

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6434]
[November 7, 1969]

Regulation Z—Amendment and Interpretation

To All State Member Banks, and Others Concerned,
in the Second Federal Reserve District:

Following is the text of a statement issued yesterday by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today issued an amendment to its Regulation Z to make it easier for agricultural lenders to comply with the Truth in Lending Act and insure full and clear descriptions of farm credit transactions.

The amendment, effective immediately, provides that where the dates or amounts of payments or advances cannot be determined at the time of a credit transaction because they are tied to the needs of the farmer as they arise during the year, the creditor may disclose the method of computing the amount of the finance charge rather than a total dollar figure. At the same time, the creditor may omit disclosure of the annual percentage rate but must disclose the number, amount and due dates of the payments and the total amount to be repaid to the extent known. It should be noted that this amendment does not apply to loans for agricultural purposes where dates and amounts of both advances and repayments are known at the time of the transaction.

The Board said a problem arises because some agricultural loans are made on terms governed by production and seasonal needs that cannot be determined at the time a credit transaction is made. For example, a bank or other lender might agree at the start of a growing season to advance money to a farmer for supplies at times and in amounts needed during the year to sow, maintain and harvest a crop. Repayment terms are frequently tied to the sale of crops. In such cases, the dates or amounts of advances or payments cannot be ascertained and consequently the amount of the finance charge, the repayment schedule and sometimes the annual percentage rate must be estimated. These estimates, are, at best, crude and often misleading and in some cases have proven physically impossible to make. The amendment is designed to meet these problems, reduce the burden on agricultural lenders, and insure the customer a clear and full description of his credit transaction.

Enclosed is a copy of the amendment. In a companion measure, the Board of Governors approved an interpretation of Regulation Z, a copy of which is printed below. It will be published shortly in the *Federal Register* and *Federal Reserve Bulletin*.

Additional copies of this circular and its enclosure will be furnished upon request.

ALFRED HAYES,
President.

§ 226.812 Advances under open end real estate mortgages for agricultural purposes

Under § 226.8(p) disclosures are permitted in connection with certain extensions of credit for agricultural purposes which may involve advances under an open end real estate mortgage or similar lien. Section 226.8(j) in part treats advances for agricultural purposes under an open end real estate mortgage or similar lien. The question arises as to the respective application of these paragraphs to such advances.

If an extension of credit involving multiple ad-

vances, whether or not under an open end mortgage, meets the test of § 226.8(p), disclosures need only be made prior to consummation of the credit transaction and need not be made at the time of each individual advance, even though such advance for agricultural purposes may not meet the tests in § 226.8(j). Conversely, extensions of credit for agricultural purposes involving advances under an open end real estate mortgage or similar lien which do not meet the tests for disclosure under § 226.8(p) are subject to the relevant provisions of § 226.8(j) dealing with such advances.

TRUTH IN LENDING

AMENDMENT TO REGULATION Z

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective November 6, 1969, § 226.8 is amended by the addition of paragraph (p), and § 226.9(g)(4) is amended, as follows:

§ 226.8—CREDIT OTHER THAN OPEN END—SPECIFIC DISCLOSURES

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(p) **Agricultural credit—information not determinable.** (1) In any transaction subject to this section, if the amount or date of any advance or payment in connection with an extension of credit for agricultural purposes under a written agreement is to be determined by production, seasonal needs, or similar operational factors, and is not determinable at the time of execution of the agreement, disclosures may be made at the creditor's option in accordance with this paragraph, provided the use of this paragraph is not for the purpose of circumvention or evasion of this Part.

(2) If a creditor elects to make disclosures under this paragraph he shall disclose the following items in accordance with § 226.8(a), which shall constitute compliance with the requirements of § 226.8, and under § 226.9(a) shall constitute "all other material disclosures required under this Part":

(i) The method of computing the amount of the finance charge including an identification of each component thereof in accordance with § 226.4.

(ii) Any item required to be disclosed under § 226.8(b)(3) which is determinable at the time the disclosures are required to be made under this paragraph.

(iii) The disclosures, as applicable, required under § 226.8(b)(4), (5), (6), and (7) and the items described in § 226.8(e)(1) and (2).

(iv) The disclosures, as applicable, required under § 226.8(o)(1), (2), (3), (4), (5), (8), and (9).

(3) Disclosures made pursuant to subparagraph (2)(i), (ii), and (iii) of this paragraph need be made only on the agreement or on a separate statement as specified in § 226.8(a).

(4) If a creditor making disclosures pursuant to this paragraph transmits a periodic billing statement of the type described in paragraph (n) of § 226.8, such statement shall be in a form which the customer may retain and shall set forth the date by which, or the period, if any, within which, payment must be made in order to avoid late payment or delinquency charges.

§ 226.9—RIGHT TO RESCIND CERTAIN TRANSACTIONS

* * *

(g) **Exceptions to general rule.** This section does not apply to:

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(4) Any advance for agricultural purposes made pursuant to either: (i) paragraph (j) of § 226.8 under an open end real estate mortgage or similar lien, provided the disclosure required under paragraph (b) of this section was made at the time the security interest was acquired by the creditor or at any time prior to the first advance made on or following the effective date of this Part, or (ii) paragraph (p) of § 226.8 under a written agreement, provided the disclosure required under paragraph (b) of this section was made at the time the written agreement was executed by the customer.

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