

FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 6987
August 9, 1972

PROPOSED AMENDMENTS TO REGULATION Z
Credit Cards — Issuance and Liability

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

The following statement was issued August 7 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today proposed an amendment to its Truth in Lending Regulation Z to make clear that all credit cards, regardless of use, are covered by the \$50 maximum liability limit for unauthorized use, and may be issued initially only upon request of the prospective cardholder.

The proposal would state specifically that the limits on liability for unauthorized use and the ban on unsolicited issuance of credit cards apply to all cards, whether they are to be used for personal, family, household, agricultural, business or commercial purposes. The proposed amendment does not affect the exemption from Truth in Lending disclosures for business credit.

Comment on the proposal should be received by the Board not later than September 15.

Printed below is the text of the proposed amendments. Comments thereon should be submitted by September 15 and may be sent to our Regulations and Bank Analysis Department.

ALFRED HAYES,
President.

(Reg. Z)
TRUTH IN LENDING
Credit Cards — Issuance and Liability

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 § 226.13(a)(4) and § 226.13(b) to read as follows:

§ 226.13—CREDIT CARDS—
ISSUANCE AND LIABILITY

(a) Supplemental definitions applicable to this section. * * *

(4) "Cardholder" means any natural person or organization to whom a credit card is issued for personal,

family, household, agricultural, business, or commercial purposes, or any natural person or organization who has agreed with the card issuer to pay obligations arising from the issuance of a credit card to another person for such purposes.

* * * * *

(b) Issuance of credit cards. Regardless of whether a credit card is to be used for personal, family, household, agricultural, business or commercial purposes, no credit card shall be issued to a natural person or organization except:

(1) In response to a request or application therefor, or

(Over)

(2) As a renewal of, or in substitution for, an accepted credit card whether such card is issued by the same or a successor card issuer.

2. Considerable uncertainty has prevailed as to whether the exemption in § 226.3 of Regulation Z for extensions of credit for business and commercial purposes applies to the unsolicited issuance of credit cards and to the limits on liability for their unauthorized use. The purpose of these proposed amendments is to make clear that all credit cards, regardless of use or cardholder status, are covered by the maximum liability limit and, by the same token, may not be distributed without an initial request from the cardholder. These amendments would not affect the application of the business exemption to the disclosure, rescission, and advertising requirements of Regulation Z for which it was originally intended.

This notice is published pursuant to section 553(b) of Title 5, United States Code, and § 262.2(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, 1972. 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 3, 1972.

ALFRED HAYES
President

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(b) Issuance of credit cards. Regardless of whether a credit card is to be used for personal, family, or business purposes, or for business or commercial purposes, the card issuer is not obligated to issue a credit card to a person for such purposes.

(c) Issuance of credit cards. Regardless of whether a credit card is to be used for personal, family, or business purposes, or for business or commercial purposes, the card issuer shall be issued at a natural person or organization.

(d) Issuance of credit cards. Regardless of whether a credit card is to be used for personal, family, or business purposes, or for business or commercial purposes, the card issuer shall be issued at a natural person or organization.

(1) Issuance of the authority contained in the Truth in Lending Act (15 U.S.C. 1601 et seq.) and the Board of Governors' proposed amendments to Regulation Z (12 CFR 226.1-226.17) and § 201.1(b) and § 201.1(c) to read as follows:

§ 201.1-TRUTH IN LENDING - ISSUANCE AND LIABILITY

(b) Issuance of credit cards. Regardless of whether a credit card is to be used for personal, family, or business purposes, or for business or commercial purposes, the card issuer shall be issued at a natural person or organization.