

FEDERAL RESERVE BANK  
OF NEW YORK

[Circular No. 7160]  
[ June 6, 1973 ]

Interpretation of Regulation Z

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

Printed below is the text of an interpretation of Regulation Z, effective June 1, 1973, which was issued by the Board of Governors of the Federal Reserve System to clarify provisions relating to certain types of open end credit plans where daily periodic rates are used to calculate the annual percentage rate.

Additional copies of this circular will be furnished upon request.

Alfred Hayes,  
*President.*

[Reg. Z]  
PART 226—TRUTH IN LENDING  
Daily periodic rate; computation of the annual percentage rate

This interpretation relates to technical provisions of Regulation Z which prescribe the procedures to be used by a creditor in computing the annual percentage rate disclosed to a customer on his billing statement on an open end credit account, such as a revolving charge account at a department store, or a bank credit card or check overdraft plan. The interpretation clarifies the method of computation of the annual percentage rate when daily periodic rates (rates that are applied to each day's outstanding balance) are used in figuring the finance charge on the account.

§ 226.506 Daily periodic rate; computation of the annual percentage rate

(a) Under §§ 226.5(a)(1)(ii), (3)(i) and (3)(ii), the quotient used in computing the annual percentage rate in open end credit accounts must be multiplied "by the number of billing cycles in a year". The question arises as to the method which should be used to compute the annual percentage rate under those sections where a

daily periodic rate (or rates) is used.

(b) In any open end credit account to which the provisions of §§ 226.5(a)(1)(ii) or 226.5(a)(3)(i) apply, where all or a portion of the finance charge is determined by the application of one or more daily periodic rates, the annual percentage rate may be determined (1) by dividing the total finance charge by the average of daily balances and multiplying the quotient by the number of billing cycles in a year, or alternatively (2) by dividing the total finance charge by the sum of the daily balances and multiplying the quotient by 365.

(c) In any open end credit account to which the provisions of § 226.5(a)(3)(ii) apply, where a portion of the finance charge is determined by application of one or more daily periodic rates, the phrase "sum of the balances" in footnote 5a shall also mean the "average of daily balances".

(Interprets and applies 15 U.S.C. 1606)

This interpretation is effective June 1, 1973.

By order of the Board of Governors, May 22, 1973.