

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7761]
December 2, 1975]

TRUTH IN LENDING

Interpretation of Regulation Z Regarding
Disclosure of Single-Component Finance Charges

Reprint of Regulation Z

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

On November 21, 1975, the Board of Governors of the Federal Reserve System issued an interpretation of its Regulation Z, providing that, in the case of finance charges that contain only one component, the creditor need not identify the component beyond describing it as a "finance charge." A copy of the interpretation is enclosed. Any questions regarding the interpretation may be directed to our Bank Regulations Department.

In addition, the Board of Governors has reprinted its Regulation Z, incorporating amendments to, and interpretations of, that Regulation through October 28, 1975, including those amendments to the Regulation implementing the Fair Credit Billing Act. Enclosed is a copy of the new pamphlet.

Additional copies of the enclosures will be furnished upon request.

PAUL A. VOLCKER,
President.

Board of Governors of the Federal Reserve System

TRUTH IN LENDING

INTERPRETATION OF REGULATION Z

Disclosure of Single-Component Finance Charges

This interpretation relates to the application of Regulation Z to credit transactions other than open end when the finance charge is composed of a single element. The interpretation provides that in such instances the creditor may disclose that single element under the term "finance charge" and there is no need to further identify or describe the element. However, where there is more than one element comprising the finance charge, creditors are required under Regulation Z to describe each amount included in the finance charge.

§ 226.820—Disclosure of single-component finance charges.

Sections 226.8(c)(8)(i) and 226.8(d)(3) require the disclosure of the total amount of the finance charge "with description of each amount included," except in the case of certain real property transactions. The question arises whether the nature of the finance charge must be described where only one type of charge, such as an interest charge, comprises the total finance charge.

The primary purpose of this disclosure requirement is to assure that all sums which constitute finance charges under § 226.4(a) are properly taken into account in determining the total finance charge. In addition, this information permits the customer to make a more meaningful comparison of the finance charges and annual percentage rates available from various sources of consumer credit and to make an informed selection on this basis. A description of the amounts included in the finance charge is necessary to carry out the purposes of the Act only when the total charge includes more than one element. Therefore, where only a single type of charge comprises the finance charge, disclosure of the total dollar amount of such charge, using the term "finance charge," complies with the requirements of §§ 226.8(c)(8)(i) and 226.8(d)(3), and there is no further requirement under those sections that the single type of charge be otherwise identified or described.

(Interprets and applies 12 C.F.R. 226.8)

By order of the Board of Governors, November 21, 1975.

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