement of the requirements imposed under this title is specifically committed to some other Government agency under subsection (a), the Federal Trade Commission shall enforce such requirements. For the purpose of the exercise by the Federal Trade Commission of its functions and powers under the Federal Trade Commission Act, a violation of any requirement imposed under this title shall be deemed a violation of a requirement imposed under that Act. All of the functions and powers of the Federal Trade Commission under the Federal Trade Commission Act are available to the Commission to enforce compliance by any person with the requirements imposed under this title, irrespective of whether that person is engaged in commerce or meets any other jurisdictional tests in the Federal Trade Commission Act.

(d) The authority of the Board to issue regulations under this title does not impair the authority of any other agency designated in this section to make rules respecting its own procedures in enforcing compliance with requirements imposed under this title.

#### § 109. Views of other agencies

In the exercise of its functions under this title,

the Board may obtain upon request the views of any other Federal agency which, in the judgment of the Board, exercises regulatory or supervisory functions with respect to any class of creditors subject to this title.

**§ 110. Advisory committee**

The Board shall establish an advisory committee to advise and consult with it in the exercise of its functions under this title. In appointing the members of the committee, the Board shall seek to achieve a fair representation of the interests of sellers of merchandise on credit, lenders, and the public. The committee shall meet from time to time at the call of the Board, and members thereof shall be paid transportation expenses and not to exceed \$100 per diem.

**§ 111. Effect on other laws**

(a) This title does not annul, alter, or affect, or exempt any creditor from complying with, the laws of any State relating to the disclosure of information in connection with credit transactions, except to the extent that those laws are inconsistent with the provisions of this title or regulations thereunder, and then only to the extent of the inconsistency.

(b) This title does not otherwise annul, alter or affect in any manner the meaning, scope or applicability of the laws of any State, including, but not limited to, laws relating to the types, amounts or rates of charges, or any element or elements of charges, permissible under such laws in connection with the extension or use of credit, nor does this title extend the applicability of those laws to any class of persons or transactions to which they would not otherwise apply.

(c) In any action or proceeding in any court involving a consumer credit sale, the disclosure of the annual percentage rate as required under this title in connection with that sale may not be received as evidence that the sale was a loan or any type of transaction other than a credit sale.

(d) Except as specified in sections 125 and 130, this title and the regulations issued thereunder do not affect the validity or enforceability of any contract or obligation under State or Federal law.

**§ 112. Criminal liability for willful and knowing violation**

Whoever willfully and knowingly

(1) gives false or inaccurate information or fails to provide information which he is required to disclose under the provisions of this title or any regulation issued thereunder,

(2) uses any chart or table authorized by the Board under section 107 in such a manner as to consistently understate the annual percentage rate determined under section 107 (a)(1)(A), or

(3) otherwise fails to comply with any requirement imposed under this title, shall be fined not more than \$5,000 or imprisoned not more than one year, or both.

**§ 113. Penalties inapplicable to governmental agencies**

No civil or criminal penalty provided under this title for any violation thereof may be imposed upon the United States or any agency thereof, or upon any State or political subdivision thereof, or any agency of any State or political subdivision.

**§ 114. Reports by Board and Attorney General**

Not later than January 3 of each year after 1969, the Board and the Attorney General shall, respectively, make reports to the Congress concerning the administration of their functions under this title, including such recommendations as the Board and the Attorney General, respectively, deem necessary or appropriate. In addition, each report of the Board shall include its assessment of the extent to which compliance with the requirements imposed under this title is being achieved.

**CHAPTER 2—CREDIT TRANSACTIONS**

**Sec.**

121. General requirement of disclosure.
122. Form of disclosure; additional information.
123. Exemption for State-regulated transactions.
124. Effect of subsequent occurrence.
125. Right of rescission as to certain transactions.
126. Content of periodic statements.
127. Open end consumer credit plans.
128. Sales not under open end credit plans.
129. Consumer loans not under open end credit plans.
130. Civil liability.
131. Written acknowledgment as proof of receipt.
132. Issuance of credit cards.
133. Liability of holder of credit card.
134. Fraudulent use of credit card.

**§ 121. General requirement of disclosure**

(a) Each creditor shall disclose clearly and conspicuously, in accordance with the regulations of the Board, to each person to whom consumer credit is extended and upon whom a finance charge is or may be imposed, the information required under this chapter.

(b) If there is more than one obligor, a creditor need not furnish a statement of information required under this chapter to more than one of them.

**§ 122. Form of disclosure; additional information**

(a) Regulations of the Board need not require that disclosures pursuant to this chapter be made in the order set forth in this chapter, and may permit the use of terminology different from that employed in this chapter if it conveys substantially the same meaning.

(b) Any creditor may supply additional information or explanations with any disclosures required under this chapter.

**§ 123. Exemption for State-regulated transactions**

The Board shall by regulation exempt from the requirements of this chapter any class of credit transactions within any State if it determines that under the law of that State that class of transactions is subject to requirements substantially similar to those imposed under this chapter, and that there is adequate provision for enforcement.

**§ 124. Effect of subsequent occurrence**

If information disclosed in accordance with this chapter is subsequently rendered inaccurate as the result of any act, occurrence, or agreement subsequent to the delivery of the required disclosures, the inaccuracy resulting therefrom does not constitute a violation of this chapter.

**§ 125. Right of rescission as to certain transactions**

(a) Except as otherwise provided in this section, in the case of any consumer credit transaction in which a security interest is retained or acquired in any real property which is used or is expected to be used as the residence of the person to whom credit is extended, the obligor shall have the right to rescind the transaction until midnight of the third business day following the consummation of the transaction or the delivery of the disclosures required under this section and all other material disclosures required under this chapter, whichever is later, by notifying the

creditor, in accordance with regulations of the Board, of his intention to do so. The creditor shall clearly and conspicuously disclose, in accordance with regulations of the Board, to any obligor in a transaction subject to this section the rights of the obligor under this section. The creditor shall also provide, in accordance with regulations of the Board, an adequate opportunity to the obligor to exercise his right to rescind any transaction subject to this section.

(b) When an obligor exercises his right to rescind under subsection (a), he is not liable for any finance or other charge, and any security interest given by the obligor becomes void upon such a rescission. Within ten days after receipt of a notice of rescission, the creditor shall return to the obligor any money or property given as earnest money, downpayment, or otherwise, and shall take any action necessary or appropriate to reflect the termination of any security interest created under the transaction. If the creditor has delivered any property to the obligor, the obligor may retain possession of it. Upon the performance of the creditor's obligations under this section, the obligor shall tender the property to the creditor, except that if return of the property in kind would be impracticable or inequitable, the obligor shall tender its reasonable value. Tender shall be made at the location of the property or at the residence of the obligor, at the option of the obligor. If the creditor does not take possession of the property within ten days after tender by the obligor, ownership of the property vests in the obligor without obligation on his part to pay for it.

(c) Notwithstanding any rule of evidence, written acknowledgment of receipt of any disclosures required under this title by a person to whom a statement is required to be given pursuant to this section does no more than create a rebuttable presumption of delivery thereof.

(d) The Board may, if it finds that such action is necessary in order to permit homeowners to meet bona fide personal financial emergencies, prescribe regulations authorizing the modification or waiver of any rights created under this section to the extent and under the circumstances set forth in those regulations.

(e) This section does not apply to the creation or retention of a first lien against a dwelling to finance the acquisition of that dwelling.

**§ 126. Content of periodic statements**

If a creditor transmits periodic statements in connection with any extension of consumer credit other than under an open end consumer credit plan, then each of those statements shall set forth each of the following items:

- (1) The annual percentage rate of the total finance charge.
- (2) The date by which, or the period (if any) within which, payment must be made in order to avoid additional finance charges or other charges.
- (3) Such of the items set forth in section 127(b) as the Board may by regulation require as appropriate to the terms and conditions under which the extension of credit in question is made.

**§ 127. Open end consumer credit plans**

(a) Before opening any account under an open end consumer credit plan, the creditor shall disclose to the person to whom credit is to be extended each of the following items, to the extent applicable:

- (1) The conditions under which a finance charge may be imposed, including the time period, if any, within which any credit extended may be repaid without incurring a finance charge.
- (2) The method of determining the balance upon which a finance charge will be imposed.
- (3) The method of determining the amount of the finance charge, including any minimum or fixed amount imposed as a finance charge.
- (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 nominal annual percentage rate determined by multiplying the periodic rate by the number of periods in a year.

(5) If the creditor so elects,

(A) the average effective annual percentage rate of return received from accounts under the plan for a representative period of time; or

(B) whenever circumstances are such that the computation of a rate under subparagraph (A) would not be feasible or practical, or would be misleading or meaningless, a projected rate of return to be received from accounts under the plan. The Board shall prescribe regulations, consistent with commonly accepted standards for accounting or statistical procedures, to carry out the purposes of this paragraph.

(6) The conditions under which any other

charges may be imposed, and the method by which they will be determined.

(7) The conditions under which the creditor may retain or acquire any security interest in any property to secure the payment of any credit extended under the plan, and a description of the interest or interests which may be so retained or acquired.

(b) The creditor of any account under an open end consumer credit plan shall transmit to the obligor, for each billing cycle at the end of which there is an outstanding balance in that account or with respect to which a finance charge is imposed, a statement setting forth each of the following items to the extent applicable:

(1) The outstanding balance in the account at the beginning of the statement period.

(2) The amount and date of each extension of credit during the period, and, if a purchase was involved, a brief identification (unless previously furnished) of the goods or services purchased.

(3) The total amount credited to the account during the period.

(4) The amount of any finance charge added to the account during the period, itemized to show the amounts, if any, due to the application of percentage rates and the amount, if any, imposed as a minimum or fixed charge.

(5) 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, unless the annual percentage rate (determined under section 107(a)(2)) is required to be disclosed pursuant to paragraph (6), the corresponding nominal annual percentage rate determined by multiplying the periodic rate by the number of periods in a year.

(6) Where the total finance charge exceeds 50 cents for a monthly or longer billing cycle, or the pro rata part of 50 cents for a billing cycle shorter than monthly, the total finance charge expressed as an annual percentage rate (determined under section 107(a)(2)), except that if the finance charge is the sum of two or more products of a rate times a portion of the balance, the creditor may, in lieu of disclosing a single rate for the total charge, disclose each such rate expressed as an annual percentage rate, and the part of the balance to which it is applicable.

(7) At the election of the creditor, the average effective annual percentage rate of return (or the

projected rate) under the plan as prescribed in subsection (a)(5).

(8) The balance on which the finance charge was computed and a statement of how the balance was determined. If the balance is determined without first deducting all credits during the period, that fact and the amount of such payments shall also be disclosed.

(9) The outstanding balance in the account at the end of the period.

(10) The date by which, or the period (if any) within which, payment must be made to avoid additional finance charges.

(c) In the case of any open end consumer credit plan in existence on the effective date of this subsection, the items described in subsection (a), to the extent applicable, shall be disclosed in a notice mailed or delivered to the obligor not later than thirty days after that date.

#### **§ 128. Sales not under open end credit plans**

(a) In connection with each consumer credit sale not under an open end credit plan, the creditor shall disclose each of the following items which is applicable:

(1) The cash price of the property or service purchased.

(2) The sum of any amounts credited as downpayment (including any trade-in).

(3) The difference between the amount referred to in paragraph (1) and the amount referred to in paragraph (2).

(4) All other charges, individually itemized, which are included in the amount of the credit extended but which are not part of the finance charge.

(5) The total amount to be financed (the sum of the amount described in paragraph (3) plus the amount described in paragraph (4)).

(6) Except in the case of a sale of a dwelling, the amount of the finance charge, which may in whole or in part be designated as a time-price differential or any similar term to the extent applicable.

(7) The finance charge expressed as an annual percentage rate except in the case of a finance charge

(A) which does not exceed \$5 and is applicable to an amount financed not exceeding \$75, or

(B) which does not exceed \$7.50 and is applicable to an amount financed exceeding \$75.

A creditor may not divide a consumer credit sale into two or more sales to avoid the disclosure of an annual percentage rate pursuant to this paragraph.

(8) The number, amount, and due dates or periods of payments scheduled to repay the indebtedness.

(9) The default, delinquency, or similar charges payable in the event of late payments.

(10) A description of any security interest held or to be retained or acquired by the creditor in connection with the extension of credit, and a clear identification of the property to which the security interest relates.

(b) Except as otherwise provided in this chapter, the disclosures required under subsection (a) shall be made before the credit is extended, and may be made by disclosing the information in the contract or other evidence of indebtedness to be signed by the purchaser.

(c) If a creditor receives a purchase order by mail or telephone without personal solicitation, and the cash price and the deferred payment price and the terms of financing, including the annual percentage rate, are set forth in the creditor's catalog or other printed material distributed to the public, then the disclosures required under subsection (a) may be made at any time not later than the date the first payment is due.

(d) If a consumer credit sale is one of a series of consumer credit sales transactions made pursuant to an agreement providing for the addition of the deferred payment price of that sale to an existing outstanding balance, and the person to whom the credit is extended has approved in writing both the annual percentage rate or rates and the method of computing the finance charge or charges, and the creditor retains no security interest in any property as to which he has received payments aggregating the amount of the sales price including any finance charges attributable thereto, then the disclosure required under subsection (a) for the particular sale may be made at any time not later than the date the first payment for that sale is due. For the purposes of this subsection, in the case of items purchased on different dates, the first purchased shall be deemed first paid for, and in the case of items purchased on the same date, the lowest priced shall be deemed first paid for.

**§ 129. Consumer loans not under open end credit plans**

(a) Any creditor making a consumer loan or otherwise extending consumer credit in a transaction which is neither a consumer credit sale nor under an open end consumer credit plan shall disclose each of the following items, to the extent applicable:

(1) The amount of credit of which the obligor will have the actual use, or which is or will be paid to him or for his account or to another person on his behalf.

(2) All charges, individually itemized, which are included in the amount of credit extended but which are not part of the finance charge.

(3) The total amount to be financed (the sum of the amounts referred to in paragraph (1) plus the amounts referred to in paragraph (2)).

(4) Except in the case of a loan secured by a first lien on a dwelling and made to finance the purchase of that dwelling, the amount of the finance charge.

(5) The finance charge expressed as an annual percentage rate except in the case of a finance charge

(A) which does not exceed \$5 and is applicable to an extension of consumer credit not exceeding \$75, or

(B) which does not exceed \$7.50 and is applicable to an extension of consumer credit exceeding \$75.

A creditor may not divide an extension of credit into two or more transactions to avoid the disclosure of an annual percentage rate pursuant to this paragraph.

(6) The number, amount, and the due dates or periods of payments scheduled to repay the indebtedness.

(7) The default, delinquency, or similar charges payable in the event of late payments.

(8) A description of any security interest held or to be retained or acquired by the creditor in connection with the extension of credit, and a clear identification of the property to which the security interest relates.

(b) Except as otherwise provided in this chapter, the disclosures required by subsection (a) shall be made before the credit is extended, and may be made by disclosing the information in the note or other evidence of indebtedness to be signed by the obligor.

(c) If a creditor receives a request for an extension of credit by mail or telephone without personal solicitation and the terms of financing, including the annual percentage rate for representative amounts of credit, are set forth in the creditor's printed material distributed to the public, or in the contract of loan or other printed material delivered to the obligor, then the disclosures required under subsection (a) may be made at any time not later than the date the first payment is due.

**§ 130. Civil liability**

(a) Except as otherwise provided in this section, any creditor who fails in connection with any consumer credit transaction to disclose to any person any information required under this chapter to be disclosed to that person is liable to that person in an amount equal to the sum of

(1) twice the amount of the finance charge in connection with the transaction, except that the liability under this paragraph shall not be less than \$100 nor greater than \$1,000; and

(2) in the case of any successful action to enforce the foregoing liability, the cost of the action together with a reasonable attorney's fee as determined by the court.

(b) A creditor has no liability under this section if within fifteen days after discovering an error, and prior to the institution of an action under this section or the receipt of written notice of the error, the creditor notifies the person concerned of the error and makes whatever adjustments in the appropriate account are necessary to insure that the person will not be required to pay a finance charge in excess of the amount or percentage rate actually disclosed.

(c) A creditor may not be held liable in any action brought under this section for a violation of this chapter if the creditor shows by a preponderance of evidence that the violation was not intentional and resulted from a bona fide error notwithstanding the maintenance of procedures reasonably adapted to avoid any such error.

(d) Any action which may be brought under this section against the original creditor in any credit transaction involving a security interest in real property may be maintained against any subsequent assignee of the original creditor where the assignee, its subsidiaries, or affiliates were in a continuing business relationship with the original creditor either at the time the credit was ex-

tended or at the time of the assignment, unless the assignment was involuntary, or the assignee shows by a preponderance of evidence that it did not have reasonable grounds to believe that the original creditor was engaged in violations of this chapter, and that it maintained procedures reasonably adapted to apprise it of the existence of any such violations.

(e) Any action under this section may be brought in any United States district court, or in any other court of competent jurisdiction, within one year from the date of the occurrence of the violation.

**§ 131. Written acknowledgment as proof of receipt**

Except as provided in section 125(c) and except in the case of actions brought under section 130(d), in any action or proceeding by or against any subsequent assignee of the original creditor without knowledge to the contrary by the assignee when he acquires the obligation, written acknowledgment of receipt by a person to whom a statement is required to be given pursuant to this title shall be conclusive proof of the delivery thereof and, unless the violation is apparent on the face of the statement, of compliance with this chapter. This section does not affect the rights of the obligor in any action against the original creditor.

**\*§ 132. Issuance of credit cards**

No credit card shall be issued except in response to a request or application therefor. This prohibition does not apply to the issuance of a credit card in renewal of, or in substitution for, an accepted credit card.

**\*\*§ 133. Liability of holder of credit card**

(a) A cardholder shall be liable for the unauthorized use of a credit card only if the card is an accepted credit card, the liability is not in excess of \$50, the card issuer gives adequate notice to the cardholder of the potential liability, the card issuer has provided the cardholder with a self-addressed, prestamped notification to be mailed by the cardholder in the event of the loss or theft of the credit card, and the unauthorized

use occurs before the cardholder has notified the card issuer that an unauthorized use of the credit card has occurred or may occur as the result of loss, theft, or otherwise. Notwithstanding the foregoing, no cardholder shall be liable for the unauthorized use of any credit card which was issued on or after the effective date of this section, and, after the expiration of twelve months following such effective date, no cardholder shall be liable for the unauthorized use of any credit card regardless of the date of its issuance, unless (1) the conditions of liability specified in the preceding sentence are met, and (2) the card issuer has provided a method whereby the user of such card can be identified as the person authorized to use it. For the purposes of this section, a cardholder notifies a card issuer by taking such steps as may be reasonably required in the ordinary course of business to provide the card issuer with the pertinent information whether or not any particular officer, employee, or agent of the card issuer does in fact receive such information.

(b) In any action by a card issuer to enforce liability for the use of a credit card, the burden of proof is upon the card issuer to show that the use was authorized or, if the use was unauthorized, then the burden of proof is upon the card issuer to show that the conditions of liability for the unauthorized use of a credit card, as set forth in subsection (a), have been met.

(c) Nothing in this section imposes liability upon a cardholder for the unauthorized use of a credit card in excess of his liability for such use under other applicable law or under any agreement with the card issuer.

(d) Except as provided in this section, a cardholder incurs no liability from the unauthorized use of a credit card.

**\*§ 134. Fraudulent use of credit card**

Whoever, in a transaction affecting interstate or foreign commerce, uses any counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained credit card to obtain goods or services, or both, having a retail value aggregating \$5,000 or more, shall be fined not more than \$10,000 or imprisoned not more than five years, or both.

\* Added 10/26/70.

\*\* Added 10/26/70, effective 1/25/71.

\* Added 10/26/70.

**CHAPTER 3—CREDIT ADVERTISING**

Sec.

- 141. Catalogs and multiple-page advertisements.
- 142. Advertising of downpayments and installments.
- 143. Advertising of open end credit plans.
- 144. Advertising of credit other than open end plans.
- 145. Nonliability of media.

**§ 141. Catalogs and multiple-page advertisements**

For the purposes of this chapter, a catalog or other multiple-page advertisement shall be considered a single advertisement if it clearly and conspicuously displays a credit terms table on which the information required to be stated under this chapter is clearly set forth.

**§ 142. Advertising of downpayments and installments**

No advertisement to aid, promote, or assist directly or indirectly any extension of consumer credit may state

(1) that a specific periodic consumer credit amount or installment amount can be arranged, unless the creditor usually and customarily arranges credit payments or installments for that period and in that amount.

(2) that a specified downpayment is required in connection with any extension of consumer credit, unless the creditor usually and customarily arranges downpayments in that amount.

**§ 143. Advertising of open end credit plans**

No advertisement to aid, promote, or assist directly or indirectly the extension of consumer credit under an open end credit plan may set forth any of the specific terms of that plan or the appropriate rate determined under section 127(a)(5) unless it also clearly and conspicuously sets forth all of the following items:

(1) The time period, if any, within which any credit extended may be repaid without incurring a finance charge.

(2) The method of determining the balance upon which a finance charge will be imposed.

(3) The method of determining the amount of the finance charge, including any minimum or fixed amount imposed as a finance charge.

(4) Where periodic rates may be used to compute the finance charge, the periodic rates expressed as annual percentage rates.

(5) Such other or additional information for the advertising of open end credit plans as the Board may by regulation require to provide for adequate comparison of credit costs as between different types of open end credit plans.

**§ 144. Advertising of credit other than open end plans**

(a) Except as provided in subsection (b), this section applies to any advertisement to aid, promote, or assist directly or indirectly any consumer credit sale, loan, or other extension of credit subject to the provisions of this title, other than an open end credit plan.

(b) The provisions of this section do not apply to advertisements of residential real estate except to the extent that the Board may by regulation require.

(c) If any advertisement to which this section applies states the rate of a finance charge, the advertisement shall state the rate of that charge expressed as an annual percentage rate.

(d) If any advertisement to which this section applies states the amount of the downpayment, if any, the amount of any installment payment, the dollar amount of any finance charge, or the number of installments or the period of repayment, then the advertisement shall state all of the following items:

(1) The cash price or the amount of the loan as applicable.

(2) The downpayment, if any.

(3) The number, amount, and due dates or period of payments scheduled to repay the indebtedness if the credit is extended.

(4) The rate of the finance charge expressed as an annual percentage rate.

**§ 145. Nonliability of media**

There is no liability under this chapter on the part of any owner or personnel, as such, of any medium in which an advertisement appears or through which it is disseminated.



**TITLE V—GENERAL PROVISIONS**

Sec.

501. Severability.

502. Captions and catchlines for reference only.

503. Grammatical usages.

504. Effective dates.

**§ 501. Severability**

If a provision enacted by this Act is held invalid, all valid provisions that are severable from the invalid provision remain in effect. If a provision enacted by this Act is held invalid in one or more of its applications, the provision remains in effect in all valid applications that are severable from the invalid application or applications.

**§ 502. Captions and catchlines for reference only**

Captions and catchlines are intended solely as aids to convenient reference, and no inference as to the legislative intent with respect to any provision enacted by this Act may be drawn from them.

**● § 503. Grammatical usages**

In this Act:

(1) The word “may” is used to indicate that an action either is authorized or is permitted.

(2) The word “shall” is used to indicate that an action is both authorized and required.

(3) The phrase “may not” is used to indicate that an action is both unauthorized and forbidden.

(4) Rules of law are stated in the indicative mood.

**§ 504. Effective dates**

(a) Except as otherwise specified, the provisions of this Act take effect upon enactment.

(b) Chapters 2 and 3 of title I take effect on July 1, 1969.

(c) Title III takes effect on July 1, 1970.

**TRUTH IN LENDING  
INTERPRETATIONS OF REGULATION Z**

**SECTION 226.1**

**SECTION 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

**SECTION 226.2**

**SECTION 226.201—LAY-AWAY PLANS AS  
EXTENSIONS OF CREDIT**

Many vendors offer Lay-Away Plans under which they retain the merchandise for a customer until the cash price is paid in full and the customer has no contractual obligation to make payments and may, at his option, revoke a purchase made under the plan and request and receive prompt refund of any amounts paid toward the cash price of the merchandise.

A purchase under such a Lay-Away Plan shall not be considered an extension of credit subject to the provisions of Regulation Z.

5/5/69

**SECTION 226.202—SECURITY INTEREST—  
CONFESSIONS OF JUDGMENT—  
COGNOVIT NOTES**

Under § 226.2(z) “security interest” is defined to include confessed liens whether or not recorded and, in general, to include any interest in property which secures payment or performance of an obligation. In certain transactions involving a security interest, under § 226.9 the customer has a right of rescission.

In some of the States, confession of judgment clauses or cognovit provisions are lawful and make it possible for the holder of an obligation containing such clause or provision to record a lien on property of the obligor simply by recording entry of judgment; the obligor is afforded no opportunity to enter a defense against such action prior to entry of the judgment.

Since confession of judgment clauses and cognovit provisions in such States have the effect of depriving the obligor of the right to be notified of a pending action and to enter a defense in a judicial proceeding *before* judgment may be entered or recorded against him, such clauses and provisions in those States are security interests under § 226.2(z) and for the purposes of § 226.7(a)(7), § 226.8(b)(5), and § 226.9. This is the case even if the judgment cannot be entered until after a default by the obligor.

Confession of judgment clauses and cognovit provisions which, by their terms, exclude a lien on all real property which is used or is expected to be used as the principal residence of the customer, would not bring a transaction under the provisions of § 226.9.

5/26/69

#### SECTION 226.203—OPEN END CREDIT DISTINGUISHED FROM OTHER CREDIT

The fundamental qualification for "open end credit" under § 226.2(r) is that consumer credit be extended on an account pursuant to a plan under which (1) the creditor may permit the customer to make purchases or obtain loans from time to time directly or indirectly from the creditor, as the plan may provide; (2) the customer has the privilege of paying the balance in full or in instalments; and (3) a finance charge may be computed by the creditor from time to time on an outstanding unpaid balance. Under an open end credit account plan, it is contemplated that there will or may be repetitive transactions on a revolving basis.

In certain cases, a form of contract or note relating to a single transaction provides that the finance charge be computed from time to time by application of a rate to the unpaid balance and stipulates required minimum periodic payments. However, the obligor has the privilege of making larger and more frequent payments than stipulated or paying the obligation in full at any time without penalty. The question arises as to whether the creditor should make disclosures in such circumstances under § 226.7 for open end credit accounts or under § 226.8 for credit other than open end.

Although the terms of such a contract or note meet the second and third requirements for such a plan, they do not meet the first of such requirements nor the basic qualification that consumer credit be extended on an account pursuant to a plan. Therefore, disclosures in this case are required to be made under § 226.8.

5/26/69

#### SECTION 226.3

##### SECTION 226.301—AGRICULTURAL PURPOSES—WHEN EXEMPT FROM THE REGULATION

Under § 226.3(a), the Regulation does not apply to "Extensions of credit to organizations, including governments, or for business or commercial purposes, other than agricultural purposes." The definition of "organization" in § 226.2(s) includes a corporation, trust, estate, partnership, cooperative, or association as well as governmental entities. The question arises as to whether the Regulation applies to extensions of credit to organizations, including governments, for agricultural purposes.

Extensions of credit to organizations, including governments, for agricultural purposes are exempt from the Regulation.

5/26/69

##### SECTION 226.302—CREDIT FOR BUSINESS OR COMMERCIAL PURPOSES—MORE THAN 4 FAMILY UNITS

Under § 226.3(a), extensions of credit for business or commercial purposes, other than agricultural purposes, are not subject to Regulation Z. The question arises as to whether an extension of credit relating to a dwelling (as defined in § 226.2(p)) which contains more than 4 family housing units is an extension of credit for business or commercial purposes.

Credit extended to an owner of a dwelling containing more than 4 family housing units for the purpose of acquiring, financing, refinancing, improving, or maintaining that dwelling is an extension of credit for business or commercial purposes.

1/28/70

#### SECTION 226.4

##### SECTION 226.401—SERVICE CHARGES ON ACCOUNTS NOT PAID WITHIN A GIVEN PERIOD OF TIME

Some vendors bill their customers for property or services purchased under the terms of a credit plan which requires that the full amount of each billing be paid within a stipulated period after

billing, with no privilege of paying in instalments. If a bill is not paid within that stipulated period of time, the vendor imposes a service charge periodically on the unpaid balance until the account is paid in full. The question arises as to whether Regulation Z applies to such transactions.

When in the ordinary course of business a vendor's billings are not paid in full within that stipulated period of time, and under such circumstances the vendor does not, in fact, regard such accounts in default, but continues or will continue to extend credit and imposes charges periodically for delaying payment of such accounts from time to time until paid, the charge so imposed comes within the definitions of a "finance charge" (§ 226.2(q)) applicable in each case to the amount of the unpaid balance of the account. Under such circumstances the credit so extended comes within the "open end credit" in § 226.2(r), the vendor is a creditor as defined in § 226.2(m), and the disclosures required for open end credit accounts under § 226.7 shall be made.

4/22/69

#### SECTION 226.402—TERM OF INSURANCE COVERAGE

Under § 226.4(a)(5) and (6) certain disclosures of insurance premium costs, if applicable, are required. The question arises as to whether such amounts of cost disclosed must include the cost of insurance for the full term of the transaction.

Under § 226.4(h) the cost of insurance for the full period of insurance coverage which the creditor will require shall be disclosed if the cost of the insurance premium is required to be included in the finance charge. However, if the cost of insurance is not required to be included in the finance charge, the cost to be disclosed need only be the cost of premiums for the term of the initial policy or policies written in connection with the transaction, accompanied by a statement of the type of insurance and the term thereof.

5/5/69

#### SECTION 226.403—DISCLOSURE OF COST OF PROPERTY INSURANCE WHEN NOT OBTAINABLE FROM OR THROUGH THE CREDITOR

In many cases a creditor requires insurance

against loss or damage to property or liability arising out of its use but such insurance is not obtainable from or through him. The question arises under § 226.4(a)(6) as to whether such a creditor must make any disclosures to avoid having to include the insurance premium in the finance charge.

Irrespective of whether such insurance may be obtained from or through the creditor, if the creditor requires property insurance and wishes to exclude the cost from the finance charge, he is required to state clearly and conspicuously to the customer that he may choose the person through which the insurance is to be obtained. However, if the insurance is not obtainable from or through the creditor, he is not required to disclose the cost of that insurance, unless, of course, the premiums are included in the "amount financed," in which case it would have to be disclosed under § 226.8(c)(4) or (d)(1), as the case may be.

5/26/69

#### SECTION 226.404—PREMIUMS FOR VENDOR'S SINGLE INTEREST INSURANCE REQUIRED BY CREDITOR

The question arises whether charges or premiums for single interest insurance (Vendor's Single Interest Insurance) written in connection with a credit transaction may be excluded from the finance charge under § 226.4(a)(6) if the insurer waives subrogation.

If the insurer waives all right of subrogation against the customer in a single interest policy of insurance against loss of or damage to property (which may include coverage for skip, concealment, conversion, and embezzlement) written in connection with a credit transaction, and the creditor complies with the requirements of § 226.4(a)(6), charges or premiums for such insurance may be excluded from the amount of the finance charge on that transaction. However, if the insurer does not so waive subrogation in such policy of insurance, the charges or premiums shall be included in the finance charge.

1/28/70 (*Supersedes interpretation § 226.404 issued 8/1/69*)

**SECTION 226.405—PROPERTY INSURANCE  
WRITTEN IN CONNECTION WITH A  
TRANSACTION—OBTAINED FROM  
OR THROUGH THE CREDITOR**

Footnote 4 to § 226.4(a)(6) specifies that a policy of insurance against loss or damage to property or liability arising out of its use is not considered to be "written in connection with" a transaction when it "... was not purchased by the customer for the purpose of being used in connection with that extension of credit." Therefore, whenever such a policy is purchased by the customer for the purpose of being used in connection with a specific extension of credit, it is insurance "written in connection with" that transaction.

If the customer elects to purchase such insurance otherwise than from or through the creditor, the creditor is not required to disclose the cost of the insurance or include the premium in the finance charge. However, if the cost of such insurance is to be financed through the creditor, the premiums must be included in the "amount financed" and disclosed under § 226.8(c)(4) or (d)(1), as the case may be.

9/11/69

**SECTION 226.406—SELLER'S POINTS AND  
DISCOUNTS UNDER REGULATION Z**

Section 226.4(a) of Regulation Z includes in the finance charge any charge "payable directly or indirectly by the customer, and imposed directly or indirectly by the creditor as an incident to or as a condition of the extension of credit. . . ." The question arises as to the proper treatment of discounts paid by the seller, including points imposed on the seller by the lender in connection with a real estate transaction.

Under the general rule in § 226.4(a), any such discount, to the extent it is passed on to the buyer through an increase in the selling price, must be included in the finance charge. However, as a practical matter, it may be difficult to determine whether or not a discount paid by the seller in connection with a real estate transaction has been, in fact, passed along to the customer as a part of the purchase price of the property. The same situation may exist in other cases, for example, those in which the creditor sells at a dis-

count obligations payable in more than four instalments.

The Board has concluded that in any such transaction coming within its administrative enforcement authority, where seller's points or discounts were, in fact, passed along to the customer or buyer and the amount thereof was not disclosed as a finance charge, the Board will take such action as may be appropriate in the circumstances. However, it will not attempt to prescribe rules creating a presumption that all discounts or points are passed on to the customer or buyer and hence must be included in the finance charge in any particular class of transaction. On the other hand, the inclusion of seller's points or discounts in the finance charge will be acceptable to the Board as a correct disclosure under Regulation Z.

This position relates only to the Board's administrative enforcement procedures and it is not intended in any way to restrict or prejudice the rights of any customer or buyer to bring an action under sections 130 and 131 of the Act where he has reason to believe he is or was required to pay directly or indirectly a finance charge imposed directly or indirectly by the creditor of the transaction and the amount of that finance charge was not disclosed to him.

10/23/70

**SECTION 226.407—CHARGES FOR  
MEMBERSHIP IN OPEN END  
CREDIT PLAN**

A credit card issuer charges the cardholder an annual fee for membership in the credit plan and for issuance of a credit card for use in conjunction with the plan. The payment of the fee is required as a condition of membership in the plan, whether or not the cardholder uses his card for the purpose of obtaining credit. The question arises whether these fees are finance charges under § 226.4(a) of Regulation Z.

Since such fees are imposed as a qualification of membership in the plan and for the issuance of a credit card, and not as incident to or as a condition of any specific extension of credit, they do not fall within the definition of a "finance charge" under § 226.4(a) of Regulation Z.

8/12/71

**SECTION 226.5****SECTION 226.501—USE OF RANGES OR BRACKETS TO DETERMINE PERIODIC RATE OF FINANCE CHARGE ON OPEN END ACCOUNTS**

Section 226.5(a)(1) of Regulation Z, in effect, gives a creditor the option in certain circumstances of stating (1) two or more separate annual percentage rates (e.g., the rate on a \$700 balance might be stated as 18% on balance to \$500 and 12% on balance over \$500), or (2) a single annual percentage rate determined by the "quotient method" resulting from applying the rates to a total balance (e.g., in the example above, an annual percentage rate of 16¼% on a \$700 balance).

Section 226.5(a)(2), which relates to the use of ranges or brackets to compute periodic finance charges, does not prevent a creditor who uses such brackets from exercising the options referred to in § 226.5(a)(1).

4/2/69

**SECTION 226.502—ANNUAL PERCENTAGE RATE ON SINGLE ADD-ON RATE TRANSACTIONS**

The application of a single add-on rate to transactions of varying maturities, when converted to an annual percentage rate determined by the actuarial method, results in minor variations. Such annual percentage rate variations on maturities up to 60 months are so insignificant that separate computations are unwarranted.

The question arises as to whether a creditor may disclose a single annual percentage rate on all such transactions based upon the highest rate which will arise from the application of the same single add-on rate to each of such transactions.

When the same add-on rate is applied to all transactions within a range of maturities up to 60 months, and provided that all payments on each transaction are equal in amount and due at equal intervals of time within the limits provided by § 226.5(d), a single annual percentage rate may be disclosed in which case it shall be the highest annual percentage rate that may be applicable to any such transactions.

5/26/69

**SECTION 226.503—MINOR IRREGULARITIES—MAXIMUM IRREGULAR PERIOD LIMITS**

Section 226.5(d) specifies certain minimums in determining what minor irregularities in first payment periods may be disregarded in determining the annual percentage rate. The question arises as to what maximum limits for such periods would still permit the irregular periods to be considered regular in computing the annual percentage rate.

If the period from the date on which the finance charge begins to accrue and the date the final payment is due is not less than three months in the case of weekly payments, six months in the case of biweekly or semimonthly payments, or one year in the case of monthly payments, the maximum interval of time from the date the finance charge begins to accrue to the date the first payment is due is as follows:

- (1) in the case of weekly payments, 12 days;
- (2) in the case of biweekly or semimonthly payments, 25 days;
- (3) in the case of monthly payments, 50 days.

If the period from the date on which the finance charge begins to accrue and the date the final payment is due is less than three months in the case of weekly payments, six months in the case of biweekly or semimonthly payments, or one year in the case of monthly payments, the maximum interval of time from the date the finance charge begins to accrue to the date the first payment is due is as follows:

- (1) in the case of weekly payments, 10 days;
- (2) in the case of biweekly or semimonthly payments, 21 days;
- (3) in the case of monthly payments, 42 days.

6/10/69

**SECTION 226.504—TREATMENT OF "PICK-UP PAYMENT" IN AN INSTALMENT CONTRACT**

In some instances involving an instalment contract arising from a credit sale, the purchaser may not pay the full amount of the required downpayment at the time he signs the contract or otherwise enters into the credit transaction. In such cases, the creditor may include in the instalment contract or accept a separate obligation for the unpaid portion of the downpayment, com-

monly called a "pick-up payment," the amount of which usually carries no finance charge and is to be paid on or before a specified date independent of the other scheduled payments.

The question arises whether the "pick-up payment" must be treated as part of the "amount financed" for purposes of disclosure and determination of the "annual percentage rate" or whether it may be treated as a deferred portion of the downpayment.

In determining the "amount financed" the creditor may exclude the amount of the "pick-up payment" provided that:

(1) The amount of the finance charge applicable to the transaction does not exceed the amount that would have been imposed had the required downpayment been paid in full upon consummation of the transaction; and

(2) The due date of the "pick-up payment" is not later than the due date of the second payment otherwise scheduled.

In making the disclosures required under § 226.8(b)(3), if such "pick-up payment" is more than twice the amount of an otherwise regularly scheduled equal payment, the creditor shall state the conditions, if any, under which such "pick-up payment" may be refinanced if not paid when due; and such "pick-up payment" may be identified using that term or the term "balloon payment."

9/11/69

#### SECTION 226.505—APPLICATION OF THE MINOR IRREGULARITIES PROVISIONS IN DETERMINING THE AMOUNT OF THE FINANCE CHARGE

Some creditors calculate finance charges in a credit transaction on the basis of predetermined percentage rate or rates, e.g., 1% per month on the unpaid balances. Determination of the amount of the finance charge is fairly routine for these creditors if the contracts are written for regular payments at regular intervals. However, many times the first payment may be irregular either in amount or payment period, or both, especially in those instances where creditors require payments to fall due on fixed dates or those who are paid by means of payroll deductions. The minor irregularities provisions of § 226.5(d) of the Regulation and § 226.503 of the interpretations to

Regulation Z, which pertain to the determination of the annual percentage rate, also apply to the determination of the finance charge. For convenient reference, the applicable provisions of § 226.5(d) and § 226.503 as they apply to the determination of the finance charge are set forth below.

In determining the finance charge, a creditor may, at his option, consider the payment irregularities set forth below in subparagraphs (1) and (2) and if they were regular in amount or time, as applicable, provided that the transaction to which they relate is otherwise payable in equal instalments scheduled at equal intervals.

(1) If the period from the date on which the finance charge begins to accrue and the date the final payment is due is not less than 3 months in the case of weekly payments, 6 months in the case of biweekly or semimonthly payments, or 1 year in the case of monthly payments, either or both of the following:

(i) The amount of 1 payment other than any downpayment is not more than 50 per cent greater nor 50 per cent less than the amount of a regular payment; or

(ii) The interval between the date on which the finance charge begins to accrue and the date the first payment is due is not less than 5 nor more than 12 days for an obligation otherwise payable in weekly instalments, not less than 10 nor more than 25 days for an obligation otherwise payable in biweekly or semimonthly instalments, or not less than 20 nor more than 50 days for an obligation otherwise payable in monthly instalments.

(2) If the period from the date on which the finance charge begins to accrue and the date the final payment is due is less than 3 months in the case of weekly payments, 6 months in the case of biweekly or semimonthly payments, or 1 year in the case of monthly payments, either or both of the following:

(i) The amount of 1 payment other than any downpayment is not more than 25 per cent greater nor 25 per cent less than the amount of a regular payment; or

(ii) The interval between the date on which the finance charge begins to accrue and the date the first payment is due is not less than 6 nor more than 10 days for an obligation otherwise

payable in weekly instalments, not less than 12 nor more than 21 days for an obligation otherwise payable in biweekly or semimonthly instalments, or not less than 25 nor more than 42 days for an obligation otherwise payable in monthly instalments.

For the purposes of § 226.8(b)(3) in disclosing the number, amount and due dates or periods of payments scheduled to repay the indebtedness and the "total of payments," the creditor may treat such irregular payments or payment periods, or both, as if they were regular. If the creditor so elects, he may indicate the exact amount of payment period involved in the minor irregularity.

9/11/69

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

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.

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.

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".

6/1/73

#### SECTION 226.6

##### SECTION 226.601—OVERSTATEMENT OF ANNUAL PERCENTAGE RATE

Section 226.6(h) of Regulation Z provides that in certain circumstances the disclosure of an annual percentage rate which is greater than that required to be disclosed under the Regulation does not in itself constitute a violation of the Regulation. Under this section may a disclosure regarding an annual percentage rate (e.g., "the annual percentage rate does not exceed 18%") be preprinted on a contract or periodic statement and comply with disclosure requirements when the actual rate will at times be lower (e.g., 15%) for some transactions?

Section 226.5 specifies the methods which shall be employed in determining annual percentage rates. Section 226.6(h) is not intended to provide an alternative to these requirements, but is merely to provide appropriate relief to a creditor who overstates accidentally. Any disclosure of an annual percentage rate whether preprinted or otherwise which overstates the annual percentage rate determined in accordance with § 226.5 other than through inadvertence does not comply with requirements.

4/2/69

##### SECTION 226.602—(Rescinded effective 3/1/74)

##### SECTION 226.603—DISCLOSURES IN TRANSACTION INVOLVING MULTIPLE CUSTOMERS

Section 226.6(e) states the general rule that, except in the case of a rescindable transaction under § 226.9, where there are multiple customers in a transaction, the creditor is only required to make disclosures to one of them. However, in determining which customer shall receive disclosures, the creditor may not select a customer who is secondarily liable, such as an endorser, co-maker (when designated as surety), guarantor, or a similar party. This does not prohibit the creditor from also furnishing disclosures to such persons who are secondarily liable.

4/2/69



### SECTION 226.604—INCONSISTENT STATE REQUIREMENTS

Section 226.6(b) of Regulation Z indicates types of State law requirements that are inconsistent with Regulation Z, and § 226.6(c) indicates the methods of dealing with such inconsistent requirements of State law.

Whether State laws are inconsistent with Regulation Z necessarily depends on the nature of the State laws. Section 226.6(b)(1) provides that State law is inconsistent to the extent that it "requires a creditor to make disclosures different from the requirements of this Part with respect to form, content, terminology, or time of delivery." This refers to disclosures of the kinds of information covered by Regulation Z, and *not* to other or collateral information such as a statement telling the customer that he should read the contract carefully, or that there should be no blanks in the contract. Similarly, it does not refer to headings that State law may require on a contract such as "Retail Installment Contract." Similarly, a specification in a State law that certain size type must be used is not necessarily inconsistent with the requirements of Regulation Z.

4/22/69

SECTION 226.605—(Rescinded effective 3/1/74)

### SECTION 226.7

#### SECTION 226.701—PERIODIC STATEMENTS —FINANCE CHARGE RESULTING FROM MORE THAN ONE PERIODIC RATE

Section 226.7(b)(4) of Regulation Z requires that a periodic statement for open end credit show the amount of any finance charge, and that the statement also itemize and identify that portion of the finance charge that is due to application of one or more periodic rates and that portion due to any other charge such as minimum, fixed, check service, transaction, activity, or similar charge.

This does not require the statement to state separately the portions of a finance charge due to application of two or more periodic rates. For example, if a creditor charges 1½% per month

on the first \$500 of a balance and 1% per month on amounts over \$500, the monthly charge on a \$600 balance would be \$8.50, which must be shown. However, it would not be necessary to itemize the two components (\$7.50 and \$1.00) of the \$8.50 charge. Under § 226.7(b)(5), the periodic rates that may apply to the account, and the applicable range of balances must, of course, be shown, but this could be preprinted.

4/2/69

SECTION 226.702 is incorporated into section 226.7(c) effective June 1, 1973, and is revoked effective that date.

#### SECTION 226.703—FINANCE CHARGE BASED ON AVERAGE DAILY BALANCE IN OPEN END CREDIT ACCOUNTS

Section 226.7(b)(8) requires that periodic statements for open end accounts shall disclose, among other things, "The balance on which the finance charge was computed, and a statement of how that balance was determined." In some instances, creditors compute a finance charge on the average daily balance by application of a monthly periodic rate. In such case, this information is adequately disclosed if the statement gives the amount of the average daily balance on which the finance charge was computed, and also states how the balance is determined. In other instances, the finance charge is computed on the balance each day by application of a daily periodic rate and such charges are accumulated and debited to the account in a single amount for the billing cycle. The question arises whether the periodic statement must show for each day of the billing cycle a balance on which a finance charge was computed.

If a daily periodic rate is used, the balance to which it is applicable shall be stated as follows:

- (1) A balance for each day in the billing cycle; or
- (2) A balance for each day in the billing cycle on which the balance in the account changes; or
- (3) The sum of the daily balances during the billing cycle; or
- (4) The average daily balance during the billing cycle in which case the creditor shall state on the face of the periodic statement, its reverse

side, or on an enclosed supplement wording to the effect that the average daily balance is or can be multiplied by the number of days in the billing cycle and the periodic rate applied to the product to determine the amount of the finance charge.

6/21/72 (*Supersedes interpretation § 226.703 issued 5/5/69*)

SECTION 226.704 is incorporated into section 226.5(a)(3) effective June 1, 1973, and is revoked effective that date.

**SECTION 226.705—OPEN END CREDIT—  
CHANGE IN THE METHOD OF  
DETERMINING THE BALANCE ON  
WHICH FINANCE CHARGES  
ARE COMPUTED**

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."

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 charge 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

**SECTION 226.706—OPEN END CREDIT—  
ALLOCATION OF PAYMENTS**

Section 226.7(a)(2) provides that before the first transaction is made on any open end credit account, the creditor must disclose "the method of determining the balance upon which a finance charge may be imposed." Section 226.7(b)(8) requires the creditor to disclose on the periodic statement "the balance on which the finance charge was computed, and a statement of how that balance was determined." The question is raised whether these provisions require a creditor to provide a description of the manner in which payments or other credits are applied to various portions of the balance or balances on which finance charges are computed.

In disclosing the method of determining the balance(s) upon which finance charges are computed, it is not necessary to show the method of allocating payments or other credits. For example, explanation of the manner in which payments or credits may be applied to late charges, overdue balances, finance charges, insurance premiums or other portions of balances is not required. Similarly, explanation of the method of allocating such payments between cash advance and purchase portions of the account is not required. Such explanations in many cases involve lengthy and complex descriptions which may unduly complicate disclosures.

Explanation of the allocation method may be made by creditors where it can be done in conformity with § 226.6(c) which authorizes additional information or explanations as long as they are not stated, utilized, or placed so as to mislead or confuse the customer or contradict, obscure, or detract attention from the required disclosures.

6/21/72

**SECTION 226.707—DISCLOSURES—  
VARIABLE PERIODIC RATES**

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(b)(6), § 226.7(e) and § 226.10(c)(4) in connection with such plans.

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

#### SECTION 226.8

##### SECTION 226.801—LOCATION OF DISCLOSURES WHEN CONTRACT, SECURITY AGREEMENT, AND EVIDENCE OF TRANSACTION ARE COMBINED IN A SINGLE DOCUMENT

Some creditors incorporate the terms of a contract, a security agreement, and evidence of a transaction in a single document. These documents are designed for processing by mechanical and electronic equipment. If all of the required disclosures under § 226.8 should be placed on the face of such a document, the creditor will be unable to utilize conventional accounting and record keeping equipment because of the size of the resulting document. The question arises as to whether required disclosures may be made on the face and the reverse side of such a document.

Where a creditor elects to combine disclosures with the contract, security agreement, and evi-

dence of a transaction in a single document, the disclosures required under § 226.8 shall, in accordance with § 226.6, be made on the face of that document, on its reverse side, or on both sides, provided that the amount of the finance charge and the annual percentage rate shall appear on the face of the document, and, if the reverse side is used, the printing on both sides of the document shall be equally clear and conspicuous, both sides shall contain the statement, "NOTICE: See other side for important information," and the place for the customer's signature shall be provided following the full content of the document.

4/22/69

##### SECTION 226.802—DISCLOSURES ON MAIL OR TELEPHONE ORDERS

Under § 226.8(g), disclosures may be made at any time not later than the date the first payment is due under certain conditions. The question arises as to when disclosures shall be made on mail or telephone orders where the information outlined in § 226.8(g)(1) and (2) is not available to the customer or prospective customer.

Under the circumstances set forth in the above question, the creditor shall make the disclosures required under Regulation Z as follows:

1. With respect to credit sales, not later than at the time of delivery of the property or first performance of service ordered.
2. With respect to loans, not later than at the time proceeds of the loan are disbursed.
3. Except that if the transaction is subject to the provisions of § 226.9, the disclosures shall be made before the transaction is consummated.

5/5/69

##### SECTION 226.803—DISCLOSURES WHEN DISCOUNTS APPLY FOR PROMPT PAYMENT

Under § 226.8(o), disclosures shall be made on the billing statement whereas under § 226.8(a) disclosures shall be made before the transaction is consummated. The question arises as to which provision prevails.

The provisions of § 226.8(o) prevail under the conditions set forth in that paragraph unless the

transaction is also subject to the provisions of § 226.9 in which event the disclosures shall be made before the transaction is consummated.

5/5/69

#### SECTION 226.804—SERIES OF SALES— CONTENT OF AGREEMENT

Under § 226.8(h), if a credit sale is one of a series of transactions made under an agreement providing for the addition of a current sale to an existing outstanding balance and the customer has approved in writing the annual percentage rate or rates and certain other requirements are met, disclosures may be made at any time not later than the date the first payment for that sale is due.

The question arises as to how the annual percentage rate or rates should be shown in an agreement where, for example, an 18% annual percentage rate applies to the first \$500 of balance, a 12% annual percentage rate applies to all balances over \$500, and the mix of the two rates on transactions over \$500 will produce a gradually decreasing annual percentage rate as the amount of balance over \$500 increases.

In addition to meeting the other requirements of § 226.8(h), if two or more annual percentage rates apply to ranges of balances, the agreement need only state each annual percentage rate and the range of balances to which it applies. However, the disclosures which must be made not later than the date the first payment is due must include the actual annual percentage rate applicable to that sale.

5/5/69

#### SECTION 226.805—SERIES OF SALES AS DISTINGUISHED FROM REFINANCING, CONSOLIDATING, OR INCREASING

The question arises as to the distinction between the provisions of § 226.8(h), series of sales, and the provisions of § 226.8(j), refinancing, consolidating, or increasing.

Section 226.8(h) is applicable *only* when a credit sale is made pursuant to an agreement which provides for the addition of a current (or new) sale to an existing outstanding balance. In such cases, and provided that all of the requirements of § 226.8(h)(1) and (2) are met, the disclosures may be made at any time not later than the date the first payment for that sale is due.

If there is no agreement, or if the agreement does *not* meet all of the requirements of § 226.8(h), the disclosures required in connection with any subsequent sale, which is added to a previously outstanding balance shall be made under the provisions of § 226.8(j). For example, the fact that an agreement provides a method of computing an unearned portion of the finance charge in the event of prepayment, but does not otherwise meet the requirements of § 226.8(h), will not qualify transactions made pursuant to that agreement for disclosure under the terms § 226.8(h).

5/26/69

#### SECTION 226.806—DEPOSIT BALANCES APPLIED TOWARD SATISFACTION OF CUSTOMER'S OBLIGATION

Section 226.8(e)(2) provides that required deposit balances must be deducted under § 226.8(c)(6) and excluded under § 226.8(d)(1) in determining the amount financed. Subdivision (ii) of § 226.8(e)(2) provides an exception in the case of Morris Plan type transactions in which payments in the transaction are made and accumulated in a deposit account which is then wholly applied to satisfy the obligation.

Unless the deposit balance account is created for the sole purpose of accumulating payments and then being applied toward satisfaction of the customer's obligation in the transaction, such deposit balance does not fall within the exception provided in subdivision (ii).

In any case in which a deposit balance qualifies for this exception, each deposit made into the account shall be considered the same as a payment on the obligation for the purpose of computations and disclosures.

5/26/69

#### SECTION 226.807—ASSUMPTION OF AN OBLIGATION—DISCLOSURES

The question arises as to which disclosures are required to be made under § 226.8(k).

For the purposes of § 226.8(k), an "assumption" occurs only when, by written agreement entered into between a subsequent customer and the creditor, that subsequent customer is or will be accepted by that creditor as an obligor on

an existing evidence of debt. In such circumstances, disclosures shall be made as follows:

(1) If the finance charge originally imposed on the existing evidence of debt was an add-on or discount type finance charge, the creditor need only disclose:

(i) The unpaid balance of the obligation assumed;

(ii) The total amount of the charges imposed by the creditor, individually itemized, in connection with the assumption;

(iii) The number, amount, and due dates of remaining payments to be made after assumption, the total of such payments, and any other applicable information required under § 226.8(b)(3);

(iv) Identification of the type of security interest, if any, retained or to be acquired in any property of the assuming customer and a brief identification of that property;

(v) The information required to be disclosed under § 226.8(b)(4), (6) and (7);

(vi) If applicable in connection with the assumption, the disclosures required under § 226.4(a)(5) and (6); and

(vii) If that obligation was entered into on or after July 1, 1969, the annual percentage rate originally disclosed on the existing obligation.

(2) If the existing evidence of debt is subject to a finance charge computed from time to time by application of a percentage rate to an unpaid balance, the creditor shall make the disclosures required under § 226.8(b) and (d), and, if applicable in connection with the assumption, the disclosures required under § 226.4(a)(5) and (6), except that in determining the amount of the finance charge and the annual percentage rate to be disclosed to the customer who assumes the obligation, the creditor may disregard any prepaid finance charges paid by the original customer, but shall include in the finance charge as a "prepaid finance charge" the total amount of the charges imposed by the creditor, individually itemized, in connection with the assumption.

6/10/69

#### SECTION 226.808—DISCLOSURE OF AMOUNT OF SCHEDULED PAYMENTS

Section 226.8(b)(3) requires the creditor to disclose the "amount . . . of payments scheduled to

repay the indebtedness." In certain transactions each payment consists of an equal amount to apply on principal and a finance charge which is determined by application of a rate to the decreasing unpaid balance. In such cases no two payments are equal in amount. The question arises as to whether it is necessary to list the respective dollar amount of each such payment to comply with this requirement of § 226.8(b)(3), or whether an optional disclosure is permitted.

In any transaction in which the amount of each regularly scheduled payment (other than a first or last payment) includes an equal amount to be applied on principal and a finance charge computed by application of a rate to the decreasing unpaid balance, at the creditor's option the requirement of § 226.8(b)(3) with respect to the amount of each payment may be met by disclosing the following information:

(1) The amount of each payment to be applied on principal, and an identification of that amount as payment on principal;

(2) The respective amount of finance charge included in the first and last scheduled payments so described;

If this option is utilized, the exceptions provided under paragraphs (b)(3), and (c)(8) and (d)(3) of § 226.8 shall not apply.

6/10/69

#### SECTION 226.809—DISCLOSURES FOR CERTAIN STUDENT LOANS

Footnotes 10 and 11 to Regulation Z provide an exception from specified disclosure requirements for interim student loans under certain Federally insured student loan programs. These exceptions are applicable to other student loans of the same type, including those made to students under Federally supported loan programs or programs of loan guarantee, administered by or under agreement with the U.S. Department of Health, Education, and Welfare. In all of such cases, however, all disclosures must be made prior to the time the final note is executed or repayment schedule is agreed upon.

6/10/69

**SECTION 226.810—DISCLOSURES—  
VARIABLE INTEREST RATES**

In some cases a note, contract, or other instrument evidencing an obligation provides for prospective changes in the annual percentage rate or otherwise provides for prospective variation in the rate. The question arises as to what disclosures must be made under these circumstances when it is not known at the time of consummation of the transaction whether such change will occur or the date or amount of change.

In such cases, the creditor shall make all disclosures on the basis of the rate in effect at the time of consummation of the transaction and shall also disclose the variable feature.

If disclosure is made prior to the consummation of the transaction 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 rate stipulated in the note, contract, or other instrument evidencing the obligation, such subsequent change in the annual percentage rate in accordance with the foregoing disclosures is a subsequent occurrence under § 226.6(g) and is not a new transaction.

6/20/69

**SECTION 226.811—RENEWALS  
OF NOTES**

Any renewal of an extension of credit providing for payment of the full principal sum on a specified date shall not be considered a refinancing under § 226.8(j), and no disclosures need be made in connection with such renewal, provided:

(i) All disclosures required under this Part were made in connection with the original extension of credit or a prior renewal thereof;

(ii) The amount of the renewal does not exceed the amount of the unpaid balance plus any accrued and unpaid finance charge;

(iii) The annual percentage rate (or rates) previously disclosed is not increased; and

(iv) The period for which renewal is made does not exceed by more than 4 days the period of the extension of credit for which disclosures were made.

In instances in which disclosures are required to be made and renewal is made by mail, the creditor may not know whether the customer will reduce his obligation by a payment on principal or, if reduced, the amount of that reduction. The question arises as to what disclosures should be made by mail to the customer in these circumstances.

If the creditor knows the amount of the principal payment, all disclosures should be made on the basis of the resulting new amount financed. If, however, the creditor does not know whether the customer will reduce his original obligation, or if so, by how much, he should disclose on the assumption that there will be no reduction. In such circumstances, at the creditor's option, he may make one or more additional disclosures based on one or more examples of graduated principal reduction. For example, if a single payment note for \$1,000 at 7% is proposed to be renewed for \$1,000 at 8% for 3 months, in addition to the other required disclosures, the creditor should disclose an amount financed of \$1,000 with a finance charge of \$20, and may, in addition, disclose that with a principal payment of \$300 the amount financed would be \$700 with a finance charge of \$14, and with a principal payment of \$500 the amount financed would be \$500 with a finance charge of \$10.

1/28/70 (*Supersedes interpretation § 226.811 issued 8/1/69*)

**SECTION 226.812 — ADVANCES UNDER  
OPEN END REAL ESTATE MORTGAGES  
FOR AGRICULTURAL PURPOSES**

Under § 226.8(p) disclosures are permitted in connection with certain extensions of credit for agricultural purposes which may involve advances under an open end real estate mortgage or similar lien. Section 226.8(j) in part treats advances for agricultural purposes under an open end real estate mortgage or similar lien. The question arises as to the respective application of these paragraphs to such advances.

If an extension of credit involving multiple advances, whether or not under an open end mortgage, meets the tests of § 226.8(p), disclosures need only be made prior to consummation of the credit transaction and need not be made at the time of each individual advance, even though

such advance for agricultural purposes may not meet the tests in § 226.8(j). Conversely, extensions of credit for agricultural purposes involving advances under an open end real estate mortgage or similar lien which do not meet the tests for disclosure under § 226.8(p) are subject to the relevant provisions of § 226.8(j) dealing with such advances.

11/6/69

#### SECTION 226.813—DISCLOSURES ON MULTIPLE ADVANCE LOANS

In connection with construction and other multiple advance loans under § 226.8(i), which are payable in a single sum or permanently financed by the same creditor at maturity of the construction phase with interest only payable up to such maturity, and in which either the amount or date of an advance is not determinable, the question arises whether a method might be utilized to estimate the information to be disclosed under § 226.8(b)(2) and (3) and (d)(3).

In such cases, at the creditor's option, required information may be estimated and disclosed as follows:

(1) The following mathematical equations based upon assumed continuous advances may be utilized in estimating the amount of the interest component of the finance charge and the annual percentage rate by substituting the appropriate numerical amounts for the following symbols in the equations:

(i) Symbols

- L = Amount of loan commitment.
- r = Stated annual interest rate expressed as a decimal figure.
- n = Number of interest payments to be made to maturity.
- m = Number of interest periods (unit-periods) in 1 year.
- P = Total amount of any prepaid finance charge under § 226.8(e).
- B = Amount of any required deposit balance under § 226.8(e).

(ii) If interest is computed from the date of each advance on only the amounts advanced:

$$\text{Estimated annual percentage rate} = \frac{nrL + 2mP}{n(L - 2P - 2B)}$$

$$\text{Estimated interest finance charge} = \frac{nrL}{2m}$$

(iii) If interest is computed on the full amount of the commitment without regard for the dates of disbursements or actual amounts disbursed:

$$\text{Estimated annual percentage rate} = \frac{2nrL + 2mP}{n(L - 2P - 2B)}$$

$$\text{Estimated interest finance charge} = \frac{nrL}{m}$$

(2) If the equations under subdivision (ii) of paragraph (1) are utilized, the amounts of any required interest payments during the construction phase may be omitted in making the disclosure required under § 226.8(b)(3); however, if the equations under subdivision (iii) of paragraph (1) are utilized, then the amount of each scheduled interest payment shall be disclosed as required under § 226.8(b)(3).

(3) In the case of a combination construction loan and permanent financing provided by the same creditor:

(i) The amount of interest finance charge to be paid prior to the due date of the first amortization payment shall be estimated as prescribed under subdivisions (ii) or (iii) of paragraph (1) as the case may be and shall be treated as prepaid finance charge for computational purposes; and

(ii) Estimation of the annual percentage rate shall be made without regard to the number of interest only payments to be made, assuming the first payment period to be that interval between the date the finance charge begins to accrue and the date the first amortization payment is due.

(4) Disclosures made in accordance with this interpretation, when made along with the other disclosures required under § 226.8(b) and (d), shall constitute "all other material disclosures required under this Part" referred to under § 226.9(a):

#### Example I

A \$20,000 construction loan commitment on which the precise dates or amounts of advances are not determinable. The obligation bears a stated 6% interest rate and interest is to be paid monthly on the amounts advanced, and the total of the amounts advanced under the commitment plus any unpaid interest is due and payable at the end of nine months from the date the finance charge begins to accrue. There is a loan fee of 1% (\$200), but there is no required deposit balance.

Substituting these terms for the symbols, the equations become:

$$\frac{(9 \times .06 \times 20,000) + (2 \times 12 \times 200)}{9 \times [20,000 - (2 \times 200)]} =$$

.0884 or 8.84% or 8¾% estimated annual percentage rate.

$$\frac{9 \times .06 \times 20,000}{2 \times 12} = 450 \text{ or } \$450 \text{ estimated interest finance charge component of the finance charge.}$$

If the terms stated in the example were changed so that interest would be computed on the full amount of the commitment from the date the finance charge begins to accrue without regard for the dates of disbursements or actual amounts of funds disbursed, the equations under (iii) above become:

$$\frac{(2 \times 9 \times .06 \times 20,000) + (2 \times 12 \times 200)}{9 \times [20,000 - (2 \times 200)]} =$$

.1497 or 14.97% or 15% estimated annual percentage rate.

$$\frac{9 \times .06 \times 20,000}{12} = 900 \text{ or } \$900 \text{ estimated interest finance charge component of the finance charge. This interest would be payable in 9 monthly payments of } \$100 \text{ each.}$$

#### Example II

A \$20,000 construction loan followed by permanent financing in same amount. Six per cent interest. One point loan fee. Nine months to maturity of construction phase. Nine months payments of interest only during construction phase. Twenty-year maturity on permanent financing to be amortized in 240 equal monthly payments including interest and principal.

From mortgage amortization tables:

Amortization of a \$20,000 6% 20-year loan in 240 equal monthly payments including interest and principal requires each monthly payment to be \$143.29.

Total of 240 payments =

$$240 \times \$143.29 = \$34,389.60$$

Subtract amount of

loan principal \$20,000.00

Interest finance charge on permanent financing \$14,389.60

Add: Estimated interest finance charge on construction

|                                      |             |
|--------------------------------------|-------------|
| phase (pursuant to subdivision (ii)) | 450.00      |
| Add: Loan fee 1 point                | 200.00      |
| Estimated finance charge             | \$15,039.60 |

(If the interest on the construction phase is computed on the full amount of the commitment for the full time to maturity without regard for the dates of disbursements or actual amounts disbursed pursuant to subdivision (iii), the estimated interest finance charge for the construction phase would be \$900.00 which would result in a total estimated finance charge of \$15,489.60.)

Loan fee 1 point prepaid finance charge \$ 200.00

For computational purposes consider interest to be paid on construction phase as prepaid (not to be disclosed as prepaid) \$ 450.00

Total amount treated as prepaid finance charge for computational purposes \$ 650.00

|   | Computational<br>Purposes | Disclosure<br>Purposes |
|---|---------------------------|------------------------|
| Amount of loan  | \$20,000                  | \$20,000               |
| Deduct total of estimated finance charge treated as prepaid | \$ 650                    |                        |
| Deduct actual amount of prepaid finance charge              |                           | \$ 200                 |
| Estimated amount financed for computational purposes        | \$19,350                  |                        |
| Amount financed to be disclosed                             |                           | \$19,800               |

Adjust first payment period (period of construction loan plus period from maturity date of construction loan to due date of first amortization payment) by dividing the period of the construction loan by 2 and adding the period of time between the maturity date of the construction loan and the date the first amortization payment is due.

9 months divided by 2 = 4½ months plus 1 month = 5½ months

From Appendix A (page A2) of Volume I of



the Board's Annual Percentage Rate Tables, read across to 5 months and on the line below opposite 15 days ( $\frac{1}{2}$  month) read +9.0. This adjustment should be added to the number of regular amortization payments to determine the number of payments in utilizing the Annual Percentage Rate Tables:

240 monthly payments + adjustment 9.0 = 249

Following the directions on page 1 of Volume I: Estimated finance charge  $\$15,039.60 \times 100 = \$1,503,960$  which should be divided by the estimated amount financed for computational purposes:

$\$1,503,960 \div 19,350 = \$77.72$  estimated finance charge per \$100 of estimated amount financed for computational purposes.

Refer to page 309M of Volume I, read down number of payments column to 249; read across to 78.71 (which is nearest to \$77.72 computed above), and read up to 6.25% which is the estimated annual percentage rate to be disclosed.

In the example where the interest on the construction phase is computed on the full amount of the commitment without regard for the dates of advances or actual amounts advanced, the estimated finance charge per \$100 of amount financed is \$81.96. On page 309M of Volume I, read down to the 249th payment line and across to 82.39 which is the nearest amount to \$81.96, and read up to 6.50% which is the estimated annual percentage rate to be disclosed.

1/28/70

#### SECTION 226.814—PREMIUMS FOR INSURANCE ADDED TO AN EXISTING BALANCE

Subsequent to the consummation of a consumer credit transaction the customer may wish to purchase optional insurance in connection with the obligation. Typically, mortgage life and disability insurance may be offered to the customer at some date after consummation under a plan in which the lender will advance the amount of the premium due and add that amount to the existing unpaid balance of the obligation. Generally, each instalment on the original obligation paid during the period before the next premium is due will be increased proportionately to liquidate the amount

of the additional advance plus any finance charge. Additional advances are made automatically for renewal premiums as they become due unless the borrower requests discontinuance of the coverage. The question arises as to the required disclosures.

In such cases the insurance agreement may be considered a single separate transaction, and the disclosures required under § 226.8, at the creditor's option, need be made only prior to the time the agreement is executed and only with respect to the amount of the initial advance. For example, a mortgage life and disability insurance plan in which the annual premium advanced was \$145 repayable in 12 monthly instalments of \$12.61 added to the regular monthly mortgage payments would be disclosed as an "amount financed" of \$145, a "finance charge" of \$6.32, and a "total of payments" of \$151.32. Additional disclosures as applicable under § 226.8 would, of course, be made. If, as in some cases, only a portion of the advance is liquidated during the premium period with the remainder payable at the end of the mortgage contract, the creditor would likewise calculate the amount of finance charge which would accrue on the advance until paid in full.

In some cases the advance is secured by a security interest in real property which is used or expected to be used as the principal residence of the customer. In those cases the premium advance agreement is rescindable under § 226.9, and notice of the right of rescission provided in § 226.9(b) need only be given at the time the agreement is executed. Subsequent advances for renewal premiums are not subject to the right of rescission.

1/28/70

#### SECTION 226.815—DISCLOSURE FOR DEMAND LOANS

Section 226.8(b)(3) requires a creditor to disclose the number, amount and due dates or periods of payments scheduled to repay an extension of credit other than open end and, in appropriate cases, the total of payments. The question arises as to how these requirements should be met in the case of demand loans.

Section 226.4(g) provides that for the purpose of calculating the finance charge and annual percentage rate, demand loans are considered to

have a one-half year maturity unless the obligation is alternatively payable upon a stated maturity, in which case the stated maturity shall be used.

In order to comply with the requirements of § 226.8(b)(3), if no alternative maturity date is specified, the creditor need disclose only the due dates or periods of payments of all scheduled interest payments for the first one-half year. In such cases, the creditor need not disclose the number, amounts or total of payments or identify any balloon payment. Effective May 1, 1970, creditors shall disclose the fact that the obligation is payable on demand.

If an alternative maturity date is specified, all disclosures required under § 226.8(b)(3) shall be made, using that date.

1/28/70

#### SECTION 226.816—MORTGAGES WITH DEMAND FEATURES

In some cases real estate mortgages are written for a stated period, for example one year, with the provision that they shall be payable on demand after expiration of that period, provided that until such demand is made the principal and interest shall be paid in scheduled periodic instalments until paid in full. The obligation is thus payable according to a specified amortization schedule subject to the holder's right to demand payment after the stated period.

The question arises whether the creditor may make disclosures based on the specified amortization schedule or whether disclosures must be made on the basis of the maturity established by the expiration of the stated period.

In such cases the creditor may make disclosures based on the specified amortization schedule, provided he discloses clearly and conspicuously that the obligation is payable on demand after the stated period together with the fact that disclosures are made on the basis of the specified amortization schedule. Otherwise, disclosures shall be based upon the earliest date demand for payment in full may be made under the terms of the mortgage showing the unpaid balance due at that time as a "balloon payment."

The disclosure requirements of this interpretation shall become effective May 1, 1970.

1/28/70

#### SECTION 226.817—REDUCTION IN ANNUAL PERCENTAGE RATE

Section 226.8(j) specifies that if any existing extension of credit is refinanced, such transaction shall be considered a new transaction subject to the disclosure requirements of Regulation Z. The question arises as to whether a reduction in the annual percentage rate applicable to an existing extension of credit, when no other credit terms are changed, constitutes a refinancing under § 226.8(j).

When no other credit terms are changed, a reduction in the annual percentage rate applicable to an existing extension of credit does not constitute a refinancing under § 226.8(j), and no disclosures are required.

3/31/70

#### SECTION 226.818—REFUND OF UNEARNED FINANCE CHARGE; PREPAYMENT PENALTY

Under § 226.8(b)(7) a creditor must provide an identification of the method of computing any unearned portion of the finance charge in the event of prepayment of an obligation, as well as a statement of the amount or method of computation of any charge that may be deducted from the amount of any rebate. Section 226.8(b)(6) requires the creditor to provide "a description of any penalty charge that may be imposed by the creditor or his assignee for prepayment of the principal of the obligation. . . ." A question arises whether the computation of certain rebates of unearned finance charges on contracts with precomputed finance charges involves a "prepayment penalty." A second question concerns the disclosures required to identify the method of computing any finance charge rebate.

Section 226.8(b)(6) relates only to charges assessed in connection with obligations which do *not* involve precomputed finance charges included in the obligation. It applies to transactions in which the finance charge is computed from time to time by application of a rate to the unpaid principal balance. Prepayment penalties which require disclosure under this section (which principally arise in connection with prepayment of real estate mortgages) occur when the obligor in such a transaction is required to pay separately an ad-

ditional amount for paying all or part of the obligation before maturity. On the other hand, § 226.8(b)(7) is designed to encompass the disclosures necessary with regard to the prepayment of an obligation involving precomputed finance charges which are included in the face amount of the obligation. Therefore, although in a precomputed obligation the finance charge rebate to a customer may be less when calculated according to the "Rule of 78's," "sum of the digits," or other method than if calculated by the actuarial method, such difference does not constitute a penalty charge for prepayment that must be described pursuant to § 226.8(b)(6).

Section 226.8(b)(7) requires "identification" of the rebate method used on precomputed contracts. Many State statutes provide for rebates of unearned finance charges under methods known as the "Rule of 78's" or "sum of the digits" or other methods. In view of the fact that such statutory provisions involve complex mathematical descriptions which generally cannot be condensed into simple accurate statements, and which if repeated at length on disclosure forms could detract from other important disclosures, the requirement of rebate "identification" is satisfied simply by reference by name to the "Rule of 78's" or other method, as applicable.

4/30/73

#### SECTION 226.819—PREPAID FINANCE CHARGES; ADD-ONS AND DISCOUNTS

Sections 226.8(c)(6), 226.8(d)(2) and 226.8(e)(1) require that certain finance charges be disclosed as "prepaid finance charges." They also require that such prepaid finance charges be excluded or deducted from the credit extended in arriving at the "amount financed." The question arises whether add-on, discount or other precomputed finance charges which are reflected in the face amount of the debt instrument as part of the customer's obligation, but which are excluded from the "amount financed," must be labeled as "prepaid" finance charges.

The concept of prepaid finance charges was adopted to insure that the "amount financed" reflected only that credit of which the customer had the actual use. Precomputed finance charges which are included in the face amount of the ob-

ligation are not the type contemplated by the "prepaid" finance charge disclosure concept. Although such precomputed finance charges are not to be included in the "amount financed," they need not be regarded as finance charges "paid separately" or "withheld by the creditor from the proceeds of the credit extended" within the meaning of § 226.8(e) to require labeling "prepaid" under §§ 226.8(c)(6) and 226.8(d)(2). They are "finance charges," of course, to be disclosed under §§ 226.8(c)(8) and 226.8(d)(3).

8/23/73

#### SECTION 226.9

#### SECTION 226.901—WAIVER OF SECURITY INTERESTS—EFFECT ON THE RIGHT OF RESCISSION

Section 226.9(a) provides for a right of rescission "in the case of any [consumer] credit transaction in which a security interest is or will be retained or acquired in any real property which is used or is expected to be used as the principal residence of the customer." Under § 226.2(z) security interests include mechanic's and materialmen's liens. If a creditor effectively waives his right to retain, or to acquire such a lien, he has not retained or acquired such security interest. The question arises, however, of whether waiver of a creditor's lien rights is effective to remove a transaction from the scope of rescission when lien rights which are not waived arise in favor of subcontractors, workmen, or others who are not creditors in the transaction.

The fact that the creditor waives his lien rights does not, in itself, determine whether or not the transaction is rescindable. If *all* security interests are effectively waived, the transaction is not rescindable. On the other hand, if as a result of the transaction, a security interest is or will be retained or acquired by a subcontractor, workman, or other person, the transaction is rescindable. In the latter case the creditor would be responsible for delivering the rescission notice as well as other applicable disclosures, delaying performance as provided under § 226.9(c), and identifying himself as the creditor on the rescission notice. The subcontractors, workmen, and others would not be responsible for delivering rescission notices to the customer.

5/26/69

**SECTION 226.902—"CUSTOMERS" AND  
JOINT OWNERS OF PROPERTY  
UNDER THE RIGHT OF  
RESCISSION**

Section 226.9(f) provides that, for the purpose of the right of rescission, "customer" shall include two or more customers where joint ownership is involved. The question arises of whether this means that all joint owners of record, regardless of whether or not they are parties to the transaction, are customers for this purpose, and whether each of such owners of record (1) must receive disclosures and a notice of the right of rescission, (2) may exercise the right of rescission, and (3) must join in signing a waiver if one is appropriately taken by the creditor.

Under § 226.9(f) where there are joint owners, the right to receive disclosures and notice of the right of rescission, the right to rescind, and the need to sign a waiver of such right, apply only to those joint owners who are parties to the transaction.

5/26/69

**SECTION 226.903—REFINANCING AND  
INCREASING—DISCLOSURES AND  
EFFECTS ON THE RIGHT  
OF RESCISSION**

In some cases the creditor of an obligation will refinance that obligation at the request of a customer by permitting the customer to execute a new note, contract, or other document evidencing the transaction under the terms of which one or more of the original credit terms, including the maturity date of the obligation, are changed. Except as provided in § 226.811, such refinancing constitutes a new transaction, and all disclosures required under § 226.8 must be made. The question arises as to whether that transaction is subject to the right of rescission under § 226.9 where the obligation is already secured by a security interest in real property which is used or expected to be used as the principal residence of that customer.

If the amount of such new transaction does not exceed the amount of the unpaid balance

plus any accrued and unpaid finance charge on the existing obligation, § 226.9 does not apply to the transaction.

If, however, such new transaction is for an increased amount, that is, for an amount in excess of the amount of the unpaid balance plus any accrued and unpaid finance charge on the existing obligations, § 226.9 applies to the transaction. However, such right of rescission applies only to such excess and does not affect the existing obligation (or related security interest) for the unpaid balance plus accrued unpaid finance charge.

If a transaction is refinanced by a creditor other than the creditor of the existing obligation, the entire transaction is subject to § 226.9.

1/28/70 (*Supersedes interpretation § 226.903 issued 6/20/69*)

**SECTION 226.10**

**SECTION 226.1001—ADVERTISING OF  
CREDIT TERMS IN OTHER THAN  
OPEN END CREDIT**

The statement of certain credit terms in advertisements such as "no downpayment", the amount of any instalment payments, dollar amount of finance charge, number of payments, etc., as provided in § 226.10(d)(2), requires that certain other terms also be stated in the same advertisement. The question arises as to how a creditor may advertise credit terms in a meaningful way when all of his credit sales or loans are not made on the same basis.

The advertising of credit terms may be made by giving one or more examples of typical extensions of credit and stating all of the terms applicable to each example. In any such case, the advertiser shall set forth one or more examples which are, in fact, typical of the type of credit and terms usually and customarily made available by the creditor to present and prospective customers and each shall be clearly and conspicuously identified as examples of typical transactions.

4/22/69

SECTION 226.1002—CATALOGS—TABLES  
OR SCHEDULES OF CREDIT TERMS

Under § 226.10(b) in order that a catalog may qualify as a single advertisement, among other things, it must include a table or schedule of credit terms. It has been the practice of catalog houses to include such tables in catalogs; however, such tables generally state amounts of purchases, amounts of finance charges, and number and amount of payments for brackets up to a certain level and then contain an instruction to include a specified dollar amount in computing the finance charge by application of a percentage rate on any purchase in excess of that level. Tables to show the actual terms including annual percentage rates for all purchases into thousands of dollars would be unwieldy, present a formidable appearance, and may be more confusing than helpful to the user. The question arises as to whether a creditor who publishes a catalog is required to include tables in detailed amounts from

the minimum up to, for example, \$5,000, his highest priced cataloged merchandise.

Tables or schedules of terms in catalogs must include all amounts up to a level of the more commonly sold higher priced property or services which are offered for sale, but in no event greater than \$1,000 unless the creditor elects to do so. If the creditor offers property or service for sale at prices higher than the uppermost level covered by his table, he shall state the method by which the finance charge is computed on larger amounts, how the amount of payments and the number and periods of payments are determined and state, for each representative amount in increments of not more than \$500 up to the highest priced property or service offered, the annual percentage rate. Any catalog which contains such a table or schedule of credit terms will comply with requirements of § 226.10(b) provided all other requirements are met and such catalog shall be considered adequate for the purpose of § 226.8(g)(1).

4/22/69

## QUESTIONS AND ANSWERS

If you extend consumer credit or issue credit cards, you must become familiar with Regulation Z. You will be responsible for complying with the Regulation and this pamphlet tells you how Regulation Z affects your business. The questions and answers that follow are stated as simply and clearly as possible. *HOWEVER, FOR EXACT INFORMATION ON WHAT YOU MUST DO TO COMPLY WITH THE LAW, YOU MUST READ THOROUGHLY THE APPLICABLE SECTIONS OF REGULATION Z.*

### SOME GENERAL QUESTIONS AND ANSWERS

**Q: What is the purpose of Regulation Z?**

A: The purpose is to let borrowers and consumers know the cost of credit so that they can compare costs between various credit sources and avoid the uninformed use of credit. Regulation Z also regulates issuance of credit cards and sets maximum liability for the unauthorized use of credit cards. The Regulation does not set maximum or minimum interest rates or require any charge for credit. (Reg. Z/226.1)

**Q: What kinds of businesses are affected?**

A: Regulation Z applies to credit card issuers and any individual or organization that extends or arranges credit for which a finance charge is or may be payable or which is repayable by agreement in more than four instalments. For example, the Regulation applies to banks, savings and loan associations, credit unions, consumer finance companies and residential mortgage brokers. It may also apply to department stores, automobile, furniture and appliance dealers, craftsmen—such as plumbers and electricians, doctors, dentists and other professional people, and hospitals. (Reg. Z/226.2(k) and (l))

**Q: What types of credit transactions are covered under Regulation Z?**

A: Generally, credit you extend to people for personal, family, household or agricultural uses, not exceeding \$25,000. (Reg. Z/226.2(k))

But *ALL* real estate credit transactions for these purposes are covered regardless of the amount. (Reg. Z/226.3(c))

**Q: What types of credit transactions are not covered?**

A: The following are not affected by Regulation Z: (Reg. Z/226.3)

1. Business and commercial credit—except agricultural credit.
2. Credit to Federal, State and local government. (However, governmental units extending credit to individuals are affected by this law.)
3. Transactions in securities and commodities accounts with a broker-dealer registered with the Securities and Exchange Commission.
4. Transactions under certain public utility tariffs.
5. Credit over \$25,000—except real estate transactions.

**Q: Can a State law be substituted for Regulation Z?**

A: Yes, it can, provided the Federal Reserve Board makes that determination as provided by law. Any determination made will be published. (Reg. Z/226.12)

**Q: What happens if I not only follow Regulation Z but also elect to follow inconsistent State law?**

A: In these cases the State disclosures may be shown on a separate sheet. They may also be shown on

## APPENDIX A

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the same statement as the Federal disclosures. But in this event they must appear separately and below the Federal disclosure, clearly marked that they are inconsistent with the Federal disclosures, and separated by a dividing line. Regulation Z is very specific on these points. (Reg. Z/226.6(c))

**Q: Is any special terminology prescribed?**

A: Yes, certain terminology is specified that must be used in making disclosures required by the Regulation. (Reg. Z/226.6(a); Reg. Z/226.7(b) and (c); Reg. Z/226.8(b), (c) and (d); Reg. Z/226.9(b); Reg. Z/226.11(c))

**Q: Do disclosures have to be made in the order they appear in the Regulation?**

A: No, but they must be listed in an order which will be meaningful to your customer. (Reg. Z/226.6(a))

**Q: What terms are used to describe credit transactions in the Regulation?**

A: The Regulation divides all consumer credit transactions into two broad categories: open end credit, and credit other than open-end. These are discussed in subsequent sections of these Questions and Answers.

**Q: How long do I have to keep records?**

A: You should keep evidence of compliance for two years. (Reg. Z/226.6(i))

**Q: Will anyone inspect my records?**

A: If asked by the proper agency you must show your records relating to disclosure and evidence of compliance. (Reg. Z/226.6(i))

**Q: Are there provisions for enforcement?**

A: Specific responsibilities for enforcement of Regulation Z are divided among nine Federal agencies. A complete list of these agencies and types of businesses they cover can be found in Appendix D. If you need additional information, you should contact the appropriate Federal agency. (Reg. Z/226.1(b))

**Q: Are there any penalties for violating the Act?**

A: If you fail to make disclosures as required under the Truth in Lending Act, you may be sued for twice the amount of the finance charge—for a minimum of \$100, up to a maximum of \$1000—plus court costs and attorney's fees. And if you willfully or knowingly disobey the law or Regulation Z and are convicted, you could be fined up to \$5000, or be imprisoned for one year, or both. (Reg. Z/226.1(c))

## SOME QUESTIONS AND ANSWERS ON THE FINANCE CHARGE AND ANNUAL PERCENTAGE RATE

**Q: What is the finance charge?**

A: It is the total of all costs which your customer must pay, directly or indirectly for obtaining credit. (Reg. Z/226.4)

**Q: What costs are included in the finance charge?**

A: Here are some of the more common items that you must include in your finance charge. See Reg. Z/226.4 for others and for qualifications which apply.

1. Interest.
2. Loan fee.
3. Finders fee or similar charge.
4. Time price differential.

5. Amount paid as a discount.
6. Service, transaction or carrying charge.
7. Points.
8. Appraisal fee (except in real estate transactions).
9. Premium for credit life insurance, should you make this a condition for giving credit.
10. Investigation or credit report fee (except in real estate transactions).

**Q: Are all costs part of the finance charge?**

A: No, some costs which would be paid if credit were not employed may be excluded. However, you must itemize and show them to your customer. (Reg. Z/226.4 gives you a complete list.) Here are a few examples:

1. Taxes.
2. License fees.
3. Registration fees.
4. Certain title fees and other legal fees.
5. Some real estate closing fees.

**Q: In what form is the finance charge to be shown to the customer?**

A: It must be clearly typed or written, stating the dollars and cents total and the annual percentage rate. The words "finance charge" and "annual percentage rate" must stand out especially clearly. (Reg. Z/226.6(a)) In the sale of dwellings, the total dollar finance charge need not be stated, although the annual percentage rate must be disclosed.

**Q: What is the annual percentage rate?**

A: Simply put, it is the relative cost of credit in percentage terms. (Reg. Z/226.5(e))

**Q: Are maximum or minimum rates specified in Regulation Z?**

A: No. Regulation Z does not fix maximum, minimum, or any charges for credit. But it requires that you show whatever annual percentage rate you do charge.

**Q: How accurate must the annual percentage rate be?**

A: It must be computed so as to permit disclosure with an accuracy at least to the nearest one-quarter of 1%. (Reg. Z/226.5)

**Q: How is the annual percentage rate computed?**

A: It depends on whether the credit is *open end* (Reg. Z/226.5(a)) or *other than open end* credit. (Reg. Z/226.5(b))

## SOME QUESTIONS AND ANSWERS ABOUT OPEN END CREDIT

**Q: What is open end credit?**

A: Typically it covers most credit cards and revolving charge accounts in retail stores and check overdraft plans in banks, where finance charges are usually made on unpaid amounts each month. (Reg. Z/226.2(r); Reg. Z/226.7)

**Q: What must an open end credit customer be told under this law?**

A: If it is a *new* account, then your customer must receive these specific items in writing to the extent applicable: (Reg. Z/226.7(a))

1. The conditions under which the finance charge may be imposed and the period in which payment can be made without incurring a finance charge.



2. The method used in determining the balance on which the finance charge is to be made.
3. How the actual finance charge is calculated.
4. The periodic rates used and the range of balances to which each applies.
5. The conditions under which additional charges may be made along with details of how they are calculated.
6. Descriptions of any lien which you may acquire on a customer's property.
7. The minimum payment that must be made on each billing.

**Q: Are periodic statements necessary on open end accounts?**

A: Yes, but only where there is an unpaid balance over \$1 or where a finance charge is made. (Reg. Z/226.7(b))

**Q: What sort of information must accompany a monthly statement?**

A: Where applicable, you must give customers this information: (Reg. Z/226.7(b))

1. The unpaid balance at the start of the billing period.
2. The amount and date of each extension of credit and identification of each item bought.
3. Payments made by a customer and other credits: this includes returns, rebates and adjustments.
4. The finance charge shown in dollars and cents.
5. The rates used in calculating the finance charge plus the range of balances to which they apply, the corresponding annual percentage rate in each case calculated by multiplying the rate for the time period by the number of periods you use each year, and any minimum charge.
6. The annual percentage rate, when a finance charge is imposed.
7. The unpaid balance on which the finance charge was calculated.
8. The closing date of the billing cycle and the unpaid balance at that time.

**Q: Where must this information appear?**

A: Some items must appear on the actual face of the statement. Others may be shown on the reverse side; or on a separate form enclosed in the same envelope. (Reg. Z/226.7(c))

**Q: How is the annual percentage rate determined on open end credit?**

A: The finance charge is divided by the unpaid balance to which it applies. This gives the rate per month or whatever time period is used. The result is multiplied by 12 or the other number of time periods used by you during the year. (Reg. Z/226.5(a)) For example, a typical charge of 1½ % is made on an unpaid balance where bills are sent out monthly. The annual percentage rate would be twelve times 1½ % or 18%. Other methods for calculating the annual percentage rate on open end credit are detailed in Reg. Z/226.5(a).

## **SOME QUESTIONS AND ANSWERS ABOUT CREDIT OTHER THAN OPEN END**

**Q: What types of credit are included?**

A: Both loans and sales credit—in every case for a specified period of time where the total amount, number of payments, and due dates are agreed upon by you and your customer. Typically, it is used in buying or financing the purchase of “big ticket” items. A good example is a loan from a finance company to buy an automobile. Another example is credit extended by a store to buy a washing machine, a television set, or other major appliance. It also includes a single payment loan. (Reg. Z/226.8)

**Q: What must the credit customer be told in these types of transactions?**

**A:** You must present to your customer in writing the following information as applicable, plus additional information relating to the type of credit extended: (Reg. Z/226.8(b))

1. The total dollar amount of the finance charge; except in the case of a credit transaction to finance the purchase of a dwelling.
2. The date on which the finance charge begins to apply, if this is different from the date of the transaction.
3. The annual percentage rate. (For exception, see Reg. Z/226.8(b)(2)(i) and (ii))
4. The number, amounts and due dates of payments.
5. The total payments—except in the case of first mortgages on dwelling purchases.
6. The amount you charge for any default, delinquency, etc., or method you use for calculating that amount.
7. Description of any security you will hold.
8. Description of any penalty charge for prepayment of principal.
9. Identification of the method used to compute the amount of any finance charge rebate in the case of prepayment of contracts involving precomputed finance charges. Charges deducted from any rebate must be stated.

**Q: Are there any other things customers must be told?**

**A:** That depends on the transaction—whether it is a loan or a credit sale.

**Q: In the case of a loan, what do I have to tell my customers?**

**A:** In addition to the information given your customer, as previously indicated, you must also provide this information: (Reg. Z/226.8(d))

1. The amount of credit to be given to your customer. This includes all charges which are part of the amount of credit extended but are not a part of the finance charge. This information must be itemized.
2. Amounts that are deducted as prepaid finance charges and required deposit balances. (Reg. Z/226.8(e))

**Q: Regarding credit sales, what additional information do I give these customers?**

**A:** Again, you must give your customers all the information in the answer to the second question in this section, and the following additional information as applicable: (Reg. Z/226.8(c))

1. The cash price.
2. The down payment, including trade-in.
3. The difference between the two.
4. All other charges, itemized, that are included in the amount financed but not part of the finance charge.
5. The unpaid balance.
6. Amounts deducted as prepaid finance charges or required deposit balances.
7. The amount financed.
8. The deferred payment price, which is the total of the cash price, finance and all other charges. (This does not apply to the sale of a dwelling.)

**Q: When must customers receive all this information on loans or credit sales?**

**A:** Before the credit is extended. (Reg. Z/226.8(a))

**Q: Must this information be given to customers in writing?**

**A:** Yes. You must include the information on the face of the note or other instrument evidencing the obligation, or on a separate sheet that identifies the transaction. (Reg. Z/226.8(a))

**Q: Are monthly statements required?**

**A:** No. But if you do send out monthly statements, you must show clearly the annual percentage rate, and the period in which a payment must be made to avoid late charges. (Reg. Z/226.8(n))

## APPENDIX A

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**Q: How is the annual percentage rate calculated on loans or credit other than open end?**

**A:** By the actuarial method—payments are applied first to interest due and any remainder is then applied to reduce principal. (Reg. Z/226.5(b))

**Q: What are examples of the actuarial method?**

**A:** Here are two simple examples:

1. A bank loan of \$100 repayable in equal monthly instalments over one year is made, at a 6% add-on finance charge. The annual percentage rate would be 11%. The borrower would repay \$106 over one year. He would only have use of the full \$100 until he made his first payment, and less and less each month as payments are made. The effect is that the actual annual percentage rate is almost twice the add-on percentage rate.
2. Using the same example as above with the 6% finance charge discounted in advance, the annual percentage rate would be 11½% because the customer would only receive \$94 and have to repay \$100. He would have full use of only \$94 of the loan up to the time he makes his first payment.

**Q: But isn't the actuarial method very complicated?**

**A:** Yes, it is. Recognizing this, the Federal Reserve Board has prepared tables showing the annual percentage rate based on the finance charge and the number of weekly or monthly payments to be made. These tables are available from the Federal Reserve Board and Federal Reserve Banks at \$1.00 per copy. (Reg. Z/226.5(c))

**Q: Must I use the Board's Annual Percentage Rate tables?**

**A:** No. You may wish to purchase specially prepared tables for your type of business from one of several table or chart publishers. Trade associations and financial institutions can be helpful also. (Reg. Z/226.5(c)(2))

**Q: Must the creditor always show the annual percentage rate?**

**A:** Generally, yes, except that on credit other than open-end credit, if the finance charge is \$5 or less, and applies to credit of \$75 or less, it need not be shown. The same exception applies to a finance charge of \$7.50 or less on credit of more than \$75. (Reg. Z/226.8(b)(2)(i) and (ii))

## SOME QUESTIONS AND ANSWERS ABOUT REAL ESTATE

**Q: Is real estate credit covered under Regulation Z?**

**A:** Yes. All real estate credit *in any amount* is covered under this Regulation when it is to an individual and not for business purposes, unless the business purpose is agricultural.

**Q: Does such real estate credit cover more than mortgages?**

**A:** Yes, very definitely. Any credit transaction (other than a business credit transaction) that involves any type of security interest in real estate of a consumer is covered. Reg. Z/226.2(w), (x), (y) and (z))

**Q: Are there any special provisions that apply to real estate credit?**

**A:** Two basic points:

1. You do not have to show the total dollar amount of the finance charge on a credit sale or first mortgage loan to finance the purchase of the customer's dwelling. (Reg. Z/226.8(c)(8) and (d)(3))
2. In many instances, your customer has the right to cancel a credit arrangement within three business days if his residence is used as collateral for credit. (Reg. Z/226.9)

**Q: Must a creditor inform his customer of the right to cancel?**

A: Yes. He must furnish the Notice prescribed by the Regulation. (Reg. Z/226.9(b))

**Q: What must the customer do to cancel a real estate transaction under the Regulation?**

A: A customer may cancel a transaction

1. by signing and dating the Notice to customer required by Federal law, which he receives from the creditor, *and* either
  - (a) mailing the Notice to the creditor at the address shown on the Notice,
  - or* (b) delivering the Notice to the creditor at the address shown on the Notice either personally or by messenger (or by other agents),
- or* 2. by sending a telegram to the creditor at the address shown on the Notice. A brief description of the transaction which the customer wishes to cancel should be included in the telegram.
- or* 3. by preparing a letter (or other writing) which includes a brief description of the transaction which he wishes to cancel, *and* either
  - (a) mailing the letter (or other writing) to the creditor at the address shown on the Notice,
  - or* (b) delivering the letter (or other writing) to the creditor at the address shown on the Notice either personally or by messenger (or by other agents).

**Q: What if the customer telephones that he is going to cancel?**

A: *A telephone call to the creditor may not be used to cancel a transaction; WRITTEN notice of cancellation is required.* If the customer takes one of the above steps to cancel within the three day period, he has effectively cancelled the transaction.

**Q: What if I haven't received the notice of cancellation in three days?**

A: You should allow time for a mailed letter or telegram sent within the three day period to be delivered, and determine that your customer has not cancelled the transaction.

**Q: Does this right of cancellation apply to a first mortgage?**

A: A first mortgage to finance the purchase of your customer's dwelling carries no right to cancel. *However*, a first mortgage for any other purpose and a second mortgage on the same dwelling may be cancelled. (Reg. Z/226.9(g))

**Q: What happens regarding cancellation in the case of a mechanic's lien or similar security interest acquired by a craftsman who works on credit?**

A: Take a craftsman, for example, who charges his customers a finance charge or agrees to accept payment in more than four instalments. His customer does have a right to cancel, but only within three business days. Unless there is an emergency the craftsman should wait the three days before starting work. (Reg. Z/226.9(c))

**Q: Suppose a customer needs emergency repairs and cannot wait for three days?**

A: A customer may waive his right to cancel a credit agreement if credit is needed to meet a bona fide personal financial emergency and if failure to start repairs would endanger him, his family, or his property. Preprinted waiver forms may not be used. (Reg. Z/226.9(e))

**SOME QUESTIONS AND ANSWERS ABOUT CREDIT CARDS****Q: What is a credit card?**

A: A credit card is a single credit device existing for the purpose of being used from time to time upon presentation to obtain money, property, labor, or services on credit. (Reg. Z/226.13(a))

## APPENDIX A

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**Q: Are there restrictions on issuance of credit cards?**

A: Yes. A credit card may not be issued except in response to a request or application or as a renewal of, or in substitution for, an accepted credit card. (Reg. Z/226.13(b))

**Q: What is an accepted credit card?**

A: An accepted credit card is a credit card which the cardholder has requested or applied for and received, or has signed, or has used, or has authorized another person to use. Any credit card issued in renewal of, or in substitution for, an accepted credit card becomes an accepted credit card when received by the cardholder. (Reg. Z/226.13(a))

**Q: Does Regulation Z apply to credit cards issued for business purposes?**

A: Yes. Regulation Z applies to all credit cards whether issued for personal, family, household, agricultural, business, or commercial purposes, regardless of whether issued to an individual person or to an organization. (Reg. Z/226.13(a) and (b))

**Q: Is a cardholder liable for unauthorized use of a credit card?**

A: A cardholder is liable for unauthorized use of a credit card only if

- (1) the credit card is an accepted credit card;
- (2) the liability does not exceed the lesser of \$50 or the amount of money, property, labor, or services obtained by unauthorized use prior to notification of the card issuer;
- (3) the card issuer has given the cardholder adequate notice of his potential liability on the credit card or within two years preceding unauthorized use;
- (4) the card issuer has provided the cardholder with an addressed postage-paid notification to be mailed in event of loss, theft, or possible unauthorized use of the credit card, and
- (5) the card issuer has provided a method whereby the user of the card can be identified as the person authorized to use it, such as by signature, photograph, or fingerprint on the card, or by electronic or mechanical confirmation.

## SOME QUESTIONS AND ANSWERS ABOUT THE ADVERTISING OF CREDIT

**Q: Does Regulation Z affect credit advertising?**

A: Yes it does. It affects all advertising to aid or promote any extension of consumer credit regardless of who the advertiser may be. An association, for example, which advertises that its members extend consumer credit is subject to the advertising provisions of Regulation Z.

**Q: What kinds of advertising are affected?**

A: All types of advertising: television, radio, newspapers, magazines, leaflets, flyers, catalogs, public address announcements, direct mail literature, window displays, billboards, etc. (Reg. Z/226.2(b))

**Q: How does Regulation Z affect your advertising as a creditor?**

A: Generally, you may not advertise that the down payment, instalment plan or amount of credit can be arranged unless you usually arrange terms of this type. (Reg. Z/226.10(a))

**Q: How else is credit advertising affected?**

A: If it is open end credit, see Reg. Z/226.10(c). For credit *other* than open end, see Reg. Z/226.10(d). If you advertise in catalogs, see Reg. Z/226.10(b). But generally you are not permitted to advertise any specific credit term unless all other terms involved are stated clearly and can be easily seen.

**APPENDIX B****NOTICE OF RIGHT OF RESCISSION**

The following form is the form of notice of the right to rescind a transaction required to be given to customers under certain circumstances set forth in Section 226.9 of Regulation Z. Where the property on which the security interest may arise does not include a dwelling, the creditor may substitute the words "the property you are purchasing" for "your home" or "lot" for "home" where these words appear in the form of notice. This exhibit is set in capitals and lower case letters of 12 point bold faced type, the minimum size permissible under Regulation Z.

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(Identification of Transaction)

**Notice To Customer Required By Federal Law:**

You have entered into a transaction on \_\_\_\_\_ which may  
(Date)  
result in a lien, mortgage, or other security interest on your home. You have a  
legal right under federal law to cancel this transaction, if you desire to do so,  
without any penalty or obligation within three business days from the above  
date or any later date on which all material disclosures required under the  
Truth in Lending Act have been given to you. If you so cancel the transaction,  
any lien, mortgage, or other security interest on your home arising from this  
transaction is automatically void. You are also entitled to receive a refund of  
any downpayment or other consideration if you cancel. If you decide to cancel  
this transaction, you may do so by notifying

---

(Name of Creditor)

at \_\_\_\_\_

(Address of Creditor's Place of Business)

by mail or telegram sent not later than midnight of \_\_\_\_\_. You  
(Date)  
may also use any other form of written notice identifying the transaction if it is  
delivered to the above address not later than that time. This notice may be  
used for that purpose by dating and signing below.

**I hereby cancel this transaction.**

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(Date)

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(Customer's signature)

## APPENDIX B

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The following paragraph shall appear on the face or the reverse side of the notice shown on the opposite page. If it appears on the reverse side of the notice, the face of the notice shall state, "See reverse side for important information about your right of rescission."

**EFFECT OF RESCISSION.** When a customer exercises his right to rescind under paragraph (a) of this section, he is not liable for any finance or other charge, and any security interest becomes void upon such a rescission. Within 10 days after receipt of a notice of rescission, the creditor shall return to the customer any money or property given as earnest money, downpayment, or otherwise, and shall take any action necessary or appropriate to reflect the termination of any security interest created under the transaction. If the creditor has delivered any property to the customer, the customer may retain possession of it. Upon the performance of the creditor's obligations under this section, the customer shall tender the property to the creditor, except that if return of the property in kind would be impracticable or inequitable, the customer shall tender its reasonable value. Tender shall be made at the location of the property or at the residence of the customer, at the option of the customer. If the creditor does not take possession of the property within 10 days after tender by the customer, ownership of the property vests in the customer without obligation on his part to pay for it.

# APPENDIX C

## SAMPLE PAGE FROM TABLE FOR COMPUTING ANNUAL PERCENTAGE RATE FOR LEVEL MONTHLY PAYMENT PLANS

### EXAMPLE

Finance charge=\$35.00; Total amount financed=\$200; Number of monthly payments=24.

### SOLUTION

Step 1—Divide the finance charge by the total amount financed and multiply by \$100. This gives the finance charge per \$100 of amount financed. That is,  $\$35.00 \div \$200 = .1750 \times \$100 = \$17.50$ .

Step 2—Follow down the left hand column of the table to the line for 24 months. Follow across this line until you find the nearest number to \$17.50. In this example \$17.51 is closest to \$17.50. Reading up the column of figures shows an annual percentage rate of 16%.

| NUMBER<br>OF<br>PAYMENTS | ANNUAL PERCENTAGE RATE                        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
|--------------------------|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                          | 14.00%  | 14.25% | 14.50% | 14.75% | 15.00% | 15.25% | 15.50% | 15.75% | 16.00% | 16.25% | 16.50% | 16.75% | 17.00% | 17.25% | 17.50% | 17.75% |
|                          | (FINANCE CHARGE PER \$100 OF AMOUNT FINANCED) |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 1                        | 1.17  | 1.19   | 1.21   | 1.23   | 1.25   | 1.27   | 1.29   | 1.31   | 1.33   | 1.35   | 1.37   | 1.40   | 1.42   | 1.44   | 1.46   | 1.48   |
| 2                        | 1.75  | 1.76   | 1.82   | 1.85   | 1.88   | 1.91   | 1.94   | 1.97   | 2.00   | 2.04   | 2.07   | 2.10   | 2.13   | 2.16   | 2.19   | 2.22   |
| 3                        | 2.34  | 2.38   | 2.43   | 2.47   | 2.51   | 2.55   | 2.59   | 2.64   | 2.68   | 2.72   | 2.76   | 2.80   | 2.85   | 2.89   | 2.93   | 2.97   |
| 4                        | 2.93  | 2.99   | 3.04   | 3.09   | 3.14   | 3.20   | 3.25   | 3.30   | 3.36   | 3.41   | 3.46   | 3.51   | 3.57   | 3.62   | 3.67   | 3.73   |
| 5                        | 3.53  | 3.59   | 3.65   | 3.72   | 3.78   | 3.84   | 3.91   | 3.97   | 4.04   | 4.10   | 4.16   | 4.23   | 4.29   | 4.35   | 4.42   | 4.48   |
| 6                        | 4.12  | 4.20   | 4.27   | 4.35   | 4.42   | 4.49   | 4.57   | 4.64   | 4.72   | 4.79   | 4.87   | 4.94   | 5.02   | 5.09   | 5.17   | 5.24   |
| 7                        | 4.72  | 4.81   | 4.89   | 4.98   | 5.06   | 5.15   | 5.23   | 5.32   | 5.40   | 5.49   | 5.58   | 5.66   | 5.75   | 5.83   | 5.92   | 6.00   |
| 8                        | 5.32  | 5.42   | 5.51   | 5.61   | 5.71   | 5.80   | 5.90   | 6.00   | 6.09   | 6.19   | 6.29   | 6.38   | 6.48   | 6.58   | 6.67   | 6.77   |
| 9                        | 5.92  | 6.03   | 6.14   | 6.25   | 6.35   | 6.46   | 6.57   | 6.68   | 6.78   | 6.89   | 7.00   | 7.11   | 7.22   | 7.32   | 7.43   | 7.54   |
| 10                       | 6.53  | 6.65   | 6.77   | 6.88   | 7.00   | 7.12   | 7.24   | 7.36   | 7.48   | 7.60   | 7.72   | 7.84   | 7.96   | 8.08   | 8.19   | 8.31   |
| 11                       | 7.14  | 7.27   | 7.40   | 7.53   | 7.66   | 7.79   | 7.92   | 8.05   | 8.18   | 8.31   | 8.44   | 8.57   | 8.70   | 8.83   | 8.96   | 9.09   |
| 12                       | 7.74  | 7.89   | 8.03   | 8.17   | 8.31   | 8.45   | 8.59   | 8.74   | 8.88   | 9.02   | 9.16   | 9.30   | 9.45   | 9.59   | 9.73   | 9.87   |
| 13                       | 8.36  | 8.51   | 8.66   | 8.81   | 8.97   | 9.12   | 9.27   | 9.43   | 9.58   | 9.73   | 9.89   | 10.04  | 10.20  | 10.35  | 10.50  | 10.66  |
| 14                       | 8.97  | 9.13   | 9.30   | 9.46   | 9.63   | 9.79   | 9.96   | 10.12  | 10.29  | 10.45  | 10.62  | 10.78  | 10.95  | 11.11  | 11.28  | 11.45  |
| 15                       | 9.59  | 9.76   | 9.94   | 10.11  | 10.29  | 10.47  | 10.64  | 10.82  | 11.00  | 11.17  | 11.35  | 11.53  | 11.71  | 11.88  | 12.06  | 12.24  |
| 16                       | 10.20   | 10.39  | 10.58  | 10.77  | 10.95  | 11.14  | 11.33  | 11.52  | 11.71  | 11.90  | 12.09  | 12.28  | 12.46  | 12.65  | 12.84  | 13.03  |
| 17                       | 10.82   | 11.02  | 11.22  | 11.42  | 11.62  | 11.82  | 12.02  | 12.22  | 12.42  | 12.62  | 12.83  | 13.03  | 13.23  | 13.43  | 13.63  | 13.83  |
| 18                       | 11.45   | 11.66  | 11.87  | 12.08  | 12.29  | 12.50  | 12.72  | 12.93  | 13.14  | 13.35  | 13.57  | 13.78  | 13.99  | 14.21  | 14.42  | 14.64  |
| 19                       | 12.07   | 12.30  | 12.52  | 12.74  | 12.97  | 13.19  | 13.41  | 13.64  | 13.86  | 14.09  | 14.31  | 14.54  | 14.76  | 14.99  | 15.22  | 15.44  |
| 20                       | 12.70   | 12.93  | 13.17  | 13.41  | 13.64  | 13.88  | 14.11  | 14.35  | 14.59  | 14.82  | 15.06  | 15.30  | 15.54  | 15.77  | 16.01  | 16.25  |
| 21                       | 13.33   | 13.58  | 13.82  | 14.07  | 14.32  | 14.57  | 14.82  | 15.06  | 15.31  | 15.56  | 15.81  | 16.06  | 16.31  | 16.56  | 16.81  | 17.07  |
| 22                       | 13.96   | 14.22  | 14.48  | 14.74  | 15.00  | 15.26  | 15.52  | 15.78  | 16.04  | 16.30  | 16.57  | 16.83  | 17.09  | 17.36  | 17.62  | 17.88  |
| 23                       | 14.59   | 14.87  | 15.14  | 15.41  | 15.68  | 15.96  | 16.23  | 16.50  | 16.78  | 17.05  | 17.32  | 17.60  | 17.88  | 18.15  | 18.43  | 18.70  |
| 24                       | 15.23   | 15.51  | 15.80  | 16.08  | 16.37  | 16.65  | 16.94  | 17.22  | 17.51  | 17.80  | 18.09  | 18.37  | 18.66  | 18.95  | 19.24  | 19.53  |
| 25                       | 15.87   | 16.17  | 16.46  | 16.76  | 17.06  | 17.35  | 17.65  | 17.95  | 18.25  | 18.55  | 18.85  | 19.15  | 19.45  | 19.75  | 20.05  | 20.36  |
| 26                       | 16.51   | 16.82  | 17.13  | 17.44  | 17.75  | 18.06  | 18.37  | 18.68  | 18.99  | 19.30  | 19.62  | 19.93  | 20.24  | 20.56  | 20.87  | 21.19  |
| 27                       | 17.15   | 17.47  | 17.80  | 18.12  | 18.44  | 18.76  | 19.09  | 19.41  | 19.74  | 20.06  | 20.39  | 20.71  | 21.04  | 21.37  | 21.69  | 22.02  |
| 28                       | 17.80   | 18.13  | 18.47  | 18.80  | 19.14  | 19.47  | 19.81  | 20.15  | 20.48  | 20.82  | 21.16  | 21.50  | 21.84  | 22.18  | 22.52  | 22.86  |
| 29                       | 18.45   | 18.79  | 19.14  | 19.49  | 19.83  | 20.18  | 20.53  | 20.88  | 21.23  | 21.58  | 21.94  | 22.29  | 22.64  | 22.99  | 23.35  | 23.70  |
| 30                       | 19.10   | 19.45  | 19.81  | 20.17  | 20.54  | 20.90  | 21.26  | 21.62  | 21.99  | 22.35  | 22.72  | 23.08  | 23.45  | 23.81  | 24.18  | 24.55  |
| 31                       | 19.75   | 20.12  | 20.49  | 20.87  | 21.24  | 21.61  | 21.99  | 22.37  | 22.74  | 23.12  | 23.50  | 23.88  | 24.26  | 24.64  | 25.02  | 25.40  |
| 32                       | 20.40   | 20.79  | 21.17  | 21.56  | 21.95  | 22.33  | 22.72  | 23.11  | 23.50  | 23.89  | 24.28  | 24.68  | 25.07  | 25.46  | 25.86  | 26.25  |
| 33                       | 21.06   | 21.46  | 21.85  | 22.25  | 22.65  | 23.06  | 23.46  | 23.86  | 24.26  | 24.67  | 25.07  | 25.48  | 25.88  | 26.29  | 26.70  | 27.11  |
| 34                       | 21.72   | 22.13  | 22.54  | 22.95  | 23.37  | 23.78  | 24.19  | 24.61  | 25.03  | 25.44  | 25.86  | 26.28  | 26.70  | 27.12  | 27.54  | 27.97  |
| 35                       | 22.38   | 22.80  | 23.23  | 23.65  | 24.08  | 24.51  | 24.94  | 25.36  | 25.79  | 26.23  | 26.66  | 27.09  | 27.52  | 27.96  | 28.39  | 28.83  |

(This table is one page of the tables compiled by the Federal Reserve Board to assist creditors in figuring out the annual percentage rate of the cost of credit, or the amount of the finance charge for a given rate.)



## **APPENDIX D**

### **FEDERAL ENFORCEMENT AGENCIES**

From the list that follows, you will be able to tell which Federal Agency covers your particular business. Any questions you have should be directed to that agency. These agencies are also responsible for enforcing Regulation Z.

#### **National Banks**

Comptroller of the Currency  
United States Treasury Department  
Washington, D. C. 20220

#### **State Member Banks**

Federal Reserve Bank serving the area in which the State member bank is located.

#### **Nonmember Insured Banks**

Federal Deposit Insurance Corporation Supervising Examiner for the District in which the nonmember insured bank is located.

#### **Savings Institutions Insured by the FSLIC and Members of the FHLB System (except for Savings Banks insured by FDIC)**

The FHLBB's Supervisory Agent in the Federal Home Loan Bank District in which the institution is located.

#### **Federal Credit Unions**

Regional Office of the National Credit Union Administration, serving the area in which the Federal Credit Union is located.

#### **Creditors Subject to Civil Aeronautics Board**

Director, Bureau of Enforcement  
Civil Aeronautics Board  
1825 Connecticut Avenue, N.W.  
Washington, D.C. 20428

#### **Creditors Subject to Interstate Commerce Commission**

Office of Proceedings  
Interstate Commerce Commission  
Washington, D.C. 20523

#### **Creditors Subject to Packers and Stockyards Act**

Nearest Packers and Stockyards Administration area supervisor.

#### **Retail, Department Stores, Consumer Finance Companies, All Other Creditors, and All Nonbank Credit Card Issuers**

Truth in Lending  
Federal Trade Commission  
Washington, D.C. 20580