



WILLIAM H. WALLACE
FIRST VICE PRESIDENT
AND CHIEF OPERATING OFFICER

FEDERAL RESERVE BANK
OF DALLAS
August 28, 1989

DALLAS, TEXAS 75222

Circular 89-51

TO: The Chief Executive Officer of all
member banks and others concerned in
the Eleventh Federal Reserve District

SUBJECT

Corrections to Circular 89-30 on final rule to Regulation Z (Truth in Lending) to implement the Fair Credit and Charge Card Disclosure Act

DETAILS

The Board of Governors of the Federal Reserve System recently adopted final amendments to Regulation Z (Truth in Lending) implementing the Fair Credit and Charge Card Disclosure Act to require certain disclosures by credit and charge card issuers, effective April 3, 1989, but compliance is optional until August 31, 1989. This was announced in Circular 89-30 dated April 27, 1989. The Federal Register document on Regulation Z contained several minor errors and the Board is making some technical revisions which are attached.

ATTACHMENTS

The corrections as published in the Federal Register are attached.

MORE INFORMATION

For further information, please contact Jane Anne Schmoker at (214) 651-6228. For additional copies of this circular, please contact the Public Affairs Department at (214) 651-6289.

Sincerely yours,

FEDERAL RESERVE SYSTEM

12 CFR Part 226

[Regulation Z; Docket No. R-0654]

**Truth in Lending; Credit and Charge
Card Disclosures; Corrections**

AGENCY: Board of Governors of the
Federal Reserve System.

ACTION: Final rule; corrections.

SUMMARY: The Board is making corrections to its final rule revising Regulation Z to implement the Fair Credit and Charge Card Disclosure Act amendments to the Truth in Lending Act, which appeared in the *Federal Register* on April 6, 1989 (54 FR 13856).

FOR FURTHER INFORMATION CONTACT: The following attorneys in the Division of Consumer and Community Affairs, at (202) 452-2412 or 452-3867: Michael S. Bylsma or Adrienne D. Hurt, Senior Attorneys, or Jane Ahrens, Staff Attorney; for the hearing impaired *only*, contact Earnestine Hill or Dorothea

Thompson, Telecommunications Device for the Deaf at (202) 452-3544, Board of Governors of the Federal Reserve System, Washington, DC 20551.

SUPPLEMENTARY INFORMATION: The Board is making corrections to the Federal Register notice that contains its final rule revising Regulation Z to implement the Fair Credit and Charge Card Disclosure Act amendments to the Truth in Lending Act, including technical revisions to §§ 226.5a(a)(3), 226.5a(g), 226.9(e), and 226.9(f) of the regulation.

Section 226.5a(a)(3) currently provides that the disclosures under § 226.5a are not required for applications and solicitations to open home equity lines of credit accessed by a credit or charge card that are "subject to" § 226.5b of Regulation Z (which implements the Home Equity Loan Consumer Protection Act). Paragraphs (e) and (f) of § 226.9 state that the requirements of those paragraphs are applicable to credit or charge card accounts "subject to" section 226.5a. A literal reading of this language could too narrowly construe the exception in § 226.5a(a)(3) and the requirements in § 226.9(e) and § 226.9(f). Therefore the phrase "subject to" is being changed to "of the type subject to."

The technical revisions to the above mentioned sections are intended to clarify that these provisions apply to the type of plans or card accounts referred to in the relevant provisions. Therefore, the exception from coverage for home equity lines of credit accessed by a credit or charge card applies to the general types of plans that will be subject to § 226.5b of Regulation Z including those entered into before November 7, 1989, the mandatory effective date of the home equity line disclosure amendments (see 54 FR 24670).

The renewal notice requirements of § 226.9(e) apply to all of a card issuer's "traditional" credit and charge card accounts used primarily to purchase goods and services for which a fee to renew the account is imposed, including those in existence before the effective date of the new rule. Beginning on August 31, 1989, card issuers must give renewal disclosures in one of the two ways the regulation permits. For example, if a card issuer that bills monthly follows the notice requirements of § 226.9(e)(1)—advance notice of renewal—the issuer must provide renewal notices to all cardholders who will be billed for renewal on or after September 30, 1989. If the card issuer follows the notice requirements of § 226.9(e)(2), it must provide renewal

notices to all cardholders that receive a periodic statement reflecting a renewal fee on or after August 31, 1989. Also, in accordance with § 226.9(f), on or after August 31, 1989, a card issuer must provide notice if it changes the company providing credit insurance on any existing "traditional" credit card account.

Technical revisions also are being made to paragraphs (g)(2)(i) and (ii) of § 226.5a, which describe the "two-cycle average daily balance" method of computing finance charges on credit card accounts. Both sections currently provide that, in a two-cycle method, the balance for the billing cycle preceding the current cycle is figured "in the same way" as the balance for the current cycle. The language is too limiting insofar as it would unnecessarily exclude too many plans from these categories. The categories were intended to include not only those card accounts in which the balance for the prior cycle is figured in exactly the same way as that for the current cycle, but also those accounts in which the balance for the prior cycle is an average daily balance but is figured differently from the balance for the current cycle. Deletion of the phrase "and is figured in the same way as the first balance" clarifies the broad coverage intended for the two-cycle average daily balance descriptions. With the revisions, for example, it will be clear that the name "two-cycle average daily balance (excluding new purchases)" should be used to describe a method in which the finance charge for the current cycle, figured on an average daily balance (excluding new purchases), will be added to the finance charge for the prior cycle, figured on an average daily balance of only new transactions during that prior cycle.

Corrections

The following corrections are made in FR Doc. 89-8225, Truth in Lending; Credit and Charge Card Disclosures:

1. On page 13855, third column, third full paragraph, line 7, "a" should be inserted after "to."
2. On page 13862, first column, first full paragraph, line 6, "cards" should read "card."
3. On page 13864, first column, first full paragraph, line 1, "sectin" should read "section."
4. On page 13864, first column, last paragraph, line 3, "regulated" should read "related."
5. On page 13864, first column, last paragraph, line 18, "from" should read "form."

6. On page 13864, second column, fourth full paragraph, line 2, "provide" should read "provided."

7. On page 13864, third column, line 31, "card" should be inserted after "credit."

§ 226.5a [Corrected]

8. On page 13865, third column, under § 226.5a(a)(3), line 4, "of the type" should be inserted before "subject to."

9. On page 13866, first column, under § 226.5a(d)(2), line 3, "need not be given if the card issuer either" should be inserted after "section."

10. On page 13866, third column, under § 226.5a(g)(2)(i), the words "and is figured in the same way as the first balance" should be removed from the end of the last sentence.

11. On page 13867, first column, under § 226.5a(g)(2)(ii), the words "and is figured in the same way as the first balance" should be removed from the end of the last sentence.

§ 226.9 [Corrected]

12. On page 13867, first column, under § 226.9(e)(1), line 7, "of the type" should be inserted before "subject to."

13. On page 13867, second column, under § 226.9(f)(1), line 7, "of the type" should be inserted before "subject to."

§ 226.28 [Corrected]

14. On page 13868, first column, line 6, under § 226.28(a), "consistency" should read "inconsistency."

By order of the Board of Governors of the Federal Reserve System, dated August 7, 1989.

William W. Wiles,
Secretary of the Board.

[FR Doc. 89-18806 Filed 8-10-89; 8:45 am]

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