

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 77-60

May 23, 1977

REGULATION Z--TRUTH-IN-LENDING

Proposed Amendments to Simplify Certain Disclosure Requirements

**TO ALL BANKS, OTHER CREDITORS,
AND OTHERS CONCERNED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:**

The Board of Governors of the Federal Reserve System has issued four proposed amendments to its Regulation Z, Truth-in-Lending. The proposals are meant to eliminate unnecessary information from the Truth-in-Lending disclosure statement in order to focus attention on the more meaningful and useful cost disclosures as well as to promote creditor compliance with the regulation.

Comments on the proposed amendment should be directed to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, to be received not later than June 15, 1977. All materials should include the docket No. R-0098.

Printed on the enclosed pages is the Board's press release and text of the proposed amendments as submitted for publication in the FEDERAL REGISTER.

Sincerely yours,

Robert H. Boykin

First Vice President

Enclosure



FEDERAL RESERVE

press release

FOR IMMEDIATE RELEASE

May 3, 1977

The Board of Governors of the Federal Reserve System today proposed to make four simplifying revisions of its Truth-in-Lending Regulation Z.

The proposals are meant to eliminate unnecessary information from the Truth-in-Lending disclosure statement in order to focus attention on the more meaningful and useful cost disclosures as well as to promote creditor compliance with the Regulation.

The Board will receive comments on its proposals through June 15, 1977.

The four proposals are:

- 1) Elimination of itemization of the components of the finance charge.

Typical components of a finance charge include interest, loan fees, required credit insurance premiums and credit report fees. Regulation Z now calls for such components to be itemized in disclosure of the finance charge, when there are two or more components.

- 2) Revision of requirements, under Regulation Z, related to rebates of finance charges upon prepayment of a credit obligation.

The Board's proposal in this respect would

- a) Eliminate the present regulatory requirement that a creditor must disclose what method is used to calculate any such rebate, and

- b) Require only a statement of whether or not a rebate will be made.

The regulatory requirements concerning rebates have been the source of a substantial amount of litigation and misunderstanding, particularly with respect to the highly technical provisions for stating methods used to calculate rebates.

- 3) Elimination of the itemization of fees for license, certificate of title and registration now required for exclusion of such fees from the finance charge.

A general rule in Regulation Z states that every charge in a credit transaction is a finance charge if the customer pays it and it is imposed by the creditor as an incident to or a condition of an extension of credit. However, a further provision of the Regulation permits exclusion of fees for license, certificate of title and registration fees from the finance charge if they are disclosed in itemized form.

The regulatory requirement for itemization of these fees has been a source of confusion because they are typically imposed in both cash and credit transactions, and so do not meet the general definition of finance charge. The Act does not specifically require them to be itemized.

The Board's proposal would allow them to be excluded from the finance charge without being itemized if they are imposed equally on cash and credit customers and payment of them is not a condition of the extension of credit. They will still be disclosed as part of the total amount of credit financed.

- 4) Revision of the Regulation Z requirement for itemization of a down-payment in a credit sale under the specific terms "cash down-payment" and "trade-in."

The Board's proposal would allow, instead, disclosure of the total amount of down-payment, including cash, property (trade-in) or other value, and would eliminate the required terminology.

The Act requires only disclosure of the sum of all amounts credited as down-payment.

The text of the Board's proposals is attached.

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FEDERAL RESERVE SYSTEM

[12 CFR Part 226]

[Reg. Z; Docket No. R-0098]

AMENDMENTS TO REGULATION Z TO SIMPLIFY DISCLOSURE REQUIREMENTS

Consumers in Credit Transactions

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed rules.

SUMMARY: These proposed rules would amend several sections of Regulation Z to reduce the complexity of the disclosures provided to consumers in credit transactions. The proposals would eliminate itemization of the components of the finance charge and the downpayment, eliminate the requirement that certain fees imposed equally on cash and credit customers be disclosed in order to be excluded from the finance charge, and simplify the disclosure concerning rebate of finance charges in the event of prepayment in full of a precomputed installment obligation. These simplifying proposals are intended to eliminate unnecessary information from the Truth in Lending disclosure statement in order to focus attention on the more meaningful and useful cost disclosures as well as to promote creditor compliance with the regulation.

DATE: Comments must be received on or before June 15, 1977.

ADDRESS: Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. All materials submitted should include the docket number R-0098.

FOR FURTHER INFORMATION CONTACT:

D. Edwin Schmelzer, Chief, Fair Credit Practices Section, Division of Consumer Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (202-452-2412).

SUPPLEMENTARY INFORMATION: The Board of Governors of the Federal Reserve System is publishing for comment several proposed amendments to Regulation Z designed to simplify the disclosure requirements. The provisions affected are ones which are not mandated by the Truth in Lending Act but which were added by the Board under its regulation-writing authority. The Board believes that the information required to be disclosed by the current provisions may not be helpful or meaningful to consumers, while causing substantial difficulty in creditor compliance.

The Board is considering further simplifying amendments to the regulation

beyond those proposed herein. Since it recognizes the problems that would be created by a consultant-revised regulation, it will consider giving all of the simplifying changes the same effective date, where appropriate.

The proposed amendments are as follows:

Itemization of finance charge. These amendments would eliminate the requirement that the components of the finance charge be itemized. Itemization for component charges is not called for in the Truth in Lending Act, but this requirement in Regulation Z has caused substantial problems in creditor compliance without comparable benefit to consumers. The Board believes that since consumers can most effectively compare credit costs based on the total finance charge, listing of the component charges does not materially assist credit shopping. Furthermore, many of the component charges, such as "time price differential," are not meaningful to consumers. Since one of the purposes of introducing the concept of "finance charge" into the Truth in Lending Act was to eliminate the great variety of differing terminology and encourage uniform terms for purposes of comparison, it is more in keeping with this purpose to require disclosure of only the total finance charge.

Preliminary contacts with the Federal agencies responsible for the regulation's enforcement and with the exempt States indicate that many of them find itemization of the finance charge components to be helpful in their examinations and investigations. However, it appears that such itemization may be more relevant to the question of compliance with State laws than with the Truth in Lending Act.

If a creditor wished to continue itemizing the finance charge, this would, of course, be permissible as additional information under § 226.6(c).

Rebate of finance charge upon prepayment. This amendment would simplify the disclosures by eliminating the requirement to identify the method used to compute the rebate of finance charges upon prepayment in full of an obligation. Instead, a creditor would simply state whether or not a rebate will be made. It is doubtful, particularly with the typical rebate method, i.e., Rule of 78's, whether identification of the method has been in any way meaningful to consumers, and elaborate explanations of how the various methods work would be far too complex and technical to be readily understood.

If a creditor wished to provide more information regarding rebates upon prepayment, this may be done pursuant to § 226.6(c).

The Board considered elimination of all disclosures concerning rebates since this information is not called for in the Truth in Lending Act. However it appears that the existence of a rebate is an important item of information for consumers, since it has monetary impact and may affect consumer behavior.

The Board also considered an alternative amendment which would have required a statement of whether or not a rebate will be made only in those transactions for which State law does not require rebates to be given (i.e., where giving of rebates is left to the creditor's discretion). It appears that most States require rebates to be made upon full prepayment of various types of obligations and often prescribe what method is to be used to compute the rebate. In such transactions, disclosure of the existence of a rebate would be merely reiterating a State law requirement. This alternative would have required a statement of the creditor's rebate policy only in those situations where it is not determined by State law. The Board decided not to propose this alternative since it appears to be in the consumer's interest to know if there will be a rebate, regardless of whether or not State law requires it (particularly since few consumers are likely to know State law on this subject). Furthermore, since State laws on rebates are not uniform with regard to all types of credit transactions and all types of creditors, it would in many cases be simpler for a creditor to state its policy on provision of rebates for all transactions rather than determine if State law governs a particular transaction.

The Board is interested in having the views of interested persons on this question of rebate disclosures, and would particularly like to solicit comment on:

The extent to which State law governs rebate of finance charges upon prepayment.

The extent to which provisions on rebates are included in credit contracts.

The extent to which consumers are aware of their right to rebate under State law and the importance to them of creditors' practices regarding rebates.

Itemization of license, certificate of title, and registration fees. This amendment would eliminate the need for license, certificate of title, and registration fees to be itemized in order to exclude them from the finance charge. It is the Board's understanding that these types of fees are imposed equally in both cash and credit transactions (generally sales of automobiles) and therefore do not meet the definition of finance charge in § 226.4(a). Nevertheless, their inclusion in § 226.4(b) suggests that they must be itemized and disclosed in order to be kept out of the finance charge. Thus the present regulation creates an anomalous situation by singling out these fees for special treatment, with no apparent consumer benefit.

It should be noted that if these license, certificate of title, and registration fees are financed by the creditor (rather than paid in cash), they must still be itemized and disclosed as part of the amount financed.

Itemization of downpayment. This amendment would eliminate itemization of the components of the downpayment in a credit sale and would drop the required terminology of "cash downpayment," "trade-in," and "total downpay-

ment." While disclosure of the total downpayment is essential, the extra information concerning its components is not particularly necessary to a consumer's understanding of the credit transaction, and does not assist in credit shopping.

If a creditor wished to continue itemizing the downpayment, this would, of course, be permissible as additional information under § 226.6(c).

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

§ 226.4 [Amended]

1. Section 226.4(b) would be amended by deleting § 226.4(b)(4).

2. Section 226.8 would be amended as follows:

§ 226.8 Credit other than open end—
specific disclosures.

* * * * *

(b) * * *
(7) With respect to an obligation which includes precomputed finance charges, a statement indicating whether or not any portion of the finance charge will be rebated or credited to the customer in the event of prepayment in full of the obligation.

(c) * * *
(2) The total amount of the downpayment (including any downpayment in money, property or other value).

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

(i) The total amount of the finance charge, using the term "finance charge."

(d) * * *
(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 the "finance charge," using the term "finance charge."

To aid in the consideration of these proposals by the Board, interested persons are invited to submit relevant data, views, comments, or arguments. All such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, to be received not later than June 15, 1977. All material submitted should include the docket number R-0098. Such information will be made available for inspection and copying upon request, except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information (12 CFR 261.6(a)).

This notice is published pursuant to § 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 CFR 262.2(a)).

By order of the Board of Governors,
April 27, 1977.

THEODORE E. ALLISON,
Secretary of the Board.