

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 6288 ]  
[ February 7, 1969 ]

New Regulation Z—Truth in Lending  
Effective July 1, 1969

*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, February 10:

The Board of Governors of the Federal Reserve System today made public the final regulation the nation's creditors must follow in carrying out provisions of the Truth in Lending Act adopted by Congress last year. Regulation Z, as it is formally designated, will require disclosure of credit terms on virtually all types of consumer credit beginning July 1, 1969, the date specified in the law.

The regulation spells out not only the disclosures — including the finance charge and annual percentage rate — that must be made by creditors but also the manner in which they must be made. It covers the right of a customer to cancel some types of consumer credit arrangements within three business days if his residence is used as collateral, and sets standards for advertising credit terms.

In approving the Truth in Lending Act, Congress said the informed use of credit stems from awareness of its cost. Truth in Lending fixes no maximum or minimum charges for credit. Purposes of the law and the regulation implementing it are to make customers aware of the cost of credit and to permit them to compare the terms available from a variety of credit sources.

Regulation Z applies to banks, savings and loan associations, department stores, credit card issuers, credit unions, automobile dealers, consumer finance companies, residential mortgage brokers, craftsmen such as plumbers and electricians, doctors, dentists, hospitals and any other individuals or groups which extend or arrange for consumer credit.

The final regulation parallels the proposed regulation published by the Board for comment on October 16, 1968. Some additions and language changes were made in the proposed regulation on the basis of com-

ments received by the Board. The basic disclosures, which are required by the law itself, remain intact in the final regulation.

A Federal Reserve task force drafted the regulation aided by outside consultants and the 20 men and women who are members of the Advisory Committee on Truth in Lending provided for in the law.

As part of an informational campaign to acquaint creditors with the regulation they must follow beginning July 1, printed copies of the regulation and statute together with an explanatory question-and-answer series on Truth in Lending, will be sent to creditors soon through the agencies enforcing the law. Inquiries from creditors should be addressed to the agency charged by Congress with enforcement for that particular group of creditors.

Although Congress assigned the job of writing the regulation to the Board, enforcement will be spread throughout nine different Federal agencies as follows: The Federal Reserve Board for State banks which are members of the Federal Reserve System; the Federal Deposit Insurance Corporation for other insured State banks which are not members of the Federal Reserve System; the Comptroller of the Currency for national banks; the Federal Home Loan Bank Board for federally insured savings and loan associations; the Bureau of Federal Credit Unions; the Interstate Commerce Commission for industries it regulates; the Civil Aeronautics Board for airlines, and the Agriculture Department for creditors under the Packers and Stockyards Act. Congress assigned enforcement for all other creditors, including department stores and other retailers, to the Federal Trade Commission.

A creditor who willfully and knowingly violates the Truth in Lending law or the regulation faces a maxi-

mum criminal penalty, upon conviction, of a \$5,000 fine, a year in jail, or both. At the same time, the customer could sue for civil penalties of twice the amount of the finance charge (but not less than \$100 or more than \$1,000), court costs, and a reasonable attorney's fee.

Truth in Lending is a key portion of the Consumer Credit Protection Act which was signed into law on May 29, 1968. Other parts of that Act — for which the Federal Reserve was not assigned responsibility — crack down on extortionate credit transactions, restrict the garnishment or attachment of a person's wages by a creditor beginning on July 1, 1970, and set up a National Commission on Consumer Finance.

In redrafting its proposed regulation, the Board transferred into a supplement the complex and highly technical formulas and computations which are not needed by most creditors. These formulas and computations are available without charge upon written request to the Board.

At the same time, the Board prepared sets of tables which may be used by creditors to determine the annual percentage rate for a transaction. Table FRB-100-M covers up to 60 monthly payments; table FRB-200-M covers 61 to 120 monthly payments; table FRB-300-M covers 121 to 480 monthly payments; and table FRB-100-W covers up to 104 weekly payments. These four tables, bound in one volume, will be available for \$1.00 from the Board or any of the 12 Federal Reserve Banks. Another volume of tables with instructions on their usage, also available for \$1.00, can be used in conjunction with the first volume to compute annual percentage rates for transactions with irregular payments or those involving multiple advances. (Each volume of tables will be available for 85 cents per copy in orders of 10 or more.)

### Consumer credit

Consumer credit is defined in the regulation as credit offered or extended to a 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 regulation divides all transactions into two types — open end credit, which includes the revolving charge accounts offered by many department stores and transactions through credit cards; and credit other than open end, which is primarily the instalment type used by consumers to buy big ticket items such as automobiles, refrigerators, washing machines and television sets.

Not all credit is covered by Truth in Lending, however. Business and commercial credit, other than for agricultural purposes, is exempt, as are credit transactions of more than \$25,000 (other than real property transactions which are covered regardless of amount). Other exemptions include transactions in securities or commodities with a broker-dealer registered with the Securities and Exchange Commission and some types of transactions under regulated public utility tariffs. This latter provision was broadened in the final regulation to exempt transactions with any company or cooperative which files its tariffs with any State or with agencies of the Federal government, including the Rural Electrification Administration.

### State disclosures

The law says that the Board shall exempt from Federal disclosure requirements classes of transactions within a State if it determines that State law imposes substantially similar requirements, and adequate enforcement is provided. The Board will soon publish a proposed set of guidelines to be used in ruling on State applications for exemption from Federal disclosure. When adopted in final form, possibly in the spring, the guidelines will become "Supplement II" to the regulation.

Regulation Z itself, however, details the procedures a creditor must use if he decides to comply with any provision of State law which is inconsistent with Federal disclosure requirements. In such a case, the inconsistent State disclosures must be separated from the Federal disclosures. This may be done on a separate statement or on the same statement if the Federal disclosures are listed first and the State disclosures are identified as inconsistent with Federal law and are listed below a conspicuous dividing line.

### Finance charge and annual percentage rate

The finance charge and annual percentage rate are the two most important concepts embodied in Regulation Z. They are designed to tell the consumer at a glance how much he is paying for credit and the relative cost of that credit in percentage terms.

In general, the finance charge is the total of all costs imposed by the creditor and paid either directly or indirectly by the consumer or another party as an incident to the extension of credit. It includes such costs as interest, time-price differential, and amounts paid as a discount; service, transaction, activity or carrying charges; loan fees, points, finder's fees or similar charges; fees for an appraisal, investigation or credit reports (except in real property transactions),

and premiums for credit life insurance that are required by the creditor as a condition to obtaining credit.

Any charges of the following type may be excluded from the finance charge if they are itemized and disclosed separately to the customer: taxes not included in the cash price of an article; license, certificate of title and registration fees imposed by law; the premium paid for insurance in lieu of allowing the creditor a security interest in the customer's property if the premium does not exceed the amount of the recording fee that would have been applicable if the security interest had been given, and fees and charges paid to public officials under law for such things as title and mortgage searches.

Some charges paid in connection with real property transactions need not be included in the finance charge if they are bona fide, reasonable in amount and don't destroy the purpose of Truth in Lending. These include fees for title examination, title insurance, surveys, preparation of deeds, settlement statements, escrow payments to cover future taxes and insurance and utility costs; notary fees, appraisal fees and credit reports.

The annual percentage rate represents the relationship of the total finance charge to the total amount financed. It must be computed to the nearest one quarter of one per cent. The method of computation depends on whether the credit is open end or the instalment type.

In the case of open end credit—the department store revolving charge account, for example—the annual percentage rate is computed by multiplying the periodic service charge by the number of periods in a year. In the case of a typical charge of 1½ per cent of the unpaid balance with bills presented monthly, the annual percentage rate would be 18 per cent. In cases where two or more periodic rates are used, the annual percentage rate may be computed at the creditor's option by (1) dividing the total finance charge for the month by the sum of the unpaid balances and (2) multiplying the result by the number of billing cycles in a year.

The regulation also spells out the methods to be used in open end credit for computing the annual percentage rate when brackets or a range of balances are used and when the finance charge includes a minimum or fixed fee.

For credit other than open end, the annual percentage rate must be computed by the actuarial

method. Here are examples of how the actuarial method would work:

For a bank loan of \$100 for one year at a 6 per cent add-on charge, the annual percentage rate would be 11 per cent. This is because the \$100 would be available to the customer only for the first month of the loan. When he makes his first repayment, he actually repays part of the principal and has less money at his disposal.

Using the same set of circumstances but this time with a 6 per cent charge discounted in advance, the annual percentage rate would be 11½ per cent. That's because the customer in this case would receive \$94 and must repay \$100.

Charts and tables made by private companies may be used to figure the annual percentage rate so long as they are prepared in line with provisions spelled out in Regulation Z.

#### General disclosure requirements

Truth in Lending disclosures must be made clearly, conspicuously, in meaningful sequence, and at the time and in terminology spelled out in the regulation. The terms "finance charge" and "annual percentage rate" must be printed more conspicuously than other terminology. All numbers and percentages must be in figures and shown in at least 10 point printer's type, .075 inch computer type, elite size typewriter characters, or in legible handwriting.

Evidence of compliance with Truth in Lending, other than advertising disclosures, must be preserved by a creditor for at least two years after the disclosures are made. These records are subject to inspection by the enforcing agency.

Before January 1, 1970, the annual percentage rate may be expressed as dollars per \$100 instead of as a percentage. For example, an 11 per cent rate may be expressed at the option of the creditor as \$11 finance charge per year per \$100 of unpaid balance.

As a temporary measure, creditors may use existing supplies of printed forms, properly modified, for their disclosures until new Truth in Lending forms can be obtained. In no case, however, may the existing modified forms be used beyond next December 31.

#### Specific disclosures

Regulation Z spells out in detail the specific disclosures a creditor must make depending on whether the credit is open end or of the instalment type. For

example, a creditor must make these disclosures to a customer before opening a new open end account:

— The conditions under which a finance charge may be imposed and the period when payment may be made without incurring a finance charge.

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

— The method of determining the finance charge.

— The periodic rate or rates used, the range of balances to which they apply and the corresponding annual percentage rate.

— The conditions under which additional charges may be imposed and the method for determining them.

— The conditions under which a creditor may acquire any security interest in any property owned by the customer and a description of the interest which may be acquired.

— The minimum periodic payment required.

Similar disclosures must be sent to the customer who already has an open end account — by July 31 if the account had an unpaid balance on July 1 and by the next billing following use of the account if no balance was outstanding on July 1.

Similar sets of disclosures are detailed in the regulation for credit other than open end, including a credit sale and a loan.

As the above statement indicates, copies of the regulation and of the Truth in Lending Act, together with an explanatory question-and-answer series on Truth in Lending, will be sent to creditors soon through the agencies enforcing the law. When copies become available, we will send them to our State member banks. Inquiries from State member banks should be addressed to our Bank Examinations Department; inquiries from other creditors should be addressed to their appropriate enforcing agency.

Additional copies of this circular will be furnished upon request.

### Cancellation rights

The Truth in Lending law and Regulation Z give a customer the right to cancel a credit transaction within three business days when the creditor acquires or retains a security interest in the customer's principal residence. No such cancellation right is afforded for first mortgages to finance purchase of a residence itself. But the right of rescission does apply when a residence is otherwise used as collateral for a consumer loan. The regulation specifies the notice the creditor must give a customer when the right of rescission can be exercised.

The regulation also spells out a customer's right to waive his cancellation right in emergencies. For the purpose of counting the "three business days" allowed for cancellation, the regulation defines a business day as any day except Sunday, New Year's Day, Washington's Birthday, Memorial Day, Independence Day, Labor Day, Veterans' Day, Thanksgiving and Christmas.

### Advertising

In general, no advertising offering credit may state that a specific amount of credit or instalment can be arranged unless the creditor customarily arranges such types of credit. No one specific credit term — that is, the downpayment, finance charge, etc. — can be advertised unless all the terms are stated clearly and conspicuously.

Advertising refers not only to newspaper, radio and television advertising but also commercial messages in magazines, leaflets, flyers, catalogs, public address system announcements, direct mail literature, window displays, billboards or other media.

ALFRED HAYES,  
*President.*