FEDERAL RESERVE

press release

REC'D IN RECORDS SECTION
DEC 30 1974

For immediate release December 27, 1974

The Board of Governors of the Federal Reserve System today issued the attached revised interpretation of its Truth in Lending Regulation concerning the computation of a finance charge when more than one daily periodic rate is imposed on daily balances.

- 0 -

RECD IN REFERENCE SECTION
DEC 5 1974

CHAPTER II--FEDERAL RESERVE SYSTEM

SUBCHAPTER A--BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. 2]

PART 226--TRUTH IN LENDING

Daily periodic rates imposed on daily balances in open end credit.

This amended interpretation of § 226.7(b)(8) is rewritten to clarify the disclosure requirements when the finance charge in an open end credit account is computed by the imposition of more than one daily periodic rate on a daily balance or balances. For example, some creditors impose one daily periodic rate (corresponding to one annual percentage rate) for balances up to a specified amount, and a lower daily periodic rate (corresponding to a lower annual rate) for that portion of balances above the specified amount.

Section 226.703 Finance charge based on average daily balance or daily balances in open end credit accounts

Section 226.7(b)(8) requires that periodic statements for open end accounts shall disclose, among other things, "The balance on which the finance charge was computed, and a statement of how that balance was determined." In some instances, creditors compute a finance charge on the average daily balance by application of a monthly periodic rate or rates. In such case, this information is adequately disclosed if the statement gives the amount of the average daily balance on which the finance charge was computed, and also states how the balance is determined.

In other instances, the finance charge is computed on the balance each day by application of one or more daily periodic rates,

and the question arises as to how the balance on which the finance charge was computed should be disclosed in such circumstances.

If a single daily periodic rate is imposed, the balance to which it is applicable may be stated in any of the following ways:

(i) A balance for each day in the billing cycle; or

(ii) A balance for each day in the billing cycle on which the balance in the account changes; or

(iii) The sum of the daily balances during the billing cycle; or

(iv) The average daily balance during the billing cycle, in which case the creditor shall state (on the face of the periodic statement, on its reverse side, or on an enclosed supplement) wording to the effect that the average daily balance is or can be multiplied by the number of days in the billing cycle and the periodic rate applied to the product to determine the amount of the finance charge.

If two or more daily periodic rates may be imposed, the balances to which the rates are applicable may be stated in accordance with (i) or (ii) above or as two or more average daily balances, each applicable to the daily periodic rates imposed. For example, if the creditor imposes one daily periodic rate on balances up to $500 and another daily periodic rate on balances over $500, the creditor would show average daily balances of $500 and $200 in an account which had a $700 balance for the entire billing cycle.

If the average daily balances are stated, the creditor shall state (on the face of the periodic statement, on its reverse side, or on an enclosed supplement) wording to the effect that the finance charge is or may be determined by (1) multiplying each of the average daily balances by the number of days in the billing cycle, (2) multiplying each of the results by the applicable daily periodic rate, and (3) adding these products together.

(Interprets and applies 12 C.F.R. 226.7)

By order of the Board of Governors, December 27, 1974.

(signed) Griffith L. Garwood

Griffith L. Garwood
Assistant Secretary of the Board

[SEAL]