

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 81-121  
June 16, 1981

REGULATIONS Z AND M PAMPHLETS

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

Enclosed is a copy of the Regulation Z pamphlet, Truth in Lending, effective July 1, 1969 and amended to April 1, 1981. Also enclosed is a copy of the Regulation M pamphlet, Consumer Leasing, effective April 1, 1981. The pamphlets have been punched for insertion in the upper two rings of your Regulations Binder.

The revised Regulation Z pamphlet and the new Regulation M pamphlet replace the Regulation Z pamphlet (effective July 1, 1969 and amended to March 23, 1977), which is currently filed in your Regulations Binder. That pamphlet, as well as the slip-sheet amendments, dated May 1980 and September 1980, and Circular No. 80-142, dated July 23, 1980, should be removed from your binder.

Questions regarding these regulations should be directed to the Legal Department of this Bank, Ext. 6171. Additional copies of the pamphlets will be furnished upon request to the Communications, Financial, and Community Affairs Department of this Bank, Ext. 6298.

Sincerely yours,

William H. Wallace

First Vice President

Enclosures

# Regulation Z

## Truth in Lending

12 CFR 226; effective July 1, 1969; amended to April 1, 1981



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# Regulation Z

## Truth in Lending

12 CFR 226; effective July 1, 1969; amended to April 1, 1981

### SUBPART A—GENERAL

#### SECTION 226.1—Authority, Purpose, Coverage, Organization, Enforcement and Liability

(a) *Authority.* This regulation, known as Regulation Z, is issued by the Board of Governors of the Federal Reserve System to implement the federal Truth in Lending and Fair Credit Billing Acts, which are contained in title I of the Consumer Credit Protection Act, as amended (15 USC 1601 et seq.).

(b) *Purpose.* The purpose of this regulation is to promote the informed use of consumer credit by requiring disclosures about its terms and cost. The regulation also gives consumers the right to cancel certain credit transactions that involve a lien on a consumer's principal dwelling, regulates certain credit card practices, and provides a means for fair and timely resolution of credit billing disputes. The regulation does not govern charges for consumer credit.

(c) *Coverage.* (1) In general, this regulation applies to each individual or business that offers or extends credit when four conditions are met: (i) the credit is offered or extended to consumers; (ii) the offering or extension of credit is done regularly;<sup>1</sup> (iii) the credit is subject to a finance charge or is payable by a written agreement in more than four installments; and (iv) the credit is primarily for personal, family, or household purposes.

(2) If a credit card is involved, however, certain provisions apply even if the credit is not subject to a finance charge, or is not payable by a written agreement in more than four installments, or if the credit card is to be used for business purposes.

(d) *Organization.* The regulation is divided into subparts and appendices as follows:

(1) Subpart A contains general information. It sets forth: (i) the authority, purpose, coverage, and organization of the regulation; (ii) the definitions of basic terms; (iii) the transactions that are exempt from coverage; and (iv) the method of determining the finance charge.

(2) Subpart B contains the rules for open-end credit. It requires that initial disclosures and periodic statements be provided. It also describes special rules that apply to credit card transactions, treatment of payments and credit balances, procedures for resolving credit billing errors, annual percentage rate calculations, rescission requirements, and advertising rules.

(3) Subpart C relates to closed-end credit. It contains rules on disclosures, treatment of credit balances, annual percentage rate calculations, rescission requirements, and advertising.

(4) Subpart D contains rules on oral disclosures, Spanish language disclosure in Puerto Rico, record retention, effect on state laws, and state exemptions.

(5) There are several appendices containing information such as the procedures for determinations about state laws, state exemptions and issuance of staff interpretations, special rules for certain kinds of credit plans, a list of enforcement agencies, and the rules for computing annual percentage rates in closed-end credit transactions.

(e) *Enforcement and liability.* Section 108 of the act contains the administrative enforcement provisions. Sections 112, 113, 130, 131, and 134 contain provisions relating to liability for failure to comply with the requirements of the act and the regulation.

#### SECTION 226.2—Definitions and Rules of Construction

(a) *Definitions.* For purposes of this regulation, the following definitions apply:

<sup>1</sup> The meaning of "regularly" is explained in the definition of "creditor" in section 226.2(a).

(1) "*Act*" means the Truth in Lending Act (15 USC 1601 et seq.).

(2) "*Advertisement*" means a commercial message in any medium that promotes, directly or indirectly, a credit transaction.

(3) "*Arranger of credit*" means a person who regularly arranges for the extension of consumer credit<sup>2</sup> by another person if:

(i) A finance charge may be imposed for that credit, or the credit is payable by written agreement in more than four installments (not including a downpayment); and

(ii) The person extending the credit is not a creditor.

(4) "*Billing cycle*" or "*cycle*" means the interval between the days or dates of regular periodic statements. These intervals shall be equal and no longer than a quarter of a year. An interval will be considered equal if the number of days in the cycle does not vary more than four days from the regular day or date of the periodic statement.

(5) "*Board*" means the Board of Governors of the Federal Reserve System.

(6) "*Business day*" means a day on which a creditor's offices are open to the public for carrying on substantially all of its business functions. However, for purposes of rescission under sections 226.15 and 226.23, the term means all calendar days except Sundays and the legal public holidays specified in 5 USC 6103(a), such as New Year's Day, Washington's Birthday, Memorial Day, Independence Day, Labor Day, Columbus Day, Veterans Day, Thanksgiving Day, and Christmas Day.

(7) "*Card issuer*" means a person that issues a credit card or that person's agent with respect to the card.

(8) "*Cardholder*" means a natural person to whom a credit card is issued for consumer credit purposes, or a natural person who has agreed with the card issuer to pay con-

sumer credit obligations arising from the issuance of a credit card to another natural person. For purposes of section 226.12(a) and (b), the term includes any person to whom a credit card is issued for any purpose, including business, commercial, or agricultural use, or a person who has agreed with the card issuer to pay obligations arising from the issuance of such a credit card to another person.

(9) "*Cash price*" means the price at which a creditor, in the ordinary course of business, offers to sell for cash the property or service that is the subject of the transaction. At the creditor's option, the term may include the price of accessories, services related to the sale, service contracts and taxes and fees for license, title, and registration. The term does not include any finance charge.

(10) "*Closed-end credit*" means consumer credit other than "open-end credit" as defined in this section.

(11) "*Consumer*" means a cardholder or a natural person to whom consumer credit is offered or extended. However, for purposes of rescission under sections 226.15 and 226.23, the term also includes a natural person in whose principal dwelling a security interest is or will be retained or acquired, if that person's ownership interest in the dwelling is or will be subject to the security interest.

(12) "*Consumer credit*" means credit offered or extended to a consumer primarily for personal, family, or household purposes.

(13) "*Consummation*" means the time that a consumer becomes contractually obligated on a credit transaction.

(14) "*Credit*" means the right to defer payment of debt or to incur debt and defer its payment.

(15) "*Credit card*" means any card, plate, coupon book, or other single credit device that may be used from time to time to obtain credit.

(16) "*Credit sale*" means a sale in which the seller is a creditor. The term includes a bailment or lease (unless terminable without penalty at any time by the consumer) under which the consumer—

(i) Agrees to pay as compensation for

<sup>2</sup> A person regularly arranges for the extension of consumer credit only if it arranged credit more than 25 times (or more than 5 times for transactions secured by a dwelling) in the preceding calendar year. If a person did not meet these numerical standards in the preceding calendar year, the numerical standards shall be applied to the current calendar year.

use a sum substantially equivalent to, or in excess of, the total value of the property and services involved; and

(ii) Will become (or has the option to become), for no additional consideration or for nominal consideration, the owner of the property upon compliance with the agreement.

(17) "*Creditor*" means:

(i) A person (A) who regularly extends consumer credit<sup>3</sup> that is subject to a finance charge or is payable by written agreement in more than four installments (not including a downpayment), and (B) to whom the obligation is initially payable, either on the face of the note or contract, or by agreement when there is no note or contract.

(ii) An arranger of credit.

(iii) For purposes of sections 226.4(c) (8) (Discounts), 226.9(d) (Finance Charge Imposed at Time of Transaction), and 226.12(e) (Prompt Notification of Returns and Crediting of Refunds), a person that honors a credit card.

(iv) For purposes of subpart B, any card issuer that extends either open-end credit or credit that is not subject to a finance charge and is not payable by written agreement in more than four installments.

(v) For purposes of subpart B (except for the finance charge disclosures contained in sections 226.6(a) and 226.7(d) through (g) and the right of rescission set forth in section 226.15) and subpart C, any card issuer that extends closed-end credit that is subject to a finance charge or is payable by written agreement in more than four installments.

(18) "*Downpayment*" means an amount, including the value of any property used as a trade-in, paid to a seller to reduce the cash price of goods or services purchased in a credit sale transaction. A deferred portion

of a downpayment may be treated as part of the downpayment if it is payable not later than the due date of the second otherwise regularly scheduled payment and is not subject to a finance charge.

(19) "*Dwelling*" means a residential structure that contains one to four units, whether or not that structure is attached to real property. The term includes an individual condominium unit, cooperative unit, mobile home, and trailer, if it is used as a residence.

(20) "*Open-end credit*" means consumer credit extended by a creditor under a plan in which—

(i) The creditor reasonably contemplates repeated transactions;

(ii) The creditor may impose a finance charge from time to time on an outstanding unpaid balance; and

(iii) The amount of credit that may be extended to the consumer during the term of the plan (up to any limit set by the creditor) is generally made available to the extent that any outstanding balance is repaid.

(21) "*Periodic rate*" means a rate of finance charge that is or may be imposed by a creditor on a balance for a day, week, month, or other subdivision of a year.

(22) "*Person*" means a natural person or an organization, including a corporation, partnership, proprietorship, association, cooperative, estate, trust, or government unit.

(23) "*Prepaid finance charge*" means any finance charge paid separately in cash or by check before or at consummation of a transaction, or withheld from the proceeds of the credit at any time.

(24) "*Residential mortgage transaction*" means a transaction in which a mortgage, deed of trust, purchase money security interest arising under an installment sales contract, or equivalent consensual security interest is created or retained in the consumer's principal dwelling to finance the acquisition or initial construction of that dwelling.

(25) "*Security interest*" means an interest in property that secures performance of a consumer credit obligation and that is recognized by state or federal law. It does not

<sup>3</sup> A person regularly extends consumer credit only if it extended credit more than 25 times (or more than 5 times for transactions secured by a dwelling) in the preceding calendar year. If a person did not meet these numerical standards in the preceding calendar year, the numerical standards shall be applied to the current calendar year.



include incidental interests such as interests in proceeds, accessions, additions, fixtures, insurance proceeds (whether or not the creditor is a loss payee or beneficiary), premium rebates, or interests in after-acquired property. For purposes of disclosure under sections 226.6 and 226.18, the term does not include an interest that arises solely by operation of law. However, for purposes of the right of rescission under sections 226.15 and 226.23, the term does include interests that arise solely by operation of law.

(26) "State" means any state, the District of Columbia, the Commonwealth of Puerto Rico, and any territory or possession of the United States.

(b) *Rules of construction.* For purposes of this regulation, the following rules of construction apply:

(1) Where appropriate, the singular form of a word includes the plural form and plural includes singular.

(2) Where the words "obligation" and "transaction" are used in this regulation, they refer to a consumer credit obligation or transaction, depending upon the context. Where the word "credit" is used in this regulation, it means "consumer credit" unless the context clearly indicates otherwise.

(3) Unless defined in this regulation, the words used have the meanings given to them by state law or contract.

(4) Footnotes have the same legal effect as the text of the regulation.

natural person, including credit to government agencies or instrumentalities.

(b) *Credit over \$25,000 not secured by real property or a dwelling.* An extension of credit not secured by real property, or by personal property used or expected to be used as the principal dwelling of the consumer, in which the amount financed exceeds \$25,000 or in which there is an express written commitment to extend credit in excess of \$25,000.

(c) *Public utility credit.* An extension of credit that involves public utility services provided through pipe, wire, other connected facilities, or radio or similar transmission (including extensions of such facilities), if the charges for service, delayed payment, or any discounts for prompt payment are filed with or regulated by any government unit. The financing of durable goods or home improvements by a public utility is not exempt.

(d) *Securities or commodities accounts.* Transactions in securities or commodities accounts in which credit is extended by a broker-dealer registered with the Securities and Exchange Commission or the Commodity Futures Trading Commission.

(e) *Home fuel budget plans.* An installment agreement for the purchase of home fuels in which no finance charge is imposed.

### SECTION 226.3—Exempt Transactions

This regulation does not apply to the following:

(a) *Business, commercial, agricultural, or organizational credit.*<sup>4</sup> (1) An extension of credit primarily for a business, commercial or agricultural purpose.

(2) An extension of credit to other than a

### SECTION 226.4—Finance Charge

(a) *Definition.* The finance charge is the cost of consumer credit as a dollar amount. It includes any charge payable directly or indirectly by the consumer and imposed directly or indirectly by the creditor as an incident to or a condition of the extension of credit. It does not include any charge of a type payable in a comparable cash transaction.

(b) *Examples of finance charges.* The finance charge includes the following types of charges, except for charges specifically excluded by paragraphs (c) through (e) of this section:

<sup>4</sup> Extensions of credit that are exempt under paragraph (a)(1) and (2) remain subject to section 226.12(a) and (b) governing the issuance of credit cards and the liability for their unauthorized use.

(1) Interest, time price differential, and any amount payable under an add-on or discount system of additional charges.

(2) Service, transaction, activity, and carrying charges, including any charge imposed on a checking or other transaction account to the extent that the charge exceeds the charge for a similar account without a credit feature.

(3) Points, loan fees, assumption fees, finder's fees, and similar charges.

(4) Appraisal, investigation, and credit report fees.

(5) Premiums or other charges for any guarantee or insurance protecting the creditor against the consumer's default or other credit loss.

(6) Charges imposed on a creditor by another person for purchasing or accepting a consumer's obligation, if the consumer is required to pay the charges in cash, as an addition to the obligation, or as a deduction from the proceeds of the obligation.

(7) Premiums or other charges for credit life, accident, health, or loss-of-income insurance, written in connection with a credit transaction.

(8) Premiums or other charges for insurance against loss of or damage to property, or against liability arising out of the ownership or use of property, written in connection with a credit transaction.

(9) Discounts for the purpose of inducing payment by a means other than the use of credit.

(c) *Charges excluded from the finance charge.* The following charges are not finance charges:

(1) Application fees charged to all applicants for credit, whether or not credit is actually extended.

(2) Charges for actual unanticipated late payment, for exceeding a credit limit, or for delinquency, default, or a similar occurrence.

(3) Charges imposed by a financial institution for paying items that overdraw an account, unless the payment of such items and the imposition of the charge were previously agreed upon in writing.

(4) Fees charged for participation in a

credit plan, whether assessed on an annual or other periodic basis.

(5) Seller's points.

(6) Interest forfeited as a result of an interest reduction required by law on a time deposit used as security for an extension of credit.

(7) The following fees in a transaction secured by real property or in a residential mortgage transaction, if the fees are bona fide and reasonable in amount:

(i) Fees for title examination, abstract of title, title insurance, property survey, and similar purposes.

(ii) Fees for preparing deeds, mortgages, and reconveyance, settlement, and similar documents.

(iii) Notary, appraisal, and credit report fees.

(iv) Amounts required to be paid into escrow or trustee accounts if the amounts would not otherwise be included in the finance charge.

(8) Discounts offered to induce payment for a purchase by cash, check, or other means, as provided in section 167(b) of the act.

(d) *Insurance.* (1) Premiums for credit life, accident, health, or loss-of-income insurance may be excluded from the finance charge if the following conditions are met:

(i) The insurance coverage is not required by the creditor, and this fact is disclosed.

(ii) The premium for the initial term of insurance coverage is disclosed. If the term of insurance is less than the term of the transaction, the term of insurance also shall be disclosed. The premium may be disclosed on a unit-cost basis only in open-end credit transactions, closed-end credit transactions by mail or telephone under section 226.17(g), and certain closed-end credit transactions involving an insurance plan that limits the total amount of indebtedness subject to coverage.

(iii) The consumer signs or initials an affirmative written request for the insurance after receiving the disclosures specified in this paragraph. Any consumer in

the transaction may sign or initial the request.

(2) Premiums for insurance against loss of or damage to property, or against liability arising out of the ownership or use of property,<sup>5</sup> may be excluded from the finance charge if the following conditions are met:

(i) The insurance coverage may be obtained from a person of the consumer's choice,<sup>6</sup> and this fact is disclosed.

(ii) If the coverage is obtained from or through the creditor, the premium for the initial term of insurance coverage shall be disclosed. If the term of insurance is less than the term of the transaction, the term of insurance shall also be disclosed. The premium may be disclosed on a unit-cost basis only in open-end credit transactions, closed-end credit transactions by mail or telephone under section 226.17(g), and certain closed-end credit transactions involving an insurance plan that limits the total amount of indebtedness subject to coverage.

(e) *Certain security interest charges.* If itemized and disclosed, the following charges may be excluded from the finance charge:

(1) Taxes and fees prescribed by law that actually are or will be paid to public officials for determining the existence of or for perfecting, releasing, or satisfying a security interest.

(2) The premium for insurance in lieu of perfecting a security interest to the extent that the premium does not exceed the fees described in paragraph (e)(1) of this section that otherwise would be payable.

(f) *Prohibited offsets.* Interest, dividends, or other income received or to be received by the consumer on deposits or investments shall not be deducted in computing the finance charge.

<sup>5</sup> This includes single interest insurance if the insurer waives all right of subrogation against the consumer.

<sup>6</sup> A creditor may reserve the right to refuse to accept, for reasonable cause, an insurer offered by the consumer.

## SUBPART B—OPEN-END CREDIT

### SECTION 226.5—General Disclosure Requirements

(a) *Form of disclosures.* (1) The creditor shall make the disclosures required by this subpart clearly and conspicuously in writing,<sup>7</sup> in a form that the consumer may keep.<sup>8</sup>

(2) The terms "finance charge" and "annual percentage rate," when required to be disclosed with a corresponding amount or percentage rate, shall be more conspicuous than any other required disclosure.<sup>9</sup>

(b) *Time of disclosures.* (1) *Initial disclosures.* The creditor shall furnish the initial disclosure statement required by section 226.6 before the first transaction is made under the plan.

(2) *Periodic statements.* (i) The creditor shall mail or deliver a periodic statement as required by section 226.7 for each billing cycle at the end of which an account has a debit or credit balance of more than \$1 or on which a finance charge has been imposed. A periodic statement need not be sent for an account if the creditor deems it uncollectible, or if delinquency collection proceedings have been instituted, or if furnishing the statement would violate federal law.

(ii) The creditor shall mail or deliver the periodic statement at least 14 days prior to any date or the end of any time period required to be disclosed under section 226.7(j) in order for the consumer to avoid an additional finance or other charge.<sup>10</sup> A creditor that fails to meet

<sup>7</sup> The disclosure required by section 226.9(d) when a finance charge is imposed at the time of a transaction need not be written.

<sup>8</sup> The alternative summary billing rights statement provided for in section 226.9(a)(2), and the disclosures made under section 226.10(b) about payment requirements need not be in a form that the consumer can keep.

<sup>9</sup> The terms need not be more conspicuous when used under section 226.7(d) on periodic statements and under section 226.16 in advertisements.

<sup>10</sup> This timing requirement does not apply if the creditor is unable to meet the requirement because of an act of God, war, civil disorder, natural disaster, or strike.

this requirement shall not collect any finance or other charge imposed as a result of such failure.

(c) *Basis of disclosures and use of estimates.* Disclosures shall reflect the terms of the legal obligation between the parties. If any information necessary for accurate disclosure is unknown to the creditor, it shall make the disclosure based on the best information reasonably available and shall state clearly that the disclosure is an estimate.

(d) *Multiple creditors; multiple consumers.* If the credit plan involves more than one creditor, only one set of disclosures shall be given, and the creditors shall agree among themselves which creditor must comply with the requirements that this regulation imposes on any or all of them. If there is more than one consumer, the disclosures may be made to any consumer who is primarily liable on the account. If the right of rescission under section 226.15 is applicable, however, the disclosures required by sections 226.6 and 226.15(b) shall be made to each consumer having the right to rescind.

(e) *Effect of subsequent events.* If a disclosure becomes inaccurate because of an event that occurs after the creditor mails or delivers the disclosures, the resulting inaccuracy is not a violation of this regulation, although new disclosures may be required under section 226.9(c).

#### SECTION 226.6—Initial Disclosure Statement

The creditor shall disclose to the consumer, in terminology consistent with that to be used on the periodic statement, each of the following items, to the extent applicable:

(a) *Finance charge.* The circumstances under which a finance charge will be imposed and an explanation of how it will be determined, as follows:

(1) A statement of when finance charges begin to accrue, including an explanation of whether or not any time period exists with-

in which any credit extended may be repaid without incurring a finance charge. If such a time period is provided, a creditor may, at its option and without disclosure, impose no finance charge when payment is received after the time period's expiration.

(2) A disclosure of each periodic rate that may be used to compute the finance charge, the range of balances to which it is applicable,<sup>11</sup> and the corresponding annual percentage rate.<sup>12</sup> When different periodic rates apply to different types of transactions, the types of transactions to which the periodic rates apply shall also be disclosed.

(3) An explanation of the method used to determine the balance on which the finance charge may be computed.

(4) An explanation of how the amount of any finance charge will be determined,<sup>13</sup> including a description of how any finance charge other than the periodic rate will be determined.

(b) *Other charges.* The amount of any charge other than a finance charge that may be imposed as part of the plan, or an explanation of how the charge will be determined.

(c) *Security interests.* The fact that the creditor has or will acquire a security interest in the property purchased under the plan, or in other property identified by item or type.

(d) *Statement of billing rights.* A statement that outlines the consumer's rights and the creditor's responsibilities under sections 226.12(c) and 226.13 and that is substantially similar to the statement found in appendix G.

#### SECTION 226.7—Periodic Statement

The creditor shall furnish the consumer with

<sup>11</sup> A creditor is not required to adjust the range of balances disclosure to reflect the balance below which only a minimum charge applies.

<sup>12</sup> If a creditor is offering a variable rate plan, the creditor shall also disclose: (1) the circumstances under which the rate(s) may increase; (2) any limitations on the increase; and (3) the effect(s) of an increase.

<sup>13</sup> If no finance charge is imposed when the outstanding balance is less than a certain amount, no disclosure is required of that fact or of the balance below which no finance charge will be imposed.

a periodic statement that discloses the following items, to the extent applicable:

(a) *Previous balance.* The account balance outstanding at the beginning of the billing cycle.

(b) *Identification of transactions.* An identification of each credit transaction in accordance with section 226.8.

(c) *Credits.* Any credit to the account during the billing cycle, including the amount and the date of crediting. The date need not be provided if a delay in crediting does not result in any finance or other charge.

(d) *Periodic rates.* Each periodic rate that may be used to compute the finance charge, the range of balances to which it is applicable,<sup>14</sup> and the corresponding annual percentage rate.<sup>15</sup> If different periodic rates apply to different types of transactions, the types of transactions to which the periodic rates apply shall also be disclosed.

(e) *Balance on which finance charge computed.* The amount of the balance to which a periodic rate was applied and an explanation of how that balance was determined. When a balance is determined without first deducting all credits and payments made during the billing cycle, that fact and the amount of the credits and payments shall be disclosed.

(f) *Amount of finance charge.* The amount of any finance charge debited or added to the account during the billing cycle, using the term "finance charge." The components of the finance charge shall be individually itemized and identified to show the amount(s) due to the application of any periodic rates and the amount(s) of any other type of finance charge. If there is more than one periodic rate, the amount of the finance charge attributable to each rate need not be separately itemized and identified.

<sup>14</sup> See footnotes 11 and 13.

<sup>15</sup> If a variable rate plan is involved, the creditor shall disclose the fact that the periodic rate(s) may vary.

(g) *Annual percentage rate.* When a finance charge is imposed during the billing cycle, the annual percentage rate(s) determined under section 226.14, using the term "annual percentage rate."

(h) *Other charges.* The amounts, itemized and identified by type, of any charges other than finance charges debited to the account during the billing cycle.

(i) *Closing date of billing cycle; new balance.* The closing date of the billing cycle and the account balance outstanding on that date.

(j) *Free-ride period.* The date by which or the time period within which the new balance or any portion of the new balance must be paid to avoid additional finance charges. If such a time period is provided, a creditor may, at its option and without disclosure, impose no finance charge when payment is received after the time period's expiration.

(k) *Address for notice of billing errors.* The address to be used for notice of billing errors. Alternatively, the address may be provided on the billing rights statement permitted by section 226.9(a)(2).

## SECTION 226.8—Identification of Transactions

The creditor shall identify credit transactions on or with the first periodic statement that reflects the transaction by furnishing the following information, as applicable.<sup>16</sup>

(a) *Sale credit.* For each credit transaction involving the sale of property or services, the following rules shall apply:

<sup>16</sup> Failure to disclose the information required by this section shall not be deemed a failure to comply with the regulation if: (1) the creditor maintains procedures reasonably adapted to obtain and provide the information; and (2) the creditor treats an inquiry for clarification or documentation as a notice of a billing error, including correcting the account in accordance with section 226.13(e). This applies to transactions that take place outside a state, as defined in section 226.2(a), whether or not the creditor maintains procedures reasonably adapted to obtain the required information.

(1) *Copy of credit document provided.*

When an actual copy of the receipt or other credit document is provided with the first periodic statement reflecting the transaction, the transaction is sufficiently identified if the amount of the transaction and either the date of the transaction or the date of debiting the transaction to the consumer's account are disclosed on the copy or on the periodic statement.

(2) *Copy of credit document not provided—creditor and seller same or related person(s).*

When the creditor and the seller are the same person or related persons, and an actual copy of the receipt or other credit document is not provided with the periodic statement, the creditor shall disclose the amount and date of the transaction, and a brief identification<sup>17</sup> of the property or services purchased.<sup>18</sup>

(3) *Copy of credit document not provided—creditor and seller not same or related person(s).*

When the creditor and seller are not the same person or related persons, and an actual copy of the receipt or other credit document is not provided with the periodic statement, the creditor shall disclose the amount and date of the transaction; the seller's name; and the city, and state or foreign country where the transaction took place.<sup>19</sup>

(b) *Nonsale credit.* A nonsale credit transaction is sufficiently identified if the first periodic

statement reflecting the transaction discloses a brief identification of the transaction;<sup>20</sup> the amount of the transaction; and at least one of the following dates: the date of the transaction, the date of debiting the transaction to the consumer's account, or, if the consumer signed the credit document, the date appearing on the document. If an actual copy of the receipt or other credit document is provided and that copy shows the amount and at least one of the specified dates, the brief identification may be omitted.

## SECTION 226.9—Subsequent Disclosure Requirements

(a) *Furnishing statement of billing rights.*

(1) *Annual statement.* The creditor shall mail or deliver the billing rights statement required by section 226.6(d) at least once per calendar year, at intervals of not less than 6 months nor more than 18 months, either to all consumers or to each consumer entitled to receive a periodic statement under section 226.5(b)(2) for any one billing cycle.

(2) *Alternative summary statement.* As an alternative to paragraph (a)(1) of this section, the creditor may mail or deliver, on or with each periodic statement, a statement substantially similar to that in appendix G.

(b) *Disclosures for supplemental credit devices and additional features.*

(1) If a creditor, within 30 days after mailing or delivering the initial disclosures under section 226.6(a), adds a credit feature to the consumer's account or mails or delivers to the consumer a credit device for which the finance charge terms are the same as those previously disclosed, no additional disclosures are necessary. After 30 days, if the creditor adds a credit feature or furnishes a credit device (other than as a renewal, re-supply, or the original issuance of a credit card) on the same finance charge terms, the creditor shall disclose, before the consumer uses the feature or device for the first time, that it is for use in obtaining credit under the terms previously disclosed.

<sup>17</sup> As an alternative to the brief identification, the creditor may disclose a number or symbol that also appears on the receipt or other credit document given to the consumer, if the number or symbol reasonably identifies that transaction with that creditor, and if the creditor treats an inquiry for clarification or documentation as a notice of a billing error, including correcting the account in accordance with section 226.13(e).

<sup>18</sup> An identification of property or services may be replaced by the seller's name and location of the transaction when: (1) the creditor and the seller are the same person; (2) the creditor's open-end plan has fewer than 15,000 accounts; (3) the creditor provides the consumer with point-of-sale documentation for that transaction; and (4) the creditor treats an inquiry for clarification or documentation as a notice of a billing error, including correcting the account in accordance with section 226.13(e).

<sup>19</sup> The creditor may omit the address or provide any suitable designation that helps the consumer to identify the transaction when the transaction (1) took place at a location that is not fixed; (2) took place in the consumer's home; or (3) was a mail or telephone order.

<sup>20</sup> See footnote 17.

(2) Whenever a credit feature is added or a credit device is mailed or delivered, and the finance charge terms for the feature or device differ from disclosures previously given, the disclosures required by section 226.6(a) that are applicable to the added feature or device shall be given before the consumer uses the feature or device for the first time.

(c) *Change in terms.* (1) *Written notice required.* Whenever any term required to be disclosed under section 226.6 is changed or the required minimum periodic payment is increased, the creditor shall mail or deliver written notice of the change to each consumer who may be affected. The notice shall be mailed or delivered at least 15 days prior to the effective date of the change. The 15-day timing requirement does not apply if the change has been agreed to by the consumer, or if a periodic rate or other finance charge is increased because of the consumer's delinquency or default; the notice shall be given, however, before the effective date of the change.

(2) *Notice not required.* No notice under this section is required when the change involves late-payment charges, charges for documentary evidence, or over-the-limit charges; a reduction of any component of a finance or other charge; suspension of future credit privileges or termination of an account or plan; or when the change results from an agreement involving a court proceeding, or from the consumer's default or delinquency (other than an increase in the periodic rate or other finance charge).

(d) *Finance charge imposed at time of transaction.* (1) Any person, other than the card issuer, who imposes a finance charge at the time of honoring a consumer's credit card, shall disclose the amount of that finance charge prior to its imposition.

(2) The card issuer, if other than the person honoring the consumer's credit card, shall have no responsibility for the disclosure required by paragraph (d)(1) of this section, and shall not consider any such charge for purposes of sections 226.6 and 226.7.

## SECTION 226.10—Prompt Crediting of Payments

(a) *General rule.* A creditor shall credit a payment to the consumer's account as of the date of receipt, except when a delay in crediting does not result in a finance or other charge or except as provided in paragraph (b) of this section.

(b) *Specific requirements for payments.* If a creditor specifies, on or with the periodic statement, requirements for the consumer to follow in making payments, but accepts a payment that does not conform to the requirements, the creditor shall credit the payment within five days of receipt.

(c) *Adjustment of account.* If a creditor fails to credit a payment, as required by paragraphs (a) or (b) of this section, in time to avoid the imposition of finance or other charges, the creditor shall adjust the consumer's account so that the charges imposed are credited to the consumer's account during the next billing cycle.

## SECTION 226.11—Treatment of Credit Balances

When a credit balance in excess of \$1 is created on a credit account (through transmittal of funds to a creditor in excess of the total balance due on an account, through rebates of unearned finance charges or insurance premiums, or through amounts otherwise owed to or held for the benefit of a consumer), the creditor shall—

(a) Credit the amount of the credit balance to the consumer's account;

(b) Refund any part of the remaining credit balance within seven business days from receipt of a written request from the consumer; and

(c) Make a good faith effort to refund to the consumer by cash, check, or money order, or credit to a deposit account of the consumer, any part of the credit balance remaining in the

account for more than six months. No further action is required if the consumer's current location is not known to the creditor and cannot be traced through the consumer's last known address or telephone number.

## SECTION 226.12—Special Credit Card Provisions

(a) *Issuance of credit cards.* Regardless of the purpose for which a credit card is to be used, including business, commercial, or agricultural use, no credit card shall be issued to any person except—

- (1) In response to an oral or written request or application for the card; or
- (2) As a renewal of, or substitute for, an accepted credit card.<sup>21</sup>

(b) *Liability of cardholder for unauthorized use.* (1) *Limitation on amount.* The liability

of a cardholder for unauthorized use<sup>22</sup> of a credit card shall not exceed the lesser of \$50 or the amount of money, property, labor, or services obtained by the unauthorized use before notification to the card issuer under paragraph (b)(3) of this section.

(2) *Conditions of liability.* A cardholder shall be liable for unauthorized use of a credit card only if—

- (i) The credit card is an accepted credit card;
- (ii) The card issuer has provided adequate notice<sup>23</sup> of the cardholder's maximum potential liability and of means by which the card issuer may be notified of loss or theft of the card. The notice shall state that the cardholder's liability shall

not exceed \$50 (or any lesser amount) and that the cardholder may give oral or written notification, and shall describe a means of notification (for example, a telephone number, an address, or both); and

(iii) The card issuer has provided a means to identify the cardholder on the account or the authorized user of the card.

(3) *Notification to card issuer.* Notification to a card issuer is given when steps have been taken as may be reasonably required in the ordinary course of business to provide the card issuer with the pertinent information about the loss, theft, or possible unauthorized use of a credit card, regardless of whether any particular officer, employee, or agent of the card issuer does, in fact, receive the information. Notification may be given, at the option of the person giving it, in person, by telephone, or in writing. Notification in writing is considered given at the time of receipt or, whether or not received, at the expiration of the time ordinarily required for transmission, whichever is earlier.

(4) *Effect of other applicable law or agreement.* If state law or an agreement between a cardholder and the card issuer imposes lesser liability than that provided in this paragraph, the lesser liability shall govern.

(5) *Business use of credit cards.* If 10 or more credit cards are issued by one card issuer for use by the employees of an organization, this section does not prohibit the card issuer and the organization from agreeing to liability for unauthorized use without regard to this section. However, liability for unauthorized use may be imposed on an employee of the organization, by either the card issuer or the organization, only in accordance with this section.

(c) *Right of cardholder to assert claims or defenses against card issuer.*<sup>24</sup> (1) *General rule.* When a person who honors a credit card fails to resolve satisfactorily a dispute

<sup>21</sup> For purposes of this section, "accepted credit card" means any credit card that a cardholder has requested or applied for and received, or has signed, used, or authorized another person to use to obtain credit. Any credit card issued as a renewal or substitute in accordance with this paragraph becomes an accepted credit card when received by the cardholder.

<sup>22</sup> "Unauthorized use" means the use of a credit card by a person, other than the cardholder, who does not have actual, implied, or apparent authority for such use, and from which the cardholder receives no benefit.

<sup>23</sup> "Adequate notice" means a printed notice to a cardholder that sets forth clearly the pertinent facts so that the cardholder may reasonably be expected to have noticed it and understood its meaning. The notice may be given by any means reasonably assuring receipt by the cardholder.

<sup>24</sup> This paragraph does not apply to the use of a check guarantee card or a debit card in connection with an overdraft credit plan, or to a check guarantee card used in connection with cash advance checks.



as to property or services purchased with the credit card in a consumer credit transaction, the cardholder may assert against the card issuer all claims (other than tort claims) and defenses arising out of the transaction and relating to the failure to resolve the dispute. The cardholder may withhold payment up to the amount of credit outstanding for the property or services that gave rise to the dispute and any finance or other charges imposed on that amount.<sup>25</sup>

(2) *Adverse credit reports prohibited.* If, in accordance with paragraph (c)(1) of this section, the cardholder withholds payment of the amount of credit outstanding for the disputed transaction, the card issuer shall not report that amount as delinquent until the dispute is settled or judgment is rendered.

(3) *Limitations.* The rights stated in paragraphs (c)(1) and (2) of this section apply only if—

- (i) The cardholder has made a good faith attempt to resolve the dispute with the person honoring the credit card; and
- (ii) The amount of credit extended to obtain the property or services that result in the assertion of the claim or defense by the cardholder exceeds \$50, and the disputed transaction occurred in the same state as the cardholder's current designated address or, if not within the same state, within 100 miles from that address.<sup>26</sup>

<sup>25</sup> The amount of the claim or defense that the cardholder may assert shall not exceed the amount of credit outstanding for the disputed transaction at the time the cardholder first notifies the card issuer or the person honoring the credit card of the existence of the claim or defense. To determine the amount of credit outstanding for purposes of this section, payments and other credits shall be applied to: (1) late charges in the order of entry to the account; then to (2) finance charges in the order of entry to the account; and then to (3) any other debits in the order of entry to the account. If more than one item is included in a single extension of credit, credits are to be distributed pro rata according to prices and applicable taxes.

<sup>26</sup> The limitations stated in paragraph (c)(3)(ii) of this section shall not apply when the person honoring the credit card: (1) is the same person as the card issuer; (2) is controlled by the card issuer directly or indirectly; (3) is under the direct or indirect control of a third person that also directly or indirectly controls the card issuer; (4) controls the card issuer directly or indirectly; (5) is a franchised dealer in the card issuer's products or services; or (6) has

(d) *Offsets by card issuer prohibited.* (1) A card issuer may not take any action, either before or after termination of credit card privileges, to offset a cardholder's indebtedness arising from a consumer credit transaction under the relevant credit card plan against funds of the cardholder held on deposit with the card issuer.

(2) This paragraph does not alter or affect the right of a card issuer acting under state or federal law to do any of the following with regard to funds of a cardholder held on deposit with the card issuer if the same procedure is constitutionally available to creditors generally: obtain or enforce a consensual security interest in the funds; attach or otherwise levy upon the funds; or obtain or enforce a court order relating to the funds.

(3) This paragraph does not prohibit a plan, if authorized in writing by the cardholder, under which the card issuer may periodically deduct all or part of the cardholder's credit card debt from a deposit account held with the card issuer (subject to the limitations in section 226.13(d)(1)).

(e) *Prompt notification of returns and crediting of refunds.* (1) When a creditor other than the card issuer accepts the return of property or forgives a debt for services that is to be reflected as a credit to the consumer's credit card account, that creditor shall, within seven business days from accepting the return or forgiving the debt, transmit a credit statement to the card issuer through the card issuer's normal channels for credit statements.

(2) The card issuer shall, within three business days from receipt of a credit statement, credit the consumer's account with the amount of the refund.

(3) If a creditor other than a card issuer routinely gives cash refunds to consumers paying in cash, the creditor shall also give credit or cash refunds to consumers using credit cards, unless it discloses at the time the transaction is consummated that credit or cash refunds for returns are not given.

obtained the order for the disputed transaction through a mail solicitation made or participated in by the card issuer.

This section does not require refunds for returns nor does it prohibit refunds in kind.

(f) *Discounts: tie-in arrangements.* No card issuer may, by contract or otherwise—

(1) Prohibit any person who honors a credit card from offering a discount to a consumer to induce the consumer to pay by cash, check, or similar means rather than by use of a credit card or its underlying account for the purchase of property or services; or

(2) Require any person who honors the card issuer's credit card to open or maintain any account or obtain any other service not essential to the operation of the credit card plan from the card issuer or any other person, as a condition of participation in a credit card plan. If maintenance of an account for clearing purposes is determined to be essential to the operation of the credit card plan, it may be required only if no service charges or minimum balance requirements are imposed.

(g) *Relation to Electronic Fund Transfer Act and Regulation E.* For guidance on whether Regulation Z or Regulation E applies in instances involving both credit and electronic fund transfer aspects, refer to Regulation E, 12 CFR 205.5(c) regarding issuance and 205.6(d) regarding liability for unauthorized use. On matters other than issuance and liability, this section applies to the credit aspects of combined credit/electronic fund transfer transactions, as applicable.

## SECTION 226.13—Billing-Error Resolution <sup>27</sup>

(a) *Definition of billing error.* For purposes of this section, the term "billing error" means:

(1) A reflection on or with a periodic statement of an extension of credit that is

not made to the consumer or to a person who has actual, implied, or apparent authority to use the consumer's credit card or open-end credit plan.

(2) A reflection on or with a periodic statement of an extension of credit that is not identified in accordance with the requirements of sections 226.7(b) and 226.8.

(3) A reflection on or with a periodic statement of an extension of credit for property or services not accepted by the consumer or the consumer's designee, or not delivered to the consumer or the consumer's designee as agreed.

(4) A reflection on a periodic statement of the creditor's failure to credit properly a payment or other credit issued to the consumer's account.

(5) A reflection on a periodic statement of a computational or similar error of an accounting nature that is made by the creditor.

(6) A reflection on a periodic statement of an extension of credit for which the consumer requests additional clarification, including documentary evidence.

(7) The creditor's failure to mail or deliver a periodic statement to the consumer's last known address if that address was received by the creditor, in writing, at least 20 days before the end of the billing cycle for which the statement was required.

(b) *Billing-error notice.*<sup>28</sup> A billing-error notice is a written notice <sup>29</sup> from a consumer that—

(1) Is received by a creditor at the address disclosed under section 226.7(k) no later than 60 days after the creditor transmitted the first periodic statement that reflects the alleged billing error;

(2) Enables the creditor to identify the consumer's name and account number; and

(3) To the extent possible, indicates the

<sup>27</sup> A creditor shall not accelerate any part of the consumer's indebtedness or restrict or close a consumer's account solely because the consumer has exercised in good faith rights provided by this section. A creditor may be subject to the forfeiture penalty under section 161(e) of the act for failure to comply with any of the requirements of this section.

<sup>28</sup> The creditor need not comply with the requirements of paragraphs (c) through (g) of this section if the consumer concludes that no billing error occurred and voluntarily withdraws the billing-error notice.

<sup>29</sup> The creditor may require that the written notice not be made on the payment medium or other material accompanying the periodic statement if the creditor so stipulates in the billing rights statement required by sections 226.6(d) and 226.9(a).

consumer's belief and the reasons for the belief that a billing error exists, and the type, date, and amount of the error.

(c) *Time for resolution; general procedures.*

(1) The creditor shall mail or deliver written acknowledgment to the consumer within 30 days of receiving a billing-error notice, unless the creditor has complied with the appropriate resolution procedures of paragraphs (e) and (f) of this section, as applicable, within the 30-day period; and

(2) The creditor shall comply with the appropriate resolution procedures of paragraphs (e) and (f) of this section, as applicable, within two complete billing cycles (but in no event later than 90 days) after receiving a billing-error notice.

(d) *Rules pending resolution.* Until a billing error is resolved under paragraphs (e) or (f) of this section, the following rules apply:

(1) *Consumer's right to withhold disputed amount; collection action prohibited.* The consumer need not pay (and the creditor may not try to collect) any portion of any required payment that the consumer believes is related to the disputed amount (including related finance or other charges).<sup>30</sup> If the cardholder maintains a deposit account with the card issuer and has agreed to pay the credit card indebtedness by periodic deductions from the cardholder's deposit account, the card issuer shall not deduct any part of the disputed amount or related finance or other charges if a billing error notice is received any time up to three business days before the scheduled payment date.

(2) *Adverse credit reports prohibited.* The creditor or its agent shall not (directly or indirectly) make or threaten to make an adverse report to any person about the con-

sumer's credit standing, or report that an amount or account is delinquent, because the consumer failed to pay the disputed amount or related finance or other charges.

(e) *Procedures if billing error occurred as asserted.* If a creditor determines that a billing error occurred as asserted, it shall within the time limits in paragraph (c)(2) of this section—

(1) Correct the billing error and credit the consumer's account with any disputed amount and related finance or other charges, as applicable; and

(2) Mail or deliver a correction notice to the consumer.

(f) *Procedures if different billing error or no billing error occurred.* If, after conducting a reasonable investigation,<sup>31</sup> a creditor determines that no billing error occurred or that a different billing error occurred from that asserted, the creditor shall within the time limits in paragraph (c)(2) of this section—

(1) Mail or deliver to the consumer an explanation that sets forth the reasons for the creditor's belief that the billing error alleged by the consumer is incorrect in whole or in part;

(2) Furnish copies of documentary evidence of the consumer's indebtedness, if the consumer so requests; and

(3) If a different billing error occurred, correct the billing error and credit the consumer's account with any disputed amount and related finance or other charges, as applicable.

(g) *Creditor's rights and duties after resolution.* If a creditor, after complying with all of the requirements of this section, determines that a consumer owes all or part of the disputed amount and related finance or other charges, the creditor—

<sup>30</sup> A creditor is not prohibited from taking action to collect any undisputed portion of the item or bill; from deducting any disputed amount and related finance or other charges from the consumer's credit limit on the account; or from reflecting a disputed amount and related finance or other charges on a periodic statement, provided that the creditor indicates on or with the periodic statement that payment of any disputed amount and related finance or other charges is not required pending the creditor's compliance with this section.

<sup>31</sup> If a consumer submits a billing error notice alleging either the nondelivery of property or services under paragraph (a)(3) of this section or that information appearing on a periodic statement is incorrect because a person honoring the consumer's credit card has made an incorrect report to the card issuer, the creditor shall not deny the assertion unless it conducts a reasonable investigation and determines that the property or services were actually delivered, mailed, or sent as agreed or that the information was correct.

(1) Shall promptly notify the consumer in writing of the time when payment is due and the portion of the disputed amount and related finance or other charges that the consumer still owes;

(2) Shall allow any time period disclosed under sections 226.6(a)(1) and 226.7(j), during which the consumer can pay the amount due under paragraph (g)(1) of this section without incurring additional finance or other charges;

(3) May report an account or amount as delinquent because the amount due under paragraph (g)(1) of this section remains unpaid after the creditor has allowed any time period disclosed under sections 226.6(a)(1) and 226.7(j) or 10 days (whichever is longer) during which the consumer can pay the amount; but

(4) May not report that an amount or account is delinquent because the amount due under paragraph (g)(1) of the section remains unpaid, if the creditor receives (within the time allowed for payment in paragraph (g)(3) of this section) further written notice from the consumer that any portion of the billing error is still in dispute, unless the creditor also—

(i) Promptly reports that the amount or account is in dispute;

(ii) Mails or delivers to the consumer (at the same time the report is made) a written notice of the name and address of each person to whom the creditor makes a report; and

(iii) Promptly reports any subsequent resolution of the reported delinquency to all persons to whom the creditor has made a report.

(h) *Reassertion of billing error.* A creditor that has fully complied with the requirements of this section has no further responsibilities under this section (other than as provided in paragraph (g)(4) of this section) if a consumer reasserts substantially the same billing error.

(i) *Relation to Electronic Fund Transfer Act and Regulation E.* If an extension of credit is incident to an electronic fund transfer, under an agreement between a consumer and a fi-

nanacial institution to extend credit when the consumer's account is overdrawn or to maintain a specified minimum balance in the consumer's account, the creditor shall comply with the requirements of Regulation E, 12 CFR 205.11, governing error resolution rather than those of paragraphs (a), (b), (c), (e), (f), and (h) of this section.

## SECTION 226.14—Determination of Annual Percentage Rate

(a) *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 more than  $\frac{1}{8}$  of 1 percentage point above or below the annual percentage rate determined in accordance with this section.<sup>31a</sup>

(b) *Annual percentage rate for initial disclosures and for advertising purposes.* Where one or more periodic rates may be used to compute the finance charge, the annual percentage rate(s) to be disclosed for purposes of sections 226.6(a)(2) and 226.16(b)(2) shall be computed by multiplying each periodic rate by the number of periods in a year.

(c) *Annual percentage rate for periodic statements.* The annual percentage rate(s) to be disclosed for purposes of section 226.7(d) shall be computed by multiplying each periodic rate by the number of periods in a year and, for purposes of section 226.7(g), shall be determined as follows:

(1) If the finance charge is determined solely by applying one or more periodic rates, at the creditor's option, either—

(i) By multiplying each periodic rate by the number of periods in a year; or

(ii) By dividing the total finance charge

<sup>31a</sup> An error in disclosure of the annual percentage rate or finance charge shall not, in itself, be considered a violation of this regulation if: (1) the error resulted from a corresponding error in a calculation tool used in good faith by the creditor; and (2) upon discovery of the error, the creditor promptly discontinues use of that calculation tool for disclosure purposes, and notifies the Board in writing of the error in the calculation tool. This footnote shall cease to be effective on April 1, 1982.

for the billing cycle by the sum of the balances to which the periodic rates were applied and multiplying the quotient (expressed as a percentage) by the number of billing cycles in a year.

(2) If the finance charge imposed during the billing cycle is or includes a minimum, fixed, or other charge not due to the application of a periodic rate, other than a charge with respect to any specific transaction during the billing cycle, by dividing the total finance charge for the billing cycle by the amount of the balance(s) to which it is applicable<sup>32</sup> and multiplying the quotient (expressed as a percentage) by the number of billing cycles in a year.<sup>33</sup>

(3) If the finance charge imposed during the billing cycle is or includes a charge relating to a specific transaction during the billing cycle (even if the total finance charge also includes any other minimum, fixed, or other charge not due to the application of a periodic rate), by dividing the total finance charge imposed during the billing cycle by the total of all balances and other amounts on which a finance charge was imposed during the billing cycle without duplication, and multiplying the quotient (expressed as a percentage) by the number of billing cycles in a year,<sup>34</sup> except that the annual percentage rate shall not be less than the largest rate determined by multiplying each periodic rate imposed during the billing cycle by the number of periods in a year.<sup>35</sup>

(4) If the finance charge imposed during the billing cycle is or includes a minimum, fixed, or other charge not due to the application of a periodic rate and the total finance charge imposed during the billing cycle does not exceed 50 cents for a monthly or longer billing cycle, or the pro rata part of 50 cents for a billing cycle shorter than

monthly, at the creditor's option, by multiplying each applicable periodic rate by the number of periods in a year, notwithstanding the provisions of paragraphs (c)(2) and (3) of this section.

(d) *Calculations where daily periodic rate applied.* If the provisions of paragraphs (c)(1)(ii) or (2) of this section apply and all or a portion of the finance charge is determined by the application of one or more daily periodic rates, the annual percentage rate may be determined either—

(1) By dividing the total finance charge by the average of the daily balances and multiplying the quotient by the number of billing cycles in a year; or

(2) By dividing the total finance charge by the sum of the daily balances and multiplying the quotient by 365.

## SECTION 226.15—Right of Rescission

(a) *Consumer's right to rescind.* (1)(i) Except as provided in paragraph (a)(1)(ii) of this section, in a credit plan in which a security interest is or will be retained or acquired in a consumer's principal dwelling, each consumer whose ownership interest is or will be subject to the security interest shall have the right to rescind: each credit extension made under the plan; the plan when the plan is opened; a security interest when added or increased to secure an existing plan; and the increase when a credit limit on the plan is increased.

(ii) As provided in section 125(e) of the act, the consumer does not have the right to rescind each credit extension made under the plan if such extension is made in accordance with a previously established credit limit for the plan.

(2) To exercise the right to rescind, the consumer shall notify the creditor of the rescission by mail, telegram, or other means of written communication. Notice is considered given when mailed, or when filed for telegraphic transmission, or, if sent by other means, when delivered to the creditor's designated place of business.

<sup>32</sup> If there is no balance to which the finance charge is applicable, an annual percentage rate cannot be determined under this section.

<sup>33</sup> Where the finance charge imposed during the billing cycle is or includes a loan fee, points, or similar charge that relates to the opening of the account, the amount of such charge shall not be included in the calculation of the annual percentage rate.

<sup>34</sup> See appendix F regarding determination of the denominator of the fraction under this paragraph.

<sup>35</sup> See footnote 33.

(3) The consumer may exercise the right to rescind until midnight of the third business day following the occurrence described in paragraph (a)(1) of this section that gave rise to the right of rescission, delivery of the notice required by paragraph (b) of this section, or delivery of all material disclosures,<sup>36</sup> whichever occurs last. If the required notice and material disclosures are not delivered, the right to rescind shall expire three years after the occurrence giving rise to the right of rescission, or upon transfer of all of the consumer's interest in the property, or upon sale of the property, whichever occurs first. In the case of certain administrative proceedings, the rescission period shall be extended in accordance with section 125(f) of the act.

(4) When more than one consumer has the right to rescind, the exercise of the right by one consumer shall be effective as to all consumers.

(b) *Notice of right to rescind.* In any transaction or occurrence subject to rescission, a creditor shall deliver two copies of the notice of the right to rescind to each consumer entitled to rescind. The notice shall identify the transaction or occurrence and clearly and conspicuously disclose the following:

(1) The retention or acquisition of a security interest in the consumer's principal dwelling.

(2) The consumer's right to rescind, as described in paragraph (a)(1) of this section.

(3) How to exercise the right to rescind, with a form for that purpose, designating the address of the creditor's place of business.

(4) The effects of rescission, as described in paragraph (d) of this section.

(5) The date the rescission period expires.

(c) *Delay of creditor's performance.* Unless a consumer waives the right to rescind under

paragraph (e) of this section, no money shall be disbursed other than in escrow, no services shall be performed, and no materials delivered until after the rescission period has expired and the creditor is reasonably satisfied that the consumer has not rescinded. A creditor does not violate this section if a third party with no knowledge of the event activating the rescission right does not delay in providing materials or services, as long as the debt incurred for those materials or services is not secured by the property subject to rescission.

(d) *Effects of rescission.* (1) When a consumer rescinds a transaction, the security interest giving rise to the right of rescission becomes void, and the consumer shall not be liable for any amount, including any finance charge.

(2) Within 20 calendar days after receipt of a notice of rescission, the creditor shall return any money or property that has been given to anyone in connection with the transaction and shall take any action necessary to reflect the termination of the security interest.

(3) If the creditor has delivered any money or property, the consumer may retain possession until the creditor has met its obligation under paragraph (d)(2) of this section. When the creditor has complied with that paragraph, the consumer shall tender the money or property to the creditor or, where the latter would be impracticable or inequitable, tender its reasonable value. At the consumer's option, tender of property may be made at the location of the property or at the consumer's residence. Tender of money must be made at the creditor's designated place of business. If the creditor does not take possession of the money or property within 20 calendar days after the consumer's tender, the consumer may keep it without further obligation.

(4) The procedures outlined in paragraphs (d)(2) and (3) of this section may be modified by court order.

(e) *Consumer's waiver of right to rescind.* The consumer may modify or waive the right to rescind if the consumer determines that the extension of credit is needed to meet a bona

<sup>36</sup> The term "material disclosures" means the information that must be provided to satisfy the requirements in section 226.6 with regard to the method of determining the finance charge and the balance upon which a finance charge will be imposed, the annual percentage rate, and the amount or method of determining the amount of any membership or participation fee that may be imposed as part of the plan.

vide personal financial emergency. To modify or waive the right, the consumer shall give the creditor a dated written statement that describes the emergency, that specifically modifies or waives the right to rescind, and that bears the signatures of the consumers entitled to rescind. Printed forms for this purpose are prohibited.

(f) *Exempt transactions.* The right to rescind does not apply to the following:

- (1) A residential mortgage transaction.
- (2) A credit plan in which a state agency is a creditor.

## SECTION 226.16—Advertising

(a) *Actually available terms.* If an advertisement for credit states specific credit terms, it shall state only those terms that actually are or will be arranged or offered by the creditor.

(b) *Advertisement of terms that require additional disclosures.* If any of the terms required to be disclosed under section 226.6 is set forth in an advertisement, the advertisement shall also clearly and conspicuously set forth the following:

- (1) Any minimum, fixed, transaction, activity or similar charge that could be imposed.
- (2) Any periodic rate that may be applied expressed as an annual percentage rate as determined under section 226.14(b). If the plan provides for a variable periodic rate, that fact shall be disclosed.
- (3) Any membership or participation fee that could be imposed.

(c) *Catalogs and multiple-page advertisements.* (1) If a catalog or other multiple-page advertisement gives information in a table or schedule in sufficient detail to permit determination of the disclosures required by paragraph (b) of this section, it shall be considered a single advertisement if—

- (i) The table or schedule is clearly and conspicuously set forth; and
- (ii) Any statement of terms set forth in section 226.6 appearing anywhere else in the catalog or advertisement clearly re-

fers to that page on which the table or schedule begins.

(2) A catalog or multiple-page advertisement complies with this paragraph if the table or schedule of terms includes all appropriate disclosures for a representative scale of amounts up to the level of the more commonly sold higher-priced property or services offered.

## SUBPART C—CLOSED-END CREDIT

### SECTION 226.17—General Disclosure Requirements

(a) *Form of disclosures.* (1) The creditor shall make the disclosures required by this subpart clearly and conspicuously in writing, in a form that the consumer may keep. The disclosures shall be grouped together, shall be segregated from everything else, and shall not contain any information not directly related<sup>37</sup> to the disclosures required under section 226.18.<sup>38</sup> The itemization of the amount financed under section 226.18(c)(1) must be separate from the other disclosures under that section.

(2) The terms “finance charge” and “annual percentage rate,” when required to be disclosed under section 226.18(d) and (e) together with a corresponding amount or percentage rate, shall be more conspicuous than any other disclosure, except the creditor’s identity under section 226.18(a).

(b) *Time of disclosures.* The creditor shall make disclosures before consummation of the transaction. In certain residential mortgage transactions, special timing requirements are set forth in section 226.19. In certain transactions involving mail or telephone orders or a series of sales, the timing of the disclosures

<sup>37</sup> The disclosures may include an acknowledgment of receipt, the date of the transaction, and the consumer’s name, address, and account number.

<sup>38</sup> The following disclosures may be made together or separately from other required disclosures: the creditor’s identity under section 226.18(a), the variable rate example under section 226.18(f)(4), insurance under section 226.18(n), and certain security interest charges under section 226.18(o).

may be delayed in accordance with paragraphs (g) and (h) of this section.

(c) *Basis of disclosures and use of estimates.*

(1) The disclosures shall reflect the terms of the legal obligation between the parties.

(2) If any information necessary for an accurate disclosure is unknown to the creditor, it shall make the disclosure based on the best information reasonably available and shall state that the disclosure is an estimate.

(3) The creditor may disregard the effects of the following in making calculations and disclosures:

(i) That payments must be collected in whole cents.

(ii) That dates of scheduled payments and advances may be changed because the scheduled date is not a business day.

(iii) That months have different numbers of days.

(iv) The occurrence of leap year.

(4) In making calculations and disclosures, the creditor may disregard any irregularity in the first period 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 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; and

(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.

(5) If an obligation is payable on demand, the creditor shall make the disclosures based on an assumed maturity of one year. If an alternate maturity date is stated in the legal obligation between the parties, the disclosures shall be based on that date.

(6)(i) A series of advances under an agreement to extend credit up to a certain amount may be considered as one transaction.

(ii) When a multiple-advance loan to finance the construction of a dwelling may be permanently financed by the same creditor, the construction phase and the permanent phase may be treated as either one transaction or more than one transaction.

(d) *Multiple creditors; multiple consumers.* If a transaction involves more than one creditor, only one set of disclosures shall be given and the creditors shall agree among themselves which creditor must comply with the requirements that this regulation imposes on any or all of them. If there is more than one consumer, the disclosures may be made to any consumer who is primarily liable on the obligation. If the transaction is rescindable under section 226.23, however, the disclosures shall be made to each consumer who has the right to rescind.

(e) *Effect of subsequent events.* If a disclosure becomes inaccurate because of an event that occurs after the creditor delivers the required disclosures, the inaccuracy is not a violation of this regulation, although new disclosures may be required under paragraph (f) of this section, section 226.19, or section 226.20.

(f) *Early disclosures.* If disclosures are given before the date of consummation of a transaction and a subsequent event makes them inaccurate, the creditor shall disclose the changed terms before consummation, if the annual percentage rate in the consummated transaction varies from the annual percentage rate disclosed under section 226.18(e) by more than  $\frac{1}{8}$  of 1 percentage point in a regular transaction, or more than  $\frac{1}{4}$  of 1 percentage point in an irregular transaction, as defined in section 226.22(a).

(g) *Mail or telephone orders—delay in disclosures.* If a creditor receives a purchase order or a request for an extension of credit by mail, telephone, or any other written or electronic communication without face-to-face or direct telephone solicitation, the creditor may delay the disclosures until the due date of the first payment, if the following information for rep-



representative amounts or ranges of credit is made available in written form to the consumer or to the public before the actual purchase order or request:

- (1) The cash price or the principal loan amount.
- (2) The total sale price.
- (3) The finance charge.
- (4) The annual percentage rate, and if the rate may increase after consummation, the following disclosures:
  - (i) The circumstances under which the rate may increase.
  - (ii) Any limitations on the increase.
  - (iii) The effect of an increase.
- (5) The terms of repayment.

(h) *Series of sales—delay in disclosures.* If a credit sale is one of a series made under an agreement providing that subsequent sales may be added to an outstanding balance, the creditor may delay the required disclosures until the due date of the first payment for the current sale, if the following two conditions are met:

- (1) The consumer has approved in writing the annual percentage rate or rates, the range of balances to which they apply, and the method of treating any unearned finance charge on an existing balance.
- (2) The creditor retains no security interest in any property after the creditor has received payments equal to the cash price and any finance charge attributable to the sale of that property. For purposes of this provision, in the case of items purchased on different dates, the first purchased is deemed the first item paid for; in the case of items purchased on the same date, the lowest priced is deemed the first item paid for.

(i) *Interim student credit extensions.* For each transaction involving an interim credit extension under a student credit program, the creditor need not make the following disclosures: the finance charge under section 226.18(d), the payment schedule under section 226.18(g), the total of payments under section 226.18(h), or the total sale price under section 226.18(j).

## SECTION 226.18—Content of Disclosures

For each transaction, the creditor shall disclose the following information as applicable:

(a) *Creditor.* The identity of the creditor making the disclosures.

(b) *Amount financed.* The “amount financed,” using that term, and a brief description such as “the amount of credit provided to you or on your behalf.” The amount financed is calculated by—

- (1) Determining the principal loan amount or the cash price (subtracting any downpayment);
- (2) Adding any other amounts that are financed by the creditor and are not part of the finance charge; and
- (3) Subtracting any prepaid finance charge.

(c) *Itemization of amount financed.* (1) A separate written itemization of the amount financed, including:<sup>39</sup>

- (i) The amount of any proceeds distributed directly to the consumer.
- (ii) The amount credited to the consumer's account with the creditor.
- (iii) Any amounts paid to other persons by the creditor on the consumer's behalf. The creditor shall identify those persons.<sup>40</sup>
- (iv) The prepaid finance charge.

(2) The creditor need not comply with paragraph (c)(1) of this section if the creditor provides a statement that the consumer has the right to receive a written itemization of the amount financed, together with a space for the consumer to indicate whether it is desired, and the consumer does not request it.

(d) *Finance charge.* The “finance charge,”

<sup>39</sup> Good faith estimates of settlement costs provided for transactions subject to the Real Estate Settlement Procedures Act (12 USC 2601 et seq.) may be substituted for the disclosures required by paragraph (c) of this section.

<sup>40</sup> The following payees may be described using generic or other general terms and need not be further identified: public officials or government agencies, credit reporting agencies, appraisers, and insurance companies.

using that term, and a brief description such as "the dollar amount the credit will cost you."<sup>41</sup>

(e) *Annual percentage rate.* The "annual percentage rate," using that term, and a brief description such as "the cost of your credit as a yearly rate."<sup>42</sup>

(f) *Variable rate.* If the annual percentage rate may increase after consummation, the following disclosures:<sup>43</sup>

- (1) The circumstances under which the rate may increase.
- (2) Any limitations on the increase.
- (3) The effect of an increase.
- (4) An example of the payment terms that would result from an increase.

(g) *Payment schedule.* The number, amounts, and timing of payments scheduled to repay the obligation.

(1) In a demand obligation with no alternate maturity date, the creditor may comply with this paragraph by disclosing the due dates or payment periods of any scheduled interest payments for the first year.

(2) In a transaction in which a series of payments varies because a finance charge is applied to the unpaid principal balance, the creditor may comply with this paragraph by disclosing the following information:

- (i) The dollar amounts of the largest and smallest payments in the series.
- (ii) A reference to the variations in the other payments in the series.

(h) *Total of payments.* The "total of payments," using that term, and a descriptive explanation such as "the amount you will have

paid when you have made all scheduled payments."<sup>44</sup>

(i) *Demand feature.* If the obligation has a demand feature, that fact shall be disclosed. When the disclosures are based on an assumed maturity of one year as provided in section 226.17(c)(5), that fact shall also be disclosed.

(j) *Total sale price.* In a credit sale, the "total sale price," using that term, and a descriptive explanation (including the amount of any downpayment) such as "the total price of your purchase on credit, including your downpayment of \$\_\_\_\_\_." The total sale price is the sum of the cash price, the items described in paragraph (b)(2), and the finance charge disclosed under paragraph (d) of this section.

(k) *Prepayment.* (1) When an obligation includes a finance charge computed from time to time by application of a rate to the unpaid principal balance, a statement indicating whether or not a penalty may be imposed if the obligation is prepaid in full.

(2) When an obligation includes a finance charge other than the finance charge described in paragraph (k)(1) of this section, a statement indicating whether or not the consumer is entitled to a rebate of any finance charge if the obligation is prepaid in full.

(l) *Late payment.* Any dollar or percentage charge that may be imposed before maturity due to a late payment, other than a deferral or extension charge.

(m) *Security interest.* The fact that the creditor has or will acquire a security interest in the property purchased as part of the transaction, or in other property identified by item or type.

(n) *Insurance.* The items required by section 226.4(d) in order to exclude certain insurance premiums from the finance charge.

<sup>41</sup> The finance charge shall be considered accurate if it is not more than \$5 above or below the exact finance charge in a transaction involving an amount financed of \$1,000 or less, or not more than \$10 above or below the exact finance charge in a transaction involving an amount financed of more than \$1,000.

<sup>42</sup> For any transaction involving a finance charge of \$5 or less on an amount financed of \$75 or less, or a finance charge of \$7.50 or less on an amount financed of more than \$75, the creditor need not disclose the annual percentage rate.

<sup>43</sup> Information provided in accordance with variable rate regulations of other federal agencies may be substituted for the disclosures required by paragraph (f) of this section.

<sup>44</sup> In any transaction involving a single payment, the creditor need not disclose the total of payments.

(o) *Certain security interest charges.* The disclosures required by section 226.4(e) in order to exclude from the finance charge certain fees prescribed by law or certain premiums for insurance in lieu of perfecting a security interest.

(p) *Contract reference.* A statement that the consumer should refer to the appropriate contract document for information about nonpayment, default, the right to accelerate the maturity of the obligation, and prepayment rebates and penalties. At the creditor's option, the statement may also include a reference to the contract for further information about security interests and, in a residential mortgage transaction, about the creditor's policy regarding assumption of the obligation.

(q) *Assumption policy.* In a residential mortgage transaction, a statement whether or not a subsequent purchaser of the dwelling from the consumer may be permitted to assume the remaining obligation on its original terms.

(r) *Required deposit.* If the creditor requires the consumer to maintain a deposit as a condition of the specific transaction, a statement that the annual percentage rate does not reflect the effect of the required deposit.<sup>45</sup>

## SECTION 226.19—Certain Residential Mortgage Transactions

(a) *Time of disclosure.* In a residential mortgage transaction subject to the Real Estate Settlement Procedures Act (12 USC 2601 et seq.) the creditor shall make good faith estimates of the disclosures required by section 226.18 before consummation, or shall deliver or place them in the mail not later than three business days after the creditor receives the consumer's written application, whichever is earlier.

(b) *Redisclosure required.* If the annual percentage rate in the consummated transaction

varies from the annual percentage rate disclosed under section 226.18(e) by more than  $\frac{1}{8}$  of 1 percentage point in a regular transaction or more than  $\frac{1}{4}$  of 1 percentage point in an irregular transaction, as defined in section 226.22, the creditor shall disclose the changed terms no later than consummation or settlement.

## SECTION 226.20—Subsequent Disclosure Requirements

(a) *Refinancings.* A refinancing occurs when an existing obligation that was subject to this subpart is satisfied and replaced by a new obligation undertaken by the same consumer. A refinancing is a new transaction requiring new disclosures to the consumer. The new finance charge shall include any unearned portion of the old finance charge that is not credited to the existing obligation. The following shall not be treated as a refinancing:

(1) A renewal of a single payment obligation with no change in the original terms.

(2) A reduction in the annual percentage rate with a corresponding change in the payment schedule.

(3) An agreement involving a court proceeding.

(4) A change in the payment schedule or a change in collateral requirements as a result of the consumer's default or delinquency, unless the rate is increased, or the new amount financed exceeds the unpaid balance plus earned finance charge and premiums for continuation of insurance of the types described in section 226.4(d).

(5) The renewal of optional insurance purchased by the consumer and added to an existing transaction, if disclosures relating to the initial purchase were provided as required by this subpart.

(b) *Assumptions.* An assumption occurs when a creditor expressly agrees in writing with a subsequent consumer to accept that consumer as a primary obligor on an existing residential mortgage transaction. Before the assumption occurs, the creditor shall make new disclosures to the subsequent consumer, based on the remaining obligation. If the fi-

<sup>45</sup> A required deposit need not include, for example: (1) an escrow account for items such as taxes, insurance or repairs; (2) a deposit that earns not less than 5 percent per year; or (3) payments under a Morris Plan.

nance charge originally imposed on the existing obligation was an add-on or discount finance charge, the creditor need only disclose:

- (1) The unpaid balance of the obligation assumed.
- (2) The total charges imposed by the creditor in connection with the assumption.
- (3) The information required to be disclosed under section 226.18(k), (l), (m), and (n).
- (4) The annual percentage rate originally imposed on the obligation.
- (5) The payment schedule under section 226.18(g) and the total of payments under section 226.18(h), based on the remaining obligation.

#### SECTION 226.21—Treatment of Credit Balances

When a credit balance in excess of \$1 is created in connection with a transaction (through transmittal of funds to a creditor in excess of the total balance due on an account, through rebates of unearned finance charges or insurance premiums, or through amounts otherwise owed to or held for the benefit of a consumer), the creditor shall—

- (a) Credit the amount of the credit balance to the consumer's account;
- (b) Refund any part of the remaining credit balance, upon the written request of the consumer; and
- (c) Make a good faith effort to refund to the consumer by cash, check, or money order, or credit to a deposit account of the consumer, any part of the credit balance remaining in the account for more than 6 months, except that no further action is required if the consumer's current location is not known to the creditor and cannot be traced through the consumer's last known address or telephone number.

#### SECTION 226.22—Determination of Annual Percentage Rate

- (a) *Accuracy of annual percentage rate.* (1)

The annual percentage rate is a measure of the cost of credit, expressed as a yearly rate, that 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. Explanations, equations and instructions for determining the annual percentage rate in accordance with the actuarial method are set forth in appendix J to this regulation.<sup>45a</sup>

(2) As a general rule, the annual percentage rate 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 paragraph (a)(1) of this section.

(3) In an irregular transaction, the annual percentage rate shall be considered accurate if it is not more than  $\frac{1}{4}$  of 1 percentage point above or below the annual percentage rate determined in accordance with paragraph (a)(1) of this section.<sup>46</sup>

- (b) *Computation tools.* (1) The Regulation Z Annual Percentage Rate Tables produced by the Board may be used to determine the annual percentage rate, and any rate determined from those tables in accordance with the accompanying instructions complies 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 irregular first period, an irregular first payment, and an irregular final payment. Volume II of the tables applies to

<sup>45a</sup> An error in disclosure of the annual percentage rate or finance charge shall not, in itself, be considered a violation of this regulation if (1) the error resulted from a corresponding error in a calculation tool used in good faith by the creditor; and (2) upon discovery of the error, the creditor promptly discontinues use of that calculation tool for disclosure purposes and notifies the Board in writing of the error in the calculation tool. This footnote shall cease to be effective on April 1, 1982.

<sup>46</sup> For purposes of paragraph (a)(3) of this section, an irregular transaction is one that includes one or more of the following features: multiple advances, irregular payment periods, or irregular payment amounts (other than an irregular first period or an irregular first or final payment).

transactions involving multiple advances and any type of payment or period irregularity.

(2) Creditors may use any other computation tool in determining the annual percentage rate if the rate so determined equals the rate determined in accordance with appendix J, within the degree of accuracy set forth in paragraph (a) of this section.

(c) *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 those transactions, so long as it is the highest annual percentage rate for any such transaction.

(d) *Certain transactions involving ranges of balances.* For purposes of disclosing the annual percentage rate referred to in section 226.17(g)(4)(Mail or Telephone Orders—Delay in Disclosures) and (h)(Series of Sales—Delay in Disclosures), 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 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 percent of the latter rate, the annual percentage rate shall be computed on whatever lower balance will produce an annual percentage rate that does not result in an understatement of more than 8 percent of the rate determined on the lowest balance.

## SECTION 226.23—Right of Rescission

(a) *Consumer's right to rescind.* (1) In a credit transaction in which a security interest is or will be retained or acquired in a consumer's principal dwelling, each consumer whose ownership interest is or will be subject to the security interest shall have the right to rescind the transaction, except for transactions described in paragraph (f) of this section.<sup>47</sup>

(2) To exercise the right to rescind, the consumer shall notify the creditor of the rescission by mail, telegram or other means of written communication. Notice is considered given when mailed, when filed for telegraphic transmission or, if sent by other means, when delivered to the creditor's designated place of business.

(3) The consumer may exercise the right to rescind until midnight of the third business day following consummation, delivery of the notice required by paragraph (b) of this section, or delivery of all material disclosures,<sup>48</sup> whichever occurs last. If the required notice or material disclosures are not delivered, the right to rescind shall expire three years after consummation, upon transfer of all of the consumer's interest in the property, or upon sale of the property, whichever occurs first. In the case of certain administrative proceedings, the rescission period shall be extended in accordance with section 125(f) of the act.

(4) When more than one consumer in a transaction has the right to rescind, the exercise of the right by one consumer shall be effective as to all consumers.

(b) *Notice of right to rescind.* In a transaction subject to rescission, a creditor shall deliver two copies of the notice of the right to rescind to each consumer entitled to rescind. The notice shall be on a separate document that identifies the transaction and shall clearly and conspicuously disclose the following:

(1) The retention or acquisition of a security interest in the consumer's principal dwelling.

(2) The consumer's right to rescind the transaction.

(3) How to exercise the right to rescind,

<sup>47</sup> For purposes of this section, the addition to an existing obligation of a security interest in a consumer's principal dwelling is a transaction. The right of rescission applies only to the addition of the security interest and not the existing obligation. The creditor shall deliver the notice required by paragraph (b) of this section but need not deliver new material disclosures. Delivery of the required notice shall begin the rescission period.

<sup>48</sup> The term "material disclosures" means the required disclosures of the annual percentage rate, the finance charge, the amount financed, the total of payments, and the payment schedule.

with a form for that purpose, designating the address of the creditor's place of business.

(4) The effects of rescission, as described in paragraph (d) of this section.

(5) The date the rescission period expires.

(c) *Delay of creditor's performance.* Unless a consumer waives the right of rescission under paragraph (e) of this section, no money shall be disbursed other than in escrow, no services shall be performed and no materials delivered until the rescission period has expired and the creditor is reasonably satisfied that the consumer has not rescinded.

(d) *Effects of rescission.* (1) When a consumer rescinds a transaction, the security interest giving rise to the right of rescission becomes void and the consumer shall not be liable for any amount, including any finance charge.

(2) Within 20 calendar days after receipt of a notice of rescission, the creditor shall return any money or property that has been given to anyone in connection with the transaction and shall take any action necessary to reflect the termination of the security interest.

(3) If the creditor has delivered any money or property, the consumer may retain possession until the creditor has met its obligation under paragraph (d)(2) of this section. When the creditor has complied with that paragraph, the consumer shall tender the money or property to the creditor or, where the latter would be impracticable or inequitable, tender its reasonable value. At the consumer's option, tender of property may be made at the location of the property or at the consumer's residence. Tender of money must be made at the creditor's designated place of business. If the creditor does not take possession of the money or property within 20 calendar days after the consumer's tender, the consumer may keep it without further obligation.

(4) The procedures outlined in paragraphs (d)(2) and (3) of this section may be modified by court order.

(e) *Consumer's waiver of right to rescind.* The

consumer may modify or waive the right to rescind if the consumer determines that the extension of credit is needed to meet a bona fide personal financial emergency. To modify or waive the right, the consumer shall give the creditor a dated written statement that describes the emergency, specifically modifies or waives the right to rescind, and bears the signature of all of the consumers entitled to rescind. Printed forms for this purpose are prohibited.

(f) *Exempt transactions.* The right to rescind does not apply to the following:

(1) A residential mortgage transaction.

(2) A refinancing or consolidation by the same creditor of an extension of credit already secured by the consumer's principal dwelling. If the new amount financed exceeds the unpaid principal balance plus any earned unpaid finance charge on the existing debt, this exemption applies only to the existing debt and its security interest.

(3) A transaction in which a state agency is a creditor.

(4) An advance, other than an initial advance, in a series of advances or in a series of single-payment obligations that is treated as a single transaction under section 226.17

(c)(6), if the notice required by paragraph (b) of this section and all material disclosures have been given to the consumer.

(5) A renewal of optional insurance premiums that is not considered a refinancing under section 226.20(a)(5).

## SECTION 226.24—Advertising

(a) *Actually available terms.* If an advertisement for credit states specific credit terms, it shall state only those terms that actually are or will be arranged or offered by the creditor.

(b) *Advertisement of rate of finance charge.* If an advertisement states a rate of finance charge, it shall state the rate as an "annual percentage rate," using that term. If the annual percentage rate may be increased after consummation, the advertisement shall state that fact. The advertisement shall not state any other rate, except that a simple annual rate or

periodic rate that is applied to an unpaid balance may be stated in conjunction with, but not more conspicuously than, the annual percentage rate.

(c) *Advertisement of terms that require additional disclosures.* (1) If any of the following terms is set forth in an advertisement, the advertisement shall meet the requirements of paragraph (c)(2) of this section:

- (i) The amount or percentage of any downpayment.
- (ii) The number of payments or period of repayment.
- (iii) The amount of any payment.
- (iv) The amount of any finance charge.

(2) An advertisement stating any of the terms in paragraph (c)(1) of this section shall state the following terms,<sup>49</sup> as applicable:

- (i) The amount or percentage of the downpayment.
- (ii) The terms of repayment.
- (iii) The "annual percentage rate," using that term, and, if the rate may be increased after consummation, that fact.

(d) *Catalogs and multiple-page advertisements.* (1) If a catalog or other multiple-page advertisement gives information in a table or schedule in sufficient detail to permit determination of the disclosures required by paragraph (c)(2) of this section, it shall be considered a single advertisement if—

- (i) The table or schedule is clearly set forth; and
- (ii) Any statement of the credit terms in paragraph (c)(1) of this section appearing anywhere else in the catalog or advertisement clearly refers to the page on which the table or schedule begins.

(2) A catalog or multiple-page advertisement complies with paragraph (c)(2) of this section if the table or schedule of terms includes all appropriate disclosures for a representative scale of amounts up to the level of the more commonly sold higher-priced property or services offered.

## SUBPART D—MISCELLANEOUS

### SECTION 226.25—Record Retention

(a) *General rule.* A creditor shall retain evidence of compliance with this regulation (other than advertising requirements under sections 226.16 and 226.24) for two years after the date disclosures are required to be made or action is required to be taken. The administrative agencies responsible for enforcing the regulation may require creditors under their jurisdictions to retain records for a longer period if necessary to carry out their enforcement responsibilities under section 108 of the act.

(b) *Inspection of records.* A creditor shall permit the agency responsible for enforcing this regulation with respect to that creditor to inspect its relevant records for compliance.

### SECTION 226.26—Use of Annual Percentage Rate in Oral Disclosures

(a) *Open-end credit.* In an oral response to a consumer's inquiry about the cost of open-end credit, only the annual percentage rate or rates shall be stated, except that the periodic rate or rates also may be stated. If the annual percentage rate cannot be determined in advance because there are finance charges other than a periodic rate, the corresponding annual percentage rate shall be stated, and other cost information may be given.

(b) *Closed-end credit.* In an oral response to a consumer's inquiry about the cost of closed-end credit, only the annual percentage rate shall be stated, except that a simple annual rate or periodic rate also may be stated if it is applied to an unpaid balance. If the annual percentage rate cannot be determined in advance, the annual percentage rate for a sample transaction shall be stated, and other cost information for the consumer's specific transaction may be given.

<sup>49</sup> An example of one or more typical extensions of credit with a statement of all the terms applicable to each may be used.

## SECTION 226.27—Spanish Language Disclosures

All disclosures required by this regulation shall be made in the English language, except in the Commonwealth of Puerto Rico, where creditors may, at their option, make disclosures in the Spanish language. If Spanish disclosures are made, English disclosures shall be provided on the consumer's request, either in substitution for or in addition to the Spanish disclosures. This requirement for providing English disclosures on request shall not apply to advertisements subject to sections 226.16 and 226.24 of this regulation.

## SECTION 226.28—Effect on State Laws

### (a) *Inconsistent disclosure requirements.* (1)

State law requirements that are inconsistent with the requirements contained in chapter 1 (General Provisions), chapter 2 (Credit Transactions), or chapter 3 (Credit Advertising) of the act and the implementing provisions of this regulation are preempted to the extent of the inconsistency. A state law is inconsistent if it requires a creditor to make disclosures or take actions that contradict the requirements of the federal law. A state law is contradictory if it requires the use of the same term to represent a different amount or a different meaning than the federal law, or if it requires the use of a term different from that required in the federal law to describe the same item. A creditor, state, or other interested party may request the Board to determine whether a state law requirement is inconsistent. After the Board determines that a state law is inconsistent, a creditor may not make disclosures using the inconsistent term or form.

(2)(i) State law requirements are inconsistent with the requirements contained in sections 161 (Correction of Billing Errors) or 162 (Regulation of Credit Reports) of the act and the implementing provisions of this regulation and are preempted if they provide rights, responsibilities, or procedures for consumers or creditors that are different from those re-

quired by the federal law. However, a state law that allows a consumer to inquire about an open-end credit account and imposes on the creditor an obligation to respond to such inquiry after the time allowed in the federal law for the consumer to submit written notice of a billing error shall not be preempted in any situation where the time period for making written notice under this regulation has expired. If a creditor gives written notice of a consumer's rights under such state law, the notice shall state that reliance on the longer time period available under state law may result in the loss of important rights that could be preserved by acting more promptly under federal law; it shall also explain that the state law provisions apply only after expiration of the time period for submitting a proper written notice of a billing error under the federal law. If the state disclosures are made on the same side of a page as the required federal disclosures, the state disclosures shall appear under a demarcation line below the federal disclosures, and the federal disclosures shall be identified by a heading indicating that they are made in compliance with federal law. (ii) State law requirements are inconsistent with the requirements contained in chapter 4 (Credit Billing) of the act (other than sections 161 or 162) and the implementing provisions of this regulation and are preempted if the creditor cannot comply with state law without violating federal law.

(iii) A state may request the Board to determine whether its law is inconsistent with chapter 4 of the act and its implementing provisions.

(b) *Equivalent disclosure requirements.* If the Board determines that a disclosure required by state law (other than a requirement relating to the finance charge or annual percentage rate) is substantially the same in meaning as a disclosure required under the act or this regulation, creditors in that state may make the state disclosure in lieu of the federal disclosure. A creditor, state, or other interested party may request the Board to determine wheth-



er a state disclosure is substantially the same in meaning as a federal disclosure.

(c) *Request for determination.* The procedures under which a request for a determination may be made under this section are set forth in appendix A.

## SECTION 226.29—State Exemptions

(a) *General rule.* Any state may apply to the Board to exempt a class of transactions within the state from the requirements of chapter 2 (Credit Transactions) or chapter 4 (Credit Billing) of the act and the corresponding provisions of this regulation. The Board shall grant an exemption if it determines that—

(1) The state law is substantially similar to the federal law or, in the case of chapter 4, affords the consumer greater protection than the federal law; and

(2) There is adequate provision for enforcement.

(b) *Civil liability.* (1) No exemptions granted under this section shall extend to the civil liability provisions of sections 130 and 131 of the act.

(2) If an exemption has been granted, the disclosures required by the applicable state law (except any additional requirements not imposed by federal law) shall constitute the disclosures required by this act.

(c) *Applications.* The procedures under which a state may apply for an exemption under this section are set forth in appendix B.

## APPENDIX A—Effect on State Laws

### *Request for Determination*

A request for a determination that a state law is inconsistent or that a state law is substantially the same as the act and regulation shall be in writing and addressed to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. The request shall be made pursuant to the procedures herein and the Board's Rules of Procedure (12 CFR part 262).

### *Supporting Documents*

A request for a determination shall include the following items:

(1) The text of the state statute, regulation, or other document that is the subject of the request.

(2) Any other statute, regulation, or judicial or administrative opinion that implements, interprets, or applies the relevant provision.

(3) A comparison of the state law with the corresponding provision of the federal law, including a full discussion of the basis for the requesting party's belief that the state provision is either inconsistent or substantially the same.

(4) Any other information that the requesting party believes may assist the Board in its determination.

### *Public Notice of Determination*

Notice that the Board intends to make a determination (either on request or on its own motion) will be published in the *Federal Register*, with an opportunity for public comment, unless the Board finds that notice and opportunity for comment would be impracticable, unnecessary, or contrary to the public interest and publishes its reasons for such decision.

Subject to the Board's Rules Regarding Availability of Information (12 CFR part 261), all requests made, including any documents and other material submitted in support of the requests, will be made available for public inspection and copying.

### *Notice After Determination*

Notice of a final determination will be published in the *Federal Register* and the Board will furnish a copy of such notice to the party who made the request and to the appropriate state official.

### *Reversal of Determination*

The Board reserves the right to reverse a determination for any reason bearing on the coverage or effect of state or federal law.

Notice of reversal of a determination will be

published in the *Federal Register* and a copy furnished to the appropriate state official.

## APPENDIX B—State Exemptions

### *Application*

Any state may apply to the Board for a determination that a class of transactions subject to state law is exempt from the requirements of the act and this regulation. An application shall be in writing and addressed to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, and shall be signed by the appropriate state official. The application shall be made pursuant to the procedures herein and the Board's Rules of Procedure (12 CFR part 262).

### *Supporting Documents*

An application shall be accompanied by:

- (1) The text of the state statute or regulation that is the subject of the application, and any other statute, regulation, or judicial or administrative opinion that implements, interprets, or applies it.
- (2) A comparison of the state law with the corresponding provisions of the federal law.
- (3) The text of the state statute or regulation that provides for civil and criminal liability and administrative enforcement of the state law.
- (4) A statement of the provisions for enforcement, including an identification of the state office that administers the relevant law, information on the funding and the number and qualifications of personnel engaged in enforcement, and a description of the enforcement procedures to be followed, including information on examination procedures, practices, and policies. If an exemption application extends to federally chartered institutions, the applicant must furnish evidence that arrangements have been made with the appropriate federal agencies to ensure adequate enforcement of state law in regard to such creditors.
- (5) A statement of reasons to support the applicant's claim that an exemption should be granted.

### *Public Notice of Application*

Notice of an application will be published, with an opportunity for public comment, in the *Federal Register*, unless the Board finds that notice and opportunity for comment would be impracticable, unnecessary, or contrary to the public interest and publishes its reasons for such decision.

Subject to the Board's Rules Regarding Availability of Information (12 CFR part 261), all applications made, including any documents and other material submitted in support of the applications, will be made available for public inspection and copying. A copy of the application also will be made available at the Federal Reserve Bank of each District in which the applicant is situated.

### *Favorable Determination*

If the Board determines on the basis of the information before it that an exemption should be granted, notice of the exemption will be published in the *Federal Register*, and a copy furnished to the applicant and to each federal official responsible for administrative enforcement.

The appropriate state official shall inform the Board within 30 days of any change in its relevant law or regulations. The official shall file with the Board such periodic reports as the Board may require.

The Board will inform the appropriate state official of any subsequent amendments to the federal law, regulation, interpretations, or enforcement policies that might require an amendment to state law, regulation, interpretations, or enforcement procedures.

### *Adverse Determination*

If the Board makes an initial determination that an exemption should not be granted, the Board will afford the applicant a reasonable opportunity to demonstrate further that an exemption is proper. If the Board ultimately finds that an exemption should not be granted, notice of an adverse determination will be published in the *Federal Register* and a copy furnished to the applicant.

### *Revocation of Exemption*

The Board reserves the right to revoke an exemption if at any time it determines that the standards required for an exemption are not met.

Before taking such action, the Board will notify the appropriate state official of its intent, and will afford the official such opportunity as it deems appropriate in the circumstances to demonstrate that revocation is improper. If the Board ultimately finds that revocation is proper, notice of the Board's intention to revoke such exemption will be published in the *Federal Register* with a reasonable period of time for interested persons to comment.

Notice of revocation of an exemption will be published in the *Federal Register*. A copy of such notice will be furnished to the appropriate state official and to the federal officials responsible for enforcement. Upon revocation of an exemption, creditors in that state shall then be subject to the requirements of the federal law.

## **APPENDIX C—Issuance of Staff Interpretations**

### *Official Staff Interpretations*

Officials in the Board's Division of Consumer and Community Affairs are authorized to issue official staff interpretations of this regulation. These interpretations provide the protection afforded under section 130(f) of the act. Except in unusual circumstances, such interpretations will not be issued separately but will be incorporated in an official commentary to the regulation, which will be amended periodically.

### *Requests for Issuance of Official Staff Interpretations*

A request for an official staff interpretation shall be in writing and addressed to the Director, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. The request shall contain a complete state-

ment of all relevant facts concerning the issue, including copies of all pertinent documents.

### *Scope of Interpretations*

No staff interpretations will be issued approving creditors' forms, statements, or calculation tools or methods. This restriction does not apply to forms, statements, tools, or methods whose use is required or sanctioned by a government agency.

## **APPENDIX D—Multiple-Advance Construction Loans**

Section 226.17(c)(6) permits creditors to treat multiple-advance loans to finance construction of a dwelling that may be permanently financed by the same creditor either as a single transaction or as more than one transaction. If the actual schedule of advances is not known, the following methods may be used to estimate the interest portion of the finance charge and the annual percentage rate and to make disclosures. If the creditor chooses to disclose the construction phase separately, whether interest is payable periodically or at the end of construction, part I may be used. If the creditor chooses to disclose the construction and the permanent financing as one transaction, part II may be used.

### *Part I—Construction Period Disclosed Separately*

A. If interest is payable only on the amount actually advanced for the time it is outstanding:

1. Estimated interest—Assume that one-half of the commitment amount is outstanding at the contract interest rate for the entire construction period.
2. Estimated annual percentage rate—Assume a single-payment loan that matures at the end of the construction period. The finance charge is the sum of the estimated interest and any prepaid finance charge. The amount financed for computation purposes is determined by subtracting any prepaid finance charge from one-half of the commitment amount.

3. Repayment schedule—The number and amounts of any interest payments may be omitted in disclosing the payment schedule under section 226.18(g). The fact that interest payments are required and the timing of such payments shall be disclosed.

4. Amount financed—The amount financed for disclosure purposes is the entire commitment amount less any prepaid finance charge.

B. If interest is payable on the entire commitment amount without regard to the dates or amounts of actual disbursement:

1. Estimated interest—Assume that the entire commitment amount is outstanding at the contract interest rate for the entire construction period.

#### EXAMPLE:

Assume a \$50,000 loan commitment at 10.5 percent interest with a five-month construction period and a prepaid finance charge of 2 points.

(A)	(B)
Estimated interest:	
$\$25,000 \times .105 \div 12 \times 5 = \$1,093.75$	$\$50,000 \times .105 \div 12 \times 5 = \$2,187.50$
Estimated APR:	
$\frac{(1,093.75 + 1,000) \times 100 \div 5 \times 12}{(25,000 - 1,000)} = 20.94\%$	$\frac{(2,187.50 + 1,000) \times 100 \div 5 \times 12}{(25,000 - 1,000)} = 31.88\%$
Disclosures:	
Amount financed \$49,000.00	\$49,000.00
Prepaid finance charge 1,000.00	1,000.00
FINANCE CHARGE (estimate) 2,093.75	3,187.50
ANNUAL PERCENTAGE RATE (estimate) 20.94%	31.88%
Repayment: One payment of principal of \$50,000 on 12-12-80. Interest on the amount of credit outstanding will be paid monthly.	4 monthly payments of \$437.50, beginning 8-12-80, and a final payment of \$50,437.50 on 12-12-80.
Total of payments (estimate) \$51,093.75	\$52,187.50

#### Part II—Construction and permanent financing disclosed as one transaction.

A. The creditor shall estimate the interest payable during the construction period to be included in the total finance charge as follows:

1. If interest is payable only on the amount

2. Estimated annual percentage rate—Assume a single payment loan that matures at the end of the construction period. The finance charge is the sum of the estimated interest and any prepaid finance charge. The amount financed for computation purposes is determined by subtracting any prepaid finance charge from one-half of the commitment amount.

3. Repayment schedule—Interest payments shall be disclosed in making the repayment schedule disclosure under section 226.18(g).

4. Amount financed—The amount financed for disclosure purposes is the entire commitment amount less any prepaid finance charge.

actually advanced for the time it is outstanding, assume that one-half of the commitment amount is outstanding at the contract interest rate for the entire construction period.

2. If interest is payable on the entire commitment amount without regard to the

dates or amounts of actual disbursement, assume that the entire commitment amount is outstanding at the contract rate for the entire construction period.

B. The creditor shall compute the estimated annual percentage rate as follows:

- 1. Estimated interest payable during the construction period shall be treated for computation purposes as a prepaid finance charge (although it shall not be treated as a prepaid finance charge for disclosure purposes).
- 2. The number of payments shall not include any payments of interest only that are made during the construction period.
- 3. The first payment period shall consist of one-half of the construction period plus the period between the end of the construction

period and the first amortization payment.

C. The creditor shall disclose the repayment schedule as follows:

- 1. For loans under paragraph A.1. of part II, without reflecting the number or amounts of payments of interest only that are made during the construction period. The fact that interest payments must be made and the timing of such payments shall be disclosed.
- 2. For loans under paragraph A.2. of part II, including any payments of interest only that are made during the construction period.

D. The creditor shall disclose the amount financed as the entire commitment amount less any prepaid finance charge.

EXAMPLE:

Assume a \$50,000 loan commitment at 10.5 percent interest with a five-month construction period and a prepaid finance charge of 2 points, followed by 30-year permanent financing at the same rate with monthly amortization payments of \$457.37.

Computation of Estimated APR

	Interest on amount advanced		Interest on entire commitment
Estimated construction interest:			
$\$25,000 \times .105 \div 12 \times 5 =$	\$1,093.75	$\$50,000 \times .105 \div 12 \times 5 =$	\$2,187.50
Estimated total finance charge:			
$360 \times \$457.37 =$	\$164,653.20		\$164,653.20
Principal	<u>- 50,000.00</u>		<u>- 50,000.00</u>
Interest on permanent financing	114,653.20		114,653.20
Construction interest	+ 1,093.75		+ 2,187.50
Points	<u>+ 1,000.00</u>		<u>+ 1,000.00</u>
	\$116,746.95		\$117,840.70
Estimated amount financed:			
Principal	\$50,000.00		\$50,000.00
Construction interest	- 1,093.75		- 2,187.50
Points	<u>- 1,000.00</u>		<u>- 1,000.00</u>
	\$47,906.25		\$46,812.50
Number of payments	360		360
Payment amount	\$457.37		\$457.37
First payment period $(5 \div 2) + 1$	3½ months	$(5 \div 2) + 1$	3½ months
Estimated APR (Actuarial)	10.75%		11.03%
Estimated APR (Volume I):			
$\frac{11,674,695}{47,906.25} = 243.70 = FC/\$100$		$\frac{11,784,070}{46,812.50} = 251.73 = FC/\$100$	

*Computation of Estimated APR (Continued)*

	<i>Interest on amount advanced</i>	<i>Interest on entire commitment</i>	
First period adjustment = 3 mo., 15 days = +5.0		First period adjustment = 3 mo., 15 days = +5.0	
Using 365 payment line, the figure closest to 243.70 is 247.00, which corresponds to an APR of	11%	Using 365 payment line, the figure closest to 251.73 is 253.93, which corresponds to an APR of	11.25%
<i>Disclosures</i>			
Amount financed	\$49,000.00		\$49,000.00
Prepaid finance charge	1,000.00		1,000.00
FINANCE CHARGE (estimate)	116,746.95		117,840.70
ANNUAL PERCENTAGE RATE (estimate)	11%		11.25%
Repayment: Interest on the amount of credit outstanding during the construction period will be paid monthly, followed by 360 monthly payments of \$457.37, beginning 1- 12-81.		5 monthly payments of \$437.50 be- ginning 8-12-80, followed by 360 monthly payments of \$457.37 be- ginning 1-12-81.	
Total of payments (estimate)	\$165,746.95		\$166,840.70

## APPENDIX E—Rules for Card Issuers That Bill on a Transaction-by- Transaction Basis

The following provisions of subpart B apply if credit cards are issued and (1) the card issuer and the seller are the same or related persons; (2) no finance charge is imposed; (3) consumers 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; and (4) no cumulative account is maintained which reflects the transactions by each consumer during a period of time, such as a month:

*Section 226.6(d), and, as applicable, section 226.6(b) and (c).* The disclosure required by Section 226.6(b) 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.

*Section 226.7(b) and section 226.7(k).* Creditors may comply by placing the required disclosures on the invoice or statement sent to the consumer for each transaction.

*Section 226.9(a).* Creditors may comply by

mailing or delivering the statement required by section 226.6(d) (see appendix G-3) to each consumer receiving a transaction invoice during a one-month period chosen by the card issuer or by sending either the statement prescribed by section 226.6(d) or an alternative billing error rights statement substantially similar to that in appendix G-4, with each invoice sent to a consumer.

*Section 226.9(c).*

*Section 226.10.*

*Section 226.11.* This section applies when a card issuer receives a payment or other credit that exceeds by more than \$1 the amount due, as shown on the transaction invoice. The requirement to credit amounts to an account may be complied with by other reasonable means, such as by a credit memorandum. Since no periodic statement is provided, a notice of the credit balance shall be sent to the consumer within a reasonable period of time following its occurrence unless a refund of the credit balance is mailed or delivered to the consumer within five business days of its receipt by the card issuer.

*Section 226.12 including section 226.12(c)*

and (d), as applicable. Section 226.12(e) is inapplicable.

*Section 226.13, as applicable.* All references to "periodic statement" shall be read to indicate the invoice or other statement for the relevant transaction. All actions with regard to correcting and adjusting a consumer'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.

*Section 226.15, as applicable.*

## APPENDIX F—Annual Percentage Rate Computations for Certain Open-End Credit Plans

In determining the denominator of the fraction under section 226.14(c)(3), no amount will be used more than once when adding the sum of the balances<sup>1</sup> subject to periodic rates to the sum of the amounts subject to specific transaction charges. In every case, the full amount of transactions subject to specific transaction charges shall be included in the denominator. Other balances or parts of balances shall be included according to the manner of determining the balance subject to a periodic rate, as illustrated in the following examples of accounts on monthly billing cycles:

### 1. Previous balance—none.

A specific transaction of \$100 occurs on the first day of the billing cycle. The average daily balance is \$100. A specific transaction charge of 3 percent is applicable to the specific transaction. The periodic rate is  $1\frac{1}{2}$  percent applicable to the average daily balance. The numerator is the amount of the finance charge, which is \$4.50. The denominator is the amount of the transaction (which is \$100), plus the amount by which the balance subject to the periodic rate exceeds the amount of the specific transactions (such excess in this case is 0), totaling \$100.

The annual percentage rate is the quotient (which is  $4\frac{1}{2}$  percent) multiplied by 12 (the

number of months in a year), i.e., 54 percent.

### 2. Previous balance—\$100.

A specific transaction of \$100 occurs at the midpoint of the billing cycle. The average daily balance is \$150. A specific transaction charge of 3 percent is applicable to the specific transaction. The periodic rate is  $1\frac{1}{2}$  percent applicable to the average daily balance. The numerator is the amount of the finance charge which is \$5.25. The denominator is the amount of the transaction (which is \$100), plus the amount by which the balance subject to the periodic rate exceeds the amount of the specific transaction (such excess in this case is \$50), totaling \$150. As explained in example 1, the annual percentage rate is  $3\frac{1}{2}\% \times 12 = 42\%$ .

3. If, in example 2, the periodic rate applies only to the previous balance, the numerator is \$4.50 and the denominator is \$200 (the amount of the transaction, \$100, plus the balance subject only to the periodic rate, the \$100 previous balance). As explained in example 1, the annual percentage rate is  $2\frac{1}{4}\% \times 12 = 27\%$ .

4. If, in example 2, the periodic rate applies only to an adjusted balance (previous balance less payments and credits) and the consumer made a payment of \$50 at the midpoint of the billing cycle, the numerator is \$3.75 and the denominator is \$150 (the amount of the transaction, \$100, plus the balance subject to the periodic rate, the \$50 adjusted balance). As explained in example 1, the annual percentage rate is  $2\frac{1}{2}\% \times 12 = 30\%$ .

### 5. Previous balance—\$100.

A specific transaction (check) of \$100 occurs at the midpoint of the billing cycle. The average daily balance is \$150. The specific transaction charge is \$.25 per check. The periodic rate is  $1\frac{1}{2}$  percent applied to the average daily balance. The numerator is the amount of the finance charge, which is \$2.50 and includes the \$.25 check charge and the \$2.25 resulting from the application of the periodic rate. The denominator is the full amount of the specific transaction (which is \$100) plus the amount by which the average daily bal-

<sup>1</sup>Where a portion of the finance charge is determined by application of one or more daily periodic rates, the phrase "sum of the balances" shall also mean the "average of daily balances."

ance exceeds the amount of the specific transaction (which in this case is \$50), totaling \$150. As explained in example 1, the annual percentage rate would be  $1\frac{1}{3}\% \times 12 = 20\%$ .

#### 6. Previous balance—none.

A specific transaction of \$100 occurs at the midpoint of the billing cycle. The average daily balance is \$50. The specific transaction charge is 3 percent of the transaction amount or \$3.00. The periodic rate is  $1\frac{1}{2}$  percent per month applied to the average daily balance. The numerator is the amount of the finance charge, which is \$3.75, including the \$3.00 transaction charge and \$.75 resulting from application of the periodic rate. The denominator is the full amount of the specific transaction (\$100) plus the amount by which the balance subject to the periodic rate exceeds the amount of the transaction (\$0). Where the specific transaction amount exceeds the balance subject to the periodic rate, the resulting number is considered to be zero rather than a negative number ( $\$50 - \$100 = -\$50$ ). The denominator, in this case, is \$100. As explained in example 1, the annual percentage rate is  $3\frac{3}{4}\% \times 12 = 45\%$ .

## APPENDIX G—Open-End Model Forms and Clauses

### G-1 Balance Computation Methods Model Clauses (§§ 226.6 and 226.7)

### G-2 Liability for Unauthorized Use Model Clause (§ 226.12)

### G-3 Long-Form Billing-Error Rights Model Form (§§ 226.6 and 226.9)

### G-4 Alternative Billing-Error Rights Model Form (§ 226.9)

### G-5 Rescission Model Form (When Opening an Account) (§ 226.15)

### G-6 Rescission Model Form (For Each Transaction) (§ 226.15)

### G-7 Rescission Model Form (When Increasing the Credit Limit) (§ 226.15)

### G-8 Rescission Model Form (When Adding a Security Interest) (§ 226.15)

### G-9 Rescission Model Form (When Increasing the Security) (§ 226.15)

## G-1—Balance Computation Methods Model Clauses

### (a) *Adjusted balance method*

We figure [a portion of] the finance charge on your account by applying the periodic rate to the “adjusted balance” of your account. We get the “adjusted balance” by taking the balance you owed at the end of the previous billing cycle and subtracting [any unpaid finance charges and] any payments and credits received during the present billing cycle.

### (b) *Previous balance method*

We figure [a portion of] the finance charge on your account by applying the periodic rate to the amount you owe at the beginning of each billing cycle [minus any unpaid finance charges]. We do not subtract any payments or credits received during the billing cycle. [The amount of payments and credits to your account this billing cycle was \$\_\_\_\_\_.]

### (c) *Average daily balance method (excluding current transactions)*

We figure [a portion of] the finance charge on your account by applying the periodic rate to the “average daily balance” of your account (excluding current transactions). To get the “average daily balance” we take the beginning balance of your account each day and subtract any payments or credits [and any unpaid finance charges]. We do not add in any new [purchases/advances/loans]. This gives us the daily balance. Then, we add all the daily balances for the billing cycle together and divide the total by the number of days in the billing cycle. This gives us the “average daily balance.”

### (d) *Average daily balance method (including current transactions)*

We figure [a portion of] the finance charge on your account by applying the periodic rate to the “average daily balance” of your account (including current transactions). To get the “average daily balance” we take the beginning balance of your account each day, add any new [purchases/advances/loans], and subtract any payments or credits, [and unpaid finance charges]. This gives us the daily balance. Then, we add up all the daily balances



for the billing cycle and divide the total by the number of days in the billing cycle. This gives us the "average daily balance."

## G-2—Liability for Unauthorized Use Model Clause

You may be liable for the unauthorized use of your credit card [or other term that describes the credit card]. You will not be liable for unauthorized use that occurs after you notify [name of card issuer or its designee] at [address], orally or in writing, of the loss, theft, or possible unauthorized use. In any case, your liability will not exceed [insert \$50 or any lesser amount under agreement with the cardholder].

## G-3—Long-Form Billing-Error Rights Model Form

### YOUR BILLING RIGHTS KEEP THIS NOTICE FOR FUTURE USE

This notice contains important information about your rights and our responsibilities under the Fair Credit Billing Act.

#### *Notify Us In Case of Errors or Questions About Your Bill*

If you think your bill is wrong, or if you need more information about a transaction on your bill, write us [on a separate sheet] at [address] [the address listed on your bill]. Write to us as soon as possible. We must hear from you no later than 60 days after we sent you the first bill on which the error or problem appeared. You can telephone us, but doing so will not preserve your rights.

In your letter, give us the following information:

- Your name and account number.
- The dollar amount of the suspected error.
- Describe the error and explain, if you can, why you believe there is an error. If you need more information, describe the item you are not sure about.

If you have authorized us to pay your credit card bill automatically from your savings or checking account, you can stop the payment on any amount you think is wrong. To stop the payment your letter must reach us three business days before the automatic payment is scheduled to occur.

#### *Your Rights and Our Responsibilities After We Receive Your Written Notice*

We must acknowledge your letter within 30 days, unless we have corrected the error by then. Within 90 days, we must either correct the error or explain why we believe the bill was correct.

After we receive your letter, we cannot try to collect any amount you question, or report you as delinquent. We can continue to bill you for the amount you question, including finance charges, and we can apply any unpaid amount against your credit limit. You do not have to pay any questioned amount while we are investigating, but you are still obligated to pay the parts of your bill that are not in question.

If we find that we made a mistake on your bill, you will not have to pay any finance charges related to any questioned amount. If we didn't make a mistake, you may have to pay finance charges, and you will have to make up any missed payments on the questioned amount. In either case, we will send you a statement of the amount you owe and the date that it is due.

If you fail to pay the amount that we think you owe, we may report you as delinquent. However, if our explanation does not satisfy you and you write to us within ten days telling us that you still refuse to pay, we must tell anyone we report you to that you have a question about your bill. And, we must tell you the name of anyone we reported you to. We must tell anyone we report you to that the matter has been settled between us when it finally is.

If we don't follow these rules, we can't collect the first \$50 of the questioned amount, even if your bill was correct.

#### *Special Rule for Credit Card Purchases*

If you have a problem with the quality of

property or services that you purchased with a credit card, and you have tried in good faith to correct the problem with the merchant, you may have the right not to pay the remaining amount due on the property or services. There are two limitations on this right:

- (a) You must have made the purchase in your home state or, if not within your home state within 100 miles of your current mailing address; and
- (b) The purchase price must have been more than \$50.

These limitations do not apply if we own or operate the merchant, or if we mailed you the advertisement for the property or services.

#### G-4—Alternative Billing-Error Rights Model Form

##### BILLING RIGHTS SUMMARY

##### *In Case of Errors or Questions About Your Bill*

If you think your bill is wrong, or if you need more information about a transaction on your bill, write us [on a separate sheet] at [address] [the address shown on your bill] as soon as possible. We must hear from you no later than 60 days after we sent you the first bill on which the error or problem appeared. You can telephone us, but doing so will not preserve your rights.

In your letter, give us the following information:

- Your name and account number.
- The dollar amount of the suspected error.
- Describe the error and explain, if you can, why you believe there is an error. If you need more information, describe the item you are unsure about.

You do not have to pay any amount in question while we are investigating, but you are still obligated to pay the parts of your bill that are not in question. While we investigate your question, we cannot report you as delin-

quent or take any action to collect the amount you question.

##### *Special Rule for Credit Card Purchases*

If you have a problem with the quality of goods or services that you purchased with a credit card, and you have tried in good faith to correct the problem with the merchant, you may not have to pay the remaining amount due on the goods or services. You have this protection only when the purchase price was more than \$50 and the purchase was made in your home state or within 100 miles of your mailing address. (If we own or operate the merchant, or if we mailed you the advertisement for the property or services, all purchases are covered regardless of amount or location of purchase.)

#### G-5—Rescission Model Form (When Opening An Account)

##### NOTICE OF RIGHT TO CANCEL

##### *1. Your Right to Cancel*

We have agreed to establish an open-end credit account for you, and you have agreed to give us a [mortgage/lien/security interest] [on/in] your home as security for the account. You have a legal right under federal law to cancel the account, without cost, within three business days after the latest of the following events:

- (1) the opening date of your account which is \_\_\_\_\_; or
- (2) the date you received your Truth-in-Lending disclosures; or
- (3) the date you received this notice of your right to cancel the account.

If you cancel the account, the [mortgage/lien/security interest] [on/in] your home is also cancelled. Within 20 days of receiving your notice, we must take the necessary steps to reflect the fact that the [mortgage/lien/security interest] [on/in] your home has been cancelled. We must return to you any money

or property you have given to us or to anyone else in connection with the account.

You may keep any money or property we have given you until we have done the things mentioned above, but you must then offer to return the money or property. If it is impractical or unfair for you to return the property, you must offer its reasonable value. You may offer to return the property at your home or at the location of the property. Money must be returned to the address shown below. If we do not take possession of the money or property within 20 calendar days of your offer, you may keep it without further obligation.

## 2. How to Cancel.

If you decide to cancel the account, you may do so by notifying us, in writing, at

(creditor's name and business address).

You may use any written statement that is signed and dated by you and states your intention to cancel, or you may use this notice by dating and signing below. Keep one copy of this notice no matter how you notify us because it contains important information about your rights.

If you cancel by mail or telegram, you must send the notice no later than midnight of

(date)

(or midnight of the third business day following the latest of the three events listed above). If you send or deliver your written notice to cancel some other way, it must be delivered to the above address no later than that time.

I WISH TO CANCEL.

\_\_\_\_\_  
Consumer's Signature

\_\_\_\_\_  
Date

## G-6—Rescission Model Form (For Each Transaction)

### NOTICE OF RIGHT TO CANCEL

#### 1. Your Right to Cancel

We have extended credit to you under your

open-end credit account. This extension of credit will increase the amount you owe on your account. We already have a [mortgage/lien/security interest] [on/in] your home as security for your account. You have a legal right under federal law to cancel the extension of credit, without cost, within three business days after the latest of the following events:

- (1) the date of the additional extension of credit which is \_\_\_\_\_; or
- (2) the date you received your Truth-in-Lending disclosures; or
- (3) the date you received this notice of your right to cancel the additional extension of credit.

If you cancel the additional extension of credit, your cancellation will only apply to the additional amount and to any increase in the [mortgage/lien/security interest] that resulted because of the additional amount. It will not affect the amount you presently owe, and it will not affect the [mortgage/lien/security interest] we already have [on/in] your home. Within 20 calendar days after we receive your notice of cancellation, we must take the necessary steps to reflect the fact that any increase in the [mortgage/lien/security interest] [on/in] your home has been cancelled. We must also return to you any money or property you have given to us or to anyone else in connection with this extension of credit.

You may keep any money or property we have given you until we have done the things mentioned above, but you must then offer to return the money or property. If it is impractical or unfair for you to return the property, you must offer its reasonable value. You may offer to return the property at your home or at the location of the property. Money must be returned to the address shown below. If we do not take possession of the money or property within 20 calendar days of your offer, you may keep it without further obligation.

#### 2. How to Cancel

If you decide to cancel the additional exten-

sion of credit, you may do so by notifying us, in writing, at

(creditor's name and business address).

You may use any written statement that is signed and dated by you and states your intention to cancel, or you may use this notice by dating and signing below. Keep one copy of this notice no matter how you notify us because it contains important information about your rights.

If you cancel by mail or telegram, you must send the notice no later than midnight of

(date)

(or midnight of the third business day following the latest of the three events listed above).

I WISH TO CANCEL

\_\_\_\_\_  
Consumer's Signature

\_\_\_\_\_  
Date

## G-7—Rescission Model Form (When Increasing the Credit Limit)

### NOTICE OF RIGHT TO CANCEL

#### 1. Your Right to Cancel

We have agreed to increase the credit limit on your open-end credit account. We have a [mortgage/lien/security interest] [on/in] your home as security for your account. Increasing the credit limit will increase the amount of the [mortgage/lien/security interest] [on/in] your home. You have a legal right under federal law to cancel the increase in your credit limit, without cost, within three business days after the latest of the following events:

- (1) the date of the increase in your credit limit which is \_\_\_\_\_; or
- (2) the date you received your Truth-in-Lending disclosures; or
- (3) the date you received this notice of your right to cancel the increase in your credit limit.

If you cancel, your cancellation will apply only to the increase in your credit limit and to the [mortgage/lien/security interest] that resulted from the increase in your credit limit. It will not affect the amount you presently owe, and it will not affect the [mortgage/lien/security interest] we already have [on/in] your home. Within 20 calendar days after we receive your notice of cancellation, we must take the necessary steps to reflect the fact that any increase in the [mortgage/lien/security interest] [on/in] your home has been cancelled. We must also return to you any money or property you have given to us or to anyone else in connection with this increase.

You may keep any money or property we have given you until we have done the things mentioned above, but you must then offer to return the money or property. If it is impractical or unfair for you to return the property, you must offer its reasonable value. You may offer to return the property at your home or at the location of the property. Money must be returned to the address shown below. If we do not take possession of the money or property within 20 calendar days of your offer, you may keep it without further obligation.

#### 2. How to Cancel

If you decide to cancel the increase in your credit limit, you may do so by notifying us, in writing, at

(creditor's name and business address).

You may use any written statement that is signed and dated by you and states your intention to cancel, or you may use this notice by dating and signing below. Keep one copy of this notice no matter how you notify us because it contains important information about your rights.

If you cancel by mail or telegram, you must send the notice no later than midnight of

(date)

(or midnight of the third business day following the latest of the three events listed above). If you send or deliver your written notice to cancel some other way, it must be delivered to the above address no later than that time.

## I WISH TO CANCEL.

\_\_\_\_\_  
Consumer's Signature\_\_\_\_\_  
Date

## G-8—Rescission Model Form (When Adding a Security Interest)

## NOTICE OF RIGHT TO CANCEL

1. *Your Right to Cancel*

You have agreed to give us a [mortgage/lien/security interest] [on/in] your home as security for your existing open-end credit account. You have a legal right under federal law to cancel the [mortgage/lien/security interest], without cost, within three business days after the latest of the following events:

- (1) the date of the [mortgage/lien/security interest] which is \_\_\_\_\_; or
- (2) the date you received your Truth-in-Lending disclosures; or
- (3) the date you received this notice of your right to cancel the [mortgage/lien/security interest].

If you cancel the [mortgage/lien/security interest], your cancellation will apply only to the [mortgage/lien/security interest]. It will not affect the amount you owe on your account. Within 20 calendar days after we receive your notice of cancellation, we must take the necessary steps to reflect that any [mortgage/lien/security interest] [on/in] your home has been cancelled. We must also return to you any money or property you have given to us or to anyone else in connection with this increase.

You may keep any money or property we have given you until we have done the things mentioned above, but you must then offer to return the money or property. If it is impractical or unfair for you to return the property, you must offer its reasonable value. You may make the offer at your home or at the location of the property. Money must be returned to the address shown below. If we do not take

possession of the money or property within 20 calendar days of your offer, you may keep it without further obligation.

2. *How to Cancel*

If you decide to cancel the [mortgage/lien/security interest], you may do so by notifying us, in writing, at

(creditor's name and business address).

You may use any written statement that is signed and dated by you and states your intention to cancel, or you may use this notice by dating and signing below. Keep one copy of this notice no matter how you notify us because it contains important information about your rights.

If you cancel by mail or telegram, you must send the notice no later than midnight of

(date)

(or midnight of the third business day following the latest of the three events listed above). If you send or deliver your written notice to cancel some other way, it must be delivered to the above address no later than that time.

## I WISH TO CANCEL.

\_\_\_\_\_  
Consumer's Signature\_\_\_\_\_  
Date

## G-9—Rescission Model Form (When Increasing the Security)

## NOTICE OF RIGHT TO CANCEL

1. *Your Right to Cancel*

You have agreed to increase the amount of the [mortgage/lien/security interest] [on/in] your home that we hold as security for your open-end credit account. You have a legal right under federal law to cancel the increase, without cost, within three business days after the latest of the following events:

- (1) the date of the increase in the security which is \_\_\_\_\_; or

- (2) the date you received your Truth-in-

- Lending disclosures; or
- (3) the date you received this notice of your right to cancel the increase in the security.

If you cancel the increase in the security, your cancellation will apply only to the increase in the amount of the [mortgage/lien/security interest]. It will not affect the amount you presently owe on your account, and it will not affect the [mortgage/lien/security interest] we already have [on/in] your home. Within 20 calendar days after we receive your notice of cancellation, we must take the necessary steps to reflect the fact that any increase in the [mortgage/lien/security interest] [on/in] your home has been cancelled. We must also return to you any money or property you have given to us or to anyone else in connection with this increase.

You may keep any money or property we have given you until we have done the things mentioned above, but you must then offer to return the money or property. If it is impractical or unfair for you to return the property, you must offer its reasonable value. You may offer to return the property at your home or at the location of the property. Money must be returned to the address shown below. If we do not take possession of the money or property within 20 calendar days of your offer, you may keep it without further obligation.

## 2. How to Cancel

If you decide to cancel the increase in security, you may do so by notifying us, in writing, at

(creditor's name and business address).

You may use any written statement that is signed and dated by you and states your intention to cancel, or you may use this notice by dating and signing below. Keep one copy of this notice no matter how you notify us be-

cause it contains important information about your rights.

If you cancel by mail or telegram, you must send the notice no later than midnight of

(date)

(or midnight of the third business day following the latest of the three events listed above). If you send or deliver your written notice to cancel some other way, it must be delivered to the above address no later than that time.

I WISH TO CANCEL.

\_\_\_\_\_  
Consumer's Signature

\_\_\_\_\_  
Date

## APPENDIX H—Closed-End Model Forms and Clauses

- H-1 Credit Sale Model Form (§ 226.18)
- H-2 Loan Model Form (§ 226.18)
- H-3 Amount Financed Itemization Model Form (§ 226.18(c))
- H-4 Variable-Rate Model Clauses (§ 226.18(f))
- H-5 Demand Feature Model Clauses (§ 226.18(i))
- H-6 Assumption Policy Model Clause (§ 226.18(q))
- H-7 Required Deposit Model Clause (§ 226.18(r))
- H-8 Rescission Model Form (General) (§ 226.23)
- H-9 Rescission Model Form (Refinancing) (§ 226.23)
- H-10 Credit Sale Sample
- H-11 Installment Loan Sample
- H-12 Refinancing Sample
- H-13 Mortgage with Demand Feature Sample
- H-14 Variable-Rate Mortgage Sample
- H-15 Graduated-Payment Mortgage Sample

## H-1—Credit Sale Model Form

<b>ANNUAL PERCENTAGE RATE</b> The cost of your credit as a yearly rate.  <div style="text-align: right;">%</div>	<b>FINANCE CHARGE</b> The dollar amount the credit will cost you.  <div style="text-align: right;">\$</div>	<b>Amount Financed</b> The amount of credit provided to you or on your behalf.  <div style="text-align: right;">\$</div>	<b>Total of Payments</b> The amount you will have paid after you have made all payments as scheduled.  <div style="text-align: right;">\$</div>	<b>Total Sale Price</b> The total cost of your purchase on credit, including your downpayment of \$ _____  <div style="text-align: right;">\$</div>
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You have the right to receive at this time an itemization of the Amount Financed.

☐ I want an itemization.      ☐ I do not want an itemization.

Your payment schedule will be:

Number of Payments	Amount of Payments	When Payments Are Due

**Insurance**

Credit life insurance and credit disability insurance are not required to obtain credit, and will not be provided unless you sign and agree to pay the additional cost.

Type	Premium	Signature
Credit Life		I want credit life insurance. _____ Signature
Credit Disability		I want credit disability insurance. _____ Signature
Credit Life and Disability		I want credit life and disability insurance. _____ Signature

You may obtain property insurance from anyone you want that is acceptable to \_\_\_\_\_ (creditor). If you get the insurance from \_\_\_\_\_ (creditor), you will pay \$ \_\_\_\_\_.

**Security:** You are giving a security interest in:

☐ the goods or property being purchased.

☐ (brief description of other property).

Filing fees \$ \_\_\_\_\_ Non-filing insurance \$ \_\_\_\_\_

**Late Charge:** If a payment is late, you will be charged \$ \_\_\_\_\_ / \_\_\_\_\_ % of the payment.

**Prepayment:** If you pay off early, you

☐ may      ☐ will not      have to pay a penalty.

☐ may      ☐ will not      be entitled to a refund of part of the finance charge.

See your contract documents for any additional information about nonpayment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

\_\_\_\_\_ e means an estimate

## H-2—Loan Model Form

<b>ANNUAL PERCENTAGE RATE</b> The cost of your credit as a yearly rate.  %	<b>FINANCE CHARGE</b> The dollar amount the credit will cost you.  \$	<b>Amount Financed</b> The amount of credit provided to you or on your behalf.  \$	<b>Total of Payments</b> The amount you will have paid after you have made all payments as scheduled.  \$
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You have the right to receive at this time an itemization of the Amount Financed.

☐ I want an itemization. ☐ I do not want an itemization.

Your payment schedule will be:

Number of Payments	Amount of Payments	When Payments Are Due

#### Insurance

Credit life insurance and credit disability insurance are not required to obtain credit, and will not be provided unless you sign and agree to pay the additional cost.

Type	Premium	Signature
Credit Life		I want credit life insurance. <span style="float: right;">Signature _____</span>
Credit Disability		I want credit disability insurance. <span style="float: right;">Signature _____</span>
Credit Life and Disability		I want credit life and disability insurance. <span style="float: right;">Signature _____</span>

You may obtain property insurance from anyone you want that is acceptable to (creditor). If you get the insurance from (creditor), you will pay \$\_\_\_\_\_.

**Security:** You are giving a security interest in:

- ☐ the goods or property being purchased.  
☐ (brief description of other property).

Filing fees \$\_\_\_\_\_ Non-filing insurance \$\_\_\_\_\_

**Late Charge:** If a payment is late, you will be charged \$\_\_\_\_\_/\_\_\_\_\_% of the payment.

**Prepayment:** If you pay off early, you

- ☐ may ☐ will not have to pay a penalty.  
☐ may ☐ will not be entitled to a refund of part of the finance charge.

See your contract documents for any additional information about nonpayment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

e means an estimate



### H-3—Amount Financed Itemization Model Form

Itemization of the Amount Financed of \$ \_\_\_\_\_

\$ \_\_\_\_\_ Amount given to you directly

\$ \_\_\_\_\_ Amount paid on your account

Amount paid to others on your behalf

\$ \_\_\_\_\_ to [public officials] [credit bureau] [appraiser] [insurance company]

\$ \_\_\_\_\_ to (name of another creditor)

\$ \_\_\_\_\_ to (other)

\$ \_\_\_\_\_ Prepaid finance charge

### H-4—Variable-Rate Model Clauses

The annual percentage rate may increase during the term of this transaction if:

[the prime interest rate of (creditor) increases.]

[the balance in your deposit account falls below \$ \_\_\_\_\_.]

[you terminate your employment with (employer) .]

[The interest rate will not increase above \_\_\_\_\_%.]

[The maximum interest rate increase at one time will be \_\_\_\_\_%.]

[The rate will not increase more than once every (time period) .]

Any increase will take the form of:

[higher payment amounts.]

[more payments of the same amount.]

[a larger amount due at maturity.]

*Example based on the specific transaction*

[If the interest rate increases by \_\_\_\_\_% in (time period),

[your regular payments will increase to \$\_\_\_\_.]

[you will have to make \_\_\_\_\_ additional payments.]

[your final payment will increase to \$\_\_\_\_.]]

*Example based on a typical transaction*

[If your loan were for \$\_\_\_\_\_ at \_\_\_\_\_% for (term) and the rate increased to \_\_\_\_\_% in (time period),

[your regular payments would increase by \$\_\_\_\_\_.]

[you would have to make \_\_\_\_\_ additional payments.]

[your final payment would increase by \$\_\_\_\_.]]

### H-5—Demand Feature Model Clauses

This obligation [is payable on demand.]

[has a demand feature.]

[All disclosures are based on an assumed maturity of one year.]

### H-6—Assumption Policy Model Clause

Assumption: Someone buying your house [may, subject to conditions, be allowed to] [cannot] assume the remainder of the mortgage on the original terms.

### H-7—Required Deposit Model Clause

The annual percentage rate does not take into account your required deposit.

### H-8—Rescission Model Form (General)

#### NOTICE OF RIGHT TO CANCEL

#### *Your Right to Cancel*

You are entering into a transaction that will result in a [mortgage/lien/security interest] [on/in] your home. You have a legal right under federal law to cancel this transaction, without cost, within three business days from

whichever of the following events occurs last:

- (1) the date of the transaction, which is \_\_\_\_\_; or
- (2) the date you received your Truth in Lending disclosures; or
- (3) the date you received this notice of your right to cancel.

If you cancel the transaction, the [mortgage/lien/security interest] is also cancelled. Within 20 calendar days after we receive your notice, we must take the steps necessary to reflect the fact that the [mortgage/lien/security interest] [on/in] your home has been cancelled, and we must return to you any money or property you have given to us or to anyone else in connection with this transaction.

You may keep any money or property we have given you until we have done the things mentioned above, but you must then offer to return the money or property. If it is impractical or unfair for you to return the property, you must offer its reasonable value. You may offer to return the property at your home or at the location of the property. Money must be returned to the address below. If we do not take possession of the money or property within 20 calendar days of your offer, you may keep it without further obligation.

### How to Cancel

If you decide to cancel this transaction, you may do so by notifying us in writing, at

(creditor's name and business address).

You may use any written statement that is signed and dated by you and states your intention to cancel, or you may use this notice by dating and signing below. Keep one copy of this notice because it contains important information about your rights.

If you cancel by mail or telegram, you must send the notice no later than midnight of

(date)

(or midnight of the third business day following the latest of the three events listed above). If you send or deliver your written notice to cancel some other way, it must be delivered to the above address no later than that time.

I WISH TO CANCEL

\_\_\_\_\_  
Consumer's Signature

\_\_\_\_\_  
Date

## H-9—Rescission Model Form (Refinancing)

### NOTICE OF RIGHT TO CANCEL

#### Your Right to Cancel

You are entering into a new transaction to increase the amount of credit provided to you. We acquired a [mortgage/lien/security interest] [on/in] your home under the original transaction and will retain that [mortgage/lien/security interest] in the new transaction. You have a legal right under federal law to cancel the new transaction, without cost, within three business days from whichever of the following events occurs last:

- (1) the date of the new transaction, which is \_\_\_\_\_; or
- (2) the date you received your new Truth in Lending disclosures; or
- (3) the date you received this notice of your right to cancel.

If you cancel the new transaction, your cancellation will apply only to the increase in the amount of credit. It will not affect the amount that you presently owe or the [mortgage/lien/security interest] we already have [on/in] your home. If you cancel, the [mortgage/lien/security interest] as it applies to the increased amount is also cancelled. Within 20 calendar days after we receive your notice of cancellation of the new transaction, we must take the steps necessary to reflect the fact that our [mortgage/lien/security interest] [on/in] your home no longer applies to the increase of credit. We must also return any money you have given to us or anyone else in connection with the new transaction.

You may keep any money we have given you in the new transaction until we have done the things mentioned above, but you must then offer to return the money at the address below. If we do not take possession of the

money within 20 calendar days of your offer, you may keep it without further obligation.

*How to Cancel*

If you decide to cancel the new transaction, you may do so by notifying us in writing, at

(creditor's name and business address).

You may use any written statement that is signed and dated by you and states your intention to cancel, or you may use this notice by dating and signing below. Keep one copy of this notice because it contains important in-

formation about your rights.

If you cancel by mail or telegram, you must send the notice no later than midnight of

(date)

(or midnight of the third business day following the latest of the three events listed above).

If you send or deliver your written notice to cancel some other way, it must be delivered to the above address no later than that time.

I WISH TO CANCEL

\_\_\_\_\_  
Consumer's Signature

\_\_\_\_\_  
Date

## H-10—Credit Sale Sample

## Big Wheel Auto

Alice Green

ANNUAL PERCENTAGE RATE The cost of your credit as a yearly rate.	FINANCE CHARGE The dollar amount the credit will cost you.	Amount Financed The amount of credit provided to you or on your behalf.	Total of Payments The amount you will have paid after you have made all payments as scheduled.	Total Sale Price The total cost of your purchase on credit, including your downpayment of
14.84 %	\$1496.80	\$6107.50	\$7604.30	\$1500 - \$9129.30

You have the right to receive at this time an itemization of the Amount Financed.

☐ I want an itemization.
 ☒ I do not want an itemization.

Your payment schedule will be:

Number of Payments	Amount of Payments	When Payments Are Due
36	\$211.23	Monthly beginning 6-1-81

## Insurance

Credit life insurance and credit disability insurance are not required to obtain credit, and will not be provided unless you sign and agree to pay the additional cost.

Type	Premium	Signature
Credit Life	\$120 -	I want credit life insurance. <u>Alice Green</u> Signature
Credit Disability		I want credit disability insurance. _____ Signature
Credit Life and Disability		I want credit life and disability insurance. _____ Signature

Security: You are giving a security interest in:  
☒ the goods being purchased.  
☐ \_\_\_\_\_

Filing fees \$ 12.50 Non-filing insurance \$ \_\_\_\_\_

Late Charge: If a payment is late, you will be charged \$10.

Prepayment: If you pay off early, you

☐ may ☐ will not have to pay a penalty.  
☒ pay ☐ will not be entitled to a refund of part of the finance charge.

See your contract documents for any additional information about nonpayment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

I have received a copy of this statement.

Alice Green 5-1-81  
 Signature Date

e means an estimate

H-11—Installment Loan Sample

Friendly Bank & Trust Co.

700 East Street

Little Creek, USA

Lisa Stone

22-4859-22

300 Maple Avenue

Little Creek, USA

ANNUAL PERCENTAGE RATE <small>The cost of your credit as a yearly rate</small>	FINANCE CHARGE <small>The dollar amount the credit will cost you</small>	Amount Financed <small>The amount of credit provided to you or on your behalf</small>	Total of Payments <small>The amount you will have paid after you have made all payments as scheduled</small>
12 %	\$ 675.31	\$ 5000 -	\$ 5675.31

You have the right to receive at this time an itemization of the Amount Financed.

☐ I want an itemization. ☐ I do not want an itemization.

Your payment schedule will be

Number of Payments	Amount of Payments	When Payments Are Due
1	\$ 262.03 <sup>e</sup>	6/1/81
23	\$ 235.36	Monthly beginning 7/1/81

**Late Charge:** If a payment is late, you will be charged \$5 or 10% of the payment, whichever is less.

**Prepayment:** If you pay off early, you ☒ may ☐ will not have to pay a penalty.

**Required Deposit:** The annual percentage rate does not take into account your required deposit.

See your contract documents for any additional information about nonpayment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

<sup>e</sup> means an estimate

H-12—Refinancing Sample

Everyone's Credit Union

Date: April 1, 1981

<b>ANNUAL PERCENTAGE RATE</b> The cost of your credit as a yearly rate	<b>FINANCE CHARGE</b> The dollar amount the credit will cost you	<b>Amount Financed</b> The amount of credit provided to you or on your behalf	<b>Total of Payments</b> The amount you will have paid after you have made all payments as scheduled
15 %	\$ 1285.06	\$ 5177.73	\$ 6462.79

Your payment schedule will be:

Number of Payments	Amount of Payments	When Payments Are Due
35	\$ 179.53	Monthly starting 5-1-81
1	\$ 179.24	4-1-84

**Insurance**  
Credit life insurance and credit disability insurance are not required to obtain credit, and will not be provided unless you sign and agree to pay the additional cost.

Type	Premium	Signature
Credit Life		I want credit life insurance
Credit Disability	\$ 177.73	disability insurance <i>Joseph Day</i>

**Security:** You are giving a security interest in: ☐ the goods or property being purchased.  
☒ your automobile.

**Late Charge:** If a payment is late, you will be charged 20% of the interest due with a minimum charge of \$.05.

**Prepayment:** If you pay off early, you will not have to pay a penalty.

See your contract documents for any additional information about nonpayment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

e means an estimate

Itemization of the Amount Financed of \$ 5177.73

\$ 1000 - Amount given to you directly  
\$ 3000 - Amount paid on your account

Amount paid to others on your behalf

\$ \_\_\_\_\_ to public officials  
\$ 500 - to Coop Credit Union  
\$ 500 to Acme Finance Co.  
\$ 177.73 to Pan-Galactic Ins. Co.  
\$ \_\_\_\_\_ for credit report

\$ \_\_\_\_\_ Prepaid finance charge

## H-13—Mortgage with Demand Feature Sample

**Mortgage Savings and Loan Assoc.**

Date: April 15, 1981

Glenn Jones  
700 Oak Drive  
Little Creek, USA

<b>ANNUAL PERCENTAGE RATE</b>	<b>FINANCE CHARGE</b>	<b>Amount Financed</b>	<b>Total of Payments</b>
The cost of your credit as a yearly rate.	The dollar amount the credit will cost you.	The amount of credit provided to you or on your behalf	The amount you will have paid after you have made all payments as scheduled.
14.85 %	\$156,551.54	\$44,605.66	\$201,157.20

Your payment schedule will be:

Number of Payments	Amount of Payments	When Payments Are Due
360	\$558.77	Monthly beginning 6/1/81

This obligation has a demand feature.

You may obtain property insurance from anyone you want that is acceptable to Mortgage Savings and Loan Assoc.. If you get the insurance from Mortgage Savings and Loan Assoc. you will pay \$ 150 / year

**Security:** You are giving a security interest in:  
☒ the goods or property being purchased.  
☐

**Late Charge:** If a payment is late, you will be charged \$ N/A / 5 % of the payment.

**Prepayment:** If you pay off early, you may have to pay a penalty.

**Assumption:** Someone buying your house may, subject to conditions, be allowed to assume the remainder of the mortgage on the original terms.

See your contract documents for any additional information about nonpayment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

\_\_\_\_\_ means an estimate

## H-14—Variable-Rate Mortgage Sample

State Savings and Loan Assoc.

Anne Jones  
600 Pine Lane  
Little Creek, USA

Account number: 210802-47

ANNUAL PERCENTAGE RATE <small>The cost of your credit as a yearly rate.</small>	FINANCE CHARGE <small>The dollar amount the credit will cost you.</small>	Amount Financed <small>The amount of credit provided to you or on your behalf.</small>	Total of Payments <small>The amount you will have paid after you have made all payments as scheduled.</small>
15.07 %	\$157,155.20	\$44,002-	\$201,157.20

Your payment schedule will be:

Number of Payments	Amount of Payments	When Payments Are Due
360	\$558.77	Monthly beginning 6-1-81

**Variable Rate**

The annual percentage rate may increase during the term of this transaction if the prime rate of State Savings and Loan Assoc. increases. The rate may not increase more often than once a year, and may not increase by more than 1% annually. The interest rate will not increase above 19.75%. Any increase will take the form of higher payment amounts. If the interest rate increases by 1 % in one year, your regular payment would increase to \$ 594.51.

**Security:** You are giving a security interest in the property being purchased.

**Late Charge:** If a payment is late, you will be charged 5% of the payment.

**Prepayment:** If you pay off early, you ☒ may ☐ will not have to pay a penalty.

**Assumption:** Someone buying your house may, subject to conditions, be allowed to assume the remainder of the mortgage on the original terms.

See your contract documents for any additional information about nonpayment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

e means an estimate



H-15—Graduated-Payment Mortgage Sample

Convenient Savings and Loan

Account number: 4862-88

Michael Jones  
500 Walnut Court, Little Creek USA

ANNUAL PERCENTAGE RATE <small>The cost of your credit as a yearly rate.</small>	FINANCE CHARGE <small>The dollar amount the credit will cost you.</small>	Amount Financed <small>The amount of credit provided to you or on your behalf</small>	Total of Payments <small>The amount you will have paid after you have made all payments as scheduled.</small>
15.37 %	\$ 177,970.44	\$ 43,777	\$ 221,548.44

Your payment schedule will be.

Number of Payments	Amount of Payments	When Payments Are Due
12	\$ 446.62	Monthly beginning 6/1/81
12	\$ 479.67	" " 6/1/82
12	\$ 515.11	" " 6/1/83
12	\$ 553.13	" " 6/1/84
12	\$ 593.91	" " 6/1/85
300	<i>varying from</i> \$ 637.68 to \$ 627.37	" " 6/1/86

**Security:** You are giving a security interest in the property being purchased.

**Late Charge:** If a payment is late, you will be charged 5% of the payment.

**Prepayment:** If you pay off early, you

- ☒ may ☐ will not have to pay a penalty.  
☒ may ☐ will not be entitled to a refund of part of the finance charge.

**Assumption:** Someone buying your home cannot assume the remainder of the mortgage on the original terms.

See your contract documents for any additional information about nonpayment, default, any required repayment in full before the scheduled date, and prepayment refunds and penalties.

e means an estimate

## APPENDIX I—Federal Enforcement Agencies

The following list indicates which federal agency enforces Regulation Z for particular classes of businesses. Any questions concerning compliance by a particular business should be directed to the appropriate enforcement agency.

### *National Banks*

Office of Customer and Community Programs  
Comptroller of the Currency  
Washington, D.C. 20219

### *State Member Banks*

Federal Reserve Bank serving the District in which the state member bank is located.

### *Nonmember Insured Banks*

Federal Deposit Insurance Corporation regional director for the region in which the nonmember insured bank is located.

### *Savings Institutions Insured by the FSLIC and Members of the FHLB System (except for savings banks insured by FDIC)*

The Federal Home Loan Bank Board supervisory agent in the district in which the institution is located.

### *Federal Credit Unions*

Regional office of the National Credit Union Administration serving the area in which the federal credit union is located.

### *Creditors Subject to Civil Aeronautics Board*

Director, Bureau of Consumer Protection  
Civil Aeronautics Board  
1825 Connecticut Avenue, N.W.  
Washington, D.C. 20428

### *Creditors Subject to Packers and Stockyards Act*

Nearest Packers and Stockyards Administration area supervisor.

### *Federal Land Banks, Federal Land Bank Associations, Federal Intermediate Credit Banks and Production Credit Associations*

Farm Credit Administration  
490 L'Enfant Plaza, S.W.  
Washington, D.C. 20578

*Retail, Department Stores, Consumer Finance Companies, All Other Creditors, and All Non-bank Credit Card Issuers (Creditors operating on a local or regional basis should use the address of the FTC Regional Office in which they operate.)*

Division of Credit Practices  
Bureau of Consumer Protection  
Federal Trade Commission  
Washington, D.C. 20580

## APPENDIX J—Annual Percentage Rate Computations for Closed-End Credit Transactions

(a) *Introduction.* (1) Section 226.22(a) of Regulation Z provides that the annual percentage rate for other than open-end credit transactions shall be determined in accordance with either the actuarial method or the United States Rule method. This appendix contains an explanation of the actuarial method as well as equations, instructions and examples of how this method applies to single-advance and multiple-advance transactions.

(2) Under the actuarial method, at the end of each unit period (or fractional unit period) the unpaid balance of the amount financed is increased by the finance charge earned during that period and is decreased by the total payment (if any) made at the end of that period. The determination of unit periods and fractional unit periods shall be consistent with the definitions and rules in paragraphs (b)(3), (4) and (5) of this section and the general equation in paragraph (b)(8) of this section.

(3) In contrast, under the United States Rule method, at the end of each payment period, the unpaid balance of the amount financed is increased by the finance charge earned during that payment period and is decreased by the payment made at the end of that payment period. If the payment is less than the finance charge earned, the ad-

justment of the unpaid balance of the amount financed is postponed until the end of the next payment period. If at that time the sum of the two payments is still less than the total earned finance charge for the two payment periods, the adjustment of the unpaid balance of the amount financed is postponed still another payment period, and so forth.

(b) *Instructions and equations for the actuarial method.* (1) *General rule.* The annual

percentage rate shall be the nominal annual percentage rate determined by multiplying the unit-period rate by the number of unit periods in a year.

(2) *Term of the transaction.* The term of the transaction begins on the date of its consummation, except that if the finance charge or any portion of it is earned beginning on a later date, the term begins on the later date. The term ends on the date the last payment is due, except that if an advance is scheduled after that date, the term ends on the later date. For computation purposes, the length of the term shall be equal to the time interval between any point in time on the beginning date to the same point in time on the ending date.

(3) *Definitions of time intervals.* (i) A period is the interval of time between advances or between payments and includes the interval of time between the date the finance charge begins to be earned and the date of the first advance thereafter or the date of the first payment thereafter, as applicable.

(ii) A common period is any period that occurs more than once in a transaction.

(iii) A standard interval of time is a day, week, semimonth, month, or a multiple of a week or a month up to, but not exceeding, one year.

(iv) All months shall be considered equal. Full months shall be measured from any point in time on a given date of a given month to the same point in time on the same date of another month. If a series of payments (or advances) is scheduled for the last day of each month,

months shall be measured from the last day of the given month to the last day of another month. If payments (or advances) are scheduled for the 29th or 30th of each month, the last day of February shall be used when applicable.

(4) *Unit period.* (i) In all transactions other than a single-advance, single-payment transaction, the unit period shall be that common period, not to exceed one year, that occurs most frequently in the transaction, except that—

(A) If two or more common periods occur with equal frequency, the smaller of such common periods shall be the unit period; or

(B) If there is no common period in the transaction, the unit period shall be that period which is the average of all periods rounded to the nearest whole standard interval of time. If the average is equally near two standard intervals of time, the lower shall be the unit period.

(ii) In a single-advance, single-payment transaction, the unit period shall be the term of the transaction, but shall not exceed one year.

(5) *Number of unit periods between two given dates.* (i) The number of days between two dates shall be the number of 24-hour intervals between any point in time on the first date to the same point in time on the second date.

(ii) If the unit period is a month, the number of full unit periods between two dates shall be the number of months measured back from the later date. The remaining fraction of a unit period shall be the number of days measured forward from the earlier date to the beginning of the first full unit period, divided by 30. If the unit period is a month, there are 12 unit periods per year.

(iii) If the unit period is a semimonth or a multiple of a month not exceeding 11 months, the number of days between two dates shall be 30 times the number of full months measured back from the later date, plus the number of remaining days. The number of full unit periods and the remaining fraction of a unit period shall

be determined by dividing such number of days by 15 in the case of a semimonthly unit period or by the appropriate multiple of 30 in the case of a multimonthly unit period. If the unit period is a semi-month, the number of unit periods per year shall be 24. If the number of unit periods is a multiple of a month, the number of unit periods per year shall be 12 divided by the number of months per unit period.

(iv) If the unit period is a day, a week, or a multiple of a week, the number of full unit periods and the remaining fractions of a unit period shall be determined by dividing the number of days between the two given dates by the number of days per unit period. If the unit period is a day, the number of unit periods per year shall be 365. If the unit period is a week or a multiple of a week, the number of unit periods per year shall be 52 divided by the number of weeks per unit period.

(v) If the unit period is a year, the number of full unit periods between two dates shall be the number of full years (each equal to 12 months) measured back from the later date. The remaining fraction of a unit period shall be—

(A) The remaining number of months divided by 12 if the remaining interval is equal to a whole number of months, or

(B) The remaining number of days divided by 365 if the remaining interval is *not* equal to a whole number of months.

(vi) In a single-advance, single-payment transaction in which the term is less than a year and is equal to a whole number of months, the number of unit periods in the term shall be one, and the number of unit periods per year shall be 12 divided by the number of months in the term or 365 divided by the number of days in the term.

(vii) In a single-advance, single-payment transaction in which the term is less than a year and is *not* equal to a whole

number of months, the number of unit periods in the term shall be one, and the number of unit periods per year shall be 365 divided by the number of days in the term.

(6) *Percentage rate for a fraction of a unit period.* The percentage rate of finance charge for a fraction (less than one) of a unit period shall be equal to such fraction multiplied by the percentage rate of finance charge per unit period.

(7) *Symbols.* The symbols used to express the terms of a transaction in the equation set forth in paragraph (b)(8) of this section are defined as follows:

$A_k$  = The amount of the  $k$ th advance.

$q_k$  = The number of full unit periods from the beginning of the term of the transaction to the  $k$ th advance.

$c_k$  = The fraction of a unit period in the time interval from the beginning of the term of the transaction to the  $k$ th advance.

$m$  = The number of advances.

$P_j$  = The amount of the  $j$ th payment.

$t_j$  = The number of full unit periods from the beginning of the term of the transaction to the  $j$ th payment.

$f_j$  = The fraction of a unit period in the time interval from the beginning of the term of the transaction to the  $j$ th payment.

$n$  = The number of payments.

$i$  = The percentage rate of finance charge per unit period, expressed as a decimal equivalent.

Symbols used in the examples shown in this appendix are defined as follows:

$\bar{a}_n$  = The present value of 1 per unit period for  $x$  unit periods, first payment due immediately.

$$= 1 + \frac{1}{(1+i)} + \frac{1}{(1+i)^2} + \dots + \frac{1}{(1+i)^{x-1}}$$

$w$  = The number of unit periods per year.

$I = wi \times 100$  = The nominal annual percentage rate.

(8) *General equation.* The following equation sets forth the relationship among the terms of a transaction:

$$\frac{A_1}{(1+e_1i)(1+i)^{q_1}} + \frac{A_2}{(1+e_2i)(1+i)^{q_2}} + \dots + \frac{A_m}{(1+e_mi)(1+i)^{q_m}} = \frac{P_1}{(1+f_1i)(1+i)^{t_1}} + \frac{P_2}{(1+f_2i)(1+i)^{t_2}} + \dots + \frac{P_n}{(1+f_ni)(1+i)^{t_n}}$$

(9) *Solution of general equation by iteration process.* (i) The general equation in paragraph (b)(8) of this section, when applied to a simple transaction in which a loan of \$1000 is repaid by 36 monthly payments of \$33.61 each, takes the special form:

$$A = \frac{33.61 \bar{a}_{36}}{(1+i)}$$

Step 1:

Let  $I_1$  = estimated annual percentage rate = 12.50%

Evaluate expression for  $A$ ,

letting  $i = I_1/(100w) = .010416667$

Result (referred to as  $A'$ ) = 1004.674391

Step 2:

Let  $I_2 = I_1 + .1 = 12.60\%$

Evaluate expression for  $A$ ,

letting  $i = I_2/(100w) = .010500000$

Result

(referred to as  $A''$ ) = 1003.235366

Step 3:

Interpolate for  $I$  (annual percentage rate):

$$I = I_1 + .1 \left[ \frac{(A - A')}{(A'' - A')} \right] = 12.50 +$$

$$.1 \left[ \frac{(1000.000000 - 1004.674391)}{(1003.235366 - 1004.674391)} \right]$$

$$= 12.82483042\%$$

Step 4:

First iteration, let  $I_1$

= 12.82483042% and

repeat Steps 1, 2, and 3

obtaining a new  $I$  = 12.82557859%

Second iteration, let  $I_1$

= 12.82557859% and

repeat Steps 1, 2, and 3

obtaining a new  $I$  = 12.82557529%

In this case, no further iterations are required to obtain the annual percentage rate correct to two decimal places, 12.83%.

(ii) When the iteration approach is used, it is expected that calculators or computers will be programmed to carry all available decimals throughout the calculation and that enough iterations will be performed to make virtually certain that the annual percentage rate obtained, when rounded to two decimals, is correct. Annual percentage rates in the examples below were obtained by using a 10-digit programmable calculator and the iteration procedure described above.

- (c) *Examples for the actuarial method.* (1) *Single-advance transaction, with or without an odd first period, and otherwise regular.* The general equation in paragraph (b)(8) of this section can be put in the following special form for this type of transaction:

$$A = \frac{1}{(1+fi)(1+i)^t} \left( P \ddot{a}_{\overline{n}|i} \right)$$

*Example (i):* Monthly payments (regular first period)

Amount advanced (A) = \$5000. Payment (P) = \$230.

Number of payments (n) = 24.

Unit period = 1 month. Unit periods per year (w) = 12.

Advance, 1-10-78. First payment, 2-10-78.

From 1-10-78 through 2-10-78 = 1 unit period. (t = 1; f = 0)

Annual percentage rate

$$(I) = wi = .0969 = 9.69\%$$

*Example (ii):* Monthly payments (long first period)

Amount advanced (A) = \$6000. Payment (P) = \$200.

Number of payments (n) = 36.

Unit period = 1 month. Unit periods per year (w) = 12.

Advance, 2-10-78. First payment, 4-1-78.

From 3-1-78 through 4-1-78 = 1 unit period. (t = 1)

From 2-10-78 through 3-1-78 = 19 days. (f = 19/30)

Annual percentage rate

$$(I) = wi = .1182 = 11.82\%$$

*Example (iii):* Semimonthly payments (short first period)

Amount advanced (A) = \$5000. Payment (P) = \$219.17.

Number of payments (n) = 24.

Unit period =  $\frac{1}{2}$  month. Unit periods per year (w) = 24.

Advance, 2-23-78. First payment, 3-1-78.

Payments made on 1st and 16th of each month.

From 2-23-78 through 3-1-78 = 6 days. (t = 0; f = 6/15)

Annual percentage rate

$$(I) = wi = .1034 = 10.34\%$$

*Example (iv):* Quarterly payments (long first period)

Amount advanced (A) = \$10,000. Payment (P) = \$385.

Number of payments (n) = 40.

Unit period = 3 months. Unit periods per year (w) = 4.

Advance, 5-23-78. First payment, 10-1-78.

From 7-1-78 through 10-1-78 = 1 unit period. (t = 1)

From 6-1-78 through 7-1-78 = 1 month = 30 days. From 5-23-78 through 6-1-78 = 9 days. (f = 39/90)

Annual percentage rate

$$(I) = wi = .0897 = 8.97\%$$

*Example (v):* Weekly payments (long first period)

Amount advanced (A) = \$500. Payment (P) = \$17.60.

Number of payments (n) = 30.

Unit period = 1 week. Unit periods per year (w) = 52.

Advance, 3-20-78. First payment, 4-21-78.

From 3-24-78 through 4-21-78 = 4 unit periods. (t = 4)

From 3-20-78 through 3-24-78 = 4 days. (f = 4/7)

Annual percentage rate

$$(I) = wi = .1496 = 14.96\%$$

- (2) *Single-advance transaction, with an odd first payment, with or without an odd first period, and otherwise regular.* The general equation in paragraph (b)(8) of this section can be put in the following special form for this type of transaction:

$$A = \frac{1}{(1+fi)(1+i)^t} \left[ P_1 + \frac{P \ddot{a}_{\overline{n-1}|i}}{(1+i)} \right]$$

*Example (i):* Monthly payments (regular first period and irregular first payment)

Amount advanced (A) = \$5000. First payment (P<sub>1</sub>) = \$250.

Regular payment (P) = \$230. Number of payments (n) = 24.

Unit period = 1 month. Unit periods per year (w) = 12.

Advance, 1-10-78. First payment, 2-10-78.

From 1-10-78 through 2-10-78 = 1 unit period. (t = 1; f = 0)

Annual percentage rate

$$(I) = wi = .1008 = 10.08\%$$

*Example (ii):* Payments every four weeks (long first period and irregular first payment)

Amount advanced (A) = \$400. First payment (P<sub>1</sub>) = \$39.50.

Regular payment (P) = \$38.31. Number of payments (n) = 12.

Unit period = 4 weeks. Unit periods per year (w) = 52/4 = 13.

Advance, 3-18-78. First payment, 4-20-78.

From 3-23-78 through 4-20-78 = 1 unit period. (t = 1)

From 3-18-78 through 3-23-78 = 5 days. (f = 5/28)

Annual percentage rate

$$(I) = wi = .2850 = 28.50\%.$$

(3) *Single-advance transaction, with an odd final payment, with or without an odd first period, and otherwise regular.* The general equation in paragraph (b)(8) of this section can be put in the following special form for this type of transaction:

$$A = \frac{1}{(1+fi)(1+i)^t} \left[ P \bar{a}_{\overline{n-1}|i} + \frac{P_n}{(1+i)^{n-1}} \right]$$

*Example (i):* Monthly payments (regular first period and irregular final payment)

Amount advanced (A) = \$5000. Regular payment (P) = \$230.

Final payment (P<sub>n</sub>) = \$280. Number of payments (n) = 24.

Unit period = 1 month. Unit periods per year (w) = 12.

Advance, 1-10-78. First payment, 2-10-78.

From 1-10-78 through 2-10-78 = 1 unit period. (t = 1; f = 0)

Annual percentage rate

$$(I) = wi = .1050 = 10.50\%$$

*Example (ii):* Payments every two weeks (short first period and irregular final payment)

Amount advanced (A) = \$200. Regular payment (P) = \$9.50.

Final payment (P<sub>n</sub>) = \$30. Number of payments (n) = 20.

Unit period = 2 weeks. Unit periods per year (w) = 52/2 = 26.

Advance, 4-3-78. First payment, 4-11-78.

From 4-3-78 through 4-11-78 = 8 days. (t = 0; f = 8/14)

Annual percentage rate

$$(I) = wi = .1222 = 12.22\%$$

(4) *Single-advance transaction, with an odd first payment, odd final payment, with or without an odd first period, and otherwise regular.* The general equation in paragraph (b)(8) of this section can be put in the following special form for this type of transaction:

$$A = \frac{1}{(1+fi)(1+i)^t} \left[ \frac{P_1 + P \bar{a}_{\overline{n-2}|i}}{(1+i)} + \frac{P_n}{(1+i)^{n-1}} \right]$$

*Example (i):* Monthly payments (regular first period, irregular first payment, and irregular final payment)

Amount advanced (A) = \$5000. First payment (P<sub>1</sub>) = \$250.

Regular payment (P) = \$230. Final payment (P<sub>n</sub>) = \$280.

Number of payments (n) = 24. Unit period = 1 month.

Unit periods per year (w) = 12.

Advance, 1-10-78. First payment, 2-10-78.

From 1-10-78 through 2-10-78 = 1 unit period. (t = 1; f = 0)

Annual percentage rate

$$(I) = wi = .1090 = 10.90\%$$

*Example (ii):* Payments every two months (short first period, irregular first payment, and irregular final payment)

Amount advanced (A) = \$8000. First payment (P<sub>1</sub>) = \$449.36.

Regular payment (P) = \$465. Final payment (P<sub>n</sub>) = \$200.

Number of payments (n) = 20. Unit period = 2 months.

Unit periods per year (w) = 12/2 = 6.

Advance, 1-10-78. First payment, 3-1-78.

From 2-1-78 through 3-1-78 = 1 month.

From 1-10-78 through 2-1-78 = 22 days. (t = 0; f = 52/60)

Annual percentage rate

$$(I) = wi = .0730 = 7.30\%$$

(5) *Single-advance, single-payment transaction.* The general equation in paragraph (b)(8) of this section can be put in the special forms below for single advance, single payment transactions. Forms 1 through 3 are for the direct determination of the annual percentage rate under special conditions. Form 4 requires the use of the iteration procedure of paragraph (b)(9) of this section and can be used for all single-advance, single-payment transactions regardless of term.

*Form 1—Term less than one year:*

$$I = 100w \left( \frac{P}{A} - 1 \right)$$

*Form 2—Term more than one year but less than two years:*

$$I = \frac{50}{f} \left\{ \left[ (1 + f)^2 + 4f \left( \frac{P}{A} - 1 \right) \right]^{1/2} - (1 + f) \right\}$$

*Form 3—Term equal to exactly a year or exact multiple of a year:*

$$I = 100 \left[ \left( \frac{P}{A} \right)^{1/t} - 1 \right]$$

*Form 4—Special form for iteration procedure (no restriction on term):*

$$A = \frac{P}{(1 + fi)(1 + i)^t}$$

*Example (i):* Single-advance, single-payment (term of less than one year, measured in days)

Amount advanced (A) = \$1000. Payment (P) = \$1080.

Unit period = 255 days. Unit periods per year (w) = 365/255.

Advance, 1-3-78. Payment, 9-15-78.

From 1-3-78 through 9-15-78 = 255 days. (t = 1; f = 0)

Annual percentage rate

$$(I) = wi = .1145 = 11.45\%. \text{ (Use form 1 or 4.)}$$

*Example (ii):* Single-advance, single-payment (term of less than one year, measured in exact calendar months)

Amount advanced (A) = \$1000. Payment (P) = \$1044.



Unit period = 6 months. Unit periods per year ( $w$ ) = 2.

Advance, 7-15-78. Payment, 1-15-79.

From 7-15-78 through 1-15-79 = 6 mos.  
( $t = 1$ ;  $f = 0$ )

Annual percentage rate

( $I$ ) =  $wi = .0880 = 8.80\%$ . (Use form 1 or 4.)

*Example (iii):* Single-advance, single-payment (term of more than one year but less than two years, fraction measured in exact months)

Amount advanced ( $A$ ) = \$1000. Payment ( $P$ ) = \$1135.19.

Unit period = 1 year. Unit periods per year ( $w$ ) = 1.

Advance, 7-17-78. Payment, 1-17-80.

From 1-17-79 through 1-17-80 = 1 unit period. ( $t = 1$ )

From 7-17-78 through 1-17-79 = 6 mos.  
( $f = 6/12$ )

Annual percentage rate

( $I$ ) =  $wi = .0876 = 8.76\%$ . (Use form 2 or 4.)

*Example (iv):* Single-advance, single-payment (term of exactly two years)

Amount advanced ( $A$ ) = \$1000. Payment ( $P$ ) = \$1240.

Unit period = 1 year. Unit periods per year ( $w$ ) = 1.

Advance, 1-3-78. Payment, 1-3-80.

From 1-3-78 through 1-3-79 = 1 unit period. ( $t = 2$ ;  $f = 0$ )

Annual percentage rate

( $I$ ) =  $wi = .1136 = 11.36\%$ . (Use form 3 or 4.)

It is to be repaid by 24 payments of \$100 each. Payments are due every four weeks beginning 2-20-78. However, in those months in which two payments would be due, only the first of the two payments is made and the following payment is delayed by two weeks to place it in the next month.

Unit period = 4 weeks. Unit periods per year ( $w$ ) =  $52/4 = 13$ .

First series of payments begins 26 days after 1-25-78. ( $t_1 = 0$ ;  $f_1 = 26/28$ )

Second series of payments begins nine unit periods plus two weeks after start of first series. ( $t_2 = 10$ ;  $f_2 = 12/28$ )

Third series of payments begins six unit periods plus two weeks after start of second series. ( $t_3 = 16$ ;  $f_3 = 26/28$ )

Last series of payments begins six unit periods plus two weeks after start of third series. ( $t_4 = 23$ ;  $f_4 = 12/28$ )

The general equation in paragraph (b) (8) of this section can be written in the special form:

$$2135 = \frac{100 \bar{a}_{\overline{9}|i}}{(1 + (26/28)i)} + \frac{100 \bar{a}_{\overline{6}|i}}{(1 + (12/28)i)(1 + i)^{10}} + \frac{100 \bar{a}_{\overline{6}|i}}{(1 + (26/28)i)(1 + i)^{16}} + \frac{100 \bar{a}_{\overline{3}|i}}{(1 + (12/28)i)(1 + i)^{23}}$$

Annual percentage rate

( $I$ ) =  $wi = .1200 = 12.00\%$

#### (6) Complex single-advance transaction.

*Example (i):* Skipped-payment loan (payments every four weeks)

A loan of \$2135 is advanced on 1-25-78.

*Example (ii):* Skipped-payment loan plus single payments

A loan of \$7350 on 3-3-78 is to be repaid by three monthly payments of \$1000

each beginning 9-15-78, plus a single payment of \$2000 on 3-15-79, plus three more monthly payments of \$750 each beginning 9-15-79, plus a final payment of \$1000 on 2-1-80.

Unit period = 1 month. Unit periods per year ( $w$ ) = 12.

First series of payments begins six unit periods plus 12 days after 3-3-78. ( $t_1 = 6$ ;  $f_1 = 12/30$ )

Second series of payments (single payment) occurs 12 unit periods plus 12 days after 3-3-78. ( $t_2 = 12$ ;  $f_2 = 12/30$ )

Third series of payments begins 18 unit periods plus 12 days after 3-3-78. ( $t_3 = 18$ ;  $f_3 = 12/30$ )

Final payment occurs 22 unit periods plus 29 days after 3-3-78. ( $t_4 = 22$ ;  $f_4 = 29/30$ )

The general equation in paragraph (b)(8) of this section can be written in the special form:

$$7350 = \frac{1000 \bar{a}_{\overline{3}|}}{(1 + (12/30)i)(1+i)^6} + \frac{2000}{(1 + (12/30)i)(1+i)^{12}} + \frac{750 \bar{a}_{\overline{3}|}}{(1 + (12/30)i)(1+i)^{18}} + \frac{1000}{(1 + (29/30)i)(1+i)^{22}}$$

Annual percentage rate

$$(I) = wi = .1022 = 10.22\%$$

*Example (iii): Mortgage with varying payments*

A loan of \$39,688.56 (net) on 4-10-78 is to be repaid by 360 monthly payments beginning 6-1-78. Payments are the same for 12 months at a time as follows:

Year	Monthly payment	Year	Monthly payment
1	\$291.81	16	\$383.67
2	300.18	17	383.13
3	308.78	18	382.54
4	317.61	19	381.90
5	326.65	20	381.20
6	335.92	21	380.43
7	345.42	22	379.60
8	355.15	23	378.68
9	365.12	24	377.69
10	375.33	25	376.60
11	385.76	26	375.42
12	385.42	27	374.13
13	385.03	28	372.72
14	384.62	29	371.18
15	384.17	30	369.50

Unit period = 1 month. Unit periods per year ( $w$ ) = 12.

From 5-1-78 through 6-1-78 = 1 unit period. ( $t = 1$ )

From 4-10-78 through 5-1-78 = 21 days. ( $f = 21/30$ )

The general equation in paragraph (b)(8) of this section can be written in the special form:

$$39,688.56 = \frac{\bar{a}_{\overline{12}|}}{(1 + (21/30)i)(1+i)} \left[ 291.81 + \frac{300.18}{(1+i)^{12}} + \frac{308.78}{(1+i)^{24}} + \dots + \frac{369.50}{(1+i)^{348}} \right]$$

Annual percentage rate

$$(I) = wi = .0980 = 9.80\%$$

(7) *Multiple-advance transactions.*

*Example (i): Construction loan*

Three advances of \$20,000 each are made on 4-10-79, 6-12-79, and 9-18-79. Re-

payment is by 240 monthly payments of \$612.36 each beginning 12-10-79.

Unit period = 1 month. Unit periods per year ( $w$ ) = 12.

From 4-10-79 through 6-12-79 =  $(2 + 2/30)$  unit periods.

From 4-10-79 through 9-18-79 =  $(5 + 8/30)$  unit periods.

From 4-10-79 through 12-10-79 = (8) unit periods.

The general equation in paragraph (b)(8) of this section is changed to the single-advance mode by treating the second and third advances as negative payments:

$$20,000 = \frac{612.36 \bar{a}_{\overline{240}|}}{(1+i)^8} - \frac{20,000}{(1+(2/30)i)(1+i)^2} - \frac{20,000}{(1+(8/30)i)(1+i)^5}$$

Annual percentage rate

$$(I) = wi = .1025 = 10.25\%$$

#### Example (ii): Student loan

A student loan consists of eight advances: \$1800 on 9-5-78, 9-5-79, 9-5-80, and 9-5-81; plus \$1000 on 1-5-79, 1-5-80, 1-5-81, and 1-5-82. The borrower is to make 50 monthly payments of \$240 each beginning 7-1-78 (prior to first advance).

Unit period = 1 month. Unit periods per year ( $w$ ) = 12.

Zero point is date of first payment since it precedes first advance.

From 7-1-78 to 9-5-78 =  $(2 + 4/30)$  unit periods.

From 7-1-78 to 9-5-79 =  $(14 + 4/30)$  unit periods.

From 7-1-78 to 9-5-80 =  $(26 + 4/30)$  unit periods.

From 7-1-78 to 9-5-81 =  $(38 + 4/30)$  unit periods.

From 7-1-78 to 1-5-79 =  $(6 + 4/30)$  unit periods.

From 7-1-78 to 1-5-80 =  $(18 + 4/30)$  unit periods.

From 7-1-78 to 1-5-81 =  $(30 + 4/30)$  unit periods.

From 7-1-78 to 1-5-82 =  $(42 + 4/30)$  unit periods.

Since the zero point is date of first payment, the general equation in paragraph (b)(8) of this section is written in the single-advance form below by treating the first payment as a negative advance and the eight advances as negative payments:

$$-240 = \frac{240 \bar{a}_{\overline{49}|}}{(1+i)} - \frac{1800}{(1+(4/30)i)} + \left[ \frac{1}{(1+i)^2} + \frac{1}{(1+i)^{14}} + \frac{1}{(1+i)^{26}} + \frac{1}{(1+i)^{38}} \right] - \frac{1000}{(1+(4/30)i)} + \left[ \frac{1}{(1+i)^6} + \frac{1}{(1+i)^{18}} + \frac{1}{(1+i)^{30}} + \frac{1}{(1+i)^{42}} \right]$$

Annual percentage rate

$$(I) = wi = .3204 = 32.04\%$$

# Truth in Lending Act

15 USC 1601; 82 Stat. 146; Pub. L. 90-321 (May 29, 1968); as amended October 26, 1970, October 28, 1974, February 27, 1976, March 23, 1976, and March 31, 1980

## *Public Law 90-321 (as amended), Title I (Chapters 1 through 4)*

### CHAPTER 1—GENERAL PROVISIONS

#### Section

- 101 Short title
- 102 Findings and declaration of purpose
- 103 Definitions and rules of construction
- 104 Exempted transactions
- 105 Regulations
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- 115 [Repealed]

#### SECTION 101—Short Title

This title may be cited as the Truth in Lending Act.

#### SECTION 102—Findings and Declaration of Purpose

(a) The Congress finds that economic stabilization would be enhanced and the competition among the various financial institutions and other firms engaged in the extension of consumer credit would be strengthened by the informed use of credit. The informed use of credit results from an awareness of the cost thereof by consumers. It is the purpose of this title to assure a meaningful disclosure of credit terms so that the consumer will be able to

compare more readily the various credit terms available to him and avoid the uninformed use of credit, and to protect the consumer against inaccurate and unfair credit billing and credit card practices.

(b) The Congress also finds that there has been a recent trend toward leasing automobiles and other durable goods for consumer use as an alternative to instalment credit sales and that these leases have been offered without adequate cost disclosures. It is the purpose of this title to assure a meaningful disclosure of the terms of leases of personal property for personal, family, or household purposes so as to enable the lessee to compare more readily the various lease terms available to him, limit balloon payments in consumer leasing, enable comparison of lease terms with credit terms where appropriate, and to assure meaningful and accurate disclosures of lease terms in advertisements.

#### SECTION 103—Definitions and Rules of Construction

(a) The definitions and rules of construction set forth in this section are applicable for the purposes of this title.

(b) The term "Board" refers to the Board of Governors of the Federal Reserve System.

(c) The term "organization" means a corporation, government or governmental subdivision or agency, trust, estate, partnership, cooperative, or association.

(d) The term "person" means a natural person or an organization.

(e) The term "credit" means the right granted by a creditor to a debtor to defer payment of debt or to incur debt and defer its payment.

(f) The term "creditor" refers only to a person who both (1) regularly extends, whether

in connection with loans, sales of property or services, or otherwise, consumer credit which is payable by agreement in more than four installments or for which the payment of a finance charge is or may be required; and (2) is the person to whom the debt arising from the consumer credit transaction is initially payable on the face of the evidence of indebtedness or, if there is no such evidence of indebtedness, by agreement. Notwithstanding the previous sentence, a person who regularly arranges for the extension of consumer credit, which is payable in more than four installments or for which the payment of a finance charge is or may be required, from persons who are not creditors is a creditor, and in the case of an open end credit plan involving a credit card, the card issuer and any person who honors the credit card and offers a discount which is a finance charge are creditors. For the purposes of the requirements imposed under chapter 4 and sections 127(a)(5), 127(a)(6), 127(a)(7), 127(b)(1), 127(b)(2), 127(b)(3), 127(b)(8), and 127(b)(10) of chapter 2 of this title, the term "creditor" shall also include card issuers whether or not the amount due is payable by agreement in more than four installments or the payment of a finance charge is or may be required, and the Board shall, by regulation, apply these requirements to such card issuers, to the extent appropriate, even though the requirements are by their terms applicable only to creditors offering open end credit plans.

(g) The term "*credit sale*" refers to any sale in which the seller is a creditor. The term includes any contract in the form of a bailment or lease if the bailee or lessee contracts to pay as compensation for use a sum substantially equivalent to or in excess of the aggregate value of the property and services involved and it is agreed that the bailee or lessee will become, or for no other or a nominal consideration has the option to become, the owner of the property upon full compliance with his obligations under the contract.

(h) The adjective "*consumer*", used with reference to a credit transaction, characterizes the transaction as one in which the party to whom credit is offered or extended is a natural

person, and the money, property, or services which are the subject of the transaction are primarily for personal, family, or household purposes.

(i) The term "*open end credit plan*" means a plan under which the creditor reasonably contemplates repeated transactions, which prescribes the terms of such transactions, and which provides for a finance charge which may be computed from time to time on the outstanding unpaid balance. A credit plan which is an open end credit plan within the meaning of the preceding sentence is an open end credit plan even if credit information is verified from time to time.

(j) The term "*adequate notice*", as used in section 133, means a printed notice to a cardholder which sets forth the pertinent facts clearly and conspicuously so that a person against whom it is to operate could reasonably be expected to have noticed it and understood its meaning. Such notice may be given to a cardholder by printing the notice on any credit card, or on each periodic statement of account, issued to the cardholder, or by any other means reasonably assuring the receipt thereof by the cardholder.

(k) The term "*credit card*" means any card, plate, coupon book or other credit device existing for the purpose of obtaining money, property, labor, or services on credit.

(l) The term "*accepted credit card*" means any credit card which the cardholder has requested and received or has signed or has used, or authorized another to use, for the purpose of obtaining money, property, labor, or services on credit.

(m) The term "*cardholder*" means any person to whom a credit card is issued or any person who has agreed with the card issuer to pay obligations arising from the issuance of a credit card to another person.

(n) The term "*card issuer*" means any person who issues a credit card, or the agent of such person with respect to such card.

(o) The term “*unauthorized use*”, as used in section 133, means a use of a credit card by a person other than the cardholder who does not have actual, implied, or apparent authority for such use and from which the cardholder receives no benefit.

(p) The term “*discount*” as used in section 167 means a reduction made from the regular price. The term “*discount*” as used in section 167 shall not mean a surcharge.

(q) The term “*surcharge*” as used in section 103 and section 167 means any means of increasing the regular price to a cardholder which is not imposed upon customers paying by cash, check, or similar means.

(r) The term “*State*” refers to any State, the Commonwealth of Puerto Rico, the District of Columbia, and any territory or possession of the United States.

(s) The term “*agricultural purposes*” includes the production, harvest, exhibition, marketing, transportation, processing, or manufacture of agricultural products by a natural person who cultivates, plants, propagates, or nurtures those agricultural products, including but not limited to the acquisition of farmland, real property with a farm residence, and personal property and services used primarily in farming.

(t) The term “*agricultural products*” includes agricultural, horticultural, viticultural, and dairy products, livestock, wildlife, poultry, bees, forest products, fish and shellfish, and any products thereof, including processed and manufactured products, and any and all products raised or produced on farms and any processed or manufactured products thereof.

(u) The term “*material disclosures*” means the disclosure, as required by this title, of the annual percentage rate, the method of determining the finance charge and the balance upon which a finance charge will be imposed, the amount of the finance charge, the amount to be financed, the total of payments, the number and amount of payments, and the due dates or periods of payments scheduled to repay the indebtedness.

(v) The term “*dwelling*” means a residential structure or mobile home which contains one to four family housing units, or individual units of condominiums or cooperatives.

(w) The term “*residential mortgage transaction*” means a transaction in which a mortgage, deed of trust, purchase money security interest arising under an installment sales contract, or equivalent consensual security interest is created or retained against the consumer’s dwelling to finance the acquisition or initial construction of such dwelling.

(x) Any reference to any requirement imposed under this title or any provision thereof includes reference to the regulations of the Board under this title or the provision thereof in question.

(y) The disclosure of an amount or percentage which is greater than the amount or percentage required to be disclosed under this title does not in itself constitute a violation of this title.

## SECTION 104—Exempted Transactions

This title does not apply to the following:

(1) Credit transactions involving extensions of credit primarily for business, commercial, or agricultural purposes, or to government or governmental agencies or instrumentalities, or to organizations.

(2) Transactions in securities or commodities accounts by a broker-dealer registered with the Securities and Exchange Commission.

(3) Credit transactions, other than those in which a security interest is or will be acquired in real property, or in personal property used or expected to be used as the principal dwelling of the consumer, in which the total amount financed exceeds \$25,000.

(4) Transactions under public utility tariffs, if the Board determines that a State regulatory body regulates the charges for the public utility services involved, the charges for delayed payment, and any discount allowed for early payment.

## SECTION 105—Regulations

(a) The Board shall prescribe regulations to carry out the purposes of this title. These regulations may contain such classifications, differentiations, or other provisions, and may provide for such adjustments and exceptions for any class of transactions, as in the judgment of the Board are necessary or proper to effectuate the purposes of this title, to prevent circumvention or evasion thereof, or to facilitate compliance therewith.

(b) The Board shall publish model disclosure forms and clauses for common transactions to facilitate compliance with the disclosure requirements of this title and to aid the borrower or lessee in understanding the transaction by utilizing readily understandable language to simplify the technical nature of the disclosures. In devising such forms, the Board shall consider the use by creditors or lessors of data processing or similar automated equipment. Nothing in this title may be construed to require a creditor or lessor to use any such model form or clause prescribed by the Board under this section. A creditor or lessor shall be deemed to be in compliance with the disclosure provisions of this title with respect to other than numerical disclosures if the creditor or lessor (1) uses any appropriate model form or clause as published by the Board, or (2) uses any such model form or clause and changes it by (A) deleting any information which is not required by this title, or (B) rearranging the format, if in making such deletion or rearranging the format, the creditor or lessor does not affect the substance, clarity, or meaningful sequence of the disclosure.

(c) Model disclosure forms and clauses shall be adopted by the Board after notice duly given in the Federal Register and an opportunity for public comment in accordance with section 553 of title 5, United States Code.

(d) Any regulation of the Board, or any amendment or interpretation thereof, requiring any disclosure which differs from the disclosures previously required by this chapter,

chapter 4, or chapter 5, or by any regulation of the Board promulgated thereunder shall have an effective date of that October 1 which follows by at least six months the date of promulgation, except that the Board may at its discretion take interim action by regulation, amendment, or interpretation to lengthen the period of time permitted for creditors or lessors to adjust their forms to accommodate new requirements or shorten the length of time for creditors or lessors to make such adjustments when it makes a specific finding that such action is necessary to comply with the findings of a court or to prevent unfair or deceptive disclosure practices. Notwithstanding the previous sentence, any creditor or lessor may comply with any such newly promulgated disclosure requirements prior to the effective date of the requirements.

## SECTION 106—Determination of Finance Charge

(a) Except as otherwise provided in this section, the amount of the finance charge in connection with any consumer credit transaction shall be determined as the sum of all charges, payable directly or indirectly by the person to whom the credit is extended, and imposed directly or indirectly by the creditor as an incident to the extension of credit. The finance charge does not include charges of a type payable in a comparable cash transaction. Examples of charges which are included in the finance charge include any of the following types of charges which are applicable.

(1) Interest, time price differential, and any amount payable under a point, discount, or other system of additional charges.

(2) Service or carrying charge.

(3) Loan fee, finder's fee, or similar charge.

(4) Fee for an investigation or credit report.

(5) Premium or other charge for any guarantee or insurance protecting the creditor against the obligor's default or other credit loss.

(b) Charges or premiums for credit life, accident, or health insurance written in connection with any consumer credit transaction shall be included in the finance charge unless

(1) the coverage of the debtor by the insurance is not a factor in the approval by the creditor of the extension of credit, and this fact is clearly disclosed in writing to the person applying for or obtaining the extension of credit; and

(2) in order to obtain the insurance in connection with the extension of credit, the person to whom the credit is extended must give specific affirmative written indication of his desire to do so after written disclosure to him of the cost thereof.

(c) Charges or premiums for insurance, written in connection with any consumer credit transaction, against loss of or damage to property or against liability arising out of the ownership or use of property, shall be included in the finance charge unless a clear and specific statement in writing is furnished by the creditor to the person to whom the credit is extended, setting forth the cost of the insurance if obtained from or through the creditor, and stating that the person to whom the credit is extended may choose the person through which the insurance is to be obtained.

(d) If any of the following items is itemized and disclosed in accordance with the regulations of the Board in connection with any transaction, then the creditor need not include that item in the computation of the finance charge with respect to that transaction:

(1) Fees and charges prescribed by law which actually are or will be paid to public officials for determining the existence of or for perfecting or releasing or satisfying any security related to the credit transaction.

(2) The premium payable for any insurance in lieu of perfecting any security interest otherwise required by the creditor in connection with the transaction, if the premium does not exceed the fees and charges described in paragraph (1) which would otherwise be payable.

(e) The following items, when charged in connection with any extension of credit se-

cured by an interest in real property, shall not be included in the computation of the finance charge with respect to that transaction:

(1) Fees or premiums for title examination, title insurance, or similar purposes.

(2) Fees for preparation of a deed, settlement statement, or other documents.

(3) Escrows for future payments of taxes and insurance.

(4) Fees for notarizing deeds and other documents.

(5) Appraisal fees.

(6) Credit reports.

#### SECTION 107—Determination of Annual Percentage Rate

(a) The annual percentage rate applicable to any extension of consumer credit shall be determined, in accordance with the regulations of the Board,

(1) in the case of any extension of credit other than under an open end credit plan, as

(A) that nominal annual percentage rate which will yield a sum equal to the amount of the finance charge when it is applied to the unpaid balances of the amount financed, calculated according to the actuarial method of allocating payments made on a debt between the amount financed and the amount of the finance charge, pursuant to which a payment is applied first to the accumulated finance charge and the balance is applied to the unpaid amount financed; or

(B) the rate determined by any method prescribed by the Board as a method which materially simplifies computation while retaining reasonable accuracy as compared with the rate determined under subparagraph (A).

(2) in the case of any extension of credit under an open end credit plan, as the quotient (expressed as a percentage) of the total finance charge for the period to which it relates divided by the amount upon which the finance charge for that period is based, multiplied by the number of such periods in a year.



(b) Where a creditor imposes the same finance charge for balances within a specified range, the annual percentage rate shall be computed on the median balance within the range, except that if the Board determines that a rate so computed would not be meaningful, or would be materially misleading, the annual percentage rate shall be computed on such other basis as the Board may by regulation require.

(c) The disclosure of an annual percentage rate is accurate for the purpose of this title if the rate disclosed is within a tolerance not greater than one-eighth of 1 per centum more or less than the actual rate or rounded to the nearest one-fourth of 1 per centum. The Board may allow a greater tolerance to simplify compliance where irregular payments are involved.

(d) The Board may authorize the use of rate tables or charts which may provide for the disclosure of annual percentage rates which vary from the rate determined in accordance with subsection (a)(1)(A) by not more than such tolerances as the Board may allow. The Board may not allow a tolerance greater than 8 per centum of that rate except to simplify compliance where irregular payments are involved.

(e) In the case of creditors determining the annual percentage rate in a manner other than as described in subsection (d), the Board may authorize other reasonable tolerances.

## SECTION 108—Administrative Enforcement

(a) Compliance with the requirements imposed under this title shall be enforced under

(1) section 8 of the Federal Deposit Insurance Act, in the case of

(A) national banks, by the Comptroller of the Currency.

(B) member banks of the Federal Reserve System (other than national banks), by the Board.

(C) banks insured by the Federal Deposit Insurance Corporation (other than

members of the Federal Reserve System), by the Board of Directors of the Federal Deposit Insurance Corporation.

(2) section 5(d) of the Home Owners' Loan Act of 1933, section 407 of the National Housing Act, and sections 6(i) and 17 of the Federal Home Loan Bank Act, by the Federal Home Loan Bank Board (acting directly or through the Federal Savings and Loan Insurance Corporation), in the case of any institution subject to any of those provisions.

(3) the Federal Credit Union Act, by the Administrator of the National Credit Union Administration with respect to any Federal credit union.

(4) the Federal Aviation Act of 1958, by the Civil Aeronautics Board with respect to any air carrier or foreign air carrier subject to that Act.

(5) the Packers and Stockyards Act, 1921 (except as provided in section 406 of that Act), by the Secretary of Agriculture with respect to any activities subject to that Act.

(6) the Farm Credit Act of 1971, by the Farm Credit Administration with respect to any Federal land bank, Federal land bank association, Federal intermediate credit bank, or production credit association.

(b) For the purpose of the exercise by any agency referred to in subsection (a) of its powers under any Act referred to in that subsection, a violation of any requirement imposed under this title shall be deemed to be a violation of a requirement imposed under that Act. In addition to its powers under any provision of law specifically referred to in subsection (a), each of the agencies referred to in that subsection may exercise, for the purpose of enforcing compliance with any requirement imposed under this title, any other authority conferred on it by law.

(c) Except to the extent that enforcement of the requirements imposed under this title is specifically committed to some other Government agency under subsection (a), the Federal Trade Commission shall enforce such requirements. For the purpose of the exercise by the Federal Trade Commission of its functions and powers under the Federal Trade

Commission Act, a violation of any requirement imposed under this title shall be deemed a violation of a requirement imposed under that Act. All of the functions and powers of the Federal Trade Commission under the Federal Trade Commission Act are available to the Commission to enforce compliance by any person with the requirements imposed under this title, irrespective of whether that person is engaged in commerce or meets any other jurisdictional tests in the Federal Trade Commission Act.

(d) The authority of the Board to issue regulations under this title does not impair the authority of any other agency designated in this section to make rules respecting its own procedures in enforcing compliance with requirements imposed under this title.

(e)(1) In carrying out its enforcement activities under this section, each agency referred to in subsection (a) or (c), in cases where an annual percentage rate or finance charge was inaccurately disclosed, shall notify the creditor of such disclosure error and is authorized in accordance with the provisions of this subsection to require the creditor to make an adjustment to the account of the person to whom credit was extended, to assure that such person will not be required to pay a finance charge in excess of the finance charge actually disclosed or the dollar equivalent of the annual percentage rate actually disclosed, whichever is lower. For the purposes of this subsection, except where such disclosure error resulted from a willful violation which was intended to mislead the person to whom credit was extended, in determining whether a disclosure error has occurred and in calculating any adjustment, (A) each agency shall apply (i) with respect to the annual percentage rate, a tolerance of one-quarter of 1 percent more or less than the actual rate, determined without regard to section 107(c) of this title, and (ii) with respect to the finance charge, a corresponding numerical tolerance as generated by the tolerance provided under this subsection for the annual percentage rate; except that (B) with respect to transactions consummated after

two years following the effective date of section 608 of the Truth in Lending Simplification and Reform Act, each agency shall apply (i) for transactions that have a scheduled amortization of ten years or less, with respect to the annual percentage rate, a tolerance not to exceed one-quarter of 1 percent more or less than the actual rate, determined without regard to section 107(c) of this title, but in no event a tolerance of less than the tolerances allowed under section 107(c), (ii) for transactions that have a scheduled amortization of more than ten years, with respect to the annual percentage rate, only such tolerances as are allowed under section 107(c) of this title, and (iii) for all transactions, with respect to the finance charge, a corresponding numerical tolerance as generated by the tolerances provided under this subsection for the annual percentage rate.

(2) Each agency shall require such an adjustment when it determines that such disclosure error resulted from (A) a clear and consistent pattern or practice of violations, (B) gross negligence, or (C) a willful violation which was intended to mislead the person to whom the credit was extended. Notwithstanding the preceding sentence, except where such disclosure error resulted from a willful violation which was intended to mislead the person to whom credit was extended, an agency need not require such an adjustment if it determines that such disclosure error—

(A) resulted from an error involving the disclosure of a fee or charge that would otherwise be excludable in computing the finance charge, including but not limited to violations involving the disclosures described in sections 106(b), (c) and (d) of this title, in which event the agency may require such remedial action as it determines to be equitable, except that for transactions consummated after two years after the effective date of section 608 of the Truth in Lending Simplification and Reform Act, such an adjustment shall be ordered for violations of section 106(b);

(B) involved a disclosed amount which was 10 per centum or less of the amount

that should have been disclosed and (i) in cases where the error involved a disclosed finance charge, the annual percentage rate was disclosed correctly, and (ii) in cases where the error involved a disclosed annual percentage rate, the finance charge was disclosed correctly; in which event the agency may require such adjustment as it determines to be equitable;

(C) involved a total failure to disclose either the annual percentage rate or the finance charge, in which event the agency may require such adjustment as it determines to be equitable; or

(D) resulted from any other unique circumstance involving clearly technical and nonsubstantive disclosure violations that do not adversely affect information provided to the consumer and that have not misled or otherwise deceived the consumer.

In the case of other such disclosure errors, each agency may require such an adjustment.

(3) Notwithstanding paragraph (2), no adjustment shall be ordered (A) if it would have a significantly adverse impact upon the safety or soundness of the creditor, but in any such case, the agency may require a partial adjustment in an amount which does not have such an impact except that with respect to any transaction consummated after the effective date of section 608 of the Truth in Lending Simplification and Reform Act, the agency shall require the full adjustment, but permit the creditor to make the required adjustment in partial payments over an extended period of time which the agency considers to be reasonable, (B) if the amount of the adjustment would be less than \$1, except that if more than one year has elapsed since the date of the violation, the agency may require that such amount be paid into the Treasury of the United States, or (C) except where such disclosure error resulted from a willful violation which was intended to mislead the person to whom credit was extended, in the case of an open-end credit plan, more than two years after the violation, or in the case of any other extension of credit, as follows:

(i) with respect to creditors that are subject to examination by the agencies referred to in paragraphs (1) through (3) of section 108(a) of this title, except in connection with violations arising from practices identified in the current examination and only in connection with transactions that are consummated after the date of the immediately preceding examination, except that where practices giving rise to violations identified in earlier examinations have not been corrected, adjustments for those violations shall be required in connection with transactions consummated after the date of the examination in which such practices were first identified;

(ii) with respect to creditors that are not subject to examination by such agencies, except in connection with transactions that are consummated after May 10, 1978; and

(iii) in no event after the later of (I) the expiration of the life of the credit extension, or (II) two years after the agreement to extend credit was consummated.

(4)(A) Notwithstanding any other provision of this section, an adjustment under this subsection may be required by an agency referred to in subsection (a) or (c) only by an order issued in accordance with cease and desist procedures provided by the provision of law referred to in such subsections.

(B) In the case of an agency which is not authorized to conduct cease and desist proceedings, such an order may be issued after an agency hearing on the record conducted at least thirty but not more than sixty days after notice of the alleged violation is served on the creditor. Such a hearing shall be deemed to be a hearing which is subject to the provisions of section 8(h) of the Federal Deposit Insurance Act and shall be subject to judicial review as provided therein.

(5) Except as otherwise specifically provided in this subsection and notwithstanding any provision of law referred to in subsection (a) or (c), no agency referred to in

subsection (a) or (c) may require a creditor to make dollar adjustments for errors in any requirements under this title, except with regard to the requirements of section 165.

(6) A creditor shall not be subject to an order to make an adjustment, if within sixty days after discovering a disclosure error, whether pursuant to a final written examination report or through the creditor's own procedures, the creditor notifies the person concerned of the error and adjusts the account so as to assure that such person will not be required to pay a finance charge in excess of the finance charge actually disclosed or the dollar equivalent of the annual percentage rate actually disclosed, whichever is lower.

(7) Notwithstanding the second sentence of subsection (e)(1), subsection (e)(3)(C)(i), and subsection (e)(3)(C)(ii), each agency referred to in subsection (a) or (c) shall require an adjustment for an annual percentage rate disclosure error that exceeds a tolerance of one quarter of one percent less than the actual rate, determined without regard to section 107(c) of this title, except in the case of an irregular mortgage lending transaction, with respect to any transaction consummated between January 1, 1977, and the effective date of section 608 of the Truth in Lending Simplification and Reform Act.

#### SECTION 109—Views of Other Agencies

In the exercise of its functions under this title, the Board may obtain upon request the views of any other Federal agency which, in the judgment of the Board, exercises regulatory or supervisory functions with respect to any class of creditors subject to this title.

#### SECTION 110—[Repealed]

#### SECTION 111—Effect on Other Laws

(a)(1) Chapters 1, 2, and 3 do not annul,

alter, or affect the laws of any State relating to the disclosure of information in connection with credit transactions, except to the extent that those laws are inconsistent with the provisions of this title, and then only to the extent of the inconsistency. Upon its own motion or upon the request of any creditor, State, or other interested party which is submitted in accordance with procedures prescribed in regulations of the Board, the Board shall determine whether any such inconsistency exists. If the Board determines that a State-required disclosure is inconsistent, creditors located in that State may not make disclosures using the inconsistent term or form, and shall incur no liability under the law of that State for failure to use such term or form, notwithstanding that such determination is subsequently amended, rescinded, or determined by judicial or other authority to be invalid for any reason.

(2) Upon its own motion or upon the request of any creditor, State, or other interested party which is submitted in accordance with procedures prescribed in regulations of the Board, the Board shall determine whether any disclosure required under the law of any State is substantially the same in meaning as a disclosure required under this title. If the Board determines that a State-required disclosure is substantially the same in meaning as a disclosure required by this title, then creditors located in that State may make such disclosure in compliance with such State law in lieu of the disclosure required by this title, except that the annual percentage rate and finance charge shall be disclosed as required by section 122.

(b) This title does not otherwise annul, alter or affect in any manner the meaning, scope or applicability of the laws of any State, including, but not limited to, laws relating to the types, amounts or rates of charges, or any element or elements of charges, permissible under such laws in connection with the extension or use of credit, nor does this title extend the applicability of those laws to any class of persons or transactions to which they would not otherwise apply.

(c) In any action or proceeding in any court involving a consumer credit sale, the disclosure of the annual percentage rate as required under this title in connection with that sale may not be received as evidence that the sale was a loan or any type of transaction other than a credit sale.

(d) Except as specified in sections 125, 130, and 166, this title and the regulations issued thereunder do not affect the validity or enforceability of any contract or obligation under State or Federal law.

### SECTION 112—Criminal Liability for Willful and Knowing Violation

Whoever willfully and knowingly

(1) gives false or inaccurate information or fails to provide information which he is required to disclose under the provisions of this title or any regulation issued thereunder,

(2) uses any chart or table authorized by the Board under section 107 in such a manner as to consistently understate the annual percentage rate determined under section 107(a)(1)(A), or

(3) otherwise fails to comply with any requirement imposed under this title, shall be fined not more than \$5,000 or imprisoned not more than one year, or both.

der this title for any violation thereof may be imposed upon the United States or any department or agency thereof, or upon any State or political subdivision thereof, or any agency of any State or political subdivision.

(c) A creditor participating in a credit program administered, insured, or guaranteed by any department or agency of the United States shall not be held liable for a civil or criminal penalty under this title in any case in which the violation results from the use of an instrument required by any such department or agency.

(d) A creditor participating in a credit program administered, insured, or guaranteed by any department or agency of the United States shall not be held liable for a civil or criminal penalty under the laws of any State (other than laws determined under section 111 to be inconsistent with this title) for any technical or procedural failure, such as a failure to use a specific form, to make information available at a specific place on an instrument, or to use a specific typeface, as required by State law, which is caused by the use of an instrument required to be used by such department or agency.

### SECTION 114—Reports by Board and Attorney General

Each year the Board and the Attorney General shall, respectively, make reports to the Congress concerning the administration of their functions under this title, including such recommendations as the Board and the Attorney General, respectively, deem necessary or appropriate. In addition, each report of the Board shall include its assessment of the extent to which compliance with the requirements imposed under this title is being achieved.

### SECTION 113—Effect on Governmental Agencies

(a) Any department or agency of the United States which administers a credit program in which it extends, insures, or guarantees consumer credit and in which it provides instruments to a creditor which contain any disclosures required by this title shall, prior to the issuance or continued use of such instruments, consult with the Board to assure that such instruments comply with this title.

(b) No civil or criminal penalty provided un-

### SECTION 115—[Repealed]

## CHAPTER 2—CREDIT TRANSACTIONS

### Section

- 121 General requirement of disclosure
- 122 Form of disclosure; additional information
- 123 Exemption for State-regulated transactions
- 124 Effect of subsequent occurrence
- 125 Right of rescission as to certain transactions
- 126 [Repealed]
- 127 Open end consumer credit plans
- 128 Consumer credit not under open end credit plans
- 129 [Repealed]
- 130 Civil liability
- 131 Liability of assignees
- 132 Issuance of credit cards
- 133 Liability of holder of credit card
- 134 Fraudulent use of credit card
- 135 Business credit cards
- 136 Dissemination of annual percentage rates

### SECTION 121—General Requirement of Disclosure

(a) Subject to subsection (b), a creditor or lessor shall disclose to the person who is obligated on a consumer lease or a consumer credit transaction the information required under this title. In a transaction involving more than one obligor, a creditor or lessor, except in a transaction under section 125, need not disclose to more than one of such obligors if the obligor given disclosure is a primary obligor.

(b) If a transaction involves one creditor as defined in section 103(f), or one lessor as defined in section 181(3), such creditor or lessor shall make the disclosures. If a transaction involves more than one creditor or lessor, only one creditor or lessor shall be required to make the disclosures. The Board shall by regulation specify which creditor or lessor shall make the disclosures.

(c) The Board may provide by regulation

that any portion of the information required to be disclosed by this title may be given in the form of estimates where the provider of such information is not in a position to know exact information.

(d) The Board shall determine whether tolerances for numerical disclosures other than the annual percentage rate are necessary to facilitate compliance with this title, and if it determines that such tolerances are necessary to facilitate compliance, it shall by regulation permit disclosures within such tolerances. The Board shall exercise its authority to permit tolerances for numerical disclosures other than the annual percentage rate so that such tolerances are narrow enough to prevent such tolerances from resulting in misleading disclosures or disclosures that circumvent the purposes of this title.

### SECTION 122—Form of Disclosure; Additional Information

(a) Information required by this title shall be disclosed clearly and conspicuously, in accordance with regulations of the Board. The terms 'annual percentage rate' and 'finance charge' shall be disclosed more conspicuously than other terms, data, or information provided in connection with a transaction, except information relating to the identity of the creditor. Regulations of the Board need not require that disclosures pursuant to this title be made in the order set forth in this title and, except as otherwise provided, may permit the use of terminology different from that employed in this title if it conveys substantially the same meaning.

(b) Any creditor or lessor may supply additional information or explanation with any disclosures required under chapters 4 and 5 and, except as provided in section 128(b)(1), under this chapter.

### SECTION 123—Exemption for State-Regulated Transactions

The Board shall by regulation exempt from

the requirements of this chapter any class of credit transactions within any State if it determines that under the law of that State that class of transactions is subject to requirements substantially similar to those imposed under this chapter, and that there is adequate provision for enforcement.

#### SECTION 124—Effect of Subsequent Occurrence

If information disclosed in accordance with this chapter is subsequently rendered inaccurate as the result of any act, occurrence, or agreement subsequent to the delivery of the required disclosures, the inaccuracy resulting therefrom does not constitute a violation of this chapter.

#### SECTION 125—Right of Rescission as to Certain Transactions

(a) Except as otherwise provided in this section, in the case of any consumer credit transaction (including opening or increasing the credit limit for an open end credit plan) in which a security interest, including any such interest arising by operation of law, is or will be retained or acquired in any property which is used as the principal dwelling of the person to whom credit is extended, the obligor shall have the right to rescind the transaction until midnight of the third business day following the consummation of the transaction or the delivery of the information and rescission forms required under this section together with a statement containing the material disclosures required under this title, whichever is later, by notifying the creditor, in accordance with regulations of the Board, of his intention to do so. The creditor shall clearly and conspicuously disclose, in accordance with regulations of the Board, to any obligor in a transaction subject to this section the rights of the obligor under this section. The creditor shall also provide, in accordance with regulations of the Board, appropriate forms for the obligor to exercise his right to rescind any transaction subject to this section.

(b) When an obligor exercises his right to rescind under subsection (a), he is not liable for any finance or other charge, and any security interest given by the obligor, including any such interest arising by operation of law, becomes void upon such a rescission. Within 20 days after receipt of a notice of rescission, the creditor shall return to the obligor any money or property given as earnest money, downpayment, or otherwise, and shall take any action necessary or appropriate to reflect the termination of any security interest created under the transaction. If the creditor has delivered any property to the obligor, the obligor may retain possession of it. Upon the performance of the creditor's obligations under this section, the obligor shall tender the property to the creditor, except that if return of the property in kind would be impracticable or inequitable, the obligor shall tender its reasonable value. Tender shall be made at the location of the property or at the residence of the obligor, at the option of the obligor. If the creditor does not take possession of the property within 20 days after tender by the obligor, ownership of the property vests in the obligor without obligation on his part to pay for it. The procedures prescribed by this subsection shall apply except when otherwise ordered by a court.

(c) Notwithstanding any rule of evidence, written acknowledgment of receipt of any disclosures required under this title by a person to whom information, forms, and a statement is required to be given pursuant to this section does no more than create a rebuttable presumption of delivery thereof.

(d) The Board may, if it finds that such action is necessary in order to permit homeowners to meet bona fide personal financial emergencies, prescribe regulations authorizing the modification or waiver of any rights created under this section to the extent and under the circumstances set forth in those regulations.

(e)(1) This section does not apply to—  
 (A) a residential mortgage transaction as defined in section 103(w);  
 (B) a transaction which constitutes a refinancing or consolidation (with no new advances) of the principal balance then

due and any accrued and unpaid finance charges of an existing extension of credit by the same creditor secured by an interest in the same property;

(C) a transaction in which an agency of a State is the creditor; or

(D) advances under a preexisting open end credit plan if a security interest has already been retained or acquired and such advances are in accordance with a previously established credit limit for such plan.

(2) The provisions of paragraph (1)(D) shall cease to be effective 3 years after the effective date of the Truth in Lending Simplification and Reform Act.

(f) An obligor's right of rescission shall expire three years after the date of consummation of the transaction or upon the sale of the property, whichever occurs first, notwithstanding the fact that the information and forms required under this section or any other disclosures required under this chapter have not been delivered to the obligor, except that if (1) any agency empowered to enforce the provisions of this title institutes a proceeding to enforce the provisions of this section within three years after the date of consummation of the transaction, (2) such agency finds a violation of section 125, and (3) the obligor's right to rescind is based in whole or in part on any matter involved in such proceeding, then the obligor's right of rescission shall expire three years after the date of consummation of the transaction or upon the earlier sale of the property, or upon the expiration of one year following the conclusion of the proceeding, or any judicial review or period for judicial review thereof, whichever is later.

(g) In any action in which it is determined that a creditor has violated this section, in addition to rescission the court may award relief under section 130 for violations of this title not relating to the right to rescind.

#### SECTION 126—[Repealed]

#### SECTION 127—Open End Consumer Credit Plans

(a) Before opening any account under an open end consumer credit plan, the creditor shall disclose to the person to whom credit is to be extended each of the following items, to the extent applicable:

(1) The conditions under which a finance charge may be imposed, including the time period (if any) within which any credit extended may be repaid without incurring a finance charge, except that the creditor may, at his election and without disclosure, impose no such finance charge if payment is received after the termination of such time period. If no such time period is provided, the creditor shall disclose such fact.

(2) The method of determining the balance upon which a finance charge will be imposed.

(3) The method of determining the amount of the finance charge, including any minimum or fixed amount imposed as a finance charge.

(4) Where one or more periodic rates may be used to compute the finance charge, each such rate, the range of balances to which it is applicable, and the corresponding nominal annual percentage rate determined by multiplying the periodic rate by the number of periods in a year.

(5) Identification of other charges which may be imposed as part of the plan, and their method of computation, in accordance with regulations of the Board.

(6) In cases where the credit is or will be secured, a statement that a security interest has been or will be taken in (A) the property purchased as part of the credit transaction, or (B) property not purchased as part of the credit transaction identified by item or type.

(7) A statement, in a form prescribed by regulations of the Board of the protection provided by sections 161 and 170 to an obligor and the creditor's responsibilities under sections 162 and 170. With respect to one billing cycle per calendar year, at intervals



of not less than six months or more than eighteen months, the creditor shall transmit such statement to each obligor to whom the creditor is required to transmit a statement pursuant to section 127(b) for such billing cycle.

(b) The creditor of any account under an open end consumer credit plan shall transmit to the obligor, for each billing cycle at the end of which there is an outstanding balance in that account or with respect to which a finance charge is imposed, a statement setting forth each of the following items to the extent applicable:

(1) The outstanding balance in the account at the beginning of the statement period.

(2) The amount and date of each extension of credit during the period, and a brief identification, on or accompanying the statement of each extension of credit in a form prescribed by the Board sufficient to enable the obligor either to identify the transaction or to relate it to copies of sales vouchers or similar instruments previously furnished, except that a creditor's failure to disclose such information in accordance with this paragraph shall not be deemed a failure to comply with this chapter or this title if (A) the creditor maintains procedures reasonably adapted to procure and provide such information, and (B) the creditor responds to and treats any inquiry for clarification or documentation as a billing error and an erroneously billed amount under section 161. In lieu of complying with the requirements of the previous sentence, in the case of any transaction in which the creditor and seller are the same person, as defined by the Board, and such person's open end credit plan has fewer than 15,000 accounts, the creditor may elect to provide only the amount and date of each extension of credit during the period and the seller's name and location where the transaction took place if (A) a brief identification of the transaction has been previously furnished, and (B) the creditor responds to and treats any inquiry for clarification or documentation as a billing error and an erroneously billed amount under section 161.

(3) The total amount credited to the account during the period.

(4) The amount of any finance charge added to the account during the period, itemized to show the amounts, if any, due to the application of percentage rates and the amount, if any, imposed as a minimum or fixed charge.

(5) Where one or more periodic rates may be used to compute the finance charge, each such rate, the range of balances to which it is applicable, and, unless the annual percentage rate (determined under section 107(a)(2)) is required to be disclosed pursuant to paragraph (6), the corresponding nominal annual percentage rate determined by multiplying the periodic rate by the number of periods in a year.

(6) Where the total finance charge exceeds 50 cents for a monthly or longer billing cycle, or the pro rata part of 50 cents for a billing cycle shorter than monthly, the total finance charge expressed as an annual percentage rate (determined under section 107(a)(2)), except that if the finance charge is the sum of two or more products of a rate times a portion of the balance, the creditor may, in lieu of disclosing a single rate for the total charge, disclose each such rate expressed as an annual percentage rate, and the part of the balance to which it is applicable.

(7) The balance on which the finance charge was computed and a statement of how the balance was determined. If the balance is determined without first deducting all credits during the period, that fact and the amount of such payments shall also be disclosed.

(8) The outstanding balance in the account at the end of the period.

(9) 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 election and without disclosure, impose no such additional finance charge if payment is received after such date or the termination of such period.

(10) The address to be used by the creditor for the purpose of receiving billing inquiries from the obligor.

**SECTION 128—Consumer Credit Not Under Open End Credit Plans**

(a) For each consumer credit transaction other than under an open end credit plan, the creditor shall disclose each of the following items, to the extent applicable:

(1) The identity of the creditor required to make disclosure.

(2)(A) The 'amount financed', using that term, which shall be the amount of credit of which the consumer has actual use. This amount shall be computed as follows, but the computations need not be disclosed and shall not be disclosed with the disclosures conspicuously segregated in accordance with subsection (b)(1):

(i) take the principal amount of the loan or the cash price less downpayment and trade-in;

(ii) add any charges which are not part of the finance charge or of the principal amount of the loan and which are financed by the consumer, including the cost of any items excluded from the finance charge pursuant to section 106; and

(iii) subtract any charges which are part of the finance charge but which will be paid by the consumer before or at the time of the consummation of the transaction, or have been withheld from the proceeds of the credit.

(B) In conjunction with the disclosure of the amount financed, a creditor shall provide a statement of the consumer's right to obtain, upon a written request, a written itemization of the amount financed. The statement shall include spaces for a 'yes' and 'no' indication to be initialed by the consumer to indicate whether the consumer wants a written itemization of the amount financed. Upon receiving an affirmative indication, the creditor shall provide, at the time other disclosures are required to be furnished, a written itemization of the amount financed. For the purposes of this subparagraph, 'itemization of the amount financed' means a disclosure of the following items, to the extent applicable:

(i) the amount that is or will be paid directly to the consumer;

(ii) the amount that is or will be credited to the consumer's account to discharge obligations owed to the creditor;

(iii) each amount that is or will be paid to third persons by the creditor on the consumer's behalf, together with an identification of or reference to the third person; and

(iv) the total amount of any charges described in the preceding subparagraph (A)(iii).

(3) The 'finance charge', not itemized, using that term.

(4) The finance charge expressed as an 'annual percentage rate', using that term. This shall not be required if the amount financed does not exceed \$75 and the finance charge does not exceed \$5, or if the amount financed exceeds \$75 and the finance charge does not exceed \$7.50.

(5) The sum of the amount financed and the finance charge, which shall be termed the 'total of payments'.

(6) The number, amount, and due dates or period of payments scheduled to repay the total of payments.

(7) In a sale of property or services in which the seller is the creditor required to disclose pursuant to section 121(b), the 'total sale price', using that term, which shall be the total of the cash price of the property or services, additional charges, and the finance charge.

(8) Descriptive explanations of the terms 'amount financed', 'finance charge', 'annual percentage rate', 'total of payments', and 'total sale price' as specified by the Board. The descriptive explanation of 'total sale price' shall include reference to the amount of the downpayment.

(9) Where the credit is secured, a statement that a security interest has been taken in (A) the property which is purchased as part of the credit transaction, or (B) property not purchased as part of the credit transaction identified by item or type.

(10) Any dollar charge or percentage amount which may be imposed by a creditor solely on account of a late payment,

other than a deferral or extension charge.

(11) A statement indicating whether or not the consumer is entitled to a rebate of any finance charge upon refinancing or prepayment in full pursuant to acceleration or otherwise, if the obligation involves a pre-computed finance charge. A statement indicating whether or not a penalty will be imposed in those same circumstances if the obligation involves a finance charge computed from time to time by application of a rate to the unpaid principal balance.

(12) A statement that the consumer should refer to the appropriate contract document for any information such document provides about nonpayment, default, the right to accelerate the maturity of the debt, and prepayment rebates and penalties.

(13) In any residential mortgage transaction, a statement indicating whether a subsequent purchaser or assignee of the consumer may assume the debt obligation on its original terms and conditions.

(b)(1) Except as otherwise provided in this chapter, the disclosures required under subsection (a) shall be made before the credit is extended. Except for the disclosures required by subsection (a)(1) of this section, all disclosures required under subsection (a) and any disclosure provided for in subsection (b), (c), or (d) of section 106 shall be conspicuously segregated from all other terms, data, or information provided in connection with a transaction, including any computations or itemization.

(2) In the case of a residential mortgage transaction, as defined in section 103(w), which is also subject to the Real Estate Settlement Procedures Act, good faith estimates of the disclosures required under subsection (a) shall be made in accordance with regulations of the Board under section 121(c) before the credit is extended, or shall be delivered or placed in the mail not later than three business days after the creditor receives the consumer's written application, whichever is earlier. If the disclosure statement furnished within three days of the written application contains an annual percentage rate which is subsequently rendered inaccurate within the meaning of

section 107(c), the creditor shall furnish another statement at the time of settlement or consummation.

(c)(1) If a creditor receives a purchase order by mail or telephone without personal solicitation, and the cash price and the total sale price and the terms of financing, including the annual percentage rate, are set forth in the creditor's catalog or other printed material distributed to the public, then the disclosures required under subsection (a) may be made at any time not later than the date the first payment is due.

(2) If a creditor receives a request for a loan by mail or telephone without personal solicitation and the terms of financing, including the annual percentage rate for representative amounts of credit, are set forth in the creditor's printed material distributed to the public, or in the contract of loan or other printed material delivered to the obligor, then the disclosures required under subsection (a) may be made at any time not later than the date the first payment is due.

(d) If a consumer credit sale is one of a series of consumer credit sales transactions made pursuant to an agreement providing for the addition of the deferred payment price of that sale to an existing outstanding balance, and the person to whom the credit is extended has approved in writing both the annual percentage rate or rates and the method of computing the finance charge or charges, and the creditor retains no security interest in any property as to which he has received payments aggregating the amount of the sales price including any finance charges attributable thereto, then the disclosure required under subsection (a) for the particular sale may be made at any time not later than the date the first payment for that sale is due. For the purposes of this subsection, in the case of items purchased on different dates, the first purchased shall be deemed first paid for, and in the case of items purchased on the same date, the lowest priced shall be deemed first paid for.

**SECTION 129—[Repealed]****SECTION 130—Civil Liability**

(a) Except as otherwise provided in this section, any creditor who fails to comply with any requirement imposed under this chapter, including any requirement under section 125, or chapter 4 or 5 of this title with respect to any person is liable to such person in an amount equal to the sum of—

(1) any actual damage sustained by such person as a result of the failure;

(2)(A)(i) in the case of an individual action twice the amount of any finance charge in connection with the transaction, or (ii) in the case of an individual action relating to a consumer lease under chapter 5 of this title, 25 per centum of the total amount of monthly payments under the lease, except that the liability under this subparagraph shall not be less than \$100 nor greater than \$1,000; or

(B) in the case of a class action, such amount as the court may allow, except that as to each member of the class no minimum recovery shall be applicable, and the total recovery under this subparagraph in any class action or series of class actions arising out of the same failure to comply by the same creditor shall not be more than the lesser of \$500,000 or 1 per centum of the net worth of the creditor; and

(3) in the case of any successful action to enforce the foregoing liability or in any action in which a person is determined to have a right of rescission under section 125, the costs of the action, together with a reasonable attorney's fee as determined by the court. In determining the amount of award in any class action, the court shall consider, among other relevant factors, the amount of any actual damages awarded, the frequency and persistence of failures of compliance by the creditor, the resources of the creditor, the number of persons adversely affected, and the extent to which the creditor's failure of compliance was intentional. In connection with the disclosures referred to in section 127, a creditor shall have a

liability determined under paragraph (2) only for failing to comply with the requirements of section 125, section 127(a), or of paragraph (4), (5), (6), (7), (8), (9), or (10) of section 127(b) or for failing to comply with disclosure requirements under State law for any term or item which the Board has determined to be substantially the same in meaning under section 111(a)(2) as any of the terms or items referred to in section 127(a) or any of those paragraphs of section 127(b). In connection with the disclosures referred to in section 128, a creditor shall have a liability determined under paragraph (2) only for failing to comply with the requirements of section 125 or of paragraph (2) (insofar as it requires a disclosure of the 'amount financed'), (3), (4), (5), (6), or (9) of section 128(a), or for failing to comply with disclosure requirements under State law for any term which the Board has determined to be substantially the same in meaning under section 111(a)(2) as any of the terms referred to in any of those paragraphs of section 128(a). With respect to any failure to make disclosures required under this chapter or chapter 4 or 5 of this title, liability shall be imposed only upon the creditor required to make disclosure, except as provided in section 131.

(b) A creditor or assignee has no liability under this section or section 108 or section 112 for any failure to comply with any requirement imposed under this chapter or chapter 5, if within sixty days after discovering an error, whether pursuant to a final written examination report or notice issued under section 108(e)(1) or through the creditor's or assignee's own procedures, and prior to the institution of an action under this section or the receipt of written notice of the error from the obligor, the creditor or assignee notifies the person concerned of the error and makes whatever adjustments in the appropriate account are necessary to assure that the person will not be required to pay an amount in excess of the charge actually disclosed, or the dollar equivalent of the annual percentage rate actually disclosed, whichever is lower.

(c) A creditor or assignee may not be held liable in any action brought under this section or section 125 for a violation of this title if the creditor or assignee shows by a preponderance of evidence that the violation was not intentional and resulted from a bona fide error notwithstanding the maintenance of procedures reasonably adapted to avoid any such error. Examples of a bona fide error include, but are not limited to, clerical, calculation, computer malfunction and programing, and printing errors, except that an error of legal judgment with respect to a person's obligations under this title is not a bona fide error.

(d) When there are multiple obligors in a consumer credit transaction or consumer lease, there shall be no more than one recovery of damages under subsection (a)(2) for a violation of this title.

(e) Any action under this section may be brought in any United States district court, or in any other court of competent jurisdiction, within one year from the date of the occurrence of the violation. This subsection does not bar a person from asserting a violation of this title in an action to collect the debt which was brought more than one year from the date of the occurrence of the violation as a matter of defense by recoupment or set-off in such action, except as otherwise provided by State law.

(f) No provision of this section, section 108(b), section 108(c), section 108(e), or section 112 imposing any liability shall apply to any act done or omitted in good faith in conformity with any rule, regulation, or interpretation thereof by the Board or in conformity with any interpretation or approval by an official or employee of the Federal Reserve System duly authorized by the Board to issue such interpretations or approvals under such procedures as the Board may prescribe therefor, notwithstanding that after such act or omission has occurred, such rule, regulation, interpretation, or approval is amended, rescinded, or determined by judicial or other authority to be invalid for any reason.

person any information required under this chapter or chapter 4 or 5 of this title to be disclosed in connection with a single account under an open end consumer credit plan, other single consumer credit sale, consumer loan, consumer lease, or other extension of consumer credit, shall entitle the person to a single recovery under this section but continued failure to disclose after a recovery has been granted shall give rise to rights to additional recoveries. This subsection does not bar any remedy permitted by section 125.

(h) A person may not take any action to offset any amount for which a creditor or assignee is potentially liable to such person under subsection (a)(2) against any amount owed by such person, unless the amount of the creditor's or assignee's liability under this title has been determined by judgment of a court of competent jurisdiction in an action of which such person was a party. This subsection does not bar a consumer then in default on the obligation from asserting a violation of this title as an original action, or as a defense or counterclaim to an action to collect amounts owed by the consumer brought by a person liable under this title.

## SECTION 131—Liability of Assignees

(a) Except as otherwise specifically provided in this title, any civil action for a violation of this title or proceeding under section 108 which may be brought against a creditor may be maintained against any assignee of such creditor only if the violation for which such action or proceeding is brought is apparent on the face of the disclosure statement, except where the assignment was involuntary. For the purpose of this section, a violation apparent on the face of the disclosure statement includes, but is not limited to (1) a disclosure which can be determined to be incomplete or inaccurate from the face of the disclosure statement or other documents assigned, or (2) a disclosure which does not use the terms required to be used by this title.

(b) Except as provided in section 125(c), in

any action or proceeding by or against any subsequent assignee of the original creditor without knowledge to the contrary by the assignee when he acquires the obligation, written acknowledgement of receipt by a person to whom a statement is required to be given pursuant to this title shall be conclusive proof of the delivery thereof and, except as provided in subsection (a), of compliance with this chapter. This section does not affect the rights of the obligor in any action against the original creditor.

(c) Any consumer who has the right to rescind a transaction under section 125 may rescind the transaction as against any assignee of the obligation.

#### SECTION 132—Issuance of Credit Cards

No credit card shall be issued except in response to a request or application therefor. This prohibition does not apply to the issuance of a credit card in renewal of, or in substitution for, an accepted credit card.

#### SECTION 133—Liability of Holder of Credit Card

(a)(1) A cardholder shall be liable for the unauthorized use of a credit card only if—

- (A) the card is an accepted credit card;
- (B) the liability is not in excess of \$50;
- (C) the card issuer gives adequate notice to the cardholder of the potential liability;
- (D) the card issuer has provided the cardholder with a description of a means by which the card issuer may be notified of loss or theft of the card, which description may be provided on the face or reverse side of the statement required by section 127(b) or on a separate notice accompanying such statement;
- (E) the unauthorized use occurs before the card issuer has been notified that an unauthorized use of the credit card has occurred or may occur as the result of loss, theft, or otherwise; and

(F) the card issuer has provided a method whereby the user of such card can be identified as the person authorized to use it.

(2) For purposes of this section, a card issuer has been notified when such steps as may be reasonably required in the ordinary course of business to provide the card issuer with the pertinent information have been taken, whether or not any particular officer, employee, or agent of the card issuer does in fact receive such information.

(b) In any action by a card issuer to enforce liability for the use of a credit card, the burden of proof is upon the card issuer to show that the use was authorized or, if the use was unauthorized, then the burden of proof is upon the card issuer to show that the conditions of liability for the unauthorized use of a credit card, as set forth in subsection (a), have been met.

(c) Nothing in this section imposes liability upon a cardholder for the unauthorized use of a credit card in excess of his liability for such use under other applicable law or under any agreement with the card issuer.

(d) Except as provided in this section, a cardholder incurs no liability from the unauthorized use of a credit card.

#### SECTION 134—Fraudulent Use of Credit Card

(a) Whoever knowingly in a transaction affecting interstate or foreign commerce, uses or attempts or conspires to use any counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained credit card to obtain money, goods, services, or anything else of value which within any one-year period has a value aggregating \$1,000 or more; or

(b) Whoever, with unlawful or fraudulent intent, transports or attempts or conspires to transport in interstate or foreign commerce a counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained credit card knowing the same to be counterfeit, fictitious,

altered, forged, lost, stolen, or fraudulently obtained; or

(c) Whoever, with unlawful or fraudulent intent, uses any instrumentality of interstate or foreign commerce to sell or transport a counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained credit card knowing the same to be counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained; or

(d) Whoever knowingly receives, conceals, uses, or transports money, goods, services, or anything else of value (except tickets for interstate or foreign transportation) which (1) within any one-year period has a value aggregating \$1,000 or more, (2) has moved in or is part of, or which constitutes interstate or foreign commerce, and (3) has been obtained with a counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained credit card; or

(e) Whoever knowingly receives, conceals, uses, sells, or transports in interstate or foreign commerce one or more tickets for interstate or foreign transportation, which (1) within any one-year period have a value aggregating \$500 or more, and (2) have been purchased or obtained with one or more counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained credit cards; or

(f) Whoever in a transaction affecting interstate or foreign commerce furnishes money, property, services, or anything else of value, which within any one-year period has a value aggregating \$1,000 or more, through the use of any counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained credit card knowing the same to be counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained—

shall be fined not more than \$10,000 or imprisoned not more than ten years, or both.

### SECTION 135—Business Credit Cards

The exemption provided by section 104(1) does not apply to the provisions of sections

132, 133, and 134, except that a card issuer and a business or other organization which provides credit cards issued by the same card issuer to ten or more of its employees may by contract agree as to liability of the business or other organization with respect to unauthorized use of such credit cards without regard to the provisions of section 133, but in no case may such business or other organization or card issuer impose liability upon any employee with respect to unauthorized use of such a credit card except in accordance with and subject to the limitations of section 133.

### SECTION 136—Dissemination of Annual Percentage Rates

(a) The Board shall collect, publish, and disseminate to the public, on a demonstration basis in a number of standard metropolitan statistical areas to be determined by the Board, the annual percentage rates charged for representative types of nonsale credit by creditors in such areas. For the purpose of this section, the Board is authorized to require creditors in such areas to furnish information necessary for the Board to collect, publish, and disseminate such information.

(b) The Board is authorized to enter into contracts or other arrangements with appropriate persons, organizations, or State agencies to carry out its functions under subsection (a) and to furnish financial assistance in support thereof.

## CHAPTER 3—CREDIT ADVERTISING

### Section

- 141 Catalogs and multiple-page advertisements
- 142 Advertising of downpayments and installments
- 143 Advertising of open end credit plans
- 144 Advertising of credit other than open end plans
- 145 Nonliability of media

**146 Use of annual percentage rate in oral disclosures****SECTION 141—Catalogs and Multiple-Page Advertisements**

For the purposes of this chapter, a catalog or other multiple-page advertisement shall be considered a single advertisement if it clearly and conspicuously displays a credit terms table on which the information required to be stated under this chapter is clearly set forth.

**SECTION 142—Advertising of Downpayments and Installments**

No advertisement to aid, promote, or assist directly or indirectly any extension of consumer credit may state

- (1) that a specific periodic consumer credit amount or installment amount can be arranged, unless the creditor usually and customarily arranges credit payments or installments for that period and in that amount.
- (2) that a specified downpayment is required in connection with any extension of consumer credit, unless the creditor usually and customarily arranges downpayments in that amount.

**SECTION 143—Advertising of Open End Credit Plans**

No advertisement to aid, promote, or assist directly or indirectly the extension of consumer credit under an open end credit plan may set forth any of the specific terms of that plan unless it also clearly and conspicuously sets forth all of the following items:

- (1) Any minimum or fixed amount which could be imposed.
- (2) In any case in which periodic rates may be used to compute the finance charge, the periodic rates expressed as annual percentage rates.
- (3) Any other term that the Board may by regulation require to be disclosed.

**SECTION 144—Advertising of Credit Other Than Open End Plans**

(a) Except as provided in subsection (b), this section applies to any advertisement to aid, promote, or assist directly or indirectly any consumer credit sale, loan, or other extension of credit subject to the provisions of this title, other than an open end credit plan.

(b) The provisions of this section do not apply to advertisements of residential real estate except to the extent that the Board may by regulation require.

(c) If any advertisement to which this section applies states the rate of a finance charge, the advertisement shall state the rate of that charge expressed as an annual percentage rate.

(d) If any advertisement to which this section applies states the amount of the downpayment, if any, the amount of any installment payment, the dollar amount of any finance charge, or the number of installments or the period of repayment, then the advertisement shall state all of the following items:

- (1) The downpayment, if any.
- (2) The terms of repayment.
- (3) The rate of the finance charge expressed as an annual percentage rate.

**SECTION 145—Nonliability of Media**

There is no liability under this chapter on the part of any owner or personnel, as such, of any medium in which an advertisement appears or through which it is disseminated.

**SECTION 146—Use of Annual Percentage Rate in Oral Disclosures**

In responding orally to any inquiry about the cost of credit, a creditor, regardless of the method used to compute finance charges, shall state rates only in terms of the annual percentage rate, except that in the case of an open end credit plan, the periodic rate also may be stated and, in the case of an other than



open end credit plan where a major component of the finance charge consists of interest computed at a simple annual rate, the simple annual rate also may be stated. The Board may, by regulation, modify the requirements of this section or provide an exception from this section for a transaction or class of transactions for which the creditor cannot determine in advance the applicable annual percentage rate.

## CHAPTER 4—CREDIT BILLING

### Section

- 161 Correction of billing errors
- 162 Regulation of credit reports
- 163 Length of billing period
- 164 Prompt crediting of payments
- 165 Treatment of credit balances
- 166 Prompt notification of returns
- 167 Use of cash discounts
- 168 Prohibition of tie-in services
- 169 Prohibition of offsets
- 170 Rights of credit card customers
- 171 Relation to State laws

### SECTION 161—Correction of Billing Errors

(a) If a creditor, within sixty days after having transmitted to an obligor a statement of the obligor's account in connection with an extension of consumer credit, receives at the address disclosed under section 127(b)(10) a written notice (other than notice on a payment stub or other payment medium supplied by the creditor if the creditor so stipulates with the disclosure required under section 127(a)(7) from the obligor in which the obligor—

- (1) sets forth or otherwise enables the creditor to identify the name and account number (if any) of the obligor,
- (2) indicates the obligor's belief that the statement contains a billing error and the amount of such billing error, and
- (3) sets forth the reasons for the obligor's belief (to the extent applicable) that the statement contains a billing error,

the creditor shall, unless the obligor has, after giving such written notice and before the expiration of the time limits herein specified, agreed that the statement was correct—

(A) not later than thirty days after the receipt of the notice, send a written acknowledgment thereof to the obligor, unless the action required in subparagraph (B) is taken within such thirty-day period, and

(B) not later than two complete billing cycles of the creditor (in no event later than ninety days) after the receipt of the notice and prior to taking any action to collect the amount, or any part thereof, indicated by the obligor under paragraph

(2) either—

(i) make appropriate corrections in the account of the obligor, including the crediting of any finance charges on amounts erroneously billed, and transmit to the obligor a notification of such corrections and the creditor's explanation of any change in the amount indicated by the obligor under paragraph (2) and, if any such change is made and the obligor so requests, copies of documentary evidence of the obligor's indebtedness; or

(ii) send a written explanation or clarification to the obligor, after having conducted an investigation, setting forth to the extent applicable the reasons why the creditor believes the account of the obligor was correctly shown in the statement and, upon request of the obligor, provide copies of documentary evidence of the obligor's indebtedness. In the case of a billing error where the obligor alleges that the creditor's billing statement reflects goods not delivered to the obligor or his designee in accordance with the agreement made at the time of the transaction, a creditor may not construe such amount to be correctly shown unless he determines that such goods were actually delivered, mailed, or otherwise sent to the obligor and provides the obligor with a statement of such determination.

After complying with the provisions of this subsection with respect to an alleged billing error, a creditor has no further responsibility under this section if the obligor continues to make substantially the same allegation with respect to such error.

(b) For the purpose of this section, a "billing error" consists of any of the following:

- (1) A reflection on a statement of an extension of credit which was not made to the obligor or, if made, was not in the amount reflected on such statement.
- (2) A reflection on a statement of an extension of credit for which the obligor requests additional clarification including documentary evidence thereof.
- (3) A reflection on a statement of goods or services not accepted by the obligor or his designee or not delivered to the obligor or his designee in accordance with the agreement made at the time of a transaction.
- (4) The creditor's failure to reflect properly on a statement a payment made by the obligor or a credit issued to the obligor.
- (5) A computation error or similar error of an accounting nature of the creditor on a statement.
- (6) Failure to transmit the statement required under section 127(b) of this Act to the last address of the obligor which has been disclosed to the creditor, unless that address was furnished less than twenty days before the end of the billing cycle for which the statement is required.
- (7) Any other error described in regulations of the Board.

(c) For the purposes of this section, "action to collect the amount, or any part thereof, indicated by an obligor under paragraph (2)" does not include the sending of statements of account, which may include finance charges on amounts in dispute, to the obligor following written notice from the obligor as specified under subsection (a), if—

- (1) the obligor's account is not restricted or closed because of the failure of the obligor to pay the amount indicated under paragraph (2) of subsection (a), and
- (2) the creditor indicates the payment of

such amount is not required pending the creditor's compliance with this section. Nothing in this section shall be construed to prohibit any action by a creditor to collect any amount which has not been indicated by the obligor to contain a billing error.

(d) Pursuant to regulations of the Board, a creditor operating an open end consumer credit plan may not, prior to the sending of the written explanation or clarification required under paragraph (B)(ii), restrict or close an account with respect to which the obligor has indicated pursuant to subsection (a) that he believes such account to contain a billing error solely because of the obligor's failure to pay the amount indicated to be in error. Nothing in this subsection shall be deemed to prohibit a creditor from applying against the credit limit on the obligor's account the amount indicated to be in error.

(e) Any creditor who fails to comply with the requirements of this section or section 162 forfeits any right to collect from the obligor the amount indicated by the obligor under paragraph (2) of subsection (a) of this section, and any finance charges thereon, except that the amount required to be forfeited under this subsection may not exceed \$50.

## SECTION 162—Regulation of Credit Reports

(a) After receiving a notice from an obligor as provided in section 161(a), a creditor or his agent may not directly or indirectly threaten to report to any person adversely on the obligor's credit rating or credit standing because of the obligor's failure to pay the amount indicated by the obligor under section 161(a)(2), and such amount may not be reported as delinquent to any third party until the creditor has met the requirements of section 161 and has allowed the obligor the same number of days (not less than ten) thereafter to make payment as is provided under the credit agreement with the obligor for the payment of undisputed amounts.

(b) If a creditor receives a further written notice from an obligor that an amount is still in dispute within the time allowed for payment under subsection (a) of this section, a creditor may not report to any third party that the amount of the obligor is delinquent because the obligor has failed to pay an amount which he has indicated under section 161(a)(2), unless the creditor also reports that the amount is in dispute and, at the same time, notifies the obligor of the name and address of each party to whom the creditor is reporting information concerning the delinquency.

(c) A creditor shall report any subsequent resolution of any delinquencies reported pursuant to subsection (b) to the parties to whom such delinquencies were initially reported.

#### SECTION 163—Length of Billing Period

(a) If an open end consumer credit plan provides a time period within which an obligor may repay any portion of the credit extended without incurring an additional finance charge, such additional finance charge may not be imposed with respect to such portion of the credit extended for the billing cycle of which such period is a part unless a statement which includes the amount upon which the finance charge for that period is based was mailed at least fourteen days prior to the date specified in the statement by which payment must be made in order to avoid imposition of that finance charge.

(b) Subsection (a) does not apply in any case where a creditor has been prevented, delayed, or hindered in making timely mailing or delivery of such periodic statement within the time period specified in such subsection because of an act of God, war, natural disaster, strike, or other excusable or justifiable cause, as determined under regulations of the Board.

#### SECTION 164—Prompt Crediting of Payments

Payments received from an obligor under an

open end consumer credit plan by the creditor shall be posted promptly to the obligor's account as specified in regulations of the Board. Such regulation shall prevent a finance charge from being imposed on any obligor if the creditor has received the obligor's payment in readily identifiable form in the amount, manner, location, and time indicated by the creditor to avoid the imposition thereof.

#### SECTION 165—Treatment of Credit Balances

Whenever a credit balance in excess of \$1 is created in connection with a consumer credit transaction through (1) transmittal of funds to a creditor in excess of the total balance due on an account, (2) rebates of unearned finance charges or insurance premiums, or (3) amounts otherwise owed to or held for the benefit of an obligor, the creditor shall—

(A) credit the amount of the credit balance to the consumer's account;

(B) refund any part of the amount of the remaining credit balance, upon request of the consumer; and

(C) make a good faith effort to refund to the consumer by cash, check, or money order any part of the amount of the credit balance remaining in the account for more than six months, except that no further action is required in any case in which the consumer's current location is not known by the creditor and cannot be traced through the consumer's last known address or telephone number.

#### SECTION 166—Prompt Notification of Returns

With respect to any sales transaction where a credit card has been used to obtain credit, where the seller is a person other than the card issuer, and where the seller accepts or allows a return of the goods or forgiveness of a debit for services which were the subject of such sale, the seller shall promptly transmit to the credit card issuer, a credit statement with respect thereto and the credit card issuer shall

credit the account of the obligor for the amount of the transaction.

### SECTION 167—Use of Cash Discounts

(a)(1) With respect to credit card which may be used for extensions of credit in sales transactions in which the seller is a person other than the card issuer, the card issuer may not, by contract or otherwise, prohibit any such seller from offering a discount to a cardholder to induce the cardholder to pay by cash, check, or similar means rather than use a credit card.

(2) No seller in any sales transaction may impose a surcharge on a cardholder who elects to use a credit card in lieu of payment by cash, check, or similar means.\*

(b) With respect to any sales transaction, any discount not in excess of 5 per centum offered by the seller for the purpose of inducing payment by cash, check, or other means not involving the use of a credit card shall not constitute a finance charge as determined under section 106, if such discount is offered to all prospective buyers and its availability is disclosed to all prospective buyers clearly and conspicuously in accordance with regulations of the Board.

### SECTION 168—Prohibition of Tie-In Services

Notwithstanding any agreement to the contrary, a card issuer may not require a seller, as a condition to participating in a credit card plan, to open an account with or procure any other service from the card issuer or its subsidiary or agent.

### SECTION 169—Prohibition of Offsets

(a) A card issuer may not take any action to offset a cardholder's indebtedness arising in

connection with a consumer credit transaction under the relevant credit card plan against funds of the cardholder held on deposit with the card issuer unless—

(1) such action was previously authorized in writing by the cardholder in accordance with a credit plan whereby the cardholder agrees periodically to pay debts incurred in his open end credit account by permitting the card issuer periodically to deduct all or a portion of such debt from the cardholder's deposit account, and

(2) such action with respect to any outstanding disputed amount not be taken by the card issuer upon request of the cardholder.

In the case of any credit card account in existence on the effective date of this section, the previous written authorization referred to in clause (1) shall not be required until the date (after such effective date) when such account is renewed, but in no case later than one year after such effective date. Such written authorization shall be deemed to exist if the card issuer has previously notified the cardholder that the use of his credit card account will subject any funds which the card issuer holds in deposit accounts of such cardholder to offset against any amounts due and payable on his credit card account which have not been paid in accordance with the terms of the agreement between the card issuer and the cardholder.

(b) This section does not alter or affect the right under State law of a card issuer to attach or otherwise levy upon funds of a cardholder held on deposit with the card issuer if that remedy is constitutionally available to creditors generally.

### SECTION 170—Rights of Credit Card Customers

(a) Subject to the limitation contained in subsection (b), a card issuer who has issued a credit card to a cardholder pursuant to an open end consumer credit plan shall be subject to all claims (other than tort claims) and defenses arising out of any transaction in which the credit card is used as a method of

\* Section 167(a)(2) expired on February 27, 1981. Legislation to extend this provision for three additional years was pending as of April 1, 1981.

payment or extension of credit if (1) the obligor has made a good faith attempt to obtain satisfactory resolution of a disagreement or problem relative to the transaction from the person honoring the credit card; (2) the amount of the initial transaction exceeds \$50; and (3) the place where the initial transaction occurred was in the same State as the mailing address previously provided by the cardholder or was within 100 miles from such address, except that the limitations set forth in clauses (2) and (3) with respect to an obligor's right to assert claims and defenses against a card issuer shall not be applicable to any transaction in which the person honoring the credit card (A) is the same person as the card issuer, (B) is controlled by the card issuer, (C) is under direct or indirect common control with the card issuer, (D) is a franchised dealer in the card issuer's products or services, or (E) has obtained the order for such transaction through a mail solicitation made by or participated in by the card issuer in which the cardholder is solicited to enter into such transaction by using the credit card issued by the card issuer.

(b) the amount of claims or defenses asserted by the cardholder may not exceed the amount of credit outstanding with respect to such transaction at the time the cardholder first notifies the card issuer or the person honoring the credit card of such claim or defense. For the purpose of determining the amount of credit outstanding in the preceding sentence, payments and credits to the cardholder's account are deemed to have been applied, in the order indicated, to the payment of: (1) late charges in the order of their entry to the account; (2) finance charges in order of their entry to the account; and (3) debits to the account other than those set forth above, in

the order in which each debit entry to the account was made.

#### SECTION 171—Relation to State Laws

(a) This chapter does not annul, alter, or affect, or exempt any person subject to the provisions of this chapter from complying with the laws of any State with respect to credit billing practices, except to the extent that those laws are inconsistent with any provision of this chapter, and then only to the extent of the inconsistency. The Board is authorized to determine whether such inconsistencies exist. The Board may not determine that any State law is inconsistent with any provision of this chapter if the Board determines that such law gives greater protection to the consumer.

(b) The Board shall by regulation exempt from the requirements of this chapter any class of credit transactions within any State if it determines that under the law of the State that class of transactions is subject to requirements substantially similar to those imposed under this chapter or that such law gives greater protection to the consumer, and that there is adequate provision for enforcement.

(c) Notwithstanding any other provisions of this title, any discount offered under section 167(b) of this title shall not be considered a finance charge or other charge for credit under the usury laws of any State or under the laws of any State relating to disclosure of information in connection with credit transactions, or relating to the types, amounts or rates of charges, or to any element or elements of charges permissible under such laws in connection with the extension or use of credit.

# Regulation M

## Consumer Leasing

12 CFR 213; effective April 1, 1981  
Formerly part of Regulation Z (12 CFR 226)



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# Regulation M Consumer Leasing

12 CFR 213; effective April 1, 1981

## Section

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## SECTION 213.1—General Provisions

(a) *Authority.* This regulation, known as Regulation M, is issued by the Board of Governors of the Federal Reserve System to implement the consumer leasing portions of the Truth in Lending Act, which is title I of the Consumer Credit Protection Act, as amended (15 USC 1601 et seq.).

(b) *Purpose.* The purpose of this regulation is to assure that lessees of personal property are given meaningful disclosures of lease terms, to delimit the ultimate liability of lessees in leasing personal property and to require meaningful and accurate disclosures of lease terms in advertising.

(c) *Enforcement and liability.* Section 108 of the act contains the administrative enforcement provisions. Sections 112, 130, 131, and 185 of the act contain the liability provisions for failing to comply with the requirements of the act and this regulation.

(d) *Issuance to staff interpretations.* (1) Officials in the Board's Division of Consumer

and Community Affairs are authorized to issue official staff interpretations of this regulation. Official staff interpretations provide the formal protection afforded under section 130(f) of the act.

(2) A request for an official staff interpretation shall be in writing and addressed to the Director, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. The request shall contain a complete statement of all relevant facts concerning the issue, including copies of all pertinent documents.

(3) No staff interpretations will be issued approving lessor's forms, statements, calculation tools, or methods. This restriction does not apply to forms, statements, tools, or methods whose use is required or sanctioned by a government agency.

## SECTION 213.2—Definitions and Rules of Construction

(a) *Definitions.* For the purposes of this regulation, unless the context indicates otherwise, the following definitions apply:

(1) "Act" means the Truth in Lending Act (15 USC 1601 et seq.).

(2) "Advertisement" means any commercial message in any newspaper, magazine, leaflet, flyer or catalog, on radio, television or public address system, in direct mail literature or other printed material on any interior or exterior sign or display, in any window display, in any point-of-transaction literature or price tag which is delivered or made available to a lessee or prospective lessee in any manner whatsoever.

(3) "Agricultural purpose" means a purpose related to the production, harvest, exhibition, marketing, transportation, processing, or manufacture of agricultural products by a natural person who cultivates, plants, propagates, or nurtures those agricultural products, including but not limited to the acquisition of personal property and



services used primarily in farming. "Agricultural products" includes agricultural, horticultural, viticultural, and dairy products, livestock, wildlife, poultry, bees, forest products, fish and shellfish, and any products thereof, including processed and manufactured products, and any and all products raised or produced on farms and any processed or manufactured products thereof.

(4) "*Arrange for lease of personal property*" means to provide or offer to provide a lease which is or will be extended by another person under a business or other relationship pursuant to which the person arranging such lease:

- (i) Receives or will receive a fee, compensation, or other consideration for such service; or
- (ii) Has knowledge of the lease terms and participates in the preparation of the contract documents required in connection with the lease.

(5) "*Board*" refers to the Board of Governors of the Federal Reserve System.

(6) "*Consumer lease*" means a contract in the form of a bailment or lease for the use of personal property by a natural person primarily for personal, family or household purposes, for a period of time exceeding four months, for a total contractual obligation not exceeding \$25,000, whether or not the lessee has the option to purchase or otherwise become the owner of the property at the expiration of the lease. It does not include a lease which meets the definition of a credit sale in Regulation Z, 12 CFR part 226.2(a), nor does it include a lease for agricultural, business or commercial purposes or one made to an organization.

(7) "*Lessee*" means a natural person who leases under, or who is offered a consumer lease.

(8) "*Lessor*" means a person who, in the ordinary course of business regularly leases, offers to lease, or arranges for the leasing of personal property under a consumer lease.

(9) "*Organization*" means a corporation, trust, estate, partnership, cooperative, association, government, or governmental subdivision, agency, or instrumentality.

(10) "*Period*" means a day, week, month, or other subdivision of a year.

(11) "*Person*" means a natural person or an organization.

(12) "*Personal property*" means any property which is not real property under the law of the state where it is located at the time it is offered or made available for lease.

(13) "*Real property*" means property which is real property under the law of the state in which it is located.

(14) "*Realized value*" means (i) the price received by the lessor for the leased property at disposition, (ii) the highest offer for disposition, or (iii) the fair market value at the end of the lease term.

(15) "*Security interest*" and "*security*" mean any interest in property which secures payment or performance of an obligation. The terms include, but are not limited to, security interests under the Uniform Commercial Code, real property mortgages, deeds of trust, and other consensual or confessed liens whether or not recorded, mechanic's, materialman's, artisan's, and other similar liens, vendor's liens in both real and personal property, any lien on property arising by operation of law, and any interest in a lease when used to secure payment or performance of an obligation.

(16) "*State*" means any state, the District of Columbia, the Commonwealth of Puerto Rico, and any territory or possession of the United States.

(17) "*Total lease obligation*" equals the total of (i) the scheduled periodic payments under the lease, (ii) any nonrefundable cash payment required of the lessee or agreed upon by the lessor and lessee or any trade-in allowance made at consummation, and (iii) the estimated value of the leased property at the end of the lease term.

(18) "*Value at consummation*" equals the cost to the lessor of the leased property including, if applicable, any increase or mark-up by the lessor prior to consummation.

(b) *Rules of construction.* For purposes of this regulation, the following rules of construction apply:

(1) Unless the context indicates otherwise,

"lease" shall be construed to mean "consumer lease."

(2) A transaction shall be considered consummated at the time a contractual relationship is created between the lessor and lessee, irrespective of the time of the performance of either party.

(3) Captions and catchlines are intended solely as aids to convenient reference, and no inference as to the intent of any provision may be drawn from them.

### SECTION 213.3—Exempted Transactions

This regulation does not apply to lease transactions of personal property which are incident to the lease of real property and which provide that (a) the lessee has no liability for the value of the property at the end of the lease term except for abnormal wear and tear, and (b) the lessee has no option to purchase the leased property.

### SECTION 213.4—Disclosures

(a) *General requirements.* (1) Any lessor shall, in accordance with this regulation and to the extent applicable, make the disclosures required by paragraph (g) of this section with respect to any consumer lease. Such disclosures shall be made clearly, conspicuously, in meaningful sequence, and in accordance with the further requirements of this section. All numerical amounts and percentages shall be stated in figures and shall be printed in not less than the equivalent of 10-point type, .075 inch computer type, or elite size typewritten numerals, or shall be legibly handwritten.

(2) Disclosures shall be made prior to the consummation of the lease on a dated written statement which identifies the lessor and the lessee, and a copy of the statement shall be given to the lessee at that time. All of the disclosures shall be made together on either (i) the contract or other instrument evidencing the lease on the same page and above the place for the lessee's signature; or

(ii) a separate statement which identifies the lease transaction.

(3) In any lease of multiple items, the description required by paragraph (g)(1) of this section may be provided on a separate statement or statements which are incorporated by reference in the disclosure statement required by paragraph (a) of this section.

(4) All disclosures required to be given by this regulation 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 paragraph (b) of this section.

(b) *Additional information.* At the lessor's option, additional information or explanations may be supplied with any disclosure required by this regulation, but none shall be stated, utilized, or placed so as to mislead or confuse the lessee or contradict, obscure, or detract attention from the information required to be disclosed. Any lessor who elects to make disclosures specified in any provision of state law which, under section 213.7 of this regulation, is inconsistent with the requirements of the act and this regulation may—

(1) Make such inconsistent disclosures on a separate paper apart from the disclosures made pursuant to this regulation; or

(2) Make such inconsistent disclosures on the same statement on which disclosures required by this regulation are made, provided:

(i) All disclosures required by this regulation appear separately and above any other disclosures,

(ii) Disclosures required by this regulation are identified by a clear and conspicuous heading indicating that they are made in compliance with federal law, and

(iii) All inconsistent disclosures appear separately and below a conspicuous demarcation line, and are identified by a clear and conspicuous heading indicating that the statements made thereafter are inconsistent with the disclosure require-

ments of the federal Consumer Leasing Act.

(c) *Multiple lessors; multiple lessees.* When a transaction involves more than one lessor, only one lessor need make the disclosures required by this regulation, and the one that discloses shall be the one chosen by the lessors. When a lease involves more than one lessee, the disclosures may be made to any lessee who is primarily liable on the lease.

(d) *Unknown-information estimate.* If, at the time disclosures must be made, an amount or other item of information required to be disclosed, or needed to determine a required disclosure, is unknown or not available to the lessor and the lessor has made a reasonable effort to ascertain it, the lessor may use an estimated amount or an approximation of the information, provided the estimate or approximation is clearly identified as such, is reasonable, is based on the best information available to the lessor, and is not used for the purpose of circumventing or evading the disclosure requirements of this regulation. Notwithstanding the requirement of this paragraph that the estimate be based on the best information available, a lessor is not precluded in a purchase option lease from understating the estimated value of the leased property at the end of the term in computing the total lease obligation as required in paragraph (g)(15)(i) of this section.

(e) *Effect of subsequent occurrence.* If information required to be disclosed in accordance with this regulation is subsequently rendered inaccurate as a result of any act, occurrence, or agreement subsequent to the delivery of the required disclosures, the inaccuracy resulting therefrom does not constitute a violation of this regulation.<sup>1</sup>

<sup>1</sup> Such acts, occurrences, or agreements include the failure of the lessee to perform his obligations under the contract and such actions by the lessor as may be proper to protect his interests in such circumstances. Such failure may result in the liability of the lessee to pay delinquency charges, collection costs, or expenses of the lessor for perfection or acquisition of any security interest or amounts advanced by the lessor on behalf of the lessee in connection with insurance, repairs to, or preservation of leased property.

(f) *Leap year.* Any variance in any term required under this regulation to be disclosed, or stated in any advertisement, which occurs by reason of the addition of February 29 in each leap year, may be disregarded, and such term may be disclosed or stated without regard to such variance.

(g) *Specific disclosure requirements.* In any lease subject to this section, the following items, as applicable, shall be disclosed:

(1) A brief description of the leased property, sufficient to identify the property to the lessee and lessor.

(2) The total amount of any payment, such as a refundable security deposit paid by cash, check or similar means, advance payment, capitalized cost reduction or any trade-in allowance, appropriately identified, to be paid by the lessee at consummation of the lease.

(3) The number, amount, and due dates or periods of payments scheduled under the lease and the total amount of such periodic payments.

(4) The total amount paid or payable by the lessee during the lease term for official fees, registration, certificate of title, license fees, or taxes.

(5) The total amount of all other charges, individually itemized, payable by the lessee to the lessor, which are not included in the periodic payments. This total includes the amount of any liabilities the lease imposes upon the lessee at the end of the term, but excludes the potential difference between the estimated and realized values, required to be disclosed under paragraph (g)(13) of this section.

(6) A brief identification of insurance in connection with the lease including (i) if provided or paid for by the lessor, the types and amounts of coverages and cost to the lessee, or (ii) if not provided or paid for by the lessor, the types and amounts of coverages required of the lessee.

(7) A statement identifying any express warranties or guarantees available to the lessee made by the lessor or manufacturer with respect to the leased property.

(8) An identification of the party responsible for maintaining or servicing the leased

property together with a brief description of the responsibility, and a statement of reasonable standards for wear and use, if the lessor sets such standards.

(9) A description of any security interest, other than a security deposit disclosed under paragraph (g)(2) of this section, held or to be retained by the lessor in connection with the lease and a clear identification of the property to which the security interest relates.

(10) The amount or method of determining the amount of any penalty or other charge for delinquency, default, or late payments.

(11) A statement of whether or not the lessee has the option to purchase the leased property and, if at the end of the lease term, at what price, and, if prior to the end of the lease term, at what time, and the price or method of determining the price.

(12) A statement of the conditions under which the lessee or lessor may terminate the lease prior to the end of the lease term and the amount or method of determining the amount of any penalty or other charge for early termination.

(13) A statement that the lessee shall be liable for the difference between the estimated value of the property and its realized value at early termination or the end of the lease term, if such liability exists.

(14) Where the lessee's liability at early termination or at the end of the lease term is based on the estimated value of the leased property, a statement that the lessee may obtain at the end of the lease term or at early termination, at the lessee's expense, a professional appraisal of the value which could be realized at sale of the leased property by an independent third party agreed to by the lessee and the lessor, which appraisal shall be final and binding on the parties.

(15) Where the lessee's liability at the end of the lease term is based upon the estimated value of the leased property:

(i) The value of the property at consummation of the lease, the itemized total lease obligation at the end of the lease term, and the difference between them.

(ii) That there is a rebuttable presump-

tion that the estimated value of the leased property at the end of the lease term is unreasonable and not in good faith to the extent that it exceeds the realized value by more than three times the average payment allocable to a monthly period, and that the lessor cannot collect the amount of such excess liability unless the lessor brings a successful action in court in which the lessor pays the lessee's attorney's fees, and that this provision regarding the presumption and attorney's fees does not apply to the extent the excess of estimated value over realized value is due to unreasonable wear or use, or excessive use.

(iii) A statement that the requirements of paragraph (g)(15)(ii) of this section do not preclude the right of a willing lessee to make any mutually agreeable final adjustment regarding such excess liability.

(h) *Renegotiations or extensions.* If any existing lease is renegotiated or extended, such renegotiation or extension shall be considered a new lease subject to the disclosure requirements of this regulation, except that the requirements of this paragraph shall not apply to (1) a lease of multiple items where a new item(s) is provided or a previously leased item(s) is returned, and the average payment allocable to a monthly period is not changed by more than 25 percent, or (2) a lease which is extended for not more than six months on a month-to-month basis or otherwise.

## SECTION 213.5—Advertising

(a) *General rule.* No advertisement to aid, promote, or assist directly or indirectly any consumer lease may state that a specific lease of any property at specific amounts or terms is available unless the lessor usually and customarily leases or will lease such property at those amounts or terms.

(b) *Catalogs and multipage advertisements.* If a catalog or other multiple-page advertisement sets forth or gives information in sufficient detail to permit determination of the dis-

closures required by this section in a table or schedule of lease terms, such catalog or multiple-page advertisement shall be considered a single advertisement provided—

(1) The table or schedule and the disclosures made therein are set forth clearly and conspicuously, and

(2) Any statement of lease terms appearing in any place other than in that table or schedule of lease terms clearly and conspicuously refers to the page or pages on which that table or schedule appears, unless that statement discloses all of the lease terms required to be stated under this section.

(c) *Terms that require additional information.* No advertisement to aid, promote, or assist directly or indirectly any consumer lease shall state the amount of any payment, the number of required payments, or that any or no downpayment or other payment is required at consummation of the lease unless the advertisement also states clearly and conspicuously each of the following items of information as applicable:

(1) That the transaction advertised is a lease.

(2) The total amount of any payment such as a security deposit or capitalized cost reduction required at the consummation of the lease, or that no such payments are required.

(3) The number, amounts, due dates or periods of scheduled payments, and the total of such payments under the lease.

(4) A statement of whether or not the lessee has the option to purchase the leased property and at what price and time. The method of determining the price may be substituted for disclosure of the price.

(5) A statement of the amount or method of determining the amount of any liabilities the lease imposes upon the lessee at the end of the term and a statement that the lessee shall be liable for the difference, if any, between the estimated value of the leased property and its realized value at the end of the lease term, if the lessee has such liability.

(d) *Multiple-item leases; merchandise tags.* If a merchandise tag for an item normally in-

cluded in a multiple-item lease sets forth information which would require additional disclosures under paragraph (c) of this section, such merchandise tag need not contain such additional disclosures, provided it clearly and conspicuously refers to a sign or display which is prominently posted in the lessor's showroom. Such sign or display shall contain a table or schedule of those items of information to be disclosed under paragraph (c) of this section.

#### SECTION 213.6—Preservation and Inspection of Evidence of Compliance

(a) Evidence of compliance with the requirements imposed under this regulation, other than advertising requirements under section 213.5, shall be preserved by the lessor for a period of not less than two years after the date such disclosure is required to be made.

(b) Each 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 regulation.

#### SECTION 213.7—Inconsistent State Requirements

(a) *Preemption.* A state law which is similar in nature, purpose, scope, intent, effect, or requisites to a section of chapter 5 of the act is not inconsistent with the act or this regulation within the meaning of section 186(a) of the act if the lessor can comply with the state law without violating this regulation. If a lessor cannot comply with a state law without violating a provision of this regulation which implements a section of chapter 5 of the act, such state law is inconsistent with the requirements of the act and this regulation within the meaning of section 186(a) of the act and is preempted.

(b) *Procedures.* A state, through its governor, attorney general, or other appropriate of-

ficial having primary enforcement or interpretative responsibilities for its consumer leasing law, may apply to the Board for a determination that the state law offers greater protection and benefit to lessees than a comparable provision(s) of chapter 5 of the act and its implementing provision(s) in this regulation, or is otherwise not inconsistent with chapter 5 of the act and this regulation, or for a determination with respect to any issues not clearly covered by paragraph (a) of this section as to the consistency or inconsistency of a state law with chapter 5 of the act or its implementing provisions in this regulation.

### SECTION 213.8—Exemption of Certain State-Regulated Transactions

(a) *Exemption for state-regulated transactions.* In accordance with the provisions of appendix A to Regulation M, any state may make application to the Board for exemption of any class of transactions within the state from the requirements of chapter 5 of the act and the corresponding provisions of this regulation, provided that—

(1) The Board determines that under the law of that state, that class of transactions is subject to requirements substantially similar to those imposed under chapter 5 of the act and the corresponding provisions of this regulation; or the lessee is afforded greater protection and benefit than is afforded under chapter 5 of the act, and

(2) There is adequate provision for enforcement.

(b) *Procedures and criteria.* The procedures and criteria under which a state may apply for the determination provided for in paragraph (a) of this section are set forth in appendix A to Regulation M.

(c) *Civil liability.* In order to assure that the concurrent jurisdiction of federal and state courts created in sections 130(e) and 185(c) of the act shall continue to have substantive provisions to which such jurisdiction shall apply, and generally to aid in implementing the act with respect to any class of transactions exempted pursuant to paragraph (a) of this section and appendix A, the Board pursuant

to sections 105 and 186(b) of the act hereby prescribes that—

(1) No such exemptions shall be deemed to extend to the civil liability provisions of sections 130, 131, and 185 of the act; and

(2) After an exemption has been granted, the disclosure requirements of the applicable state law shall constitute the disclosure requirements of the act, except to the extent that such state law imposes disclosure requirements not imposed by the act. Information required under such state law with the exception of those provisions which impose disclosure requirements not imposed by the act shall, accordingly, constitute a “requirement imposed” under chapter 5 of the act for the purpose of section 130(a).

### APPENDIX A—Procedures and Criteria for State Exemptions from the Consumer Leasing Act

(a) *Application.* Any state may make application to the Board, pursuant to the terms of this appendix and the Board's Rules of Procedure (12 CFR part 262), for a determination that under the laws of the state,<sup>1</sup> “consumer lease” transactions as provided in section 181(1) of the act and section 213.2 of this regulation, within that state are subject to requirements which are substantially similar to those imposed under chapter 5 of the act<sup>2</sup> or which provide greater protection and benefit to lessees than those provided under chapter 5, and that there is adequate provision for enforcement of such requirement. Such application shall be made by letter addressed to the Board signed by the governor, the attorney general, or any official of the state having responsibilities under the state laws which are applicable to the relevant class of transactions.

(b) *Supporting documents.* The application shall be accompanied by—

<sup>1</sup> Any reference to state law in this appendix includes a reference to any regulations which implement state law and formal interpretations thereof by a court of competent jurisdiction or a duly authorized agency of that state.

<sup>2</sup> Any reference in this appendix to chapter 5 of the act or any section thereof includes a reference to the implementing provisions of this regulation and the Board's formal interpretations thereof.

(1) A copy of the full text of the laws of the state which are claimed by the applicant to impose requirements substantially similar to those imposed under chapter 5 or to provide greater protection and benefit to lessees than does chapter 5 with respect to "consumer lease" transactions as defined in section 213.2 of this regulation.

(2) A comparison of each requirement of state law with the corresponding requirement of chapter 5, together with reasons to support the claim that the requirements of state law are substantially similar to or provide greater protection and benefit to lessees than requirements of chapter 5 with respect to the class of consumer lease transactions. It shall also demonstrate that any differences are not inconsistent with and do not result in a diminution in the protection and benefit afforded lessees under chapter 5 and state that there are no other state laws which, due to their relations to the state law under consideration, should be considered by the Board in making its determination.

(3) A copy of the full text of the laws of the state which provide for enforcement of the state laws referred to in paragraph (b)(1) of this appendix.

(4) A comparison of the provisions of state law with the provisions of sections 108, 112, 130, 131, 183(a), 183(b), and 185 of the act, together with reasons to support the claim that such state laws provide for—

(i) Administrative enforcement of the state laws referred to in paragraph (b)(1) of this appendix which is equivalent to the enforcement provided under section 108 of the act;

(ii) Criminal liability for willful and knowing violation of the state law with penalties substantially similar to those prescribed under section 112 of the act, except that more severe penalties may be provided;

(iii) Civil liability for failure to comply with the requirements of the state law, including class action liability, which is substantially similar to that provided under sections 130, 131, 185(b) of the act, except that more severe penalties may be provided;

(iv) In leases where the lessee's liability

at the end of the lease term is based on the estimated value of the leased property, a limitation on the lessee's liability at the end of the lease term substantially similar to that provided by section 183(a) of the act, except that a stricter limitation may be provided;

(v) A provision prescribing that all penalties and other charges for delinquency, default or early termination specified in the lease must be reasonable substantially similar to that provided in section 183(b) of the act, except that a stricter provision may be provided; and

(vi) A statute of limitations that prescribes a period in which to institute civil actions of substantially similar duration as that provided under section 185(c) of the act, except that a longer period may be provided.

(5) A statement identifying the office designated or to be designated to administer the state laws referred to in paragraph (b)(1) of this appendix, together with complete information regarding the fiscal arrangements for administrative enforcement (including the amount of funds available or to be provided), the number and qualifications of personnel engaged therein, and a description of the procedures under which such state laws are to be administratively enforced, including administrative enforcement with respect to federally chartered lessors.<sup>3</sup> The foregoing statement should include reasons to support the claim that there is adequate provision for enforcement of such state laws.

(c) *Criteria for determination.* The Board will consider the following criteria along with any other relevant information in making a determination whether the laws of a state impose requirements substantially similar to or

<sup>3</sup> Transactions within a state in which a federally chartered institution is a lessor shall not be subject to the exemption, and such federally chartered lessors shall remain subject to the requirements of the act and administrative enforcement by the appropriate federal authority under section 108 of the act, unless it is established to the satisfaction of the Board that appropriate arrangements have been made with such federal authorities to assure effective enforcement of the requirements of state laws with respect to such lessors.

provide greater protection and benefit to lessees than under chapter 5, and whether there is adequate provision for enforcement of such laws:

(1) In order for provisions of state law to be substantially similar to or provide greater protection and benefit to lessees than the provision of chapter 5, the provisions of state law<sup>4</sup> shall require that

- (i) Definitions and rules of construction import the same meaning and have the same application as those prescribed under section 213.2 of this regulation;
- (ii) Lessors make all of the applicable disclosures required by this regulation and within the same (or more stringent) time periods as are prescribed by this regulation;
- (iii) Lessors abide by obligations substantially similar to those prescribed by chapter 5, under conditions substantially similar to (or more stringent than) those prescribed in chapter 5;
- (iv) Lessors abide by the same (or more stringent) prohibitions as are provided in chapter 5;
- (v) Lessees need comply with no obligations or responsibilities which are more costly or burdensome as a condition of exercising any of the rights or gaining the benefits and protections in the state law which correspond to those afforded by chapter 5, than those obligations or responsibilities imposed upon lessees in chapter 5; and
- (vi) Substantially similar or more favorable rights and protections are provided to lessees under conditions substantially similar to or more favorable (to lessees) than those afforded by chapter 5.

(2) In determining whether the provisions for enforcement of the state law referred to in paragraph (b)(1) of this appendix are adequate, consideration will be given to the extent to which, under the laws of the state, provision is made for

- (i) Administrative enforcement, includ-

ing necessary facilities, personnel and funding;

- (ii) Criminal liability for willful and knowing violation with penalties substantially similar to those prescribed under section 112 of the act, except that more severe criminal penalties may be prescribed;
- (iii) Civil liability for failure to comply with the provisions of the state law substantially similar to that provided under sections 130, 131 and 185(b) of the act, except that more severe civil liability penalties may be prescribed;
- (iv) In leases where the lessee's liability at the end of the lease term is based on the estimated value of the leased property, a limitation on the lessee's liability at the end of the lease term substantially similar to that provided in section 183(a) of the act, and a provision requiring that penalties be reasonable substantially similar to that provided in section 183(b) of the act, except that stricter standards on end-term liability and penalty provisions may be prescribed; and
- (v) A statute of limitations with respect to civil liability of substantially similar duration to that provided under section 185(c) of the act, except that a longer duration may be provided.

(d) *Public notice of filing and proposed rule-making.* Following initial review of an application filed in accordance with the requirements of paragraphs (a) and (b) of this appendix, notice of such filing and proposed rulemaking will be published by the Board in the *Federal Register*, and a copy of such application will be made available for examination by interested persons during business hours at the Board and at the Federal Reserve Bank of each Federal Reserve District in which any part of the state of the applicant is situated. A reasonable period of time will be allowed from the date of such publication for the Board to receive written comments from interested persons with respect to that application.

(e) *Exemption from requirements of chapter 5.* If the Board determines that under the law of a state consumer lease transactions are sub-

<sup>4</sup> This paragraph is not to be construed as indicating that the Board will consider adversely any additional requirements of state law which are not inconsistent with the purpose of the act or the requirements imposed under chapter 5.



ject to requirements which are substantially similar to or which provide greater protection and benefit to lessees than those imposed under chapter 5 and that there is adequate provision for enforcement, the Board will exempt such class of transactions in that state from the requirements of chapter 5 in the following manner and subject to the following conditions:

(1) Notice of the exemption will be published in the *Federal Register*, and the Board will furnish a copy of such notice to the official who made application for such exemption and to each federal authority responsible for administrative enforcement of the requirements of chapter 5.

(2) The appropriate official of any state which receives an exemption shall inform the Board within 30 days of the occurrence of any change in its related law (including regulations). The report of any such change shall contain the full text of that change together with statements setting forth the information and opinions with respect to that change as specified in paragraphs (b)(2) and (4) of this appendix. The official who has received an exemption shall file with the Board from time to time such reports as the Board may require.

(3) The Board will inform the official of any subsequent amendments to chapter 5 (including the implementing provisions of this regulation and the Board's formal interpretations) which might call for amendment of state law, regulations or formal interpretations thereof.

(f) *Adverse determination.* (1) If the Board denies the application for exemption, it will notify the appropriate state official of the facts upon which its decision is based and shall afford that state a reasonable opportunity to demonstrate or achieve compliance. (2) If, after giving the state an opportunity to demonstrate or achieve compliance, the Board finds that it still cannot grant the exemption, the Board will publish in the *Federal Register* a notice of its decision and will furnish a copy of such notice to the official who made application for such exemption.

(g) *Revocation of exemption.* (1) The Board

reserves the right to revoke any exemption if at any time it determines that the state law does not, in fact, impose requirements which are substantially similar to or provide greater protection and benefit to lessees than those imposed under chapter 5, or that there is not, in fact, adequate provision for enforcement.

(2) Before revoking any state exemption, the Board will notify the appropriate state official of the facts or conduct which in the opinion of the Board warrants such revocation and shall afford that state such opportunity as the Board deems appropriate to demonstrate or achieve compliance.

(3) If, after having been afforded the opportunity to demonstrate or achieve compliance, the Board determines that the state has not done so, notice of the Board's intention to revoke such exemption shall be published as a notice of proposed rulemaking in the *Federal Register*. A period of time will be allowed from the date of such publication for the Board to receive written comments from interested persons.

(4) In the event of revocation of such exemption, notice of such revocation shall be published by the Board in the *Federal Register*, and a copy of such notice shall also be furnished to the appropriate state official and to the federal authorities responsible for enforcement of requirements of chapter 5, and the class of transactions affected within that state shall then be subject to the requirements of chapter 5, to administrative enforcement as provided under section 108, to criminal liability as provided under section 112, and to civil liability as provided under sections 130, 131, and 185(b) of the act.

## APPENDIX B—Procedures and Criteria for Board Determination Regarding Preemption

Procedures and criteria under which any state may apply for a determination that a state law<sup>1</sup> is not inconsistent with and not pre-

<sup>1</sup> Any reference to state law in this appendix includes a reference to any regulations which implement state law and formal interpretations thereof by a court of competent jurisdiction or a duly authorized agency of that state.

empted by a provision of chapter 5 of the act<sup>2</sup> pursuant to section 213.7 of this regulation.

(a) *Application.* Any state may make application to the Board pursuant to the terms of this appendix and the Board's Rules of Procedure (12 CFR part 262), for a determination that a law of such state is consistent<sup>3</sup> with a provision of chapter 5 of the act, because such state law provides greater protection and benefit to lessees than does the provision of chapter 5, that such law is consistent with a provision of chapter 5 for any other reason, or for a determination of any issues not clearly covered by section 213.7 of this regulation with regard to the relationship of the federal law to the state law. Such application shall be made by letter addressed to the Board signed by the governor, attorney general or any official of the state having responsibilities under the state law.

(b) *Supporting documents.* The application shall be accompanied by:

(1) A copy of the full text of the laws of the state which are claimed by the applicant to be consistent with a provision of chapter 5 or whose relationship (with regard to consistency or inconsistency) to a provision of chapter 5 is claimed by the applicant to be not clearly covered by the standards and criteria for comparison set forth in section 213.7 of this regulation.

(2) A comparison of each requirement of the state law with the corresponding requirement of chapter 5, with reasons to support the claim that the state law is consistent with a provision of chapter 5 or that the relationship (with regard to consistency or inconsistency) between the state law and chapter 5 is not clearly covered by the standards and criteria set forth in section 213.7 of this regulation.

(3) A copy of the full text of any provisions of state law corresponding to sections

112, 130, 131, 183(a), 183(b), 185(b), and 185(c) of the act (if applicable), together with reasons for the applicant's claim that such state provisions are not inconsistent (because they provide greater protection and benefit to lessees or for other reasons) with the act.

(4) A statement that there are no state laws (including administrative or judicial interpretations) other than those submitted to the Board which have any bearing on whether or not the state law is consistent with a provision of chapter 5.

(5) A statement identifying the office designated or to be designated to administer the state laws referred to in paragraph (b)(1) of this appendix. If no such administrative office exists, then a statement identifying the office to which the Board can address any correspondence regarding the request for such determination shall accompany the application.

(c) *Criteria for determination.* The Board will consider the following criteria along with any other relevant information, in addition to the criteria set forth in section 213.7 of this regulation, in making a determination of whether or not state law is inconsistent with a provision of chapter 5. In order for provisions of state law to be determined to be consistent with a provision of chapter 5, the provisions of state law<sup>4</sup> shall, to the extent relevant to the determination, require that—

(1) Definitions and rules of construction import the same meaning and have the same application as those prescribed by this regulation;

(2) Lessors make all of the applicable disclosures required by the corresponding provision of chapter 5 and this regulation, and within the same (or more stringent) time periods as those prescribed by this regulation;

(3) Lessors abide by obligations substantially similar to those prescribed by a provision of chapter 5 under conditions substan-

<sup>2</sup> Any reference in this appendix to chapter 5 of the act or any section thereof includes a reference to the implementing provisions of this regulation and the Board's formal interpretations thereof.

<sup>3</sup> For purposes of this appendix, the terms "consistent" and "not inconsistent" shall convey the same meaning and shall involve the same evidentiary showing.

<sup>4</sup> This paragraph is not to be construed as indicating that the Board would consider adversely any additional requirements of state law which are not inconsistent with the purposes of the act or the requirements imposed under chapter 5.

tially similar (or more stringent) to those in chapter 5;

(4) Lessors abide by the same (or more stringent) prohibitions as are provided by chapter 5;

(5) Lessees need comply with no obligations or responsibilities which are more costly or burdensome as a condition of exercising any of the rights or gaining the benefits and protections provided in the state law, which correspond to those afforded by chapter 5, than those obligations or responsibilities imposed on lessees in chapter 5; and

(6) Lessees are to have rights and protections substantially similar to or more favorable than those provided by the corresponding provisions of chapter 5 under conditions and within time periods which are substantially similar to or more favorable (to lessees) than those prescribed by chapter 5.<sup>5</sup>

(d) *Public notice of filing and proposed rule-making.* In connection with any application which has been filed in accordance with the requirements of paragraphs (a) and (b) of this appendix, notice of such filing and proposed rulemaking will be published by the Board in the *Federal Register*, and a copy of such application will be made available for examination by interested persons during business hours at the Board and at the Federal Reserve Bank of each Federal Reserve District in which any part of the state of the applicant is situated. A period of time will be allowed from the date of such publication for the Board to receive written comments from interested persons with respect to that application.

(e) *Determination that a state law is consistent with chapter 5.* If the Board determines on the basis of the information before it that the law of a state is consistent with a provision of chapter 5, notice of such determination shall

be published in the following manner and shall be subject to the following conditions:

(1) Notice of the determination will be published in the *Federal Register*, and the Board will furnish a copy of such notice to the official who made application for such exemption and to each federal authority responsible for administrative enforcement of the requirements of chapter 5.

(2) The appropriate official of any state which receives such a determination shall inform the Board within 30 days of the occurrence of any change in its related law (or regulations). The report of any such change shall contain copies of the full text of the law, as changed, together with statements setting forth the information and opinions with respect to that change as specified in paragraphs (b)(2) and (4) of this appendix. The appropriate official of any state which has received such a determination shall file with the Board from time to time such reports as the Board may require.

(3) The Board will inform the appropriate official of any state which receives such a determination of any subsequent amendments to chapter 5 (including the implementing provisions of this regulation and the Board's formal interpretations) which might call for amendment of state law, regulations, or formal interpretations.

(f) *Adverse determination.* (1) If, after publication of notice in the *Federal Register* as provided under paragraph (d) of this appendix, the Board finds that such state law is inconsistent with a provision of chapter 5, it will notify the appropriate state official of the facts upon which such finding is based and shall afford that state official a reasonable opportunity to demonstrate further that such state law is not inconsistent with the corresponding provisions of chapter 5, if such state official desires to do so.

(2) If, after having afforded the state official such further opportunity to demonstrate that the state law is consistent with a provision of chapter 5, the Board finds that the state law is inconsistent, it will publish in the *Federal Register* a notice of its decision with respect to such application and

<sup>5</sup> A state may make a showing that in certain limited readily identifiable circumstances a law which may otherwise be inconsistent with a provision of chapter 5 is not inconsistent under the criteria set forth in paragraph (c) of this appendix. The Board may determine such state law to be consistent only under those circumstances but will make no such determination if doing so would mislead or confuse lessees.

will furnish a copy of such notice to the official who made application for the determination.

- (g) *Reversal of determination.* (1) The Board reserves the right to reverse any determination made under this appendix to the effect that a state law is consistent with a provision of chapter 5 because of subsequently discovered facts, a change in the state or federal law (by amendment or administrative or judicial interpretation or otherwise) or for any other reason bearing on the coverage or impact of the state or federal law. (2) Before reversing any such determination, the Board will notify the appropriate state official of the facts or conduct which, in the opinion of the Board, warrants such reversal and shall afford that state such opportunity as the Board deems appropriate under the circumstances to demonstrate that the determination should not be reversed. (3) If, after having been afforded the opportunity to demonstrate that its law is consistent with a provision of chapter 5, the Board determines that the state has not

done so, notice of the Board's intention to reverse such determination shall be published as a notice of proposed rulemaking in the *Federal Register*. A reasonable period of time will be allowed from the date of such publication for the Board to receive written comments from interested persons.

(4) In the event of reversal of such determination, notice shall be published by the Board in the *Federal Register*, and a copy of such notice shall also be furnished to the appropriate state official and to the federal authorities responsible for enforcement of the requirements of chapter 5, and the state law affected shall then be considered inconsistent with and preempted by chapter 5 within the meaning of section 186(a) of the act.

#### APPENDIX C—Model Forms

- C-1—Model Open-End or Finance Vehicle Lease Disclosures
- C-2—Model Closed-End or Net Vehicle Lease Disclosures
- C-3—Model Furniture Lease Disclosures

## C-1—Model Open-End or Finance Vehicle Lease Disclosures

Date \_\_\_\_\_

These disclosures are provided pursuant to the Federal Consumer Leasing Act.

1. LESSOR(S) \_\_\_\_\_ LESSEE(S) \_\_\_\_\_

2. Description of leased property

Year	Make	Model	Body Style	Vehicle ID #

3. (a) Initial Charges, consisting of  
☐ Capitalized Cost Reduction    ☐ Trade-in Allowance    \$ \_\_\_\_\_

(b) Other Charges Payable at Inception, consisting of  
☐ Advance Monthly Payment of \_\_\_\_\_  
☐ Refundable Security Deposit    ☐ Delivery Charge    \$ \_\_\_\_\_  
☐ Registration Fees    \_\_\_\_\_

Total Payment Due at Inception: \$ \_\_\_\_\_

4. (a) Basic Monthly Payment: \$ \_\_\_\_\_

(b) Other Charges Payable Monthly:  
☐ Maintenance    ☐ Registration Fees    \$ \_\_\_\_\_  
☐ Insurance    \_\_\_\_\_

Total Monthly Payment: \$ \_\_\_\_\_

5. Term of this lease: \_\_\_\_\_  
 The first monthly payment of \$ \_\_\_\_\_ is due on \_\_\_\_\_ subsequent  
 payments of \$ \_\_\_\_\_ on the \_\_\_\_\_ of each month thereafter.

6. Total of Basic Monthly Payments: \$ \_\_\_\_\_

7. Total of Other Charges Payable to Lessor:  
☐ Disposition \$ \_\_\_\_\_    ☐ Maintenance \$ \_\_\_\_\_  
☐ \_\_\_\_\_ \$ \_\_\_\_\_

8. Fees and Taxes  
 Total amount you will pay during the term for official fees, registration, certificate of title, license fees and taxes: \$ \_\_\_\_\_

9. Insurance  
 The following types and amounts of insurance will be acquired in connection with this lease: \_\_\_\_\_

☐ We (lessor) will provide the insurance coverage quoted above for a total premium cost of \$ \_\_\_\_\_

☐ You (lessee) agree to provide insurance coverage in the amounts and types indicated above. \$ \_\_\_\_\_

10. Estimated value of the vehicle at the end of the lease term: \$ \_\_\_\_\_  
 (Your liability for this sum may be limited. See Item 14.)

11. Total Lease Obligation: \$ \_\_\_\_\_  
 (Items 3(a), 6 and 10.)

12. Initial Value of Vehicle: \$ \_\_\_\_\_

13. Difference: \$ \_\_\_\_\_  
 (Item 11 less Item 12.)

14. End of Term Liability

(a) The estimated value of the vehicle stated in Item 10 is based on a reasonable, good faith estimate of the value of the vehicle at the end of the lease term. If the actual value of the vehicle at that time is *greater* than the estimated value, you will have no further liability under this lease, except for other charges already incurred [and are entitled to a credit or refund of any surplus]. If the actual value of the vehicle is *less* than the estimated value, you will be liable for any difference up to \$ \_\_\_\_\_

(3 times Item 4(a)). For any difference in excess of that amount, you will be liable only if

- Excessive use or damage [as described in Item 15] [representing more than normal wear and tear] resulted in an unusually low value at the end of the term.
- You voluntarily agree with us after the end of the lease term to make a higher payment.
- The matter is not otherwise resolved and we win a lawsuit against you seeking a higher payment.

Should we bring a lawsuit against you, we must prove that our original estimate of the value of the leased property at the end of the lease term was reasonable and was made in good faith. For example, we might prove that the actual value was less than the original estimated value, although the original estimate was reasonable, because of an unanticipated decline in value for that type of vehicle.

Unless we prove that the excess amount owed was the result of excessive use or unreasonable wear and tear, we will pay your reasonable attorney's fees.

(b) If you disagree with the value we assign to the vehicle, you may obtain, at your own expense, from an independent third party agreeable to both of us, a professional appraisal of the \_\_\_\_\_ value of the leased vehicle which could be realized at sale. The appraised value shall then be used as the actual value.

## 15. Standards for Wear and Use

The following standards are applicable for determining unreasonable or excessive wear and use of the leased vehicle: \_\_\_\_\_

## 16. Maintenance

[You are responsible for the following maintenance and servicing of the leased vehicle: \_\_\_\_\_]

[We are responsible for the following maintenance and servicing of the leased vehicle: \_\_\_\_\_]

## 17. Warranties

The leased vehicle is subject to the following express warranties: \_\_\_\_\_

## 18. Early Termination and Default

(a) You may terminate this lease before the end of the lease term under the following conditions: \_\_\_\_\_

The charge for such early termination is \_\_\_\_\_

(b) We may terminate this lease before the end of the lease term under the following conditions: \_\_\_\_\_

Upon such termination we shall be entitled to the following charge(s) for \_\_\_\_\_

(c) To the extent these charges take into account the value of the vehicle at the end of the lease term, you have the same right to a professional appraisal as that stated in Item 14(b).

## 19. Security Interest

We reserve a security interest of the following type in the property listed below to secure performance of your obligations under this lease: \_\_\_\_\_

## 20. Late Payments

The charge for late payments is \_\_\_\_\_

## 21. Option to Purchase

[You have an option to purchase the leased vehicle at the following times: \_\_\_\_\_]

If at the end of the term, the price will be \$ \_\_\_\_\_

If prior to the end of the term, the price will be \$ \_\_\_\_\_]

[You have no option to purchase the leased vehicle.]

## Instructions for Completion of Model Open-End or Finance Vehicle Lease Disclosures

### *General Instructions*

Completion of this form may be facilitated by reference to the following instructions. Any question as to the permissibility or accuracy of a specific disclosure may be answered by reference to Regulation M, 12 CFR Part 213.

Information which is required to be disclosed may be estimated if the information is unknown or unavailable, provided that the information is clearly identified as an estimate and the estimate is based on the best information available and is reasonable.

Any inapplicable disclosures should be deleted. This form is based on a monthly periodic payment. Any lessor whose lease contemplates a different payment period should change the form where it refers to "monthly" amounts to read "weekly" or other time period, as appropriate.

All numerical amounts must be stated in figures and shall be printed in not less than the equivalent of ten point type or elite type-written numerals or legibly handwritten. Paragraph numbers need not be printed in ten point type or its equivalent.

### *Specific Instructions*

*Item 1.* The disclosures must be made on a written dated statement. All lessors and lessees must be identified by name. If, for example, one person arranges the lease and another person enters into the lease, both must be identified as lessors. An address may augment the identification but need not be supplied as part of the disclosure form.

*Item 2.* This disclosure provides a brief description of the leased property. Lessors may include a more detailed description including, for example, special accessories. There is no requirement that a vehicle identification number for the vehicle be disclosed.

*Item 3.* This disclosure shows the total amount of any initial payment the customer must make when the lease is entered into. The

components of the initial payment *must* be identified and *may*, at the lessor's option, be itemized with respect to dollar amount.

This item is divided into two distinct parts. The items identified in 3(a) are those which are included in the calculation of the "Total Lease Obligation." Those which appear in 3(b) are not included in the "Total Lease Obligation." For convenient reference and to provide the customer with the total amount due at the inception of the lease, subtotals for 3(a) and 3(b) are provided as well as a combined total of 3(a) and 3(b) (shown as "Total Payment Due at Inception").

The term "Capitalized Cost Reduction" is used to indicate payment in the nature of a downpayment which reduces the value of the leased vehicle to be amortized over the term of the lease.

The "Advance Monthly Payment" is the total of all amounts collected at the inception of the lease which are to be attributed to a monthly payment(s). For example, if the first month's rental payment is collected at the inception, the form might read "Advance Monthly Payment of the first month's rent" or a similar phrase. If the last month's payment, or any other payment in the nature of rental for a portion of the term, is collected at the inception, appropriate language should be provided to describe the components of the "Advance Monthly Payment."

Checklists are provided for both 3(a) and 3(b) to aid in identifying their components. Blank spaces and check boxes are provided to identify any other elements which are to be included in these items.

*Item 4.* This item discloses the payment the lessee must make each payment period. This item is divided into two parts. The terms in 4(a) are those portions of each payment which are included in the computation of the "Total Lease Obligation." This item includes sales/use taxes paid on the periodic (monthly) payment. The terms in 4(b) are not included in the "Total Lease Obligation." For convenient reference and to provide the customer with the total amount of each payment, subtotals are provided for 4(a) and 4(b) as well as the combined total of 4(a) and 4(b) (shown as the "Total Monthly Payment").

The components of 4(a) and 4(b) may be itemized as to dollar amount.

**Item 5.** This item discloses the term of the lease, the date of the first periodic payment and the dates or periods of all subsequent periodic payments. The blank spaces should be filled in with the appropriate terms. For example, after the phrase "Term of this lease:" the lessor may place the words "24 months" or "April 2, 1977, through April 2, 1979," as appropriate. In the blank spaces provided after the phrase "The first monthly payment of:" should be the appropriate amount and date. The first monthly payment may be part or all of the "Advance Monthly Payment" disclosed under 3(b). The phrase "subsequent payments of" should be preceded by the appropriate number of payments and followed with the appropriate terms, such as "\$100.00 on the 2d of each month thereafter."

**Item 6.** This item discloses the total of the basic monthly payments payable over the term of the lease. This figure is computed by multiplying the basic monthly payment from Item 4(a) by the number of subsequent payments in Item 5 and adding to the product the basic portion of the first monthly payment. This figure will be used in computing the "Total Lease Obligation."

**Item 7.** This item discloses the total of other charges payable to the lessor. This excludes charges for official fees, taxes, insurance and charges disclosed as totals under other items. The individual components must be identified and itemized as to amount. A blank check box is provided in order to add to the list, as necessary.

**Item 8.** This item discloses the total amount to be paid by the lessee during the lease term for taxes and other official fees.

**Item 9.** This item requires disclosure of the types and amounts of insurance coverage, with their total premium cost, if the insurance is provided by the lessor. In the alternative, only the types and amounts of coverage required of the lessee must be disclosed if the lessee provides the insurance coverage. The

disclosure is to be completed by identifying the types and amounts of insurance coverage following the colon at the end of the first sentence. If the lessor is to provide the coverage the top check box should be filled in and the total premium cost indicated in the blank space provided. Otherwise the bottom check box should be filled in.

**Item 10.** This item provides for disclosure of the estimated value of the leased vehicle at the end of the term, an element of the "Total Lease Obligation." A blank space is provided in which to indicate whether the value shown is, for example, "retail" or "wholesale" value.

**Items 11, 12 and 13.** These items provide for disclosure of the difference between the "Total Lease Obligation" and the vehicle's value at the inception of the lease. The definition of "Total Lease Obligation" is the sum of any initial charges (Item 3(a)), the total of basic monthly payments (Item 6) and the estimated value of the property at the end of the term (Item 10). The "Total Lease Obligation" does not include items such as refundable security deposits and insurance premiums.

**Item 14.** This item provides disclosures with respect to the lessee's liability at the end of the lease term. The bracketed phrase in the second sentence is appropriate only where the lessee will be given any surplus resulting from the disposition. The lessor may, in Item 14(a) 1, reference the standards set forth in Item 15, if the lessor set such standards. If the lessor does not set standards for wear and use, the second bracketed phrase should be used. Item 14(b) discloses the lessee's right to an independent appraisal. The blank space in Item 14(b) is provided to indicate whether the value of the appraisal should be, for example, "wholesale" or "retail." This item should be consistent with the type of value used in Item 10.

**Item 15.** This item discloses reasonable standards for wear and use established by the lessor. The lessor is permitted but not required to set such standards. Therefore, the disclosure may be omitted by lessors who do not set standards for wear and use.



*Item 16.* This item provides for disclosure of the maintenance and servicing responsibilities of the parties. These responsibilities may be allocated either to the lessor or to the lessee, or may be divided between them.

*Item 17.* This item discloses all express warranties on the leased property made by the manufacturer or lessor and available to the lessee. A brief identification of the warranty must be supplied. A reference to the standard manufacturer's warranty, for example, would suffice.

*Item 18.* This item discloses the conditions under which the lessee may terminate the lease prior to the end of the lease term. It also discloses the amount or method of determining the amount of the charge which the lessee must pay for early termination. This item should disclose the conditions under which the lessor may terminate the lease prior to the end of the term, such as default. This item should also be used to disclose the amount or method of determining the amount of any default charges. The charges or method of determining the charges for early termination by

the lessor other than for lessee's default should be separately specified in this item.

*Item 19.* This disclosure of the security taken must include, in the space provided, a brief identification of the types of security interests and an identification of the property covered by each.

*Item 20.* This disclosure indicates the amount or method of determining the amount of any charges for late payment.

*Item 21.* This item provides alternative disclosures covering the several options a lessor may offer to a lessee to purchase the leased property. A lessor should use the disclosures applicable to the lease plan used. For example, if no option to purchase is offered, only the last sentence of the item should be used. If the lessor offers an option to purchase, the times at which it may be exercised must be supplied. The price must be disclosed for an option exercised at the end of the term and the price or method of computing the price for an option exercised during the lease term must be supplied.

## C-2—Model Closed-End or Net Vehicle Lease Disclosures

Date \_\_\_\_\_

These disclosures are provided pursuant to the Federal Consumer Leasing Act.

1. LESSOR(S) \_\_\_\_\_ LESSEE(S) \_\_\_\_\_

2. Description of leased property

Year	Make	Model	Body Style	Vehicle ID #

3. Total Payment Due at Inception:

<input type="checkbox"/> Capitalized Cost Reduction <input type="checkbox"/> Trade-in Allowance <input type="checkbox"/> Advance Monthly Payment of _____ <input type="checkbox"/> Refundable Security Deposit _____	<input type="checkbox"/> Delivery Charge <input type="checkbox"/> Registration Fees  \$ _____
---	--

4. Term of this lease:  
 The first monthly payment of \$ \_\_\_\_\_ is due on \_\_\_\_\_ subsequent payments of \$ \_\_\_\_\_ on the \_\_\_\_\_ of each month thereafter

5. Total Monthly Payment: \$ \_\_\_\_\_

6. Total of Monthly Payments: \$ \_\_\_\_\_

7. Total of Other Charges Payable to Lessor:

<input type="checkbox"/> Disposition \$ _____ \$ _____	<input type="checkbox"/> Maintenance \$ _____ \$ _____
---	---

8. Fees and Taxes  
 Total amount you will pay during the term for official fees, registration, certificate of title, license fees and taxes. \$ \_\_\_\_\_

9. Insurance  
 The following types and amounts of insurance will be acquired in connection with this lease:

<input type="checkbox"/> We (lessor) will provide the insurance coverage quoted above for a total premium cost of \$ _____ <input type="checkbox"/> You (lessee) agree to provide insurance coverage in the amounts and types indicated above.	\$ _____
---	----------

10. Standards for Wear and Use  
 The following standards are applicable for determining unreasonable or excessive wear and use of the leased vehicle: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

11. Maintenance  
 [You are responsible for the following maintenance and servicing of the leased vehicle: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_]  
 [We are responsible for the following maintenance and servicing of the leased vehicle: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_]

12. Warranties

The leased vehicle is subject to the following express warranties:

13. Early Termination and Default

(a) You may terminate this lease before the end of the lease term under the following conditions:

The charge for such early termination is

(b) We may terminate this lease before the end of the lease term under the following conditions:

Upon such termination we shall be entitled to the following charge(s) for

(c) To the extent that these charges take into account the value of the vehicle at the end of the lease term, if you disagree with the value we assign to the vehicle, you may obtain at your own expense, from an independent third party agreeable to both of us, a professional appraisal of the \_\_\_\_\_ value of the leased vehicle which could be realized at sale. The appraised value shall then be used as the actual value.

14. Security Interest

We reserve a security interest of the following type in the property listed below to secure performance of your obligations under this lease:

15. Late Payments

The charge for late payments is

16. Lessee's Option to Purchase

[You have an option to purchase the leased vehicle at the following times:

If at the end of the term, the price will be \$ \_\_\_\_\_.

If prior to the end of the term, the price will be \$ \_\_\_\_\_.

[You have no option to purchase the leased vehicle.]

## Instructions for Completion of Model Closed-End or Net Vehicle Lease Disclosures

### *General Instructions*

Completion of this form may be facilitated by reference to the following instructions. Any question as to the permissibility or accuracy of a specific disclosure may be answered by reference to Regulation M, 12 CFR Part 213.

Information which is required to be disclosed may be estimated if the information is unknown or unavailable, provided that the information is clearly identified as an estimate and the estimate is based on the best information available and is reasonable.

Any inapplicable disclosures should be deleted. This form is based on a monthly periodic payment. Any lessor whose lease contemplates a different payment period should change the form where it refers to "monthly" amounts to read "weekly" or other time period, as appropriate. All numerical amounts must be stated in figures and shall be printed in not less than the equivalent of ten point type or elite typewritten numerals or legibly handwritten. Paragraph numbers need not be printed in ten point type or its equivalent.

### *Specific Instructions*

**Item 1.** The disclosures must be made on a written dated statement. All lessors and lessees must be identified by name. If, for example, one person arranges the lease and another person enters into the lease, both must be identified as lessors. An address may augment the identification but need not be supplied as part of the disclosure form.

**Item 2.** This disclosure provides a brief description of the leased property. Lessors may include a more detailed description including, for example, special accessories. There is no requirement that a vehicle identification number for the vehicle be disclosed.

**Item 3.** This disclosure shows the total amount of any initial payment the customer must make when the lease is entered into. The components of the initial payment *must* be

identified and *may*, at the lessor's option, be itemized with respect to dollar amount.

The term "Capitalized Cost Reduction" is used to indicate a payment in the nature of a downpayment which reduces the value of the leased vehicle to be amortized over the term of the lease.

The "Advance Monthly Payment" is the total of all amounts collected at the inception of the lease which are to be attributed to a monthly payment(s). For example, if the first month's rental payment is collected at the inception, the form might read "Advance Monthly Payment of the first month's rent" or a similar phrase. If the last month's payment, or any other payment in the nature of rental for a portion of the term, is collected at the inception, appropriate language should be provided to describe the components of the "Advance Monthly Payment."

Checklists are provided to aid in identifying the components. Blank spaces and check boxes are provided to identify any other elements which are to be included in this item.

**Item 4.** This item discloses the term of the lease, the date of the first periodic payment and the dates or periods of all subsequent periodic payments. The blank spaces should be filled in with the appropriate terms. For example, after the phrase "Term of this lease:" the lessor may place the words "24 months" or "April 2, 1977, through April 2, 1979," as appropriate. In the blank spaces provided after the phrase "The first monthly payment of:" should be the appropriate amount and date. The first monthly payment may be part or all of the "Advance Monthly Payment" disclosed under Item 3. The phrase "subsequent payments of" should be preceded by the appropriate number of payments and followed with the appropriate terms, such as "\$100.00 on the 2d of each month thereafter."

**Item 5.** This item discloses the payment the lessee must make each payment period. The component parts of the "Total Monthly Payment" may but need not be identified and itemized as to amount.

**Item 6.** This item discloses the total of the monthly payments payable over the term of

the lease. This figure is computed by multiplying the monthly payment from Item 5 by the number of subsequent payments in Item 4 and adding the first monthly payment to the product.

*Item 7.* This item discloses the total of other charges payable to the lessor. This excludes charges for official fees, taxes, insurance and charges disclosed as totals under other items. The individual components must be identified and itemized as to amount. A blank check box is provided in order to add to the list, as necessary.

*Item 8.* This item discloses the total amount to be paid by the lessee during the lease term for taxes and other official fees.

*Item 9.* This item requires disclosure of the types and amounts of insurance coverage, with their total premium cost, if the insurance is provided by the lessor. In the alternative, only the types and amounts of coverage required of the lessee must be disclosed if the lessee provides the insurance coverage. The disclosure is to be completed by identifying the types and amounts of insurance coverage following the colon at the end of the first sentence. If the lessor is to provide the coverage the top check box should be filled in and the total premium cost indicated in the blank space provided. Otherwise the bottom check box should be filled in.

*Item 10.* This item discloses reasonable standards for wear and use established by the lessor. The lessor is permitted but not required to set such standards. Therefore, the disclosure may be omitted by lessors who do not set standards for wear and use.

*Item 11.* This item provides for disclosure of the maintenance and servicing responsibilities of the parties. These responsibilities may be allocated either to the lessor or to the lessee, or may be divided between them.

*Item 12.* This item discloses all express warranties on the leased property made by the

manufacturer or lessor and available to the lessee. A brief identification of the warranty must be supplied. A reference to the standard manufacturer's warranty, for example, would suffice.

*Item 13.* This item discloses the conditions under which the lessee may terminate the lease prior to the end of the lease term. It also discloses the amount or method of determining the amount of the charge which the lessee must pay for early termination. This item should disclose the conditions under which the lessor may terminate the lease prior to the end of the term, such as default. This item should also be used to disclose the amount or method of determining the amount of any default charges. The charges or method of determining the charges for early termination by the lessor other than for lessee's default should be separately specified in this item. The blank space in 13(c) is provided to indicate whether the appraisal should be, for example, "retail" or "wholesale."

*Item 14.* This disclosure of the security taken must include, in the space provided, a brief identification of the types of security interests and an identification of the property covered by each.

*Item 15.* This disclosure indicates the amount or method of determining the amount of any charges for late payment.

*Item 16.* This item provides alternative disclosures covering the several options a lessor may offer to a lessee to purchase the leased property. A lessor should use the disclosures applicable to the lease plan used. For example, if no option to purchase is offered, only the last sentence of the item should be used. If the lessor offers an option to purchase, the times at which it may be exercised must be supplied. The price must be disclosed for an option exercised at the end of the term and the price or method of computing the price for an option exercised during the lease term must be supplied.

## C-3—Model Furniture Lease Disclosures

Date \_\_\_\_\_

These disclosures are provided pursuant to the Federal Consumer Leasing Act.

1. LESSOR(S) \_\_\_\_\_

LESSEE(S) \_\_\_\_\_

2. Description of leased property (if attached)

Item	Color	Stock #	Mfg	Qty						

3. Total Payment Due at Inception

☐ Refundable Security Deposit☐ Delivery Charge☐ Advance Monthly Payment of \_\_\_\_\_

4. Term of this lease

The first monthly payment of \$ \_\_\_\_\_ is due on \_\_\_\_\_ subsequent payments of \$ \_\_\_\_\_ on the \_\_\_\_\_ of each month thereafter

5. Total Monthly Payment

6. Total of Monthly Payments

7. Total of Other Charges Payable to Lessor

☐ Pick-up Charge \$ \_\_\_\_\_

8. Fees and Taxes

Total amount you will pay during the term for official fees and taxes

9. Insurance

☐ You (lessee) agree to provide insurance coverage of the following types in the following amounts☐ We (lessor) will provide the following types and amounts of insurance coverage:

Total premium cost:

☐ You agree to pay a waiver fee of \$ \_\_\_\_\_ per month in lieu of insurance

Total Waiver Fee:

10. Maintenance

(You are responsible for the following maintenance of the leased property: \_\_\_\_\_)

(We are responsible for the following maintenance of the leased property: \_\_\_\_\_)

11. Warranties

The leased property is subject to the following express warranties: \_\_\_\_\_

12. Standards for Wear and Use

The following standards are applicable for determining unreasonable or excessive wear and use of the leased property: \_\_\_\_\_

13. Early Termination and Default

(a) You may terminate this lease before the end of the lease term under the following conditions: \_\_\_\_\_

The charge for such early termination is \_\_\_\_\_

(b) We may terminate this lease before the end of the lease term under the following conditions: \_\_\_\_\_

Upon such termination we shall be entitled to the following charge(s): \_\_\_\_\_

14. Security Interest

We reserve a security interest of the following type in the property listed below to secure performance of your obligations under this lease: \_\_\_\_\_

15. Late Payments

The charge for late payments is \_\_\_\_\_

16. Option to Purchase

[You have an option to purchase any or all items of the leased property at the following times: \_\_\_\_\_]

If at the end of the term, the price will be \$ \_\_\_\_\_

If prior to the end of the term, the price will be \$ \_\_\_\_\_

[You have no option to purchase the leased property.]

## Instructions for Completion of Model Furniture Lease Disclosures

### General Instructions

Completion of this form may be facilitated by reference to the following instructions. Any question as to the permissibility or accuracy of a specific disclosure may be answered by reference to Regulation M, 12 CFR Part 213.

Information which is required to be disclosed may be estimated if the information is unknown or unavailable, provided that the information is clearly identified as an estimate and the estimate is based on the best information available and is reasonable.

Any inapplicable disclosures should be deleted. This form is based on a monthly periodic payment. Any lessor whose lease contemplates a different payment period should change the form where it refers to "monthly" amounts to read "weekly" or other time period, as appropriate.

All numerical amounts must be stated in figures and shall be printed in not less than the equivalent of ten point type or elite type-written numerals or legibly handwritten. Paragraph numbers need not be printed in ten point type or its equivalent.

### Specific Instructions

**Item 1.** The disclosures must be made on a written dated statement. All lessors and lessees must be identified by name. If, for example, one person arranges the lease and another person enters into the lease, both must be identified as lessors. An address may augment the identification but need not be supplied as part of the disclosure form.

**Item 2.** This disclosure provides a brief description of the leased items. In the left column the name of the item should appear. The relevant entry should be made in the appropriate box in the columns to the right of the names of the items as indicated by the column headings. All of the descriptive elements in the column headings, except the one labeled "Item," are examples only. Those which are inapplicable to a lease plan may be deleted. Other descriptive column headings may be

added (as indicated by the blank columns) if the lessor desires.

**Item 3.** This disclosure shows the total amount of any initial payment the customer must make when the lease is consummated. The components of the initial payment *must* be identified and *may*, at the lessor's option, be itemized with respect to dollar amount. Additional components may be added to the list, as necessary, by use of the blank check box.

The "Advance Monthly Payment" is the total of all amounts collected at the inception of the lease which are to be attributed to a monthly payment(s). For example, if the first month's rental payment is collected at the inception, the form might read "Advance Monthly Payment of the first month's rent" or a similar phrase. If the last month's payment, or any other payment in the nature of rental for a portion of the term, is collected at the inception, appropriate language should be provided to describe the components of the "Advance Monthly Payment."

**Item 4.** This item discloses the term of the lease, the date of the first periodic payment and the dates or periods of all subsequent periodic payments. The blank spaces should be filled in with the appropriate terms. For example, after the phrase "Term of this lease:" the lessor may place the words "24 months" or "April 2, 1977, through April 2, 1979," as appropriate. In the blank spaces provided after the phrase "The first monthly payment of:" should be the appropriate amount and date. The first monthly payment may be part or all of the "Advance Monthly Payment" disclosed under Item 3. The phrase "subsequent payments of" should be preceded by the appropriate number of payments and followed with the appropriate terms, such as "\$100.00 on the 2d of each month thereafter."

**Item 5.** This item discloses the payment the lessee must make each month. The component parts of the monthly payment may but need not be itemized as to amount.

**Item 6.** This item discloses the total of the monthly payments payable over the term of



the lease. This figure is computed by multiplying the amount of the monthly payment in Item 5 by the number of subsequent payments in Item 4 and adding to that product the amount of the first monthly payment.

*Item 7.* This item discloses the total of other charges payable to the lessor. This excludes charges for official fees, taxes, insurance and charges disclosed as totals under other items. The individual components must be identified and itemized as to amount. A blank check box is provided in order to add to the list, as necessary.

*Item 8.* This item discloses the total amount to be paid by the lessee during the lease term for taxes and other official fees.

*Item 9.* This item provides alternative methods of disclosing insurance coverage. It provides a disclosure for situations in which the lessee provides the coverage, in which case the types and amounts of coverage must be specified. It provides a disclosure for situations in which the lessee procures coverage through the lessor, in which case the types, amounts and costs of coverage must be specified. It also provides for disclosure of a fee in lieu of insurance.

*Item 10.* This item provides for disclosure of the maintenance and servicing responsibilities of the parties. These responsibilities may be allocated either to the lessor or to the lessee, or may be divided between them.

*Item 11.* This item discloses all express warranties applicable to the leased property made by the manufacturer or lessor and available to the lessee. A brief identification of the warranty must be supplied. A reference to the standard manufacturer's warranty would suffice.

*Item 12.* This item discloses standards for wear and use established by the lessor. The lessor is permitted, but not required, to set such standards.

*Item 13.* This item discloses the conditions under which the lessee may terminate the lease prior to the end of the lease term. It also discloses the amount or method of determining the amount of the charge which the lessee must pay for early termination. This item should disclose the conditions under which the lessor may terminate the lease prior to the end of the term, such as default. This item should also be used to disclose the amount or method of determining the amount of any default charges. The charges or method of determining the charges for early termination by the lessor other than for lessee's default should be separately specified in this item.

*Item 14.* This disclosure of the security taken must include, in the space provided, a brief identification of the types of security interests and an identification of the property covered by each such interest.

*Item 15.* This disclosure indicates the amount or method of determining the amount of any charges for late payment.

*Item 16.* This item provides alternative disclosures covering the several options a lessor may offer to a lessee to purchase the leased property. A lessor should use the disclosures applicable to the lease plan used. For example, if no option to purchase is offered, only the last sentence of the item should be used. If the lessor offers an option to purchase, the times at which it may be exercised must be supplied. The price must be disclosed for an option exercised at the end of the term and the price or method of computing the price for an option exercised during the lease term must be supplied.

## APPENDIX D—Federal Enforcement Agencies

The following list indicates which federal agency enforces Regulation M for particular classes of business. Any questions concerning compliance by a particular business should be directed to the appropriate enforcement agency.

*National Banks*

Consumer Community and Fair Lending Examination Division  
Comptroller of the Currency  
Washington, D.C. 20219

*State Member Banks*

Federal Reserve Bank serving the District in which the state member bank is located.

*Nonmember Insured Banks*

Federal Deposit Insurance Corporation Regional Director for the region in which the nonmember insured bank is located.

*Savings Institutions Insured by the FSLIC and Members of the FHLB System (except for savings banks insured by FDIC)*

The Federal Home Loan Bank Board supervisory agent in the district in which the institution is located.

*Federal Credit Unions*

Regional office of the National Credit Union Administration serving the area in which the federal credit union is located.

*Those Subject to Civil Aeronautics Board*  
Director, Bureau of Consumer Protection  
Civil Aeronautics Board  
1825 Connecticut Avenue, N.W.  
Washington, D.C. 20428

*Those Subject to Packers and Stockyards Act*  
Nearest Packers and Stockyards Administration area supervisor

*Federal Land Banks, Federal Land Bank Associations, Federal Intermediate Credit Banks, and Production Credit Associations*  
Farm Credit Administration  
490 L'Enfant Plaza, S.W.  
Washington, D.C. 20578

*All Other Lessors (lessors operating on a local or regional basis should use the address of the FTC regional office in which they operate)*  
Division of Credit Practices  
Bureau of Consumer Protection  
Federal Trade Commission  
Washington, D.C. 20580

# Truth in Lending Act

15 USC 1601; 82 Stat. 146; Pub. L. 90-321 (May 29, 1968); as amended October 26, 1970, October 28, 1974, February 27, 1976, March 23, 1976, and March 31, 1980

## *Public Law 90-321 (as amended), Title I (Chapters 1, 2, and 5)*

### CHAPTER 1—GENERAL PROVISIONS

#### Section

- 101 Short title
- 102 Findings and declaration of purpose
- 103 Definitions and rules of construction
- 104 Exempted transactions
- 105 Regulations
- 106 Determination of finance charge
- 107 Determination of annual percentage rate
- 108 Administrative enforcement
- 109 Views of other agencies
- 110 [Repealed]
- 111 Effect on other laws
- 112 Criminal liability for willful and knowing violation
- 113 Effect on governmental agencies
- 114 Reports by Board and Attorney General
- 115 [Repealed]

#### SECTION 101—Short Title

This title may be cited as the Truth in Lending Act.

#### SECTION 102—Findings and Declaration of Purpose

(a) The Congress finds that economic stabilization would be enhanced and the competition among the various financial institutions and other firms engaged in the extension of consumer credit would be strengthened by the informed use of credit. The informed use of credit results from an awareness of the cost thereof by consumers. It is the purpose of this title to assure a meaningful disclosure of credit terms so that the consumer will be able to

compare more readily the various credit terms available to him and avoid the uninformed use of credit, and to protect the consumer against inaccurate and unfair credit billing and credit card practices.

(b) The Congress also finds that there has been a recent trend toward leasing automobiles and other durable goods for consumer use as an alternative to instalment credit sales and that these leases have been offered without adequate cost disclosures. It is the purpose of this title to assure a meaningful disclosure of the terms of leases of personal property for personal, family, or household purposes so as to enable the lessee to compare more readily the various lease terms available to him, limit balloon payments in consumer leasing, enable comparison of lease terms with credit terms where appropriate, and to assure meaningful and accurate disclosures of lease terms in advertisements.

#### SECTION 103—Definitions and Rules of Construction

(a) The definitions and rules of construction set forth in this section are applicable for the purposes of this title.

(b) The term “*Board*” refers to the Board of Governors of the Federal Reserve System.

(c) The term “*organization*” means a corporation, government or governmental subdivision or agency, trust, estate, partnership, cooperative, or association.

(d) The term “*person*” means a natural person or an organization.

(e) The term “*credit*” means the right granted by a creditor to a debtor to defer payment of debt or to incur debt and defer its payment.

(f) The term “*creditor*” refers only to a person who both (1) regularly extends, whether

in connection with loans, sales of property or services, or otherwise, consumer credit which is payable by agreement in more than four installments or for which the payment of a finance charge is or may be required; and (2) is the person to whom the debt arising from the consumer credit transaction is initially payable on the face of the evidence of indebtedness or, if there is no such evidence of indebtedness, by agreement. Notwithstanding the previous sentence, a person who regularly arranges for the extension of consumer credit, which is payable in more than four installments or for which the payment of a finance charge is or may be required, from persons who are not creditors is a creditor, and in the case of an open end credit plan involving a credit card, the card issuer and any person who honors the credit card and offers a discount which is a finance charge are creditors. For the purposes of the requirements imposed under chapter 4 and sections 127(a)(5), 127(a)(6), 127(a)(7), 127(b)(1), 127(b)(2), 127(b)(3), 127(b)(8), and 127(b)(10) of chapter 2 of this title, the term "creditor" shall also include card issuers whether or not the amount due is payable by agreement in more than four installments or the payment of a finance charge is or may be required, and the Board shall, by regulation, apply these requirements to such card issuers, to the extent appropriate, even though the requirements are by their terms applicable only to creditors offering open end credit plans.

(g) The term "*credit sale*" refers to any sale in which the seller is a creditor. The term includes any contract in the form of a bailment or lease if the bailee or lessee contracts to pay as compensation for use a sum substantially equivalent to or in excess of the aggregate value of the property and services involved and it is agreed that the bailee or lessee will become, or for no other or a nominal consideration has the option to become, the owner of the property upon full compliance with his obligations under the contract.

(h) The adjective "*consumer*", used with reference to a credit transaction, characterizes the transaction as one in which the party to whom credit is offered or extended is a natural

person, and the money, property, or services which are the subject of the transaction are primarily for personal, family, or household purposes.

(i) The term "*open end credit plan*" means a plan under which the creditor reasonably contemplates repeated transactions, which prescribes the terms of such transactions, and which provides for a finance charge which may be computed from time to time on the outstanding unpaid balance. A credit plan which is an open end credit plan within the meaning of the preceding sentence is an open end credit plan even if credit information is verified from time to time.

(j) The term "*adequate notice*", as used in section 133, means a printed notice to a cardholder which sets forth the pertinent facts clearly and conspicuously so that a person against whom it is to operate could reasonably be expected to have noticed it and understood its meaning. Such notice may be given to a cardholder by printing the notice on any credit card, or on each periodic statement of account, issued to the cardholder, or by any other means reasonably assuring the receipt thereof by the cardholder.

(k) The term "*credit card*" means any card, plate, coupon book or other credit device existing for the purpose of obtaining money, property, labor, or services on credit.

(l) The term "*accepted credit card*" means any credit card which the cardholder has requested and received or has signed or has used, or authorized another to use, for the purpose of obtaining money, property, labor, or services on credit.

(m) The term "*cardholder*" means any person to whom a credit card is issued or any person who has agreed with the card issuer to pay obligations arising from the issuance of a credit card to another person.

(n) The term "*card issuer*" means any person who issues a credit card, or the agent of such person with respect to such card.

(o) The term “*unauthorized use*”, as used in section 133, means a use of a credit card by a person other than the cardholder who does not have actual, implied, or apparent authority for such use and from which the cardholder receives no benefit.

(p) The term “*discount*” as used in section 167 means a reduction made from the regular price. The term “discount” as used in section 167 shall not mean a surcharge.

(q) The term “*surcharge*” as used in section 103 and section 167 means any means of increasing the regular price to a cardholder which is not imposed upon customers paying by cash, check, or similar means.

(r) The term “*State*” refers to any State, the Commonwealth of Puerto Rico, the District of Columbia, and any territory or possession of the United States.

(s) The term “*agricultural purposes*” includes the production, harvest, exhibition, marketing, transportation, processing, or manufacture of agricultural products by a natural person who cultivates, plants, propagates, or nurtures those agricultural products, including but not limited to the acquisition of farmland, real property with a farm residence, and personal property and services used primarily in farming.

(t) The term “*agricultural products*” includes agricultural, horticultural, viticultural, and dairy products, livestock, wildlife, poultry, bees, forest products, fish and shellfish, and any products thereof, including processed and manufactured products, and any and all products raised or produced on farms and any processed or manufactured products thereof.

(u) The term “*material disclosures*” means the disclosure, as required by this title, of the annual percentage rate, the method of determining the finance charge and the balance upon which a finance charge will be imposed, the amount of the finance charge, the amount to be financed, the total of payments, the number and amount of payments, and the due dates or periods of payments scheduled to repay the indebtedness.

(v) The term “*dwelling*” means a residential structure or mobile home which contains one to four family housing units, or individual units of condominiums or cooperatives.

(w) The term “*residential mortgage transaction*” means a transaction in which a mortgage, deed of trust, purchase money security interest arising under an installment sales contract, or equivalent consensual security interest is created or retained against the consumer’s dwelling to finance the acquisition or initial construction of such dwelling.

(x) Any reference to any requirement imposed under this title or any provision thereof includes reference to the regulations of the Board under this title or the provision thereof in question.

(y) The disclosure of an amount or percentage which is greater than the amount or percentage required to be disclosed under this title does not in itself constitute a violation of this title.

## SECTION 104—Exempted Transactions

This title does not apply to the following:

(1) Credit transactions involving extensions of credit primarily for business, commercial, or agricultural purposes, or to government or governmental agencies or instrumentalities, or to organizations.

(2) Transactions in securities or commodities accounts by a broker-dealer registered with the Securities and Exchange Commission.

(3) Credit transactions, other than those in which a security interest is or will be acquired in real property, or in personal property used or expected to be used as the principal dwelling of the consumer, in which the total amount financed exceeds \$25,000.

(4) Transactions under public utility tariffs, if the Board determines that a State regulatory body regulates the charges for the public utility services involved, the charges for delayed payment, and any discount allowed for early payment.

## SECTION 105—Regulations

(a) The Board shall prescribe regulations to carry out the purposes of this title. These regulations may contain such classifications, differentiations, or other provisions, and may provide for such adjustments and exceptions for any class of transactions, as in the judgment of the Board are necessary or proper to effectuate the purposes of this title, to prevent circumvention or evasion thereof, or to facilitate compliance therewith.

(b) The Board shall publish model disclosure forms and clauses for common transactions to facilitate compliance with the disclosure requirements of this title and to aid the borrower or lessee in understanding the transaction by utilizing readily understandable language to simplify the technical nature of the disclosures. In devising such forms, the Board shall consider the use by creditors or lessors of data processing or similar automated equipment. Nothing in this title may be construed to require a creditor or lessor to use any such model form or clause prescribed by the Board under this section. A creditor or lessor shall be deemed to be in compliance with the disclosure provisions of this title with respect to other than numerical disclosures if the creditor or lessor (1) uses any appropriate model form or clause as published by the Board, or (2) uses any such model form or clause and changes it by (A) deleting any information which is not required by this title, or (B) rearranging the format, if in making such deletion or rearranging the format, the creditor or lessor does not affect the substance, clarity, or meaningful sequence of the disclosure.

(c) Model disclosure forms and clauses shall be adopted by the Board after notice duly given in the Federal Register and an opportunity for public comment in accordance with section 553 of title 5, United States Code.

(d) Any regulation of the Board, or any amendment or interpretation thereof, requiring any disclosure which differs from the disclosures previously required by this chapter,

chapter 4, or chapter 5, or by any regulation of the Board promulgated thereunder shall have an effective date of that October 1 which follows by at least six months the date of promulgation, except that the Board may at its discretion take interim action by regulation, amendment, or interpretation to lengthen the period of time permitted for creditors or lessors to adjust their forms to accommodate new requirements or shorten the length of time for creditors or lessors to make such adjustments when it makes a specific finding that such action is necessary to comply with the findings of a court or to prevent unfair or deceptive disclosure practices. Notwithstanding the previous sentence, any creditor or lessor may comply with any such newly promulgated disclosure requirements prior to the effective date of the requirements.

## SECTION 106—Determination of Finance Charge

(a) Except as otherwise provided in this section, the amount of the finance charge in connection with any consumer credit transaction shall be determined as the sum of all charges, payable directly or indirectly by the person to whom the credit is extended, and imposed directly or indirectly by the creditor as an incident to the extension of credit. The finance charge does not include charges of a type payable in a comparable cash transaction. Examples of charges which are included in the finance charge include any of the following types of charges which are applicable.

(1) Interest, time price differential, and any amount payable under a point, discount, or other system of additional charges.

(2) Service or carrying charge.

(3) Loan fee, finder's fee, or similar charge.

(4) Fee for an investigation or credit report.

(5) Premium or other charge for any guarantee or insurance protecting the creditor against the obligor's default or other credit loss.

(b) Charges or premiums for credit life, accident, or health insurance written in connection with any consumer credit transaction shall be included in the finance charge unless

(1) the coverage of the debtor by the insurance is not a factor in the approval by the creditor of the extension of credit, and this fact is clearly disclosed in writing to the person applying for or obtaining the extension of credit; and

(2) in order to obtain the insurance in connection with the extension of credit, the person to whom the credit is extended must give specific affirmative written indication of his desire to do so after written disclosure to him of the cost thereof.

(c) Charges or premiums for insurance, written in connection with any consumer credit transaction, against loss of or damage to property or against liability arising out of the ownership or use of property, shall be included in the finance charge unless a clear and specific statement in writing is furnished by the creditor to the person to whom the credit is extended, setting forth the cost of the insurance if obtained from or through the creditor, and stating that the person to whom the credit is extended may choose the person through which the insurance is to be obtained.

(d) If any of the following items is itemized and disclosed in accordance with the regulations of the Board in connection with any transaction, then the creditor need not include that item in the computation of the finance charge with respect to that transaction:

(1) Fees and charges prescribed by law which actually are or will be paid to public officials for determining the existence of or for perfecting or releasing or satisfying any security related to the credit transaction.

(2) The premium payable for any insurance in lieu of perfecting any security interest otherwise required by the creditor in connection with the transaction, if the premium does not exceed the fees and charges described in paragraph (1) which would otherwise be payable.

(e) The following items, when charged in connection with any extension of credit se-

cured by an interest in real property, shall not be included in the computation of the finance charge with respect to that transaction:

(1) Fees or premiums for title examination, title insurance, or similar purposes.

(2) Fees for preparation of a deed, settlement statement, or other documents.

(3) Escrows for future payments of taxes and insurance.

(4) Fees for notarizing deeds and other documents.

(5) Appraisal fees.

(6) Credit reports.

### SECTION 107—Determination of Annual Percentage Rate

(a) The annual percentage rate applicable to any extension of consumer credit shall be determined, in accordance with the regulations of the Board,

(1) in the case of any extension of credit other than under an open end credit plan, as

(A) that nominal annual percentage rate which will yield a sum equal to the amount of the finance charge when it is applied to the unpaid balances of the amount financed, calculated according to the actuarial method of allocating payments made on a debt between the amount financed and the amount of the finance charge, pursuant to which a payment is applied first to the accumulated finance charge and the balance is applied to the unpaid amount financed; or

(B) the rate determined by any method prescribed by the Board as a method which materially simplifies computation while retaining reasonable accuracy as compared with the rate determined under subparagraph (A).

(2) in the case of any extension of credit under an open end credit plan, as the quotient (expressed as a percentage) of the total finance charge for the period to which it relates divided by the amount upon which the finance charge for that period is based, multiplied by the number of such periods in a year.

(b) Where a creditor imposes the same finance charge for balances within a specified range, the annual percentage rate shall be computed on the median balance within the range, except that if the Board determines that a rate so computed would not be meaningful, or would be materially misleading, the annual percentage rate shall be computed on such other basis as the Board may by regulation require.

(c) The disclosure of an annual percentage rate is accurate for the purpose of this title if the rate disclosed is within a tolerance not greater than one-eighth of 1 per centum more or less than the actual rate or rounded to the nearest one-fourth of 1 per centum. The Board may allow a greater tolerance to simplify compliance where irregular payments are involved.

(d) The Board may authorize the use of rate tables or charts which may provide for the disclosure of annual percentage rates which vary from the rate determined in accordance with subsection (a)(1)(A) by not more than such tolerances as the Board may allow. The Board may not allow a tolerance greater than 8 per centum of that rate except to simplify compliance where irregular payments are involved.

(e) In the case of creditors determining the annual percentage rate in a manner other than as described in subsection (d), the Board may authorize other reasonable tolerances.

## SECTION 108—Administrative Enforcement

(a) Compliance with the requirements imposed under this title shall be enforced under

(1) section 8 of the Federal Deposit Insurance Act, in the case of

(A) national banks, by the Comptroller of the Currency.

(B) member banks of the Federal Reserve System (other than national banks), by the Board.

(C) banks insured by the Federal Deposit Insurance Corporation (other than

members of the Federal Reserve System), by the Board of Directors of the Federal Deposit Insurance Corporation.

(2) section 5(d) of the Home Owners' Loan Act of 1933, section 407 of the National Housing Act, and sections 6(i) and 17 of the Federal Home Loan Bank Act, by the Federal Home Loan Bank Board (acting directly or through the Federal Savings and Loan Insurance Corporation), in the case of any institution subject to any of those provisions.

(3) the Federal Credit Union Act, by the Administrator of the National Credit Union Administration with respect to any Federal credit union.

(4) the Federal Aviation Act of 1958, by the Civil Aeronautics Board with respect to any air carrier or foreign air carrier subject to that Act.

(5) the Packers and Stockyards Act, 1921 (except as provided in section 406 of that Act), by the Secretary of Agriculture with respect to any activities subject to that Act.

(6) the Farm Credit Act of 1971, by the Farm Credit Administration with respect to any Federal land bank, Federal land bank association, Federal intermediate credit bank, or production credit association.

(b) For the purpose of the exercise by any agency referred to in subsection (a) of its powers under any Act referred to in that subsection, a violation of any requirement imposed under this title shall be deemed to be a violation of a requirement imposed under that Act. In addition to its powers under any provision of law specifically referred to in subsection (a), each of the agencies referred to in that subsection may exercise, for the purpose of enforcing compliance with any requirement imposed under this title, any other authority conferred on it by law.

(c) Except to the extent that enforcement of the requirements imposed under this title is specifically committed to some other Government agency under subsection (a), the Federal Trade Commission shall enforce such requirements. For the purpose of the exercise by the Federal Trade Commission of its functions and powers under the Federal Trade



Commission Act, a violation of any requirement imposed under this title shall be deemed a violation of a requirement imposed under that Act. All of the functions and powers of the Federal Trade Commission under the Federal Trade Commission Act are available to the Commission to enforce compliance by any person with the requirements imposed under this title, irrespective of whether that person is engaged in commerce or meets any other jurisdictional tests in the Federal Trade Commission Act.

(d) The authority of the Board to issue regulations under this title does not impair the authority of any other agency designated in this section to make rules respecting its own procedures in enforcing compliance with requirements imposed under this title.

(e)(1) In carrying out its enforcement activities under this section, each agency referred to in subsection (a) or (c), in cases where an annual percentage rate or finance charge was inaccurately disclosed, shall notify the creditor of such disclosure error and is authorized in accordance with the provisions of this subsection to require the creditor to make an adjustment to the account of the person to whom credit was extended, to assure that such person will not be required to pay a finance charge in excess of the finance charge actually disclosed or the dollar equivalent of the annual percentage rate actually disclosed, whichever is lower. For the purposes of this subsection, except where such disclosure error resulted from a willful violation which was intended to mislead the person to whom credit was extended, in determining whether a disclosure error has occurred and in calculating any adjustment, (A) each agency shall apply (i) with respect to the annual percentage rate, a tolerance of one-quarter of 1 percent more or less than the actual rate, determined without regard to section 107(c) of this title, and (ii) with respect to the finance charge, a corresponding numerical tolerance as generated by the tolerance provided under this subsection for the annual percentage rate; except that (B) with respect to transactions consummated after

two years following the effective date of section 608 of the Truth in Lending Simplification and Reform Act, each agency shall apply (i) for transactions that have a scheduled amortization of ten years or less, with respect to the annual percentage rate, a tolerance not to exceed one-quarter of 1 percent more or less than the actual rate, determined without regard to section 107(c) of this title, but in no event a tolerance of less than the tolerances allowed under section 107(c), (ii) for transactions that have a scheduled amortization of more than ten years, with respect to the annual percentage rate, only such tolerances as are allowed under section 107(c) of this title, and (iii) for all transactions, with respect to the finance charge, a corresponding numerical tolerance as generated by the tolerances provided under this subsection for the annual percentage rate.

(2) Each agency shall require such an adjustment when it determines that such disclosure error resulted from (A) a clear and consistent pattern or practice of violations, (B) gross negligence, or (C) a willful violation which was intended to mislead the person to whom the credit was extended. Notwithstanding the preceding sentence, except where such disclosure error resulted from a willful violation which was intended to mislead the person to whom credit was extended, an agency need not require such an adjustment if it determines that such disclosure error—

(A) resulted from an error involving the disclosure of a fee or charge that would otherwise be excludable in computing the finance charge, including but not limited to violations involving the disclosures described in sections 106(b), (c) and (d) of this title, in which event the agency may require such remedial action as it determines to be equitable, except that for transactions consummated after two years after the effective date of section 608 of the Truth in Lending Simplification and Reform Act, such an adjustment shall be ordered for violations of section 106(b);

(B) involved a disclosed amount which was 10 per centum or less of the amount

that should have been disclosed and (i) in cases where the error involved a disclosed finance charge, the annual percentage rate was disclosed correctly, and (ii) in cases where the error involved a disclosed annual percentage rate, the finance charge was disclosed correctly; in which event the agency may require such adjustment as it determines to be equitable;

(C) involved a total failure to disclose either the annual percentage rate or the finance charge, in which event the agency may require such adjustment as it determines to be equitable; or

(D) resulted from any other unique circumstance involving clearly technical and nonsubstantive disclosure violations that do not adversely affect information provided to the consumer and that have not misled or otherwise deceived the consumer.

In the case of other such disclosure errors, each agency may require such an adjustment.

(3) Notwithstanding paragraph (2), no adjustment shall be ordered (A) if it would have a significantly adverse impact upon the safety or soundness of the creditor, but in any such case, the agency may require a partial adjustment in an amount which does not have such an impact except that with respect to any transaction consummated after the effective date of section 608 of the Truth in Lending Simplification and Reform Act, the agency shall require the full adjustment, but permit the creditor to make the required adjustment in partial payments over an extended period of time which the agency considers to be reasonable, (B) if the amount of the adjustment would be less than \$1, except that if more than one year has elapsed since the date of the violation, the agency may require that such amount be paid into the Treasury of the United States, or (C) except where such disclosure error resulted from a willful violation which was intended to mislead the person to whom credit was extended, in the case of an open-end credit plan, more than two years after the violation, or in the case of any other extension of credit, as follows:

(i) with respect to creditors that are subject to examination by the agencies referred to in paragraphs (1) through (3) of section 108(a) of this title, except in connection with violations arising from practices identified in the current examination and only in connection with transactions that are consummated after the date of the immediately preceding examination, except that where practices giving rise to violations identified in earlier examinations have not been corrected, adjustments for those violations shall be required in connection with transactions consummated after the date of the examination in which such practices were first identified;

(ii) with respect to creditors that are not subject to examination by such agencies, except in connection with transactions that are consummated after May 10, 1978; and

(iii) in no event after the later of (I) the expiration of the life of the credit extension, or (II) two years after the agreement to extend credit was consummated.

(4)(A) Notwithstanding any other provision of this section, an adjustment under this subsection may be required by an agency referred to in subsection (a) or (c) only by an order issued in accordance with cease and desist procedures provided by the provision of law referred to in such subsections.

(B) In the case of an agency which is not authorized to conduct cease and desist proceedings, such an order may be issued after an agency hearing on the record conducted at least thirty but not more than sixty days after notice of the alleged violation is served on the creditor. Such a hearing shall be deemed to be a hearing which is subject to the provisions of section 8(h) of the Federal Deposit Insurance Act and shall be subject to judicial review as provided therein.

(5) Except as otherwise specifically provided in this subsection and notwithstanding any provision of law referred to in subsection (a) or (c), no agency referred to in

subsection (a) or (c) may require a creditor to make dollar adjustments for errors in any requirements under this title, except with regard to the requirements of section 165.

(6) A creditor shall not be subject to an order to make an adjustment, if within sixty days after discovering a disclosure error, whether pursuant to a final written examination report or through the creditor's own procedures, the creditor notifies the person concerned of the error and adjusts the account so as to assure that such person will not be required to pay a finance charge in excess of the finance charge actually disclosed or the dollar equivalent of the annual percentage rate actually disclosed, whichever is lower.

(7) Notwithstanding the second sentence of subsection (e)(1), subsection (e)(3)(C)(i), and subsection (e)(3)(C)(ii), each agency referred to in subsection (a) or (c) shall require an adjustment for an annual percentage rate disclosure error that exceeds a tolerance of one quarter of one percent less than the actual rate, determined without regard to section 107(c) of this title, except in the case of an irregular mortgage lending transaction, with respect to any transaction consummated between January 1, 1977, and the effective date of section 608 of the Truth in Lending Simplification and Reform Act.

#### SECTION 109—Views of Other Agencies

In the exercise of its functions under this title, the Board may obtain upon request the views of any other Federal agency which, in the judgment of the Board, exercises regulatory or supervisory functions with respect to any class of creditors subject to this title.

#### SECTION 110—[Repealed]

#### SECTION 111—Effect on Other Laws

(a)(1) Chapters 1, 2, and 3 do not annul,

alter, or affect the laws of any State relating to the disclosure of information in connection with credit transactions, except to the extent that those laws are inconsistent with the provisions of this title, and then only to the extent of the inconsistency. Upon its own motion or upon the request of any creditor, State, or other interested party which is submitted in accordance with procedures prescribed in regulations of the Board, the Board shall determine whether any such inconsistency exists. If the Board determines that a State-required disclosure is inconsistent, creditors located in that State may not make disclosures using the inconsistent term or form, and shall incur no liability under the law of that State for failure to use such term or form, notwithstanding that such determination is subsequently amended, rescinded, or determined by judicial or other authority to be invalid for any reason.

(2) Upon its own motion or upon the request of any creditor, State, or other interested party which is submitted in accordance with procedures prescribed in regulations of the Board, the Board shall determine whether any disclosure required under the law of any State is substantially the same in meaning as a disclosure required under this title. If the Board determines that a State-required disclosure is substantially the same in meaning as a disclosure required by this title, then creditors located in that State may make such disclosure in compliance with such State law in lieu of the disclosure required by this title, except that the annual percentage rate and finance charge shall be disclosed as required by section 122.

(b) This title does not otherwise annul, alter or affect in any manner the meaning, scope or applicability of the laws of any State, including, but not limited to, laws relating to the types, amounts or rates of charges, or any element or elements of charges, permissible under such laws in connection with the extension or use of credit, nor does this title extend the applicability of those laws to any class of persons or transactions to which they would not otherwise apply.

(c) In any action or proceeding in any court involving a consumer credit sale, the disclosure of the annual percentage rate as required under this title in connection with that sale may not be received as evidence that the sale was a loan or any type of transaction other than a credit sale.

(d) Except as specified in sections 125, 130, and 166, this title and the regulations issued thereunder do not affect the validity or enforceability of any contract or obligation under State or Federal law.

### SECTION 112—Criminal Liability for Willful and Knowing Violation

Whoever willfully and knowingly

(1) gives false or inaccurate information or fails to provide information which he is required to disclose under the provisions of this title or any regulation issued thereunder,

(2) uses any chart or table authorized by the Board under section 107 in such a manner as to consistently understate the annual percentage rate determined under section 107(a)(1)(A), or

(3) otherwise fails to comply with any requirement imposed under this title, shall be fined not more than \$5,000 or imprisoned not more than one year, or both.

### SECTION 113—Effect on Governmental Agencies

(a) Any department or agency of the United States which administers a credit program in which it extends, insures, or guarantees consumer credit and in which it provides instruments to a creditor which contain any disclosures required by this title shall, prior to the issuance or continued use of such instruments, consult with the Board to assure that such instruments comply with this title.

(b) No civil or criminal penalty provided un-

der this title for any violation thereof may be imposed upon the United States or any department or agency thereof, or upon any State or political subdivision thereof, or any agency of any State or political subdivision.

(c) A creditor participating in a credit program administered, insured, or guaranteed by any department or agency of the United States shall not be held liable for a civil or criminal penalty under this title in any case in which the violation results from the use of an instrument required by any such department or agency.

(d) A creditor participating in a credit program administered, insured, or guaranteed by any department or agency of the United States shall not be held liable for a civil or criminal penalty under the laws of any State (other than laws determined under section 111 to be inconsistent with this title) for any technical or procedural failure, such as a failure to use a specific form, to make information available at a specific place on an instrument, or to use a specific typeface, as required by State law, which is caused by the use of an instrument required to be used by such department or agency.

### SECTION 114—Reports by Board and Attorney General

Each year the Board and the Attorney General shall, respectively, make reports to the Congress concerning the administration of their functions under this title, including such recommendations as the Board and the Attorney General, respectively, deem necessary or appropriate. In addition, each report of the Board shall include its assessment of the extent to which compliance with the requirements imposed under this title is being achieved.

### SECTION 115—[Repealed]

## CHAPTER 2—CREDIT TRANSACTIONS

### Section

- 121 General requirement of disclosure
- 122 Form of disclosure; additional information
- 123 Exemption for State-regulated transactions
- 124 Effect of subsequent occurrence
- 125 Right of rescission as to certain transactions
- 126 [Repealed]
- 127 Open end consumer credit plans
- 128 Consumer credit not under open end credit plans
- 129 [Repealed]
- 130 Civil liability
- 131 Liability of assignees
- 132 Issuance of credit cards
- 133 Liability of holder of credit card
- 134 Fraudulent use of credit card
- 135 Business credit cards
- 136 Dissemination of annual percentage rates

### SECTION 121—General Requirement of Disclosure

(a) Subject to subsection (b), a creditor or lessor shall disclose to the person who is obligated on a consumer lease or a consumer credit transaction the information required under this title. In a transaction involving more than one obligor, a creditor or lessor, except in a transaction under section 125, need not disclose to more than one of such obligors if the obligor given disclosure is a primary obligor.

(b) If a transaction involves one creditor as defined in section 103(f), or one lessor as defined in section 181(3), such creditor or lessor shall make the disclosures. If a transaction involves more than one creditor or lessor, only one creditor or lessor shall be required to make the disclosures. The Board shall by regulation specify which creditor or lessor shall make the disclosures.

(c) The Board may provide by regulation

that any portion of the information required to be disclosed by this title may be given in the form of estimates where the provider of such information is not in a position to know exact information.

(d) The Board shall determine whether tolerances for numerical disclosures other than the annual percentage rate are necessary to facilitate compliance with this title, and if it determines that such tolerances are necessary to facilitate compliance, it shall by regulation permit disclosures within such tolerances. The Board shall exercise its authority to permit tolerances for numerical disclosures other than the annual percentage rate so that such tolerances are narrow enough to prevent such tolerances from resulting in misleading disclosures or disclosures that circumvent the purposes of this title.

### SECTION 122—Form of Disclosure; Additional Information

(a) Information required by this title shall be disclosed clearly and conspicuously, in accordance with regulations of the Board. The terms 'annual percentage rate' and 'finance charge' shall be disclosed more conspicuously than other terms, data, or information provided in connection with a transaction, except information relating to the identity of the creditor. Regulations of the Board need not require that disclosures pursuant to this title be made in the order set forth in this title and, except as otherwise provided, may permit the use of terminology different from that employed in this title if it conveys substantially the same meaning.

(b) Any creditor or lessor may supply additional information or explanation with any disclosures required under chapters 4 and 5 and, except as provided in section 128(b)(1), under this chapter.

### SECTION 123—Exemption for State-Regulated Transactions

The Board shall by regulation exempt from

the requirements of this chapter any class of credit transactions within any State if it determines that under the law of that State that class of transactions is subject to requirements substantially similar to those imposed under this chapter, and that there is adequate provision for enforcement.

#### SECTION 124—Effect of Subsequent Occurrence

If information disclosed in accordance with this chapter is subsequently rendered inaccurate as the result of any act, occurrence, or agreement subsequent to the delivery of the required disclosures, the inaccuracy resulting therefrom does not constitute a violation of this chapter.

#### SECTION 125—Right of Rescission as to Certain Transactions

(a) Except as otherwise provided in this section, in the case of any consumer credit transaction (including opening or increasing the credit limit for an open end credit plan) in which a security interest, including any such interest arising by operation of law, is or will be retained or acquired in any property which is used as the principal dwelling of the person to whom credit is extended, the obligor shall have the right to rescind the transaction until midnight of the third business day following the consummation of the transaction or the delivery of the information and rescission forms required under this section together with a statement containing the material disclosures required under this title, whichever is later, by notifying the creditor, in accordance with regulations of the Board, of his intention to do so. The creditor shall clearly and conspicuously disclose, in accordance with regulations of the Board, to any obligor in a transaction subject to this section the rights of the obligor under this section. The creditor shall also provide, in accordance with regulations of the Board, appropriate forms for the obligor to exercise his right to rescind any transaction subject to this section.

(b) When an obligor exercises his right to rescind under subsection (a), he is not liable for any finance or other charge, and any security interest given by the obligor, including any such interest arising by operation of law, becomes void upon such a rescission. Within 20 days after receipt of a notice of rescission, the creditor shall return to the obligor any money or property given as earnest money, downpayment, or otherwise, and shall take any action necessary or appropriate to reflect the termination of any security interest created under the transaction. If the creditor has delivered any property to the obligor, the obligor may retain possession of it. Upon the performance of the creditor's obligations under this section, the obligor shall tender the property to the creditor, except that if return of the property in kind would be impracticable or inequitable, the obligor shall tender its reasonable value. Tender shall be made at the location of the property or at the residence of the obligor, at the option of the obligor. If the creditor does not take possession of the property within 20 days after tender by the obligor, ownership of the property vests in the obligor without obligation on his part to pay for it. The procedures prescribed by this subsection shall apply except when otherwise ordered by a court.

(c) Notwithstanding any rule of evidence, written acknowledgment of receipt of any disclosures required under this title by a person to whom information, forms, and a statement is required to be given pursuant to this section does no more than create a rebuttable presumption of delivery thereof.

(d) The Board may, if it finds that such action is necessary in order to permit homeowners to meet bona fide personal financial emergencies, prescribe regulations authorizing the modification or waiver of any rights created under this section to the extent and under the circumstances set forth in those regulations.

(e)(1) This section does not apply to—

(A) a residential mortgage transaction as defined in section 103(w);

(B) a transaction which constitutes a refinancing or consolidation (with no new advances) of the principal balance then

due and any accrued and unpaid finance charges of an existing extension of credit by the same creditor secured by an interest in the same property;

(C) a transaction in which an agency of a State is the creditor; or

(D) advances under a preexisting open end credit plan if a security interest has already been retained or acquired and such advances are in accordance with a previously established credit limit for such plan.

(2) The provisions of paragraph (1)(D) shall cease to be effective 3 years after the effective date of the Truth in Lending Simplification and Reform Act.

(f) An obligor's right of rescission shall expire three years after the date of consummation of the transaction or upon the sale of the property, whichever occurs first, notwithstanding the fact that the information and forms required under this section or any other disclosures required under this chapter have not been delivered to the obligor, except that if (1) any agency empowered to enforce the provisions of this title institutes a proceeding to enforce the provisions of this section within three years after the date of consummation of the transaction, (2) such agency finds a violation of section 125, and (3) the obligor's right to rescind is based in whole or in part on any matter involved in such proceeding, then the obligor's right of rescission shall expire three years after the date of consummation of the transaction or upon the earlier sale of the property, or upon the expiration of one year following the conclusion of the proceeding, or any judicial review or period for judicial review thereof, whichever is later.

(g) In any action in which it is determined that a creditor has violated this section, in addition to rescission the court may award relief under section 130 for violations of this title not relating to the right to rescind.

## SECTION 126—[Repealed]

## SECTION 127—Open End Consumer Credit Plans

(a) Before opening any account under an open end consumer credit plan, the creditor shall disclose to the person to whom credit is to be extended each of the following items, to the extent applicable:

(1) The conditions under which a finance charge may be imposed, including the time period (if any) within which any credit extended may be repaid without incurring a finance charge, except that the creditor may, at his election and without disclosure, impose no such finance charge if payment is received after the termination of such time period. If no such time period is provided, the creditor shall disclose such fact.

(2) The method of determining the balance upon which a finance charge will be imposed.

(3) The method of determining the amount of the finance charge, including any minimum or fixed amount imposed as a finance charge.

(4) Where one or more periodic rates may be used to compute the finance charge, each such rate, the range of balances to which it is applicable, and the corresponding nominal annual percentage rate determined by multiplying the periodic rate by the number of periods in a year.

(5) Identification of other charges which may be imposed as part of the plan, and their method of computation, in accordance with regulations of the Board.

(6) In cases where the credit is or will be secured, a statement that a security interest has been or will be taken in (A) the property purchased as part of the credit transaction, or (B) property not purchased as part of the credit transaction identified by item or type.

(7) A statement, in a form prescribed by regulations of the Board of the protection provided by sections 161 and 170 to an obligor and the creditor's responsibilities under sections 162 and 170. With respect to one billing cycle per calendar year, at intervals

of not less than six months or more than eighteen months, the creditor shall transmit such statement to each obligor to whom the creditor is required to transmit a statement pursuant to section 127(b) for such billing cycle.

(b) The creditor of any account under an open end consumer credit plan shall transmit to the obligor, for each billing cycle at the end of which there is an outstanding balance in that account or with respect to which a finance charge is imposed, a statement setting forth each of the following items to the extent applicable:

(1) The outstanding balance in the account at the beginning of the statement period.

(2) The amount and date of each extension of credit during the period, and a brief identification, on or accompanying the statement of each extension of credit in a form prescribed by the Board sufficient to enable the obligor either to identify the transaction or to relate it to copies of sales vouchers or similar instruments previously furnished, except that a creditor's failure to disclose such information in accordance with this paragraph shall not be deemed a failure to comply with this chapter or this title if (A) the creditor maintains procedures reasonably adapted to procure and provide such information, and (B) the creditor responds to and treats any inquiry for clarification or documentation as a billing error and an erroneously billed amount under section 161. In lieu of complying with the requirements of the previous sentence, in the case of any transaction in which the creditor and seller are the same person, as defined by the Board, and such person's open end credit plan has fewer than 15,000 accounts, the creditor may elect to provide only the amount and date of each extension of credit during the period and the seller's name and location where the transaction took place if (A) a brief identification of the transaction has been previously furnished, and (B) the creditor responds to and treats any inquiry for clarification or documentation as a billing error and an erroneously billed amount under section 161.

(3) The total amount credited to the account during the period.

(4) The amount of any finance charge added to the account during the period, itemized to show the amounts, if any, due to the application of percentage rates and the amount, if any, imposed as a minimum or fixed charge.

(5) Where one or more periodic rates may be used to compute the finance charge, each such rate, the range of balances to which it is applicable, and, unless the annual percentage rate (determined under section 107(a)(2)) is required to be disclosed pursuant to paragraph (6), the corresponding nominal annual percentage rate determined by multiplying the periodic rate by the number of periods in a year.

(6) Where the total finance charge exceeds 50 cents for a monthly or longer billing cycle, or the pro rata part of 50 cents for a billing cycle shorter than monthly, the total finance charge expressed as an annual percentage rate (determined under section 107(a)(2)), except that if the finance charge is the sum of two or more products of a rate times a portion of the balance, the creditor may, in lieu of disclosing a single rate for the total charge, disclose each such rate expressed as an annual percentage rate, and the part of the balance to which it is applicable.

(7) The balance on which the finance charge was computed and a statement of how the balance was determined. If the balance is determined without first deducting all credits during the period, that fact and the amount of such payments shall also be disclosed.

(8) The outstanding balance in the account at the end of the period.

(9) 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 election and without disclosure, impose no such additional finance charge if payment is received after such date or the termination of such period.

(10) The address to be used by the creditor for the purpose of receiving billing inquiries from the obligor.



**SECTION 128—Consumer Credit Not Under Open End Credit Plans**

(a) For each consumer credit transaction other than under an open end credit plan, the creditor shall disclose each of the following items, to the extent applicable:

(1) The identity of the creditor required to make disclosure.

(2)(A) The 'amount financed', using that term, which shall be the amount of credit of which the consumer has actual use. This amount shall be computed as follows, but the computations need not be disclosed and shall not be disclosed with the disclosures conspicuously segregated in accordance with subsection (b)(1):

(i) take the principal amount of the loan or the cash price less downpayment and trade-in;

(ii) add any charges which are not part of the finance charge or of the principal amount of the loan and which are financed by the consumer, including the cost of any items excluded from the finance charge pursuant to section 106; and

(iii) subtract any charges which are part of the finance charge but which will be paid by the consumer before or at the time of the consummation of the transaction, or have been withheld from the proceeds of the credit.

(B) In conjunction with the disclosure of the amount financed, a creditor shall provide a statement of the consumer's right to obtain, upon a written request, a written itemization of the amount financed. The statement shall include spaces for a 'yes' and 'no' indication to be initialed by the consumer to indicate whether the consumer wants a written itemization of the amount financed. Upon receiving an affirmative indication, the creditor shall provide, at the time other disclosures are required to be furnished, a written itemization of the amount financed. For the purposes of this subparagraph, 'itemization of the amount financed' means a disclosure of the following items, to the extent applicable:

(i) the amount that is or will be paid directly to the consumer;

(ii) the amount that is or will be credited to the consumer's account to discharge obligations owed to the creditor;

(iii) each amount that is or will be paid to third persons by the creditor on the consumer's behalf, together with an identification of or reference to the third person; and

(iv) the total amount of any charges described in the preceding subparagraph (A)(iii).

(3) The 'finance charge', not itemized, using that term.

(4) The finance charge expressed as an 'annual percentage rate', using that term. This shall not be required if the amount financed does not exceed \$75 and the finance charge does not exceed \$5, or if the amount financed exceeds \$75 and the finance charge does not exceed \$7.50.

(5) The sum of the amount financed and the finance charge, which shall be termed the 'total of payments'.

(6) The number, amount, and due dates or period of payments scheduled to repay the total of payments.

(7) In a sale of property or services in which the seller is the creditor required to disclose pursuant to section 121(b), the 'total sale price', using that term, which shall be the total of the cash price of the property or services, additional charges, and the finance charge.

(8) Descriptive explanations of the terms 'amount financed', 'finance charge', 'annual percentage rate', 'total of payments', and 'total sale price' as specified by the Board. The descriptive explanation of 'total sale price' shall include reference to the amount of the downpayment.

(9) Where the credit is secured, a statement that a security interest has been taken in (A) the property which is purchased as part of the credit transaction, or (B) property not purchased as part of the credit transaction identified by item or type.

(10) Any dollar charge or percentage amount which may be imposed by a creditor solely on account of a late payment,

other than a deferral or extension charge.

(11) A statement indicating whether or not the consumer is entitled to a rebate of any finance charge upon refinancing or prepayment in full pursuant to acceleration or otherwise, if the obligation involves a pre-computed finance charge. A statement indicating whether or not a penalty will be imposed in those same circumstances if the obligation involves a finance charge computed from time to time by application of a rate to the unpaid principal balance.

(12) A statement that the consumer should refer to the appropriate contract document for any information such document provides about nonpayment, default, the right to accelerate the maturity of the debt, and prepayment rebates and penalties.

(13) In any residential mortgage transaction, a statement indicating whether a subsequent purchaser or assignee of the consumer may assume the debt obligation on its original terms and conditions.

(b)(1) Except as otherwise provided in this chapter, the disclosures required under subsection (a) shall be made before the credit is extended. Except for the disclosures required by subsection (a)(1) of this section, all disclosures required under subsection (a) and any disclosure provided for in subsection (b), (c), or (d) of section 106 shall be conspicuously segregated from all other terms, data, or information provided in connection with a transaction, including any computations or itemization.

(2) In the case of a residential mortgage transaction, as defined in section 103(w), which is also subject to the Real Estate Settlement Procedures Act, good faith estimates of the disclosures required under subsection (a) shall be made in accordance with regulations of the Board under section 121(c) before the credit is extended, or shall be delivered or placed in the mail not later than three business days after the creditor receives the consumer's written application, whichever is earlier. If the disclosure statement furnished within three days of the written application contains an annual percentage rate which is subsequently rendered inaccurate within the meaning of

section 107(c), the creditor shall furnish another statement at the time of settlement or consummation.

(c)(1) If a creditor receives a purchase order by mail or telephone without personal solicitation, and the cash price and the total sale price and the terms of financing, including the annual percentage rate, are set forth in the creditor's catalog or other printed material distributed to the public, then the disclosures required under subsection (a) may be made at any time not later than the date the first payment is due.

(2) If a creditor receives a request for a loan by mail or telephone without personal solicitation and the terms of financing, including the annual percentage rate for representative amounts of credit, are set forth in the creditor's printed material distributed to the public, or in the contract of loan or other printed material delivered to the obligor, then the disclosures required under subsection (a) may be made at any time not later than the date the first payment is due.

(d) If a consumer credit sale is one of a series of consumer credit sales transactions made pursuant to an agreement providing for the addition of the deferred payment price of that sale to an existing outstanding balance, and the person to whom the credit is extended has approved in writing both the annual percentage rate or rates and the method of computing the finance charge or charges, and the creditor retains no security interest in any property as to which he has received payments aggregating the amount of the sales price including any finance charges attributable thereto, then the disclosure required under subsection (a) for the particular sale may be made at any time not later than the date the first payment for that sale is due. For the purposes of this subsection, in the case of items purchased on different dates, the first purchased shall be deemed first paid for, and in the case of items purchased on the same date, the lowest priced shall be deemed first paid for.

**SECTION 129—[Repealed]****SECTION 130—Civil Liability**

(a) Except as otherwise provided in this section, any creditor who fails to comply with any requirement imposed under this chapter, including any requirement under section 125, or chapter 4 or 5 of this title with respect to any person is liable to such person in an amount equal to the sum of—

(1) any actual damage sustained by such person as a result of the failure;

(2)(A)(i) in the case of an individual action twice the amount of any finance charge in connection with the transaction, or (ii) in the case of an individual action relating to a consumer lease under chapter 5 of this title, 25 per centum of the total amount of monthly payments under the lease, except that the liability under this subparagraph shall not be less than \$100 nor greater than \$1,000; or

(B) in the case of a class action, such amount as the court may allow, except that as to each member of the class no minimum recovery shall be applicable, and the total recovery under this subparagraph in any class action or series of class actions arising out of the same failure to comply by the same creditor shall not be more than the lesser of \$500,000 or 1 per centum of the net worth of the creditor; and

(3) in the case of any successful action to enforce the foregoing liability or in any action in which a person is determined to have a right of rescission under section 125, the costs of the action, together with a reasonable attorney's fee as determined by the court. In determining the amount of award in any class action, the court shall consider, among other relevant factors, the amount of any actual damages awarded, the frequency and persistence of failures of compliance by the creditor, the resources of the creditor, the number of persons adversely affected, and the extent to which the creditor's failure of compliance was intentional. In connection with the disclosures referred to in section 127, a creditor shall have a

liability determined under paragraph (2) only for failing to comply with the requirements of section 125, section 127(a), or of paragraph (4), (5), (6), (7), (8), (9), or (10) of section 127(b) or for failing to comply with disclosure requirements under State law for any term or item which the Board has determined to be substantially the same in meaning under section 111(a)(2) as any of the terms or items referred to in section 127(a) or any of those paragraphs of section 127(b). In connection with the disclosures referred to in section 128, a creditor shall have a liability determined under paragraph (2) only for failing to comply with the requirements of section 125 or of paragraph (2) (insofar as it requires a disclosure of the 'amount financed'), (3), (4), (5), (6), or (9) of section 128(a), or for failing to comply with disclosure requirements under State law for any term which the Board has determined to be substantially the same in meaning under section 111(a)(2) as any of the terms referred to in any of those paragraphs of section 128(a). With respect to any failure to make disclosures required under this chapter or chapter 4 or 5 of this title, liability shall be imposed only upon the creditor required to make disclosure, except as provided in section 131.

(b) A creditor or assignee has no liability under this section or section 108 or section 112 for any failure to comply with any requirement imposed under this chapter or chapter 5, if within sixty days after discovering an error, whether pursuant to a final written examination report or notice issued under section 108(e)(1) or through the creditor's or assignee's own procedures, and prior to the institution of an action under this section or the receipt of written notice of the error from the obligor, the creditor or assignee notifies the person concerned of the error and makes whatever adjustments in the appropriate account are necessary to assure that the person will not be required to pay an amount in excess of the charge actually disclosed, or the dollar equivalent of the annual percentage rate actually disclosed, whichever is lower.

(c) A creditor or assignee may not be held liable in any action brought under this section or section 125 for a violation of this title if the creditor or assignee shows by a preponderance of evidence that the violation was not intentional and resulted from a bona fide error notwithstanding the maintenance of procedures reasonably adapted to avoid any such error. Examples of a bona fide error include, but are not limited to, clerical, calculation, computer malfunction and programing, and printing errors, except that an error of legal judgment with respect to a person's obligations under this title is not a bona fide error.

(d) When there are multiple obligors in a consumer credit transaction or consumer lease, there shall be no more than one recovery of damages under subsection (a)(2) for a violation of this title.

(e) Any action under this section may be brought in any United States district court, or in any other court of competent jurisdiction, within one year from the date of the occurrence of the violation. This subsection does not bar a person from asserting a violation of this title in an action to collect the debt which was brought more than one year from the date of the occurrence of the violation as a matter of defense by recoupment or set-off in such action, except as otherwise provided by State law.

(f) No provision of this section, section 108(b), section 108(c), section 108(e), or section 112 imposing any liability shall apply to any act done or omitted in good faith in conformity with any rule, regulation, or interpretation thereof by the Board or in conformity with any interpretation or approval by an official or employee of the Federal Reserve System duly authorized by the Board to issue such interpretations or approvals under such procedures as the Board may prescribe therefor, notwithstanding that after such act or omission has occurred, such rule, regulation, interpretation, or approval is amended, rescinded, or determined by judicial or other authority to be invalid for any reason.

(g) The multiple failure to disclose to any

person any information required under this chapter or chapter 4 or 5 of this title to be disclosed in connection with a single account under an open end consumer credit plan, other single consumer credit sale, consumer loan, consumer lease, or other extension of consumer credit, shall entitle the person to a single recovery under this section but continued failure to disclose after a recovery has been granted shall give rise to rights to additional recoveries. This subsection does not bar any remedy permitted by section 125.

(h) A person may not take any action to offset any amount for which a creditor or assignee is potentially liable to such person under subsection (a)(2) against any amount owed by such person, unless the amount of the creditor's or assignee's liability under this title has been determined by judgment of a court of competent jurisdiction in an action of which such person was a party. This subsection does not bar a consumer then in default on the obligation from asserting a violation of this title as an original action, or as a defense or counterclaim to an action to collect amounts owed by the consumer brought by a person liable under this title.

## SECTION 131—Liability of Assignees

(a) Except as otherwise specifically provided in this title, any civil action for a violation of this title or proceeding under section 108 which may be brought against a creditor may be maintained against any assignee of such creditor only if the violation for which such action or proceeding is brought is apparent on the face of the disclosure statement, except where the assignment was involuntary. For the purpose of this section, a violation apparent on the face of the disclosure statement includes, but is not limited to (1) a disclosure which can be determined to be incomplete or inaccurate from the face of the disclosure statement or other documents assigned, or (2) a disclosure which does not use the terms required to be used by this title.

(b) Except as provided in section 125(c), in

any action or proceeding by or against any subsequent assignee of the original creditor without knowledge to the contrary by the assignee when he acquires the obligation, written acknowledgement of receipt by a person to whom a statement is required to be given pursuant to this title shall be conclusive proof of the delivery thereof and, except as provided in subsection (a), of compliance with this chapter. This section does not affect the rights of the obligor in any action against the original creditor.

(c) Any consumer who has the right to rescind a transaction under section 125 may rescind the transaction as against any assignee of the obligation.

#### SECTION 132—Issuance of Credit Cards

No credit card shall be issued except in response to a request or application therefor. This prohibition does not apply to the issuance of a credit card in renewal of, or in substitution for, an accepted credit card.

#### SECTION 133—Liability of Holder of Credit Card

(a)(1) A cardholder shall be liable for the unauthorized use of a credit card only if—

(A) the card is an accepted credit card;

(B) the liability is not in excess of \$50;

(C) the card issuer gives adequate notice to the cardholder of the potential liability;

(D) the card issuer has provided the cardholder with a description of a means by which the card issuer may be notified of loss or theft of the card, which description may be provided on the face or reverse side of the statement required by section 127(b) or on a separate notice accompanying such statement;

(E) the unauthorized use occurs before the card issuer has been notified that an unauthorized use of the credit card has occurred or may occur as the result of loss, theft, or otherwise; and

(F) the card issuer has provided a method whereby the user of such card can be identified as the person authorized to use it.

(2) For purposes of this section, a card issuer has been notified when such steps as may be reasonably required in the ordinary course of business to provide the card issuer with the pertinent information have been taken, whether or not any particular officer, employee, or agent of the card issuer does in fact receive such information.

(b) In any action by a card issuer to enforce liability for the use of a credit card, the burden of proof is upon the card issuer to show that the use was authorized or, if the use was unauthorized, then the burden of proof is upon the card issuer to show that the conditions of liability for the unauthorized use of a credit card, as set forth in subsection (a), have been met.

(c) Nothing in this section imposes liability upon a cardholder for the unauthorized use of a credit card in excess of his liability for such use under other applicable law or under any agreement with the card issuer.

(d) Except as provided in this section, a cardholder incurs no liability from the unauthorized use of a credit card.

#### SECTION 134—Fraudulent Use of Credit Card

(a) Whoever knowingly in a transaction affecting interstate or foreign commerce, uses or attempts or conspires to use any counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained credit card to obtain money, goods, services, or anything else of value which within any one-year period has a value aggregating \$1,000 or more; or

(b) Whoever, with unlawful or fraudulent intent, transports or attempts or conspires to transport in interstate or foreign commerce a counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained credit card knowing the same to be counterfeit, fictitious,

altered, forged, lost, stolen, or fraudulently obtained; or

(c) Whoever, with unlawful or fraudulent intent, uses any instrumentality of interstate or foreign commerce to sell or transport a counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained credit card knowing the same to be counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained; or

(d) Whoever knowingly receives, conceals, uses, or transports money, goods, services, or anything else of value (except tickets for interstate or foreign transportation) which (1) within any one-year period has a value aggregating \$1,000 or more, (2) has moved in or is part of, or which constitutes interstate or foreign commerce, and (3) has been obtained with a counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained credit card; or

(e) Whoever knowingly receives, conceals, uses, sells, or transports in interstate or foreign commerce one or more tickets for interstate or foreign transportation, which (1) within any one-year period have a value aggregating \$500 or more, and (2) have been purchased or obtained with one or more counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained credit cards; or

(f) Whoever in a transaction affecting interstate or foreign commerce furnishes money, property, services, or anything else of value, which within any one-year period has a value aggregating \$1,000 or more, through the use of any counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained credit card knowing the same to be counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained—

shall be fined not more than \$10,000 or imprisoned not more than ten years, or both.

## SECTION 135—Business Credit Cards

The exemption provided by section 104(1) does not apply to the provisions of sections

132, 133, and 134, except that a card issuer and a business or other organization which provides credit cards issued by the same card issuer to ten or more of its employees may by contract agree as to liability of the business or other organization with respect to unauthorized use of such credit cards without regard to the provisions of section 133, but in no case may such business or other organization or card issuer impose liability upon any employee with respect to unauthorized use of such a credit card except in accordance with and subject to the limitations of section 133.

## SECTION 136—Dissemination of Annual Percentage Rates

(a) The Board shall collect, publish, and disseminate to the public, on a demonstration basis in a number of standard metropolitan statistical areas to be determined by the Board, the annual percentage rates charged for representative types of nonsale credit by creditors in such areas. For the purpose of this section, the Board is authorized to require creditors in such areas to furnish information necessary for the Board to collect, publish, and disseminate such information.

(b) The Board is authorized to enter into contracts or other arrangements with appropriate persons, organizations, or State agencies to carry out its functions under subsection (a) and to furnish financial assistance in support thereof.

## CHAPTER 5—CONSUMER LEASES

### Section

- 181 Definitions
- 182 Consumer lease disclosures
- 183 Lessee's liability on expiration or termination of lease
- 184 Consumer lease advertising
- 185 Civil liability
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## SECTION 181—Definitions

For purposes of this chapter—

(1) The term “*consumer lease*” means a contract in the form of a lease or bailment for the use of personal property by a natural person for a period of time exceeding four months, and for a total contractual obligation not exceeding \$25,000, primarily for personal, family, or household purposes, whether or not the lessee has the option to purchase or otherwise become the owner of the property at the expiration of the lease, except that such term shall not include any credit sale as defined in section 103(g). Such term does not include a lease for agricultural, business, or commercial purposes, or to a government or governmental agency or instrumentality, or to an organization.

(2) The term “*lessee*” means a natural person who leases or is offered a consumer lease.

(3) The term “*lessor*” means a person who is regularly engaged in leasing, offering to lease, or arranging to lease under a consumer lease.

(4) The term “*personal property*” means any property which is not real property under the laws of the State where situated at the time offered or otherwise made available for lease.

(5) The terms “*security*” and “*security interest*” mean any interest in property which secures payment or performance of an obligation.

## SECTION 182—Consumer Lease Disclosures

Each lessor shall give a lessee prior to the consummation of the lease a dated written statement on which the lessor and lessee are identified setting out accurately and in a clear and conspicuous manner the following information with respect to that lease, as applicable:

(1) A brief description or identification of the leased property;

(2) The amount of any payment by the lessee required at the inception of the lease;

(3) The amount paid or payable by the lessee for official fees, registration, certificate

of title, or license fees or taxes;

(4) The amount of other charges payable by the lessee not included in the periodic payments, a description of the charges and that the lessee shall be liable for the differential, if any, between the anticipated fair market value of the leased property and its appraised actual value at the termination of the lease, if the lessee has such liability;

(5) A statement of the amount or method of determining the amount of any liabilities the lease imposes upon the lessee at the end of the term and whether or not the lessee has the option to purchase the leased property and at what price and time;

(6) A statement identifying all express warranties and guarantees made by the manufacturer or lessor with respect to the leased property, and identifying the party responsible for maintaining or servicing the leased property together with a description of the responsibility;

(7) A brief description of insurance provided or paid for by the lessor or required of the lessee, including the types and amounts of the coverages and costs;

(8) A description of any security interest held or to be retained by the lessor in connection with the lease and a clear identification of the property to which the security interest relates;

(9) The number, amount, and due dates or periods of payments under the lease and the total amount of such periodic payments;

(10) Where the lease provides that the lessee shall be liable for the anticipated fair market value of the property on expiration of the lease, the fair market value of the property at the inception of the lease, the aggregate cost of the lease on expiration, and the differential between them; and

(11) A statement of the conditions under which the lessee or lessor may terminate the lease prior to the end of the term and the amount or method of determining any penalty or other charge for delinquency, default, late payments, or early termination.

The disclosures required under this section may be made in the lease contract to be signed by the lessee. The Board may provide by regulation that any portion of the information required to be disclosed under this section may

be given in the form of estimates where the lessor is not in a position to know exact information.

### SECTION 183—Lessee's Liability on Expiration or Termination of Lease

(a) Where the lessee's liability on expiration of a consumer lease is based on the estimated residual value of the property such estimated residual value shall be a reasonable approximation of the anticipated actual fair market value of the property on lease expiration. There shall be a rebuttable presumption that the estimated residual value is unreasonable to the extent that the estimated residual value exceeds the actual residual value by more than three times the average payment allocable to a monthly period under the lease. In addition, where the lessee has such liability on expiration of a consumer lease there shall be a rebuttable presumption that the lessor's estimated residual value is not in good faith to the extent that the estimated residual value exceeds the actual residual value by more than three times the average payment allocable to a monthly period under the lease and such lessor shall not collect from the lessee the amount of such excess liability on expiration of a consumer lease unless the lessor brings a successful action with respect to such excess liability. In all actions, the lessor shall pay the lessee's reasonable attorney's fees. The presumptions stated in this section shall not apply to the extent the excess of estimated over actual residual value is due to physical damage to the property beyond reasonable wear and use, or to excessive use, and the lease may set standards for such wear and use if such standards are not unreasonable. Nothing in this subsection shall preclude the right of a willing lessee to make any mutually agreeable final adjustment with respect to such excess residual liability, provided such an agreement is reached after termination of the lease.

(b) Penalties or other charges for delinquency, default, or early termination may be specified in the lease but only at an amount which is reasonable in the light of the anticipated or

actual harm caused by the delinquency, default, or early termination, the difficulties of proof of loss, and the inconvenience or non-feasibility of otherwise obtaining an adequate remedy.

(c) If a lease has a residual value provision at the termination of the lease, the lessee may obtain at his expense, a professional appraisal of the leased property by an independent third party agreed to by both parties. Such appraisal shall be final and binding on the parties.

### SECTION 184—Consumer Lease Advertising

(a) No advertisement to aid, promote, or assist directly or indirectly any consumer lease shall state the amount of any payment, the number of required payments, or that any or no downpayment or other payment is required at inception of the lease unless the advertisement also states clearly and conspicuously and in accordance with regulations issued by the Board each of the following items of information which is applicable:

- (1) That the transaction advertised is a lease.
- (2) The amount of any payment required at the inception of the lease or that no such payment is required if that is the case.
- (3) The number, amounts, due dates or periods of scheduled payments, and the total of payments under the lease.
- (4) That the lessee shall be liable for the differential, if any, between the anticipated fair market value of the leased property and its appraised actual value at the termination of the lease, if the lessee has such liability.
- (5) A statement of the amount or method of determining the amount of any liabilities the lease imposes upon the lessee at the end of the term and whether or not the lessee has the option to purchase the leased property and at what price and time.

(b) There is no liability under this section on the part of any owner or personnel, as such, of any medium in which an advertisement appears or through which it is disseminated.



**SECTION 185—Civil Liability**

(a) Any lessor who fails to comply with any requirement imposed under section 182 or 183 of this chapter with respect to any person is liable to such person as provided in section 130.

(b) Any lessor who fails to comply with any requirement imposed under section 184 of this chapter with respect to any person who suffers actual damage from the violation is liable to such person as provided in section 130. For the purposes of this section, the term “creditor” as used in sections 130 and 131 shall include a lessor as defined in this chapter.

(c) Notwithstanding section 130(e), any action under this section may be brought in any United States district court or in any other court of competent jurisdiction. Such actions alleging a failure to disclose or otherwise comply with the requirements of this chapter shall be brought within one year of the termination of the lease agreement.

**SECTION 186—Relation to State Laws**

(a) This chapter does not annul, alter, or affect, or exempt any person subject to the provisions of this chapter from complying with, the laws of any State with respect to consumer leases, except to the extent that those laws are inconsistent with any provision of this chapter, and then only to the extent of the inconsistency. The Board is authorized to determine whether such inconsistencies exist. The Board may not determine that any State law is inconsistent with any provision of this chapter if the Board determines that such law gives greater protection and benefit to the consumer.

(b) The Board shall by regulation exempt from the requirements of this chapter any class of lease transactions within any State if it determines that under the law of that State that class of transactions is subject to requirements substantially similar to those imposed under this chapter or that such law gives greater protection and benefit to the consumer, and that there is adequate provision for enforcement.