FEDERAL RESERVE BANK OF CHICAGO
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Circular No. 2903
May 29, 1981

To All Depository Institutions in the
Seventh Federal Reserve District:

REGULATION Z
TRUTH IN LENDING
PROPOSED STAFF COMMENTARY

The Board of Governors of the Federal Reserve System's staff has published a proposed official staff commentary on Regulation Z, "Truth in Lending." The proposed commentary applies and interprets the requirements of Regulation Z with respect to open-end and closed-end consumer credit.

Interested persons should direct their comments to the Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551. Comments must be received by July 10, 1981 and should refer to TIL-1.

The Board's press release and an abbreviated version of the proposed commentary are enclosed. The full text (145 pages) of the proposed commentary is available upon request from the Circulars and Publications Division of this Bank, at (312) 322-5302.

John D. Van Pelt
Assistant Vice President
Office of the Secretariat

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FEDERAL RESERVE press release

For immediate release May 21, 1981

The Federal Reserve Board's staff is publishing for comment a proposed official staff commentary following up and interpreting the Board's simplified Regulation Z, which implements the Truth in Lending Simplification and Reform Act.

Comment should be received by July 10, 1981.

The proposed commentary applies and interprets the requirements of Truth in Lending with respect to open-end and closed-end consumer credit. The commentary will deal with the substance of some 1,500 Board and staff interpretations that have been issued, at the request of consumers and creditors, since the Act became effective over a decade ago. The commentary is expected to replace all individual interpretations and to be the sole vehicle for interpreting Regulation Z.

Compliance with the simplified regulation becomes mandatory April 1, 1982, a year after its publication, but creditors may begin to comply with it immediately.

The Board believes that the attempt to issue highly specific interpretations in the past led to an accumulation of interpretations that by their number and complexity complicated rather than facilitated compliance. The proposed new commentary focuses on providing more general guidance, together with illustrative examples.

The proposed commentary is described in the attached notice of the request for comment. The full proposed commentary is available from the Federal Reserve Board or Federal Reserve Banks.

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FEDERAL RESERVE SYSTEM

12 CFR Part 226

[Reg. Z; TIL-1]

TRUTH IN LENDING

Proposed Official Staff Commentary

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed official staff interpretation.

SUMMARY: In accordance with Appendix C to 12 CFR Part 226, the Board's staff is publishing for comment a proposed official staff commentary to Regulation Z, as revised effective April 1, 1981 (46 FR 20848, April 7, 1981). The commentary applies and interprets the requirements of Truth in Lending to open-end and closedend consumer credit, and is intended to substitute for individual Board and staff interpretations of the regulation. In order to make the final commentary available at the earliest possible time, commenters must submit their comments by July 10, 1981.

DATE: Comments must be received on or before July 10, 1981.

ADDRESS: Comments should include a reference to TIL-1 and should be mailed to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, or delivered to Room B-2223, 20th and Constitution Avenue, N.W., Washington, D.C., between 8:45 a.m. and 5:15 p.m. To aid in their consideration, comments regarding each section should begin on a separate page. Comments may be inspected in Room B-1122 between 8:45 a.m. and 5:15 p.m.

FOR FURTHER INFORMATION: Contact the following attorneys in the Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, at (202) 452-3667 or (202) 452-3867:

Subpart A	Gerald Hurst Beth Morgan Denise Rechter	Subpart C and Appendices	Beth Morgan Denise Rechter Rugenia Silver Susan Werthan Claudia Yarus Steve Zeisel
Subpart B and Appendices	Ruth Amberg Jesse Filkins Lynn Goldfaden Gerald Hurst Barbara Ranagan John Wood	Subpart D and Appendices	Lynn Goldfaden Susan Werthan

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SUPPLEMENTARY INFORMATION: Effective April 1, 1981, the Board substantially revised Regulation Z, which implements the Truth in Lending Act (46 FR 20848, April 7, 1981). The revisions reflect amendments made by the Truth in Lending Simplification and Reform Act (Title VI of the Depository Institutions Deregulation and Monetary Control Act of 1980, Pub. L. 96-221). Creditors may begin complying with the revised regulation immediately. Compliance does not become mandatory, however, until April 1, 1982. Before that date, creditors may continue to comply with the regulation as it existed prior to those amendments. Board and staff interpretations issued under the prior regulation will remain effective until that date.

The Board's Division of Consumer and Community Affairs is publishing a draft commentary on the revised regulation. The final commentary will be issued as an official staff interpretation, providing creditors with protection under § 130(f) of the Truth in Lending Act. Under that section, creditors acting in conformity with an official staff interpretation have no liability for violations arising from those actions.

The commentary will significantly alter the staff's approach to providing interpretations of the regulation. Under the prior regulation, staff opinions were issued in response to individual inquiries regarding specific fact situations, and were normally limited to those facts. Subsequent variations in those facts were similarly addressed in individual responses tailored to the variations. More than 1500 letters interpreting and applying the prior regulation were issued on this basis.

The commentary is expected to replace Board and staff interpretations as the sole vehicle for interpreting the regulation. The commentary will, however, be more general than the interpretations issued under the prior regulation. Unlike the earlier interpretations, the commentary will not attempt to address and resolve every question regarding the application of the regulation to specific sets of facts. Although originally designed to aid creditors in complying, the longstanding practice of trying to respond in writing to each and every special circumstance has instead created an enormous amount of regulatory material. The cumulative effect of the interpretations has been to complicate, rather than facilitate, compliance by layering one set of distinctions on top of another. Rather than resolving questions, this material in the aggregate has served to generate further questions.

In the past, creditor exposure to civil liability for technical violations of the regulation has also contributed to the demand for staff interpretations that sought to provide certainty in applying the regulation. The reduction in civil liability resulting from the 1980 statutory amendments should reduce the perceived need for written responses to a variety of specific questions.

The commentary focuses on providing general guidance to assist creditors in applying the regulation to specific situations. That guidance may take several forms. The commentary may list examples that comply with a particular regulatory standard, discuss the impact of a regulatory provision on a prevalent type of plan or transaction, or draw together and elaborate on a related group of regulatory requirements.

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The commentary does not purport to be exhaustive. It concentrates on material of general application whose inclusion will, in the staff's view, be useful to the widest possible audience. For example, the commentary provides several illustrations of ways in which closed-end credit disclosures may be segregated in accordance with the requirements of § 226.17(a). The examples chosen are those that appear most likely to be utilized by a number of creditors, although other methods may be equally permissible. Similarly, the commentary will address prevalent credit transactions, to the extent that they present important questions under the regulation. It will not, however, attempt to address each credit plan's unique set of facts. The commentary instead identifies several basic factors characterizing that type of transaction. Creditors must then determine whether the discussion applies to their own transactions given their particular variations. The staff expects to update the commentary on an annual basis, or more often as the need arises.

Each paragraph in the commentary is identified by section and in some cases by subsection. For example, the comments for § 226.21 (Treatment of credit balances) are designated as comments 21-1 through 21-5, while the comments for § 226.18 (Content of disclosures) are further broken down and designated according to the particular subsection addressed, such as comment 18(b)-1 and 18(r)-1.

The following cross-references to related material appear at the end of each section of the commentary: (1) "Statute" -- those sections of the Truth in Lending Act on which the regulatory provision is based; (2) "Other sections" -- definitions and other provisions in the regulation relating to that section; (3) "Previous regulation" -- parallel provisions in Regulation Z as it existed before April 1, 1981; and (4) "1981 changes." This last category is a brief description of the major changes made by the 1981 revisions to Regulation Z. The text of the commentary does not refer to the earlier regulation. However, a comparison to the prior regulation may in some cases be helpful in explaining the amended provision and may be of interest to some users, and the proposed commentary incorporates this information, to a limited extent, in the cross-references. The staff particularly solicits comment on whether this material should be retained.

Comment is welcome both on the substance of the material and on the format in which it is presented. Commenters are encouraged to focus on material of particular interest to them; they need not address every provision. The staff will consider for inclusion in the commentary any material appropriate for a staff interpretation of this scope, but commenters should not expect the commentary to answer every question or remove every possible ambiguity from the regulation. No comments that have the effect of revising or eliminating any requirements of the regulation itself will be considered. To expedite analysis of the comments, commenters are requested to identify portions of the commentary according to section and paragraph numbers and to begin discussion of each section on a separate page.

Comments must be received by Friday, July 10, 1981. After consideration of these comments and possible revision of the commentary, official staff interpretation TIL-1 will be published in final form in the Federal Register.

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