FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 6773
August 2, 1971

INTERPRETATION OF REGULATION Z

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

Following is the text of a statement issued July 29 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today issued a Truth in Lending interpretation relating to changes in the method of determining the balance on which a customer's finance charge is computed.

Legislation in some States has compelled creditors of open end accounts to change the method of computing finance charges. Previously any partial payments or credits were not deducted in determining the balance upon which the finance charge was computed. In some States these payments and credits must now be deducted before computing the finance charges.

The interpretation to Regulation Z states that no prior notice to the customer is required when the method of determining the balance on which the finance charge is computed is changed in this manner, since the change will result in a reduction of the finance charge to customers who do not pay their accounts in full. Prior notice is required, however, if any other changes in terms normally requiring notification are made at the same time.

Printed below is the text of the interpretation, which will be published shortly in the Federal Register and in this month's issue of the Federal Reserve Bulletin.

Additional copies of this circular will be furnished upon request.

Alfred Hayes,
President.

§ 226.705 Open end credit—change in the method of determining the balance on which finance charges are computed

(a) The creditor of an open end credit account plan desires to change his method of determining the balance on which finance charges are computed from a method in which payments and credits made during the billing cycle are not deducted in determining such balance to a method in which such payments and credits are deducted in determining such balance. This change results in a reduction in finance charges to the customer, where full payment of the account is deferred. The question arises whether notice of such change is required to be sent to customers of open end credit accounts under § 226.7(e), since that Section also provides that prior notice is not required if the only change is a reduction in the "periodic rate or rates, or in any minimum, fixed, check service, transaction, activity, or similar charge applicable to the account."

(b) Where a creditor changes his method of determining the balance on which finance charges are computed from a method in which payments and credits made during the billing cycle are not deducted in determining such balance, to a method in which such payments and credits are deducted in determining such balance, § 226.7(e) requires no prior notice of such change in terms, provided no other changes in terms applicable to the account are made simultaneously which would require § 226.7(e) notification.

(Interprets and applies 15 U.S.C. 1637)

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