

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 75-13

January 15, 1975

REGULATION Z

Proposed Amendments to the Truth in Lending Regulation

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

On December 27, 1974, the Board of Governors of the Federal Reserve System proposed to amend its Regulation Z, "Truth in Lending," to implement changes in the Truth in Lending Act that were adopted by Congress in October.

Among the provisions for which regulations are proposed are the following:

1. That any advertisement relating to extensions of credit repayable in more than four installments without an identified finance charge must state that the cost of credit is included in the price quoted for the goods and services.
2. That credit primarily for agricultural purposes that exceeds \$25,000 is exempt from the disclosure provisions of Truth in Lending.
3. That the right of rescission in residential real property transactions is limited to three years from the date of the transaction or the sale of the property, whichever occurs first.

To aid in the consideration of these matters by the Board, interested persons are invited to submit in writing relevant data, views, or arguments to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, or to this Federal Reserve Bank for transmittal to the Board, to be received at the Board not later than February 14, 1975.

Printed on the following pages is a copy of the proposed amendments to the regulation. Additional copies will be made available upon request.

Sincerely yours,

T. W. Plant

First Vice President

FEDERAL RESERVE SYSTEM
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[REG. Z]

[12 C. F. R., Part 226]

Truth in Lending

Miscellaneous Amendments

In order to implement the amendments to the Truth in Lending Act (15 U. S. C. Chapter 41, §§ 1601-1681) included in Title IV of Pub. L. 93-495 (§§ 401-416), the Board proposes to amend Regulation Z. These amendments would provide:

- (1) that advertisements concerning extensions of credit repayable in more than four instalments and for which there is no finance charge identified shall state that the cost of credit is included in the price of the goods and services.
- (2) that credit transactions primarily for agricultural purposes where the amount financed exceeds \$25,000 are exempt from the disclosure provisions of the Truth in Lending Act and Regulation Z.
- (3) that the right of rescission in residential real property transactions is limited to three years from the date of the consummation of the transaction or the sale of the property, whichever occurs earlier.
- (4) that issuers of credit cards and businesses or organizations may contract without regard to the other relevant provisions of Regulation Z regarding the liability for unauthorized use of the cards if (a) the card issuer issues 10 or more cards for use by employees of a single business or organization, and (b) the liability imposed on such employees for unauthorized use does not exceed \$50, the amount permitted by Regulation Z.
- (5) that any credit transaction involving an agency of a State as creditor is not subject to the right of rescission.
- (6) that the creditor of an open end account may allow a longer period than that disclosed to the customer in which to make payment in full and avoid additional finance charges.

- (7) for a revised section 226.1(b)(1), which refers to the enforcement of Regulation Z and Chapter 41 of 15 U.S.C., to delete the Interstate Commerce Commission as an enforcing agency and add the Farm Credit Administration.
- (8) for a revised section 226.1(c), which refers to statutory civil and criminal penalties, to include provisions for (a) criminal liability for certain fraudulent acts related to credit cards, (b) civil liability in individual or class actions for creditors who fail to comply with Chapter 2 or Chapter 4 (Title III of Pub. L. 93-495) and corresponding provisions of Regulation Z, (c) a creditor's defense for good faith compliance with Regulation Z, (d) single recovery for multiple failures to disclose in a single account, and (e) civil liability of assignees for violations of disclosure requirements where the violation is apparent on the face of the instrument assigned.

Pursuant to the authority granted in 15 U.S.C. § 1604 (1970), the Board proposes to amend Regulation Z, 12 C.F.R. Part 226, as follows:

1. To implement § 401, § 226.10(f) would be added as follows:

§ 226.10 - Advertising Credit Terms

* * * * *

(f) Credit payable in more than four instalments; no identified finance charge. Any advertisement to aid, promote, or assist directly or indirectly an extension of consumer credit repayable by agreement in more than four instalments shall, unless a specific finance charge is or will be imposed, state clearly and conspicuously: "The cost of credit is included in the price quoted for the goods and services."

2. To implement § 402, § 226.3(e) would be added as follows:

§ 226.3 - Exempted Transactions

* * * * *

(e) Agricultural credit transactions. Credit transactions primarily for agricultural purposes, including real property transactions, in which the amount financed^{1a/} 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.

1a/ 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.

3. To implement § 403, § 226.1(b)(1) would be amended as follows:

§ 226.1 - Authority, Scope, Purpose, etc.

* * * * *

(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 Administration, Civil Aeronautics Board, Secretary of Agriculture, Farm Credit Administration, and Board of Governors of the Federal Reserve System.

4. To implement § 405, § 226.9(h) would be added as follows:

§ 226.9 - Right to Rescind Certain Transactions

* * * * *

(h) Time limit for right of rescission. A customer's right to rescind a transaction pursuant to this section shall expire three years after the date of consummation of the transaction or upon the date that the customer transfers title to the property, whichever occurs earlier, notwithstanding any failure of the creditor to deliver to the customer the disclosures required by this section or the other material disclosures required by this Part.

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5. To implement § 410, § 226.13(i) would be added as follows:

§ 226.13 - Credit Cards - Issuance and Liability

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(i) Business use of credit cards. If 10 or more credit cards are issued by one card issuer for use by the employees of a single business or other organization, nothing in this section prohibits the card issuer from agreeing by contract with such business or other organization as to liability for unauthorized use of any such credit cards without regard to the provisions of this section, but in no case may any business or other organization or card issuer impose liability on any employee of such business or other organization with respect to unauthorized use of such credit card except in accordance with and subject to the other liability limitations of this section.

6. To implement § 412, § 226.9(g)(5) would be added as follows:

§ 226.9 - Right to Rescind Certain Transactions

* * * * *

(g) Exceptions to general rule.

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(5) Any transaction in which an agency of a State is the creditor.

7. To implement § 415, § 226.7(a)(1) and 226.7(b)(9) would be amended as follows:

§ 226.7 - Open End Credit Accounts - Specific Disclosures

(a) Opening new account.

* * * * *

(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, except that the creditor may, at his option and without disclosure, impose no such finance charge if payment is received after the termination of such time period.

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(b) Periodic statements required.

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(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, except that the creditor may, at his option and without disclosure, impose no such additional finance charges if payment is received after such date or termination of such period.

8. To implement §§ 406, 407, 408, 413, and 414, § 226.1(c) would be amended to read as follows:

§ 226.1 - Authority, Scope, Purpose, etc.

* * * * *

(c) Penalties and liabilities. Section 112 of the Act provides criminal liability for willful or knowing failure to comply with any requirement imposed under the Act and this Part. Section 134 provides for criminal liability for certain fraudulent activities related to credit cards. Section 130 provides for civil liability in individual or class actions for any creditor who fails to comply with any requirement imposed under Chapter 2 or Chapter 4 of the Act and the corresponding provisions of this Part, provides a defense for creditors complying in good faith with the provisions of the Part, and provides that a multiple failure to disclose in connection with a single account shall permit but a single recovery. Section 115 provides for civil liability for an assignee of an original creditor where the original creditor has violated the disclosure requirements and such violation is apparent on the face of the instrument assigned, unless the assignment is involuntary. Pursuant to Section 108 of the Act, violations of the Act or this Part constitute violations of other Federal laws which may provide fur-

ther penalties.

9. This notice is published pursuant to Section 553(b) of Title 5 United States Code, and § 262.2(a) of the Rules of Procedure of the Board of Governors of the Federal Reserve System (12 C.F.R. 262.2(a)). To aid in the consideration of these matters by the Board, interested persons are invited to submit relevant data, views, or arguments in writing to the Office of the Secretary, the Board of Governors of the Federal Reserve System, Washington, D. C., 20551, to be received not later than February 14, 1975. Such material will be made available upon request, except as provided in 12 C.F.R. § 261.6(a) of the Board's Rules Regarding Availability of Information.

By order of the Board of Governors, December 27, 1974.

Very truly yours,

(signed) Griffith L. Garwood

Griffith L. Garwood
Assistant Secretary of the Board

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