

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 80-27

February 11, 1980

AMENDMENT TO REGULATION Z

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

In our Circular No. 804, dated January 14, 1980, you were furnished the text of an amendment to Regulation Z, which requires compliance by October 1, 1980. Enclosed is a copy of all amendments to Regulation Z which have been consolidated into one set of amendments. Member banks and others who maintain Regulations Binders should file the enclosed amendments in their binders. For this regulation to be complete, retain the enclosed booklet and the printed regulation pamphlet. All previous amendments should be removed and destroyed.

Additional copies of the amendment will be furnished upon request to the Secretary's Office of this Bank, Ext. 6267. Questions concerning the regulation may be directed to the Consumer Affairs Section of the Bank Supervision and Regulations Department, Ext. 6171.

Sincerely yours,

Robert H. Boykin

First Vice President

Enclosure (1)

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-442-7140 (intrastate) and 1-800-527-9200 (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

AMENDMENTS TO REGULATION Z†

The following are amendments in the Regulation Z pamphlet dated March 23, 1977:

1. Effective March 28, 1977, Interpretation §226.821 is as follows:

SECTION 226.821—DISCLOSURE OF DEALER PARTICIPATION

Section 226.8(c)(8)(i) requires the itemization of each component of a finance charge consisting of more than one type of charge. Section 226.4(a)(3) lists among the types of charges to be included in the finance charge a "finder's fee or similar charge." In certain credit transactions, such as the sale of automobiles and other consumer goods, where the finance charge is determined by application of a percentage rate or rates to the amount financed, a portion of that charge may be allocated to the dealer by the financial institution as a dealer participation. The question arises whether such allocations must be itemized as a separate component of the total finance charge in the nature of a finder's fee.

The requirement for itemization of a finance charge which includes a finder's fee or other elements in addition to an interest component is intended to assure that the total finance charge disclosed to the customer properly reflects all components which must be included in that amount. Any component of the finance charge which is computed by the application of a percentage rate or rates to the amount financed constitutes a single charge of the type described in § 226.4(a)(1). As such, it must be included in the finance charge calculation and disclosure. A portion of such single component of the finance charge which is distributed to a dealer is not considered a "finder's fee or similar charge" and need not be separately identified or disclosed. The concept of a "finder's fee," as that term is used in § 226.4(a)(3), is intended to cover certain charges in the nature of brokerage fees which are

imposed in addition to that portion of the finance charge attributable to the application of a percentage rate or rates to the amount financed. Any such separate fee must, of course, be separately itemized.

2. Effective April 11, 1977, §226.6(a) is amended by adding a new paragraph as follows:

SECTION 226.6—GENERAL DISCLOSURE REQUIREMENTS

* (a) Disclosures; general rule.***

All disclosures required to be given by this Part shall be made in the English language except in the Commonwealth of Puerto Rico where disclosures may be made in the Spanish language with English language disclosures provided upon the customer's request, either in substitution for the Spanish disclosures or as additional information in accordance with § 226.6(c).

3. Effective July 20, 1977, §226.2 is amended by adding new paragraphs (tt), (uu) and (vv) as follows:

SECTION 226.2—DEFINITIONS AND RULES OF CONSTRUCTION

* * * * *

(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 (i) no price is tagged or posted, or (ii) 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.

† For this Regulation to be complete as amended to October 1, 1980, retain:

1) Printed Regulation pamphlet dated March 23, 1977.
2) Corrections slip sheet dated October 1978.
3) This slip sheet. (Destroy slip sheet dated September 1979.)

(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.

* * * * *

4. Effective July 20, 1977, § 226.4(i) is amended to read as follows:

SECTION 226.4—DETERMINATION OF FINANCE CHARGE

* * * * *

(i) **Discounts for payments in cash.** (1) Notwithstanding any other provision of this section, a discount which a creditor offers, allows, or otherwise makes available for the purpose of inducing payments for a purchase by cash, check, or similar means rather than by use of an open end credit card account, whether or not a credit card is physically used,^{5a} is not a finance charge. Provided that:

(i) Such discount does not exceed 5 per cent when computed or expressed as a percentage of the regular price of the property or services which are the subject of the transaction,

(ii) Such discount is available to all prospective buyers, whether or not they are cardholders, and such fact is clearly and conspicuously disclosed by a sign or display posted at or near each public entrance to the seller's place of business wherein such discount is offered, and at all locations within the place of business where a purchase may be paid for, and

(iii) If an offer of property or services is advertised in any medium or if offers are invited or accepted through the mail, over the telephone, or by means other than personal contact between the customer and the creditor offering such a dis-

^{5a} 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.

count, and if customers are allowed to pay by use of a credit card or its underlying account and such fact is disclosed in the advertisement, telephone contact, or in other correspondence, the availability of such a discount must be clearly and conspicuously disclosed in any advertisement for such offerings and, in any case, before the transaction has been completed by use of the credit card or its underlying account. If a price other than the regular price, as defined in § 226.2(tt), is disclosed in an advertisement, 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.

(2) With respect to any such discount which is greater than 5 per cent, the total amount of such discount shall constitute a finance charge under § 226.4(a) to be disclosed in accordance with § 226.7(e).

(3) The availability of any discount may be limited by the creditor offering such discount to certain types of property or services or to certain outlets maintained by that creditor provided that such limitations are clearly and conspicuously disclosed.

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

(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.

5. Effective July 20, 1977, footnote 5^a to § 226.5(a)(3)(ii) is redesignated footnote 5^b.

6. Effective July 20, 1977, section 226.13(l)(1)(i) is amended by deleting the word "cash" which appears immediately before the word "discounts."

7. Effective August 17, 1977, Interpretation 226.709 is as follows:

† Prohibition on imposition of surcharges extended to February 1981 on March 5, 1979. See no. 19 on page 8.

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.

8. Effective October 10, 1977, § 226.8(b) is amended by the addition of paragraph (8) as follows:

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

* * * * *

(b) * * *

*(8) If the annual percentage rate as disclosed under § 226.8(b)(2) is prospectively subject to increase^{10a}, the following additional disclosures shall be made:

(i) the fact that the annual percentage rate is subject to increase and the conditions under which such rate may increase, including: (A) identification of the index, if any, with respect to which such increase in annual percentage rate is tied; and (B) any limitation on such increase;

(ii) the manner(s) (such as an increase in payment amounts, number of scheduled periodic payments, or in the amount due at maturity) in which any increase in the annual percentage rate may be effected;

(iii) if the obligation is repayable in substantially equal instalments at substantially equal intervals (including those obligations providing for "balloon" payments) and the increase could be effected by an increase in the periodic payment amount, a statement of the estimated increase in the amount of the payment caused by a hypothetical immediate increase of one quarter of one percentage point, based upon the number of scheduled periodic payments and original amount financed disclosed at consummation;

(iv) if the obligation is repayable in substantially equal instalments at substantially equal intervals (including those obligations providing for "balloon" payments) and the increase could be effected by an increase in the number of periodic payments, a statement of the estimated increase in the number of periodic payments caused by a hypothetical immediate increase of one quarter of one percentage point, based upon the periodic

payment amount and the original amount financed disclosed at consummation.

Any increase in the annual percentage rate within the conditions or limitations disclosed in accordance with this paragraph is a subsequent occurrence under § 226.6(g) and is not a refinancing under § 226.8(j).

The disclosures required under § 226.8(b)(8)(iii) and (iv) need be made only in transactions in which a security interest is taken in real property used or expected to be used as the customer's dwelling, and they need not be made in transactions primarily for agricultural purposes, transactions in which the obligation is repayable in substantially equal instalments which do not include repayments of principal, or transactions in which disclosures are made pursuant to § 226.814.

9. Effective October 10, 1977, Interpretation 226.810 is rescinded.

10. Effective March 28, 1978 § 226.7(k)(3)(ii) is amended as follows (inasmuch as footnote 9e is unaffected by this amendment, the text of the footnote is not reproduced below):

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

* * * * *

(k) * * *

(3) * * *

(ii) A description of the transaction, which characterizes it as a cash advance, loan, overdraft loan, or other designation as appropriate, and which includes the amount of the transaction and the date of the transaction^{9*} or the date which appears on the document or instrument evidencing the transaction (if the customer signed the document or instrument), or the date of debiting the amount to the account, provided that if only the debiting date is disclosed and the customer submits a proper written notification of a billing error related to the transaction, the creditor shall treat such inquiry as a billing error under §§ 226.2(j) and 226.14, and as an erroneous billing under § 226.14(b), and shall supply documentary evidence of the transaction whether or not the customer requests it, within the time period allowed under § 226.14 for resolution of a billing error without charge to the customer. If the date of debiting is disclosed, it must be reasonably identified as such on the periodic statement.

* Amended 4/11/77.

^{10a} For this purpose, the phrase "prospectively subject to increase" does not apply to increases in the annual percentage rate upon such occurrences as default, acceleration, late payment, assumption or transfer of property.

11. Effective April 21, 1978 § 226.1(d) is deleted and a new § 226.1(d) is inserted to read as follows:

SECTION 226.1—AUTHORITY, SCOPE,
PURPOSE, ETC.

* * * * *

(d) **Issuance of staff interpretations.** (1) Unofficial staff interpretations will be issued at the staff's discretion where the protection of section 130(f) of the Act is neither requested nor required, or where a rapid response is necessary.

(2)(i) Official staff interpretations will be issued at the discretion of designated officials. No such interpretation will be issued approving creditors' or lessors' forms or statements. Any request for an official staff interpretation of this Part must be in writing and addressed to the Director of the Division of Consumer Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. The request must contain a complete statement of all relevant facts concerning the credit or lease transaction or arrangement and must include copies of all pertinent documents.

(ii) Within 5 business days of receipt of the request, an acknowledgment will be sent to the person making the request. If, in the opinion of the designated officials, issuance of an official staff interpretation is appropriate, it will be published in the *Federal Register* to become effective 30 days after the publication date. If a request for public comment is received, the effective date will be suspended. The interpretation will then be republished in the *Federal Register* and the public given an opportunity to comment. Any official staff interpretation issued after opportunity for public comment shall become effective upon publication in the *Federal Register*.

(3) Any request for public comment on an official staff interpretation of this Part must be in writing and addressed to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, and postmarked or received by the Secretary's office within 30 days of the interpretation's publication in the *Federal Register*. The request must contain a statement setting forth the reasons why the person making the request believes that public comment would be appropriate.

(4) Pursuant to section 130(f) of the Act, the Board has designated the Director and other offi-

cial of the Division of Consumer Affairs as officials "duly authorized" to issue, at their discretion, official staff interpretations of this Part.

12. Effective May 30, 1978, § 226.6(i) is amended to read as follows:

SECTION 226.6—GENERAL DISCLOSURE
REQUIREMENTS

* * * * *

(i) **Preservation and inspection of evidence of compliance.** (1) Evidence of compliance with the requirements imposed under this Part, other than advertising requirements under § 226.10, shall be preserved by the creditor or lessor for a period of not less than 2 years after the date such disclosure is required to be made.

(2) With respect to a creditor or lessor subject to the administrative enforcement jurisdiction of 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 or Board of Governors of the Federal Reserve System, all evidence of compliance with the requirements imposed under this Part, dating from July 1, 1969, other than advertising requirements under § 226.10, shall be retained until:

(i) The administrative authority for that creditor or lessor completes one examination for compliance with the requirements imposed under this Part subsequent to adoption of a statement of enforcement policy,^{6a} and

(ii) A period of not less than 2 years has elapsed from the date that disclosure was required to be made.

(3) Each creditor or lessor 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.

^{6a} "Statement of enforcement policy" refers to a final statement based on the Joint Notice of Proposed Statement of Enforcement Policy published at 42 FR 55786 (1977).

13. Effective May 30, 1978, footnote 6a to § 226.7(a)(4) is redesignated footnote 6b.

14. Effective August 3, 1978, § 226.9(g) is amended by adding a new paragraph as follows:

† SECTION 226.9—RIGHT TO RESCIND CERTAIN TRANSACTIONS

* * * * *

(g) Exceptions to general rule. * * *

(6) Individual transactions under an open end credit account: *Provided*,

(i) That the creditor and the seller are not the same or related persons.^{11a}

(ii) That the creditor provides the disclosure required by § 226.9(b) at the time the disclosures required under § 226.7(a) are required to be made, or, if the security interest is not retained or acquired at the time the § 226.7(a) disclosures are required to be made, at the time the security interest is retained or acquired.

(iii) That the creditor does not change the terms of a customer's account within the meaning of § 226.7(f) or increase the customer's line of credit without affording the customer the opportunity to refuse the change in terms or the increase. If the customer refuses the change in terms, the creditor need not extend any further credit on the account; however, the customer shall have the right to repay any existing obligation on the account under the then existing terms of the account. At the time a disclosure of a change in terms under § 226.7(f) is required to be made or prior to an increase in the customer's line of credit, the creditor shall provide the customer with two copies of a disclosure setting forth, as applicable: The fact that the creditor intends to change the terms or increase the line of credit of the customer's account; the fact that the account is secured by the customer's real property; and the fact that the customer may refuse the change in terms and repay any existing obligation under the then existing terms of the account, or refuse the increase in the line of credit, by giving the creditor written notice within 3 business days of the date of the disclosure.

(iv) That at least once each calendar year the creditor furnishes to the customer a disclosure

† Rescinded effective March 31, 1980. See no. 21 on page 9.

^{11a} For purposes of § 226.9(g)(6) a person is related to a creditor if that person would be deemed related to the credit or under footnote 9b to § 226.7(k).

of the fact that the customer's account is secured by the customer's real property and that failure to pay any outstanding balance in accordance with the terms of the account could result in the loss of the customer's real property.

(v) That each disclosure provided pursuant hereto is made on one side of a statement separate from any other documents, that the disclosure sets forth the name of the creditor and, in the case of the disclosures required by paragraph (g)(6)(iii) of this section, the creditor's address, the date on which the disclosure is furnished to the customer, the date by which the customer should give notice of refusal of the increase in the line of credit or the change in terms of the account, and the fact that one copy of the disclosure can be used for that purpose.

15. Effective August 3, 1978, Interpretation § 226.904 is as follows:

† SECTION 226.904—RIGHT OF RESCISSION FOR CERTAIN OPEN END CREDIT ACCOUNTS

Section 226.9(g)(6) provides an exception to the right of rescission for individual transactions on an open end credit account provided, among other things, that the disclosures required by that section are made at the times specified. The question arises as to what disclosures will satisfy the requirements of §§ 226.9(g)(6) (iii) and (iv).

The disclosures set forth below, if accurate and when properly completed, will satisfy the requirements, as to form and content, of the indicated sections of the regulation. No specific type size or style is required. If the real property on which the security interest may arise does not include a dwelling, the creditor may substitute such words as "the property you are purchasing" for "your home" or "lot" for "home" where these words appear in the disclosure.

Section 226.9(g)(6)(iii) (increase in line of credit).

NOTICE TO CUSTOMER REQUIRED BY FEDERAL LAW

(Name of creditor)

has approved an increase in the amount of credit available to you on your open end account secured by your home. Any additional

† Rescinded effective March 31, 1980. See no. 21 on page 9.

credit you use will also be secured by your home. You have a right to refuse to accept this increase. You may exercise this right within three business days from _____

(date disclosure delivered to customer)

by notifying us at _____ by mail or telegram sent not later than midnight of _____. You may also use any other

(address of creditor's place of business)

(date)

form of written notice to refuse the increase 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 refuse the increase in the credit available on my account.

(date) (customer's signature)

† Section 226.9(g)(6)(iii) (change in terms).

NOTICE TO CUSTOMER REQUIRED BY FEDERAL LAW

(Name of creditor)

intends to change the terms of your open end credit account which is secured by your home. You have a right to refuse to accept this change in terms. If you refuse this change in terms, we have the right to refuse to extend any further credit on your open end account and may require you to repay any existing obligation on your account under the present terms of the account. You may exercise your right to refuse the change in terms within three business days of _____

(date disclosure

delivered to customer) _____ by notifying us at _____

(address

of creditor's place of business) _____ by mail or telegram

sent not later than midnight of _____. You may

(date)

also use any other form of written notice to refuse the change in terms 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 refuse the change in the terms of my account.

(date) (customer's signature)

† Third sentence of this section amended on October 31, 1978. See no. 18 on page 8

Section 226.9(g)(6)(iv) (annual disclosure).

NOTICE TO CUSTOMER REQUIRED BY FEDERAL LAW

This is to remind you that your open end credit account with _____ is secured by a

(Name of creditor)

lien, mortgage, or other security interest on your home. This means that your failure to pay any outstanding balance in accordance with the terms of the account could result in the loss of your home.

16. Effective August 31, 1978. § 226.8(a) is amended by adding the following sentence to the end:

§ 226.8—CREDIT OTHER THAN OPEN END —SPECIFIC DISCLOSURES

(a) General rule.

* * * * *

Notwithstanding the provisions of paragraphs (a) (1) and (2) of this section, a creditor may, in any transaction in which the payments scheduled to repay the indebtedness vary, satisfy the requirements of § 226.8(b)(3) with respect to the number, amount, and due dates or periods of payments by disclosing the required information on the reverse of the disclosure statement or on a separate page(s): *Provided*, That the following notice appears with the other required disclosures: "NOTICE: See [reverse side] [accompanying statement] for the schedule of payments."

17. Effective August 31, 1978. Interpretation § 226.503 is amended by adding the following to the end:

§ 226.503—MINOR IRREGULARITIES— MAXIMUM IRREGULAR PERIOD LIMITS

* * * * *

Notwithstanding the above or the language in § 226.5(d) that limits the minor irregularities provisions to transactions that are "otherwise payable in equal instalments scheduled at equal intervals," the following rule may apply. An initial payment period of 62 days or less may be treated as though it were regular and an irregular initial payment or any portion thereof resulting from the applica-

tion of a rate to the balance for such an irregular period may be disregarded if:

(1) The scheduled amortization of the obligation (the date from which the finance charge begins to accrue to the date of the final scheduled payment) is at least 10 years, and

(2) The obligation is otherwise payable in monthly instalments.

18. Effective October 31, 1978, Interpretation § 226.904 is amended by deleting the third sentence of the disclosure captioned "Section 226.9(g)(6)(iii) (change in terms)," which reads, "If you refuse this change in terms, we have the right to refuse to extend any further credit on your account and may require you to repay any existing obligation on your account under the present terms of the account," and substituting in its place "If you refuse this change in terms, you have the right to continue to repay your existing obligation under the present terms of the account. However, we would then have the right to refuse to extend any further credit, except pursuant to these new terms."

19. Effective March 5, 1979, § 226.4(i)(4) is amended to read as follows:

§ 226.4 — DETERMINATION OF FINANCE CHARGE

(i) ***

* * * * *

(4) No creditor in any sales transaction may impose a surcharge. This paragraph shall cease to be effective on February 27, 1981.

† 20. Effective January 10, 1980, § 226.5(a) is amended and new §§ 226.5(b) and (c), 226.8(r) and (s) and Supplement I to Regulation Z are added, to read as follows:

SECTION 226.5—DETERMINATION OF ANNUAL PERCENTAGE RATE

(a) **Open end credit — general rule.** The annual percentage rate is a measure of the cost of credit, expressed as a yearly rate. An annual percentage rate shall be considered accurate if it is not

† These revisions will be effective concurrently with those in existence prior to January 10, 1980 until October 1, 1980 when these prior provisions will be rescinded. See no. 22 on page 10 New Supplement I to Regulation Z, which does not appear on this slipsheet, is available from the Board or from any Federal Reserve Bank.

more than $\frac{1}{8}$ of 1 percentage point above or below the annual percentage rate determined in accordance with this section.

* * * * *

(b) **Credit other than open end.** (1) *General rule.* The annual percentage rate is a measure of the cost of credit, expressed as a yearly rate, which relates the amount and timing of value received by the consumer to the amount and timing of payments made. The annual percentage rate shall be determined in accordance with either the actuarial method or the United States Rule method and shall be considered accurate if it is not more than $\frac{1}{8}$ of 1 percentage point above or below the annual percentage rate determined in accordance with whichever method is used. Explanations, equations and instructions for determining the annual percentage rate in accordance with the actuarial method are set forth in Supplement I.

(2) *Computation tools.* (i) 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 the instructions contained therein will comply with the requirements of this section. Volume I of the tables applies to single advance transactions involving up to 480 monthly payments or 104 weekly payments. It may be used for regular transactions, and for transactions with any of the following irregularities: an odd first period, an odd first payment, and an odd final payment. Volume II applies to transactions involving multiple advances and any type of payment or period irregularity.

(ii) Creditors may use any other computation tool in determining the annual percentage rate so long as the annual percentage rate so determined equals the annual percentage rate determined in accordance with Supplement I, within the degree of accuracy set forth in paragraph (b)(1) of this section.

(iii) Supplement I and Volumes I and II may be obtained from any Federal Reserve Bank or from the Board in Washington, D.C. 20551.

(3) *Single add-on rate transactions.* If a single add-on rate is applied to all transactions with maturities up to 60 months and if all payments are equal in amount and period, a single annual percentage rate may be disclosed for all such transactions, provided that it is the highest annual percentage rate for any such transaction.

(4) *Certain transactions involving ranges of balances.* For purposes of disclosing the annual percentage rate referred to in §§ 226.8(g)(1) and (2) (Orders by mail or telephone) and 226.8(h)(1) (Series of sales), if the same finance charge is imposed on all balances within a specified range of balances, the annual percentage rate computed for the median balance may be disclosed for all of the balances. However, if the annual percentage rate computed for the median balance understates the annual percentage rate computed for the lowest balance by more than 8 per cent of the latter rate, the annual percentage rate shall be computed on whatever lower balance will produce an annual percentage rate which does not result in an understatement of more than 8 per cent of the rate determined on the lowest balance.

(5) *Payment schedule irregularities.* In determining and disclosing the annual percentage rate, a creditor may disregard an irregularity in the first period^{5c} that falls within the limits described below and any payment schedule irregularity that results from the irregular first period:

(i) For transactions in which the term^{5c} is less than 1 year: a first period not more than 6 days shorter or 13 days longer than a regular period;

(ii) For transactions in which the term is at least 1 year and less than 10 years: a first period not more than 11 days shorter or 21 days longer than a regular period; or

(iii) For transactions in which the term is at least 10 years: a first period shorter than or not more than 32 days longer than a regular period.

(c) *Errors in calculation tools.* An error in disclosure of the annual percentage rate or finance charge shall not, in itself, be considered a violation of this Part if:

(1) The error resulted from a corresponding error in any calculation tool, such as a chart, table, calculator or computer, used in good faith by the creditor, and

(2) Upon discovery of the error, the creditor promptly

(i) Discontinues use of that calculation tool for disclosure purposes, and

^{5c} For purposes of this paragraph, the "first period" is the period from the date on which the finance charge begins to be earned to the date of the first payment, and the "term" is the period from the date on which the finance charge begins to be earned to the date of the final payment.

(ii) Notifies the Board in writing of the error in the calculation tool. The notification shall include an identification of the tool and a description of the error, and shall be addressed to the Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

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SECTION 226.8—CREDIT OTHER THAN OPEN END—SPECIFIC DISCLOSURES

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(r) *Payment schedule irregularities.* In determining and disclosing the finance charge and the payment schedule under paragraph (b)(3) of this section, a creditor may disregard an irregular final payment or portion of a final payment that results from an irregular first period^{13g} within the limits described below and may treat the irregular first period as if it were regular:

(1) For transactions in which the term^{13g} is less than 1 year: a first period not more than 6 days shorter or 13 days longer than a regular period;

(2) For transactions in which the term is at least 1 year and less than 10 years: a first period not more than 11 days shorter or 21 days longer than a regular period; or

(3) For transactions in which the term is at least 10 years: a first period shorter than or not more than 32 days longer than a regular period.

(s) *Disregarding certain practices.* In making calculations and disclosures, a creditor need not take into account the effects of the following:

(1) The fact that payments are collected in whole cents;

(2) The fact that the dates of payments and advances are changed because the scheduled date falls on a Saturday, Sunday, or holiday; and

(3) The fact that months have different numbers of days.

21. Effective March 31, 1980, § 226.9(g)(6) and Interpretation § 226.904 are rescinded.

^{13g} For purposes of this paragraph, the "first period" is the period from the date on which the finance charge begins to be earned to the date of the first payment, and the "term" is the period from the date on which the finance charge begins to be earned to the date of the final payment.

22. Effective October 1, 1980, previous § 226.5(a) is amended by deleting both the title "General rule — open end credit accounts" and the first sentence beginning "The annual percentage rates for open end credit" and ending "nearest

quarter of 1 per cent."; previous §§ 226.5(b) through (e), Interpretations §§ 226.502, 226.503, and 226.505, and previous Supplement I to Regulation Z are rescinded.