

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 8906]
August 27, 1980

ANNUAL PERCENTAGE RATE DISCLOSURES TO BORROWERS

Deferral of Mandatory Compliance Date of Amendments to Regulation Z

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

In January, the Board of Governors of the Federal Reserve System adopted amendments to its Regulation Z, "Truth in Lending," relating to the calculation and disclosure to borrowers of the annual percentage rate and other credit terms. Compliance by creditors with these amendments, which were sent to you with our Circular No. 8743, would have become mandatory on October 1, 1980. The Board of Governors has now deferred the mandatory compliance date of the annual percentage rate amendments to April 1, 1982, coinciding with the mandatory compliance date of the Truth in Lending Simplification and Reform Act.

In connection with this action, the Board of Governors has issued the following statement:

The Federal Reserve Board has deferred the date on which new methods of calculating and disclosing the annual percentage rate on consumer loans under Regulation Z—Truth in Lending—become mandatory.

The Board acted to avoid an increased regulatory burden that would otherwise be brought about by differing mandatory effective dates for amendments to Regulation Z adopted by the Board in January, and regulatory revisions resulting from the Truth in Lending Simplification and Reform Act enacted since then.

The annual percentage rate (APR) amendments to Regulation Z adopted by the Board in January provide greater flexibility and protection to creditors in calculating and disclosing the APR. These would have become mandatory October 1, 1980.

The Truth in Lending Simplification and Reform Act, and the new Regulation Z proposed by the Board to conform to the Act, contain APR calculation and disclosure rules very similar to those adopted by the Board in January. These will become effective April 1, 1981 and will become mandatory April 1, 1982.

To avoid requiring creditors to conform their practices to two sets of regulations in a short time, the Board deferred the mandatory date of the January revisions of APR calculation and disclosure to April 1, 1982.

The deferral has the effect of preserving the status quo. It is expected that the action will have no adverse impact on consumers. Creditors may begin to comply with the APR changes when the new Act and the new regulation under the Act take effect April 1, 1981 or earlier, but creditors are not required to do so until a year thereafter. This provides time for retraining of personnel and other changes creditors must make to conform to the new requirement. The Board's action does not affect creditors that have already made APR changes in conformity to the amendments adopted by the Board in January.

Enclosed is a copy of the Board's Order reflecting this action. Questions may be directed to our Consumer Affairs and Bank Regulations Department (Tel. No. 212-791-5914).

ANTHONY M. SOLOMON,
President.

Board of Governors of the Federal Reserve System

TRUTH IN LENDING

DEFERRAL OF MANDATORY COMPLIANCE DATE OF
AMENDMENTS TO REGULATION Z

Calculation and Disclosure of Annual Percentage Rates

[Reg. Z; Docket No. R-0239]

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Deferral of mandatory effective date.

SUMMARY: The Board is deferring the mandatory effective date for compliance with revisions to Regulation Z (Truth in Lending) regarding calculation and disclosure of the annual percentage rate and other credit terms. The revisions were adopted with an effective date of January 10, 1980, but creditors were not required to comply with the new provisions until October 1, 1980 (44 FR 77139, December 31, 1979). In the interim, creditors have been permitted to utilize either the existing or the amended rules. After adoption of the amendments, the Truth in Lending Simplification and Reform Act was enacted and the Board recently proposed a substantially revised Regulation Z to implement the act. The regulation must be adopted by the Board by April 1, 1981, but compliance will be optional until April 1, 1982. In order to avoid the need for creditors to assimilate two sets of changes in the regulation within a relatively short period, the Board is deferring the mandatory effective date of the annual percentage rate amendments to coincide with the mandatory effective date of the revised regulation. Creditors wishing to implement all changes at one time may begin doing so when

the Board adopts the final regulation. Until April 1, 1982, creditors may either continue to rely on the existing annual percentage rate rules or begin complying with the amended annual percentage rate provisions.

EFFECTIVE DATE: August 20, 1980.

FOR FURTHER INFORMATION CONTACT: Ellen Maland, Section Chief (202-452-3667) or Margaret Stewart, Senior Attorney (202-452-2412), Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: On December 31, 1979, the Board adopted revisions to Regulation Z relating to the calculation and disclosure of the annual percentage rate and other credit terms (44 FR 77139). The amendments were designed to simplify and clarify the requirements of the regulation with regard to these provisions and involved revisions to §§ 226.5 and 226.8 of the regulation and to Supplement I, § 226.40, which sets forth the technical equations and instructions for determining the annual percentage rate under the actuarial method.

For the most part, the changes made provide greater flexibility and protection to creditors and do not appear to require major changes in

For Regulation Z to be complete, retain:

- 1) Regulation Z pamphlet, amended to March 23, 1977.
- 2) Technical corrections slip sheet, dated October 1978.
- 3) Amendments pamphlet, dated March 1980.
- 4) Changes in pamphlet containing amendments to Regulation Z, dated July 1980.
- 5) Amendment effective August 1, 1980.
- 6) This slip sheet.

calculation tools and creditor practices. However, because the revisions do require creditors to analyze and review existing tools and practices in order to fully assimilate the changes, compliance with the new rules was made optional until October 1, 1980. Creditors were permitted to put the revisions into effect prior to that time, but could continue to follow the previous rules until October, in the event that they required a longer period of adjustment.

After adoption of the annual percentage rate changes, Congress enacted the Truth in Lending Simplification and Reform Act (Title VI of Public Law 96-221, the Depository Institutions Deregulation and Monetary Control Act of 1980). That act requires the Board to have in place a completely revised Regulation Z by April 1, 1981, with a mandatory effective date of April 1, 1982. Creditors may comply with the new regulation immediately upon its adoption by the Board. At the time of adoption of the annual percentage rate revisions, the ultimate passage of the new act was in doubt. Adoption of the new regulation, as a result of the revised act, will require significant revisions by creditors in their procedures and forms, as well as retraining of personnel.

The Board believes that creditors should not be required to undertake two separate reviews within a short period, but should instead be permitted to assimilate all changes at one time. The Board is therefore deferring the mandatory date for compliance with the annual percentage rate revisions from October 1, 1980, to April 1, 1982, to coordinate those revisions with the general revision to Regulation Z pursuant to the Truth in Lending Simplification and Reform Act. This action means that creditors will continue to have the option of complying with either the previous or the new annual percentage rate rules, but that option will be available until April 1, 1982, instead of October 1, 1980.

The Board wishes to emphasize that the deferral is designed to ease the burden of absorbing regulatory change and not to provide an opportunity for further changes in the annual percentage rate provisions. No extensive revisions to either these portions of the regulation

or Supplement I are contemplated as a result of the deferral. However, the Board's staff has received several questions regarding this material which may warrant further study. For example, several commenters have questioned the manner in which unit-periods for single-payment transactions must be determined under Supplement I. After analysis by the staff, the Board will determine whether any further specific changes should be proposed. Any adjustments that might result from such a review should be relatively minor and would be made only after thorough consideration of their impact on creditors that have already invested in new calculation tools and procedures. No changes are anticipated which would invalidate changes already made by creditors in reliance on the previously announced Board actions.

The Board has determined that compliance with the provisions of 5 U.S.C. § 553 relating to notice, public participation and deferred effective date would be impracticable in view of the short time available before the October mandatory effective date. No Board action on this matter was taken earlier because the extent of the regulatory burden imposed by changes in the regulation could not be assessed until passage of the Truth in Lending Simplification and Reform Act and the publication for comment of the revised regulation implementing the act. Therefore, pursuant to 5 U.S.C. §§ 553(b)(3)(B) and 553(d)(3), the Board is deferring the mandatory effective date of October 1, 1980, without notice and prior opportunity for comment.

Pursuant to § 105 of the Truth in Lending Act (15 U.S.C. § 1604 (1970)), the Board delays from October 1, 1980, to April 1, 1982, the amendment of original § 226.5(a) and the rescission of original §§ 226.5(b) through (e), Interpretations §§ 226.502, 226.503 and 226.505, and Supplement I to Regulation Z, as described at 44 FR 77144, December 31, 1979. The January 10, 1980, effective date for revised § 226.5, new § 226.8(r) and 226.8(s), and revised Supplement I remains unchanged.

By order of the Board of Governors, August 20, 1980.