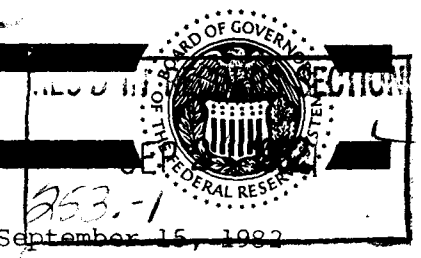
FEDERAL RESERVE press release



For immediate release September 15, 1982

The Federal Reserve today made public a revision of its official staff commentary on Regulation Z (Truth in Lending).

The revision of the staff commentary, which applies and interprets the requirements of Regulation Z, is effective September 17. However, creditors have the option of continuing to rely on the existing Regulation Z commentary until April 1, 1983, when reliance on the revised commentary becomes mandatory. The new commentary is based upon Regulation Z as revised April 1, 1981 under the Truth in Lending Simplification Act of 1980.

The commentary was revised following consideration of comment received on proposals in May of this year. This is the first of expected periodic revisions of the commentary to update it as significant new questions arise about the application of the regulation to specific transactions. The commentary is intended to substitute for individual Board and staff interpretations. Reliance upon it is a defense against suit.

Changes in the commentary are generally in the direction of providing more flexibility, while preserving basic consumer protection. Changes generally have been made only when necessary to respond to significant questions that have arisen since the commentary was first issued, or to clarify language.

Issues dealt with in the revised commentary include:

--The use of the creditor's commercial lending rate as the base rate in variable-rate open-end credit plans.

--Application of the finance charge rules to the offering of cash discounts in the sale of motor vehicle fuel.

--Prepayment disclosures in transactions involving prepaid finance charges.

(OVER)

--Disclosures for several types of mortgage financing plans, including growth equity mortgages and graduated payment adjustable rate mortgages.

The text of the commentary as revised is attached.

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Attachment

REC'D IN RECORDS
SEP 21 1982

FEDERAL RESERVE SYSTEM

12 CFR Part 226

[Reg. Z; TIL-1]

TRUTH IN LENDING

Official Staff Commentary Update

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final official staff interpretation.

SUMMARY: In accordance with Appendix C to 12 CFR Part 226, the staff of the Federal Reserve Board is publishing in final form an update to the official staff commentary to Regulation Z (Truth in Lending), as revised effective April 1, 1981. The commentary applies and interprets the requirements of the revised Regulation Z to open-end and closed-end consumer credit and is intended to substitute for individual Board and staff interpretations of the regulation.

EFFECTIVE DATE: September 17, 1982, but reliance optional until April 1, 1983.

FOR FURTHER INFORMATION: Contact the following attorneys in the Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, at (202)452-3667 or (202)452-3867:

Subpart A - Gerald Hurst, Rugenia Silver

Subpart B and Appendices - Ruth Amberg, Jesse Filkins, Lynn Goldfaden, Gerald Hurst, John Wood

Subpart C and Appendices - Clarence Cain, Lucy Griffin, Rugenia Silver, Susan Werthan, Claudia Yarus, Steven Zeisel

Subpart D - Lynn Goldfaden, Rugenia Silver

SUPPLEMENTARY INFORMATION: (1) General. Effective October 13, 1981, an official staff commentary was published to interpret Regulation Z, as revised effective April 1, 1981. Creditors now have the option of complying with revised Regulation Z and the commentary, but compliance does not become mandatory until October 1, 1982 (Pub.L. 97-110, December 26, 1981). The commentary is designed to provide general guidance to creditors in applying the regulation to specific transactions. Periodic updates will provide the vehicle for additional staff interpretations that may be necessary as significant new questions arise. The first update to the commentary was proposed for comment on May 13, 1982 (47 FR 20603) and is now being adopted in final form.

The types of changes being adopted generally give creditors more flexibility in making disclosures while preserving basic consumer protections. Changes generally have been made only when necessary to respond to significant questions that have arisen since the commentary's issuance or to clarify ambiguous language. However, because this is the first update to the commentary, some

technical and editorial changes have been necessary in order to expedite adjustment to the commentary's new material and format. In a few cases the location of comments has been changed and others have been renumbered as a result of the deletion or addition of material.

Certain conventions have been used to highlight the revised language in the commentary. New language is noted by bold-faced arrows, while language that has been deleted is set off with brackets. Although the inclusion of existing commentary language adds to the length of this document, this format seems to be the most helpful way of pointing out the changes.

The changes are effective on September 17, 1982. Although creditors are free to rely on the revisions as of that date and are protected if they do so, they need not follow the revisions until April 1, 1983. The latter date is provided to minimize any difficulties that creditors may experience in adjusting to the revisions.

(2) Commentary revisions. Following is a brief description of the revisions contained in the commentary update and how they differ, if at all, from those proposed.

INTRODUCTION

Comment I-3 is amended to reference the regulation's effective date of October 1, 1982, in accordance with Pub. L. 97-110 (December 26, 1981).

SUBPART A - GENERAL

SECTION 226.2 -- Definitions and Rules of Construction

2(a)(3) "Arranger of Credit"

Comment 2(a)(3)-6 is added to explain the Board's amendment to § 226.2(a)(3) of the regulation (47 FR 7391, Feb. 19, 1982) dealing with real estate brokers. The proposed language has been adopted with only slight modification of the first sentence to eliminate ambiguity.

The note regarding pending Board action on this section is deleted because it is no longer relevant.

2(a)(13) "Consummation"

Comment 2(a)(13)-1 is revised to show that a commitment agreement can be consummation if under applicable law a contractual relationship is created. The updated comment differs from the proposed revision in that the first sentence of the proposal and the phrase "specific credit terms" have been deleted. These deletions have been made from the proposal to avoid the misunderstanding by some commenters that the proposal was intending to create an exception from the general rule that state law governs on the issue of when consummation occurs. The updated comment makes it clear that state or other

applicable law is determinative on when a contractual relationship is created and that, for Truth in Lending purposes, the focus is on when the consumer becomes bound to the credit terms.

2(a)(23) "Prepaid Finance Charge"

Comment 2(a)(23)-2 is revised to make clear that any portion of the finance charge paid prior to or at closing or settlement is considered a prepaid finance charge. The updated comment differs from the proposed revision in that it covers amounts paid "prior to" closing or settlement as well as those paid "at" closing or settlement.

2(a)(24) "Residential Mortgage Transaction"

Comment 2(a)(24)-1 is revised to add § 226.20(b) to the list of provisions using the term "residential mortgage transaction." Its omission was inadvertent.

2(a)(25) "Security Interest"

Comment 2(a)(25)-1 is revised by adding a cross reference at the end of the paragraph to updated comment 2(a)(25)-2. This cross reference is added to make clear that while creditors may not disclose an interest that unquestionably falls within an excluded category, where uncertainty exists as to whether an interest is a security interest or an excluded interest, creditors may at their option disclose the interest pursuant to updated comment 2(a)(25)-2.

Comment 2(a)(25)-2 is revised to permit creditors, at their option, to disclose certain interests as security interests when uncertainty exists as to whether a particular interest is one of the excluded interests.

SECTION 226.4 -- Finance Charge

4(b) Examples of Finance Charge

Comment 4(b)(9)-3 is added to explain the "regular price" definition in amended § 103(x) of the act and its relationship to cash discounts offered under § 167(b) of the act. The new comment specifically discusses the displaying of prices for motor vehicle fuel. It differs from the proposal in that it (1) adds the statutory definition of "regular price," and (2) provides additional guidance regarding motor vehicle fuel sales in the context of separate pumps or islands for cash and credit purchases and pumps capable of showing either cash or credit prices.

4(c) Charges Excluded from the Finance Charge

Comment 4(c)(7)-1 is revised to state that a charge for a lawyer's attendance at a closing or a charge for conducting a closing (for example,

by a title company) is not a finance charge if the charge is primarily for services related to items listed in § 226.4(c)(7). In addition, the sentence concerning the requirement that charges excluded under § 226.4(c)(7) be bona fide and reasonable is reworded slightly and placed at the end of the updated comment to make clear that the requirement applies to all excluded charges. The updated comment differs from the proposal in that it (1) is not limited to lawyers' fees and (2) does not limit the exclusion to charges that are purely for insuring that documents are completed and executed properly.

4(d) Insurance

Comment 4(d)-11 is added to clarify the concept of initial term of insurance coverage and to permit the initial term to be considered one year in situations where the insurance coverage is not clearly for a specific term. The new comment differs from the proposal in that it (1) deletes the reference to the creditor being "unsure" of the initial term, and (2) adds an example of a situation where the initial term of insurance coverage may not be clear and allows the use of a permium for one year in such situations.

Comment 4(d)-12 is added to clarify that loss-of-income insurance includes involuntary unemployment insurance.

SUBPART B - OPEN-END CREDIT

SECTION 226.5 -- General Disclosure Requirements

5(a) Form of Disclosures

Comment 5(a)(2)-1 is revised to include additional examples of the application of the "more conspicuous" rule. These examples are intended to clarify the rule; no substantive changes are intended. The proposal is changed to clarify that only the terms, and not the numbers, are subject to the "more conspicuous" rule. In addition, the proposed example regarding minimum finance charges is deleted as not being of general applicability.

5(b) Time of Disclosures

Comment 5(b)(1)-1 is revised to explain more clearly when initial disclosures are timely if the plan involves an initial fee that is paid before the initial disclosures are given, or if the plan involves an advance made at the time that the consumer is given the initial disclosures.

5(c) Basis of Disclosures and Use of Estimates

Comment 5(c)-1 is revised to clarify the meaning of the term "legal obligation." Because the proposal would have added to comment 17(c)(1)-1

a sentence to show the effect of certain previous court decisions on disclosures, the staff solicited comment on whether a companion provision for open-end credit should be added. The proposed addition is not being included in either Subpart B or Subpart C. (See discussion of comment 17(c)(1)-1.)

5(d) Multiple Creditors; Multiple Consumers

Material that was inappropriate for commentary treatment regarding legal responsibility for providing disclosures is deleted from comment 5(d)-1. The last paragraph of comment 5(d)-1 is also deleted from that comment; the substance is redesignated as comment 7-2. A companion provision regarding initial disclosure statements is added as comment 6-2.

SECTION 226.6 -- Initial Disclosure Statement

Comment 6-2 is added as a companion provision to comment 7-2, regarding circumstances under which creditors involved in a certain open-end credit program may send separate initial disclosure statements.

6(a) Finance Charge

Comment 6(a)(2)-2 is revised in its description of the types of open-end credit programs for which the creditor's initial disclosure of planned rate changes excuses the creditor from the general requirement to give notices when the rate increases according to the disclosed plan. The commentary as originally written provided that creditors may avoid these notices after giving appropriate disclosures in plans in which the rates follow an index that is "readily verifiable by the borrower and beyond the control of the lender."

A number of questions had arisen as to the interpretation and purpose of the original commentary language. In particular, some creditors raised concerns about programs that would use certain internal rates as the index and therefore not meet the criterion that the index be beyond the lender's control. These creditors noted that tying the rate to their commercial lending rate or to rates paid on savings instruments was customary practice. The updated comment reflects these concerns, while at the same time continuing to provide guidance on the types of rate increases for which additional disclosures may be needed. The updated comment also adds a cross reference to comment 9(c)-1, with regard to disclosures under employee preferential-rate plans.

6(b) Other Charges

Language is added to comment 6(b)-2 to provide that a charge for submitting as payment a check that is later returned unpaid would not be an "other charge" for purposes of the regulation.

SECTION 226.7 -- Periodic Statement

The substance of the last paragraph of comment 5(d)-1 is added as comment 7-2. This comment is more appropriately placed in the section on periodic statements.

7(b) Identification of Transactions

Comment 7(b)-1 is revised to clarify that the listed ways for a creditor to identify transactions for multifeatured plans are merely examples of acceptable arrangements.

7(c) Credits

Comment 7(c)-3 is revised to clarify when additional identification of dates is needed, and also that no specific terminology is required for these date identifications.

7(e) Balance on Which Finance Charge Computed

Comment 7(e)-2 is revised by indicating that the exception permitting the creditor to disclose one combined balance when split rates (or "break rates") are applied does not extend to the case in which split rates are applied to each day's balance. This change in the updated commentary returns to the position under previous Regulation Z, and corrects the inadvertent reference in comment 7(e)-4. That reference permitted a combined balance, which would not allow verification of the finance charge attributable to periodic rates.

The last sentence of current comment 7(e)-4 (updated comment 7(e)-5) is deleted, and the substance is incorporated in comment 7(e)-2.

Comments 7(e)-4, 5, 6, and 7 of the commentary are redesignated as updated comments 7(e)-5, 6, 7, and 8, and comment 7(e)-8, which deals with the disclosure of the periodic rate balance amount in multifeatured plans, is redesignated as updated comment 7(e)-4.

Updated comment 7(e)-4 (formerly comment 7(e)-8) is revised to give more complete guidance on when separate balances must be disclosed when a plan involves different features.

Comment 7(e)-9 is added to clarify that the creditor could explain its balance computation method only once, even if it discloses more than one balance computed by that same method. The updated comment differs from the proposal by adding two specific examples of when one explanation is sufficient.

7(g) Annual Percentage Rate

Comment 7(g)-2 is expanded to clarify that, in multifeatured plans, the creditor may give separate annual percentage rate disclosures for each feature or may give a composite actual annual percentage rate for the entire plan.

SECTION 226.8 -- Identification of Transactions

8(a) Sale Credit

Comment 8(a)(2)-5 is added to reflect the position under previous Regulation Z that the debiting date may be considered the transaction date for foreign transactions. The placement of this provision in the proposal inadvertently limited the availability of this provision to three-party transactions. By placing the provision under both § 226.8(a)(2) and (3), the updated commentary makes clear that the provision may also be used in two-party transactions.

In the last sentence of comment 8(a)(3)-2, the inadvertent reference to "creditor's" stores is changed to "seller's" stores.

Comment 8(a)(3)-4 is added, as previously noted, to reflect the position under previous Regulation Z that the debiting date may be considered the transaction date for foreign transactions.

SECTION 226.9 -- Subsequent Disclosure Requirements

9(c) Change in Terms

Comment 9(c)-1 is revised to correspond to the revisions to comment 6(a)(2)-2.

SECTION 226.13 -- Billing-Error Resolution

13(d) Rules Pending Resolution

Comment 13(d)(1)-2 is revised to clarify that, for purposes of § 226.13(d)(1), the creditor need only disclose that payment of "any disputed amount" is not required pending resolution, as was the case under the previous Regulation Z. Language has been added to the proposal to clarify that the disclosure is only required if the creditor bills for disputed amounts.

SECTION 226.14 -- Determination of Annual Percentage Rate

14(c) Annual Percentage Rate for Periodic Statements

The new comment 14(c)-6 identifies the method in § 226.14(c)(3) as an acceptable method for calculating the annual percentage rate when the finance charge results from the application of both daily periodic rates and specific transaction charges. The proposal set forth an alternative calculation method, and comment was solicited on the need for that option. The response did not demonstrate a current need for the alternative method as proposed.

The § 226.14(c)(3) method includes the rules in Appendix F; the appendix gives examples for determining the denominator of the fraction in this formula. Footnote 1 to the appendix instructs creditors that apply both a daily periodic rate and a specific transaction charge to use the average of daily balances instead of the sum of the balances.

Comments 14(c)-6, 7, and 8 have been redesignated as updated comments 14(c)-7, 8, and 9, respectively.

An editorial change is made to updated comment 14(c)-9 (formerly comment 14(c)-8) to correct the inadvertent use of the term "fees" instead of "finance charges." The change indicates that the optional annual percentage rate formula in § 226.14(c)(4) may be used when total finance charges of 50 cents or less are involved.

14(d) Calculations Where Daily Periodic Rate Applied

Comment 14(d)-2 is revised merely to cross reference updated comment 14(c)-6. The latter comment identifies an acceptable method for calculating the annual percentage rate for plans involving both daily periodic rates and specific transaction charges.

SECTION 226.15 -- Right of Rescission

15(a) Consumer's Right to Rescind

Two changes are made in comment 15(a)(1)-2. First, the dates in the comment, which refer to the three-year trial period in § 125(e) of the act, are changed from March 31, 1985 to September 30, 1985 to reflect the change in the mandatory effective date of the act from April 1, 1982 to October 1, 1982. Second, a sentence is added to clarify that the limited rescission option is available for programs whether or not they existed on the effective date of the act.

SECTION 226.16 -- Advertising

16(b) Advertisement of Terms That Require Additional Disclosures

The first example in comment 16(b)-5 is deleted in order to reflect a long-standing position taken under the previous Regulation Z.

Comment 16(b)-6 is added to make clear that charges excluded from the finance charge under § 226.4 are not required disclosures when a triggering term is used in an advertisement.

SUBPART C - CLOSED-END CREDIT

SECTION 226.17 -- General Disclosure Requirements

17(a) Form of Disclosures

Comment 17(a)(1)-5 adds three examples of information considered directly related to required disclosures. The first new example, relating to § 226.18(k), clarifies the applicability of the § 226.18(k)(1) disclosure. For purposes of this disclosure, a minimum finance charge in a simple interest transaction is considered a penalty. Some state laws prohibit creditors from charging a penalty in the event of prepayment while permitting the creditor to charge a minimum charge. In this instance the creditor may state that a minimum finance charge may be imposed.

The second addition, relating to § 226.18(f), responds to inquiries about disclosing the fact that a variable-rate feature may produce negative amortization. It permits creditors to disclose this fact when making the other required variable-rate disclosures. The last example permits the inclusion of a title for the disclosure statement.

The proposed revision to comment 17(a)(1)-5 also would have added a fourth example, relating to § 226.18(k)(2). That example is reflected in new comment 18(k)-3, which addresses the application of prepayment disclosures to prepaid finance charges.

17(c) Basis of Disclosures and Use of Estimates

Comment 17(c)(1)-1 is revised to clarify the meaning of the term "legal obligation." The sentence discussing contracts later deemed unenforceable by a court is modified to include situations in which an individual term, rather than an entire contract, is deemed unenforceable. Portions of comments 17(c)(1)-1 and 2 are restructured for added clarity. The proposed addition to comment 17(c)(1)-1, discussing the effect of certain previous court decisions on the legal obligation, has not been adopted.

Comment 17(c)(1)-4 is revised to clarify the treatment of certain buydown plans, including the Federal National Mortgage Association's Buydown Program, as revised for commitments issued on or after February 16, 1982.

A new comment 17(c)(1)-8 is added to address the disclosure of adjustable rate mortgages that contain a graduated payment feature or an initial payment amount resulting in negative amortization. This comment applies to mortgages such as the graduated payment adjustable mortgage loan authorized by the Federal Home Loan Bank Board (12 CFR 545.6-4b). The new comment has been revised from the proposal to apply to all types of loans containing both graduated payment and adjustable rate features.

New comments 17(c)(3)-2 and 17(c)(4)-3 are added to clarify that a creditor may ignore minor variations in calculating some disclosures without being required to ignore those variations in computing all of the disclosures.

17(d) Multiple Creditors; Multiple Consumers

Material that was inappropriate for commentary treatment is deleted from comment 17(d)-1.

17(h) Series of Sales--Delay in Disclosures

Comment 17(h)-2 is added to address the content of disclosures for transactions under § 226.17(h).

17(i) Interim Student Credit Extensions

Comment 17(i)-1 is amended to clarify the applicability of this provision. No substantive change is made.

Comment 17(i)-2 is revised to provide further guidance on the basis for interim student credit disclosures and the use of estimates.

Comment 17(i)-5 is added as a cross reference to Appendix H, regarding approved disclosure forms.

SECTION 226.18 -- Content of Disclosures

18(f) Variable Rate

Comment 18(f)-3 is added to clarify that the presence of a variable-rate feature in a transaction does not, by itself, make disclosures for that transaction estimates. The comment is revised from the proposal to make clear that estimated disclosures in a variable-rate transaction may nevertheless be appropriate for other reasons.

Comment 18(f)-7 is added to discuss the treatment of growth equity mortgages. The proposal has been rewritten and restructured for added clarity.

Comment 18(f)(3)-1 is revised to include a cross reference to updated comment 17(a)(1)-5, which permits the inclusion of a brief reference to negative amortization in the variable-rate disclosures.

Comment 18(f)(4)-1 is revised to provide further guidance on the basis for the hypothetical example.

Comment 18(f)(4)-2 contains additional examples of transactions that need not make the hypothetical disclosure required in most transactions by § 226.18(f)(4).

18(g) Payment Schedule

Comment 18(g)-1 is revised to clarify that a prepaid finance charge should not be reflected in the repayment schedule as a separate payment.

Comment 18(g)(2)-1 is revised to clarify that the abbreviated disclosures may be employed when mortgage insurance premium payments gradually increase over a portion of the loan term. This will occur if the accrual rate exceeds the payment rate for a period and negative amortization causes the unpaid principal balance to increase. During this period, the amount of each premium payment will increase to insure the increasing principal balance. When negative amortization ends, the premiums will decrease in a traditional manner. The language permits the creditor to disclose the lowest and highest payments in the increasing series (with a reference to the variation in payments) followed by the highest and lowest payments in the decreasing series (with a reference to the variation in payments).

18(i) Demand Feature

Comment 18(i)-2 is revised to clarify that a due-on-sale clause is not a demand feature requiring disclosure.

18(k) Prepayment

A new comment 18(k)-3 is added to address the application of § 226.18(k) to prepaid finance charges. Under the new comment, a prepaid finance charge does not by itself require a disclosure under either § 226.18(k)(1) or § 226.18(k)(2). The comment also permits creditors to further identify the finance charge for which a rebate disclosure is made.

Comment 18(k)(1)-1 is changed to clarify that this disclosure applies not only to interest calculations made daily, but to calculations that are made other than daily while taking into account scheduled reductions in principal. A cross reference to updated comment 17(a)(1)-5 is added to point out the permitted reference to a minimum finance charge in the penalty disclosure.

Comment 18(k)(2)-1 is revised from both the original commentary and the proposal, in order to reflect the treatment of prepaid finance charges under new comment 18(k)-3.

18(r) Required Deposit

A new comment 18(r)-2 is added to address pledged account or FLIP mortgages, allowing creditors two options in disclosing those types of transactions.

SECTION 226.19 -- Certain Residential Mortgage Transactions

19(a) Time of Disclosure

Comment 19(a)-2 is revised to conform with comment 17(a)(1)-5, regarding explanation of the basis for estimates.

SECTION 226.20 -- Subsequent Disclosure Requirements

20(a) Refinancings

Comment 20(a)-3 is revised to clarify the current commentary position that the addition of a variable-rate feature to a previously fixed-rate transaction requires new disclosures regardless of the manner in which the change is made. It also discusses a variable-rate transaction for which no variable-rate disclosures were ever provided. The comment has been reorganized to clarify that both situations require new disclosures.

Comment 20(a)-5 is added to clarify the coverage of § 226.20(a). "Refinancing," as the term is used here, refers only to a new transaction undertaken with the original creditor (or a holder or servicer of the original obligation) to replace the original obligation. The term "refinancing" is sometimes used to refer to a loan, the proceeds of which are used in whole or in part to satisfy an obligation to a different creditor. Under the regulation, that loan is not a refinancing but a new transaction subject to the general coverage rules and disclosure requirements of the regulation.

20(b) Assumptions

The revision to comment 20(b)-1 clarifies the coverage of § 226.20(b). The following elements must all be present before an assumption under this section requires new disclosures:

- The original obligation must have been a consumer credit obligation that was not originally exempt from the regulation.
- The creditor must expressly agree to the new consumer as a primary obligor.
- The agreement must be in writing.
- The transaction must be a "residential mortgage transaction" as to the new consumer.

To determine if disclosures are required for the transfer of an obligation that is not covered by § 226.20(b), the creditor must refer to the general coverage rules in § 226.2 and § 226.3.

Comment 20(b)-6 is deleted from the commentary as unnecessary. Discussion of changes in terms does not significantly assist creditors in determining whether an assumption is subject to § 226.20(b).

SECTION 226.22 -- Determination of the Annual Percentage Rate

22(a) Accuracy of the Annual Percentage Rate

A sentence is added to comment 22(a)(1)-4 to provide an example of the calculation of a composite annual percentage rate, as that term is used in a step-rate transaction.

SECTION 226.24 -- Advertising

24(b) Advertisement of Rate of Finance Charge

Comment 24(b)-4 is added to address the advertisement of special financing involving "effective rates," "payment rates" or "qualifying rates." It requires that when the advertisement includes such rates, the annual percentage rate, the term of the reduced payment schedule, and the rate at which interest accrues also be stated. This comment replaces proposed comment 24(b)-2.

SUBPART D - MISCELLANEOUS

SECTION 226.29 -- State Exemptions

29(a) General Rule

Comment 29(a)-4 is added to reflect the exemptions granted by the Board for certain transactions in Connecticut and Maine (47 FR 36961, August 24, 1982). Further exemptions that may be granted by the Board will be reflected in future updates to the commentary.

APPENDIX D -- Multiple-Advance Construction Loans

Comment app. D-2 is added to permit creditors to omit disclosure of a variable-rate example in multiple-advance construction loans disclosed pursuant to Appendix D, Part I. (See comment 18(f)(4)-2.)

Comment app. D-3 is added to clarify that the total of payments disclosure under Appendix D may be calculated as either the sum of the payments or as the amount financed plus the finance charge.

Comment app. D-4 is added to make clear that Appendix D does not require creditors to use the Board's Annual Percentage Rate Tables. The estimated annual percentage rate may be computed under either the actuarial method or the Volume I method.

APPENDIX F -- Annual Percentage Rate Computations for Certain Open-End Credit Plans

Comment app. F-1 is added to cross reference updated comment 14(c)-6. The latter comment discusses the annual percentage rate calculation methods for plans involving both daily periodic rates and specific transaction charges.

APPENDIX H -- Closed-End Model Forms and Clauses

Comments app. H-17 through app. H-20 are added to reflect the approval under section 113 of the act of certain student loan forms issued by the United States Department of Education.

List of Subjects in 12 CFR Part 226

Advertising; Banks, banking; Consumer protection; Credit; Federal Reserve System; Finance; Penalties; Truth in Lending.

(3) Text of revisions. The revisions to the commentary read as follows:

OFFICIAL STAFF COMMENTARY -- TIL-1

INTRODUCTION ***

3. Status of previous interpretations. All statements and opinions issued by the Federal Reserve Board and its staff interpreting previous Regulation Z remain effective until [April 1,] ▶ October 1, ◀ 1982, only insofar as they interpret that regulation. When compliance with revised Regulation Z becomes mandatory on [April 1,] ▶ October 1, ◀ 1982, the Board and staff interpretations of the previous regulation will be entirely superseded by the revised regulation and this commentary except with regard to liability under the previous regulation. ***

SUBPART A - GENERAL ***

SECTION 226.2 -- Definitions and Rules of Construction

2(a) Definitions ***

2(a)(3) "Arranger of Credit" ***

1. Coverage. ***

[Note. -- The Board is considering a regulatory amendment to § 226.2(a)(3) that, if adopted, would clarify the definition of "arranger of credit," particularly with regard to real estate brokers involved with seller-financing of homes.]

▶ 6. Real estate brokers. The general definition does not include a person (such as a real estate broker or salesperson) who, as part of the process of arranging the sale of real property or a dwelling, arranges for the seller to totally or partly finance the purchase, even if the obligation by its terms is simultaneously assigned by the seller to another person. However, a broker or salesperson is not exempt from coverage in all transactions. For example, a real estate broker may be a creditor in the following situations:

- The broker acts as a loan broker to arrange for someone other than the seller to extend credit, provided that the extender of credit (the person to whom the obligation is initially payable) does not meet the "creditor" definition.

- The broker extends credit itself, provided that the broker otherwise meets the "creditor" definition. ◀ ***

2(a)(13) "Consummation"

1. State law governs. When a contractual obligation on the consumer's part is created is a matter to be determined under applicable law; Regulation Z does not make this determination. ▶ A contractual commitment agreement, for example, that under applicable law binds the consumer to the credit terms would be consummation. ◀ Consummation ▶, however, ◀ does not occur merely because the consumer has made some financial investment in the transaction (for example, by paying a nonrefundable fee) unless, of course, applicable law holds otherwise. ***

2(a)(23) "Prepaid Finance Charge" ***

2. Examples. Common examples of prepaid finance charges include:

- Buyer's points.
- Service fees.
- Loan fees.
- Finder's fees.
- Loan guarantee insurance.
- Credit investigation fees.

However, in order for these or any other finance charges to be considered prepaid, they must be either paid separately in cash or check or withheld from the proceeds. ▶ Prepaid finance charges include any portion of the finance charge paid prior to or at closing or settlement. ◀ ***

2(a)(24) "Residential Mortgage Transaction"

1. Relation to other sections. This term is important in [five] ▶ six ◀ provisions in the regulation:

- Section 226.4(c)(7) -- exclusions from the finance charge.
- Section 226.15(f) -- exemption from the right of rescission.
- Section 226.18(q) -- whether or not the obligation is assumable.

- Section 226.19 -- special timing rules.
- ▶ Section 226.20(b) -- disclosure requirements for assumptions. ◀
- Section 226.23(f) -- exemption from the right of rescission. ***

2(a)(25) "Security Interest"

1. Threshold test. The threshold test is whether a particular interest in property is recognized as a security interest under applicable law. The regulation does not determine whether a particular interest is a security interest under applicable law. If the creditor is unsure whether a particular interest is a security interest under applicable law (for example, if statutes and case law are either silent or inconclusive on the issue), the creditor may at its option consider such interests as security interests for Truth in Lending purposes. However, the regulation and the commentary do exclude specific interests, such as after-acquired property and accessories, from the scope of the definition regardless of their categorization under applicable law, and these named exclusions may not be disclosed as security interests under the regulation. ▶ (But see the discussion of exclusions elsewhere in the commentary to section 226.2(a)(25).)◀

2. Exclusions. The general definition of security interest excludes three groups of interests: incidental interests, interests in after-acquired property, and interests that arise solely by operation of law. These interests may not be disclosed with the disclosures required under section 226.18, but the creditor is not precluded from preserving these rights elsewhere in the contract documents, or invoking and enforcing such rights, if it is otherwise lawful to do so. ▶ If the creditor is unsure whether a particular interest is one of the excluded interests, the creditor may, at its option, consider such interests as security interests for Truth in Lending purposes. ◀ ***

SECTION 226.4 -- Finance Charge ***

4(b) Examples of Finance Charges ***

Paragraph 4(b)(9) ***

▶ 3. Determination of the regular price. The "regular price" is critical in determining whether the difference between the price charged to cash customers and credit customers is a "discount" or a "surcharge," as these terms are defined in amended section 103 of the act. The "regular price" is defined in section 103 of the act as "the tag or posted price charged for the property or service if a single price is tagged or posted, or the price charged for the property or service when payment is made by use of an open-end credit account or a credit card if either (1) no price is tagged or posted, or (2) two prices are tagged or posted...." For example, in the sale of motor vehicle fuel, the tagged or posted price is the price displayed at the pump. As a result, the higher price (the open-end credit or credit card price) must be displayed at the pump, either alone or along with the cash price. Service station operators may designate separate pumps or separate islands as being for either cash or

credit purchases and display only the appropriate prices at the various pumps. If a pump is capable of displaying on its meter either a cash or a credit price depending upon the consumer's means of payment, both the cash price and the credit price must be displayed at the pump. A service station operator may display the cash price of fuel by itself on a curb sign, as long as the sign clearly indicates that the price is limited to cash purchases. ◀ ***

4(c) Charges Excluded from the Finance Charge ***

Paragraph 4(c)(7)

1. Real estate or residential mortgage transaction charges. The list of charges in section 226.4(c)(7) applies both to residential mortgage transactions (which may include, for example, the purchase of a mobile home) and to other transactions secured by real estate. The fees are excluded from the finance charge even if the services for which the fees are imposed are performed by the creditor's employees rather than by a third party. In addition, credit report fees include not only the cost of the report itself, but also the cost of verifying information in the report. [In all cases, the charges must be bona fide and reasonable.] If a lump sum is charged for several services and includes a charge that is not excludable [(for example, a charge for a lawyer's attending the closing)], a portion of the total should be allocated to that service and included in the finance charge. ▶ A charge for a lawyer's attendance at the closing or a charge for conducting the closing (for example, by a title company) is excluded from the finance charge if the charge is primarily for services related to items listed in section 226.4(c)(7) (for example, reviewing or completing documents), even if other incidental services, such as explaining various documents or disbursing funds for the parties, are performed. In all cases, charges excluded under section 226.4(c)(7) must be bona fide and reasonable. ◀

4(d) Insurance ***

▶ 11. Initial term. The initial term of insurance coverage determines the period for which a premium amount must be disclosed. In some cases the initial term is clear, for example, a property insurance policy on an automobile written for one year (even though the term of the credit transaction is four years) or a credit life insurance policy for the term of the credit transaction purchased by paying or financing a single premium. In other cases, however, it may not be clear what the initial term of the insurance is, for example, when the consumer agrees to pay a premium that is assessed periodically and the consumer is under no obligation to continue making the payments. In cases such as this, the cost disclosure may be made on the basis of a premium for one year of insurance coverage. The premium must be clearly labeled as being for one year.

12. Loss-of-income insurance. The loss-of-income insurance mentioned in section 226.4(d) includes involuntary unemployment insurance, which provides that some or all of the consumer's payments will be made if the consumer becomes unemployed involuntarily. ◀ ***

SUBPART B - OPEN-END CREDIT

SECTION 226.5 -- General Disclosure Requirements

5(a) Form of Disclosures ***

Paragraph 5(a)(2)

1. When disclosures must be "more conspicuous." The terms "finance charge" and "annual percentage rate" ▶ , when required to be used with a number, ◀ must be disclosed more conspicuously ▶ than other required disclosures, ◀ [when required to be used with a number.] ▶ except in the two cases provided in footnote 9. ◀ [For example, on the initial disclosure statement, the annual percentage rate disclosure under section 226.6(a)(2) must be "more conspicuous." The following apply to the "more conspicuous" rule:] ▶ At the creditor's option, "finance charge" and "annual percentage rate" may also be disclosed more conspicuously than the other required disclosures even when the regulation does not so require. The following examples illustrate these rules:

- In disclosing the annual percentage rate as required by section 226.6(a)(2), the term "annual percentage rate" is subject to the "more conspicuous" rule.

- In disclosing the amount of the finance charge, required by section 226.7(f), the term "finance charge" is subject to the "more conspicuous" rule.

- Although neither ◀ [Neither term] ▶ "finance charge" nor "annual percentage rate" ◀ need be emphasized when used as part of general informational material or in textual descriptions of other terms, [although] emphasis is permissible in such cases. For example, when the terms appear as part of the explanations required under section 226.6(a)(3) and (4), they may be [as] ▶ equally ◀ conspicuous as the disclosures required under sections 226.6(a)(2) and 226.7(g).

- [The corresponding annual percentage rate under section 226.7(d) may be less conspicuous than the disclosure of the actual annual percentage rate (historical rate) under section 226.7(g) when the two rates differ. This is permitted by footnote 9 to section 226.5(a)(2), which excepts section 226.7(d) disclosures from the "more conspicuous" requirement.] ***

5(b) Time of Disclosures

5(b)(1) Initial Disclosures

1. Disclosure before the first transaction. The rule that the initial disclosure statement must be furnished "before the first transaction" requires delivery

of the initial disclosure statement before the consumer becomes obligated on the plan (for example, before the consumer makes the first purchase, receives the first advance, or pays a fee under the plan). [Delivery of the initial disclosure statement is timely even if a membership fee, advance, or purchase already has been posted to the consumer's account, so long as the consumer may, after receiving the disclosures, reject the plan and have no further obligation beyond returning a credit card or any money or goods.

If the consumer has paid a fee and rejects the plan after receiving the disclosures, the creditor must refund the amount paid and clear the consumer's account. Initial disclosures need not be given before the imposition of an application fee under section 226.4(c)(1).]

▶ ◦ If the consumer pays a membership fee before receiving the Truth in Lending disclosures, or the consumer agrees to the imposition of a membership fee at the time of application and the Truth in Lending disclosure statement is not given at that time, disclosures are timely as long as the consumer, after receiving the disclosures, can reject the plan. The creditor must refund the membership fee if it has been paid, or clear the account if it has been debited to the consumer's account.

◦ If the consumer receives a cash advance check at the same time the Truth in Lending disclosures are provided, disclosures are still timely if the consumer can, after receiving the disclosures, return the cash advance check to the creditor without obligation (for example, without paying finance charges).

◦ Initial disclosures need not be given before the imposition of an application fee under section 226.4(c)(1).

◦ If, after receiving the disclosures, the consumer uses the account, pays a fee, or negotiates a cash advance check, the creditor may consider the account not rejected for purposes of this section. ◀ ***

5(c) Basis of Disclosures and Use of Estimates

1. Legal obligation. The disclosures should reflect the credit terms to which the parties are legally bound at the time of giving the disclosures.

◦ The legal obligation is [normally] determined by applicable state or other law.

◦ The fact that a ▶ term or ◀ contract may later be deemed unenforceable by a court on the basis of equity or other grounds does not, by itself, mean that disclosures based on that ▶ term or ◀ contract did not reflect the legal obligation.

- The legal obligation normally is presumed to be contained in the contract that evidences the agreement. But this may be rebutted if another agreement between the parties legally modifies that contract. ***

5(d) Multiple Creditors; Multiple Consumers

1. Multiple creditors. Under section 226.5(d):

- Creditors must choose which of them will make the disclosures.
- A single, complete set of disclosures must be provided, rather than partial disclosures from several creditors.
- [Each creditor in the plan is legally responsible for seeing that the disclosures are provided.]
- All disclosures for the open-end credit plan must be given, even if the disclosing creditor would not otherwise have been obligated to make a particular disclosure.
- [In some open-end credit programs involving multiple creditors, the consumer has the option (for example, at the end of a billing cycle) to pay creditor A directly or to transfer to creditor B all or part of the amount owing. If the consumer elects the latter option, the consumer no longer is obligated to creditor A for the specific amount(s) transferred. In such a case, creditor A and creditor B may send separate periodic statements that reflect the separate obligations owed to each.] ***

SECTION 226.6 -- Initial Disclosure Statement ***

▶ 2. Separate initial disclosures permitted. In a certain open-end credit program involving more than one creditor -- a card issuer of travel-and-entertainment cards and a financial institution -- the consumer has the option to pay the card issuer directly or to transfer to the financial institution all or part of the amount owing. In this case, the creditors may send separate initial disclosure statements. ◀

6(a) Finance Charge ***

Paragraph 6(a)(2) ***

[2. Variable-rate plan defined. A variable-rate plan contemplates a series of rate changes in accordance with an index that is readily verifiable by the borrower and beyond the control of the lender (for example, the Treasury bill rate). A contract right to increase the rate upon any other contingency, or at the creditor's discretion, would not be a variable-rate plan. For example,

an open-end credit plan in which the employee receives a lower rate contingent upon employment, with the rate to be increased upon termination of employment, would not be a variable-rate plan. Similarly, an open-end credit plan that provides for rate increases voted by the board of directors of a financial institution would not be a variable-rate plan.]

▶ 2. Variable-rate disclosures -- coverage. This section covers open-end credit plans under which rate changes are part of the plan and are tied to an index or formula. A creditor would use variable-rate disclosures (and thus be excused from the requirement of giving a change-in-terms notice when rate increases occur as disclosed) for plans involving rate changes such as the following:

- Rate changes that are tied to the rate the creditor pays on its 6-month money market certificates.
- Rate changes that are tied to Treasury bill rates.
- Rate changes that are tied to changes in the creditor's commercial lending rate.

In contrast, the creditor's contract reservation to increase the rate without reference to such an index or formula (for example, a plan that simply provides that the creditor reserves the right to raise its rates) would not be considered a variable-rate plan for Truth in Lending disclosure purposes. Moreover, an open-end credit plan in which the employee receives a lower rate contingent upon employment (that is, with the rate to be increased upon termination of employment) is not a variable-rate plan. (With regard to such employee preferential-rate plans, however, see comment 9(c)-1, which provides that if the specific change that would occur is disclosed on the initial disclosure statement, no notice of a change in terms need be given when the term later changes as disclosed.) ◀ ***

6(b) Other Charges ***

2. Exclusions. The following are examples of charges that are not "other charges":

- Fees charged for documentary evidence of transactions for income tax purposes.
- Amounts payable by a consumer for collection activity after default; attorney's fees, whether or not automatically imposed; foreclosure costs; post-judgment interest rates imposed by law; and reinstatement or reissuance fees.
- Premiums for voluntary credit life or disability insurance, or for property insurance, that are not part of the finance charge.
- Application fees under section 226.4(c)(1).

- A monthly service charge for a checking account with overdraft protection that is applied to all checking accounts, whether or not a credit feature is attached.

▶ - Charges for submitting as payment a check that is later returned unpaid. (See the commentary to section 226.4(c)(2).) ◀ ***

SECTION 226.7 -- Periodic Statement ***

▶ 2. Separate periodic statements permitted. In a certain open-end credit program involving more than one creditor -- a card issuer of travel-and-entertainment cards and a financial institution -- the consumer has the option to pay the card issuer directly or to transfer to the financial institution all or part of the amount owing. In this case, the creditors may send separate periodic statements that reflect the separate obligations owed to each. ◀ ***

7(b) Identification of Transactions

1. Multifeatured plans. In identifying transactions under section 226.7(b) [, transactions may be grouped by feature (such as by disclosing sale transactions separately from cash advance transactions) or may be arranged by date.] ▶ for multifeatured plans, creditors may, for example, choose to arrange transactions by feature (such as disclosing sale transactions separately from cash advance transactions) or in some other clear manner, such as by arranging the transactions in general chronological order. ◀ ***

7(c) Credits ***

3. Date. [The crediting date need not be identified as "crediting date," unless two or more dates are disclosed for a single entry (for example, the posting date and the crediting date).] ▶ If only one date is disclosed (that is, the crediting date as required by the regulation), no further identification of that date is necessary. More than one date may be disclosed for a single entry, as long as it is clear which date represents the date on which credit was given. ◀ ***

7(e) Balance on Which Finance Charge Computed ***

2. Split rates applied to balance ranges. If split rates were applied to a balance because different portions of the balance fall within two or more balance ranges, the creditor need not separately disclose the portions of the balance subject to such different rates since the range of balances to which the rates apply has been separately disclosed. For example, a creditor could disclose a balance of $700 for purchases even though a monthly periodic rate of 1.5 percent applied to the first $500, and a monthly periodic rate of 1 percent to the remainder. ▶ This option to disclose a combined balance does not

apply when the finance charge is computed by applying the split rates to each day's balance (in contrast, for example, to applying the rates to the average daily balance). In that case, the balances must be disclosed using any of the options that are available if two or more daily rates are imposed. (See comment 7(e)-5.) ◀ ***

Comment 7(e)-8 is redesignated as 7(e)-4.

[8. Multifeatured plans. In a multifeatured plan, the balance on which the finance charge was computed must be disclosed for each feature to which a periodic rate was applied. A total balance for the entire plan is optional.]

▶ 4. Multifeatured plans. In a multifeatured plan, the creditor must disclose a separate balance (or balances, as applicable) to which a periodic rate was applied for each feature or group of features subject to different periodic rates or different balance computation methods. Separate balances are not required, however, merely because a "free-ride" period is available for some features but not others. A total balance for the entire plan is optional. This does not affect how many balances the creditor must disclose -- or may disclose -- within each feature. (See, for example, comment 7(e)-5.) ◀ ***

Comment 7(e)-4 is redesignated as 7(e)-5.

5. Daily rate on daily balance. If the finance charge is computed on the balance each day by application of one or more daily periodic rates, the balance on which the finance charge was computed may be disclosed in any of the following ways for each feature:

- If a single daily periodic rate is imposed, the balance to which it is applicable may be stated as:

  -a balance for each day in the billing cycle

  -a balance for each day in the billing cycle on which the balance in the account changes

  -the sum of the daily balances during the billing cycle

  -the average daily balance during the billing cycle, in which case the creditor shall explain 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 as:

-a balance for each day in the billing cycle

-a balance for each day in the billing cycle on which the balance in the account changes

-[as] two or more average daily balances, each applicable to the daily periodic rates imposed for the time that those rates were in effect, as long as the creditor explains that the finance charge is or may be determined by (1) multiplying each of the average balances by the number of days in the billing cycle, (or if the daily rate varied during the cycle, by multiplying by the number of days the applicable rate was in effect), (2) multiplying each of the results by the applicable daily periodic rate, and (3) adding these products together. [If the different rates are due to disclosed ranges of balances (see comment 7(e)-2), the creditor need give only one average daily balance together with the additional information required by this paragraph.]

Comments 7(e)-5, 6, and 7 are redesignated as 7(e)-6, 7, and 8, respectively.

Comment 7(e)-8 is redesignated as 7(e)-4.

▶ 9. Use of one balance computation method explanation when multiple balances disclosed. Sometimes the creditor will disclose more than one balance to which a periodic rate was applied even though each balance was computed using the same balance computation method. For example, if a plan involves purchases and cash advances that are subject to different rates, more than one balance must be disclosed even though the same computation method is used for determining the balance for each feature. In these cases, one explanation of the balance computation method is sufficient. Sometimes the creditor separately discloses the portions of the balance that are subject to different rates because different portions of the balance fall within two or more balance ranges, even when a combined balance disclosure would be permitted under comment 7(e)-2. In these cases, one explanation of the balance computation method is also sufficient (assuming, of course, that all portions of the balance were computed using the same method). ◀ ***

7(g) Annual Percentage Rate ***

2. Multifeatured plans. In a multifeatured plan, the actual annual percentage rate that reflects the finance charge imposed during the cycle may be separately stated for each feature [.] ▶ , or may be described as a composite for the whole plan. ◀ If separate rates are given, a composite annual percentage rate for the entire plan is optional. ***

SECTION 226.8 -- Identification of Transactions ***

8(a) Sale Credit ***

8(a)(2) Copy of Credit Document Not Provided -- Creditor and Seller Same or Related Person(s) ***

▶ 5. Date of transaction -- foreign transactions. In a foreign transaction, the debiting date may be considered the transaction date. ◀

8(a)(3) Copy of Credit Document Not Provided -- Creditor and Seller Not Same or Related Person(s) ***

2. Location of transaction. The disclosure of the location where the transaction took place generally requires an indication of both the city, and the state or foreign country. If the [creditor] ▶seller◀ has multiple stores or branches within that city, the creditor need not identify the specific branch at which the sale occurred. ***

▶ 4. Date of transaction -- foreign transactions. See comment 8(a)(2)-5. ◀ ***

SECTION 226.9 -- Subsequent Disclosure Requirements ***

9(c) Change in Terms

1. "Changes" initially disclosed. No notice of a change in terms need be given if the specific change is set forth initially, such as: rate increases under a properly disclosed variable-rate plan, a rate increase that occurs when an employee has been under a preferential rate agreement and terminates employment, or an increase that occurs when the consumer has been under an agreement to maintain a certain balance in a savings account in order to keep a particular rate and the account balance falls below the specified minimum. In contrast, notice must be given if the contract allows the creditor to increase the rate at its discretion but does not include specific terms for an increase (for example, when an increase may occur [by vote of the board of directors).] ▶ under the creditor's contract reservation right to increase the periodic rate). ◀ ***

SECTION 226.13 -- Billing-Error Resolution ***

13(d) Rules Pending Resolution ***

13(d)(1) Consumer's Right to Withhold Disputed Amount; Collection Action Prohibited ***

2. Right to withhold payment. ▶ If the creditor reflects any disputed amount or related finance or other charges on the periodic statement, and is therefore required to make the disclosure under footnote 30, the creditor may comply with that disclosure requirement by indicating that payment of any disputed amount is not required pending resolution. Making a disclosure that only refers to the disputed amount would, of course, in no way affect the consumer's right under section 226.13(d)(1) to withhold related finance and other charges. ◀

The disclosure [that payment of any disputed amount is not required pending error-resolution] ▶ under footnote 30 ◀ need not appear in any specific place on the periodic statement ▶ , ◀ [and it] need not state the specific amount that the consumer may withhold [. The creditor] ▶, and ◀ may ▶ be preprinted ◀ [preprint] on [its] ▶ the ◀ periodic statement ▶ . ◀ [forms a statement that payment of any disputed amount is not required pending resolution.] ***

SECTION 226.14 -- Determination of Annual Percentage Rate ***

14(c) Annual Percentage Rate for Periodic Statements ***

▶ 6. Daily rate with specific transaction charge. Section 226.14(c)(3) sets forth an acceptable method for calculating the annual percentage rate if the finance charge results from a charge relating to a specific transaction and the application of a daily periodic rate. This section includes the requirement that the creditor follow the rules in Appendix F in calculating the annual percentage rate, especially footnote 1 to Appendix F which addresses the daily rate/transaction charge situation by providing that the "average of daily balances" shall be used instead of the "sum of the balances." ◀ ***

Comments 14(c)-6, 7, and 8 are redesignated as 14(c)-7, 8, and 9, respectively.

9. Small finance charges. Section 226.14(c)(4) gives the creditor an alternative to section 226.14(c)(2) and (c)(3) if small [(50 cents or less) minimum or fixed fees are involved.] ▶ finance charges (50 cents or less) are involved; that is, if the finance charge includes minimum or fixed fees not due to the application of a periodic rate and the total finance charge for the cycle does not exceed 50 cents. ◀ For example, while a monthly activity fee of 50 cents on a balance of $20 would produce an annual percentage rate of 30 percent under the rule in section 226.14(c)(2), the creditor may disclose an annual percentage rate of 18 percent if the periodic rate generally applicable to all balances is 1 1/2 percent per month. This option is consistent with the provision in footnote 11 to sections 226.6 and 226.7 permitting the creditor to disregard the effect of minimum charges in disclosing the ranges of balances to which periodic rates apply.

14(d) Calculations Where Daily Periodic Rate Applied ***

2. Daily rate with specific transaction charge. If the finance charge results from a charge relating to a specific transaction and the application of a daily periodic rate, [the calculation method in section 226.14(d)(2) should be used.] ▶ see comment 14(c)-6 for guidance on an appropriate calculation method. ◀ ***

SECTION 226.15 -- Right of Rescission ***

15(a) Consumer's Right to Rescind

Paragraph 15(a)(1) ***

2. Exceptions. Although the consumer generally has the right to rescind with each transaction on the account, section 125(e) of the act provides an exception: until [March 31, 1985,] ▶ September 30, 1985, ◀ the creditor need not

provide the right to rescind at the time of each credit extension made under an open-end credit plan secured by the consumer's principal dwelling to the extent that the credit extended is in accordance with a previously established credit limit for the plan. ▶ This limited rescission option is available whether or not the plan existed prior to the effective date of the act. ◀ The consumer will have the right to rescind each extension made after [March 31, 1985] ▶ September 30, 1985 ◀ under such a secured open-end credit plan, whether that plan was established before or after that date. ***

SECTION 226.16 -- Advertising ***

16(b) Advertisement of Terms That Require Additional Disclosures ***

5. Triggering terms. The following are examples of terms that trigger additional disclosures:

[∘ "Charge it - it won't be billed to your account until February."]

∘ "Small monthly service charge on the remaining balance."

∘ "12 percent Annual Percentage Rate."

∘ "A $15 annual membership fee buys you $2,000 in credit."

▶ 6. Minimum, fixed, transaction, activity, or similar charge. The charges to be disclosed under section 226.16(b)(1) are those that are considered finance charges under section 226.4. ◀ ***

SUBPART C - CLOSED-END CREDIT

SECTION 226.17 -- General Disclosure Requirements

17(a) Form of Disclosures

Paragraph 17(a)(1) ***

5. Directly related. The segregated disclosures may, at the creditor's option, include any information that is directly related to those disclosures. Directly related information includes, for example, the following:

∘ A description of a grace period after which a late payment charge will be imposed. For example, the disclosure given under section 226.18(l) may state that a late charge will apply to "any payment received more than 15 days after the due date."

∘ A statement that the transaction is not secured. For example, the creditor may add a category labelled "unsecured" or "not secured" to the security interest disclosures given under section 226.18(m).

- The basis for any estimates used in making disclosures. For example, if the maturity date of a loan depends solely on the occurrence of a future event, the creditor may indicate that the disclosures assume that event will occur at a certain time.

- The conditions under which a demand feature may be exercised. For example, in a loan subject to demand after five years, the disclosures may state that the loan will become payable on demand in five years.

- When a variable-rate feature is disclosed on other documents under footnote 43 to section 226.18(f), a reference to the variable-rate feature and/or to other documents on which the variable-rate disclosures are made.

- An explanation of the use of pronouns or other references to the parties to the transaction. For example, the disclosures may state, "'You' refers to the customer and 'we' refers to the creditor."

- Instructions to the creditor or its employees on the use of a multiple-purpose form. For example, the disclosures may state, "Check box if applicable."

- A statement that the borrower may pay a minimum finance charge upon prepayment in a simple interest transaction. For example, when state law prohibits penalties, but would allow a minimum finance charge in the event of prepayment, the creditor may make the section 226.18(k)(1) disclosure by stating "You may be charged a minimum finance charge."

- A brief reference to negative amortization in variable-rate transactions. For example, in the variable-rate disclosure, the creditor may include a short statement such as "Unpaid interest will be added to principal." (See the commentary to section 226.18(f)(3).)

- A brief caption identifying the disclosures. For example, the disclosures may bear a general title such as "Federal Truth in Lending Disclosures" or a descriptive title such as "Real Estate Loan Disclosures." ***

17(c) Basis of Disclosures and Use of Estimates

Paragraph 17(c)(1)

1. Legal obligation. The disclosures should reflect the credit terms to which the parties are legally bound at the outset of the transaction. The legal obligation is determined by applicable state law or other law. (Certain transactions are specifically addressed in this commentary. See, for example, the discussion of buydown transactions elsewhere in the commentary to section 226.17(c).)

[o The legal obligation is normally determined by applicable state or other law, but certain transactions are specifically addressed in this commentary. (See, for example, the discussion of buydown transactions elsewhere in the commentary to section 226.17(c).)]

o The fact that a [credit] ▶ term or ◀ contract may later be deemed unenforceable by a court on the basis of equity or other grounds does not, by itself, mean that disclosures based on that ▶ term or ◀ contract did not reflect the legal obligation.

[o The legal obligation normally is presumed to be contained in the note or contract that evidences the agreement. But this presumption is rebutted if another agreement between the parties legally modifies that note or contract.]

2. Modification of obligation. ▶ The legal obligation normally is presumed to be contained in the note or contract that evidences the agreement. But this presumption is rebutted if another agreement between the parties legally modifies that note or contract. ◀ If the parties informally agree to a modification of the legal obligation, the modification should not be reflected in the disclosures unless it rises to the level of a change in the terms of the legal obligation. For example:

o If the creditor-employer offers a preferential employee rate, the disclosures should reflect the terms of the legal obligation. (See the commentary to section 226.18(f) for ▶ an example of a preferred-rate employee transaction that is a variable-rate transaction.) ◀ [a discussion of whether employee transactions are variable-rate transactions.)]

o If the contract provides for a certain monthly payment schedule but payments are made on a voluntary payroll deduction plan or an informal principal-reduction agreement, the disclosures should reflect the schedule in the contract.

o If the contract provides for regular monthly payments but the creditor informally permits the consumer to defer payments from time to time, for instance, to take account of holiday seasons or seasonal employment, the disclosures should reflect the regular monthly payments. ***

4. Consumer buydowns. In certain transactions, the consumer may pay an amount to the creditor to reduce the payments or [buy down the] ▶ obtain a lower ◀ interest rate on the transaction. Consumer buydowns must be reflected in the disclosures given for that transaction. To illustrate, in a mortgage transaction, the creditor and consumer agree to a note specifying a 14 percent interest rate. However, in a separate document, the consumer agrees to pay [four points] ▶ an amount ◀ to the creditor at consummation in return for a reduction in the interest rate to 12 percent for a portion of the mortgage term. ▶ The amount paid by the consumer may be deposited in an escrow account or may be retained by the creditor. Depending upon the buydown plan, the

consumer's prepayment of the obligation may or may not result in a portion of the amount being credited or refunded to the consumer. ◀ In the disclosures given for the mortgage, the creditor must reflect the terms of the buydown agreement. For example:

- The [four points are] ▶ amount paid by the consumer is a ◀ prepaid finance charge[s] (even if deposited in an escrow account).
- A composite annual percentage rate must be calculated, taking into account both interest rates, as well as the effect of the prepaid finance charge[s].
- The payment schedule must reflect the multiple payment levels resulting from the buydown. ***

▶ 8. Graduated payment adjustable rate mortgages. These mortgages involve both a variable interest rate and scheduled variations in payment amounts during the loan term. For example, under these plans, a series of graduated payments may be scheduled before rate adjustments affect payment amounts, or the initial scheduled payment may remain constant for a set period before rate adjustments affect the payment amount. In any case, the initial payment amount may be insufficient to cover the scheduled interest, causing negative amortization from the outset of the transaction. In these transactions, the disclosures should treat these features as follows:

- The finance charge includes the amount of negative amortization based on the assumption that the rate in effect at consummation remains unchanged.
- The amount financed does not include the amount of negative amortization.
- As in any variable-rate transaction, the annual percentage rate is based on the terms in effect at consummation.
- The schedule of payments discloses the amount of any scheduled initial payments followed by an adjusted level of payments based on the initial interest rate. Since some mortgage plans contain limits on the amount of the payment adjustment, the payment schedule may require several different levels of payments, even with the assumption that the original interest rate does not increase. ◀ ***

Comments 17(c)(1)-8 and 9 are redesignated 17(c)(1)-9 and 10, respectively.

Paragraph 17(c)(3) ***

▶ 2. Use of special rules. A creditor may utilize the special rules in section 226.17(c)(3) for purposes of calculating and making all disclosures for a transaction or may, at its option, use the special rules for some disclosures and not others. ◀

Paragraph 17(c)(4) ***

▶ 3. Use of special rules. A creditor may utilize the special rules in section 226.17(c)(4) for purposes of calculating and making some disclosures but may elect not to do so for all of the disclosures. For example, the variations may be ignored in calculating and disclosing the annual percentage rate but taken into account in calculating and disclosing the finance charge and payment schedule. ◀ ***

17(d) Multiple Creditors; Multiple Consumers

1. Multiple creditors. If a credit transaction involves more than one creditor:

- The creditors must choose which of them will make the disclosures.
- A single, complete set of disclosures must be provided, rather than partial disclosures from several creditors.
- [Each creditor in the transaction is legally responsible for seeing that the disclosures are provided.]
- All disclosures for the transaction must be given, even if the disclosing creditor would not otherwise have been obligated to make a particular disclosure. For example, if one of the creditors is the seller, the total sale price disclosure under section 226.18(j) must be made, even though the disclosing creditor is not the seller. ***

17(h) Series of Sales--Delay in Disclosures ***

▶ 2. Basis of disclosures. Creditors structuring disclosures for a series of sales under section 226.17(h) may compute the total sale price as either:

- The cash price for the sale plus that portion of the finance charge and other charges applicable to that sale; or
- The cash price for the sale, other charges applicable to the sale, and the total finance charge and outstanding principal. ◀

17(i) Interim Student Credit Extensions

1. Definition. Student credit plans involve extensions of credit for education purposes where the repayment amount and schedule are not known at the time credit is advanced. ▶ These plans include, for example, loans made under the Guaranteed Student Loan program, the PLUS program or any other student credit plan, whether government or private, where the repayment period does not begin immediately. ◀ Creditors in interim student credit extensions need not disclose the terms set forth in this paragraph at the time the credit is actually extended but must make complete disclosures at the time the creditor and consumer agree upon the repayment schedule for the total obligation. At that time, a new set of disclosures must be made of all applicable items under section 226.18.

2. Basis of disclosures. The disclosures given at the time of execution of the interim note should reflect two annual percentage rates, one for the interim period and one for the repayment period. ▶ The use of section 226.17(i) in making disclosures does not, by itself, make those disclosures estimates. Any portion of the finance charge, such as statutory interest, that is attributable to the interim period and is paid by the student (either as a prepaid finance charge, periodically during the interim period, in one payment at the end of the interim period, or capitalized at the beginning of the repayment period) must be reflected in the interim annual percentage rate. ◀ Interest subsidies, such as payments made by either a state or the federal government on an interim loan, must be excluded in computing the annual percentage rate on the interim obligation, when the consumer has no contingent liability for payment of those amounts. [A loan guarantee fee that is paid separately by the student at the outset or withheld from the proceeds of the loan is a prepaid finance charge.] ▶ Any finance charges that are paid separately by the student at the outset or withheld from the proceeds of the loan are prepaid finance charges. An example of this type of charge is the loan guarantee fee. ◀ [That sum] ▶ The sum of the prepaid finance charges ◀ is deducted from the loan proceeds to determine the amount financed and included in the calculation of the finance charge. ***

▶ 5. Approved student credit forms. See the commentary to Appendix H regarding disclosure forms approved for use in certain student credit programs. ◀ ***

SECTION 226.18 -- Content of Disclosures ***

18(f) Variable Rate ***

▶ 3. Use of estimates. The variable rate feature does not, by itself, make the disclosures estimates. (See the commentary to section 226.17(c) for a discussion of basis for estimates.) ◀ ***

Comments 18(f)-3, 4, and 5 are redesignated 18(f)-4, 5, and 6, respectively.

▶ 7. Growth equity mortgages. Also referred to as payment escalated mortgages, these mortgage plans involve scheduled payment increases to prematurely amortize the loan. The initial payment amount is determined as for a long-term loan with a fixed interest rate. Payment increases are scheduled periodically, based on changes in an index. The larger payments result in accelerated amortization of the loan. In disclosing these mortgage plans, creditors may either:

- Estimate the amount of payment increases, based on the best information reasonably available; or
- Disclose by analogy to the variable rate disclosures, indicating that the payments are subject to increase, describing the circumstances under which the payments would increase, together with limitations on the increase, and providing an example of the increase.

(This discussion does not apply to growth equity mortgages in which the amount of payment increases can be accurately determined at the time of disclosure. For these mortgages, as for graduated payment mortgages, disclosures should reflect the scheduled increases in payments.) ◀ ***

Paragraph 18(f)(3)

1. Effects. Disclosure of the effect of an increase refers to an increase in the number or amount of payments or an increase in the final payment. ▶ In addition, the creditor may make a brief reference to negative amortization that may result from a rate increase. (See the commentary to section 226.17(a)(1) regarding directly related information.) ◀ If the effect cannot be determined, the creditor must provide a statement of the possible effects. For example, if the exercise of the variable-rate feature may result in either more or larger payments, both possibilities must be noted.

Paragraph 18(f)(4)

1. Hypothetical example. The example may, at the creditor's option, appear apart from the other disclosures. The creditor may provide either a standard example that [represents the general type] ▶ illustrates the terms and conditions of that type ◀ of credit offered by that creditor or an example that directly reflects the terms and conditions of the particular transaction.

[2. Demand obligations. In demand obligations with no alternate maturity date, the creditor need not provide a hypothetical example.]

▶ 2. Hypothetical example not required. The creditor need not provide a hypothetical example in the following transactions with a variable-rate feature:

- Demand obligations with no alternate maturity date.
- Interim student credit extensions.
- Multiple-advance construction loans disclosed pursuant to Appendix D, Part I. ◀

18(g) Payment Schedule

1. Amounts included in repayment schedule. The repayment schedule should reflect all components of the finance charge, not merely the portion attributable to interest. ▶ A prepaid finance charge, however, should not be shown in the repayment schedule as a separate payment. ◀ The payments may include amounts beyond the amount financed and finance charge. For example, the disclosed payments may, at the creditor's option, reflect certain insurance premiums where the premiums are not part of either the amount financed or the finance charge, as well as real estate escrow amounts such as taxes added to the payment in mortgage transactions. ***

Paragraph 18(g)(2)

1. Abbreviated disclosure. The creditor may disclose an abbreviated payment schedule when the amount of each regularly scheduled payment (other than the first or last payment) includes an equal amount to be applied on principal and a finance charge computed by application of a rate to the decreasing unpaid balance. This option is also available when mortgage-guarantee insurance premiums, paid either monthly or annually, cause variations in the amount of the scheduled payments, reflecting the continual decrease ▶ or increase ◀ in the premium due. The creditor using this alternative must disclose the dollar amount of the highest and lowest payments and make reference to the variation in payments. ***

18(i) Demand Feature ***

2. Covered demand features. The type of demand feature triggering the disclosures required by section 226.18(i) includes only those demand features contemplated by the parties as part of the legal obligation. For example, this provision does not apply to transactions that convert to a demand status as a result of the consumer's default. ▶ A due-on-sale clause is not considered a demand feature. ◀ ***

18(k) Prepayment ***

▶ 3. Prepaid finance charge. The existence of a prepaid finance charge in a transaction does not, by itself, require a disclosure under section 226.18(k). A prepaid finance charge is not considered a penalty under section 226.18(k)(1), nor does it require a disclosure under section 226.18(k)(2). At its option, however, a creditor may consider a prepaid finance charge to be under section 226.18(k)(2). If a disclosure is made under section 226.18(k)(2) with respect to a prepaid finance charge or other finance charge, the creditor may further identify that finance charge. For example, the disclosure may state that the borrower "will not be entitled to a refund of the prepaid finance charge" or some other term that describes the finance charge. ◀

Paragraph 18(k)(1)

1. Penalty. This applies only to those transactions in which the interest calculation takes account of [each reduction in principal.] ▶ all scheduled reductions in principal, as well as transactions in which interest calculations are made daily. ◀ The term "penalty" as used here encompasses only those charges that are assessed strictly because of the prepayment in full of a simple-interest obligation, as an addition to all other amounts. Items which are not penalties include, for example:

- [Prepaid finance charges collected at the outset of the transaction, such as points in a mortgage loan.]
- Loan guarantee fees.
- Interim interest on a student loan.

However, a minimum finance charge is a penalty in a simple-interest transaction. ▶ (See the commentary to section 226.17(a)(1) regarding the disclosure of a minimum finance charge as directly related information.) ◀

Paragraph 18(k)(2)

1. Rebate of finance charge. This applies to any finance charges that do not take account of each reduction in the principal balance of an obligation. This category includes, for example:

- Precomputed finance charges such as add-on charges.
- Charges that take account of some but not all reductions in principal, such as mortgage guarantee insurance assessed on the basis of an annual declining balance, when the principal is reduced on a monthly basis.
- [Prepaid finance charges, such as points or loan fees collected at the outset of the transaction.]

No description of the method of computing earned or unearned finance charges is required or permitted as part of the segregated disclosures under this section [, although such information may be provided elsewhere in the contract]. ***

18(r) Required Deposit ***

▶ 2. Pledged account mortgages. In these transactions, a consumer pledges as collateral funds that the consumer deposits in an account held by the creditor. The creditor withdraws sums from that account to supplement the consumer's periodic payments. Creditors may treat these pledged accounts as required deposits or they may treat them as consumer buydowns in accordance with the commentary to section 226.17(c)(1). ◀ ***

Comments 18(r)-2, 3, 4, and 5 are redesignated 18(r)-3, 4, 5, and 6, respectively.

SECTION 226.19 -- Certain Residential Mortgage Transactions

19(a) Time of Disclosure ***

2. Timing and use of estimates. Truth in Lending disclosures must be given (a) before consummation or (b) within three business days after the creditor receives the consumer's written application, whichever is earlier. The three-day period for disclosing credit terms coincides with the time period within which creditors subject to RESPA must provide good faith estimates of settlement costs. If the creditor does not know the precise credit terms, the creditor must base the disclosures on the best information reasonably available and indicate that the disclosures are estimates under section 226.17(c)(2). If many of the disclosures are estimates, the creditor may include a statement to

that effect (such as "all numerical disclosures except the late-payment disclosure are estimates") instead of separately labelling each estimate. In the alternative, the creditor may label as an estimate only the items primarily affected by unknown information. (See the commentary to section 226.17(c)(2).) The creditor may provide explanatory material concerning the estimates and the contingencies that may affect the actual terms, [either on a separate document or on the same document (but separate from the required disclosures).] ▶ in accordance with the commentary to section 226.17(a)(1).) ◀ ***

SECTION 226.20 -- Subsequent Disclosure Requirements

20(a) Refinancings ***

3. Variable rate. If a variable-rate feature was properly disclosed under the regulation, a rate change in accord with those disclosures is not a refinancing. For example, a renegotiable rate mortgage that was disclosed as a variable-rate transaction is not subject to new disclosure requirements when the variable-rate feature is invoked. [However, if the variable-rate feature was not previously disclosed, a later change in the rate results in a new transaction subject to new disclosures.] ▶ However, even if it is not accomplished by the cancellation of the old obligation and substitution of a new one, a new transaction subject to new disclosures results if the creditor either:

- Increases the rate based on a variable-rate feature that was not previously disclosed, or
- Adds a variable-rate feature to the obligation. ◀ ***

▶ 5. Coverage. Section 226.20(a) applies only to refinancings undertaken by the original creditor or a holder or servicer of the original obligation. A "refinancing" by any other person is a new transaction under the regulation, not a refinancing under this section. ◀ ***

20(b) Assumptions

1. General definition. An assumption as defined in section 226.20(b) is a new transaction and new disclosures must be made to the subsequent consumer. An assumption under the regulation requires the following three elements:

- A residential mortgage transaction.
- An express acceptance of the subsequent consumer by the creditor.
- A written agreement.

▶ The assumption of a non-exempt consumer credit obligation requires no disclosures unless all three elements are present. ◀ ***

[6. Changes in terms. A change in terms destroys the existing obligation and the transaction is treated as a new transaction under the regulation, not as an assumption. A change in terms includes, for example:

- A change in the contract interest rate unless the change is in accordance with a variable-rate feature that was properly disclosed in the existing obligation.
- A change in the length of the term.
- The addition of points.

Minor changes that do not destroy the existing obligation include, for example:

- Assumption fees for processing loan documents.
- Insurance fees.
- Credit report fees.] ***

Comment 20(b)-7 is redesignated 20(b)-6.

SECTION 226.22 -- Determination of the Annual Percentage Rate

22(a) Accuracy of the Annual Percentage Rate

Paragraph 22(a)(1) ***

4. Basis for calculations. When a transaction involves "step rates" or "split rates" -- that is, different rates applied at different times or to different portions of the principal balance -- a single composite annual percentage rate must be calculated and disclosed for the entire transaction. ▶ Assume, for example, a step-rate transaction in which a $10,000 loan is repayable in 5 years at 10 percent interest for the first 2 years, 12 percent for years 3 and 4, and 14 percent for year 5. The monthly payments are $210.71 during the first 2 years of the term, $220.25 for years 3 and 4, and $222.59 for year 5. The composite annual percentage rate, using a calculator with a "discounted cash flow analysis" or "internal rate of return" function, is 10.75 percent. ◀ ***

SECTION 226.24 -- Advertising ***

24(b) Advertisement of Rate of Finance Charge ***

▶ 4. Effective rates. In some transactions the consumer's payments may be based upon an interest rate lower than the rate at which interest is accruing. The lower rate may be referred to as the effective rate, payment rate or qualifying rate. A creditor or seller may advertise such rates by stating: the term of the reduced payment schedule, the interest rate upon which the reduced payments are calculated, the rate at which the interest is in fact accruing, and the annual percentage rate. The advertised annual percentage rate that must accompany this rate must take into account the interest that will accrue but will not be paid during this period. For example, an advertisement may state "An effective first year interest rate of 10 percent. Interest being earned at 14 percent. Annual percentage rate 15 percent." ◀

SUBPART D - MISCELLANEOUS ***

SECTION 226.29 -- State Exemptions

29(a) General Rule ***

▶ 4. Exemptions granted. Effective October 1, 1982, the Board has granted the following exemptions from portions of the revised Truth in Lending Act:

- Maine. Credit or lease transactions subject to the Maine Consumer Credit Code and its implementing regulations are exempt from chapters 2, 4 and 5 of the federal act. (The exemption does not apply to transactions in which a federally chartered institution is a creditor or lessor.)

- Connecticut. Credit transactions subject to the Connecticut Truth in Lending Act are exempt from chapters 2 and 4 of the federal act. (The exemption does not apply to transactions in which a federally chartered institution is a creditor.) ◀ ***

APPENDIX D -- Multiple-Advance Construction Loans ***

▶ 2. Variable-rate construction loans. The hypothetical disclosure required in most variable-rate transactions by section 226.18(f)(4) is not required for multiple-advance construction loans disclosed pursuant to Appendix D, Part I.

3. Calculation of the total of payments. When disclosures are made pursuant to Appendix D, the total of payments may reflect either the sum of the payments or the sum of the amount financed and the finance charge.

4. Annual percentage rate. Appendix D does not require the use of Volume I of the Board's Annual Percentage Rate Tables for calculation of the annual percentage rate. Creditors utilizing Appendix D in making calculations and disclosures may use other computation tools to determine the estimated annual percentage rate, based on the finance charge and payment schedule obtained by use of the appendix. ◀ ***

APPENDIX F -- Annual Percentage Rate Computations for Certain Open-End Credit Plans

▶ 1. Daily rate with specific transaction charge. If the finance charge results from a charge relating to a specific transaction and the application of a daily periodic rate, see comment 14(c)-6 for guidance on an appropriate calculation method. ◀ ***

APPENDIX H -- Closed-End Model Forms and Clauses ***

▶ 17. ED-876A 4/82. Pursuant to section 113(a) of the amended Truth in Lending Act, Form ED-876A 4/82, issued by the U.S. Department of Education for certain

student loans, has been approved. This form may be used for all PLUS loans in which the borrower qualifies for an immediate deferment of principal payments under the terms of the note and disclosures are made under the interim student credit rules in section 226.17(i). The following changes may be made to the form:

- Reducing the size of the form.
- Deleting inapplicable disclosures by whiting out, blocking out, filling in "N/A" (not applicable) or "0," crossing out, leaving blanks, or circling applicable items.
- Deleting, whiting out, blocking out, or crossing out the words "Less" and "Equals" in the Itemization of the Amount Financed.
- Adding lines to the Itemization of the Amount Financed to indicate amounts paid to others.

18. ED-876 1/82. Pursuant to section 113(a) of the amended Truth in Lending Act, Form ED-876 1/82, issued by the U.S. Department of Education for certain student loans, has been approved. The form may be used for all PLUS loans in which there is no deferment before the borrower begins repayment of both principal and interest. The form may also be used for PLUS loans when the borrower qualifies for a deferment of principal payments and the annual percentage rate to be disclosed is calculated taking account of the irregular payment schedule. The form may also be used for consolidation of previous PLUS loans, whether or not the borrower had a deferment of principal payments under the earlier loans. The following changes may be made to the form:

- Reducing the size of the form.
- Adding lines to the payment schedule disclosure.
- Deleting inapplicable disclosures by whiting out, blocking out, filling in "N/A" (not applicable) or "0," crossing out, leaving blanks, or circling applicable items.
- Deleting, whiting out, blocking out, or crossing out the words "Less" and "Equals" in the Itemization of the Amount Financed.
- Adding lines to the Itemization of the Amount Financed to indicate amounts paid to others.

19. ED-888 5/82. Pursuant to section 113(a) of the amended Truth in Lending Act, Form ED-888 5/82, issued by the U.S. Department of Education for certain student loans, has been approved. The form may be used for all Guaranteed Student Loan Program (GSLP) loans for which disclosures are made under the interim student credit rules in section 226.17(i). The following changes may be made to the form:

- Reducing the size of the form.
- Deleting inapplicable disclosures by whiting out, blocking out, filling in "N/A" (not applicable) or "0," crossing out, leaving blanks, or circling applicable items.
- Deleting, whiting out, blocking out, or crossing out the words "Less" and "Equals" in the Itemization of the Amount Financed.
- Adding lines to the Itemization of the Amount Financed to indicate amounts paid to others.

20. ED-889 5/82. Pursuant to section 113(a) of the amended Truth in Lending Act, Form ED-889 5/82, issued by the U.S. Department of Education for certain student loans, has been approved. This form may be used for all Guaranteed Student Loan Program (GSLP) loans in which the borrower is making payments of both interest and principal. These borrowers may or may not have received federal interest benefits during the in-school period and the subsequent grace period. The following changes may be made to the form:

- Reducing the size of the form.
- Deleting inapplicable disclosures by whiting out, blocking out, filling in "N/A" (not applicable) or "0," crossing out, leaving blanks, or circling applicable items.
- Deleting, whiting out, blocking out, or crossing out the words "Plus," "Less" and "Equals" in the Itemization of the Amount Financed.
- Adding lines to the Itemization of the Amount Financed to indicate amounts paid to others. ◀ ***

* * * * *

Board of Governors of the Federal Reserve System, September 13, 1982.

(signed) James McAfee
James McAfee
Associate Secretary of the Board

[SEAL]