FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 69-237
September 16, 1969

To Banks, Other Financial Institutions,
Trade Associations, and Others Concerned
in the Eleventh Federal Reserve District:

On September 12, 1969, the Board of Governors of the Federal Reserve System announced the approval of three additional interpretations of provisions of its Regulation Z, Truth in Lending, which went into effect July 1, 1969.

Copies of these interpretations are enclosed.

Yours very truly,

P. E. Coldwell

President

Enclosures (3)

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TITLE 12 - BANKS AND BANKING

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. Z]

PART 226 - TRUTH IN LENDING

Miscellaneous Interpretations

Interpretation § 226.405 is amended to read as follows:

§ 226.405 Property insurance written in connection with a transaction--obtained from or through the creditor

(a) Footnote 4 to § 226.4(a)(6) specifies that a policy of insurance against loss or damage to property or liability arising out of its use is not considered to be "written in connection with" a transaction when it ". . . was not purchased by the customer for the purpose of being used in connection with that extension of credit." Therefore, whenever such a policy is purchased by the customer for the purpose of being used in connection with a specific extension of credit, it is insurance "written in connection with" that transaction.

(b) If the customer elects to purchase such insurance otherwise than from or through the creditor, the creditor is not required to disclose the cost of the insurance or include the premium in the finance charge. However, if the cost of such insurance is to be financed through the creditor, the premiums must be included in the "amount financed" and disclosed under § 226.8(c)(4) or (d)(1), as the case may be.

(Interprets and applies 15 U.S.C. 1605)

§ 226.504 Treatment of "pick-up payment" in an instalment contract

(a) In some instances involving an instalment contract arising from a credit sale, the purchaser may not pay the full amount of the required downpayment at the time he signs the contract or otherwise enters into the credit transaction. In such cases, the creditor may include in the instalment contract or accept a separate obligation for the unpaid portion of the downpayment, commonly called a "pick-up payment," the amount of which usually carries no finance charge and is to be paid on or before a specified date independent of the other scheduled payments.

(b) The question arises whether the "pick-up payment" must be treated as part of the "amount financed" for purposes of disclosure and determination of the "annual percentage rate" or whether it may be treated as a deferred portion of the downpayment.

(c) In determining the "amount financed" the creditor may exclude the amount of the "pick-up payment" provided that:

(1) The amount of the finance charge applicable to the transaction does not exceed the amount that would have been imposed had the required downpayment been paid in full upon consummation of the transaction; and

(2) The due date of the "pick-up payment" is not later than the due date of the second payment otherwise scheduled.

(d) In making the disclosures required under § 226.8(b)(3), if such "pick-up payment" is more than twice the amount of an otherwise regularly scheduled equal payment, the creditor shall state the conditions, if any, under which such "pick-up payment" may be refinanced if not paid when due; and such "pick-up payment" may be identified using that term or the term "balloon payment."

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

§ 226.505 Application of the minor irregularities provisions in determining the amount of the finance charge

(a) Some creditors calculate finance charges in a credit transaction on the basis of predetermined percentage rate or rates, e.g., 1% per month on the unpaid balances. Determination of the amount of the finance charge is fairly routine for these creditors if the contracts are written for regular payments at regular intervals. However, many times the first payment may be irregular either in amount or payment period, or both, especially in those instances where creditors require payments to fall due on fixed dates or those who are paid by means of payroll deductions. The minor irregularities provisions of § 226.5(d) of the Regulation and § 226.503 of the interpretations to Regulation Z, which pertain to the determination of the annual percentage rate, also apply to the determination of the finance charge. For convenient reference, the applicable provisions of § 226.5(d) and § 226.503 as they apply to the determination of the finance charge are set forth below.

(b) In determining the finance charge, a creditor may, at his option, consider the payment irregularities set forth below in subparagraphs (1) and (2) as if they were regular in amount or time, as applicable, provided that the transaction to which they relate is otherwise payable in equal instalments scheduled at equal intervals.

(1) If the period from the date on which the finance charge begins to accrue and the date the final payment is due is not less than 3 months in the case of weekly payments, 6 months in the case of biweekly or semimonthly payments, or 1 year in the case of monthly payments either or both of the following:

(i) The amount of 1 payment other than any downpayment is not more than 50 per cent greater nor 50 per cent less than the amount of a regular payment; or

(ii) The interval between the date on which the finance charge begins to accrue and the date the first payment is due is not less than 5 nor more than 12 days for an obligation otherwise payable in weekly instalments, not less than 10 nor more than 25 days for an obligation otherwise payable in biweekly or semimonthly instalments, or not less than 20 nor more than 50 days for an obligation otherwise payable in monthly instalments.

(2) If the period from the date on which the finance charge begins to accrue and the date the final payment is due is less than 3 months in the case of weekly payments, 6 months in the case of biweekly or semimonthly payments, or 1 year in the case of monthly payments, either or both of the following:

(i) The amount of 1 payment other than any downpayment is not more than 25 per cent greater nor 25 per cent less than the amount of a regular payment; or

(ii) The interval between the date on which the finance charge begins to accrue and the date the first payment is due is not less than 6 nor more than 10 days for an obligation otherwise payable in weekly instalments, not less than 12 nor more than 21 days for an obligation otherwise payable in biweekly or semimonthly instalments, or not less than 25 nor more than 42 days for an obligation otherwise payable in monthly instalments.

(e) For the purposes of § 226.8(b)(3) in disclosing the number, amount and due dates or periods of payments scheduled to repay the indebtedness and the "total of payments," the creditor may treat such irregular payments or payment periods, or both, as if they were regular. If the creditor so elects, he may indicate the exact amount or payment period involved in the minor irregularity.

(Interprets and applies to 15 U.S.C. 1605)

Dated at Washington, D. C. the 11th day of September, 1969.

By order of the Board of Governors.

(SEAL)

(Signed) Robert P. Forrestal
Robert P. Forrestal,
Assistant Secretary.

9/11/69