FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 75-182
December 12, 1975

American Revolution Bicentennial

INTERPRETATION OF REGULATION Z

Disclosure of Single-Component Finance Charges

TO ALL BANKS, OTHER CREDITORS,
AND OTHERS CONCERNED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

Quoted below is the text of a statement issued November 21, 1975, by the Board of Governors of the Federal Reserve System:

> The Board of Governors of the Federal Reserve System today issued the attached interpretation of its Truth-in-Lending regulation that applies to disclosure of finance charges which contain only one component.
>
> In such cases, the creditor need not identify the single component beyond the description of "finance charge." Where more than one component is involved, however, creditors must provide the amount of each component (such as interest, credit report fees, or service charges).

Printed on the reverse of this circular is a copy of the Interpretation of Regulation Z. Additional copies will be furnished upon request to the Secretary's Office of this Bank.

Sincerely yours,

T. W. Plant

First Vice President

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

TRUTH IN LENDING

INTERPRETATION OF REGULATION Z

Disclosure of Single-Component Finance Charges

This interpretation relates to the application of Regulation Z to credit transactions other than open end when the finance charge is composed of a single element. The interpretation provides that in such instances the creditor may disclose that single element under the term "finance charge" and there is no need to further identify or describe the element. However, where there is more than one element comprising the finance charge, creditors are required under Regulation Z to describe each amount included in the finance charge.

SECTION 226.820 — DISCLOSURE OF SINGLE-COMPONENT FINANCE CHARGES

Sections 226.8(c)(8)(i) and 226.8(d)(3) require the disclosure of the total amount of the finance charge "with description of each amount included," except in the case of certain real property transactions. The question arises whether the nature of the finance charge must be described where only one type of charge, such as an interest charge, comprises the total finance charge.

The primary purpose of this disclosure requirement is to assure that all sums which constitute finance charges under § 226.4(a) are properly taken into account in determining the total finance charge. In addition, this information permits the customer to make a more meaningful comparison of the finance charges and annual percentage rates available from various sources of consumer credit and to make an informed selection on this basis. A description of the amounts included in the finance charge is necessary to carry out the purposes of the Act only when the total charge includes more than one element. Therefore, where only a single type of charge comprises the finance charge, disclosure of the total dollar amount of such charge, using the term "finance charge," complies with the requirements of §§ 226.8(c)(8)(i) and 226.8(d)(3), and there is no further requirement under those sections that the single type of charge be otherwise identified or described.

11-21-75