

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

**Circular No. 77-84
August 10, 1977**

REGULATION Z--TRUTH-IN-LENDING

Discounts for Payments by Cash, Check, or Similar Means

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

The Board of Governors of the Federal Reserve System has amended its Truth in Lending Regulation Z to clarify provisions that permit discounts for cash customers.

The amendments are effective immediately. They carry out provisions of Public Law 94-222 specifying that merchants may give discounts to customers who pay in cash (or by check or similar means) rather than by using a credit card. Such discounts need not be disclosed as a finance charge to those using credit cards. Discounts may not exceed 5 percent of the credit card price.

The amendments adopted by the Board were substantially the same as amendments proposed for public comment in December.

The amendments allow merchants to use either a discount or a "two-tag" pricing system to indicate discounts for cash. Examples of pricing systems that may be used without being disclosed as a finance charge include:

1. A discount pricing system: the merchant posts or tags goods with a single price -- the price charged if a credit card is used -- and offers a 5 percent (or less) discount off this price to cash customers.
2. A "two-tag" system: the merchant posts or tags goods with both a credit card and a cash price.

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-492-4403 (intrastate) and 1-800-527-4970 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

3. Another "two-tag" system: the merchant neither tags nor posts prices, but offers to accept from customers paying by cash a price 5 percent (or less) lower than the price charged to customers using credit cards.

The amendments adopted also include a provision that the amount of any discount for cash is not, in the case of credit card users, a charge for credit under any State law, such as a usury or credit disclosure law.

Enclosed is a copy of the amendments for insertion in your Regulations binder. If you have any questions regarding Regulation Z, please contact Richard West of our Examination Department, Consumer Affairs Section, at Ext. 6171 or 6181.

Additional copies of amendments to Regulation Z will be furnished upon request to the Secretary's Office of this Bank.

Sincerely yours,

Robert H. Boykin

First Vice President

Enclosure

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

TRUTH IN LENDING

AMENDMENTS TO REGULATION Z†

Effective July 20, 1977, Regulation Z is amended as follows:

SECTION 226.2—DEFINITIONS AND RULES OF CONSTRUCTION

* * * * *

1. Section 226.2 is amended by adding new paragraphs (tt), (uu), and (vv) as follows:

(tt) **“Regular price”** means (1) the tag or posted price charged for the property or service if a single price is tagged or posted; or (2) the price charged for the property or service when payment is made by use of an open end credit card account if either (a) no price is tagged or posted, or (b) two prices are tagged or posted, one of which is charged when payment is made by use of an open end credit card account and the other when payment is made by use of cash, check, or similar means. For purposes of this definition, payment by check, draft, or other negotiable instrument which may result in the debiting of a cardholder's open end account shall not be considered payment made by use of that account.

(uu) **“Discount,”** as used in §§226.4(i) and 226.13(l), means a reduction made from the “regular price,” as defined in §226.2(tt).

(vv) **“Surcharge,”** as used in §226.4(i), means any amount added at the point of sale to the “regular price,” as defined in §226.2(tt), as a condition or consequence of payment being made by use of an open end credit card account. For purposes of this definition, payment by

check, draft, or other negotiable instrument which may result in the debiting of a cardholder's open end account shall not be considered payment made by use of that account.

SECTION 226.4—DETERMINATION OF FINANCE CHARGE

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2. Section 226.4 is amended as follows:

(a) paragraph(i)(1) is amended by adding footnote “5a” after the word “used” (i.e., “. . . whether or not a credit card is physically used,^{5a} . . .”), the text of which footnote shall be as follows:

“For purposes of this section, payment by check, draft, or other negotiable instrument which may result in the debiting of a cardholder's open end account shall not be considered payment made by use of that account.”

(b) paragraph (i)(1)(i) is amended by deleting the words “tag, posted, or advertised” and substituting therefor the word “regular.”

(c) paragraph (i)(1)(iii) is amended by: (1) changing the phrase, “the availability of a discount for payments in cash must be clearly and conspicuously disclosed” to read as follows:

“the availability of such a discount must be clearly and conspicuously disclosed;” and (2) by adding at the end of the paragraph(i)(1)(iii) a new sentence as follows:

***If a price other than the “regular price,” as defined in §226.2(tt), is disclosed is an adver-

† For this Regulation to be complete as amended effective July 20, 1977, retain the following:

- 1) Printed pamphlet as amended effective March 23, 1977;
- 2) Amendments effective April 11, 1977, Section 226.6(a) and October 10, 1977, Section 226.8(b); and
- 3) This slip sheet.

tisement, telephone contact, or other correspondence promoting goods or services for which such a discount is offered, then the advertisement, telephone contact, or other correspondence shall also indicate that such price is not available to credit card purchasers.

(d) paragraph (i)(2) is amended by deleting the words "for cash."

(e) paragraph (i)(4) is deleted and new paragraph (i)(4) as follows is added in lieu thereof:

(i) * * *

(4) No creditor in any sales transaction may impose a surcharge. This paragraph shall cease to be effective on February 27, 1979.

(f) new paragraph (i)(5) is added as follows:

* * * * *

(i) * * *

(5) Notwithstanding any other provisions of this Part, any discount which, pursuant to paragraph (1), is not a finance charge for purposes of this Part shall not be considered a finance charge or other charge for credit under the laws of any State relating to:

(i) usury; or

(ii) disclosure of information in connection with credit extensions; or

(iii) the types, amounts, or rates of charges, or the element or elements of charges permissible in connection with the extension or use of credit.

SECTION 226.5 — DETERMINATION OF ANNUAL PERCENTAGE RATE

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3. Section 226.5(a)(3)(ii) is amended by deleting the footnote designation "5a" and inserting, in lieu thereof, the designation "5b."

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SECTION 226.13 — CREDIT CARD TRANSACTIONS — SPECIAL REQUIREMENTS

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4. Section 226.13(1)(1)(i) is amended by deleting the word "cash" which appears immediately before the word "discounts."

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