FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS 75222

Circular No. 73-172
July 13, 1973

AMENDMENT TO REGULATION Z
(Advertising Credit Terms)

INTERPRETATION OF REGULATION Z
(Use of "Annual Percentage Rate" in Oral Communications)

To All Banks and Others Concerned
in the Eleventh Federal Reserve District:

Effective November 1, 1973, the Board of Governors of the Federal Reserve System amended its Regulation Z, Truth in Lending, primarily intended to encourage advertising of open-end credit terms. The Board also issued an interpretation effective June 29, 1973, specifying how oral inquiries about consumer credit rates should be answered.

Copies of the amendment and interpretation are enclosed.

Yours very truly,

P. E. Coldwell,

President

Enclosures

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

TRUTH IN LENDING

AMENDMENT TO REGULATION Z†

Effective November 1, 1973, § § 226.2(u), 226.6(a), 226.10(c) and 226.10(d) of Regulation Z are amended to read as set forth below:

SECTION 226.2 — DEFINITIONS AND RULES OF CONSTRUCTION

* * * * *

(u) **"Periodic rate"** means a percentage rate of finance charge which is or may be imposed by a creditor against a balance for a period. (See also § 226.5(a)(3).) * * *

SECTION 226.6 — GENERAL DISCLOSURE REQUIREMENTS

(a) **Disclosures; general rule.** The disclosures required to be given by this Part shall be made clearly, conspicuously, in meaningful sequence, in accordance with the further requirements of this section, and at the time and in the terminology prescribed in applicable sections. Except with respect to the requirements of § 226.10, where the terms "finance charge" and "annual percentage rate" are required to be used, they shall be printed more conspicuously than other terminology required by this Part and all numerical amounts and percentages shall be stated in figures and shall be printed in not less than the equivalent of 10 point type, .075 inch computer type, or elite size typewritten numerals, or shall be legibly handwritten. * * *

SECTION 226.10 — ADVERTISING CREDIT TERMS

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(c) **Advertising of open end credit.** No advertisement to aid, promote, or assist directly or indirectly the extension of open end credit may set forth any of the terms described in paragraph (a) of § 226.7, the Comparative Index of Credit Cost, or that a specified downpayment or periodic payment is required (either in dollars or as a percentage), the period of repayment or any of the following items, unless it also clearly and conspicuously sets forth all the following items in terminology prescribed under paragraph (b) of § 226.7:

(1) An explanation of the time period, if any, within which any credit extended may be paid without incurring a finance charge.

(2) The method of determining the balance upon which a finance charge may be imposed.

(3) The method of determining the amount of the finance charge, including the determination of any minimum, fixed, check service, transaction, activity, or similar charge, which may be imposed as a finance charge.

(4) Where one or more periodic rates may be used to compute the finance charge, each corresponding annual percentage rate determined by multiplying the periodic rate by the number of periods in a year and, where there is more than one corresponding annual percentage rate, the range of balances to which each is applicable.[15]

(d) **Advertising of credit other than open end.** No advertisement to aid, promote, or assist directly or indirectly any credit sale including the sale of residential real estate, loan, or other extension of credit, other than open end credit, subject to the provisions of this Part, shall state:

(1) The rate of the finance charge except as an "annual percentage rate," using that term. No other rate of finance charge may be stated, except that:

(i) where the total finance charge includes, as a component, interest computed at a simple annual rate, the simple annual rate may be stated in conjunction with, but not more conspicuously than, the annual percentage rate, or

(ii) where the finance charge is computed solely by the application of a periodic rate to an unpaid balance, the periodic rate may be stated in conjunction with, but not more conspicuously than, the annual percentage rate.

(2) That no downpayment is required, or the amount of the downpayment or of any instalment payment required (either in dollars or as a percentage), the dollar amount of any finance charge, the number of instalments or the period of repayment, or that there is no charge for credit, unless it also clearly and conspicuously sets forth all of the following items in terminology prescribed under § 226.8:

(i) the cash price or the amount of the loan, as applicable.

(ii) in a credit sale, the amount of the downpayment required or that no downpayment is required, as applicable.

(iii) the number, amount, and due dates or period of payments scheduled to repay the indebtedness if the credit is extended.

(iv) the amount of the finance charge expressed as an annual percentage rate. The exemptions from disclosure of an annual percentage rate permitted in paragraph (b)(2) of § 226.8 shall not apply to this subdivision.

(v) except in the case of the sale of a dwelling or a loan secured by a first lien on a dwelling to purchase that dwelling, the deferred payment price in a credit sale, or the total of payments in a loan or other extension of credit which is not a credit sale, as applicable.

[15] A creditor imposing minimum charges is not required to adjust the disclosure of the range of balances to which each rate would apply in order to reflect the range of the balances below which the minimum charge applies. If a creditor does not impose a finance charge when the outstanding balance is less than a certain amount, the creditor is not required to disclose that fact or the balance below which no such charge will be imposed.

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† For this Regulation to be completed as amended effective November 1, 1973 retain:

1) Printed Pamphlet on Regulation Z containing amendments and interpretations through September 11, 1969.

2) Printed Pamphlet on Regulation Z containing amendments and interpretations (September 12, 1969 — October 31, 1971).

3) Amendment (Section 226.6) effective December 31, 1971.

4) Interpretation effective June 21, 1972.

5) Interpretation effective November 2, 1972.

6) Amendment (Section 226.13 (a)(4) 13(b) & 13(c)) effective December 15, 1972.

7) Amendment (Sections 226.5 (a)(3), 226.7 (a)(4) and 226.7 (b)(5) & (6) and 226.7(c) effective June 1, 1973.

8) Interpretation effective April 30, 1973.

9) Interpretation effective June 1, 1973.

10) Interpretation effective June 29, 1973.

11) This slip sheet.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

TRUTH IN LENDING

INTERPRETATION OF REGULATION Z

SECTION 226.101 — USE OF "ANNUAL PERCENTAGE RATE" IN ORAL COMMUNICATIONS

(a) Under § 226.1(a)(2), a stated purpose of the Truth in Lending Act and Regulation Z is to assure that every customer who has need for consumer credit is given meaningful information with respect to the cost of that credit so that he may readily compare the various credit terms available to him from different sources and avoid the uninformed use of credit. Under § 226.6(a), a creditor is required to make disclosures using certain prescribed terminology, including the "annual percentage rate." The question arises as to the propriety of a creditor quoting annual rates other than "annual percentage rate" in response to consumer inquiries about the cost of credit, where such other rates could not be used in an advertisement under the proscriptions of § 226.10.

(b) The Truth in Lending Act and Regulation Z are intended to facilitate "shopping" between competitive credit plans. If a customer inquires about the cost of credit and the creditor responds by quoting an add-on or discount rate, he may mislead the customer since the use of such rates is prohibited in consumer credit advertising and such rates are significantly lower than the annual percentage rate which must be shown on the creditor's disclosure statement. The quotation of these rates can frustrate the stated purpose of the Act and prevent the customer from making an informed use of credit.

(c) In response to any oral inquiry by a customer about the cost of credit, a creditor when quoting annual rates should use only those rates permitted to be used in advertisements under § 226.10. Irrespective of the method used by the creditor to compute finance charges, the annual rate of the creditor's total finance charges should be quoted only in terms of the "annual percentage rate."

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6/29/73