

FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 6782
August 16, 1971

PROPOSED AMENDMENTS TO REGULATION Z
Open-End Credit Accounts

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

The following statement was issued August 6 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today proposed for comment a change in its Truth in Lending regulation relating to the disclosure of the annual percentage rate in open-end credit accounts. Comments on the proposal should be submitted to the Board by September 15.

The proposed amendment relates to the content of monthly statements that must be sent by creditors to holders of open-end accounts—the so-called revolving charge accounts. At present, Regulation Z does not require the creditor to disclose an annual percentage rate on the monthly statement if no finance charge is imposed during the period covered by that statement.

The amendment would require creditors—whether or not a finance charge is imposed—to state a rate using the term "corresponding nominal annual percentage rate." This would be the rate obtained by multiplying the periodic rate (usually a monthly rate) by the number of periods in a year (usually 12 since most creditors operate on a monthly basis). A typical example is a charge of 1-1/2 per cent per month which results in an annual rate of 18 per cent.

In addition, the creditor would be required—as at present—to state an "annual percentage rate" which would include not only the periodic charge but also any special transaction fees imposed during the period covered by the statement.

A creditor could use only one term—annual percentage rate—where the finance charge results exclusively from a periodic or monthly rate and where any minimum, fixed or other charges do not exceed 50 cents per month.

Printed on the reverse side is an excerpt from the Federal Register of August 13, containing the text of the proposed amendments. Comments thereon should be submitted by September 15 and may be sent to our Consumer Information and Securities Regulations Department.

Alfred Hayes,
President.

(Over)

FEDERAL RESERVE SYSTEM

[12 CFR Part 226]

[Reg. Z]

TRUTH IN LENDING

Contents of Periodic Statement When No Finance Charge Is Made

1. Pursuant to the authority contained in the Truth in Lending Act (15 U.S.C. 1601 et seq.), the Board of Governors proposes to amend Part 226 (Regulation Z), in the manner and for the reasons set forth below:

Amend § 226.7(b)(5), the first sentence of § 226.7(b)(6), and § 226.7(c)(2) to read as follows:

§ 226.7 Open end credit accounts—specific disclosures.

(b) *Periodic statements required.* Except in the case of an account which the creditor deems to be uncollectable or with respect to which delinquency collection procedures have been instituted, the creditor of any open end credit account shall mail or deliver to the customer, for each billing cycle at the end of which there is an outstanding debit balance in excess of \$1 in that account or with respect to which a finance charge is imposed, a statement or statements which the customer may retain, setting forth in accordance with paragraph (c) of this section each of the following items to the extent applicable:

(5) Whether or not a finance charge is imposed during the billing cycle, each periodic rate (whether or not applied during the billing cycle), using the term "periodic rate" (or "rates"), that may be used to compute a finance charge, the range of balances to which it is applicable, and the "corresponding nominal annual percentage rate" (or "rates"), using that term, determined by multiplying the periodic rate by the number of periods in a year, except that the term "annual percentage rate" (or "rates") may be used instead of the term "corresponding nominal annual percentage rate" (or "rates") if the creditor regularly discloses for those billing cycles in which any finance charge is imposed an equivalent annual percentage rate or rates determined pursuant to either § 226.5(a)(1)(i) or § 226.5(a)(3)(ii), as applicable.

(6) The annual percentage rate or rates determined under § 226.5(a), using

the term "annual percentage rate" (or "rates"). * * *

(c) *Location of disclosures.* * * *

(2) The disclosures required by paragraph (b)(6) of this section and a reference to the amounts required to be disclosed under paragraph (b)(4) and (8) of this section, if not disclosed together on the face or the reverse side of the periodic statement, shall appear together on the face of a single supplemental statement which shall accompany the periodic statement.

2. Part 226 (Regulation Z) was issued by the Board pursuant to the statutory mandate in the Truth in Lending Act to prescribe regulations to carry out the purposes of the Act. The proposed amendments apply to the provisions of Regulation Z, § 226.7(b) and (c), which pertain to the content of periodic statements mailed or delivered to customers with respect to open end credit plans, commonly called revolving charge accounts. At this time, the regulation does not require the creditor to disclose on such statements any nominal annual percentage rate if no finance charge is imposed by the creditor during the statement period. This follows from the fact that § 226.7(b)(6) of the regulation requires disclosure of an annual percentage rate "determined under § 226.5(a)"—and under the latter section, this rate can be calculated only when there is a finance charge during the period. After further consideration, the Board is inclined to believe that it might help to carry out the purposes of the Act if the regulation required that the customer of an open end credit account, whether or not a finance charge is imposed during a statement period, be informed of the nominal annual percentage rate of finance charge for which he may become liable should he decide to defer payment in full of his account. The proposed amendments are to incorporate into Regulation Z that requirement, to eliminate language which is an unnecessary repetition of a requirement already stated in the regulation, and to permit disclosure of the newly required information in a clear, simplified, and meaningful manner.

3. The amendment of § 226.7(b)(5) would require, in addition to its present requirements and whether or not a finance charge is imposed, disclosure of the nominal annual percentage rate which corresponds to the periodic rate (monthly rate in most cases) and would

require the use of a new term, "corresponding nominal annual percentage rate" (or "rates"). However, in those cases where the finance charge, if imposed, is exclusively the product of the application of one or more periodic rates and where any minimum, fixed, or other charge does not exceed 50 cents per month, the term "annual percentage rate" may be substituted for the new term. This provision would make it possible in certain situations for some creditors who have been voluntarily supplying the information, to continue to do so using present supplies of statement forms. It would also permit others to comply with minimum change in forms and conversion expense.

4. The amended § 226.7(b)(6), as indicated previously, would eliminate redundant language and is therefore technical in nature.

5. The proposed amendment of § 226.7(c) which deals with the location of required disclosures on periodic statements of account would simplify placement of the disclosures in a way which is expected to be more meaningful and useful to the customer and minimize confusion.

If the proposed amendments are adopted, the Board will issue and publish the amendments in final form with an appropriate prospective date so as to permit such changes in printed forms and procedures as may be necessary for compliance in an orderly manner.

This notice is published pursuant to section 553(b) of title 5, United States Code, and § 226.2(a) of the rules of procedure of the Board of Governors of the Federal Reserve System (12 CFR 262.2(a)).

To aid in the consideration of these matters by the Board, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, the Board of Governors of the Federal Reserve System, Washington, D.C. 20551, or to any Federal Reserve Bank for transmittal to the Board, to be received at the Board not later than September 15, 1971. Such material will be made available for inspection and copying upon request, except as provided in § 261.6(a) of the Board's rules regarding availability of information.

By order of the Board of Governors,
August 5, 1971.

[SEAL]

KENNETH A. KENYON,
Deputy Secretary.

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