FEDERAL RESERVE
press release

For immediate release April 2, 1969

The Board of Governors of the Federal Reserve System announced today the approval of five interpretations of provisions in its Truth in Lending Regulation Z which goes into effect on July 1. A copy of each interpretation is attached.

REGULATION Z, TRUTH IN LENDING--Use of
determine periodic rate of finance ch

Section 226.5(a)(1) of R
a creditor the option in certain c
or more separate annual percentage rates (e.g.
$700 balance might be stated as 18% on balance to $500
on balance over $500), or (2) a single annual percentage rate determined by the "quotient method" resulting from applying the rates to a total balance (e.g., in the example above, an annual percentage rate of 16-1/4% on a $700 balance).

Section 226.5(a)(2), which relates to the use of ranges or brackets to compute periodic finance charges, does not prevent a creditor who uses such brackets from exercising the options referred to in section 226.5(a)(1).

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Regulation Z--Truth in Lending--Overstatement of Annual Percentage Rate.

Section 226.6(h) of Regulation Z provides that in certain circumstances the disclosure of an annual percentage rate which is greater than that required to be disclosed under the Regulation does not in itself constitute a violation of the Regulation. Under this section may a disclosure regarding an annual percentage rate (e.g. "the annual percentage rate does not exceed 18%") be preprinted on a contract or periodic statement and comply with disclosure requirements when the actual rate will at times be lower (e.g. 15%) for some transactions?

Section 226.5 specifies the methods which shall be employed in determining annual percentage rates. Section 226.6(h) is not intended to provide an alternative to these requirements, but is merely to provide appropriate relief to a creditor who overstates accidentally. Any disclosure of an annual percentage rate whether preprinted or otherwise which overstates the annual percentage rate determined in accordance with section 226.5 other than through inadvertence does not comply with requirements.

REGULATION Z, TRUTH IN LENDING--Transition Period--Using existing forms, suitably altered or supplemented.

Section 226.6(k) of Regulation Z provides that, in some circumstances, if a creditor has been unable to obtain needed new printed forms by July 1, 1969, he may use existing forms until new ones are obtained, but not later than December 31, 1969. In such instances, the existing forms must be suitably altered or supplemented to make necessary disclosures clearly and conspicuously. The requirement that existing forms be supplemented is met by attachments or enclosures.

Also in some instances, creditors encounter unavoidable delays in obtaining necessary equipment or computer programs needed to utilize new printed forms. Such delays can produce problems comparable to those involved in delays in obtaining printed forms. In such a situation, a creditor, under §226.6(k), may continue to use existing forms until the means of utilizing the new forms are available, but in no event later than December 31, 1969, and subject, of course, to the conditions applicable under § 226.6(k); namely, that the creditor must have taken bona fide steps prior to July 1, 1969, to obtain the necessary equipment or computer programs, and the existing forms must be "altered or supplemented as necessary to assure that all of the items of information the creditor is required to disclose are set forth clearly and conspicuously."

REGULATION Z, TRUTH IN LENDING--Disclosures in transaction involving multiple customers.

Section 226.6(c) states the general rule that, except in the case of a rescindable transaction under § 226.9, where there are multiple customers in a transaction, the creditor is only required to make disclosures to one of them. However, in determining which customer shall receive disclosures, the creditor may not select a customer who is secondarily liable, such as an endorser, comaker (when designated as surety), guarantor, or a similar party. This does not prohibit the creditor from also furnishing disclosures to such persons who are secondarily liable.

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REGULATION Z, TRUTH IN LENDING--Periodic Statements--Finance charge resulting from more than one periodic rate.

Section 226.7(b)(4) of Regulation Z requires that a periodic statement for open end credit show the amount of any finance charge, and that the statement also itemize and identify that portion of the finance charge that is due to application of one or more periodic rates and that portion due to any other charge such as minimum, fixed, check service, transaction, activity, or similar charge.

This does not require the statement to state separately the portions of a finance charge due to application of two or more periodic rates. For example, if a creditor charges 1-1/2% per month on the first $500 of a balance and 1% per month on amounts over $500, the monthly charge on a $600 balance would be $8.50, which must be shown. However, it would not be necessary to itemize the two components ($7.50 and $1.00) of the $8.50 charge. Under section 226.7(b)(5), the periodic rates that may apply to the account, and the applicable range of balances must, of course, be shown, but this could be preprinted.