

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7209]
August 14, 1973

AMENDMENT TO REGULATION Z

Effective January 1, 1974

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

The Board of Governors of the Federal Reserve System has amended, effective January 1, 1974, its Truth in Lending Regulation Z to require creditors who do not provide rebates of the unearned portion of a finance charge in the event of prepayment in full of an instalment contract to disclose this fact to consumers on the Truth-in-Lending disclosure form.

In submitting the amendment for publication in the *Federal Register*, the Board of Governors made the following statement:

Effective January 1, 1974, § 226.8(b)(7) is amended to read as set forth below. The amendment will require creditors who do not grant rebates of the unearned portion of a finance charge upon prepayment of a precomputed instalment contract to disclose this fact on the Truth in Lending disclosure form. For example, if the cash price of an item is \$100 and the finance charge for one year is \$20, the consumer normally will sign an obligation to pay \$120 over a year in 12 monthly instalments of \$10 each. If the consumer repays the obligation in full before maturity, he may or may not receive a rebate of any unearned portion of the finance charge. The Regulation currently requires those creditors who make rebates to identify the rebate method. This amendment requires creditors who do not make rebates to disclose that fact to consumers in advance of their becoming obligated on credit contracts.

* * *

This amendment was promulgated pursuant to § 105 of the Truth in Lending Act (15 U.S.C. § 1604). Notice of proposed rule making was published on May 3, 1973 (38 *Fed. Reg.* 12240). After consideration of all relevant matter submitted by interested parties, two minor changes were made to § 226.8(b)(7).

The amendment is designed to alert consumers, before they become obligated on a instalment contract, if they will not receive a rebate of the unearned portion of the finance charge should they prepay the obligation before its stated maturity.

Section 226.8(b)(7) has been altered from its proposed form to clarify that it applies only to rebates provided in the event that an obligation is prepaid *in full* and does not require disclosure relating to partial prepayment of obligations. It has also been clarified to reflect the fact that it only relates to the rebate of the "unearned" portion of a finance charge.

Enclosed is a copy of the amendment; additional copies will be furnished upon request.

ALFRED HAYES,
President.

Board of Governors of the Federal Reserve System

TRUTH IN LENDING

AMENDMENT TO REGULATION Z

Effective January 1, 1974, § 226.8(b)(7) is amended to read as follows:

SECTION 226.8—CREDIT OTHER THAN
OPEN END—SPECIFIC DISCLOSURES

* * *

(b) Disclosures in sale and nonsale credit.
* * *

(7) Identification of the method of computing any unearned portion of the finance charge in the event of prepayment in full of an obligation which includes precomputed finance charges and a statement of the amount or method of computation of any charge that may be deducted from the amount of any rebate of such unearned finance charge that will be credited to an obligation or refunded to the customer. If the credit contract does not provide for any rebate of unearned finance charges upon prepayment in full, this fact shall be disclosed.

PRINTED IN NEW YORK