

**FEDERAL RESERVE BANK  
OF NEW YORK**

[Circular No. 7917]  
July 14, 1976

**AMENDMENT TO REGULATION Z**

**Description of Finance Charges**

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

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

The Board of Governors of the Federal Reserve System today amended its Truth in Lending Regulation Z spelling out the way in which finance charges must be described.

The action becomes effective August 6, 1976.

In some instances of extensions of credit more than one type of finance charge may be involved, such as charges for interest, a loan fee or an investigation fee. In such cases under the Regulation, each type of finance charge must be described. However, the amended Regulation indicates that where only one type of finance charge is involved, the nature of that charge need not be described.

The amendment of the Regulation takes the place of a similar existing Interpretation of Regulation Z. The Board amended the Regulation subsequent to a procedural challenge to its Interpretation. The amendment of Regulation Z announced today was proposed for public comment on March 2.

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

On March 9, 1976, the Board published for comment in the *Federal Register* proposed amendments to §§226.8(c)(8)(i) and 226.8(d)(3) of Regulation Z (41 FR 10077). The amendments reflect the position stated in the Board's previously issued Interpretation §226.820, stating that a finance charge must be itemized only where the total finance charge is composed of more than one type of charge. The Board now adopts those amendments as proposed.

The interpretation was issued on November 21, 1975, and affirmed the Board's position that finance charges consisting solely of one type of charge need not be further described as to the nature of that charge. The publication of this position as an interpretation rather than a formal rulemaking procedure was challenged in the recent case of *Hatten v. Board of Governors* (D.C. Conn. Civ. No. N76-14, filed January 7, 1976), in which plaintiffs argued that the issue should have been the subject of a substantive rulemaking procedure. While continuing to uphold the validity of the interpretation and the procedures used in adopting it, the Board on March 9, 1976, published its position as proposed amendments to the Regulation, in order to provide for a fuller opportunity for public comment.

The notice of proposed rulemaking solicited comment on three alternative courses of action: (1) to clarify the Board's position that the requirement for itemization is confined to finance charges consisting of more than one type of charge; (2) to amend the Regulation to require itemization of finance charges regardless of the number of components in the finance charge; and (3) to eliminate entirely the requirement for itemization of the finance charge in all cases.

The Board received a total of 59 comments in response to the notice. Thirty-one of those responding, including seven out of eight Federal Reserve banks, a government agency, eleven banks, and four nonbank financial institutions, supported the proposed amendments to require itemization only in cases where the finance charges consists of more than one component. The remainder of the comments were almost evenly divided between the other alternatives, with 15 favoring itemization in all cases and 13 urging elimination of all itemization requirements. All consumer organizations and consumer representatives responding were in the former category, while the latter group consisted primarily of banks and a variety of nonbank creditor representatives.

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Most of the 15 commenters supporting itemization of the finance charge in all cases took the position that this alternative provides the consumer with important additional information on the transaction and that such disclosure serves an important enforcement purpose by discouraging the creditor from concealing a variety of charges within a so-called single-component finance charge.

In the Board's view, Truth in Lending was intended to provide consumers with meaningful information which assists them in understanding credit terms and in comparing various sources of credit. Labels such as "finance charge (time price differential)" or "finance charge (interest)" would not seem to be of greater assistance to consumers than "finance charge" in fulfilling these purposes of the Act. In addition, the Board is concerned that a term which is of questionable benefit, when added to already lengthy and complex disclosure statements, could further detract from the important disclosures of annual percentage rate and total finance charge. On balance, the arguable benefits of this additional disclosure do not, in the Board's view, outweigh the need for simplified and concise Truth in Lending disclosures.

With regard to the possible enforcement benefits to be derived from itemization of a finance charge consisting of only one type of charge, the Board notes that the government agency and seven of the eight Federal Reserve banks commenting on the proposal did not support this alternative to require itemization in all cases. Since these agencies bear a primary enforcement responsibility for Truth in Lending, their comments provide evidence that required itemization of single-component finance charges would not significantly enhance their enforcement efforts.

Of the 13 commenters supporting the alternative of eliminating all requirements for itemization of finance charges, many took the position that further description of the components of a finance charge is unnecessary and potentially confusing. In the Board's view, however, the requirement for itemization of multiple-component finance charges was originally intended to serve primarily as an enforcement tool rather than an informational device. In view of the fact that no enforcement agency supported the alternative to eliminate this requirement, the Board believes that itemization of finance charges consisting of more than one type of charge may continue to serve a useful enforcement purpose.

Thirty-one commenters supported the proposed amendments to require itemization of multiple-component finance charges as an appropriate method of fulfilling the goals of the Act. In general, these commenters viewed the alternative of requiring itemization of single-component finance charges as unnecessary, but stated that the information derived from itemizing multiple-component finance charges might be useful to consumers.

After consideration of these comments, the Board has determined that, at the present time, the proposed amendments to require itemization where the finance charge consists of more than one type of charge would best serve the purposes of the Truth in Lending Act. In making this determination, the Board was particularly mindful of two factors. First, itemization is not required by the Truth in Lending Act itself but was added to Regulation Z primarily to help assure that all charges are properly taken into account in computing the total finance charge. The government agency and seven of the eight Federal Reserve banks responding, all of which have enforcement responsibility for the Act, supported the proposed amendments as opposed to either of the two alternatives. The Board views this as evidence that itemization of multiple-component finance charges may assist in enforcement of the Act. However, the Board does not view itemization of a single-component finance charge as necessary to fulfill this purpose. Second, the Board shares the concerns expressed in Congress and elsewhere that lengthy and complex Truth in Lending disclosures do not serve consumers' needs for clear and meaningful information and may be counterproductive to the goals of Truth in Lending.

*Effective date.* These amendments become effective August 6, 1976. Accordingly, Interpretation §226.820, previously issued by the Board, is rescinded effective August 6, 1976, inasmuch as the amendments to the Regulation make this interpretation unnecessary.

Enclosed is a copy of the amendment, which, effective August 6, 1976, supersedes the interpretation of Regulation Z entitled "Disclosure of Single-Component Finance Charges" (§226.820). Questions on this matter may be directed to our Bank Regulations Department.

Additional copies of the amendment will be furnished upon request.

PAUL A. VOLCKER,  
*President.*



Board of Governors of the Federal Reserve System

TRUTH IN LENDING

AMENDMENT TO REGULATION Z

1. Effective August 6, 1976, subparagraphs (c)(8)(i) and (d)(3) of §226.8 are amended to read as follows:

SECTION 226.8—CREDIT OTHER THAN  
OPEN END—SPECIFIC DISCLOSURES

\* \* \*

(c) **Credit sales.**

\* \* \*

(8) \* \* \*

(i) The total amount of the finance charge, using the term "finance charge," and where the total charge consists of two or more types of charges, a description of the amount of each type, and

\* \* \*

(d) **Loans and other nonsale credit.**

\* \* \*

(3) \* \* \* the total amount of the finance charge,<sup>11</sup> using the term "finance charge," and where the total charge consists of two or more types of charges, a description of the amount of each type.

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For this Regulation to be complete, retain:

- 1) Regulation Z pamphlet, effective October 28, 1975.
- 2) Amendment effective July 30, 1976.
- 3) This slip sheet.

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