FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS 75222

American Revolution Bicentennial

Circular No. 76-32
March 3, 1976

INTERPRETATIONS OF REGULATION Z

Modification of Semiannual Statements Pursuant to State Law;
Timing and Modification of Semiannual Statements

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

Quoted below is the text of a statement issued February 3, 1976, by the Board of Governors of the Federal Reserve System:

> The Board of Governors of the Federal Reserve System today issued two interpretations to the Fair Credit Billing section of its Regulation Z.
>
> The interpretations relate to:
>
> (1) The timing of the semiannual statement creditors must send to their customers explaining the procedures for correcting billing errors. This interpretation also permits a creditor to omit any portion of the semiannual notice that does not apply to a particular credit plan.
>
> (2) Modification of semiannual statements sent in states that have their own substantially similar Fair Credit Billing Acts.

Enclosed are copies of the two interpretations of Regulation Z. If you have any questions, please contact George H. McElroy of our Regulations Department at (214) 651-6169. Additional copies of the interpretations will be furnished upon request to the Secretary's Office of this Bank.

Sincerely yours,
T. W. Plant
First Vice President

Enclosures (2)

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

TRUTH IN LENDING

INTERPRETATION OF REGULATION Z

Timing and Modification of Semiannual Statements

Creditors are required by the Fair Credit Billing Act to disclose to their customers their rights and the creditor's responsibilities under the Act. The Board in implementing the Act provided a comprehensive semiannual statement for this purpose and also provided for an alternate shorter statement which would be sent with each periodic billing statement. Several questions have arisen with regard to these statements. This interpretation provides:

1. That the first semiannual statements (or shorter statement alternatives) must be mailed or delivered not later than seven months after October 28, 1975.

2. A method for determining when to mail or deliver such statements when a creditor switches from one optional statement to the other.

3. That the shorter statement alternative may be modified to omit any portions inapplicable to the credit plan for which it is sent and to change references in the statement to read "bank," "company," or the creditor's name.

SECTION 226.708 — TIMING AND MODIFICATION OF SEMIANNUAL STATEMENTS

Sections 226.7(d)(1) through 226.7(d)(4) set out the method by which the statement required by § 226.7(a)(9) is to be provided to customers on a semiannual basis. Section 226.7(d)(5) provides for a shorter statement which, as an alternative to the provisions of § § 226.7(d)(1) through 226.7(d)(4), may, under certain conditions, be provided with each periodic statement.

The question has arisen of when the first statement, either the longer statement required by § 226.7(a)(9) or the alternate shorter statement under § 226.7(d)(5), must be provided under § 226.7(d). Creditors must mail or deliver one or the other of these statements, pursuant to § 226.7(d), not later than seven months after October 28, 1975. In determining when to send the first statement pursuant to § 226.7(d), the initial statements prescribed by § 226.7(a)(9) which are sent to customers with accounts in existence on October 28, 1975, pursuant to § 226.7(i), may not be considered a statement sent for purposes of § 226.7(d).

A second question has arisen regarding the timing of disclosures should a creditor change practices and provide the statement under § 226.7(d)(5) instead of the longer statement prescribed in § 226.7(a)(9). The same question has arisen with respect to the opposite case, i.e., when a creditor first makes disclosure under § 226.7(d)(5) and subsequently decides to make disclosure of the statement prescribed by § 226.7(a)(9) semiannually. If a creditor first discloses the § 226.7(a)(9) statement semiannually and subsequently decides to use the § 226.7(d)(5) alternative, the first statement which must be provided pursuant to § 226.7(d)(5) must be mailed or delivered not later than the time that the next § 226.7(a)(9) statement would have been required had no change in the creditor's practice occurred. If a creditor first chooses to make disclosure pursuant to § 226.7(d)(5) and subsequently decides to provide the longer statement prescribed in § 226.7(a)(9) semianually, the creditor must mail or deliver such longer statement to those customers receiving periodic statements (not later than the mailing or delivery of such periodic statements) pursuant to § 226.7(b) for the billing cycle immediately subsequent to the billing cycle for which the last statements were mailed or delivered pursuant to § 226.7(d)(5). The timing of mailing or delivery of § 226.7 (a)(9) statements on a semiannual basis subsequent thereto is to be determined in accordance with §§ 226.7(d)(1), (2), (3), and (4).

A further question has arisen whether a creditor may delete portions of the statement prescribed in § 226.7(d)(5) which are inapplicable to its particular credit plan as in the case of the statement prescribed by § 226.7(a)(9). In line with the general policy of the Truth in Lending Act and Regulation Z which attempt to avoid disclosures which might be confusing to consumers, any portions of the § 226.7(d)(5) statement which are inapplicable to a credit plan may be deleted from the § 226.7(d)(5) statement by the creditor of that plan.

The question has also arisen whether references to the "creditor" in the statement prescribed by § 226.7(d)(5) may be altered or modified as is permitted with regard to the statement prescribed by § 226.7(a)(9). Such alteration or modification is permissible; wherever the word "creditor" appears or is referred to in the statement prescribed by § 226.7(d)(5), the creditor may substitute appropriate references, such as "company," "bank," "we," or a specific name.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

TRUTH IN LENDING

INTERPRETATION OF REGULATION Z

Modification of Semiannual Statements Pursuant to State Law

This interpretation relates to situations in which a State adopts as law provisions identical to the Fair Credit Billing Amendments to Regulation Z published by the Board on September 19, 1975, (40 *Federal Register* 43199). The interpretation provides that in such cases it is permissible for creditors to alter or modify the statements prescribed in §§ 226.7(a)(9) and 226.7(d)(5) to provide a reference to the State's law and that a State law requiring or allowing such a modification is not inconsistent with the Act or Regulation Z as contemplated in §226.6(b). The interpretation also sets out the manner in which such a reference must be made.

SECTION 226.606 — MODIFICATION OF SEMIANNUAL STATEMENTS PURSUANT TO STATE LAW

(a) Sections 226.7(a)(9) and 226.7(d)(5) prescribe statements regarding customers' rights and creditors' responsibilities under certain sections of the Regulation. These statements contain specific references to the "Federal Truth in Lending Act," "Federal Fair Credit Billing Act," and the "Act."

(b) Certain States have adopted, or intend to adopt, regulations or statutes identical to the amendments to Regulation Z adopted by the Board on September 15, 1975, for the purpose of implementing the Fair Credit Billing Act. The question has arisen whether the statements prescribed by §§ 226.7(a)(9) and 226.7(d)(5) may be modified under these circumstances to include a reference to the State law immediately following the relevant reference to the Federal law, or whether separate statements are required under both the State law and Federal laws.

(c) In the circumstances described above, it is permissible for a creditor to modify the statements prescribed by §§ 226.7(a)(9) and 226.7(d)(5) in the form of a reference to the relevant State law by name. Such a disclosure, if made immediately following the relevant reference to the titled Federal law in substantially the following manner: "and the [insert the name of the State and the State law involved]," is permissible under Regulation Z and any State law requiring such a disclosure is not inconsistent with the Act or Regulation within the meaning of § 226.6(b). It is similarly permissible to substitute "these Acts" for the words "the Act" where it appears in the statement required by § 226.7(a)(9).