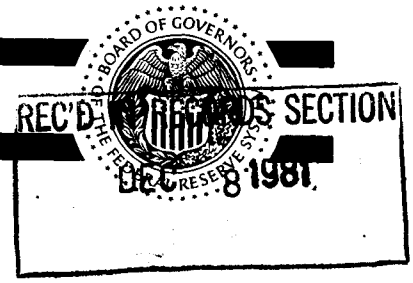
FEDERAL RESERVE press release



For immediate release November 27, 1981

The staff of the Federal Reserve Board today issued a revision of its commentary on Regulation Z (Truth in Lending) stating that the origination fee on student loans made before August 1, 1982 need not be taken into account in making any Truth in Lending disclosures.

The staff previously stated, in its commentary on Regulation Z published in October, that the origination fee need not be taken into account in calculating or disclosing the annual percentage rate on student loans, but the commentary did not extend the exception to other Truth in Lending disclosures.

The text of the staff's revision of its commentary is attached.

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Attachment

Federal Reserve System

12 CFR Part 226

[Reg. Z; TIL-1]

TRUTH IN LENDING

Official Staff Commentary: Revision

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Revision to official staff commentary to Regulation Z.

SUMMARY: On October 9, 1981 (46 FR 50288), the Board's staff published a final official staff commentary to Regulation Z, as revised effective April 1, 1981. One paragraph of the commentary discussed the treatment of origination fees in certain student loans and provided an exception to the annual percentage rate disclosure for such fees. The staff is now revising that position to state that until August 1, 1982, the origination fee in such student loans need not be reflected in any of the Truth in Lending disclosures. Because of the need for prompt action, the revision is being adopted in final form immediately.

EFFECTIVE DATE: December 4, 1981.

FOR FURTHER INFORMATION CONTACT: Claudia J. Yarus or Rugenia Silver, Staff Attorneys, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (202-452-3667).

SUPPLEMENTARY INFORMATION: (1) An August 13, 1981 amendment to the Higher Education Act of 1965 (Pub. L. 97-35, § 536(a)(4)) permits lenders to charge an origination fee of up to 5% on certain guaranteed student loans. The amendment provides that for loans made before August 1, 1982, the disclosure of origination fees "need not meet the requirements of Truth in Lending" and "shall not be taken into account in calculating and disclosing the annual percentage rate."

After reviewing the legislative history, the staff included an interpretation of the amendment in the official staff commentary to Regulation Z (TIL-1). Comment 17(i)-4 provided that these origination fees should be excluded from the annual percentage rate, but required that all other Truth in Lending disclosures must account for the fees. Examples of such other disclosures include the prepaid finance charge and the amount financed.

After publication of the commentary, the Chairmen and Ranking Minority Members of the Subcommittee on Education, Arts and Humanities of the Senate Committee on Labor and Human Relations and the Subcommittee on Postsecondary Education of the House Committee on Education and Labor wrote to the Board regarding this matter. They stated that the congressional intent was to exclude the origination fee from Truth in Lending for all purposes and urged that the commentary be revised to reflect that intent, particularly to avoid any disruption to the student loan program.

The staff is now revising Comment 17(i)-4 to state that for loans made before August 1, 1982, the origination fee shall not be considered in calculating and disclosing the annual percentage rate and need not be taken into account for purposes of any other Truth in Lending calculations and disclosures. While this revision does not alter the commentary's previous treatment of the annual percentage rate, it now permits the creditor either to reflect the origination fee in the other disclosures or to disregard the fees altogether for purposes of Truth in Lending.

The revised position applies to student loans made under both previous Regulation Z and revised Regulation Z.

The Truth in Lending effects of revised Comment 17(i)-4 are set forth below. These examples contrast the disclosures as they may be made for an interim student loan pursuant to the amendment to the Higher Education Act until August 1, 1982, with the way the disclosures would be made without that amendment. An interim student loan as defined in the commentary is an extension of credit for educational purposes where the repayment amount and schedule are not known at the time the credit is advanced. Both examples are based on a typical student loan of this type involving a single advance of $2,000 for 18 months, with a 5% origination fee and a 1% guarantee insurance fee. These examples assume that the only finance charge for the repayment period is 9% simple interest.

- Before August 1, 1982, the Truth in Lending disclosures may reflect an amount financed of $1,980, a prepaid finance charge of $20 (attributable only to the guarantee fee), an annual percentage rate of .67% for the interim period, and an annual percentage rate of 9% for the repayment period.

- Beginning on August 1, 1982, the Truth in Lending disclosures will reflect an amount financed of $1,880, a prepaid finance charge of $120 ($100 attributable to the origination fee and $20 attributable to the guarantee fee), an annual percentage rate of 4.20% for the interim period, and an annual percentage rate of 9% for the repayment period.

The staff is adopting this revision in final form rather than inviting public comment on it. Immediate resolution of this issue is essential to avoid disruption to guaranteed student loan programs, and the delay required for a comment period would be contrary to the public interest.

(2) Pursuant to 15 U.S.C. 1640(f), the staff is amending TIL-1 by revising Comment 17(i)-4 to read as follows:

Section 226.17 -- General Disclosure Requirements * * *

17(i) Interim student credit extensions. * * *

4. Origination fee disclosure. Public Law 97-35 (August 13, 1981) amended the Higher Education Act of 1965 to permit lenders to charge up to a 5% origination fee on certain student credit extensions, such as federally-insured student loans. On such credit extended

before August 1, 1982, creditors are not to take those fees into account in calculating and disclosing the annual percentage rate. Moreover, the origination fee need not be taken into account for purposes of any other Truth in Lending calculations and disclosures (for example, amount financed, prepaid finance charge, and prepayment disclosures) on such credit extended before August 1, 1982.

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Board of Governors of the Federal Reserve System, November 27, 1981.

(signed) William W. Wiles
William W. Wiles
Secretary of the Board

[SEAL]