

**FEDERAL RESERVE BANK  
OF NEW YORK**

[ Circular No. 7041 ]  
[ November 21, 1972 ]

**REGULATION Z**

**Amendments and Interpretation**

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

Following is the text of a statement issued November 6 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today announced the adoption of amendments to its Truth in Lending Regulation Z dealing with credit card liability and disclosures relating to open end credit accounts.

One amendment clarifies that *all* credit cards—whether they are to be used for personal, family, household, agricultural, business or commercial purposes—are covered by the maximum liability limit of \$50 for unauthorized use, and may be issued only upon the request of a prospective cardholder. This amendment is effective December 15, 1972.

Other amendments, effective June 1, 1973, will:

1. Require the disclosure of a nominal annual percentage rate on billing statements in open end credit accounts even where no finance charges are imposed during the billing cycle. Many creditors are already making this disclosure.
2. Require disclosure of minimum finance charges on billing statements.
3. Incorporate into the Regulation two earlier interpretations dealing with computation of the annual percentage rate and disclosure of the balance on which it is computed.

These amendments are basically the same as the proposals announced by the Board on June 26 and August 4. Technical adjustments in the language were made in the light of public comment received since that time.

An effective date of June 1, 1973, for the disclosure amendments will allow time for those lenders and businesses which are affected by the amendments to reprint disclosure statements and change their computer programming, if necessary, to take account of the changes in the Regulation.

At the same time, the Board issued an interpretation detailing the application of the Regulation to open end credit plans with variable rate features. Copies of the amendments and interpretation are attached.

In submitting the amendments to the *Federal Register*, the Board of Governors made the following additional statement:

These amendments are promulgated pursuant to § 105 of the Truth in Lending Act (15 U.S.C. § 1604). Notice of proposed rule making was published on July 6, 1972, (37 Fed. Reg. 13270) and August 12, 1972, (37 Fed. Reg. 16407). After consideration of all relevant matter submitted by interested parties, technical changes were made to §§ 226.5(a)(3)(ii), 226.5(a)(3)(iii), 226.7(c)(1), 226.13(a)(4), 226.13(b) and 226.13(c). Footnote 6a was added to § 226.7(a)(4).

The amendment to § 226.5(a)(3) relocates the formula for computing annual percentage rates in the case of finance charges imposed with respect to specific transactions during the billing cycle—for example, one-time fees on cash advances—to the section dealing with annual percentage rate computation. The formula was previously contained in § 226.7(b)(6) and Board interpretation § 226.704. The interpretation is hereby revoked as of the effective date of the amendment. This amendment also clarifies the fact that the



Regulation does not require computation of the annual percentage rate by the quotient method when the total finance charge, including charges with respect to specific transactions, does not exceed 50¢.

The amendment adds a requirement to § 226.7(b)(5) that the corresponding annual percentage rate for each periodic rate applicable to the account be shown on each periodic statement, whether or not a finance charge is imposed during the billing cycle. Many creditors have previously made this disclosure, which was permissible, although not required, under Regulation Z. A variety of specified wording may be used to describe these rates. The permitted use of optional wording is to allow creditors maximum freedom to choose wording to distinguish between rates which were actually applied during the billing cycle (required to be disclosed under § 226.7(b)(6)) and the prospective nominal rates required to be disclosed by this subparagraph, where those rates differ. The optional wording will also minimize the need for reprinting periodic statements where nominal rate disclosures have previously been made by the creditor. Whatever wording is chosen may, though need not be, used to satisfy the terminology requirements for the initial disclosures under § 226.7(a)(4) and advertising under § 226.10(c)(4). Although the "more conspicuous" requirement of § 226.6(a) for the term "annual percentage rate" will not be applicable to disclosures under § 226.7(b)(5), it will continue to apply to the term "annual percentage rate" in opening disclosures under § 226.7(a) and in advertising under § 226.10(c), even if the creditor chooses to make disclosures under § 226.7(a)(4) and § 226.10(c)(4) using optional wording which simply incorporates this term—e.g., "corresponding ANNUAL PERCENTAGE RATE."

Many open end creditors will not be affected by the amendment. In many open end credit plans, the annual percentage rate under § 226.7(b)(6) and the prospective nominal rate under § 226.7(b)(5) will always be identical. This situation will occur when a creditor imposes finance charges simply by the application of one or more periodic rates and does not use the "quotient" method of calculating an annual percentage rate under § 226.5(a)(1)(ii). In such cases, the requirements of both § 226.7(b)(5) and § 226.7(b)(6) could be satisfied by a single disclosure of such rates on the face of all billing statements using the term, which could be preprinted, "ANNUAL PERCENTAGE RATE" or "RATES."

The new provision also will require disclosure of minimum charges which may be imposed on accounts with balances below a certain amount. This new disclosure requirement does not compel creditors to disclose the range of balances to which the minimum charge may be applicable; creditors may continue to disclose ranges of balances to which periodic rates apply under § 226.7(a)(4) and § 226.7(b)(5) without specifically designating the portion of any such range to which the minimum charge, instead of the periodic rate, is applicable. For example, disclosure could be made that "a periodic rate of 1½% per month which is an ANNUAL PERCENTAGE RATE of 18% will be applied to balances from \$0 to \$500, with a minimum charge of 50¢."

The amendment to § 226.7(b)(6) consists of the addition of the opening phrase "when a finance charge is imposed during the billing cycle." In addition, the words "and, where there is more than one rate, the amount of the balance to which each rate is applicable" have been deleted since the applicable requirement is already contained in § 226.7(b)(5) which requires disclosure of the range of balances to which each rate is applicable. The amendment is primarily designed to clarify the fact that the annual percentage rate disclosures under this paragraph (as determined by § 226.5(a)) are only required when finance charges are imposed during the billing cycle. Material relating to computation of the annual percentage rate where transaction charges are imposed during the billing cycle has been removed from the provision and incorporated into the new § 226.5(a)(3)(ii).

The amendment of § 226.7(c), which deals with the location of required disclosures on periodic statements, will simplify placement of the disclosures in a way which is expected to be more meaningful and useful to the customer and minimize confusion. The amendment incorporates Board interpretation § 226.702, which is hereby revoked as of the effective date of the amendment.

The purpose of the amendments to §§ 226.13(a), 226.13(b) and 226.13(c) is to make clear that each credit card, regardless of whether issued or used for personal, family, household, agricultural, business or commercial purposes, and regardless of whether issued to a natural person, corporation or other business entity, is covered by the Act's maximum liability limit on unauthorized use and, by the same token, may not be distributed without an initial request. The amendment to § 226.13(c) is to make it clear that the maximum liability limit applies to each credit card issued to a cardholder; for example, a corporation with many cards from the same issuer would have a maximum liability limit for each card. A technical change has



been made in the language of §§ 226.13(a)(4) and 226.13(b) published for comment. In view of the § 226.2(r) definition of "person," which includes both natural persons and organizations, §§ 226.13(a)(4) and 226.13(b) were changed to refer to "person" instead of "natural person or organization." No substantive change was intended. The amendments to § 226.13 would not affect the application of the business exemption in § 226.3 to the disclosure, rescission, and advertising requirements of Regulation Z for which it was intended.

Although the amendments to §§ 226.5(a), 226.7(a), 226.7(b) and 226.7(c) shall not become effective until June 1, 1973, any creditor may comply with the amended provisions prior to the effective date.

Enclosed is a copy of the amendments referred to above. In addition, printed below is the text of the interpretation. Additional copies of this circular and its enclosure will be furnished upon request.

ALFRED HAYES,  
*President.*

[Reg. Z]

**PART 226—TRUTH IN LENDING**

**Miscellaneous Interpretations**

**Open End Credit—Variable Periodic Rates**

**§ 226.707—Disclosures—Variable Periodic Rates**

(a) Under the terms of some open end credit plans the periodic rates of finance charges and corresponding annual percentage rates are tied to a fluctuating base rate, for example, the "prime rate." Consequently, both the periodic rates and annual percentage rates may change from time to time with changes in the base rate. The question arises as to the proper disclosure, if any, which should be made under § 226.7(a)(4), § 226.7(b)(5), § 226.7(b)(6), § 226.7(e) and § 226.10(c)(4) in connection with such plans.

(b) Where any creditor's open end credit plan provides that the account is subject to variations in

any periodic rate of finance charge, the creditor need not comply with § 226.7(e) with respect to any prospective change in any periodic rate or corresponding annual percentage rate applicable to the account, *provided* that in connection with the disclosures made pursuant to paragraph 226.7(a)(4) the creditor has disclosed that such rates are subject to change, the conditions under which such rates may be changed, and, if applicable, the maximum and minimum limits of such rates. The requirements of § 226.7(b)(5) and § 226.10(c)(4) may be complied with by similarly disclosing the method of computing the periodic or annual percentage rates which are subject to variation. In disclosing an annual percentage rate or rates under § 226.7(b)(6) where there have been variations during the billing cycle, the computations as specified in § 226.5(a)(1)(ii), § 226.5(a)(2), § 226.5(a)(3)(i) or § 226.5(a)(3)(ii), as applicable, should be used.

(Interprets and applies 15 U.S.C. § 1637)



# Board of Governors of the Federal Reserve System

## TRUTH IN LENDING

### AMENDMENTS TO REGULATION Z

1. Effective June 1, 1973, sections 226.5 (a)(3), 226.7(a)(4), 226.7(b)(5) and (6) and 226.7(c) of Regulation Z are amended to read as set forth below, and section 226.702 and section 226.704 (interpretations) are revoked; and

2. Effective December 15, 1972, sections 226.13(a)(4), (b) and (c) are amended to read as set forth below:

#### SECTION 226.5—DETERMINATION OF ANNUAL PERCENTAGE RATE

##### (a) General Rule—open end credit accounts.

\* \* \*

(3) Where the finance charge imposed during the billing cycle is or includes

(i) any minimum, fixed, or other charge not due to the application of a periodic rate, other than a charge with respect to any specific transaction during the billing cycle, by dividing the total finance charge for the billing cycle by the amount of the balance(s) to which applicable and multiplying the quotient (expressed as a percentage) by the number of billing cycles in a year; or

(ii) any charge with respect to any specific transaction during the billing cycle (even if the total finance charge also includes any other minimum, fixed, or other charge not due to the application of a periodic rate), by dividing the total finance charge imposed during the billing cycle by the total of all balances and other amounts on which any finance charge was imposed during the billing cycle without duplication and multiplying the quotient (expressed as a percentage) by the number of billing cycles in a year,<sup>5a</sup> except that the annual percentage rate shall not be less than the largest rate determined by multiplying each periodic rate imposed during the billing cycle by the number of periods in a year; or

(iii) any minimum, fixed, or other charge not due to the application of a periodic rate and the total finance charge imposed during the billing cycle does not exceed 50 cents for a monthly or longer billing cycle, or the pro rata part of 50 cents for a billing cycle shorter than monthly, at the creditor's option, by multiplying each applicable periodic rate by the number

of periods in a year, notwithstanding the provisions of subdivisions (i) and (ii) of this subparagraph.

5a In determining the denominator of the fraction under § 226.5(a)(3)(ii) no amount will be used more than once when adding the sum of the balances to which periodic rates apply to the sum of the amounts financed to which specific transaction charges apply. In every case the full amount of transactions to which specific transaction charges apply shall be included in the denominator. Other balances or parts of balances shall be included according to the manner of determining the balance to which a periodic rate is applied, as illustrated in the following examples of accounts on monthly billing cycles:

##### 1. Previous balance—none

A specific transaction of \$100 occurs on first day of the billing cycle. The average daily balance is \$100. A specific transaction charge of 3% is applicable to the specific transactions. The periodic rate is  $1\frac{1}{4}\%$  applicable to the average daily balance. The numerator is the amount of the finance charge, which is \$4.50. The denominator is the amount of the transaction (which is \$100), plus the amount by which the balance to which the periodic rate applies exceeds the amount of specific transactions (such excess in this case is 0), totaling \$100.

The annual percentage rate is the quotient (which is 4.5%) multiplied by 12 (the number of months in a year), i.e., 54%.

##### 2. Previous balance—\$100

A specific transaction of \$100 occurs at midpoint of the billing cycle. The average daily balance is \$150. A specific transaction charge of 3% is applicable to the specific transaction. The periodic rate is  $1\frac{1}{4}\%$  applicable to the average daily balance. The numerator is the amount of finance charge which is \$5.25. The denominator is the amount of the transaction (which is \$100), plus the amount by which the balance to which the periodic rate applies exceeds the amounts of specific transactions (such excess in this case is \$50), totaling \$150.

As explained in example 1, the annual percentage rate is  $3.5\% \times 12 = 42\%$ .

3. If, in example 2, the periodic rate applies only to the previous balance, the numerator is \$4.50 and the denominator is \$200 (the amount of the transaction, \$100, plus the balance to which only the periodic rate is applicable, the \$100 previous balance). As explained in example 1, the annual percentage rate is  $2.25\% \times 12 = 27\%$ .

4. If, in example 2, the periodic rate applies only to an adjusted balance (previous balance less payments and credits) and the customer made a payment of \$50 at midpoint of billing cycle, the numerator is \$3.75 and the denominator is \$150 (the amount of the transaction, \$100, plus the balance to which only the periodic rate is applicable, the \$50 adjusted balance). As explained in example 1, the annual percentage rate is  $2.5\% \times 12 = 30\%$ .

##### 5. Previous balance—\$100

A specific transaction (check) of \$100 occurs at the midpoint of the billing cycle. The average daily balance is \$150. The specific transaction charge is 25 cents per check. The periodic rate is  $1\frac{1}{4}\%$  applied to the average daily balance. The numerator is the amount of the finance charge, which is \$2.50 and includes the 25 cents check charge and the \$2.25 resulting from the application of the periodic rate. The denominator is the full amount of the specific transaction (which is \$100) plus the amount by which the average daily balance exceeds the amount of the specific transaction (which in this case is \$50), totaling \$150. As explained in example 1, the annual percentage rate would be  $1\frac{1}{4}\% \times 12 = 20\%$ .

#### SECTION 226.7—OPEN END CREDIT ACCOUNTS—SPECIFIC DISCLOSURES

##### (a) Opening new account.

\* \* \*

(4) Where one or more periodic rates may be used to compute the finance charge, each



such rate, the range of balances to which it is applicable, and the corresponding annual percentage rate determined by multiplying the periodic rate by the number of periods in a year.<sup>6a</sup>

6a A creditor imposing minimum charges is not required to adjust the disclosure of the range of balances to which each periodic rate would apply in order to reflect the range of the balances below which the minimum charge applies. If a creditor does not impose a finance charge when the outstanding balance is less than a certain amount, the creditor is not required to disclose that fact or the balance below which no such charge will be imposed.

\* \* \*

**(b) Periodic statements required.**

\* \* \*

(5) Each periodic rate, using the term "periodic rate" (or "rates"), that may be used to compute the finance charge (whether or not applied during the billing cycle), the range of balances to which it is applicable, and the corresponding annual percentage rate determined by multiplying the periodic rate by the number of periods in a year. The words "corresponding annual percentage rate," "corresponding nominal annual percentage rate," "nominal annual percentage rate" or "annual percentage rate" (or "rates") may be used to describe the corresponding annual percentage rate. The requirements of § 226.6(a) of this Part with respect to disclosing the term "annual percentage rate" more conspicuously than other required terminology shall not be applicable to the disclosure made under this subparagraph, although such term (or words incorporating such term) may, at the creditor's option, be shown as conspicuously as the terminology required under subparagraph 6 of this paragraph. Where a minimum charge may be applicable to the account, the amount of such minimum charge shall be disclosed.<sup>9a</sup>

9a A creditor imposing minimum charges is not required to adjust the disclosure of the range of balances to which each periodic rate would apply in order to reflect the range of the balances below which the minimum charge applies. If a creditor does not impose a finance charge when the outstanding balance is less than a certain amount, the creditor is not required to disclose that fact or the balance below which no such charge will be imposed.

(6) When a finance charge is imposed during the billing cycle, the annual percentage rate or rates determined under § 226.5(a) using the term "annual percentage rate" (or "rates").

\* \* \*

**(c) Location of disclosures.** The disclosures required by paragraph (b) of this section shall be made on the face of the periodic statement, except that, at the creditor's option:

(1) Itemization of the amount and date of each extension of credit (or the date such extension of credit was debited to the account) required to be disclosed under paragraph

(b)(2) of this section and itemization of the amount of the "credits" disclosed under paragraph (b)(3) of this section, and of the amount of any finance charge required to be disclosed under paragraph (b)(4) of this section, may be made on the reverse side of the periodic statement or on a separate accompanying statement(s), provided that the totals of such respective amounts are disclosed on the face of the periodic statement; and

(2) The disclosures required under paragraph (b)(5) and (b)(8) of this section, except the balance on which the finance charge was computed, may be made on the reverse side of the periodic statement or on the face of a single supplemental statement which shall accompany the periodic statement.

(3) If the creditor exercises any of the options provided under this paragraph, the face of the periodic statement shall contain one of the following notices, as applicable: "NOTICE: See reverse side for important information" or "NOTICE: See accompanying statement(s) for important information" or "NOTICE: See reverse side and accompanying statement(s) for important information," and the disclosures shall not be separated so as to confuse or mislead the customer or obscure or detract attention from the information required to be disclosed.

**SECTION 226.13—CREDIT CARDS—  
ISSUANCE AND LIABILITY**

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

\* \* \*

(4) "Cardholder" means any person to whom a credit card is issued for personal, family, household, agricultural, business, or commercial purposes, or any person 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 any person except:

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

(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.

**(c) Conditions of liability of cardholder.** A cardholder shall be liable for unauthorized use of each credit card issued only if, \* \* \*