

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 10790]
July 12, 1995]

TRUTH IN LENDING

Proposed Amendments to Regulation Z Regarding Rules on Credit Advertising

Comments Invited by August 11

*To All Depository Institutions in the Second Federal
Reserve District, and Others Concerned:*

The following statement has been issued by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board is seeking public comment on how rules for credit advertising, in Regulation Z, could be modified to increase consumer benefit and decrease creditor costs. Comment is also requested on how current rules could be modified for radio and television advertisements without diminishing consumer protection.

Comment is requested by August 11.

The Riegle Community Development and Regulatory Improvement Act of 1994 directs the Board to submit a report to the Congress regarding these issues.

Printed on the following pages is the text of the proposal, which has been published in the *Federal Register*. Comments thereon should be submitted by August 11, 1995, and may be sent to the Board of Governors, as specified in the Board's notice, or to our Compliance Examinations Department.

WILLIAM J. McDONOUGH,
President.

Proposed Rules

Federal Register

Vol. 60, No. 123

Tuesday, June 27, 1995

FEDERAL RESERVE SYSTEM

12 CFR Part 226

[Regulation Z; Docket No. R-0883]

Truth in Lending

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Request for comments.

SUMMARY: The Board is soliciting comment on how rules for credit advertising could be modified to increase consumer benefit and decrease creditor costs. Comment is also requested on how current rules could be modified, if at all, for radio and television advertisements without diminishing consumer protection. The Riegle Community Development and Regulatory Improvement Act of 1994 directs the Board to submit a report to the Congress regarding these issues. Under present law, creditors that state a rate in an advertisement must state the annual percentage rate (APR). Stating the APR or other terms triggers additional disclosure requirements such as annual fees imposed on a credit line or the repayment terms for an installment loan.

DATES: Comments must be received on or before August 11, 1995.

ADDRESSES: Comments should refer to Docket No. R-0883, and may be mailed to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW., Washington, DC 20551. Comments also may be delivered to Room B-2222 of the Eccles Building between 8:45 a.m. and 5:15 p.m. weekdays, or to the guard station in the Eccles Building courtyard on 20th Street NW. (between Constitution Avenue and C Street) at any time. Comments may be inspected in Room MP-500 of the Martin Building between 9:00 a.m. and 5:00 p.m. weekdays, except as provided in 12 CFR 261.8 of the Board's rules regarding the availability of information.

FOR FURTHER INFORMATION CONTACT: Jane E. Ahrens, Senior Attorney, or Jose M.

Gabilondo, Staff Attorney, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, at (202) 452-3667 or 452-2412; for the hearing impaired only, Dorothea Thompson, Telecommunications Device for the Deaf, at (202) 452-3544.

SUPPLEMENTARY INFORMATION:

I. Background

Section 336 of the Riegle Community Development and Regulatory Improvement Act of 1994, Pub. L. 103-325, 108 Stat. 2160, enacted into law on September 23, 1994, directs the Board to submit a report to the Congress on existing rules for credit advertising and how current rules could be modified in a way that increases consumer benefit and decreases, specifically for radio advertisements.

II. Current Rules for Credit Advertising

The Truth in Lending Act (15 U.S.C. 1601 et seq.) contains rules about consumer credit advertisements. The act is implemented by the Board's Regulation Z (12 CFR part 226). Regulation Z defines an advertisement as a commercial message in any medium that promotes a credit transaction, directly or indirectly. Examples of advertisements include direct mail literature, messages in newspapers or on computer screens, and telephone solicitations. Direct personal contacts, such as cost estimates for a specific transaction being negotiated, are not advertisements.

Regulation Z covers advertisements for all consumer credit transactions. Creditors advertising specific credit terms must state those actually offered to consumers. Stating certain credit terms triggers the disclosure of additional terms. The specific requirements differ somewhat for closed-end loans (typically, installment loans) and open-end plans (for example, credit card plans or home-secured credit lines).

Special rules govern multi-page advertisements. If a multi-page advertisement contains a term that triggers additional disclosures, the advertisement may clearly state the additional disclosures in a table or schedule on one page, so long as the pages where the triggering term appears refers to the page where the table or schedule is printed. The table or

schedule must represent the creditor's more commonly sold higher-price property or services.

Closed-end Credit

If creditors advertise a rate, it must be stated as the APR. A simple annual interest rate also may be stated, but not more conspicuously than the APR.

The following terms in an advertisement trigger additional disclosures: (1) The amount or percentage of a downpayment (in an advertisement for a credit sale), (2) the number of payments or period of repayment, (3) the amount of any payment, and (4) the amount of any finance charge. If an advertisement contains a trigger term, creditors must also state the following: (1) The APR, using that term (and if the rate may increase, that fact), (2) the terms of repayment, and (3) in an advertisement for a credit sale, the amount or percentage of a downpayment. Creditors need not state every loan available—creditors may advertise an example of one or more typical loans, as long as all the terms for the example are listed.

Open-end Credit

General

Disclosures are triggered for open-end plans if creditors advertise any of the terms required to be furnished in account-opening disclosures, such as how the finance charge on an open-end plan may be determined. For example, a creditor advertising "service charge on balances" describes how the finance charge will be determined and triggers the following additional disclosure requirements: (1) Any minimum or fixed charge, (2) the periodic rate used to compute the finance charge (expressed as an APR), (3) if the rate may increase, that fact, and (4) any membership fee, such as an annual fee.

Home Equity Lines of Credit

Creditors advertising home-secured credit lines have extra responsibilities. Advertisements cannot refer to home equity plans as "free money" (or similar terms) or cannot discuss the tax consequences of interest deductions in a misleading way.

Creditors trigger additional disclosures if they advertise—affirmatively or negatively—account-opening disclosures relating to finance charges and other significant charges or

repayment terms for the plan. If a home equity plan advertisement contains a trigger term, creditors must also state the following: (1) the periodic rate used to compute the finance charge (expressed as an APR), (2) loan fees that are a percentage of the credit limit along with an estimate of other plan fees, and (3) the maximum APR that could be imposed in a variable-rate plan.

If a minimum payment for the home equity line is stated, the advertisement must also state if a balloon payment will result. And if an advertisement for a variable-rate plan states a rate other than one based on the contract's index and margin, the advertisement must also state how long the introductory rate will be in effect. The APR figured on the current index and margin must be disclosed with equal prominence to the introductory rate.

III. Request for Comments

The Board requests comment on how existing credit advertising rules could be modified to increase consumer benefit and decrease creditor costs. Comment is also requested if the current rules could be modified, if at all, for radio advertisements without diminishing consumer protection. For example, Section 336 of the Riegle Community Development and Regulatory Improvement Act of 1994 provides for an abbreviated disclosure scheme for radio leasing advertisements. Before the statutory revisions, if a trigger term (such as a payment amount) were used in a leasing advertisement, as many as six additional disclosures were required to be given. Under the statutory amendments, lessors may substitute a reference to a toll-free telephone number or to a specified print advertisement for the disclosures about purchase options and end of term liability. If consumers call the toll-free number, they must receive all the required disclosures (not simply the ones omitted from the radio advertisement). Alternatively, all of the disclosures could be provided in a publication of general circulation in the community served by the radio station.

Comment is requested on whether the use of toll-free numbers in lieu of providing specific disclosures is warranted. Comment is also requested on whether changes to radio advertisements should be extended to other broadcast media (such as television), given similar time constraints for delivering disclosures.

The Board will submit its report to the Congress in early fall 1995, based on the comments of interested parties and its own analysis.

By order of the Board of Governors of the Federal Reserve System, June 21, 1995.

William W. Wiles,

Secretary of the Board.

[FR Doc. 95-15681 Filed 6-26-95; 8:45 am]

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