

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 77-101
September 6, 1977

INTERPRETATION OF REGULATION Z--TRUTH-IN-LENDING

**Application of Certain Requirements to Credit Card Plans
Involving Transaction-by-Transaction Billing
And the Imposition of No Finance Charge**

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

The Board of Governors of the Federal Reserve System has approved the enclosed interpretation of Regulation Z (Truth-in-Lending) simplifying procedures for credit card issuers which bill customers in full on a transaction-by-transaction basis and impose no finance charges.

Most credit cards extend open-end credit, such as the credit available with a bank credit card, or a department store card, and customers are billed, usually monthly, for their purchases. A debt balance may be left after the customer makes a payment. Certain credit card issuers, however, such as some automobile rental companies, require payment in full for each transaction, and send bills only when there has been a transaction. No finance charges are imposed.

The interpretation permits such credit card issuers to continue sending bills to their customers only when a transaction has occurred. The interpretation also requires such card issuers to conform only to provisions of Regulation Z that are clearly consistent with their type of billing.

Any questions concerning Regulation Z should be directed to Richard B. West or Ralph H. Richardson of our Examination Department, Consumer Affairs Section, at Ext. 6171 or 6181. Additional copies of the interpretation will be furnished upon request to the Secretary's Office of this Bank, Ext. 6267.

Sincerely yours,
Robert H. Boykin
First Vice President

Enclosure

Banks and others are encouraged to use the following toll-free 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.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

TRUTH IN LENDING

INTERPRETATION OF REGULATION Z

SECTION 226.709—APPLICATION OF LIMITED REQUIREMENTS TO CARD ISSUERS WHICH BILL CUSTOMERS ON A TRANSACTION-BY-TRANSACTION BASIS

It has come to the Board's attention that certain credit cards are issued, the card issuer and the seller being the same person or related persons, in connection with which no finance charge is imposed and customers are billed in full for each use of the card on a transaction-by-transaction basis by means of an invoice or other statement reflecting each use of the card. No cumulative account which reflects the transactions by each customer during a period of time, such as a month, is maintained.

Section 103(f) of the Act requires **all** credit card issuers to comply with certain provisions, even though those provisions are generally applicable only to creditors of open-end credit plans, and requires the Board to apply these provisions to all card issuers "to the extent appropriate." The question arises as to which of those provisions, as implemented by this Part, appropriately apply to such card issuers.

Such card issuers may bill customers on a transaction-by-transaction basis and need not maintain a cumulative account for each customer for which a periodic statement must be sent.

Prior to the first use of the credit card, the card issuer shall provide the customer with a statement setting forth the disclosures required by §226.7(a)(9) and, as applicable, §226.7(a)(6) and §226.7(a)(7). The disclosure required by §226.7(a)(6) shall be limited to those charges that are or may be imposed as a result of the deferral of payment by use of the card, such as late payment or delinquency charges. Such card issuers need not provide the disclosure required by §226.7(a)(8).

The disclosures required by §226.7(b)(1)(i), (iii), and (ix) need not be given by such credit card issuers. The requirements of §226.7(b)(1)(ii) and §226.7(b)(1)(x) are applicable to such card issuers, and compliance may be achieved by placing the required disclosures on the invoice or statement sent to the customer for each transaction. Section 226.7(b)(2) does not apply to these credit card issuers.

The provisions of §226.7(c), including those which permit certain required disclosures to be made other than on the front of a periodic statement, shall apply. All references to the "periodic statement" in §226.7(c) shall be read to indicate the invoice or other billing document sent to the customer for each transaction.

The provisions of §226.7(d) shall apply to such credit card issuers. Compliance therewith may be achieved (1) by mailing or delivering the statement required by §226.7(a)(9) to each customer who receives a transaction invoice during a one-month period chosen by the card issuer which meets the timing requirements of §226.7(d)(2), (3), and (4); or (2) by sending either the statement prescribed by §226.7(a)(9) or the statement prescribed by §226.7(d)(5) with each invoice sent to a customer.

The provisions of §226.7(f) apply to these credit card issuers, except that (1) notice of the change in terms shall be given at least 15 days prior to the date upon which the change takes effect, rather than 15 days prior to the beginning date of the billing cycle in which it takes effect, and (2) the card issuer need notify cardholders in advance of only those changes in terms which, if undertaken by creditors of open-end credit plans generally, would necessitate notice to all customers prior to imposing the change on their accounts.

The provisions of §226.7(g) shall apply to such credit card issuers if the credit card plan includes the possible imposition of a specific charge for late payment, default, or delinquency. Otherwise, they do not apply to such credit card issuers.

The provisions of §226.7(h) shall apply to such credit card issuers, except that all requirements to credit amounts to an account may be complied with by other reasonable means, such as by a credit memorandum. Since no periodic statements are provided or required for the credit card systems subject to this interpretation, a notice of excess payment should be sent to the customer within a reasonable period of time following its occurrence unless a refund of the excess payment is mailed or delivered to the

customer within 5 business days of its receipt by the card issuer.

The card issuer shall comply with all the provisions of §226.13, including §226.13(i) and (j) to the extent that they are applicable to the credit card plan, except that §226.13(k) is inapplicable.

The card issuer shall comply with the provisions of §226.14, as applicable. All references in §226.14 to the "periodic statement" shall be read to indicate the invoice or other statement for the relevant transaction. All actions referenced in §226.14 with regard to correcting and adjusting a customer's account may be taken by issuing a refund or a new invoice, or by other appropriate means consistent with the purposes of the section.