

FEDERAL RESERVE BANK
OF NEW YORK

FFCIR No. 7275^a
November 21, 1973

REGULATION Z

Use of "Annual Percentage Rate" in Oral Communications

To the Chief Executive Officers of All State Member Banks
in the Second Federal Reserve District:

Enclosed is a copy of a letter from the Board of Governors of the Federal Reserve System regarding the requirement, under Regulation Z, "Truth in Lending," that oral statements to consumers about the cost of credit should generally be in terms of an "annual percentage rate" only, and not in terms of add-on or discount rates.

Reprinted below is the text of the Board of Governors' interpretation on this matter. This interpretation was originally sent to your bank on July 20, 1973, in our Circular No. 7189.

ALFRED HAYES,
President.

[Reg. Z]

PART 226 — TRUTH IN LENDING

Use of "Annual Percentage Rate" in Oral Communications

The interpretation is designed to make it clear that in responding to oral inquiries from consumers about the cost of consumer credit, the creditor should quote the cost in terms of the annual percentage rate and not the add-on or discount rate.

§ 226.101 Use of "annual percentage rate" in oral communications.

(a) Under § 226.1(a)(2), a stated purpose of the Truth in Lending Act and Regulation Z is to assure that every customer who has need for consumer credit is given meaningful information with respect to the cost of that credit so that he may readily compare the various credit terms available to him from different sources and avoid the uninformed use of credit. Under § 226.6(a), a creditor is required to make disclosures using certain prescribed terminology, including the "annual percentage rate." The question arises as to the propriety of a creditor quoting annual rates other than "annual percentage rate" in response to consumer inquiries about the cost of credit, where such other rates could not be used in an advertisement under the proscriptions of § 226.10.

(b) The Truth in Lending Act and Regulation Z are intended to facilitate "shopping" between competitive credit plans. If a customer inquires about the cost of credit and the creditor responds by quoting an add-on or discount rate, he may mislead the customer since the use of such rates is prohibited in consumer credit advertising and such rates are significantly lower than the annual percentage rate which must be shown on the creditor's disclosure statement. The quotation of these rates can frustrate the stated purpose of the Act and prevent the customer from making an informed use of credit.

(c) In response to any oral inquiry by a customer about the cost of credit, a creditor when quoting annual rates should use only those rates permitted to be used in advertisements under § 226.10. Irrespective of the method used by the creditor to compute finance charges, the annual rate of the creditor's total finance charges should be quoted only in terms of the "annual percentage rate."

(Interprets and applies 15 U.S.C. 1663 and 15 U.S.C. 1664)



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

JEFFREY M. BUCHER
MEMBER OF THE BOARD

October 31, 1973

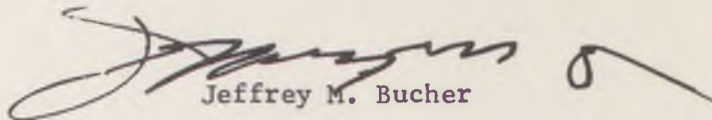
TO CHIEF EXECUTIVE OFFICERS OF ALL STATE MEMBER BANKS

The Federal Reserve Board is concerned that, despite the enactment of Truth in Lending, add-on and discount rates are still being used in answering consumer inquiries about the cost of credit. As a result the Board has issued an interpretation to Regulation Z which specifically prohibits such quotations. The interpretation provides that oral statements to consumers about the cost of credit should generally be in terms of an "annual percentage rate" only. A copy of the text of this interpretation, § 226.101--Use of "Annual Percentage Rates" in Oral Communications, is attached.

I suggest that if you have not already done so, you take steps to alert your employees to the requirements of this interpretation. It is particularly important that those employees who communicate with the public, either by telephone, face to face, or in writing, observe these provisions. Compliance with the interpretation will be checked periodically by representatives of the Federal Reserve Bank serving your District.

Similar letters are being sent to banks under the jurisdiction of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

Sincerely yours,


Jeffrey M. Bucher

Attachment