FEDERAL RESERVE press release

For immediate release November 28, 1983

The Federal Reserve Board today published an update to the official staff commentary on Regulation Z (Truth in Lending). Three principal subjects of the proposed revision are set forth in excerpts from the text of the proposal.

The Board requested comment by January 31, 1984.

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Attachment

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: Proposed official staff interpretation.

SUMMARY: The Board is publishing for comment proposed changes to the official staff commentary to Regulation Z (Truth in Lending), 12 CFR Part 226. The commentary applies and interprets the requirements of Regulation Z with regard to consumer credit transactions and is a substitute for individual staff interpretations of the regulation. The commentary proposals address a variety of questions that have arisen about the regulation, such as the proper treatment of certain mortgage guarantee insurance premiums, certain fees for the use of credit cards in interchange or shared systems, and certain types of variable-rate transactions.

DATE: Comments must be received on or before January 31, 1984.

ADDRESS: Comments should be mailed to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, or delivered to Room B-2223, 20th and Constitution Avenue, N.W., Washington, D.C. between 8:45 a.m. and 5:15 p.m. Comments should include a reference to TIL-1. Comments may be inspected in Room B-1122 between 8:45 a.m. and 5:15 p.m.

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) 452-2412 or (202) 452-3867:

Subpart A -- Ruth Amberg, Steven Zeisel
Subpart B -- Richard Garabedian, Lynn Goldfaden
Subpart C -- Clarence Cain, Susan Werthan
Subpart D -- Rugenia Silver

SUPPLEMENTARY INFORMATION: (1) General. Effective October 13, 1981, an official staff commentary was published to interpret Regulation Z (12 CFR Part 226). The commentary is designed to provide guidance to creditors in applying the regulation to specific transactions. The commentary is updated periodically to address significant questions that arise. There have been two updates to the commentary so far, the first in September 1982 (47 FR 41338) and the second in April 1983 (48 FR 14882). This notice contains the proposed third update. It is expected that it will be adopted in final form in March 1984 with optional compliance until the uniform effective date of October 1 for mandatory compliance.

Following are excerpts from the notice
on three subjects of interest:

SECTION 226.4 -- Finance Charge

4(b) Examples of Finance Charges

Comment 4(b)(2)-2 would be added to except from the finance charge certain fees imposed on cardholders for the use of electronic terminals in interchange or shared systems. A companion provision would be added to the commentary on § 226.6(b) to retain certain disclosure requirements for these fees.

4(c) Charges Excluded from the Finance Charge

Paragraph 4(c)(5)

Comment 4(c)(5)-2 would be added to explain the correct treatment of mortgage insurance premiums (and other charges that are normally paid by the borrower) when they are paid at or before settlement in a lump sum by the noncreditor seller. This is most likely to arise in the case of FHA mortgage insurance premiums, which the Department of Housing and Urban Development now collects in a lump sum rather than periodically. If the seller makes the payment, the creditor should treat the amount of the payment as seller's points and exclude it from the finance charge. A creditor who gives disclosures before the payment has been made should rely on the estimate provision of § 226.17(c)(2) to determine the correct disclosures.

SECTION 226.18 -- Content of Disclosures

18(f) Variable Rate

A paragraph would be added to the commentary to § 226.18(f) to clarify the disclosures for discounted variable-rate transactions.

[The full text of the notice is available upon request from the
Federal Reserve Banks.]