

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 6228]
October 15, 1968]

Proposed Regulation Z to Implement the Truth in Lending Act

*To All Banking Institutions, and Others Concerned,
in the Second Federal Reserve District:*

Following is the text of a statement issued by the Board of Governors of the Federal Reserve System and released for publication in morning newspapers, October 16:

The Board of Governors of the Federal Reserve System today published for public comment a proposed new regulation to implement the Truth in Lending Act—Title I of the Consumer Credit Protection Act which was signed into law last May 29 by President Johnson. Congress directed the Board to write the regulation for the truth in lending provisions, which go into effect next July 1.

The principal purpose of the law, and the regulation implementing it, is to provide a mechanism for improving customer knowledge of credit terms and thus to increase his ability to compare the terms available from various sources of credit.

Provisions of the law and the proposed regulation will apply to banks, savings and loan associations, department stores, credit card issuers, automobile dealers, credit unions, finance companies, residential mortgage brokers, and others who extend or arrange for the extension of consumer credit.

In general, the proposed regulation covers:

— Disclosures which must be made by creditors, including a statement of the dollar amount of the finance charge and the annual percentage rate. It also spells out the items to be included in the finance charge and the method for determining the annual percentage rate.

— The right of a customer to cancel some types of credit arrangements within three business days after a credit transaction is made if the customer's residence is used as collateral. This right may be waived by the customer in a bona fide personal financial emergency.

— Standards for the advertising of credit terms in any newspaper, magazine, leaflet, flyer, or catalog, on radio, television or a public address system, in direct mail literature, window display, billboard or any other manner.

Written comments from interested persons will be received over the next 30 days through the 12 Federal Reserve Banks at Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco.

Work on the proposed regulation began even before the truth in lending measure was signed into law last May. A Federal Reserve task force drafted the language of the proposed regulation, aided by outside consultants and an Advisory Committee on Truth in Lending composed of 20 men and women active in the consumer credit field and in consumer groups. The proposed regulation incorporates provisions of law and is designed as a complete handbook on truth in lending that consumers and creditors can use without need to shuffle back and forth between the Act and the regulation.

Vice Chairman J. L. Robertson, to whom the Board has assigned special responsibility for this activity, said the proposed regulation will be reviewed in the light of comments received, and revised where appropriate. He added that the Advisory Committee on Truth in Lending will meet again on December 12 and 13 to advise on the final regulation to be formally published early in 1969.

Governor Robertson said the Board, hopefully with the cooperation of consumer and lender groups, will soon launch an educational campaign to acquaint both creditors and consumers with provisions of the truth in lending regulation.

Although Congress directed the Board to write the truth in lending regulation, actual enforcement of the regulation and the law will be carried out by nine Federal agencies—the Comptroller of the Currency for national banks; the Federal Reserve Board for State banks which are members of the Federal Reserve System; the Federal Deposit Insurance Corporation, for State insured nonmember banks; the

Federal Home Loan Bank Board, for insured savings and loan associations; the Bureau of Federal Credit Unions, the Interstate Commerce Commission, the Civil Aeronautics Board, the Agriculture Department, and the Federal Trade Commission.

Compliance will be enforced by the Federal Trade Commission except where administrative enforcement is specifically committed by the statute to another Federal agency.

Consumer credit is defined in the proposed regulation as credit offered or extended to a natural person primarily for personal, family, household, or agricultural purposes and for which a finance charge is or may be imposed or which is repayable in more than four instalments.

The proposed regulation would also bar a merchant or other creditor from advertising only a portion of his credit terms—such as so much money down and so much a week—unless he also included the total price, number of payments, and other specific terms.

Exemptions

As required by law the regulation exempts business and commercial credit (except agricultural credit) as well as credit to governments, governmental agencies and instrumentalities, and organizations such as corporations, estates, cooperatives and partnerships. Also exempt are consumer credit transactions other than real property transactions in which the amount financed exceeds \$25,000. Real property transactions are covered by the regulation no matter how large the amount financed.

Specific disclosures

The proposed regulation spells out the specific disclosures which must be made by creditors under each type of credit arrangement—open end, which includes the many revolving charge accounts offered by department stores; and credit other than open end, which includes all other types of consumer loans and instalment-type credit.

Under the proposed regulation, a person opening a new open end credit account must first be advised in writing by the creditor of these provisions:

— The conditions under which a finance charge may be imposed and the time in which any outstanding credit may be repaid without incurring a finance charge.

— The method for determining the balance upon which a finance charge may be imposed, and the method for determining the amount of the finance charge.

— Where one or more periodic rates may be used to compute the finance charge, each rate must be stated as well as the range of balances to which it applies and the corresponding annual percentage rate.

— The conditions under which any other charges may be imposed and the method by which they will be determined.

— The conditions under which the creditor may retain or acquire any security interest in any property under a credit arrangement.

— The minimum periodic payment required.

In the case of any open end credit accounts existing on July 1, 1969, the creditor must send a notice to the customer not later than July 31, 1969, listing the same provisions he is required to disclose to new credit customers.

For all open end accounts having a debit balance of more than one dollar or on which a finance charge is imposed, the regulation would require the creditor to send the customer a periodic statement listing somewhat similar disclosures.

The regulation also details the disclosures which a creditor would be required to make in the case of a credit sale, loan, or other extension of credit other than open end. In this case, the regulation spells out when such terminology as cash price, total down payment, unpaid balance of cash price, other charges, amount financed and total finance charge must be used.

A creditor would not be required to send a periodic billing statement to customers in connection with an extension of credit other than open end. But if he decided to do so, the regulation specifies the disclosures which must be included in such a statement.

Right to rescind

The Truth in Lending Act gives a customer the right to cancel a credit transaction within three business days in cases where the creditor retains a security interest in any real property used by the customer as his residence or is expected to be used by

him for this purpose. A first mortgage used to purchase a residence, however, carries no such cancellation right. The cancellation right, for example, does apply when a residence is used as collateral for a consumer loan or is subjected to a mechanic's lien as a result of a credit transaction.

Under the proposed regulation, a creditor would be required to give a customer a printed notification of his right to rescind. The notice would include this language: "You have a legal right to cancel this transaction for any reason without any penalty or obligation and void any lien, mortgage or other security interest to which your home is subjected by reason of this transaction . . . If you decide to cancel, you may use this notice for that purpose by dating and signing below."

The customer would have three business days following the date of the transaction to exercise his right of cancellation. The regulation would define a business day as any calendar day except Sunday and New Year's Day, Washington's Birthday, Memorial Day, Independence Day, Labor Day, Veterans Day, Thanksgiving, and Christmas.

Advertising

In general, no advertisement may state that a specific instalment, down payment, or amount of credit can be arranged unless the creditor customarily

arranges terms of this type. Equal emphasis must be given to all credit terms.

No advertisement for credit may set forth a specific credit term unless all other terms are also stated clearly and conspicuously.

Attachments

Attached is a copy of the proposed regulation — entitled Regulation Z — and the first page of a table worked out by the Board and the Treasury Department to help creditors determine the annual percentage rates to be disclosed in connection with instalment and other types of credit other than open end. It is included only as an example of the type of table which may be used. Creditors may, of course, use other tables adapted to their particular needs.

The technical aspects of the section beginning on page 43 (Calculation of Annual Percentage Rate) are essential to the regulation but are not needed by many lenders and consequently the Board is considering transforming this section, in its final regulation, into a supplement.

Also under consideration is the possibility of breaking the final regulation into parts which can be used by consumers and lenders interested in only one type of credit. The section on open end credit, for example, might be made available separately to persons interested only in this type of transaction.

Copies of the proposed Regulation Z and of the table referred to in the above statement are not enclosed, but will be furnished upon request directed to our Bank Examinations Department. Comments on the proposed regulation should also be directed to that Department.

ALFRED HAYES,
President.