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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

OFFICE OF THE VICE CHAIRMAN

July 21, 1971.

TO CHIEF EXECUTIVE OFFICERS OF ALL STATE MEMBER BANKS

Recently hearings were held by the National Commission on Consumer Finance which was established by Title IV of the Consumer Credit Protection Act. The Commission is charged with making a broad inquiry into consumer credit problems. It was suggested by several witnesses and Commission members that some banks are not paying sufficient attention to some of the basic requirements of Regulation Z. The following points in particular were mentioned. We agreed with the Commission to send a reminder circular to all State member banks as to the following requirements of the law. Similar letters are being sent to National banks and nonmember insured banks by the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

1. Banks should take appropriate measures to see that they do not purchase or accept as collateral dealer paper concerning which the consumer has not received a complete and accurate disclosure statement and rescission notice where applicable. The bank may be subject to whatever defenses or damage claims the customer may have under the Truth in Lending Act with regard to such paper.

2. No use should be made in advertising or in other communications with consumers of the add-on or discount rates (whether in percentages or dollars-per-hundred). Under the Act and Regulation only the annual percentage rate may be used in advertising the cost of consumer credit, and Truth in Lending contemplates that the annual percentage rate should be used in all oral or written communication to consumers rather than the add-on or discount rate.

3. Open end credit billing statements should not over-emphasize the minimum payment in relation to the total balance owed (the "new balance"). Overemphasis on the minimum payment can mislead the customer and detract attention from both the total outstanding balance and the disclosure, where applicable, that its payment within a certain period of time will avoid additional finance charges.

Sincerely,

J. L. Robertson

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