FEDERAL RESERVE

press release

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For immediate release **April 18, 1978**

The Board of Governors of the Federal Reserve System today proposed for public comment a revised interpretation of its Regulation Z -- Truth in Lending -- to cover all cases in which a debt is repaid in payments of varying amounts.

The Board asked for comment by May 24, 1978.

Regulation Z requires creditors to disclose the schedule of payments required to settle a debt. This poses a problem where payments are of different amounts. This may occur when non-credit items (such as premiums for credit-connected insurance) are remitted to the creditor on a monthly basis or where parts of the finance charge (such as mortgage guarantee insurance premiums) vary over the life of the debt because they are computed on the decreasing unpaid balance of the debt.

The Board proposed in specified types of transactions to permit creditors to disclose the number of payments, the amounts of the first and last payments and the fact that the payment will increase or decrease as the case may be. In all other cases of variable payments the full schedule of payments may be set forth on the reverse of the disclosure statement, or on a separate page.

This would expand the coverage of the existing interpretation to all types of transactions in which the indebtedness is repaid in varying amounts.

The text of the Board's proposal is attached.

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FEDERAL RESERVE SYSTEM

[12 CFR Part 226]

[Reg. Z; Docket No. R-0152]

TRUTH IN LENDING

Disclosure of Varying Payments Scheduled to Repay the Indebtedness

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Proposed revised interpretation.

SUMMARY: This proposed revised interpretation would permit additional methods of disclosing the payments scheduled to repay the indebtedness as required by § 226.8(b)(3) of Regulation Z in consumer credit transactions in which the amounts of those payments vary. In any such transaction, creditors could disclose the entire payment schedule on the reverse of the disclosure statement or on a separate page or pages, or, in certain transactions described in the interpretation, creditors could provide the customer with an abbreviated disclosure that indicates the progression of the payment amounts. In addition, a number of conflicting public information letters and official staff interpretations would be rescinded.

DATE: Comments must be received on or before May 24, 1978.

ADDRESS: Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551

FOR FURTHER INFORMATION CONTACT: Anne Geary, Chief Staff Attorney
Division of Consumer Affairs
Board of Governors of the
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Washington, D.C. 20551
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SUPPLEMENTARY INFORMATION:

(1) In response to a number of inquiries regarding the proper method of disclosure of the payments scheduled to repay the indebtedness in transactions in which the amounts of such payments vary, the Board is proposing to revise Interpretation § 226.808. If adopted by the Board, this interpretation would facilitate compliance with the requirement of § 226.8(b)(3) that creditors disclose the number, amount and due dates or periods of payments. The disclosure method would be chosen by the creditor.

The creditor could, in any transaction which the amounts scheduled to repay the indebtedness vary, provide the customer with a complete payment schedule on the reverse of the disclosure statement or on a separate page or pages (conspicuously referenced in the disclosure statement), notwithstanding the requirement of § 226.8(a) that all disclosures be made on one side of a single page.

The Board solicits comments on whether the disclosure of a complete payment schedule on the reverse of the statement or a separate page would detract from the value of the disclosures to customers. The Board also wishes to know if providing such a schedule would involve operational difficulties in computing the payments for disclosure purposes, particularly for creditors that engage in transactions in which the amounts collected from the customer include non-credit items, such as credit life and disability insurance premiums which are excluded from the amount financed.

In addition, the interpretation would provide that in certain transactions (which are described briefly below), the creditor could give the customer an abbreviated schedule of payments which would disclose the number of payments, the amount of certain payments, and a description of the variation in the payment amounts.

Those transactions are:

(a) Transactions in which a level amount is collected from the customer, and that level amount includes varying charges, such as credit life and disability insurance premiums that are not financed but remitted to the insurer as they become due, and which are therefore not part of the amount financed or finance charge (Example I).

(b) Transactions in which each payment includes an equal amount to be applied to reduction of the unpaid principal balance and a finance charge that varies because it is computed by application of a rate to the decreasing unpaid principal balance (Example II, Transaction A). This is the transaction addressed by the present Interpretation § 226.808.

(c) Transactions similar to the transactions described in (b) but with irregular first and last payments (Example II, Transaction B).

(d) Transactions in which the payments vary annually or more frequently because a finance charge (such as certain mortgage guarantee insurance premiums) is computed by application of a rate to the decreasing unpaid principal balance (Example III).

The Board solicits comment on whether abbreviated schedules should be permitted in other types of transactions. Central to this issue is whether an abbreviated schedule will provide the customer with sufficient information concerning the progression of the payment amounts. Thus, transactions with payments that vary in unusual patterns or at lengthy intervals would not appear to be proper subjects for such treatment. It should again be pointed out that creditors could give a complete payment schedule in any transaction with varying payments.

The Board solicits comment on whether or not the abbreviated payment schedules authorized by the interpretation would provide customers with sufficient information as to the amounts of the payments.

As presently provided in the interpretation, creditors that disclose in accordance with the examples could not take advantage of the exemption for purchase money loans for dwellings or sales of dwellings from the disclosure requirements of §§ 226.8(b)(3), 226.8(c)(8) and 226.8(d)(3) (total of payments, deferred payment price and total finance charge disclosures).

The proposed interpretation also provides that creditors could disregard deviations in the pattern of the payment amounts caused by the fewer days in February than in other months when disclosing

in accordance with the three examples. The Board solicits comment on whether this should be permitted and whether creditors should be permitted to ignore similar minor deviations.

A number of public information letters and official staff interpretations would be affected by this interpretation. The following interpretations would be rescinded; comments are solicited on whether others should also be rescinded.

Public Information Letters		Official Staff Interpretations
169		
632		FC-0003
684		FC-0025
735		FC-0030
799		FC-0031
833		FC-0104
834	(Final paragraph only)	
850		
1021		
1158		
1164		
1186		

Letters 632, 735 and 850 deal with the disclosure of optional, cancellable credit life and disability insurance premiums. They conflict with the position of the proposed interpretation that charges not included in the amount financed or the finance charge may not be included in the payments scheduled to repay the indebtedness. The last paragraph of Letter 834 also misstates that position. The remaining letters conflict in some way with the proposed interpretation.

(2) To aid in the consideration of this matter by the Board, interested persons are invited to submit relevant data, views, comments or arguments. Any such material should be submitted in writing to the

Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, to be received not later than May 24, 1978. The comments will be made available for inspection and copying upon request, except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information (12 CFR Part 261.6(a)).

(3) Pursuant to the authority granted in 15 U.S.C. § 1604 (1968), the Board proposes to revise Regulation Z, 12 CFR Part 226.808, to read as follows:

SECTION 226.808--DISCLOSURE OF VARYING PAYMENTS SCHEDULED TO REPAY THE INDEBTEDNESS

Section 226.8(b)(3) requires the creditor to disclose, among other things, the "number, amount, and due dates or periods of payments scheduled to repay the indebtedness." The payments scheduled to repay the indebtedness include only the amount financed and the finance charge. The question arises how these requirements may be met in transactions in which the amounts of such payments vary.

In such transactions, a creditor may satisfy the requirements of § 226.8(b)(3) with respect to the number, amount, and due dates or periods of payments by disclosing the required information on the reverse of the disclosure statement or on a separate page(s), notwithstanding the requirements of § 226.8(a) concerning location of disclosures, provided that the following notice appears with the other required disclosures: "NOTICE: See [reverse side] [accompanying statement] for the schedule of payments."

Alternatively, if a transaction is of a type described below, a creditor may disclose in accordance with the applicable example.

EXAMPLE I

A transaction in which a level sum is collected from the customer each month. Included in the amount collected from the customer are charges which are not part of the amount financed or the finance charge (such as certain credit life and disability insurance premiums) and which constantly decrease because they are based on the unpaid principal balance. As these charges decrease, the amounts scheduled to repay the indebtedness constantly increase.

The amount collected each month from the customer is $50.00.

The credit life insurance premiums decline from $1.50 in month 1 to $.10 in month 12.

The amounts that repay the indebtedness increase from $48.50 in month 1 to $49.90 in month 12.

The creditor may disclose that there will be 12 monthly payments to repay the indebtedness, that the first payment will be $48.50, and that the payments will increase, with a last payment of $49.90. At the creditor's option, the creditor may disclose the amount collected from the customer, $50.00, as additional information under § 226.6(c).

EXAMPLE II

A transaction in which the amount of each payment scheduled to repay the indebtedness (other than a first or last payment) in-

cludes an equal amount to be applied to principal and a finance charge computed by application of a rate to the decreasing unpaid principal balance.

Transaction A

The principal portion of each monthly payment is $125.00 and the finance charge portion of the monthly payments declines from $30.00 in month 1 to $1.25 in month 24.

The payment in month 1 is $155.00 ($125.00 principal, $30.00 finance charge).

The payment in month 24 is $126.25 ($125.00 principal, $1.25 finance charge).

The creditor may disclose that there will be 24 monthly payments, that the first payment will be $155.00, and that the payments will decrease, with a last payment of $126.25.

Transaction B

The first and last payments are irregular, and each of the intervening payments includes a principal portion of $120.00 and a finance charge portion which declines from $29.25 in month 2 to $2.85 in month 23.

The payment in month 1 is $93.00 because the first payment period is short ($75.00 principal, $18.00 finance charge).

The payment in month 2 is $149.25 ($120.00 principal, $29.25 finance charge).

The payment in month 23 is $122.85 ($120.00 principal, $2.85 finance charge).

The payment in month 24 is $286.65 ($285.00 principal, $1.65 finance charge).

The creditor may disclose that (i) there will be 24 monthly payments, (ii) the first payment will be $93.00, (iii) the second payment will be $149.25, (iv) the following payments will decrease to a twenty-third payment of $122.85, and (v) the last payment will be $286.65.

EXAMPLE III

A transaction in which the payments scheduled to repay the indebtedness vary annually or more frequently because a finance charge (such as mortgage insurance premiums) is computed by the application of a rate(s) to the decreasing unpaid principal balance.

Each monthly payment includes a portion for principal and finance charges exclusive of mortgage insurance premiums ($250.00) and a portion for mortgage insurance premiums ($25.00 each month in year 1 and declining once a year until no premiums are due in year 30).

Payments 1 through 12 are $275.00 ($250.00 principal and finance charges exclusive of mortgage insurance premiums, $25.00 mortgage insurance premiums).

Payments 349 through 360 are $250.00 ($250.00 principal and finance charges, no mortgage insurance premiums).

The creditor may disclose that there will be 360 monthly payments, that the first payment will be $275.00, and that the payments will decrease once a year with a last payment of $250.00.

If disclosures are made in accordance with Examples I, II, or III, the exceptions provided under paragraphs (b)(3), (c)(8), and (d)(3) of § 226.8 shall not apply.

Any irregularity in the upward or downward progression in the payment amounts resulting from the fewer days in February than in other months may be disregarded if disclosures are made in accordance with Examples I, II, or III.

By order of the Board of Governors, April 18, 1978.

(signed) Theodore E. Allison

Theodore E. Allison
Secretary of the Board

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