

BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM

TRUTH IN LENDING

REGULATION Z
(12 CFR 226)
Effective July 1, 1969
Amended to March 23, 1977

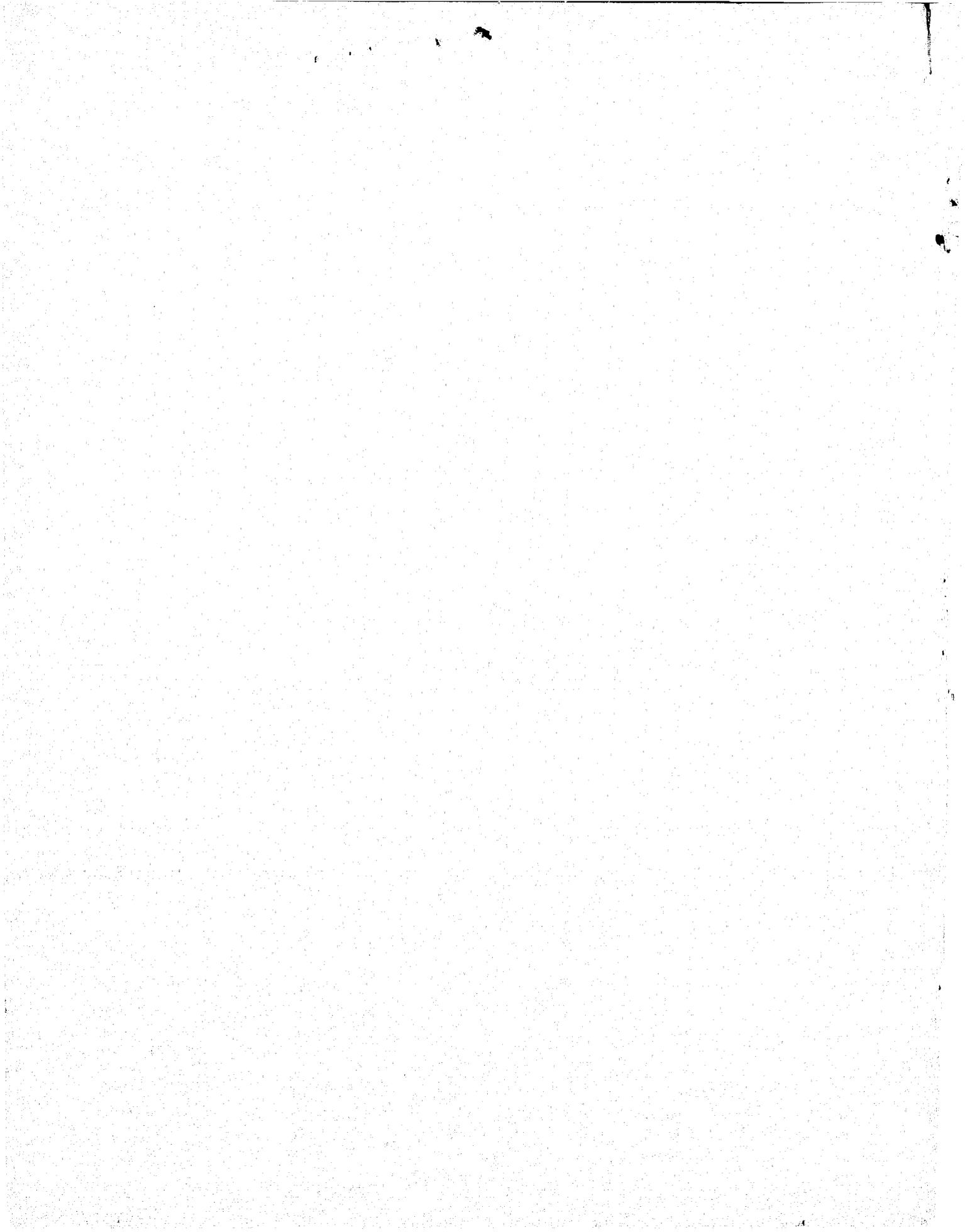
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REGULATION Z

(12 CFR 226)

Effective July 1, 1969
Amended to March 23, 1977 †

TRUTH IN LENDING ‡

SECTION 226.1—AUTHORITY, SCOPE, PURPOSE, ETC.

* (a) **Authority, scope, and purpose.** (1) This Part comprises the regulations issued by the Board of Governors of the Federal Reserve System pursuant to Title I (Truth in Lending Act) and Title V (General Provisions) of the Consumer Credit Protection Act, as amended (15 U.S.C. § 1601 et seq.). Except as otherwise provided herein, this Part, within the context of its related provisions, applies to all persons who are creditors, as defined in paragraph (s) of § 226.2, and in the case of consumer leases, as defined in paragraph (mm) of § 226.2, to all persons who are lessors, as defined in paragraph (oo) of § 226.2.

(2) This Part implements the Act, the purpose of which is to assure that every customer who has need for consumer credit is given meaningful information with respect to the cost of that credit which, in most cases, must be expressed in the dollar amount of finance charge, and as an annual percentage rate computed on the unpaid balance of the amount financed. Other relevant credit information must also be disclosed so that the customer may readily compare the various credit terms available to him from different sources and avoid the uninformed use of credit. This Part also implements the provision of the Act under which a customer has a right in certain circumstances to cancel a credit transaction which involves a lien on his residence. Advertising of consumer credit and consumer lease terms must comply with specific requirements, and cer-

tain credit terms may not be advertised unless the creditor usually and customarily extends such terms. This Part also contains prohibitions against the issuance of unsolicited credit cards and limits on the cardholder's liability for unauthorized use of a credit card. In addition, this Part is designed to assist the customer to resolve credit billing disputes in a fair and timely manner, to regulate certain billing and credit card practices, and to strengthen the legal rights of consumers. This Part is also designed to assure that lessees of personal property are given meaningful disclosures of lease terms, to delimit the ultimate liability of lessees in leasing personal property and to require meaningful and accurate disclosures of lease terms in advertisements. Neither the Act nor this Part is intended to control charges for consumer credit, or interfere with trade practices except to the extent that such practices may be inconsistent with the purpose of the Act.

** (b) **Administrative enforcement.** (1) As set forth more fully in section 108 of the Act, administrative enforcement of the Act and this Part with respect to certain creditors, credit card issuers and lessors is assigned to the Comptroller of the Currency, Board of Directors of the Federal Deposit Insurance Corporation, Federal Home Loan Bank Board (acting directly or through the Federal Savings and Loan Insurance Corporation), Administrator of the National Credit Union Administration, Civil Aeronautics Board, Secretary of Agriculture, Farm Credit Administration, and Board of Governors of the Federal Reserve System.

(2) Except to the extent that administrative enforcement is specifically committed to other authorities, compliance with the requirements im-

† The asterisks indicate those regulatory amendments adopted since October 28, 1975.

‡ This text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 226, cited as 12 CFR 226. The words "this Part," as used herein, mean Regulation Z.

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** Amended 3/23/77.

posed under the Act and this Part will be enforced by the Federal Trade Commission.

* (c) **Penalties and liabilities.** Section 112 of the Act provides criminal liability for willful and knowing failure to comply with any requirement imposed under the Act and this Part. Section 134 provides for criminal liability for certain fraudulent activities related to credit cards. Section 130 provides for civil liability in individual or class actions for any creditor or lessor who fails to comply with any requirement imposed under chapter 2, chapter 4 or chapter 5 of the Act and the corresponding provisions of this Part. Section 130 also provides creditors or lessors a defense against civil and criminal liability under sections 130 and 112 for any act done or omitted in good faith in conformity with the provisions of this Part or any interpretation thereof by the Board, or with any interpretations or approvals issued by a duly authorized official or employee of the Federal Reserve System, notwithstanding that after such act or omission has occurred, such rule, regulation, interpretation or approval is amended, rescinded or otherwise determined to be invalid for any reason. Section 130 further provides that a multiple failure to disclose in connection with a single account or single consumer lease shall permit but a single recovery. Section 115 provides for civil liability for an assignee of an original creditor or lessor where the original creditor or lessor has violated the disclosure requirements and such violation is apparent on the face of the instrument assigned, unless the assignment is involuntary. Section 185(b) provides for civil liability under section 130 for any lessor who fails to comply with any requirement imposed under section 184 to any person who suffers actual damage from the violation. Pursuant to section 108 of the Act, violations of the Act or this Part constitute violations of other Federal laws which may provide further penalties.

** (d) **Issuance of interpretations.** (1) Any request for formal Board interpretation or official staff interpretation of Regulation Z must be addressed to the Director of the Division of Consumer Affairs, Board of Governors of the Federal Reserve System, Washington, D.C. 20551. Each

request for interpretation must contain a complete statement, signed by the person making the request or a duly authorized agent, of all relevant facts of the transaction or credit arrangement relating to the request. True copies of all pertinent documents must be submitted with the request. The relevance of such documents must, however, be set forth in the request and the documents must not merely be incorporated by reference. The request must contain an analysis of the bearing of the facts on the issues and it must specify the pertinent provisions of the statute and regulation. Within fifteen business days of receipt of the request, a substantive response will be sent to the person making the request or an acknowledgment will be sent which sets a reasonable time within which a substantive response will be given.

(2) Any request for reconsideration of an official staff interpretation of Regulation Z must be addressed to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, within thirty days of the publication of such interpretation in the Federal Register. Each request for reconsideration must contain a statement setting forth in full the reasons why the person making the request believes reconsideration would be appropriate, and must specify and discuss the applicability of the relevant facts, statute and regulations. Within fifteen business days of receipt of such request for reconsideration, a response granting or denying the request will be sent to the person making the request, or an acknowledgment will be sent which sets a reasonable time within which such response will be given.

(3) Pursuant to section 130(f) of the Act, the Board has designated the Director and other officials of the Division of Consumer Affairs as officials "duly authorized" to issue, at their discretion, official staff interpretations of this Part. This designation shall not be interpreted to include authority to approve particular creditors' forms in any manner.

(4) The type of interpretation issued will be determined by the Board and the designated officials by the following criteria:

(i) Official Board interpretations will be issued upon those requests which involve potentially controversial issues of general applicability dealing with substantial ambiguities in this Part and which raise significant policy questions.

* Amended 7/30/76 and 3/23/77.

** Added 7/30/76.

(ii) Official staff interpretations will be issued upon those requests which, in the opinion of the designated officials, require clarification of technical ambiguities in this Part or which have no significant policy implications.

(iii) Unofficial staff interpretations will be issued where the protection of section 130(f) of the Act is neither requested nor required, or where time strictures require a rapid response.

SECTION 226.2—DEFINITIONS AND RULES OF CONSTRUCTION

For the purposes of this Part, unless the context indicates otherwise, the following definitions and rules of construction apply:

(a) **"Accepted credit card"** means any credit card which the cardholder has requested or applied for and received, or has signed, or has used, or has authorized another person to use for the purpose of obtaining money, property, labor, or services on credit. Any credit card issued in renewal of, or in substitution for, an accepted credit card becomes an accepted credit card when received by the cardholder whether such card is issued by the same or a successor card issuer.

(b) **"Act"** refers to the Truth in Lending Act (Title I of the Consumer Credit Protection Act).

(c) **"Adequate notice"** means a printed notice to a cardholder which sets forth the pertinent facts clearly and conspicuously so that a person against whom it is to operate could reasonably be expected to have noticed it and understood its meaning.

* (d) **"Advertisement"** means any commercial message in any newspaper, magazine, leaflet, flyer or catalog, on radio, television or public address system, in direct mail literature or other printed material on any interior or exterior sign or display, in any window display, in any point-of-transaction literature or price tag which is delivered or made available to a customer or prospective customer or lessee or prospective lessee in any manner whatsoever.

(e) **"Agricultural purpose"** means a purpose related to the production, harvest, exhibition, marketing, transportation, processing, or manufacture of agricultural products by a natural per-

son who cultivates, plants, propagates, or nurtures those agricultural products. "Agricultural products" includes agricultural, horticultural, viticultural, and dairy products, livestock, wildlife, poultry, bees, forest products, fish and shellfish, and any products thereof, including processed and manufactured products, and any and all products raised or produced on farms and any processed or manufactured products thereof.

(f) **"Amount financed"** means the amount of credit of which the customer will have the actual use determined in accordance with paragraphs (c)(7) and (d)(1) of § 226.8.

(g) **"Annual percentage rate"** means the annual percentage rate of finance charge determined in accordance with § 226.5.

** (h) **"Arrange for the extension of credit or for lease of personal property"** means to provide or offer to provide consumer credit or a lease which is or will be extended by another person under a business or other relationship pursuant to which the person arranging such credit or lease

(1) Receives or will receive a fee, compensation, or other consideration for such service, or

(2) Has knowledge of the credit or lease terms and participates in the preparation of the contract documents required in connection with the extension of credit or the lease.

It does not include honoring a credit card or similar device where no finance charge is imposed at the time of that transaction.

(i) **"Billing cycle"** means the time interval between regular periodic billing statement dates. Such intervals may be considered equal intervals of time unless a billing date varies more than 4 days from the regular date.

(j) **"Billing error"** means:

(1) A reflection on or with a periodic statement of an extension of credit which (i) was not made to the customer, or (ii) was made to a person who did not have actual, implied, or apparent authority of the customer to use the account and from which use the customer received no benefit, or (iii) if made, was misidentified, insufficiently identified, or was not in the amount indicated or on the date specified on or with the periodic statement, or

(2) A reflection on a periodic statement of an extension of credit or indebtedness for which the

* Amended 3/23/77.

** Amended 3/23/77.

customer requests explanation or clarification, including requests for copies of documentary evidence of the indebtedness reflected thereon, or

(3) A reflection on a periodic statement of an extension of credit for property or services not accepted by the customer or his designee, or not delivered to the customer or his designee in accordance with any agreement made in connection with the transaction,¹ or

(4) Any failure to properly reflect, on a periodic statement, a payment or other credit to the customer's account, or

(5) A computational error or similar error of an accounting nature made by the creditor on a periodic statement, including errors in computing finance charges, late payment charges, or other charges, or

(6) A failure to mail or deliver a customer's periodic statement to his current designated address, if the creditor has received notification of any change of address at least 10 days prior to the closing date of the billing cycle for which the periodic statement was incorrectly mailed or delivered.

(k) "**Board**" refers to the Board of Governors of the Federal Reserve System.

(l) "**Card issuer**" means any person who issues a credit card, or the agent of such person with respect to such card.

(m) "**Cardholder**" means any person to whom a credit card is issued for personal, family, household, agricultural, business, or commercial purposes, or any person who has agreed with the card issuer to pay obligations arising from the issuance of a credit card to another person for such purposes.

(n) "**Cash price**" means the price at which the creditor offers, in the ordinary course of business, to sell for cash the property or services which are the subject of a consumer credit transaction. It may include the cash price of accessories or services related to the sale such as delivery, installation, alterations, modifications, and improvements, and may include taxes to the extent imposed on

the cash sale, but shall not include any other charges of the types described in § 226.4.

(o) "**Comparative Index of Credit Cost**" means the relative measure of the cost of credit under an open end credit account, computed in accordance with § 226.11, and is the expression of the "average effective annual percentage rate of return" and the "projected rate of return" which appear in section 127(a)(5) of the Act.

(p) "**Consumer credit**" means credit offered or extended to a natural person, in which the money, property, or service which is the subject of the transaction is primarily for personal, family, household, or agricultural purposes. "Consumer loan" is one type of "consumer credit."

(q) "**Credit**" means the right granted by a creditor to a customer to defer payment of debt, incur debt and defer its payment, or purchase property or services and defer payment therefor. (See also paragraph (jj) of this section.)

(r) "**Credit card**" means any card, plate, coupon book, or other single credit device existing for the purpose of being used from time to time upon presentation to obtain money, property, labor, or services on credit.

(s) "**Creditor**" means a person who in the ordinary course of business regularly extends or arranges for the extension of consumer credit, or offers to extend or arrange for the extension of such credit, which is payable by agreement in more than four instalments, or for which the payment of a finance charge is or may be required, whether in connection with loans, sales of property or services, or otherwise. For purposes of the requirements of §§ 226.7(a)(6), (7), (8), and (9); 226.7(b)(1)(i), (ii), (iii), (ix), and (x); 226.7(b)(2); 226.7(c), (d), (f), (g), (h), and (i); 226.13; and 226.14, the term "creditor" shall also include card issuers, whether or not the payment of a finance charge is or may be required. For purposes of the requirements of §§ 226.4(i) and 226.13(k) the term "creditor" shall include any person who honors a credit card.

(t) "**Credit sale**" means any sale with respect to which consumer credit is extended or arranged by the seller. The term includes any contract in the form of a bailment or lease if the bailee or lessee contracts to pay as compensation for use a sum substantially equivalent to or in excess of the aggregate value of the property and services involved and it is agreed that the bailee or lessee will become, or for no other or for a nominal

¹The delivery of property or services different from that described in any agreement, the delivery of the wrong quantity, late delivery, or delivery to the wrong location shall be considered to be a billing error subject to this paragraph, but any dispute with respect to the quality of property in the physical possession of the customer or services performed for the customer shall not be considered to be a billing error under this paragraph.

consideration has the option to become, the owner of the property upon full compliance with his obligations under the contract.

(u) **"Customer"** means (1) a cardholder or (2) a natural person to whom consumer credit is offered or to whom it is or will be extended, and includes a comaker, endorser, guarantor, or surety for such natural person who is or may be obligated to repay the extension of consumer credit.

(v) **"Dwelling"** means a residential-type structure which is real property and contains one or more family housing units, or a residential condominium unit wherever situated.

(w) **"Finance charge"** means the cost of credit determined in accordance with § 226.4.

(x) **"Open end credit"** means consumer credit extended on an account pursuant to a plan under which (1) the creditor may permit the customer to make purchases or obtain loans, from time to time, directly from the creditor or indirectly by use of a credit card, check, or other device, as the plan may provide; (2) the customer has the privilege of paying the balance in full or in instalments; and (3) a finance charge may be computed by the creditor from time to time on an outstanding unpaid balance. For purposes of the requirements of §§ 226.7(a)(6), (7), (8), and (9); 226.7(b)(1)(i), (ii), (iii), (ix), and (x); 226.7(b)(2); 226.7(c), (d), (f), (g), (h), and (i); 226.13(i), (j), and (k); and 226.14, the term includes consumer credit extended on an account by use of a credit card, whether or not a finance charge may be imposed. The term does not include negotiated advances under an open end real estate mortgage or a letter of credit.

(y) **"Organization"** means a corporation, trust, estate, partnership, cooperative, association, government, or governmental subdivision, agency, or instrumentality.

(z) **"Period"** means a day, week, month, or other subdivision of a year.

(aa) **"Periodic rate"** means a percentage rate of finance charge which is or may be imposed by a creditor against a balance for a period. (See also § 226.5(a)(3).)

(bb) **"Person"** means a natural person or an organization.

(cc) **"Proper written notification of a billing error"** is any written notification (other than notice on a payment medium or other material accompanying the periodic statement if the creditor

so stipulates in the disclosure required by § 226.7(a)(9), (d), and (i)) received at the address disclosed under § 226.7(b)(1)(x) within 60 days of the first mailing or delivering to the customer's current designated address (as required in § 226.7(b)) of the periodic statement on which the disputed item(s) or amount(s) is reflected in which the customer

(1) Sets forth or otherwise enables the creditor to identify the name and account number (if any) of the customer,

(2) Indicates the customer's belief that the periodic statement contains a billing error and the suspected amount of such error, and

(3) Sets forth the reasons for such belief, to the extent applicable or known by the customer.

(dd) **"Real property"** means property which is real property under the law of the State in which it is located.

(ee) **"Real property transaction"** means an extension of credit in connection with which a security interest in real property is or will be retained or acquired.

(ff) **"Residence"** means any real property in which the customer resides or expects to reside. The term includes a parcel of land on which the customer resides or expects to reside.

(gg) **"Security interest"** and **"security"** means any interest in property which secures payment or performance of an obligation. The terms include, but are not limited to, security interests under the Uniform Commercial Code, real property mortgages, deeds of trust, and other consensual or confessed liens whether or not recorded, mechanic's, materialmen's, artisan's, and other similar liens, vendor's liens in both real and personal property, the interest of a seller in a contract for the sale of real property, any lien on property arising by operation of law, and any interest in a lease when used to secure payment or performance of an obligation.

(hh) **"State"** means any State, the District of Columbia, the Commonwealth of Puerto Rico, and any territory or possession of the United States.

(ii) **"Unauthorized use"** means the use of a credit card by a person other than the cardholder (1) who does not have actual, implied, or apparent authority for such use, and

(2) from which the cardholder receives no benefit.

* (jj) Unless the context indicates otherwise, "credit" shall be construed to mean "consumer credit," "loan" to mean "consumer loan," "transaction" to mean "consumer credit transaction," and "lease" to mean "consumer lease."

* (kk) A transaction shall be considered consummated at the time a contractual relationship is created between a creditor and a customer or a lessor and lessee irrespective of the time of performance of either party.

(ll) Captions and catchlines are intended solely as aids to convenient reference, and no inference as to the intent of any provision of this Part may be drawn from them.

** (mm) "Consumer lease" means a contract in the form of a bailment or lease for the use of personal property by a natural person primarily for personal, family or household purposes, for a period of time exceeding four months, for a total contractual obligation not exceeding \$25,000, whether or not the lessee has the option to purchase or otherwise become the owner of the property at the expiration of the lease. It does not include a lease which meets the definition of a credit sale in § 226.2(t), nor does it include a lease for agricultural, business or commercial purposes or one made to an organization.

** (nn) "Lessee" means a natural person who leases under, or who is offered a consumer lease.

** (oo) "Lessor" means a person who in the ordinary course of business regularly leases, offers to lease or arranges for the leasing of personal property under a consumer lease.

** (pp) "Personal property" means any property which is not real property under the law of the State where it is located at the time it is offered or made available for lease.

** (qq) "Realized value" means (1) the price received by the lessor for the leased property at disposition, (2) the highest offer for disposition, or (3) the fair market value at the end of the lease term.

** (rr) "Total lease obligation" equals the total of (1) the scheduled periodic payments under the lease, (2) any nonrefundable cash payment required of the lessee or agreed upon by the lessor and lessee or any trade-in allowance made at consummation and (3) the estimated value of the leased property at the end of the lease term.

** (ss) "Value at consummation" equals the cost to the lessor of the leased property including, if applicable, any increase or markup by the lessor prior to consummation.

SECTION 226.3—EXEMPTED TRANSACTIONS

This Part does not apply to the following:

(a) **Business or governmental credit.** Extensions of credit to organizations, including governments, or for business or commercial purposes, other than agricultural purposes.

(b) **Certain transactions in security or commodities accounts.** Transactions in securities or commodities accounts with a broker-dealer registered with the Securities and Exchange Commission.

(c) **Non-real property credit over \$25,000.** Credit transactions, other than real property transactions, in which the amount financed^{1a} exceeds \$25,000, or in which the transaction is pursuant to an express written commitment by the creditor to extend credit in excess of \$25,000.

(d) **Certain public utility bills.** Transactions under public utility tariffs involving services provided through pipe, wire, or other connected facilities, if the charges for such public utility services, the charges for delayed payment, and any discount allowed for early payment are filed with, reviewed by, or regulated by an agency of the Federal Government, a State, or a political subdivision thereof.

(e) **Agricultural credit transactions.** Credit transactions primarily for agricultural purposes, including real property transactions, in which the amount financed^{1b} exceeds \$25,000 or in which the transaction is pursuant to an express written commitment by the creditor to extend credit in excess of \$25,000.

** (f) **Certain lease transactions.** Lease transactions of personal property which are incident to

^{1a} For this purpose, the amount financed is the amount which is required to be disclosed under § 226.8(c)(7), or (d)(1), as applicable, or would be so required if the transaction were subject to this Part.

^{1b} For this purpose, the amount financed is the amount which is required to be disclosed under § 226.8(c)(7), or (d)(1), as applicable, or would be so required if the transaction were subject to this Part.

** Added 3/23/77.

* Amended 3/23/77

the lease of real property and which provide that (1) the lessee has no liability for the value of the property at the end of the lease term except for abnormal wear and tear, and (2) the lessee has no option to purchase the leased property.

SECTION 226.4—DETERMINATION OF FINANCE CHARGE

(a) **General rule.** Except as otherwise provided in this section, the amount of the finance charge in connection with any transaction shall be determined as the sum of all charges, payable directly or indirectly by the customer, and imposed directly or indirectly by the creditor as an incident to or as a condition of the extension of credit, whether paid or payable by the customer, the seller, or any other person on behalf of the customer to the creditor or to a third party, including any of the following types of charges:

(1) Interest, time price differential, and any amount payable under a discount or other system of additional charges.

(2) Service, transaction, activity, or carrying charge.²

(3) Loan fee, points, finder's fee, or similar charge.

(4) Fee for an appraisal, investigation, or credit report.

(5) Charges or premiums for credit life, accident, health, or loss of income insurance, written in connection with³ any credit transaction unless

(i) the insurance coverage is not required by the creditor and this fact is clearly and conspicuously disclosed in writing to the customer; and

(ii) any customer desiring such insurance coverage gives specifically dated and separately signed affirmative written indication of such desire after receiving written disclosure to him of the cost of such insurance.

² These charges include any charges imposed by the creditor in connection with a checking account to the extent that such charges exceed any charges the customer is required to pay in connection with such an account when it is not being used to extend credit.

³ A policy of insurance owned by the customer, which is assigned to the creditor or otherwise made payable to the creditor to satisfy a requirement imposed by the creditor, is not insurance "written in connection with" a credit transaction if the policy was not purchased by the customer for the purpose of being used in connection with that extension of credit.

(6) Charges or premiums for insurance, written in connection with⁴ any credit transaction, against loss of or damage to property or against liability arising out of the ownership or use of property, unless a clear, conspicuous, and specific statement in writing is furnished by the creditor to the customer setting forth the cost of the insurance if obtained from or through the creditor and stating that the customer may choose the person through which the insurance is to be obtained.⁵

(7) Premium or other charge for any other guarantee or insurance protecting the creditor against the customer's default or other credit loss.

(8) Any charge imposed by a creditor upon another creditor for purchasing or accepting an obligation of a customer if the customer is required to pay any part of that charge in cash, as an addition to the obligation, or as a deduction from the proceeds of the obligation.

(b) **Itemized charges excludable.** If itemized and disclosed to the customer, any charges of the following types need not be included in the finance charge:

(1) Fees and charges prescribed by law which actually are or will be paid to public officials for determining the existence of or for perfecting or releasing or satisfying any security related to the credit transaction.

(2) The premium payable for any insurance in lieu of perfecting any security interest otherwise required by the creditor in connection with the transaction, if the premium does not exceed the fees and charges described in subparagraph (1) of this paragraph which would otherwise be payable.

(3) Taxes not included in the cash price.

(4) License, certificate of title, and registration fees imposed by law.

(c) **Late payment, delinquency, default, and reinstatement charges.** A late payment, delinquency, default, reinstatement, or other such

⁴ A policy of insurance owned by the customer, which is assigned to the creditor or otherwise made payable to the creditor to satisfy a requirement imposed by the creditor, is not insurance "written in connection with" a credit transaction if the policy was not purchased by the customer for the purpose of being used in connection with that extension of credit.

⁵ A creditor's reservation or exercise of the right to refuse to accept an insurer offered by the customer, for reasonable cause, does not require inclusion of the premium in the finance charge.

charge is not a finance charge if imposed for actual unanticipated late payment, delinquency, default or other such occurrence.

(d) **Overdraft charges.** A charge imposed by a bank for paying checks which overdraw or increase an overdraft in a checking account is not a finance charge unless the payment of such checks and the imposition of such finance charge were previously agreed upon in writing.

(e) **Excludable charges, real property transactions.** The following charges in connection with any real property transaction, provided they are bona fide, reasonable in amount, and not for the purpose of circumvention or evasion of this Part, shall not be included in the finance charge with respect to that transaction:

(1) Fees or premiums for title examination, abstract of title, title insurance, or similar purposes and for required related property surveys.

(2) Fees for preparation of deeds, settlement statements, or other documents.

(3) Amounts required to be placed or paid into an escrow or trustee account for future payments of taxes, insurance, and water, sewer, and land rents.

(4) Fees for notarizing deeds and other documents.

(5) Appraisal fees.

(6) Credit reports.

(f) **Prohibited offsets.** Interest, dividends, or other income received or to be received by the customer on deposits or on investments in real or personal property in which a creditor holds a security interest shall not be deducted from the amount of the finance charge or taken into consideration in computing the annual percentage rate.

(g) **Demand obligations.** Obligations other than those debited to an open end credit account which are payable on demand shall be considered to have a maturity of one-half year for the purpose of computing the amount of the finance charge and the annual percentage rate, except that where such an obligation is alternatively payable upon a stated maturity, the stated maturity shall be used for the purpose of such computations.

(h) **Computation of insurance premiums.** If any insurance premium is required to be included as a part of the finance charge, the amount to be included shall be the premium for coverage ex-

tending over the period of time the creditor will require the customer to maintain such insurance. For this purpose, rates and classifications applicable at the time the credit is extended shall be applied over the full time during which coverage is required, unless the creditor knows or has reason to know that other rates or classifications will be applicable, in which case such other rates or classifications shall be used to the extent appropriate.

(i) **Discounts for payments in cash.** (1) Notwithstanding any other provision of this section, a discount which a creditor offers, allows, or otherwise makes available for the purpose of inducing payments for a purchase by cash, check, or similar means rather than by use of an open end credit card account, whether or not a credit card is physically used, is not a finance charge. Provided that:

(i) Such discount does not exceed 5 per cent when computed or expressed as a percentage of the tag, posted, or advertised price of the property or services which are the subject of the transaction,

(ii) Such discount is available to all prospective buyers, whether or not they are cardholders, and such fact is clearly and conspicuously disclosed by a sign or display posted at or near each public entrance to the seller's place of business wherein such discount is offered, and at all locations within the place of business where a purchase may be paid for, and

(iii) If an offer of property or services is advertised in any medium or if offers are invited or accepted through the mail, over the telephone, or by means other than personal contact between the customer and the creditor offering such a discount, and if customers are allowed to pay by use of a credit card or its underlying account and such fact is disclosed in the advertisement, telephone contact, or in other correspondence, the availability of a discount for payments in cash must be clearly and conspicuously disclosed in any advertisement for such offerings and, in any case, before the transaction has been completed by use of the credit card or its underlying account.

(2) With respect to any such discount for cash which is greater than 5 per cent, the total amount of such discount shall constitute a finance charge under § 226.4(a) to be disclosed in accordance with § 226.7(e).

(3) The availability of any discount may be limited by the creditor offering such discount to certain types of property or services or to certain outlets maintained by that creditor provided that such limitations are clearly and conspicuously disclosed.

(4) Notwithstanding anything contained in the foregoing paragraph to the contrary, any amount added to the tag, posted, or advertised price of property or services offered by a creditor which is imposed by such creditor as a condition or consequence of the use of the credit card with respect to a transaction involving such property and services, shall be a finance charge subject to the requirements of this section and § 226.7(e).

SECTION 226.5—DETERMINATION OF ANNUAL PERCENTAGE RATE

(a) General rule—open end credit accounts.

The annual percentage rates for open end credit accounts shall be computed so as to permit disclosure with an accuracy at least to the nearest quarter of 1 per cent. Such rate or rates shall be determined in accordance with § 226.7(a)(4) for purposes of disclosure before opening an account, § 226.10(c)(4) for purposes of advertising, and in the following manner for purposes of disclosure on periodic statements:

(1) Where the finance charge is exclusively the product of the application of one or more periodic rates

(i) by multiplying each periodic rate by the number of periods in a year; or

(ii) at the creditor's option, if the finance charge is the result of the application of two or more periodic rates, by dividing the total finance charge for the billing cycle by the sum of the balances to which the periodic rates were applied and multiplying the quotient (expressed as a percentage) by the number of billing cycles in a year.

(2) Where the creditor imposes all periodic finance charges in amounts based on specified ranges or brackets of balances, the periodic rate shall be determined by dividing the amount of the finance charge for the period by the amount of the median balance within the range or bracket of balances to which it is applicable, and the annual percentage rate shall be determined by multiplying that periodic rate (expressed as a per-

centage) by the number of periods in a year. Such ranges or brackets of balances shall be subject to the limitations prescribed in subdivision (iv) of paragraph (c)(2) of this section.

(3) Where the finance charge imposed during the billing cycle is or includes

(i) any minimum, fixed, or other charge not due to the application of a periodic rate, other than a charge with respect to any specific transaction during the billing cycle, by dividing the total finance charge for the billing cycle by the amount of the balance(s) to which applicable and multiplying the quotient (expressed as a percentage) by the number of billing cycles in a year; or

(ii) any charge with respect to any specific transaction during the billing cycle (even if the total finance charge also includes any other minimum, fixed, or other charge not due to the application of a periodic rate), by dividing the total finance charge imposed during the billing cycle by the total of all balances and other amounts on which any finance charge was imposed during the billing cycle without duplication and multiplying the quotient (expressed as a percentage) by the number of billing cycles in a year,^{5a} except that the annual percentage rate shall not be less than the largest rate determined by multiplying each periodic rate imposed during the billing cycle by the number of periods in a year; or

(iii) any minimum, fixed, or other charge not due to the application of a periodic rate and the total finance charge imposed during the billing cycle does not exceed 50 cents for a monthly or longer billing cycle, or the pro rata part of 50 cents for a billing cycle shorter than monthly, at the creditor's option, by multiplying each applicable periodic rate by the number of periods in a year, notwithstanding the provisions of subdivisions (i) and (ii) of this subparagraph.

(b) **General rule—other credit.** Except as otherwise provided in this section, the annual percentage rate applicable to any extension of credit, other than open end credit, shall be that nominal annual percentage rate determined as follows:

(1) In accordance with the actuarial method of computation so that it may be disclosed with an accuracy at least to the nearest quarter of 1 per cent. The mathematical equation and technical

^{5a} See p. 10 for footnote.

instructions for determining the annual percentage rate in accordance with the requirements of this paragraph are set forth in Supplement I to Regulation Z which is incorporated in this Part by reference. Supplement I to Regulation Z may be obtained from any Federal Reserve Bank or from the Board in Washington, D.C., 20551, upon written request.

(2) At the option of the creditor, by application of the United States Rule so that it may be disclosed with an accuracy at least to the nearest quarter of 1 per cent. Under this rule, the finance charge is computed on the unpaid balance for the actual time the balance remains unpaid and if the amount of a payment is insufficient to pay the accumulated finance charge, the unpaid accumulated finance charge continues to accumulate to be paid from the proceeds of subsequent payments and is not added to the amount financed.

(c) **Charts and tables.** (1) The Regulation Z Annual Percentage Rate Tables produced by the Board may be used to determine the annual percentage rate, and any such rate determined from these tables in accordance with instructions contained therein will comply with the requirements

of this section. Volume I contains table FRB—100-M covering 1 to 60 monthly payments, table FRB—200-M covering 61 to 120 monthly payments, table FRB—300-M covering 121 to 480 monthly payments, and table FRB—100-W covering 1 to 104 weekly payments. Volume I also contains instructions for use of the tables in regular transactions and most irregular transactions which involve only odd first and final payments and odd first payment periods. Volume II contains factor tables and instructions for their use in connection with the tables in Volume I in the computation of annual percentage rates in any type of irregular payment or payment period transaction and in transactions involving multiple advances. Each volume is available from the Board in Washington, D.C., 20551, and the Federal Reserve Banks.

(2) Any chart or table other than the Board's Regulation Z Annual Percentage Rate Tables also may be utilized for the purpose of determining the annual percentage rate provided:

(i) It is prepared in accordance with the general rule set forth in paragraph (b)(1) or (2) of this section;

(ii) It bears the name and address of the per-

^{6a} In determining the denominator of the fraction under § 226.5(a)(3)(ii) no amount will be used more than once when adding the sum of the balances to which periodic rates apply to the sum of the amounts financed to which specific transaction charges apply. In every case the full amount of transactions to which specific transaction charges apply shall be included in the denominator. Other balances or parts of balances shall be included according to the manner of determining the balance to which a periodic rate is applied, as illustrated in the following examples of accounts on monthly billing cycles:

1. Previous balance—none.

A specific transaction of \$100 occurs on first day of the billing cycle. The average daily balance is \$100. A specific transaction charge of 3% is applicable to the specific transaction. The periodic rate is 1½% applicable to the average daily balance. The numerator is the amount of the finance charge, which is \$4.50. The denominator is the amount of the transaction (which is \$100), plus the amount by which the balance to which the periodic rate applies exceeds the amount of specific transactions (such excess in this case is 0), totaling \$100.

The annual percentage rate is the quotient (which is 4.5%) multiplied by 12 (the number of months in a year), i.e., 54%.

2. Previous balance—\$100.

A specific transaction of \$100 occurs at midpoint of the billing cycle. The average daily balance is \$150. A specific transaction charge of 3% is applicable to the specific transaction. The periodic rate is 1½% applicable to the average daily balance. The numerator is the amount of finance charge which is \$5.25. The denominator is the amount of the transaction (which is \$100), plus the amount by which the balance to which the pe-

riodic rate applies exceeds the amounts of specific transactions (such excess in this case is \$50), totaling \$150.

As explained in example 1, the annual percentage rate is $3.5\% \times 12 = 42\%$.

3. If, in example 2, the periodic rate applies only to the previous balance, the numerator is \$4.50 and the denominator is \$200 (the amount of the transaction, \$100, plus the balance to which only the periodic rate is applicable, the \$100 previous balance). As explained in example 1, the annual percentage rate is $2.25\% \times 12 = 27\%$.

4. If, in example 2, the periodic rate applies only to an adjusted balance (previous balance less payments and credits) and the customer made a payment of \$50 at midpoint of billing cycle, the numerator is \$3.75 and the denominator is \$150 (the amount of the transaction, \$100, plus the balance to which only the periodic rate is applicable, the \$50 adjusted balance). As explained in example 1, the annual percentage rate is $2.5\% \times 12 = 30\%$.

5. Previous balance—\$100.

A specific transaction (check) of \$100 occurs at the midpoint of the billing cycle. The average daily balance is \$150. The specific transaction charge is 25 cents per check. The periodic rate is 1½% applied to the average daily balance. The numerator is the amount of the finance charge, which is \$2.50 and includes the 25 cents check charge and the \$2.25 resulting from the application of the periodic rate. The denominator is the full amount of the specific transaction (which is \$100) plus the amount by which the average daily balance exceeds the amount of the specific transaction (which in this case is \$50), totaling \$150. As explained in example 1, the annual percentage rate would be $1\frac{1}{2}\% \times 12 = 20\%$.

son responsible for its production, an identification number assigned to it by that person which shall be the same for each chart or table so produced with like numerical content and configuration and, if prepared for use in connection with irregular transactions, an identification of the method of computation ("Actuarial" or "U.S. Rule");

(iii) Except as provided in subdivision (iv) of this subparagraph, it permits determination of the annual percentage rate to the nearest one-quarter of 1 per cent for the range of rates covered by the chart or table; and

(iv) If applicable to ranges or brackets of balances, it discloses the amount of the finance charge and the annual percentage rate on the median balance within each range or bracket of balances where a creditor imposes the same finance charge for all balances within a specified range or bracket of balances, and provided further that if the annual percentage rate determined on the median balance understates the annual percentage rate determined on the lowest balance in that range or bracket by more than 8 per cent of the rate on the lowest balance, then the annual percentage rate for that range or bracket shall be computed upon any balance lower than the median balance within that range so that any understatement will not exceed 8 per cent of the rate on the lowest balance within that range or bracket of balances.

(3) In the event an error in disclosure of the amount of a finance charge or an annual percentage rate occurs because of a corresponding error in a chart or table acquired or produced in good faith by the creditor, that error in disclosure shall not, in itself, be considered a violation of this Part provided that upon discovery of the error, that creditor makes no further disclosure based on that chart or table and promptly notifies the Board or a Federal Reserve Bank in writing of the error and identifies the inaccurate chart or table by giving the name and address of the person responsible for its production and its identification number.

(d) **Minor irregularities.** In determining the annual percentage rate a creditor may, at his option, consider the payment irregularities set forth in this paragraph as if they were regular in amount or time, as applicable, provided that the transaction to which they relate is otherwise payable in equal instalments scheduled at equal intervals.

(1) If the period from the date on which the finance charge begins to accrue and the date the final payment is due is not less than 3 months in the case of weekly payments, 6 months in the case of biweekly or semimonthly payments, or 1 year in the case of monthly payments, either or both of the following:

(i) The amount of 1 payment other than any downpayment is not more than 50 per cent greater nor 50 per cent less than the amount of a regular payment; or

(ii) The interval between the date on which the finance charge begins to accrue and the date the first payment is due is not less than 5 days for an obligation otherwise payable in weekly instalments, not less than 10 days for an obligation otherwise payable in biweekly or semimonthly instalments, or not less than 20 days for an obligation otherwise payable in monthly instalments.

(2) If the period from the date on which the finance charge begins to accrue and the date the final payment is due is less than 3 months in the case of weekly payments, 6 months in the case of biweekly or semimonthly payments, or 1 year in the case of monthly payments, either or both of the following:

(i) The amount of 1 payment other than any downpayment is not more than 25 per cent greater nor 25 per cent less than the amount of a regular payment; or

(ii) The interval between the date on which the finance charge begins to accrue and the date the first payment is due is not less than 6 days for an obligation otherwise payable in weekly instalments, not less than 12 days for an obligation otherwise payable in biweekly or semimonthly instalments, or not less than 25 days for an obligation otherwise payable in monthly instalments.

(e) **Approximation of annual percentage rate—other credit.** In an exceptional instance when circumstances may leave a creditor with no alternative but to determine an annual percentage rate applicable to an extension of credit other than open end credit by a method other than those prescribed in paragraphs (b) or (c) of this section, the creditor may utilize the constant ratio method of computation provided such use is limited to the exceptional instance and is not for the purpose of circumvention or evasion of the requirements of this Part. Any provision of State law authorizing or requiring the use of the constant ratio method or any method of computing a percentage rate other than those prescribed in paragraphs (b) and

(c) of this section does not justify failure of the creditor to comply with the provisions of those paragraphs, as applicable.

SECTION 226.6—GENERAL DISCLOSURE REQUIREMENTS

(a) **Disclosures; general rule.** The disclosures required to be given by this Part shall be made clearly, conspicuously, in meaningful sequence, in accordance with the further requirements of this section, and at the time and in the terminology prescribed in applicable sections. Except with respect to the requirements of § 226.10, where the terms “finance charge” and “annual percentage rate” are required to be used, they shall be printed more conspicuously than other terminology required by this Part and all numerical amounts and percentages shall be stated in figures and shall be printed in not less than the equivalent of 10 point type, .075 inch computer type, or elite size typewritten numerals, or shall be legibly handwritten.

(b) **Inconsistent State requirements.** (1) With respect to the requirements of this Part, State law is inconsistent with the requirements of the Act and this Part, within the meaning of section 111(a) of the Act to the extent that it:

(i) Requires a creditor to make disclosures or take actions different from the requirements of this Part with respect to form, content, terminology, or time of delivery;

(ii) Requires disclosure of the amount of the finance charge determined in any manner other than that prescribed in § 226.4; or

(iii) Requires disclosure of the annual percentage rate of the finance charge determined in any manner other than that prescribed in § 226.5.

(2)(i) A State law with respect to credit billing practices which is similar in nature, purpose, scope, intent, effect, or requisites to the provisions of sections 161 or 162, or both, of the Act is inconsistent with the Act and this Part within the meaning of section 171(a) of the Act, and is preempted, if it provides procedures or imposes rights or responsibilities upon either customers or creditors which are different from those required by sections 161 or 162, or both, of the Act and their implementing provisions in this Part; except that, any such State law which allows a customer to make inquiry concerning an open end credit account and

imposes upon the creditor an obligation to respond to such an inquiry after the time allowed in this Part for the customer to submit a proper written notification of a billing error shall not be preempted as to any situation in which the time period for making a proper written notification of a billing error as provided in this Part has expired.

(ii) A State law which is similar in nature, purpose, scope, intent, effect, or requisites to a section of chapter 4 of the Act other than sections 161 or 162 is not inconsistent with the Act or this Part within the meaning of section 171(a) of the Act if the creditor can comply with the State law without violating this Part. If the creditor cannot comply with a State law without violating a provision of this Part which implements a section of chapter 4 of the Act other than sections 161 or 162, such State law is inconsistent with the requirements of the Act and this Part within the meaning of section 171(a) of the Act and is preempted.

(iii) A State law which requires disclosure or notification to customers of provisions of State law which are inconsistent with chapter 4 of the Act and its implementing provisions in this Part within the meaning of section 171(a) of the Act is inconsistent with the Act and this Part within the meaning of sections 111(a) and 171(a) of the Act, and the creditor shall not make such a disclosure or provide such a notice. When a creditor gives written notice to a customer of the customer's rights under any provision of State law which would permit a customer to inquire concerning an open end credit account after the time period allowed in this Part for submission of a proper written notification of a billing error has expired, the creditor shall clearly and conspicuously set forth in the notice that reliance upon the longer time period available under State law may result in the customer losing important rights which could be preserved by acting more promptly under Federal law and that the State law provisions only become operative upon the expiration of the time period provided by this Part for submitting a proper written notification of a billing error. If such a disclosure is made on the same side of a sheet of paper as the disclosures required by § 226.7(a), (d), and (i) of this Part, such State disclosures shall appear separately and below the disclosures required by § 226.7(a), (d), and (i) of this Part; the disclosures required by § 226.7(a), (d), and (i)

shall be clearly and conspicuously identified by a heading indicating they are made in compliance with Federal law and the disclosures of State law shall appear separately and below a conspicuous demarcation line.

(iv) A State, through its Governor, Attorney General, or other appropriate official having primary enforcement or interpretive responsibilities for its credit billing practices law, may apply to the Board for a determination that the State law offers greater protection to customers than a comparable provision(s) of chapter 4 of the Act and its implementing provision(s) in this Part, or is otherwise not inconsistent with chapter 4 of the Act and this Part, or for a determination with respect to any issues not clearly covered by § 226.6(b)(2)(i), (ii), and (iii) as to the consistency or inconsistency of a State law with chapter 4 of the Act or its implementing provisions in this Part.

* (3)(i) A State law which is similar in nature, purpose, scope, intent, effect or requisites to a section of chapter 5 of the Act is not inconsistent with the Act or this Part within the meaning of section 186(a) of the Act if the lessor can comply with the State law without violating this Part. If a lessor cannot comply with a State law without violating a provision of this Part which implements a section of chapter 5 of the Act, such State law is inconsistent with the requirements of the Act and this Part within the meaning of section 186(a) of the Act and is preempted.

(ii) A State, through its Governor, Attorney General, or other appropriate official having primary enforcement or interpretive responsibilities for its consumer leasing law, may apply to the Board for a determination that the State law offers greater protection and benefit to lessees than a comparable provision(s) of chapter 5 of the Act and its implementing provision(s) in this Part, or is otherwise not inconsistent with chapter 5 of the Act and this Part, or for a determination with respect to any issues not clearly covered by § 226.6(b)(3)(i) as to the consistency or inconsistency of a State law with chapter 5 of the Act or its implementing provisions in this Part.

** (c) **Additional information.** At the creditor's or lessor's option, additional information or explanations may be supplied with any disclosure re-

quired by this Part, but none shall be stated, utilized, or placed so as to mislead or confuse the customer or lessee or contradict, obscure, or detract attention from the information required by this Part to be disclosed. Any creditor or lessor who elects to make disclosures specified in any provision of State law which, under paragraph (b) of this section, is inconsistent with the requirements of the Act and this Part may

(1) Make such inconsistent disclosures on a separate paper apart from the disclosures made pursuant to this Part, or

(2) Make such inconsistent disclosures on the same statement on which disclosures required by this Part are made; provided:

(i) All disclosures required by this Part appear separately and above any other disclosures,

(ii) Disclosures required by this Part are identified by a clear and conspicuous heading indicating that they are made in compliance with Federal law, and

(iii) All inconsistent disclosures appear separately and below a conspicuous demarcation line, and are identified by a clear and conspicuous heading indicating that the statements made thereafter are inconsistent with the disclosure requirements of the Federal Truth in Lending Act or the Federal Consumer Leasing Act.

** (d) **Multiple creditors or lessors; joint disclosure.** If there is more than one creditor or lessor in a transaction, each creditor or lessor shall be clearly identified and shall be responsible for making only those disclosures required by this Part which are within his knowledge and the purview of his relationship with the customer or lessee. If two or more creditors or lessors make a joint disclosure, each creditor or lessor shall be clearly identified. The disclosures required under paragraphs (b) and (c) of § 226.8 shall be made by the seller if he extends or arranges for the extension of credit. Otherwise disclosures shall be made as required under paragraphs (b) and (d) of § 226.8 or paragraph (b) of § 226.15.

** (e) **Multiple customers or lessees; disclosure to one.** In any transaction other than a credit transaction which may be rescinded under the provisions of § 226.9, if there is more than one customer or lessee, the creditor or lessor need furnish

* Added 3/23/77.

** Amended 3/23/77.

a statement of disclosures required by this Part to only one of them other than an endorser, co-maker, guarantor, or a similar party.

* (f) **Unknown information estimate.** If at the time disclosures must be made, an amount or other item of information required to be disclosed, or needed to determine a required disclosure, is unknown or not available to the creditor or lessor and the creditor or lessor has made a reasonable effort to ascertain it, the creditor or lessor may use an estimated amount or an approximation of the information, provided the estimate or approximation is clearly identified as such, is reasonable, is based on the best information available to the creditor or lessor and is not used for the purpose of circumventing or evading the disclosure requirements of this Part.

Notwithstanding the requirement of this paragraph that the estimate be based on the best information available, a lessor is not precluded in a purchase option lease from understating the estimated value of the leased property at the end of the term in computing the total lease obligation as required in § 226.15(b)(15)(i).

* (g) **Effect of subsequent occurrence.** If information disclosed in accordance with this Part is subsequently rendered inaccurate as the result of any act, occurrence, or agreement subsequent to the delivery of the required disclosures, the inaccuracy resulting therefrom does not constitute a violation of this Part.⁶

(h) **Overstatement.** The disclosure of the amount of the finance charge or a percentage which is greater than the amount of the finance charge or percentage required to be disclosed under this Part does not in itself constitute a violation of this Part: *Provided*, That the overstatement is not for the purpose of circumvention or evasion of disclosure requirements.

* (i) **Preservation and inspection of evidence of compliance.** Evidence of compliance with the re-

quirements imposed under this Part, other than advertising requirements under § 226.10, shall be preserved by the creditor or lessor for a period of not less than 2 years after the date each disclosure is required to be made. Each creditor or lessor shall, when directed by the appropriate administrative enforcement authority designated in section 108 of the Act, permit that authority or its duly authorized representative to inspect its relevant records and evidence of compliance with this Part.

(j) **Leap year.** Any variance in the amount of any finance charge, payment, percentage rate, or other term required under this Part to be disclosed, or stated in any advertisement, which occurs by reason of the addition of February 29 in each leap year, may be disregarded, and such term may be disclosed or stated without regard to such variance.

(k) **Transition period.** Any creditor who can demonstrate that he has taken bona fide steps, prior to October 28, 1975, to obtain printed forms which are necessary to comply with the requirements of this Part may, until such forms are received but in no event later than April 30, 1976, utilize existing supplies of printed forms for the purpose of complying with the disclosure requirements of this Part, provided that such forms are altered or supplemented as necessary to assure that all of the items of information the creditor is required to disclose to the customer are set forth clearly and conspicuously in every case except:

(1) Where a creditor has, prior to October 28, 1975, prepared the § 226.7(a) disclosures without the notice and statement required by § 226.7(a)(9) and dispersed them to remote locations, as in the case of mail order catalogs, the statement required by § 226.7(a)(9) may be made separately from the other § 226.7(a) disclosures until April 30, 1976, so long as the § 226.7(a)(9) statement is mailed or delivered to the customer no later than the date the first payment is due. For the purpose of this paragraph the creditor may disregard the required notice in § 226.7(a)(9) until April 30, 1976;

(2) Where a creditor's forms must be adapted to comply with the disclosure requirements of § 226.7(b)(1)(x), the creditor need not supplement or alter his forms if there is only one address listed on or with the periodic statement. In the case where a creditor has more than one address listed on or with the periodic statement and the creditor

⁶ Such acts, occurrences, or agreements include the failure of the customer or lessee to perform his obligations under the contract and such actions by the creditor or lessor as may be proper to protect his interests in such circumstances. Such failure may result in the liability of the customer or lessee to pay delinquency charges, collection costs, or expenses of the creditor or lessor for perfection or acquisition of any security interest or amounts advanced by the creditor or lessor on behalf of the customer or lessee in connection with insurance, repairs to or preservation of collateral or leased property.

* Amended 3/23/77.

has not complied with the requirements of § 226.7(b)(1)(x), the creditor must accept as properly received any proper written notification of a billing error at any of the addresses listed on or with the periodic statement. New forms which comply with the requirements of § 226.7(b)(1)(x) must be in use no later than April 30, 1976;

(3) Where a creditor's forms must be adapted to comply with the disclosure requirements of § 226.7(g), the creditor need not supplement or alter his forms; however, complying forms must be in use no later than April 30, 1976;

(4) Where a creditor is disclosing inconsistent State law provisions within the meaning of section 171(a) of the Act and § 226.6(b)(2) of this Part or is making disclosures not in compliance with § 226.6(b)(2)(iii) on or with the disclosure required by this Part, the creditor need not alter or supplement his forms; however, complying forms must be in use no later than April 30, 1976; and

(5) Where, because of operational limitations, a creditor is unable to comply with the disclosure requirements in § 226.7(b)(1)(i) and (ix), which require appropriate identification of credit balances, or with the disclosure requirement in § 226.7(b)(1)(iii), which requires the dates of payments and credits, the creditor need not supplement or alter his forms; however, complying forms and procedures must be in use no later than April 30, 1976.

SECTION 226.7—OPEN END CREDIT ACCOUNTS—SPECIFIC DISCLOSURES

(a) **Opening new account.** Before the first transaction is made on any open end credit account, the creditor shall disclose to the customer in a single written statement, which the customer may retain, in terminology consistent with the requirements of paragraph (b) of this section, each of the following items, to the extent applicable:

(1) The conditions under which a finance charge may be imposed, including an explanation of the time period, if any, within which any credit extended may be paid without incurring a finance charge, except that the creditor may, at his option and without disclosure, refrain from imposing such finance charge even though payment is received after the termination of such time period.

(2) The method of determining the balance upon which a finance charge may be imposed.

(3) The method of determining the amount of the finance charge, including the method of determining any minimum, fixed, check service, transaction, activity, or similar charge, which may be imposed as a finance charge.

(4) Where one or more periodic rates may be used to compute the finance charge, each such rate, the range of balances to which it is applicable, and the corresponding annual percentage rate determined by multiplying the periodic rate by the number of periods in a year.^{6a}

(5) If the creditor so elects, the Comparative Index of Credit Cost in accordance with § 226.11.

(6) The conditions under which any other charges may be imposed, and the method by which they will be determined.

(7) The conditions under which the creditor may retain or acquire any security interest in any property to secure the payment of any credit extended on the account, and a description or identification of the type of the interest or interests which may be so retained or acquired.

(8) The minimum periodic payment required.

(9) The following notice: "NOTICE: See accompanying statement for important information regarding your rights to dispute billing errors" and a separate statement containing substantially the following text,⁷ as applicable, written clearly and conspicuously, shall accompany the statement required by paragraph (a) of this section; or the following text without the preceding notice may be included on the statement required by paragraph (a) of this section if disclosed clearly and conspicuously; or the following text may be included on the reverse side of the statement required by paragraph (a) of this section with the following notice on the face of the statement:

^{6a} A creditor imposing minimum charges is not required to adjust the disclosure of the range of balances to which each periodic rate would apply in order to reflect the range of the balances below which the minimum charge applies. If a creditor does not impose a finance charge when the outstanding balance is less than a certain amount, the creditor is not required to disclose that fact or the balance below which no such charge will be imposed.

⁷ Wherever the word "creditor" appears or is referred to in the statement, the creditor may substitute appropriate references, such as "company," "bank," "we" or a specific name.

“NOTICE: See reverse side for important information regarding your rights to dispute billing errors.”:

IN CASE OF ERRORS OR INQUIRIES
ABOUT YOUR BILL

The Federal Truth in Lending Act requires prompt correction of billing mistakes.

1. If you want to preserve your rights under the Act, here's what to do if you think your bill is wrong or if you need more information about an item on your bill:

a. Do not write on the bill. On a separate sheet of paper write [Alternate: Write on the bill or other sheet of paper] (you may telephone your inquiry but doing so will not preserve your rights under this law) the following:

- i. Your name and account number (if any).
- ii. A description of the error and an explanation (to the extent you can explain) why you believe it is an error.

If you only need more information, explain the item you are not sure about and, if you wish, ask for evidence of the charge such as a copy of the charge slip. Do not send in your copy of a sales slip or other document unless you have a duplicate copy for your records.

iii. The dollar amount of the suspected error.

iv. Any other information (such as your address) which you think will help the creditor to identify you or the reason for your complaint or inquiry.

b. Send your billing error notice to the address on your bill which is listed after the words: "Send Inquiries To:" or similar wording. [Alternate: Send your billing error notice to: (creditor's name and address)].

Mail it as soon as you can, but in any case, early enough to reach the creditor within 60 days after the bill was mailed to you. If you have authorized your bank to automatically pay from your checking or savings account any credit card bills from that bank, you can stop or reverse payment on any amount you think is wrong by mailing your notice so the creditor receives it within 16 days after the bill was sent to you. However, you do not have to meet this 16-day deadline to get the

creditor to investigate your billing error claim.

2. The creditor must acknowledge all letters pointing out possible errors within 30 days of receipt, unless the creditor is able to correct your bill during that 30 days. Within 90 days after receiving your letter, the creditor must either correct the error or explain why the creditor believes the bill was correct. Once the creditor has explained the bill, the creditor has no further obligation to you even though you still believe that there is an error, except as provided in paragraph 5 below.

3. After the creditor has been notified, neither the creditor nor an attorney nor a collection agency may send you collection letters or take other collection action with respect to the amount in dispute; but periodic statements may be sent to you, and the disputed amount can be applied against your credit limit. You cannot be threatened with damage to your credit rating or sued for the amount in question, nor can the disputed amount be reported to a credit bureau or to other creditors as delinquent until the creditor has answered your inquiry. However, you remain obligated to pay the parts of your bill not in dispute.

4. If it is determined that the creditor has made a mistake on your bill, you will not have to pay any finance charges on any disputed amount. If it turns out that the creditor has not made an error, you may have to pay finance charges on the amount in dispute, and you will have to make up any missed minimum or required payments on the disputed amount. Unless you have agreed that your bill was correct, the creditor must send you a written notification of what you owe; and if it is determined that the creditor did make a mistake in billing the disputed amount, you must be given the time to pay which you normally are given to pay undisputed amounts before any more finance charges or late payment charges on the disputed amount can be charged to you.

5. If the creditor's explanation does not satisfy you and you notify the creditor **in writing** within 10 days after you receive his explanation that you still refuse to pay the disputed amount, the creditor may report you to credit bureaus and other creditors and may pursue regular collection procedures. But the creditor must also report that you think you do not owe the money, and the creditor must let you know to whom such reports were

made. Once the matter has been settled between you and the creditor, the creditor must notify those to whom the creditor reported you as delinquent of the subsequent resolution.

6. If the creditor does not follow these rules, the creditor is not allowed to collect the first \$50 of the disputed amount and finance charges, even if the bill turns out to be correct.

7. If you have a problem with property or services purchased with a credit card, you may have the right not to pay the remaining amount due on them, if you first try in good faith to return them or give the merchant a chance to correct the problem. There are two limitations on this right:

a. You must have bought them in your home State or if not within your home State within 100 miles of your current mailing address; and

b. The purchase price must have been more than \$50.

However, these limitations do not apply if the merchant is owned or operated by the creditor, or if the creditor mailed you the advertisement for the property or services.

***(b) Periodic statements required.** (1) Except in the case of an account which the creditor deems to be uncollectible or with respect to which delinquency collection procedures have been instituted, the creditor of any open end credit account shall mail or deliver to the customer, for each billing cycle at the end of which there is an outstanding undisputed debit or credit balance in excess of \$1 in that account or with respect to which a finance charge is imposed, a statement or statements which the customer may retain, setting forth in accordance with paragraph (c) of this section each of the following items to the extent applicable:

(i) The outstanding balance in the account at the beginning of the billing cycle, using the term "previous balance," and in the case of a credit balance, an appropriate identification as such.

(ii) The information required by § 226.7(k).

(iii) The amounts and dates of crediting to the account during the billing cycle for payments, using the term "payments," and for other credits including returns, rebates of finance charges, and

adjustments, using the term "credits," and unless previously furnished a brief identification⁸ of each of the items included in such other credits, except that the date of crediting to the customer's account need not be provided if a delay in crediting does not result in the imposition of any finance charges, late payment charges, or other charges for that billing cycle or a later billing cycle.

(iv) The amount of any finance charge, using the term "finance charge," debited to the account during the billing cycle, itemized and identified to show the amounts, if any, due to the application of periodic rates and the amount of any other charge included in the finance charge, such as a minimum, fixed, check service, transaction, activity, or similar charge,⁹ using appropriate descriptive terminology.

(v) Each periodic rate, using the term "periodic rate" (or "rates"), that may be used to compute the finance charge (whether or not applied during the billing cycle), the range of balances to which it is applicable, and the corresponding annual percentage rate determined by multiplying the periodic rate by the number of periods in a year. The words "corresponding annual percentage rate," "corresponding nominal annual percentage rate," "nominal annual percentage rate," or "annual percentage rate" (or "rates") may be used to describe the corresponding annual percentage rate. The requirements of § 226.6(a) of this Part with respect to disclosing the term "annual percentage rate" more conspicuously than other required terminology shall not be applicable to the disclosure made under this paragraph, although such term (or words incorporating such term) may, at the creditor's option, be shown as conspicuously as the terminology required under (b)(1)(vi) of this paragraph. Where a minimum charge may be applicable to the account, the amount of such minimum charge shall be disclosed.^{10a}

⁸ Identification may be made on an accompanying slip or by symbol relating to an identification list printed on the statement.

⁹ These charges include any charges imposed by the creditor for the issuance, payment, or handling of checks, for account maintenance or otherwise, to the extent that such charges exceed any similar charges the customer is required to pay when an account is not being used to extend credit.

^{10a} A creditor imposing minimum charges is not required to adjust the disclosure of the range of balances to which (Continued on page 18)

* Amended 8/27/76.

(vi) When a finance charge is imposed during the billing cycle, the annual percentage rate or rates determined under § 226.5(a) using the term "annual percentage rate" (or "rates").

(vii) If the creditor so elects, the Comparative Index of Credit Cost in accordance with § 226.11.

(viii) The balance on which the finance charge was computed, and a statement of how that balance was determined. If the balance is determined without first deducting all credits during the billing cycle, that fact and the amount of such credits shall also be disclosed.

(ix) The closing date of the billing cycle and the outstanding balance in the account on that date, using the term "new balance," and in the case of a credit balance, appropriately identified as such, accompanied by the statement of the date by which, or the period within which, if any, payment must be made to avoid additional finance charges, except that the creditor may, at his option and without disclosure, impose no such additional finance charges if payment is received after such date or termination of such period.

(x) An address to be used by the creditor for the purpose of receiving billing inquiries from customers. Such address shall be preceded by the caption "Send Inquiries To:," or other similar language indicating that the address is the proper location to send such inquiries.

(2) If the terms of the open end credit plan provide a time period within which the customer may repay any portion of the new balance without incurring an additional finance charge, late payment charge, or other charge, no such charge may be imposed with respect to any portion of such new balance unless the periodic statement disclosing the new balance is mailed or delivered to the customer at least 14 days prior to the date specified in the statement as being the date by which payment of the new balance must be made in order to avoid the imposition of that finance charge or late payment charge, except that such time limitation shall not apply in any case where

the creditor has been prevented, delayed, or hindered in mailing or delivering the periodic statement within such time limit because of an act of God, war, civil disorder, natural disaster, or strike.

***(c) Location of disclosures.** The disclosures required by paragraph (b) of this section shall be made on the face of the periodic statement, except that, at the creditor's option:

(1) The information required to be disclosed under paragraph (b)(1)(ii) of this section and itemization of the amounts and dates required to be disclosed under paragraph (b)(1)(iii) of this section and of the amount of any finance charge required to be disclosed under paragraph (b)(1)(iv) of this section may be made on the reverse side of the periodic statement or on a separate accompanying statement(s), provided that the totals of the respective debits and credits under each of those paragraphs are disclosed on the face of the periodic statement.

(2) The disclosures required under paragraph (b)(1)(v) and (b)(1)(viii) of this section, except the disclosure of the balance on which the finance charge was computed, may be made on the reverse side of the periodic statement or on the face of a single supplemental statement which shall accompany the periodic statement.

(3) The disclosure required by paragraph (b)(1)(x) of this section may be made on the reverse side of the periodic statement.

(4) If the creditor exercises any of the options provided under this paragraph, the face of the periodic statement shall contain one of the following notices, as applicable: "NOTICE: See reverse side for important information" or "NOTICE: See accompanying statement(s) for important information" or "NOTICE: See reverse side and accompanying statement(s) for important information," and the disclosures shall not be separated so as to confuse or mislead the customer or to obscure or detract attention from the information required to be disclosed.

(d) Semiannual statement required. (1) The creditor shall mail or deliver during two billing cycles per year to each customer entitled to receive a periodic statement under § 226.7(b) for such billing cycle, the statement required by

each periodic rate would apply in order to reflect the range of the balances below which the minimum charge applies. If a creditor does not impose a finance charge when the outstanding balance is less than a certain amount, the creditor is not required to disclose that fact or the balance below which no such charge will be imposed.

* Amended 8/27/76.

§ 226.7(a)(9), written clearly and conspicuously either on one or both sides of a separate page or on one or both sides of the periodic statement required by paragraph (b) of this section.

(2) The timing of the mailing or delivery of such semiannual statements shall be not less than 5 nor more than 7 months after the month in which the last preceding such statement was mailed or delivered. Provided that:

(i) The creditor shall select at least 2 billing cycles in any 12 month calendar period for the mailing or delivery of such statements; and

(ii) The first semiannual statement to any new customer may be mailed or delivered to that customer during the next regularly scheduled mailing or delivery of semiannual statements in which he is entitled to receive a semiannual statement under paragraph (d)(1) of this section.

(3) If the creditor chooses to alter the cycle of mailing or delivering semiannual statements, the creditor may mail or deliver the semiannual statement less than 5 months after the last preceding such statement was mailed or delivered, provided that the creditor mails or delivers at least 3 such statements in the next 12 months computed from the month in which the last preceding semiannual statement was mailed or delivered.

(4) Nothing in this section shall be construed to prohibit a creditor from mailing or delivering the statement required by this section more frequently than semiannually.

(5) As an alternative to the requirements of paragraph (d)(1) of this section, the creditor may mail or deliver, on or with each periodic statement required under paragraph (b)(1) of this section, substantially the following statement and, if applicable, the periodic statement must contain one of the notices provided for in paragraph (c)(4) of this section, provided that the creditor must promptly but in no event later than 30 days, mail or deliver to a customer the statement required by § 226.7(a)(9) at any time upon a customer's request and also upon receipt of each billing error notice mailed or delivered to the creditor by a customer:

IN CASE OF ERRORS OR INQUIRIES
ABOUT YOUR BILL

Send your inquiry in writing [at creditor's option: on a separate sheet] so that the creditor re-

ceives it within 60 days after the bill was mailed to you. Your written inquiry must include:

1. Your name and account number (if any);
2. A description of the error and why (to the extent you can explain) you believe it is an error; and

3. The dollar amount of the suspected error.
If you have authorized your creditor to automatically pay your bill from your checking or savings account, you can stop or reverse payment on any amount you think is wrong by mailing your notice so that the creditor receives it within 16 days after the bill was sent to you.

You remain obligated to pay the parts of your bill not in dispute, but you do not have to pay any amount in dispute during the time the creditor is resolving the dispute. During that same time, the creditor may not take any action to collect disputed amounts or report disputed amounts as delinquent.

If you have a problem with property or services purchased with a credit card, you may have the right not to pay the remaining amount due on them if you first try in good faith to return them or give the merchant a chance to correct the problem. There are two limitations on this right:

1. You must have bought them in your home State or, if not within your home State, within 100 miles of your current mailing address; and

2. The purchase price must have been more than \$50.

However, these limitations do not apply if the merchant is owned or operated by the creditor, or if the creditor mailed you the advertisement for the property or services.

This is a summary of your rights; a full statement of your rights and the creditor's responsibilities under the Federal Fair Credit Billing Act will be sent to you both upon request and in response to a billing error notice.

(e) **Finance charge imposed at the time of transaction.** (1) Any creditor, other than the creditor of the open end credit account, who imposes a finance charge not excepted by § 226.4(i) *Discounts for payments in cash*, at the time of honoring a customer's credit card, shall make the disclosures required under paragraphs (b)(2) and (d) of § 226.8 *Credit other than open end—specific disclosures*, at the time of that transaction, and the annual percentage rate to be disclosed shall be determined by dividing the amount of the

finance charge by the amount financed and multiplying the quotient (expressed as a percentage) by 12.

(2) The creditor of the open end credit account shall not separately consider any charge imposed under this paragraph for purposes of the disclosure requirements of paragraphs (a) and (b) of this section.

(f) **Change in terms.** Not later than 15 days prior to the beginning date of the billing cycle in which any change is to be made in the terms previously disclosed to the customer of an open end credit account, the creditor shall mail or deliver a written disclosure of such change to each customer required to be furnished a statement under paragraph (b) of this section. Such disclosure shall be mailed or delivered to each other customer who subsequently activates his account not later than the date of mailing or delivery of the next required billing statement on his account. However, if the periodic rate or rates, or any minimum, fixed, check service, transaction, activity, or similar charge is increased, the creditor shall mail or deliver a written disclosure of such increase to each customer at least 15 days prior to the beginning date of the billing cycle in which the increase is imposed on his account. No notice is necessary if the only change is a reduction in the minimum periodic payment, periodic rate or rates, or in any minimum, fixed, check service, transaction, activity, or similar charge applicable to the account.

(g) **Prompt crediting of payments.** Regardless of the date of actual posting of a payment to an account, such payment shall be credited to the customer's account as of the date such payment is received by the creditor, and no finance charge, late payment charge, or other charge shall be imposed with respect to the amount of such payment which is properly received by the creditor on or before the time indicated by the creditor as necessary to avoid imposition thereof, Provided that:

(1) If a creditor fails to post the customer's payment in time to avoid the imposition of finance charges, late payment charges, or other charges, the creditor shall adjust the customer's account so that the finance charges, late payment charges, or other charges are credited to the account during the customer's next billing cycle.

(2) For the purposes of paragraph (g) of this section the creditor may specify on the periodic statement or on accompanying material that need

not be retained by the customer, reasonable requirements with respect to the form, amount, manner, location, and time for receipt of payments, except that:

(i) If no particular hour of the day has been clearly specified by the creditor as the time by which payment must be received by the creditor in order to obtain crediting to the customer's account as of that date, payments received prior to the close of business on that day must be credited as of that date;

(ii) If no location(s) has been clearly specified as the location(s) at which payment may be made, then payment at any location where the creditor conducts business shall be credited as of the date such payment is presented; and

(iii) If no particular manner of payment has been clearly specified, then payment by check, cash, money order, bank draft or other similar instrument in properly negotiable form shall constitute proper manner of payment.

(3) If the creditor accepts payment at locations other than those specified under paragraph (g)(2)(ii) of this section, the creditor shall credit the customer's account promptly (in no case later than 5 days from the date of receipt), provided that the possibility of such delay is clearly disclosed to the customer on the periodic statement or on accompanying material that need not be retained by the customer.

(4) Payments need not be credited as of the date of receipt (but in any case must be credited promptly) if a delay in crediting does not result in the imposition of any finance charges, late payment charges, or other charges for that billing cycle or a later billing cycle.

(5) If, because of operational limitations, the creditor is unable to credit a payment made on an average daily balance or daily balance account as of the date of receipt and there was a "previous balance" in the account for the billing cycle in which such payment was received, or the account is one in which the terms do not provide a time period within which the customer may repay any portion of the new balance without incurring an additional finance charge, late payment charge, or other charge, a creditor may credit such payment promptly (in no case later than 5 days from the date of receipt) until October 28, 1976.

(h) **Crediting and refunding excess payments.**
(1) Whenever a customer mails or delivers payment to the creditor in excess of the new bal-

ance (as provided in § 226.7(b)(1)(ix)) to which the payment is to be applied, the creditor shall:

(i) Credit the customer's account with the total amount of the payment as specified in paragraph (g) of this section, or

(ii) Credit the customer's account with an amount equal to the total new balance as specified in paragraph (g) of this section and promptly (in no case later than 5 business days from the creditor's receipt of the payment) refund the excess amount.

(2) Notwithstanding the provisions of paragraph (h)(1) of this section, if the customer requests in writing a refund of any excess payments, a creditor shall refund any such excess payments, of \$1 or more, promptly (in no case later than 5 business days from receipt of the customer's request).

(3) After crediting a customer's account with the total amount of a payment under paragraph (h)(1)(i) of this section, a creditor may refund any excess payment of any amount, whether or not requested by the customer.

(i) **Open end credit accounts existing on October 28, 1975.** In the case of any open end credit account in existence and in which a balance of more than \$1 is outstanding at or after the closing date of the creditor's first full billing cycle after October 28, 1975, and which account is deemed to be collectible and with respect to which delinquency collection procedures have not been instituted, the items described in paragraph (a) of this section, to the extent applicable and not previously required to be disclosed to the customer, shall be disclosed in the form prescribed in paragraph (a) of this section, and mailed or delivered to the customer not later than the time of mailing or delivery of the periodic statement required under paragraph (b) of this section for that billing cycle.

* (j) **Supplemental credit devices for use in open end credit accounts.** If, subsequent to 30 days after delivering the disclosures required under paragraph (a) of this section, a creditor of an open end credit account mails or delivers, other than as a renewal or resupply, a blank check, payee designated check, blank draft or order or other similar credit device other than a credit card, to an existing customer or cardholder

for use in connection with such account, such device shall be accompanied by a single written statement setting forth clearly and conspicuously those disclosures of paragraph (a) of this section which specifically relate to the use of such device. Such disclosure statement shall either be limited to the disclosures of paragraphs (a)(1), (2), (3), and (4) of this section or contain all disclosures required of such paragraph with the pertinent disclosures clearly and conspicuously referenced on or accompanying that disclosure statement. Such disclosure statement shall not appear on any promotional material mailed or delivered at the same time. The requirements of this paragraph shall not be applicable to checks to be used in conjunction with a checking account even though such checks may also activate a cash advance under an open end credit account.

** (k) **Identification of transactions.** (1) Each extension of credit for which an actual copy of the document evidencing the credit transaction (which does not include a so-called "facsimile draft") accompanies the periodic statement on which the transaction is first reflected shall be identified by disclosing on the periodic statement, or on accompanying statement(s) or document(s), the amount of the transaction and, at the creditor's option, either the date of the transaction or the date the transaction is debited to the customer's account.

(2) Each extension of credit for which an actual copy of the document evidencing the credit transaction does not accompany the periodic statement shall be identified by disclosing on or with the periodic statement on which that credit transaction is first reflected at least:

(i) For transactions in which the creditor and the seller are the same person or related persons,^{9b} the amount of the transaction, the date on which

^{9b} For purposes of § 226.7(k) a person is not related to the creditor simply because the person and the creditor have an agreement or contract pursuant to which the person is authorized to honor the creditor's credit card under the terms specified in the agreement or contract. Franchised or licensed sellers of a creditor's product shall be considered to be related to the creditor for purposes of § 226.7(k). Sellers who assign or sell open end customer sales accounts to a creditor or arrange for such credit under an open end credit plan which allows the customer to use the credit only in transactions with that seller shall be considered related to the creditor for purposes of § 226.7(k).

^{9c} Added 8/27/76.

* Added 1/1/76.

the transaction took place,^{9c} and a brief identification^{9d} of any property or services purchased or an identifying number or symbol reasonably unique for that transaction with that creditor which appears on the document evidencing the transaction given to the customer; provided, that, if the creditor discloses such an identifying number or symbol, the absence of the identification of the property or services otherwise required must be treated as a billing error under §§ 226.2(j) and 226.14 and as an erroneous billing under § 226.14 (b) if the customer submits a proper written notice of a billing error relating to such absence, and the creditor must provide documentary evidence of the transaction to the customer free of charge whether or not the customer requests it.

(ii) For transactions in which the seller and the creditor are not the same person or related persons, the amount of the transaction, the date on which the transaction took place, and the seller's name and the address (city and State or foreign country, using understandable and generally accepted abbreviations if the creditor desires) where the transaction took place.

(3) Notwithstanding the provisions of §§ 226.7(k)(1) and 226.7(k)(2), transactions involving nonsale credit, such as a cash advance or an overdraft or other checking plan transactions, shall be identified on or with the periodic statement upon which the transaction is first reflected by providing at least:

(i) An actual copy of the document evidencing the transaction which shows the amount of the transaction and either the date of the transaction, the date the transaction was debited to the customer's account, or the date placed on the document or instrument by the customer (if the customer signed the document or instrument); or

^{9c} With respect to transactions which are not billed in full on any single statement but for which precomputed instalments are billed periodically, the date the transaction takes place for purposes of § 226.7(k) shall be deemed to be the date on which the amount is debited to the customer's account.

^{9d} For purposes of § 226.7(k), designations such as "merchandise" or "miscellaneous" shall not be considered sufficient identification of property or services, but a reference to a department in a sales establishment which accurately conveys the identification of the type(s) of property or services which are available in such department shall be sufficient under this paragraph. Identification may be made on an accompanying slip or by symbol relating to an identification list printed on the statement.

(ii) A description of the transaction, which characterizes it as a cash advance, loan, overdraft loan, or other designation as appropriate, and which includes the amount of the transaction and the date of the transaction^{9e} or the date which appears on the document or instrument evidencing the transaction (if the customer signed the document or instrument).

(4) If, despite the maintenance of procedures reasonably adapted to procure the information required by §§ 226.7(k)(1), (2), and (3) such information is unavailable to the creditor, the date of debiting the amount to the account shall be substituted for the date otherwise required (except that the date of debiting need not be provided if an actual copy of the document evidencing the transaction is provided with the periodic statement) and the creditor shall disclose as much of the other required information as is available and omit any information which is not available, provided, that, if the customer submits a proper written notification of a billing error relating to the absence of the primarily required date or other information, such absence shall be treated as a billing error under §§ 226.2(j) and 226.14 and as an erroneous billing under § 226.14(b) and, unless previously furnished with a periodic statement, documentary evidence of the transaction must be furnished whether or not the customer requests it, within the time period allowed in § 226.14 for resolution of a billing error, without charge to the customer.

(5) In any case in which a transaction occurs other than in a State:

(i) The creditor may disclose the date of debiting the amount of the transaction to the open end credit account in place of any other date required elsewhere in § 226.7(k); and

(ii) The provisions of § 226.7(k)(4) shall apply and the creditor need not maintain procedures otherwise required by § 226.7(k).

(6) In complying with the disclosure requirements of §§ 226.7(k)(1), (2), (3), or (4):

(i) The creditor may rely upon and disclose the information supplied by the seller with respect

^{9e} In cases in which an amount is debited to a customer's open end credit account under an overdraft checking plan, the date of debiting the open end credit account shall be considered the date of the transaction for purposes of this paragraph.

to the date and amount of transactions for which the creditor and the seller are not the same person or related persons.

(ii) With regard to disclosing the seller's address where the transaction took place for purposes of § 226.7(k)(2)(ii), the creditor may omit the address or provide an address or other suitable designation which, in the creditor's opinion, will assist the customer in identifying the transaction or in relating the transaction, as reflected, to a document(s) evidencing the transaction previously furnished when no meaningful address is readily available because the transaction took place at a location which is not fixed (for example, aboard a public conveyance), or in the customer's home (in which case "customer's home" or a similar description is sufficient) or because the transaction was the result of a mail or telephone order (in which case "telephone order," "mail order," or similar description is sufficient); provided that any such disclosure made or omitted shall not be for the purpose of circumvention or evasion of this Part.

(iii) With regard to disclosing the seller's name for purposes of § 226.7(k)(2)(ii), disclosure of a seller's name which appears on the document evidencing the transaction (or a more complete spelling of such a name if the name is alphabetically abbreviated on the document evidencing the transaction) is sufficient for purposes of § 226.7(k)(2)(ii).

(7)(i) As an alternative to the provisions of §§ 226.7(k)(1) through 226.7(k)(5), from October 28, 1976, until October 28, 1977: (A) the creditor may disclose the date of debiting the amount of the transaction to the customer's account for the date of the transaction or the date placed on the document evidencing a credit transaction if, due to operational limitations, either such date is unavailable to the creditor for purposes of billing; and the creditor may disclose an identifying number or symbol which appears on the document evidencing the credit transaction given to or used by the customer at the time of or in connection with the credit transaction in place of the seller's name and address or description of the property or services purchased if, due to operational limitations, such information is unavailable to the creditor for purposes of billing; or (B) the creditor may identify the transaction by disclosing such information as is reasonably available and treating the absence of the information re-

quired by §§ 226.7(k)(1), (2), or (3), as applicable, as a billing error, as provided in §§ 226.2(j) and 226.14. If a customer submits a proper written notification of a billing error relating to the absence of such information and the information was, in fact, not disclosed as required by §§ 226.7(k)(1), (2), or (3), as applicable, the transaction shall be treated as an erroneous billing under § 226.14(b) and documentary evidence of the transaction must be furnished whether or not the customer requests it (despite the provisions of §§ 226.2(j) and 226.14(a)(2)), within the time period allowed in § 226.14 for resolution of a billing error, without charge to the customer.

(ii) The effective date of §§ 226.7(k)(1) through 226.7(k)(7)(i), inclusive, is October 28, 1976. Until October 28, 1976, the creditor shall disclose the date of each extension of credit or the date such extension of credit is debited to the account during the billing cycle, the amount of such extension of credit and, unless previously furnished, a brief identification^{of} of any goods or services purchased or the extension of credit.

SECTION 226.8—CREDIT OTHER THAN OPEN END—SPECIFIC DISCLOSURES

***(a) General rule.** Any creditor when extending credit other than open end credit shall, in accordance with § 226.6 and to the extent applicable, make the disclosures required by this section with respect to any transaction consummated on or after July 1, 1969. Except as otherwise provided in this section, such disclosures shall be made before the transaction is consummated. At the time disclosures are made, the creditor shall furnish the customer with a duplicate of the instrument or a statement by which the required disclosures are made and on which the creditor is identified. All of the disclosures shall be made together on either

(1) The note or other instrument evidencing the obligation on the same side of the page and above or adjacent to the place for the customer's signature; or

^{of} Identification may be made on an accompanying slip or by symbol relating to an identification list printed on the statement.

* Amended 1/21/76.

(2) One side of a separate statement which identifies the transaction.

(i) **Disclosures in sale and nonsale credit.** In any transaction subject to this section, the following items, as applicable, shall be disclosed:

(1) The date on which the finance charge begins to accrue if different from the date of the transaction.

(2) The finance charge expressed as an annual percentage rate, using the term "annual percentage rate," except in the case of a finance charge

(i) which does not exceed \$5 and is applicable to an amount financed not exceeding \$75, or

(ii) which does not exceed \$7.50 and is applicable to an amount financed exceeding \$75. A creditor may not divide an extension of credit into two or more transactions to avoid the disclosure of an annual percentage rate, nor may any other percentage rate be disclosed if none is stated in reliance upon subdivisions (i) or (ii) of this subparagraph.

(3) The number, amount, and due dates or periods of payments scheduled to repay the indebtedness and, except in the case of a loan secured by a first lien or equivalent security interest on a dwelling made to finance the purchase of that dwelling and except in the case of a sale of a dwelling, the sum of such payments using the term "total of payments."¹⁰ If any payment is more than twice the amount of an otherwise regularly scheduled equal payment, the creditor shall identify the amount of such payment by the term "balloon payment" and shall state the conditions, if any, under which that payment may be refinanced if not paid when due.

(4) The amount, or method of computing the amount, of any default, delinquency, or similar charges payable in the event of late payments.

(5) A description or identification of the type of any security interest held or to be retained or acquired by the creditor in connection with the extension of credit, and a clear identification of the property to which the security interest relates or, if such property is not identifiable, an expla-

¹⁰ The disclosures required by this sentence need not be made with respect to interim student loans made pursuant to federally insured student loan programs under Public Law 89-329, Title IV Part B of the Higher Education Act of 1965, as amended.

nation of the manner in which the creditor retains or may acquire a security interest in such property which the creditor is unable to identify. In any such case where a clear identification of such property cannot properly be made on the disclosure statement due to the length of such identification, the note, other instrument evidencing the obligation, or separate disclosure statement shall contain reference to a separate pledge agreement, or a financing statement, mortgage, deed of trust, or similar document evidencing the security interest, a copy of which shall be furnished to the customer by the creditor as promptly as practicable. If after-acquired property will be subject to the security interest, or if other or future indebtedness is or may be secured by any such property, this fact shall be clearly set forth in conjunction with the description or identification of the type of security interest held, retained or acquired.

(6) A description of any penalty charge that may be imposed by the creditor or his assignee for prepayment of the principal of the obligation (such as a real estate mortgage) with an explanation of the method of computation of such penalty and the conditions under which it may be imposed.

(7) Identification of the method of computing any unearned portion of the finance charge in the event of prepayment in full of an obligation which includes precomputed finance charges and a statement of the amount or method of computation of any charge that may be deducted from the amount of any rebate of such unearned finance charge that will be credited to an obligation or refunded to the customer. If the credit contract does not provide for any rebate of unearned finance charges upon prepayment in full, this fact shall be disclosed.

(c) **Credit sales.** In the case of a credit sale, in addition to the items required to be disclosed under paragraph (b) of this section, the following items, as applicable, shall be disclosed:

(1) The cash price of the property or service purchased, using the term "cash price."

(2) The amount of the downpayment itemized, as applicable, as downpayment in money, using the term "cash downpayment," downpayment in property, using the term "trade-in," and the sum, using the term "total downpayment."

(3) The difference between the amounts described in subparagraphs (1) and (2) of this

paragraph, using the term "unpaid balance of cash price."

(4) All other charges, individually itemized, which are included in the amount financed but which are not part of the finance charge.

(5) The sum of the amounts determined under subparagraphs (3) and (4) of this paragraph, using the term "unpaid balance."

(6) Any amounts required to be deducted under paragraph (e) of this section using, as applicable, the terms "prepaid finance charge" and "required deposit balance," and, if both are applicable, the total of such items using the term "total prepaid finance charge and required deposit balance."

(7) The difference between the amounts determined under subparagraphs (5) and (6) of this paragraph, using the term "amount financed."

(8) Except in the case of a sale of a dwelling:

(i) The total amount of the finance charge, using the term "finance charge," and where the total charge consists of two or more types of charges, a description of the amount of each type, and

(ii) The sum of the amounts determined under subparagraphs (1), (4), and (8)(i) of this paragraph, using the term "deferred payment price."

(d) **Loans and other nonsale credit.** In the case of a loan or extension of credit which is not a credit sale, in addition to the items required to be disclosed under paragraph (b) of this section, the following items, as applicable, shall be disclosed:

(1) The amount of credit, excluding items set forth in paragraph (e) of this section, which will be paid to the customer or for his account or to another person on his behalf, including all charges, individually itemized, which are included in the amount of credit extended but which are not part of the finance charge, using the term "amount financed."

(2) Any amount referred to in paragraph (e) of this section required to be excluded from the amount in subparagraph (1) of this paragraph, using, as applicable, the terms "prepaid finance charge" and "required deposit balance," and, if both are applicable, the total of such items using the term "total prepaid finance charge and required deposit balance."

* Amended 8/6/76.

** (3) Except in the case of a loan secured by a first lien or equivalent security interest on a dwelling and made to finance the purchase of that dwelling, the total amount of the finance charge,¹¹ using the term "finance charge," and where the total charge consists of two or more types of charges, a description of the amount of each type.

e) **Finance charge payable separately or withheld; required deposit balances.** The following amounts shall be disclosed and deducted in a credit sale in accordance with paragraph (c)(6) of this section, and in other extensions of credit shall be excluded from the amount disclosed under paragraph (d)(1) of this section, and shall be disclosed in accordance with paragraph (d)(2) of this section:

(1) Any finance charge paid separately, in cash or otherwise, directly or indirectly to the creditor or with the creditor's knowledge to another person, or withheld by the creditor from the proceeds of the credit extended.¹²

(2) Any deposit balance or any investment which the creditor requires the customer to make, maintain, or increase in a specified amount or proportion as a condition to the extension of credit except:

(i) An escrow account under paragraph (e)(3) of § 226.4,

(ii) A deposit balance which will be wholly applied toward satisfaction of the customer's obligation in the transaction,

(iii) A deposit balance or investment which was in existence prior to the extension of credit and which is offered by the customer as security for that extension of credit, and

(iv) A deposit balance or investment which was acquired or established from the proceeds of an extension of credit made for that purpose upon written request of the customer.

(f) **First lien to finance construction of dwelling.** In any case where a first lien or equivalent security interest in real property is retained or ac-

¹¹ The disclosure required by this subparagraph need not be made with respect to interim student loans made pursuant to federally insured student loan programs under Public Law 89-329, Title IV Part B of the Higher Education Act of 1965, as amended.

¹² Finance charges deducted or excluded as provided by this paragraph shall, nevertheless, be included in determining the finance charge under § 226.4.

quired by a creditor in connection with the financing of the initial construction of a dwelling, or in connection with a loan to satisfy that construction loan and provide permanent financing of that dwelling, whether or not the customer previously owned the land on which that dwelling is to be constructed, such security interest shall be considered a first lien against that dwelling to finance the purchase of that dwelling.

(g) **Orders by mail or telephone.** If a creditor receives a purchase order or a request for an extension of credit by mail, telephone, or written communication without personal solicitation, the disclosures required under this section may be made any time not later than the date the first payment is due, provided:

(1) In the case of credit sales, the cash price, the downpayment, the finance charge, the deferred payment price, the annual percentage rate, and the number, frequency, and amount of payments are set forth in or are determinable from the creditor's catalog or other printed material distributed to the public; or

(2) In the case of loans or other extensions of credit, the amount of the loan, the finance charge, the total scheduled payments, the number, frequency, and amount of payments, and the annual percentage rate for representative amounts or ranges of credit are set forth in or are determinable from the creditor's printed material distributed to the public, in the contract of loan, or in other printed material delivered or made available to the customer.

(h) **Series of sales.** If a credit sale is one of a series of transactions made pursuant to an agreement providing for the addition of the amount financed plus the finance charge for the current sale to an existing outstanding balance, then the disclosures required under this section for the current sale may be made at any time not later than the date the first payment for that sale is due, provided:

(1) The customer has approved in writing both the annual percentage rate or rates and the method of treating any unearned finance charge on an existing outstanding balance in computing the finance charge or charges; and

(2) The creditor retains no security interest in any property as to which he has received payments aggregating the amount of the sale price including any finance charges attributable thereto.

For the purposes of this subparagraph, in the case of items purchased on different dates, the first purchased shall be deemed first paid for, and in the case of items purchased on the same date, the lowest priced shall be deemed first paid for.

(i) **Advances under loan commitments.** If a loan is one of a series of advances made pursuant to a written agreement under which a creditor is or may be committed to extend credit to a customer up to a specified amount, and the customer has approved in writing the annual percentage rate or rates, the method of computing the finance charge or charges, and any other terms, the agreement shall be considered a single transaction, and the disclosures required under this section at the creditor's option need be made only at the time the agreement is executed.

(j) **Refinancing, consolidating, or increasing.** If any existing extension of credit is refinanced, or two or more existing extensions of credit are consolidated, or an existing obligation is increased, such transaction shall be considered a new transaction subject to the disclosure requirements of this Part. For the purpose of such disclosure, any unearned portion of the finance charge which is not credited to the existing obligation shall be added to the new finance charge and shall not be included in the new amount financed. Any increase in an existing obligation to reimburse the creditor for undertaking the customer's obligation in perfecting, protecting or preserving the security shall not be considered a new transaction subject to this Part. Any advance for agricultural purposes made under an open end real estate mortgage or similar lien shall not be considered a new transaction subject to the disclosure requirements of this section, provided:

(1) The maturity of the advance does not exceed 2 years;

(2) No increase is made in the annual percentage rate previously disclosed; and

(3) All disclosures required by this Part were made at the time the security interest was acquired by the creditor or at any time prior to the first advance made on or following the effective date of this Part.

(k) **Assumption of an obligation.** Any creditor who accepts a subsequent customer as an obligor under an existing obligation shall make the disclosures required by this Part to that customer before he becomes so obligated. If the obligation

so assumed is secured by a first lien or equivalent security interest on a dwelling, and the assumption is made for the subsequent customer to acquire that dwelling, that obligation shall be considered a loan made to finance the purchase of that dwelling.

(1) **Deferrals or extensions.** In the case of an obligation other than an obligation upon which the amount of the finance charge is determined by the application of a percentage rate to the unpaid balance, if the creditor imposes a charge or fee for deferral or extension, the creditor shall disclose to the customer

- (1) The amount deferred or extended;
- (2) The date to which, or the time period for which payment is deferred or extended; and
- (3) The amount of the charge or fee for the deferral or extension.

(m) **Series of single payment obligations.** Any extension of credit involving a series of single payment obligations shall be considered a single transaction subject to the disclosure requirements of this Part.

(n) **Periodic statements.** (1) If a creditor transmits a periodic billing statement¹³ other than a delinquency notice, payment coupon book, or payment passbook, or a statement, billing, or advice relating exclusively to amounts to be paid by the customer as escrows for payment of taxes, insurance, and water, sewer, and land rents, it shall be in a form which the customer may retain and shall set forth:

- (i) The annual percentage rate or rates unless exempted by § 226.8(b)(2), and
- (ii) The date by which, or the period, if any, within which payment must be made in order to avoid late payment or delinquency charges.

(2) If the creditor is required to send a periodic statement under paragraph (q) of this section, the requirements of § 226.7(b)(1)(i), (ii), (iii), (ix), and (x), and § 226.7(b)(2) shall be met, as applicable, in addition to the disclosures required by this paragraph.

(o) **Discount for prompt payment of sales**

transactions. (1) For the purposes of this paragraph, a "transaction subject to § 226.8(o)" is a credit sale transaction which is not exempt under § 226.3 and which is subject to a discount for payment on or before a specified date (e.g., 2% discount if paid within 10 days) or to a charge for delaying payment after a specified date (e.g., \$98 cash, \$100 if paid in 30 days). Both such a discount and such a charge are referred to in this paragraph as a "discount." In the case of any transaction subject to § 226.8(o), notwithstanding the provisions of the last sentence of paragraph (a) of this section, the creditor shall disclose on the invoice or other evidence of such sale, as applicable:

- (i) The date of the sale or invoice.
- (ii) The rate of discount, the date by which or period within which the discount may be taken, and the date by which or period within which the full amount of the obligation is due and payable. (For example, "2%/10 days, net 30 days"; or "\$1 per ton/10 days, net 30 days.")
- (iii) The information required under § 226.8(b)(4) and (5).
- (iv) The amount of the discount, designated as a "finance charge," using that term.

(v) If the discount shown for prompt payment exceeds 5% of the obligation to which the discount relates, the "annual percentage rate," using that term, computed in accordance with subparagraph (2) of this paragraph, but subject to the exceptions provided under § 226.8(b)(2).

(2) For the purposes of subparagraph (1)(v) of this paragraph, the annual percentage rate shall be determined by dividing the amount of the finance charge by the least amount payable in satisfaction of the obligation and multiplying the quotient (expressed as a percentage) by a fraction in which the numerator is 12, and the denominator is the number of whole months (but not less than 1) between the first day of the monthly billing cycle in which the transaction is consummated and the first day of the monthly billing cycle in which the obligation becomes due.^{13a}

¹³ Any statement, notice, or reminder of payment due on any transaction payable in instalments which is mailed or delivered periodically to the customer in advance of the due date of the instalment shall be a periodic billing statement for the purpose of this paragraph.

^{13a} For example, a \$1,000 purchase of feed subject to terms of 6%/10 days, net 30 days (or 6%/10 days, net E.O.M.; or 6%/10 days, net 10th of the following month; or 6%/20 days, net 30 days; or 6%/30 days, net 30 days; or 6% discount for cash, net 30 days) results

(Continued on page 28)

(3) In a transaction with multiple discount rates (e.g., 6%/10 days, 4%/20 days, net 30 days), the largest discount shall be used for purposes of disclosing the amount of the finance charge under subparagraph (1)(iv) of this paragraph and the annual percentage rate under subparagraph (1)(v) of this paragraph.^{13b}

(4) In order to determine the applicability of subparagraph (1)(v) of this paragraph and to facilitate disclosure of an annual percentage rate, if the amount of the discount for prompt payment is related, pursuant to usual business practice, to weight, quantity, or other physical measure (e.g., \$1 per ton or 1¢ per gallon) rather than expressed as a percentage of discount, that discount may be converted to an approximate discount rate and, under subparagraph (2) of this paragraph, a reasonably accurate approximation of the annual percentage rate by using approximate or projected prices per physical unit determined on the basis of past experience, current information, or projected analysis.^{13c}

(5) If by its terms a transaction subject to § 226.8(o) is payable in a single payment and no finance charge other than a discount is or may be imposed, and such discount is not utilized for the purpose of circumvention or evasion of disclosure requirements, the disclosure required by subparagraph (1) of this paragraph shall constitute compliance with the requirements of § 226.8 and under § 226.9(a) shall constitute "all other material disclosures required under this Part."

(6) If a transaction subject to § 226.8(o) is debited to an open end credit account, disclosures shall be made as specified in paragraph (1) of

in a finance charge of \$60, a least amount payable of \$940, and an annual percentage rate of 76.56%, which may be rounded to 76.50% or 76½%. Terms of 6%/20 days, net September 29 applied to an April purchase, assuming a calendar month billing cycle, result in an annual percentage rate of 15.31% (i.e., $6/94 \times 12/5$) which may be rounded to 15.25% or 15¼%. In this example the 29 days in September are ignored and the denominator (5) is determined by the number of whole months in the period.

^{13b} For example, terms of 6%/10 days, 4%/20 days, net 30 days would be treated like terms of 6%/10 days, net 30 days, which would represent an annual percentage rate of 76½%.

^{13c} For example, if terms of \$3 discount per ton/10 days, net 30 days are offered on fertilizer that is expected to sell in a range of about \$48 to \$52 per ton, the annual percentage rate could be approximated for preprinting as if it were 6% (i.e., \$3 on \$50)/10 days, net 30 days, that is, 76½%.

this section and also as specified in § 226.7. The full amount of the obligation including the amount of the discount may be debited to the open end credit account, under § 226.7(b)(1)(ii), and the amount of any finance charge representing the discount need not be added to any other finance charge for the purpose of computing and disclosing the total amount of finance charge and the annual percentage rate under § 226.5(a) and § 226.7.^{13d}

(7) If a transaction subject to § 226.8(o) is not debited to an open end credit account, but either is subject to an additional finance charge or is payable by its terms in more than one payment, disclosures shall be made as specified in subparagraph (1) of this paragraph and also as specified in paragraphs (b) and (c) of this section. In such a case, if the transaction is payable in more than one payment, the amount of the discount shall be deducted for the purpose of computing and disclosing the cash price under paragraph (c)(1) of this section and shall be added to any other finance charge for the purpose of computing and disclosing the amount of the finance charge under paragraph (c)(8)(i) of this section and the annual percentage rate under paragraph (b)(2) of this section.^{13e} If the transaction is payable in a single payment, the discount may be disregarded in computing and disclosing such cash price, finance charge, and annual percentage rate.^{13f}

(8) Notwithstanding the provisions of the second sentence of paragraph (a) of this section, the disclosures required under subparagraph (1) of this paragraph made on the invoice or other evidence of the sale may be delivered subsequent to consummation of the transaction.

(9) Amended paragraph (o) of § 226.8 shall

^{13d} For example, if a \$1,000 sale on terms of 2%/10 days, net 30 days, is debited to an open end account on which 1% per month is charged, the periodic statement under § 226.7(b) (assuming no other transactions in the account) would show a previous balance of \$1,000, a finance charge of \$10, and an annual percentage rate of 12%.

^{13e} For example, if a \$1,000 sale on terms of 2%/10 days, net 30 days is subject to an add-on finance charge of \$100 and is payable in instalments, the disclosures under § 226.8(b) and (c) would include a cash price of \$980 and a finance charge of \$120.

^{13f} For example, if a \$1,000 sale on August 2 not under an open end account is subject to terms of 2%/10 days, net 30 days, thereafter 8% per annum until December 1, the disclosures under § 226.8(b) and (c) would include a cash price of \$1,000, a finance charge of \$19.95, and an annual percentage rate of 8.00%.

become effective August 11, 1969, but until March 1, 1970, any creditor may at his option use any printed forms which were prepared before such effective date in accordance with paragraph (o) of § 226.8 in effect at the time of such preparation.

(p) **Agricultural credit—information not determinable.** (1) In any transaction subject to this section, if the amount or date of any advance or payment in connection with an extension of credit for agricultural purposes under a written agreement is to be determined by production, seasonal needs, or similar operational factors, and is not determinable at the time of execution of the agreement, disclosures may be made at the creditor's option in accordance with this paragraph, provided the use of this paragraph is not for the purpose of circumvention or evasion of this Part.

(2) If a creditor elects to make disclosures under this paragraph, he shall disclose the following items in accordance with § 226.8(a), which shall constitute compliance with the requirements of § 226.8, and under § 226.9(a) shall constitute "all other material disclosures required under this Part":

(i) The method of computing the amount of the finance charge including an identification of each component thereof in accordance with § 226.4;

(ii) Any item required to be disclosed under § 226.8(b)(3) which is determinable at the time the disclosures are required to be made under this paragraph;

(iii) The disclosures, as applicable, required under § 226.8(b)(4), (5), (6), and (7) and the items described in § 226.8(e)(1) and (2); and

(iv) The disclosures, as applicable, required under § 226.8(o)(1), (2), (3), (4), (5), (8), and (9).

(3) Disclosures made pursuant to subparagraph (2)(i), (ii), and (iii) of this paragraph need be made only on the agreement or on a separate statement as specified in § 226.8(a).

(4) If a creditor making disclosures pursuant to this paragraph transmits a periodic billing statement of the type described in paragraph (n) of § 226.8, such statement shall be in a form which the customer may retain and shall set forth the date by which, or the period, if any, within which payment must be made in order to avoid late payment or delinquency charges.

(q) **Credit card accounts.** In addition to the requirements of this section, consumer credit other

than open end which is extended on an account by use of a credit card shall also be subject to the requirements of §§ 226.7(a)(6), (7), (8), and (9); 226.7(b)(1)(i), (ii), (iii), (ix), and (x); 226.7(b)(2); 226.7(c), (d), (g), (h), and (i); 226.13(i), (j), and (k); and 226.14.

SECTION 226.9—RIGHT TO RESCIND CERTAIN TRANSACTIONS

(a) **General rule.** Except as otherwise provided in this section, in the case of any credit transaction in which a security interest is or will be retained or acquired in any real property which is used or is expected to be used as the principal residence of the customer, the customer shall have the right to rescind that transaction until midnight of the third business day¹⁴ following the date of consummation of that transaction or the date of delivery of the disclosures required under this section and all other material disclosures required under this Part, whichever is later, by notifying the creditor by mail, telegram, or other writing of his intention to do so. Notification by mail shall be considered given at the time mailed; notification by telegram shall be considered given at the time filed for transmission; and notification by other writing shall be considered given at the time delivered to the creditor's designated place of business.

(b) **Notice of opportunity to rescind.** Whenever a customer has the right to rescind a transaction under paragraph (a) of this section, the creditor shall give notice of that fact to the customer by furnishing the customer with two copies of the notice set out below, one of which may be used by the customer to cancel the transaction. Such notice shall be printed in capital and lower case letters of not less than 12 point bold-faced type on one side of a separate statement which identifies the transaction to which it relates. Such statement shall also set forth the entire paragraph (d) of this section, "Effect of rescission." If such paragraph appears on the reverse side of the

¹⁴For the purpose of this section, a business day is any calendar day except Sunday and those legal public holidays specified in Section 6103(a) of Title 5 of the United States Code (New Year's Day, Washington's Birthday, Memorial Day, Independence Day, Labor Day, Columbus Day, Veterans Day, Thanksgiving Day and Christmas Day).

statement, the face of the statement shall state: "See reverse side for important information about your right of rescission." Before furnishing copies of the notice to the customer, the creditor shall complete both copies with the name of the creditor, the address of the creditor's place of business, the date of consummation of the transaction, and the date, not earlier than the third business day following the date of the transaction, by which the customer may give notice of cancellation. Where the real property on which the security interest may arise does not include a dwelling, the creditor may substitute the words "the property you are purchasing" for "your home," or "lot" for "home," where these words appear in the notice.

Notice to customer required by Federal law:

You have entered into a transaction on _____ (date) _____ which may result in a lien, mortgage, or other security interest on your home. You have a legal right under Federal law to cancel this transaction, if you desire to do so, without any penalty or obligation within three business days from the above date or any later date on which all material disclosures required under the Truth in Lending Act have been given to you. If you so cancel the transaction, any lien, mortgage, or other security interest on your home arising from this transaction is automatically void. You are also entitled to receive a refund of any downpayment or other consideration if you cancel. If you decide to cancel this transaction, you may do so by notifying

(Name of creditor)

at _____ (Address of creditor's place of business) by mail or telegram sent not later than midnight of _____ (date) . You may also use any other form of written notice identifying the transaction if it is delivered to the above address not later than that time. This notice may be used for that purpose by dating and signing below.

I hereby cancel this transaction.

(date)

(customer's signature)

(c) **Delay of performance.** Except as provided in paragraph (e) of this section, the creditor in any transaction subject to this section, other than an extension of credit primarily for agricultural purposes, shall not perform, or cause or permit the performance of, any of the follow-

ing actions until after the rescission period has expired and he has reasonably satisfied himself that the customer has not exercised his right of rescission:

- (1) Disburse any money other than in escrow;
- (2) Make any physical changes in the property of the customer;
- (3) Perform any work or service for the customer; or
- (4) Make any deliveries to the residence of the customer if the creditor has retained or will acquire a security interest other than one arising by operation of law.

(d) **Effect of rescission.** When a customer exercises his right to rescind under paragraph (a) of this section, he is not liable for any finance or other charge, and any security interest becomes void upon such a rescission. Within 10 days after receipt of a notice of rescission, the creditor shall return to the customer any money or property given as earnest money, downpayment, or otherwise, and shall take any action necessary or appropriate to reflect the termination of any security interest created under the transaction. If the creditor has delivered any property to the customer, the customer may retain possession of it. Upon the performance of the creditor's obligations under this section, the customer shall tender the property to the creditor, except that if return of the property in kind would be impracticable or inequitable, the customer shall tender its reasonable value. Tender shall be made at the location of the property or at the residence of the customer, at the option of the customer. If the creditor does not take possession of the property within 10 days after tender by the customer, ownership of the property vests in the customer without obligation on his part to pay for it.

(e) **Waiver of right of rescission.** A customer may modify or waive his right to rescind a transaction subject to the provisions of this section provided:

- (1) The extension of credit is needed in order to meet a bona fide immediate personal financial emergency of the customer;
- (2) The customer has determined that a delay of 3 business days in performance of the creditor's obligation under the transaction will jeopardize the welfare, health or safety of natural persons or endanger property which the customer owns or for which he is responsible; and

(3) The customer furnishes the creditor with a separate dated and signed personal statement describing the situation requiring immediate remedy and modifying or waiving his right of rescission. The use of printed forms for this purpose is prohibited.

(f) **Joint ownership.** For the purpose of this section, "customer" shall include two or more customers where joint ownership is involved, and the following shall apply:

(1) The right of rescission of the transaction may be exercised by any one of them, in which case the effect of rescission in accordance with paragraph (d) of this section applies to all of them; and

(2) Any waiver of the right of rescission provided in paragraph (e) of this section is invalid unless signed by all of them.

(g) **Exceptions to general rule.** This section does not apply to:

(1) The creation, retention, or assumption of a first lien or equivalent security interest to finance the acquisition of a dwelling in which the customer resides or expects to reside.

(2) A security interest which is a first lien retained or acquired by a creditor in connection with the financing of the initial construction of the residence of the customer, or in connection with a loan committed prior to completion of the construction of that residence to satisfy that construction loan and provide permanent financing of that residence, whether or not the customer previously owned the land on which that residence is to be constructed.

(3) Any lien by reason of its subordination at any time subsequent to its creation, if that lien was exempt from the provisions of this section when it was originally created.

(4) Any advance for agricultural purposes made pursuant to either:

(i) Paragraph (j) of § 226.8 under an open end real estate mortgage or similar lien, provided the disclosure required under paragraph (b) of this section was made at the time the security interest was acquired by the creditor or at any time prior to the first advance made on or following the effective date of this Part, or

(ii) Paragraph (p) of § 226.8 under a written agreement, provided the disclosure required under paragraph (b) of this section was made at the time the written agreement was executed by the customer.

(5) Any transaction in which an agency of a State is the creditor.

(h) **Time limit for unexpired right of rescission.** In the event the creditor fails to deliver to the customer the disclosures required by this section or the other material disclosures required by this Part, a customer's right to rescind a transaction pursuant to this section shall expire the earlier of (1) three years after the date of consummation of the transaction, or (2) the date the customer transfers all his interest, both equitable and legal, in the property.

SECTION 226.10—ADVERTISING CREDIT AND LEASE TERMS

* (a) **General rule.**

(1) No advertisement to aid, promote, or assist directly or indirectly any extension of credit may state

(i) That a specific amount of credit or installment amount can be arranged unless the creditor usually and customarily arranges or will arrange credit amounts or instalments for that period and in that amount; or

(ii) That no downpayment or that a specified downpayment will be accepted in connection with any extension of credit, unless the creditor usually and customarily accepts or will accept downpayments in that amount.

(2) No advertisement to aid, promote, or assist directly or indirectly any consumer lease may state that a specific lease of any property at specific amounts or terms is available unless the lessor usually and customarily leases or will lease such property at those amounts or terms.

* (b) **Catalogs and multi-page advertisements.** If a catalog or other multiple-page advertisement sets forth or gives information in sufficient detail to permit determination of the disclosures required by this section in a table or schedule of credit or lease terms, such catalog or multiple-page advertisement shall be considered a single advertisement provided:

(1) The table or schedule and the disclosures made therein are set forth clearly and conspicuously; and

(2) Any statement of credit or lease terms appearing in any place other than in that table or

* Amended 3/23/77.

schedule of credit or lease terms clearly and conspicuously refers to the page or pages on which that table or schedule appears, unless that statement discloses all of the credit or lease terms required to be stated under this section. For the purpose of this subparagraph, cash price is not a credit term.

(c) **Advertising of open end credit.** No advertisement to aid, promote, or assist directly or indirectly the extension of open end credit may set forth any of the terms described in paragraph (a) of § 226.7, the Comparative Index of Credit Cost, or that a specified downpayment or periodic payment is required (either in dollars or as a percentage), the period of repayment or any of the following items, unless it also clearly and conspicuously sets forth all the following items in terminology prescribed under paragraph (b) of § 226.7:

(1) An explanation of the time period, if any, within which any credit extended may be paid without incurring a finance charge;

(2) The method of determining the balance upon which a finance charge may be imposed;

(3) The method of determining the amount of the finance charge, including the determination of any minimum, fixed, check service, transaction, activity, or similar charge, which may be imposed as a finance charge; and

(4) Where one or more periodic rates may be used to compute the finance charge, each corresponding annual percentage rate determined by multiplying the periodic rate by the number of periods in a year and, where there is more than one corresponding annual percentage rate, the range of balances to which each is applicable.¹⁵

(d) **Advertising of credit other than open end.** No advertisement to aid, promote, or assist directly or indirectly any credit sale including the sale of residential real estate, loan, or other extension of credit, other than open end credit, subject to the provisions of this Part, shall state

(1) The rate of the finance charge except as

¹⁵ A creditor imposing minimum charges is not required to adjust the disclosure of the range of balances to which each rate would apply in order to reflect the range of the balances below which the minimum charge applies. If a creditor does not impose a finance charge when the outstanding balance is less than a certain amount, the creditor is not required to disclose that fact or the balance below which no such charge will be imposed.

an "annual percentage rate," using that term. No other rate of finance charge may be stated, except that:

(i) Where the total finance charge includes, as a component, interest computed at a simple annual rate, the simple annual rate may be stated in conjunction with, but not more conspicuously than, the annual percentage rate, or

(ii) Where the finance charge is computed solely by the application of a periodic rate to an unpaid balance, the periodic rate may be stated in conjunction with, but not more conspicuously than, the annual percentage rate.

(2) That no downpayment is required, or the amount of the downpayment or of any instalment payment required (either in dollars or as a percentage), the dollar amount of any finance charge, the number of instalments or the period of repayment, or that there is no charge for credit, unless it also clearly and conspicuously sets forth all of the following items in terminology prescribed under § 226.8:

(i) The cash price or the amount of the loan, as applicable.

(ii) In a credit sale, the amount of the downpayment required or that no downpayment is required, as applicable.

(iii) The number, amount, and due dates or period of payments scheduled to repay the indebtedness if the credit is extended.

(iv) The amount of the finance charge expressed as an annual percentage rate. The exemptions from disclosure of an annual percentage rate permitted in paragraph (b)(2) of § 226.8 shall not apply to this subdivision.

(v) Except in the case of the sale of a dwelling or a loan secured by a first lien on a dwelling to purchase that dwelling, the deferred payment price in a credit sale, or the total of payments in a loan or other extension of credit which is not a credit sale, as applicable.

(e) **Advertising of FHA Section 235 financing.** Any advertisement to aid, promote, or assist directly or indirectly the sale of residential real estate under Title II, Section 235, of the National Housing Act (12 U.S.C. 1715z) shall clearly identify those credit terms which apply to the assistance program and, except as provided in this paragraph, comply with the provisions of paragraph (d) of this section. No such advertisement shall state:

(1) The amount of any payment scheduled to

repay the indebtedness without stating the family size and income level applicable to that amount.

(2) Any rate of a finance charge, or the amount of the finance charge, expressed as an annual percentage rate based on the assistance. The annual percentage rate exclusive of the assistance may be stated, but is not required.

(f) **Credit payable in more than four instalments; no identified finance charge.** Any advertisement to aid, promote, or assist directly or indirectly an extension of consumer credit repayable by agreement in more than four instalments shall, unless a specific finance charge is or may be imposed, state clearly and conspicuously: "The cost of credit is included in the price quoted for the goods and services."

* (g) **Advertising of consumer leases.** No advertisement to aid, promote, or assist directly or indirectly any consumer lease shall state the amount of any payment, the number of required payments, or that any or no downpayment or other payment is required at consummation of the lease unless the advertisement also states clearly and conspicuously each of the following items of information as applicable:

(1) That the transaction advertised is a lease.

(2) The total amount of any payment such as a security deposit or capitalized cost reduction required at the consummation of the lease, or that no such payments are required.

(3) The number, amounts, due dates or periods of scheduled payments, and the total of such payments under the lease.

(4) A statement of whether or not the lessee has the option to purchase the lease property and at what price and time. The method of determining the price may be substituted for disclosure of the price.

(5) A statement of the amount or method of determining the amount of any liabilities the lease imposes upon the lessee at the end of the term and a statement that the lessee shall be liable for the difference, if any, between the estimated value of the lease property and its realized value at the end of the lease term, if the lessee has such liability.

* (h) **Multiple item leases; merchandise tags.** If a merchandise tag for an item normally included in a multiple item lease sets forth information

which would require additional disclosures under § 226.10(g), such merchandise tag need not contain such additional disclosures, provided it clearly and conspicuously refers to a sign or display which is prominently posted in the lessor's showroom. Such sign or display shall contain a table or schedule of those items of information to be disclosed under § 226.10(g).

SECTION 226.11—COMPARATIVE INDEX OF CREDIT COST FOR OPEN END CREDIT

(a) **General rule.** Any creditor who elects to disclose the Comparative Index of Credit Cost on open end credit accounts

(1) Shall compute the Comparative Index of Credit Cost in accordance with paragraph (b) of this section;

(2) Shall recompute the Comparative Index of Credit Cost in accordance with paragraph (b) of this section based upon any new open end credit account terms to be adopted and shall disclose the new Comparative Index of Credit Cost in accordance with paragraph (c)(2) of this section concurrently with the notice required under paragraph (f) of § 226.7;

(3) Shall, when making such disclosure under the provisions of paragraphs (a)(5) and (b)(1)(vii) of § 226.7, make the disclosure to all open end credit account customers; and

(4) Shall not utilize such disclosure so as to mislead or confuse the customer or contradict, obscure, or detract attention from the required disclosures.

(b) **Computation of Comparative Index of Credit Cost.** The Comparative Index of Credit Cost for each open end credit plan shall be computed by applying the creditor's terms of that plan to the following hypothetical factors:

(1) A single transaction in the amount of \$100 is debited on the first day of a billing cycle to an open end credit account having no previous balance.

(2) The creditor imposes all finance charges including periodic, fixed, minimum or other charges applicable to such account in amounts and on dates consistent with his policy of imposing such charges upon open end credit accounts.

(3) The exact amount of the required minimum periodic payment is paid on the last day of

* Added 3/23/77.

each subsequent and successive billing cycle until the amount of the single transaction, together with applicable finance charges, is paid in full.

(4) The Comparative Index of Credit Cost shall be expressed and disclosed as a percentage, accurate to the nearest quarter of 1 per cent and shall be determined by dividing the total amount of the finance charges imposed by the sum of the daily balances and multiplying the quotient so obtained (expressed as a percentage) by 365.

(c) **Form of disclosure.** Any creditor who elects to disclose the Comparative Index of Credit Cost shall:

(1) Make the disclosure in the form of the following statement: "Our Comparative Index of Credit Cost under the terms of our open end credit account plan is ___% per year, computed on the basis of a single transaction of \$100 debited on the first day of a billing cycle to an account having no previous balance, and paid in required minimum consecutive instalments on the last day of each succeeding billing cycle until the transaction and all finance charges are paid in full. The actual percentage cost of credit on your account may be higher or lower depending on the dates and amounts of charges and payments."

(2) Disclose any newly computed Comparative Index of Credit Cost in the form of the statement prescribed in subparagraph (1) of this paragraph, except that the statement shall be preceded by the words "Effective as of _____ (date) _____," and the words "will be" shall be substituted for the word "is" in the second line of the statement.

SECTION 226.12—EXEMPTION OF CERTAIN STATE REGULATED TRANSACTIONS

*** (a) Exemption for State regulated transactions.**

In accordance with the provisions of Supplements II, IV, V, and VI to Regulation Z, any State may make application to the Board for exemption of any class of transactions within the State from the requirements of chapters 2, 4 or 5 of the Act and the corresponding provisions of this Part, Provided that:

(1) The Board determines that under the law of that State, that class of transactions is subject to requirements substantially similar to those im-

posed under chapter 2 or chapter 4 of the Act, or both, or under chapter 5, and the corresponding provisions of this Part; or in the case of chapter 4, the consumer is afforded greater protection than is afforded under chapter 4 of the Act, or in the case of chapter 5, the lessee is afforded greater protection and benefit than is afforded under chapter 5 of the Act, and

(2) There is adequate provision for enforcement.

** (b) **Procedures and criteria.** The procedures and criteria under which any State may apply for the determination provided for in paragraph (a) of this section are set forth in Supplement II to Regulation Z with respect to disclosure and re-
disclosure requirements (sections 121-131 of chapter 2), Supplement IV with respect to the prohibition of the issuance of unsolicited credit cards and the liability of the cardholder for unauthorized use of a credit card (sections 132-133 of chapter 2), in Supplement V with respect to fair credit billing requirements (sections 161-171 of chapter 4) and in Supplement VI with respect to consumer leasing (sections 181-186 of chapter 5).

(c) **Civil liability.** In order to assure that the concurrent jurisdiction of Federal and State courts created in section 130(e) of the Act shall continue to have substantive provisions to which such jurisdiction shall apply, and generally to aid in implementing the Act with respect to any class of transactions exempted pursuant to paragraph (a) of this section and Supplement II, the Board pursuant to sections 105 and 123 hereby prescribes that:

(1) No such exemptions shall be deemed to extend to the civil liability provisions of sections 130 and 131; and

(2) After an exemption has been granted, the disclosure requirements of the applicable State law shall constitute the disclosure requirements of this Act, except to the extent that such State law imposes disclosure requirements not imposed by this Act. Information required under such State law with the exception of those provisions which impose disclosure requirements not imposed by this Act shall, accordingly, constitute the "information required under this chapter" (chapter 2 of the Act) for the purpose of section 130(a).

(d) **Exemptions granted.** Exemptions granted by the Board to particular classes of credit trans-

* Amended 3/23/77.

** Amended 3/23/77.

actions within specified States are set forth in Supplement III to Regulation Z.

SECTION 226.13—CREDIT CARD
TRANSACTIONS—
SPECIAL REQUIREMENTS

(a) **Issuance of credit cards.** Regardless of whether a credit card is to be used for personal, family, household, agricultural, business, or commercial purposes, no credit card shall be issued to any person except:

(1) In response to a request or application therefor, or

(2) As a renewal of, or in substitution for, an accepted credit card whether such card is issued by the same or a successor card issuer.

(b) **Conditions of liability of cardholder.** A cardholder shall be liable for unauthorized use of each credit card issued only if

(1) The credit card is an accepted credit card;

(2) Such liability does not exceed the lesser of \$50 or the amount of money, property, labor, or services obtained by such use prior to notification of the card issuer pursuant to paragraph (e) of this section;

(3) The card issuer has given adequate notice to the cardholder of his potential liability on the credit card or within 2 years preceding the unauthorized use; and

(4) The card issuer has provided the cardholder with an addressed notification requiring no postage to be paid by the cardholder which may be mailed by the cardholder in the event of the loss, theft, or possible unauthorized use of the credit card.

(c) **Other conditions of liability.** In addition to the conditions of liability in paragraph (b) of this section, no cardholder shall be liable for the unauthorized use of any credit card which was issued after January 24, 1971, and, regardless of the date of its issuance, after January 24, 1972, no cardholder shall be liable for the unauthorized use of any credit card, unless the card issuer has provided a method whereby the user of such card can be identified as the person authorized to use it, such as by signature, photograph, or fingerprint on the credit card or by electronic or mechanical confirmation.

(d) **Notice to cardholder.** The notice to cardholder pursuant to paragraph (b)(3) of this sec-

tion may be given by printing the notice on the credit card, or by any other means reasonably assuring the receipt thereof by the cardholder. An acceptable form of notice must state that liability shall not exceed \$50 (or any lesser amount), that notice of loss, theft, or possible unauthorized use may be given orally or in writing, and the name and address of the party to receive the notice. It may include any additional information which is not inconsistent with the provisions of this section. An example of an acceptable notice is as follows:

"You may be liable for the unauthorized use of your credit card [*or other term which describes the credit device*]. You will not be liable for unauthorized use which occurs after you notify [*name of card issuer or his designee*] at [*address*] orally or in writing of loss, theft, or possible unauthorized use. In any case liability shall not exceed [*insert \$50 or any lesser amount under other applicable law or under any agreement with the cardholder*]."

(e) **Notice to card issuer.** For the purposes of this section, a cardholder notifies a card issuer by taking such steps as may be reasonably required in the ordinary course of business to provide the card issuer with the pertinent information with respect to loss, theft, or possible unauthorized use of any credit card, whether or not any particular officer, employee, or agent of the card issuer does, in fact, receive such notice or information. Irrespective of the form of notice provided under paragraph (b)(4) of this section, at the option of the cardholder, notice may be given to the card issuer or his designee in person or by telephone or by letter, telegram, radiogram, cablegram, or other written communication which sets forth the pertinent information. Notice by mail, telegram, radiogram, cablegram, or other written communication shall be considered given at the time of receipt or, whether or not received, at the expiration of the time ordinarily required for transmission, whichever is earlier.

(f) **Action to enforce liability.** In any action by a card issuer to enforce liability for the use of a credit card, the burden of proof is upon the card issuer to show that the use was authorized or, if the use was unauthorized, then the burden of proof is upon the card issuer to show that the conditions of liability for the unauthorized use of a credit card, as set forth in paragraphs (b) and (c) of this section, have been met.

(g) **Effect on other applicable law or agreement.** Nothing in this section imposes liability upon a cardholder for the unauthorized use of a credit card in excess of his liability for such use under other applicable law or under any agreement with the card issuer.

(h) **Business use of credit cards.** If 10 or more credit cards are issued by one card issuer for use by the employees of a single business or other organization, nothing in this section prohibits the card issuer from agreeing by contract with such business or other organization as to liability for unauthorized use of any such credit cards without regard to the provisions of this section, but in no case may any business or other organization or card issuer impose liability on any employee of such business or other organization with respect to unauthorized use of such credit card except in accordance with and subject to the other liability limitations of this section.

(i) **Right of cardholder to assert claims or defenses against card issuer.** (1) When a person who provides property or services fails to satisfactorily resolve a dispute as to property or services purchased by use of a credit card in connection with a consumer credit transaction, the cardholder may assert all claims (other than tort claims) and defenses arising out of the transaction and relating to such failure against the card issuer, and the cardholder may withhold payment up to the amount of credit outstanding with respect to the property or services which gave rise to the dispute and any finance charges, late payment charges, or other charges imposed on that amount if:

(i) The cardholder has made a good faith attempt to obtain satisfactory resolution of the disagreement or problem relating to the transaction from the person honoring the credit card;

(ii) The amount of credit extended by the card issuer to the cardholder to obtain the property or services which resulted in the assertion of the claim(s) or defense(s) by the cardholder exceeds \$50; and

(iii) The initial transaction which gave rise to the assertion of the claim(s) or defense(s) by the cardholder occurred in the same State as the cardholder's current designated address or, if not within the State of the cardholder's address, within 100 miles from such address, except that the limitations stated in paragraphs (ii) and (iii) of this section shall not apply when the person honoring the credit card:

(A) Is the same person as the card issuer, or

(B) Is controlled, directly or indirectly, by the card issuer, or

(C) Is under the direct or indirect control of a third person who also directly or indirectly controls the card issuer, or

(D) Controls, directly or indirectly, the card issuer, or

(E) Is a franchised dealer in the card issuer's products or services, or

(F) Has obtained the order for the transaction, relative to which the claim(s) or defense(s) is asserted, through a mail solicitation made by or participated in by the card issuer, in which the cardholder is solicited to enter into such transaction by using the credit card issued by the card issuer.

Simply honoring or indicating that a person honors a particular credit card is not any of the relationships described in paragraphs (A) through (F) for the purpose of removing the dollar and distance limitations.

(2) The amount of the claim(s) or defense(s) assertable by the cardholder under this section may not exceed the amount of credit outstanding with respect to the transaction which gave rise to the assertion of the claim(s) or defense(s) at the time the cardholder first notifies the card issuer or the person honoring the credit card for such transaction of the existence of such claim(s) or defense(s). For purposes of determining the amount of credit outstanding with respect to such transactions as provided in the preceding sentence, payments and other credits to the cardholder's account will be deemed to have been applied in the order indicated to the payment of:

(i) Late charges in the order of entry to the account,

(ii) Finance charges in the order of entry to the account,

(iii) Any other debits in the order in which each debit entry was made to the account, and

(iv) When more than one item is included in a single extension of credit, credits are to be distributed pro rata according to prices and applicable taxes.

(3) This section does not apply to cash advances obtained with a credit card when the advance is unrelated to any specific credit sale item.

* (4) If the cardholder refuses to pay the

* Amended 8/27/76.

amount of credit outstanding with respect to the property or services which gave rise to the claim(s) or defense(s) under this section, the creditor may not report to any person that particular amount as delinquent until the dispute is settled or judgment is rendered.^{15a}

(j) **Prohibition of offsets by card issuer.** (1) A card issuer may not take any action to offset a cardholder's indebtedness arising in connection with a consumer credit transaction under the relevant credit card plan against funds of the cardholder held on deposit with the card issuer unless a court order¹⁶ is obtained.

(2) The prohibition in paragraph (j)(1) of this section does not apply to credit card plans in which the cardholder authorizes the card issuer as a method of payment to periodically deduct all or a portion of the cardholder's credit card debt from his deposit account with the card issuer (subject to the limitations in § 226.14(c)), Provided that:

(i) Such automatic debit was previously authorized in writing by the cardholder, or

(ii) With respect to such automatic debit accounts in existence on October 28, 1975, the card issuer has given notice of the provisions of paragraph (j) of this section to such accounts prior to renewal of the authorization (in no case later than October 28, 1976).

(k) **Prompt notification of returns.** (1) When any creditor other than the card issuer accepts the return of property or forgives a debt for services which is to be reflected as a credit to the customer's open end credit card account, he shall promptly (in no case later than 7 business days from the date the return is accepted) transmit a statement with respect thereto to the card issuer through the normal channels established by the card issuer for the transmittal of such statements.

(2) Upon receipt of a credit statement, the card issuer shall credit the customer's account promptly (in no case later than 3 business days from receipt of the refund statement) with the amount of the refund.

^{15a} Nothing in this paragraph prohibits a creditor from reporting the disputed amount or account as being in dispute.

¹⁶ This paragraph does not alter or affect the right of a card issuer acting under State law to attach or otherwise levy upon funds of a cardholder held on deposit with the card issuer if that remedy is constitutionally available to creditors generally.

(3) If it is a creditor's (other than a card issuer) policy to give cash refunds to cash customers, he must also give credit or cash refunds to credit card customers, unless he clearly and conspicuously discloses that he does not give credit or cash refunds for returns at the time the transaction is consummated. Nothing in this section shall be construed to require that a creditor give refunds for returns nor shall it be construed to prohibit refunds in kind.

(1) **Prohibited acts of card issuers.** (1) No card issuer may, by contract or otherwise:

(i) Prohibit any person from offering any cash discounts to all customers of such person, including cardholder customers, to induce such customers to pay by cash, check, or similar means rather than by use of a credit card or its underlying account for the purchase of property or services, or

(ii) Require any person who honors the card issuer's credit card to open or maintain a deposit account or procure any other service not essential to the operation of the credit card plan from the card issuer, its subsidiary, agent, or any other person, as a condition of participation in a credit card plan.

(2) Within 30 days of the effective date of these regulations, any card issuer with existing contracts which include either one or both of the restrictive clauses prohibited in paragraph (1) shall inform all parties to the contract that such provisions are inapplicable and no longer enforceable.

SECTION 226.14—BILLING ERRORS— RESOLUTION PROCEDURE

(a) **Correction of billing errors.** After the creditor receives proper written notification of a billing error, unless the customer has subsequently agreed that the periodic statement is correct, the creditor shall:

(1) Not later than 30 days after receipt of such notification, mail or deliver written acknowledgment thereof to the customer's current designated address, unless the appropriate actions in paragraph (2) of this section are taken within such 30 day period; and

(2) Resolve the dispute not later than 2 complete billing cycles (in no event more than 90 days) from the date of receipt of the notice of billing error and prior to any action by the creditor

to collect¹⁷ any portion of the amount(s) indicated by the customer as being a billing error or any finance charges, late payment charges, or other charges computed on such disputed amount(s) by:

(i) Correcting the customer's account in the full amount indicated by the customer to have been erroneously billed in accordance with paragraph (b)(2) of this section and mailing or delivering to the customer a written notification of corrections;¹⁸ or

(ii) Correcting the customer's account by a differing amount from that indicated by the customer as being erroneously billed in accordance with paragraph (b)(2) of this section and mailing or delivering to the customer an explanation of the change(s), accompanied by copies of documentary evidence of the customer's indebtedness if such evidence is requested by the customer; or

(iii) Mailing or delivering a written explanation or clarification to the customer, after having conducted a reasonable investigation, setting forth, to the extent applicable, the reasons why the creditor believes the amount(s) was correctly shown on the periodic statement and, if the customer so requests, furnishing copies of documentary evidence of the customer's indebtedness with respect to the alleged billing error(s). In any case where the customer alleges that the periodic statement reflects property or services not delivered to the customer or his designee in accordance with any agreement made in connection with the transaction giving rise to the disputed amount, a creditor may not construe such amount to be correctly shown on the periodic statement unless the creditor determines, upon reasonable investigation, that such property or services were actually delivered, mailed, or otherwise sent to the customer or his designee and provides the customer with a written statement explaining such determination. In any case where

the customer alleges that an amount of a transaction reflected on the periodic statement is incorrect because the person honoring the credit card has made an incorrect report to the card issuer of the amount which should have been charged, the card issuer may not construe such amount to be correctly reflected on the periodic statement unless the creditor determines, upon reasonable investigation, that the correct amount is shown on the periodic statement and provides the customer with a written statement explaining such determination.

After complying with the provisions of this section with respect to an alleged billing error, a creditor has no further responsibility under this section if the customer continues to make substantially the same allegation with respect to such error.

(b) **Minimum periodic payments and finance charges on disputed amounts.** (1) When a minimum periodic payment is permitted, the customer may withhold that portion of the minimum periodic payment which the customer believes is related to the amount in dispute. When the disputed amount is only a part of the total amount of an item, the customer remains obligated to pay the amount not in dispute, and any minimum periodic payment and finance charges, late payment charges, or other charges may be collected on the undisputed amount. If, at the completion of the error resolution procedure, it is determined that the customer owes some or all of the disputed amount, the creditor may require payment of any minimum periodic payment amounts which the customer did not pay because of the dispute. The creditor may not, however, accelerate the customer's entire debt solely because the customer has exercised rights provided by the Act or this Part.

(2) With respect to an erroneous billing, the creditor must credit the customer's account in any amount the customer does not owe, plus any finance charges, late payment charges, or other charges imposed as a result of the erroneous billing. An erroneous billing by a creditor includes, but is not limited to, a misidentification, insufficient identification, or incorrect date of a transaction; a mailing of the periodic statement to other than the current designated address; improper crediting of payments or other credits; computation errors; or a billing for property or services not accepted or delivered in accordance with any agreement; as well as mistakes in dollar amounts.

¹⁷ If, despite the establishment by the creditor of procedures reasonably adapted to assure compliance with this paragraph, the creditor or his agent, within 2 business days after receiving proper written notification of a billing error pursuant to this section, inadvertently takes action to collect in contravention of this paragraph, such inadvertent action to collect will not be considered in violation of this paragraph.

¹⁸ A notice on a subsequent billing statement clearly identifying any amount credited to the customer's account in response to a proper written notification of a billing error is one type of a proper transmittal of a written notification of corrections.

(3) After or upon completion of the dispute resolution procedure prescribed by § 226.14(a):

(i) If the initial periodic statement is determined to be without error with regard to the disputed item, the creditor shall promptly mail or deliver to the customer written notification of the amount owed with regard to the disputed item, unless such notification is not required by paragraph (a) of this section, or

(ii) If the initial periodic statement is determined to be in error with regard to the disputed item and the creditor normally allows a period for the customer to pay such an item without incurring additional finance charges, late payment charges, or other charges, the creditor shall mail or deliver to the customer written notification of the total amount which the customer owes with regard to the disputed item and shall allow the customer the same number of days thereafter as he customarily or by credit agreement allows, whichever is longer (in no case less than 10 days), for the customer to pay undisputed amounts in accordance with § 226.7(b)(2), or

(iii) If the initial periodic statement is determined to be in error with regard to the disputed item and the creditor normally does not allow a period for the customer to pay such an item without incurring additional finance charges, late payment charges, or other charges, the creditor shall promptly mail or deliver to the customer a notice of the total amount which the customer owes with regard to the disputed item.

(4) Nothing in this section shall be construed to prohibit the mailing or delivery of periodic statements, which include disputed amounts, to the customer, provided that the creditor indicates on the face of the periodic statement that payment of the amount in dispute is not required pending the creditor's compliance with the provisions of this section.

(5) Nothing in this section shall prohibit any action by a creditor to collect any amount which has not been indicated by the customer to contain a billing error.

(c) **Automatic debit of disputed amounts.** (1) In the case of credit card plans where the cardholder has agreed to permit the card issuer to periodically pay the cardholder's indebtedness by deducting the appropriate amount from the cardholder's deposit account held by the card issuer, if the card issuer receives a proper written notification of a billing error within 16 days from the date of mailing or delivery of the periodic state-

ment on which the suspected billing error first appears, the card issuer shall:

(i) Prevent the automatic debiting of any disputed amounts if receipt of such notification precedes the automatic debiting of the cardholder's account, or

(ii) Promptly (in no case more than 2 business days after receipt of the notice) restore to the cardholder's deposit account any portion of the disputed amount which was previously deducted, if receipt of such notification follows the automatic debiting of the cardholder's account for any disputed amounts.

(2) Nothing in this paragraph shall limit the cardholder's right to dispute an amount he believes to be in error within 60 days of the mailing or delivery of the erroneous periodic statement, as otherwise provided in this section.

(d) **Closing of accounts.** A creditor may not, prior to complying with the requirements of paragraphs (a) and (b) of this section, restrict or close an account with respect to which the customer has indicated a belief that such account contains a billing error solely because of the customer's refusal or failure to pay the amount indicated to be in error. This paragraph does not prohibit the creditor from applying any such amount to the customer's credit limitations.

(e) **Credit reports on amounts in dispute.** (1) After receiving a proper written notification of a billing error pursuant to this section, neither the creditor nor his agent may directly or indirectly threaten to report adversely to any person on the customer's credit standing or credit rating because of the customer's failure to pay the amount specified in such notification as being a billing error, or any finance charges, late payment charges, or other charges imposed thereon, nor shall such amount be reported as delinquent¹⁰ to any third person unless such amount remains unpaid after the creditor has complied with all the requirements of this section and has allowed that customer the same number of days thereafter to pay as he customarily or by credit agreement allows, whichever is longer (in no case less than 10 days), for the customer to pay undisputed amounts so as to avoid the imposition of additional finance charges, late payment charges, or

¹⁰ Nothing in this paragraph prohibits a creditor from reporting the disputed amount or account as being in dispute.

other charges. If, despite establishment by the creditor of procedures reasonably adapted to assure compliance with this paragraph, the creditor or his agent, within 2 business days after receiving proper written notification of a billing error pursuant to this section, inadvertently takes action in contravention of this paragraph, such inadvertent action will not be considered in violation of this paragraph.

(2) If, within the time limit allowed for payment in paragraph (e)(1) of this section, the creditor receives a further written notification from the customer that any portion of a billing error resolved under paragraph (a) of this section is still in dispute, the creditor may not report to any third party that such disputed amount is delinquent unless the creditor also reports that the amount or account is in dispute and, at the same time, notifies the customer in writing of the name and address of each party to whom the creditor is reporting information concerning the disputed amount. If, pursuant to this paragraph, a creditor has reported a disputed amount as being delinquent to any third person, the creditor shall report promptly in writing²⁰ to any such person subsequent resolution of the reported delinquency.

(3) If a creditor has reported an amount as being delinquent to any third person who is in the business of collecting and disseminating information relating to the creditworthiness of customers, and such amount is subsequently disputed by the customer in accordance with the requirements of § 226.2(cc), the creditor shall, within one billing cycle after receipt of proper written notification of the billing error, mail or deliver a written notice²¹ to each such third person to whom the delinquency was reported that the amount is in dispute.

(f) **Forfeiture penalty.** (1) Any creditor who fails to comply with the requirements of this section forfeits any right to collect from the customer the amount indicated by the customer to be a billing error, whether or not such amount is in fact in error, and any finance charges, late payment charges, or other charges imposed thereon, provided that the amount so forfeited under this section shall not exceed \$50 for each item or

transaction on a periodic statement indicated by the customer to be a billing error. In no case shall a creditor forfeit any amount for an error in a total figure or subtotal figure reflected on a statement which is caused solely by an error in another item which is the subject of a dispute, nor shall a creditor suffer any forfeit more than once for any item or transaction which may appear on a periodic statement.

(2) Nothing in this subsection shall be construed to limit a customer's right to recover under section 130 of the Act.

(g) **Exceptions to general rule.** This section does not apply to credit other than open end, whether or not a periodic statement is mailed or delivered, unless it is consumer credit extended on an account by use of a credit card.

* SECTION 226.15—CONSUMER LEASING

(a) **General requirements.** Any lessor shall, in accordance with § 226.6 and to the extent applicable, make the disclosures required by paragraph (b) of this section with respect to any consumer lease. Such disclosures shall be made prior to the consummation of the lease on a dated written statement which identifies the lessor and the lessee, and a copy of such statement shall be given to the lessee at that time. All of the disclosures shall be made together on either

(1) The contract or other instrument evidencing the lease on the same page and above the place for the lessee's signature; or

(2) A separate statement which identifies the lease transaction.

In any lease of multiple items, the description required by § 226.15(b)(1) may be provided on a separate statement or statements which are incorporated by reference in the disclosure statement required by § 226.15(a).

(b) **Specific disclosure requirements.** In any lease subject to this section the following items, as applicable, shall be disclosed:

(1) A brief description of the leased property, sufficient to identify the property to the lessee and lessor.

(2) The total amount of any payment, such as a refundable security deposit paid by cash, check or similar means, advance payment, capitalized

²⁰ "In writing" shall include transmission by computer communication.

²¹ "Written notice" shall include computer communication.

* Added 3/23/77.

cost reduction or any trade-in allowance, appropriately identified, to be paid by the lessee at consummation of the lease.

(3) The number, amount and due dates or periods of payments scheduled under the lease and the total amount of such periodic payments.

(4) The total amount paid or payable by the lessee during the lease term for official fees, registration, certificate of title, license fees or taxes.

(5) The total amount of all other charges, individually itemized, payable by the lessee to the lessor, which are not included in the periodic payments. This total includes the amount of any liabilities the lease imposes upon the lessee at the end of the term, but excludes the potential difference between the estimated and realized values, required to be disclosed under § 226.15(b)(13).

(6) A brief identification of insurance in connection with the lease including (i) if provided or paid for by the lessor, the types and amounts of coverages and cost to the lessee, or (ii) if not provided or paid for by the lessor, the types and amounts of coverages required of the lessee.

(7) A statement identifying any express warranties or guarantees available to the lessee made by the lessor or manufacturer with respect to the leased property.

(8) An identification of the party responsible for maintaining or servicing the leased property together with a brief description of the responsibility, and a statement of reasonable standards for wear and use, if the lessor sets such standards.

(9) A description of any security interest, other than a security deposit disclosed under § 226.15(b)(2), held or to be retained by the lessor in connection with the lease and a clear identification of the property to which the security interest relates.

(10) The amount or method of determining the amount of any penalty or other charge for delinquency, default or late payments.

(11) A statement of whether or not the lessee has the option to purchase the leased property and, if at the end of the lease term, at what price, and, if prior to the end of the lease term, at what time and the price or method of determining the price.

(12) A statement of the conditions under which the lessee or lessor may terminate the lease prior to the end of the lease term and the amount or method of determining the amount of any penalty or other charge for early termination.

(13) A statement that the lessee shall be liable for the difference between the estimated value of the property and its realized value at early termination or the end of the lease term, if such liability exists.

(14) Where the lessee's liability at early termination or at the end of the lease term is based on the estimated value of the leased property, a statement that the lessee may obtain at the end of the lease term or at early termination, at the lessee's expense, a professional appraisal of the value which could be realized at sale of the leased property by an independent third party agreed to by the lessee and the lessor, which appraisal shall be final and binding on the parties.

(15) Where the lessee's liability at the end of the lease term is based upon the estimated value of the leased property:

(i) The value of the property at consummation of the lease, the itemized total lease obligation at the end of the lease term and the difference between them.

(ii) That there is a rebuttable presumption that the estimated value of the leased property at the end of the lease term is unreasonable and not in good faith to the extent that it exceeds the realized value by more than three times the average payment allocable to a monthly period, and that the lessor cannot collect the amount of such excess liability unless the lessor brings a successful action in court in which the lessor pays the lessee's attorney's fees, and that this provision regarding the presumption and attorney's fees does not apply to the extent the excess of estimated value over realized value is due to unreasonable wear or use, or excessive use.

(iii) A statement that the requirements of § 226.15(b)(15)(ii) do not preclude the right of a willing lessee to make any mutually agreeable final adjustment regarding such excess liability.

(c) **Renegotiations or extensions.** If any existing lease is renegotiated or extended, such renegotiation or extension shall be considered a new lease subject to the disclosure requirements of this Part, except that the requirements of this paragraph shall not apply to (1) a lease of multiple items where a new item(s) is provided or a previously leased item(s) is returned, and the average payment allocable to a monthly period is not changed by more than 25 per cent, or (2) a lease which is extended for not more than six months on a month-to-month basis or otherwise.

STATUTORY APPENDIX

Titles I and V of Act of May 29, 1968,
as amended October 26, 1970, October 28, 1974,
February 27, 1976, and March 23, 1976

§ 1. Short title of entire Act

This Act may be cited as the Consumer Credit Protection Act.

TITLE I—CONSUMER CREDIT COST DISCLOSURE

[15 U.S.C. § 1601 et seq.]

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CHAPTER 1—GENERAL PROVISIONS

Sec.

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- 102. Findings and declaration of purpose.
- 103. Definitions and rules of construction.
- 104. Exempted transactions.
- 105. Regulations.
- 106. Determination of finance charge.
- 107. Determination of annual percentage rate.
- 108. Administrative enforcement.
- 109. Views of other agencies.
- 110. [Repealed.]
- 111. Effect on other laws.
- 112. Criminal liability for willful and knowing violation.
- 113. Penalties inapplicable to governmental agencies.
- 114. Reports by Board and Attorney General.
- 115. Liability of assignees.

§ 101. Short title

This title may be cited as the Truth in Lending Act.

§ 102. Findings and declaration of purpose

* (a) The Congress finds that economic stabiliza-

tion would be enhanced and the competition among the various financial institutions and other firms engaged in the extension of consumer credit would be strengthened by the informed use of credit. The informed use of credit results from an awareness of the cost thereof by consumers. It is the purpose of this title to assure a meaningful disclosure of credit terms so that the consumer will be able to compare more readily the various credit terms available to him and avoid the uninformed use of credit, and to protect the consumer against inaccurate and unfair credit billing and credit card practices.

** (b) The Congress also finds that there has been a recent trend toward leasing automobiles and other durable goods for consumer use as an alternative to instalment credit sales and that these leases have been offered without adequate cost disclosures. It is the purpose of this title to assure a meaningful disclosure of the terms of leases of personal property for personal, family, or household purposes so as to enable the lessee to compare more readily the various lease terms available to him, limit balloon payments in consumer leasing, enable comparison of lease terms with credit terms where appropriate, and to assure meaningful and accurate disclosures of lease terms in advertisements.

§ 103. Definitions and rules of construction

(a) The definitions and rules of construction set forth in this section are applicable for the purposes of this title.

(b) The term "Board" refers to the Board of Governors of the Federal Reserve System.

(c) The term "organization" means a corporation, government or governmental subdivision or agency, trust, estate, partnership, cooperative, or association.

(d) The term "person" means a natural person or an organization.

(e) The term "credit" means the right granted by a creditor to a debtor to defer payment of debt or to incur debt and defer its payment.

*** (f) The term "creditor" refers only to creditors who regularly extend, or arrange for the extension of, credit which is payable by agreement in more than four instalments or for which the payment of a finance charge is or may be re-

* Amended 10/28/74.

** Added 3/23/76.

*** Amended 10/28/74.

quired, whether in connection with loans, sales of property or services, or otherwise. For the purposes of the requirements imposed under chapter 4 and sections 127(a)(6), 127(a)(7), 127(a)(8), 127(b)(1), 127(b)(2), 127(b)(3), 127(b)(9), and 127(b)(11) of chapter 2 of this title, the term "creditor" shall also include card issuers whether or not the amount due is payable by agreement in more than four installments or the payment of a finance charge is or may be required, and the Board shall, by regulation, apply these requirements to such card issuers, to the extent appropriate, even though the requirements are by their terms applicable only to creditors offering open end credit plans.

(g) The term "credit sale" refers to any sale with respect to which credit is extended or arranged by the seller. The term includes any contract in the form of a bailment or lease if the bailee or lessee contracts to pay as compensation for use a sum substantially equivalent to or in excess of the aggregate value of the property and services involved and it is agreed that the bailee or lessee will become, or for no other or a nominal consideration has the option to become, the owner of the property upon full compliance with his obligations under the contract.

(h) The adjective "consumer", used with reference to a credit transaction, characterizes the transaction as one in which the party to whom credit is offered or extended is a natural person, and the money, property, or services which are the subject of the transaction are primarily for personal, family, household, or agricultural purposes.

(i) The term "open end credit plan" refers to a plan prescribing the terms of credit transactions which may be made thereunder from time to time and under the terms of which a finance charge may be computed on the outstanding unpaid balance from time to time thereunder.

* (j) The term "adequate notice", as used in section 133, means a printed notice to a cardholder which sets forth the pertinent facts clearly and conspicuously so that a person against whom it is to operate could reasonably be expected to have noticed it and understood its meaning. Such notice may be given to a cardholder by printing

the notice on any credit card, or on each periodic statement of account, issued to the cardholder, or by any other means reasonably assuring the receipt thereof by the cardholder.

* (k) The term "credit card" means any card, plate, coupon book or other credit device existing for the purpose of obtaining money, property, labor, or services on credit.

* (l) The term "accepted credit card" means any credit card which the cardholder has requested and received or has signed or has used, or authorized another to use, for the purpose of obtaining money, property, labor, or services on credit.

* (m) The term "cardholder" means any person to whom a credit card is issued or any person who has agreed with the card issuer to pay obligations arising from the issuance of a credit card to another person.

* (n) The term "card issuer" means any person who issues a credit card, or the agent of such person with respect to such card.

* (o) The term "unauthorized use", as used in section 133, means a use of a credit card by a person other than the cardholder who does not have actual, implied, or apparent authority for such use and from which the cardholder receives no benefit.

** (p) The term "discount" as used in section 167 means a reduction made from the regular price. The term "discount" as used in section 167 shall not mean a surcharge.

** (q) The term "surcharge" as used in section 103 and section 167 means any means of increasing the regular price to a cardholder which is not imposed upon customers paying by cash, check, or similar means.

*** (r) The term "State" refers to any State, the Commonwealth of Puerto Rico, the District of Columbia, and any territory or possession of the United States.

*** (s) Any reference to any requirement imposed under this title or any provision thereof includes reference to the regulations of the Board under this title or the provision thereof in question.

**** (t) The disclosure of an amount or percentage which is greater than the amount or percent-

* Added 10/26/70.

** Added 2/27/76.

*** Redesignated 10/26/70 and 2/27/76.

**** Added 10/26/70 and redesignated 2/27/76.

age required to be disclosed under this title does not in itself constitute a violation of this title.

§ 104. Exempted transactions

This title does not apply to the following:

(1) Credit transactions involving extensions of credit for business or commercial purposes, or to government or governmental agencies or instrumentalities, or to organizations.

(2) Transactions in securities or commodities accounts by a broker-dealer registered with the Securities and Exchange Commission.

(3) Credit transactions, other than real property transactions, in which the total amount to be financed exceeds \$25,000.

(4) Transactions under public utility tariffs, if the Board determines that a State regulatory body regulates the charges for the public utility services involved, the charges for delayed payment, and any discount allowed for early payment.

* (5) Credit transactions primarily for agricultural purposes in which the total amount to be financed exceeds \$25,000.

§ 105. Regulations

The Board shall prescribe regulations to carry out the purposes of this title. These regulations may contain such classifications, differentiations, or other provisions, and may provide for such adjustments and exceptions for any class of transactions, as in the judgment of the Board are necessary or proper to effectuate the purposes of this title, to prevent circumvention or evasion thereof, or to facilitate compliance therewith.

§ 106. Determination of finance charge

(a) Except as otherwise provided in this section, the amount of the finance charge in connection with any consumer credit transaction shall be determined as the sum of all charges, payable directly or indirectly by the person to whom the credit is extended, and imposed directly or indirectly by the creditor as an incident to the extension of credit, including any of the following types of charges which are applicable:

(1) Interest, time price differential, and any amount payable under a point, discount, or other system of additional charges.

(2) Service or carrying charge.

(3) Loan fee, finder's fee, or similar charge.

(4) Fee for an investigation or credit report.

(5) Premium or other charge for any guarantee or insurance protecting the creditor against the obligor's default or other credit loss.

(b) Charges or premiums for credit life, accident, or health insurance written in connection with any consumer credit transaction shall be included in the finance charge unless

(1) the coverage of the debtor by the insurance is not a factor in the approval by the creditor of the extension of credit, and this fact is clearly disclosed in writing to the person applying for or obtaining the extension of credit; and

(2) in order to obtain the insurance in connection with the extension of credit, the person to whom the credit is extended must give specific affirmative written indication of his desire to do so after written disclosure to him of the cost thereof.

(c) Charges or premiums for insurance, written in connection with any consumer credit transaction, against loss of or damage to property or against liability arising out of the ownership or use of property, shall be included in the finance charge unless a clear and specific statement in writing is furnished by the creditor to the person to whom the credit is extended, setting forth the cost of the insurance if obtained from or through the creditor, and stating that the person to whom the credit is extended may choose the person through which the insurance is to be obtained.

(d) If any of the following items is itemized and disclosed in accordance with the regulations of the Board in connection with any transaction, then the creditor need not include that item in the computation of the finance charge with respect to that transaction:

(1) Fees and charges prescribed by law which actually are or will be paid to public officials for determining the existence of or for perfecting or releasing or satisfying any security related to the credit transaction.

(2) The premium payable for any insurance in lieu of perfecting any security interest otherwise required by the creditor in connection with the transaction, if the premium does not exceed the fees and charges described in paragraph (1) which would otherwise be payable.

(3) Taxes.

(4) Any other type of charge which is not for credit and the exclusion of which from the

* Added 10/28/74.

finance charge is approved by the Board by regulation.

(e) The following items, when charged in connection with any extension of credit secured by an interest in real property, shall not be included in the computation of the finance charge with respect to that transaction:

(1) Fees or premiums for title examination, title insurance, or similar purposes.

(2) Fees for preparation of a deed, settlement statement, or other documents.

(3) Escrows for future payments of taxes and insurance.

(4) Fees for notarizing deeds and other documents.

(5) Appraisal fees.

(6) Credit reports.

§ 107. Determination of annual percentage rate

(a) The annual percentage rate applicable to any extension of consumer credit shall be determined, in accordance with the regulations of the Board,

(1) in the case of any extension of credit other than under an open end credit plan, as

(A) that nominal annual percentage rate which will yield a sum equal to the amount of the finance charge when it is applied to the unpaid balances of the amount financed, calculated according to the actuarial method of allocating payments made on a debt between the amount financed and the amount of the finance charge, pursuant to which a payment is applied first to the accumulated finance charge and the balance is applied to the unpaid amount financed; or

(B) the rate determined by any method prescribed by the Board as a method which materially simplifies computation while retaining reasonable accuracy as compared with the rate determined under subparagraph (A).

(2) in the case of any extension of credit under an open end credit plan, as the quotient (expressed as a percentage) of the total finance charge for the period to which it relates divided by the amount upon which the finance charge for that period is based, multiplied by the number of such periods in a year.

(b) Where a creditor imposes the same finance charge for balances within a specified range, the annual percentage rate shall be computed on the median balance within the range, except that if the Board determines that a rate so computed

would not be meaningful, or would be materially misleading, the annual percentage rate shall be computed on such other basis as the Board may by regulation require.

(c) The annual percentage rate may be rounded to the nearest quarter of 1 per centum for credit transactions payable in substantially equal instalments when a creditor determines the total finance charge on the basis of a single add-on, discount, periodic, or other rate, and the rate is converted into an annual percentage rate under procedures prescribed by the Board.

(d) The Board may authorize the use of rate tables or charts which may provide for the disclosure of annual percentage rates which vary from the rate determined in accordance with subsection (a)(1)(A) by not more than such tolerances as the Board may allow. The Board may not allow a tolerance greater than 8 per centum of that rate except to simplify compliance where irregular payments are involved.

(e) In the case of creditors determining the annual percentage rate in a manner other than as described in subsection (c) or (d), the Board may authorize other reasonable tolerances.

(f) Prior to January 1, 1971, any rate required under this title to be disclosed as a percentage rate may, at the option of the creditor, be expressed in the form of the corresponding ratio of dollars per hundred dollars.

§ 108. Administrative enforcement

(a) Compliance with the requirements imposed under this title shall be enforced under

(1) section 8 of the Federal Deposit Insurance Act, in the case of

(A) national banks, by the Comptroller of the Currency.

(B) member banks of the Federal Reserve System (other than national banks), by the Board.

(C) banks insured by the Federal Deposit Insurance Corporation (other than members of the Federal Reserve System), by the Board of Directors of the Federal Deposit Insurance Corporation.

(2) section 5(d) of the Home Owners' Loan Act of 1933, section 407 of the National Housing Act, and sections 6(i) and 17 of the Federal Home Loan Bank Act, by the Federal Home Loan Bank Board (acting directly or through the Federal Savings and Loan Insurance Corpora-

tion), in the case of any institution subject to any of those provisions.

* (3) the Federal Credit Union Act, by the Administrator of the National Credit Union Administration with respect to any Federal credit union.

** (4) the Federal Aviation Act of 1958, by the Civil Aeronautics Board with respect to any air carrier or foreign air carrier subject to that Act.

** (5) the Packers and Stockyards Act, 1921 (except as provided in section 406 of that Act), by the Secretary of Agriculture with respect to any activities subject to that Act.

*** (6) the Farm Credit Act of 1971, by the Farm Credit Administration with respect to any Federal land bank, Federal land bank association, Federal intermediate credit bank, or production credit association.

(b) For the purpose of the exercise by any agency referred to in subsection (a) of its powers under any Act referred to in that subsection, a violation of any requirement imposed under this title shall be deemed to be a violation of a requirement imposed under that Act. In addition to its powers under any provision of law specifically referred to in subsection (a), each of the agencies referred to in that subsection may exercise, for the purpose of enforcing compliance with any requirement imposed under this title, any other authority conferred on it by law.

(c) Except to the extent that enforcement of the requirements imposed under this title is specifically committed to some other Government agency under subsection (a), the Federal Trade Commission shall enforce such requirements. For the purpose of the exercise by the Federal Trade Commission of its functions and powers under the Federal Trade Commission Act, a violation of any requirement imposed under this title shall be deemed a violation of a requirement imposed under that Act. All of the functions and powers of the Federal Trade Commission under the Federal Trade Commission Act are available to the Commission to enforce compliance by any person with the requirements imposed under this title, irrespective of whether that person is engaged in commerce or meets any other jurisdictional tests in the Federal Trade Commission Act.

(d) The authority of the Board to issue regulations under this title does not impair the authority of any other agency designated in this section to make rules respecting its own procedures in enforcing compliance with requirements imposed under this title.

§ 109. Views of other agencies

In the exercise of its functions under this title, the Board may obtain upon request the views of any other Federal agency which, in the judgment of the Board, exercises regulatory or supervisory functions with respect to any class of creditors subject to this title.

§ 110. Advisory committee

[Repealed by §703(b) of P.L. 94-239 effective 3/23/76.]

§ 111. Effect on other laws

(a) This title does not annul, alter, or affect, or exempt any creditor from complying with, the laws of any State relating to the disclosure of information in connection with credit transactions, except to the extent that those laws are inconsistent with the provisions of this title or regulations thereunder, and then only to the extent of the inconsistency.

(b) This title does not otherwise annul, alter or affect in any manner the meaning, scope or applicability of the laws of any State, including, but not limited to, laws relating to the types, amounts or rates of charges, or any element or elements of charges, permissible under such laws in connection with the extension or use of credit, nor does this title extend the applicability of those laws to any class of persons or transactions to which they would not otherwise apply.

(c) In any action or proceeding in any court involving a consumer credit sale, the disclosure of the annual percentage rate as required under this title in connection with that sale may not be received as evidence that the sale was a loan or any type of transaction other than a credit sale.

*** (d) Except as specified in sections 125, 130, and 166, this title and the regulations issued thereunder do not affect the validity or enforceability of any contract or obligation under State or Federal law.

* Amended 10/28/74.

** Redesignated 10/28/74.

*** Added 10/28/74.

*** Amended 10/28/74.

§ 112. Criminal liability for willful and knowing violation

Whoever willfully and knowingly

(1) gives false or inaccurate information or fails to provide information which he is required to disclose under the provisions of this title or any regulation issued thereunder,

(2) uses any chart or table authorized by the Board under section 107 in such a manner as to consistently understate the annual percentage rate determined under section 107(a)(1)(A), or

(3) otherwise fails to comply with any requirement imposed under this title, shall be fined not more than \$5,000 or imprisoned not more than one year, or both.

§ 113. Penalties inapplicable to governmental agencies

No civil or criminal penalty provided under this title for any violation thereof may be imposed upon the United States or any agency thereof, or upon any State or political subdivision thereof, or any agency of any State or political subdivision.

§ 114. Reports by Board and Attorney General

Not later than January 3 of each year after 1969, the Board and the Attorney General shall, respectively, make reports to the Congress concerning the administration of their functions under this title, including such recommendations as the Board and the Attorney General, respectively, deem necessary or appropriate. In addition, each report of the Board shall include its assessment of the extent to which compliance with the requirements imposed under this title is being achieved.

***§ 115. Liability of assignees**

Except as otherwise specifically provided in this title, any civil action for a violation of this title which may be brought against the original creditor in any credit transaction may be maintained against any subsequent assignee of the original creditor where the violation from which the alleged liability arose is apparent on the face of the instrument assigned unless the assignment is involuntary.

CHAPTER 2—CREDIT TRANSACTIONS

Sec.

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****§ 121. General requirement of disclosure**

(a) Each creditor shall disclose clearly and conspicuously, in accordance with the regulations of the Board, to each person to whom consumer credit is extended the information required under this chapter or chapter 4.

(b) If there is more than one obligor, a creditor need not furnish a statement of information required under this chapter or chapter 4 to more than one of them.

The Board may provide by regulation that any portion of the information required to be disclosed by this section may be given in the form of estimates where the provider of such information is not in a position to know exact information.

*****§ 122. Form of disclosure; additional information**

(a) Regulations of the Board need not require that disclosures pursuant to this chapter or chapter 4 be made in the order set forth in this chapter or chapter 4, and may permit the use of terminology different from that employed in this chapter or chapter 4 if it conveys substantially the same meaning.

* Added 10/28/74.

** Amended 10/28/74 and 1/2/76.

*** Amended 10/28/74.

(b) Any creditor may supply additional information or explanations with any disclosures required under this chapter or chapter 4.

§ 123. Exemption for State-regulated transactions

The Board shall by regulation exempt from the requirements of this chapter any class of credit transactions within any State if it determines that under the law of that State that class of transactions is subject to requirements substantially similar to those imposed under this chapter, and that there is adequate provision for enforcement.

§ 124. Effect of subsequent occurrence

If information disclosed in accordance with this chapter is subsequently rendered inaccurate as the result of any act, occurrence, or agreement subsequent to the delivery of the required disclosures, the inaccuracy resulting therefrom does not constitute a violation of this chapter.

§ 125. Right of rescission as to certain transactions

* (a) Except as otherwise provided in this section, in the case of any consumer credit transaction in which a security interest, including any such interest arising by operation of law, is or will be retained or acquired in any real property which is used or is expected to be used as the residence of the person to whom credit is extended, the obligor shall have the right to rescind the transaction until midnight of the third business day following the consummation of the transaction or the delivery of the disclosures required under this section and all other material disclosures required under this chapter, whichever is later, by notifying the creditor, in accordance with regulations of the Board, of his intention to do so. The creditor shall clearly and conspicuously disclose, in accordance with regulations of the Board, to any obligor in a transaction subject to this section the rights of the obligor under this section. The creditor shall also provide, in accordance with regulations of the Board, an adequate opportunity to the obligor to exercise his right to rescind any transaction subject to this section.

* (b) When an obligor exercises his right to rescind under subsection (a), he is not liable for any finance or other charge, and any security interest given by the obligor, including any such

interest arising by operation of law, becomes void upon such a rescission. Within ten days after receipt of a notice of rescission, the creditor shall return to the obligor any money or property given as earnest money, downpayment, or otherwise, and shall take any action necessary or appropriate to reflect the termination of any security interest created under the transaction. If the creditor has delivered any property to the obligor, the obligor may retain possession of it. Upon the performance of the creditor's obligations under this section, the obligor shall tender the property to the creditor, except that if return of the property in kind would be impracticable or inequitable, the obligor shall tender its reasonable value. Tender shall be made at the location of the property or at the residence of the obligor, at the option of the obligor. If the creditor does not take possession of the property within ten days after tender by the obligor, ownership of the property vests in the obligor without obligation on his part to pay for it.

(c) Notwithstanding any rule of evidence, written acknowledgment of receipt of any disclosures required under this title by a person to whom a statement is required to be given pursuant to this section does no more than create a rebuttable presumption of delivery thereof.

(d) The Board may, if it finds that such action is necessary in order to permit homeowners to meet bona fide personal financial emergencies, prescribe regulations authorizing the modification or waiver of any rights created under this section to the extent and under the circumstances set forth in those regulations.

* (e) This section does not apply to the creation or retention of a first lien against a dwelling to finance the acquisition of that dwelling or to a consumer credit transaction in which an agency of a State is the creditor.

** (f) An obligor's right of rescission shall expire three years after the date of consummation of the transaction or upon the sale of the property, whichever occurs earlier, notwithstanding the fact that the disclosures required under this section or any other material disclosures required under this chapter have not been delivered to the obligor.

§ 126. Content of periodic statements

If a creditor transmits periodic statements in connection with any extension of consumer credit

* Amended 10/28/74.

** Added 10/28/74.

other than under an open end consumer credit plan, then each of those statements shall set forth each of the following items:

(1) The annual percentage rate of the total finance charge.

(2) The date by which, or the period (if any) within which, payment must be made in order to avoid additional finance charges or other charges.

(3) Such of the items set forth in section 127(b) as the Board may by regulation require as appropriate to the terms and conditions under which the extension of credit in question is made.

§ 127. Open end consumer credit plans

(a) Before opening any account under an open end consumer credit plan, the creditor shall disclose to the person to whom credit is to be extended each of the following items, to the extent applicable:

* (1) The conditions under which a finance charge may be imposed, including the time period (if any) within which any credit extended may be repaid without incurring a finance charge, except that the creditor may, at his election and without disclosure, impose no such finance charge if payment is received after the termination of such time period.

(2) The method of determining the balance upon which a finance charge will be imposed.

(3) The method of determining the amount of the finance charge, including any minimum or fixed amount imposed as a finance charge.

(4) Where one or more periodic rates may be used to compute the finance charge, each such rate, the range of balances to which it is applicable, and the corresponding nominal annual percentage rate determined by multiplying the periodic rate by the number of periods in a year.

(5) If the creditor so elects,

(A) the average effective annual percentage rate of return received from accounts under the plan for a representative period of time; or

(B) whenever circumstances are such that the computation of a rate under subparagraph (A) would not be feasible or practical, or would be misleading or meaningless, a projected rate of return to be received from accounts under the plan. The Board shall prescribe regulations, con-

sistent with commonly accepted standards for accounting or statistical procedures, to carry out the purposes of this paragraph.

(6) The conditions under which any other charges may be imposed, and the method by which they will be determined.

(7) The conditions under which the creditor may retain or acquire any security interest in any property to secure the payment of any credit extended under the plan, and a description of the interest or interests which may be so retained or acquired.

* (8) A statement, in a form prescribed by regulations of the Board of the protection provided by sections 161 and 170 to an obligor and the creditor's responsibilities under sections 162 and 170. With respect to each of two billing cycles per year, at semi-annual intervals, the creditor shall transmit such statement to each obligor to whom the creditor is required to transmit a statement pursuant to section 127(b) for such billing cycle.

(b) The creditor of any account under an open end consumer credit plan shall transmit to the obligor, for each billing cycle at the end of which there is an outstanding balance in that account or with respect to which a finance charge is imposed, a statement setting forth each of the following items to the extent applicable:

(1) The outstanding balance in the account at the beginning of the statement period.

* (2) The amount and date of each extension of credit during the period and a brief identification on or accompanying the statement of each extension of credit in a form prescribed by regulations of the Board sufficient to enable the obligor to identify the transaction, or relate it to copies of sales vouchers or similar instruments previously furnished.

(3) The total amount credited to the account during the period.

(4) The amount of any finance charge added to the account during the period, itemized to show the amounts, if any, due to the application of percentage rates and the amount, if any, imposed as a minimum or fixed charge.

(5) Where one or more periodic rates may be used to compute the finance charge, each such rate, the range of balances to which it is applicable, and, unless the annual percentage rate (determined under section 107(a)(2)) is required to be disclosed pursuant to paragraph (6), the corresponding nominal annual percentage rate deter-

* Amended 10/28/74.

mined by multiplying the periodic rate by the number of periods in a year.

(6) Where the total finance charge exceeds 50 cents for a monthly or longer billing cycle, or the pro rata part of 50 cents for a billing cycle shorter than monthly, the total finance charge expressed as an annual percentage rate (determined under section 107(a)(2)), except that if the finance charge is the sum of two or more products of a rate times a portion of the balance, the creditor may, in lieu of disclosing a single rate for the total charge, disclose each such rate expressed as an annual percentage rate, and the part of the balance to which it is applicable.

(7) At the election of the creditor, the average effective annual percentage rate of return (or the projected rate) under the plan as prescribed in subsection (a)(5).

(8) The balance on which the finance charge was computed and a statement of how the balance was determined. If the balance is determined without first deducting all credits during the period, that fact and the amount of such payments shall also be disclosed.

(9) The outstanding balance in the account at the end of the period.

* (10) The date by which or the period (if any) within which, payment must be made to avoid additional finance charges, except that the creditor may, at his election and without disclosure, impose no such additional finance charge if payment is received after such date or the termination of such period.

** (11) The address to be used by the creditor for the purpose of receiving billing inquiries from the obligor.

*** (c) In the case of any existing account under an open end consumer credit plan having an outstanding balance of more than \$1 at or after the close of the creditor's first full billing cycle under the plan after the effective date of subsection (a) or any amendments thereto, the items described in subsection (a), to the extent applicable and not previously disclosed, shall be disclosed in a notice mailed or delivered to the obligor not later than the time of mailing the next statement required by subsection (b).

* Amended 10/28/74.

** Added 10/28/74.

*** Amended 10/28/74.

§ 128. Sales not under open end credit plans

(a) In connection with each consumer credit sale not under an open end credit plan, the creditor shall disclose each of the following items which is applicable:

(1) The cash price of the property or service purchased.

(2) The sum of any amounts credited as downpayment (including any trade-in).

(3) The difference between the amount referred to in paragraph (1) and the amount referred to in paragraph (2).

(4) All other charges, individually itemized, which are included in the amount of the credit extended but which are not part of the finance charge.

(5) The total amount to be financed (the sum of the amount described in paragraph (3) plus the amount described in paragraph (4)).

(6) Except in the case of a sale of a dwelling, the amount of the finance charge, which may in whole or in part be designated as a time-price differential or any similar term to the extent applicable.

(7) The finance charge expressed as an annual percentage rate except in the case of a finance charge

(A) which does not exceed \$5 and is applicable to an amount financed not exceeding \$75, or

(B) which does not exceed \$7.50 and is applicable to an amount financed exceeding \$75. A creditor may not divide a consumer credit sale into two or more sales to avoid the disclosure of an annual percentage rate pursuant to this paragraph.

(8) The number, amount, and due dates or periods of payments scheduled to repay the indebtedness.

(9) The default, delinquency, or similar charges payable in the event of late payments.

(10) A description of any security interest held or to be retained or acquired by the creditor in connection with the extension of credit, and a clear identification of the property to which the security interest relates.

(b) Except as otherwise provided in this chapter, the disclosures required under subsection (a) shall be made before the credit is extended, and may be made by disclosing the information in the contract or other evidence of indebtedness to be signed by the purchaser.

(c) If a creditor receives a purchase order by mail or telephone without personal solicitation, and the cash price and the deferred payment price and the terms of financing, including the annual percentage rate, are set forth in the creditor's catalog or other printed material distributed to the public, then the disclosures required under subsection (a) may be made at any time not later than the date the first payment is due.

(d) If a consumer credit sale is one of a series of consumer credit sales transactions made pursuant to an agreement providing for the addition of the deferred payment price of that sale to an existing outstanding balance, and the person to whom the credit is extended has approved in writing both the annual percentage rate or rates and the method of computing the finance charge or charges, and the creditor retains no security interest in any property as to which he has received payments aggregating the amount of the sales price including any finance charges attributable thereto, then the disclosure required under subsection (a) for the particular sale may be made at any time not later than the date the first payment for that sale is due. For the purposes of this subsection, in the case of items purchased on different dates, the first purchased shall be deemed first paid for, and in the case of items purchased on the same date, the lowest priced shall be deemed first paid for.

§ 129. Consumer loans not under open end credit plans

(a) Any creditor making a consumer loan or otherwise extending consumer credit in a transaction which is neither a consumer credit sale nor under an open end consumer credit plan shall disclose each of the following items, to the extent applicable:

(1) The amount of credit of which the obligor will have the actual use, or which is or will be paid to him or for his account or to another person on his behalf.

(2) All charges, individually itemized, which are included in the amount of credit extended but which are not part of the finance charge.

(3) The total amount to be financed (the sum of the amounts referred to in paragraph (1) plus the amounts referred to in paragraph (2)).

(4) Except in the case of a loan secured by a first lien on a dwelling and made to finance the

purchase of that dwelling, the amount of the finance charge.

(5) The finance charge expressed as an annual percentage rate except in the case of a finance charge

(A) which does not exceed \$5 and is applicable to an extension of consumer credit not exceeding \$75, or

(B) which does not exceed \$7.50 and is applicable to an extension of consumer credit exceeding \$75.

A creditor may not divide an extension of credit into two or more transactions to avoid the disclosure of an annual percentage rate pursuant to this paragraph.

(6) The number, amount, and the due dates or periods of payments scheduled to repay the indebtedness.

(7) The default, delinquency, or similar charges payable in the event of late payments.

(8) A description of any security interest held or to be retained or acquired by the creditor in connection with the extension of credit, and a clear identification of the property to which the security interest relates.

(b) Except as otherwise provided in this chapter, the disclosures required by subsection (a) shall be made before the credit is extended, and may be made by disclosing the information in the note or other evidence of indebtedness to be signed by the obligor.

(c) If a creditor receives a request for an extension of credit by mail or telephone without personal solicitation and the terms of financing, including the annual percentage rate for representative amounts of credit, are set forth in the creditor's printed material distributed to the public, or in the contract of loan or other printed material delivered to the obligor, then the disclosures required under subsection (a) may be made at any time not later than the date the first payment is due.

§ 130. Civil liability

*(a) Except as otherwise provided in this section, any creditor who fails to comply with any requirement imposed under this chapter or chapter 4 or 5 of this title with respect to any person is

* Amended 10/28/74 and 3/23/76.

liable to such person in an amount equal to the sum of—

(1) any actual damage sustained by such person as a result of the failure;

(2)(A)(i) in the case of an individual action twice the amount of any finance charge in connection with the transaction, or (ii) in the case of an individual action relating to a consumer lease under chapter 5 of this title, 25 per centum of the total amount of monthly payments under the lease, except that the liability under this subparagraph shall not be less than \$100 nor greater than \$1,000; or

(B) in the case of a class action, such amount as the court may allow, except that as to each member of the class no minimum recovery shall be applicable, and the total recovery in such action shall not be more than the lesser of \$500,000 or 1 per centum of the net worth of the creditor; and

(3) in the case of any successful action to enforce the foregoing liability, the costs of the action, together with a reasonable attorney's fee as determined by the court.

In determining the amount of award in any class action, the court shall consider, among other relevant factors, the amount of any actual damages awarded, the frequency and persistence of failures of compliance by the creditor, the resources of the creditor, the number of persons adversely affected, and the extent to which the creditor's failure of compliance was intentional.

* (b) A creditor has no liability under this section for any failure to comply with any requirement imposed under this chapter or chapter 5, if within fifteen days after discovering an error, and prior to the institution of an action under this section or the receipt of written notice of the error, the creditor notifies the person concerned of the error and makes whatever adjustments in the appropriate account are necessary to insure that the person will not be required to pay a charge in excess of the amount or percentage rate actually disclosed.

** (c) A creditor may not be held liable in any action brought under this section for a violation of this title if the creditor shows by a preponderance of evidence that the violation was not inten-

tional and resulted from a bona fide error notwithstanding the maintenance of procedures reasonably adapted to avoid any such error.

(d) Any action which may be brought under this section against the original creditor in any credit transaction involving a security interest in real property may be maintained against any subsequent assignee of the original creditor where the assignee, its subsidiaries, or affiliates were in a continuing business relationship with the original creditor either at the time the credit was extended or at the time of the assignment, unless the assignment was involuntary, or the assignee shows by a preponderance of evidence that it did not have reasonable grounds to believe that the original creditor was engaged in violations of this chapter, and that it maintained procedures reasonably adapted to apprise it of the existence of any such violations.

(e) Any action under this section may be brought in any United States district court, or in any other court of competent jurisdiction, within one year from the date of the occurrence of the violation.

*** (f) No provision of this section or section 112 imposing any liability shall apply to any act done or omitted in good faith in conformity with any rule, regulation, or interpretation thereof by the Board or in conformity with any interpretation or approval by an official or employee of the Federal Reserve System duly authorized by the Board to issue such interpretations or approvals under such procedures as the Board may prescribe therefor, notwithstanding that after such act or omission has occurred, such rule, regulation, interpretation, or approval is amended, rescinded, or determined by judicial or other authority to be invalid for any reason.

**** (g) The multiple failure to disclose to any person any information required under this chapter or chapter 4 or 5 of this title to be disclosed in connection with a single account under an open end consumer credit plan, other single consumer credit sale, consumer loan, consumer lease, or other extension of consumer credit, shall entitle the person to a single recovery under this section but continued failure to disclose after a recovery

* Amended 10/28/74 and 3/23/76.

** Amended 10/28/74.

*** Added 10/28/74, amended 2/27/76.

**** Added 10/28/74, amended 3/23/76.

has been granted shall give rise to rights to additional recoveries.

* (h) A person may not take any action to offset any amount for which a creditor is potentially liable to such person under subsection (a)(2) against any amount owing to such creditor by such person, unless the amount of the creditor's liability to such person has been determined by judgment of a court of competent jurisdiction in an action to which such person was a party.

§ 131. Written acknowledgment as proof of receipt

Except as provided in section 125(c) and except in the case of actions brought under section 130(d), in any action or proceeding by or against any subsequent assignee of the original creditor without knowledge to the contrary by the assignee when he acquires the obligation, written acknowledgment of receipt by a person to whom a statement is required to be given pursuant to this title shall be conclusive proof of the delivery thereof and, unless the violation is apparent on the face of the statement, of compliance with this chapter. This section does not affect the rights of the obligor in any action against the original creditor.

****§ 132. Issuance of credit cards**

No credit card shall be issued except in response to a request or application therefor. This prohibition does not apply to the issuance of a credit card in renewal of, or in substitution for, an accepted credit card.

*****§ 133. Liability of holder of credit card**

(a) A cardholder shall be liable for the unauthorized use of a credit card only if the card is an accepted credit card, the liability is not in excess of \$50, the card issuer gives adequate notice to the cardholder of the potential liability, the card issuer has provided the cardholder with a self-addressed, prestamped notification to be mailed by the cardholder in the event of the loss or theft of the credit card, and the unauthorized use occurs before the cardholder has notified the card issuer that an unauthorized use of the credit card has occurred or may occur as the result of

loss, theft, or otherwise. Notwithstanding the foregoing, no cardholder shall be liable for the unauthorized use of any credit card which was issued on or after the effective date of this section, and, after the expiration of twelve months following such effective date, no cardholder shall be liable for the unauthorized use of any credit card regardless of the date of its issuance, unless (1) the conditions of liability specified in the preceding sentence are met, and (2) the card issuer has provided a method whereby the user of such card can be identified as the person authorized to use it. For the purposes of this section, a cardholder notifies a card issuer by taking such steps as may be reasonably required in the ordinary course of business to provide the card issuer with the pertinent information whether or not any particular officer, employee, or agent of the card issuer does in fact receive such information.

(b) In any action by a card issuer to enforce liability for the use of a credit card, the burden of proof is upon the card issuer to show that the use was authorized or, if the use was unauthorized, then the burden of proof is upon the card issuer to show that the conditions of liability for the unauthorized use of a credit card, as set forth in subsection (a), have been met.

(c) Nothing in this section imposes liability upon a cardholder for the unauthorized use of a credit card in excess of his liability for such use under other applicable law or under any agreement with the card issuer.

(d) Except as provided in this section, a cardholder incurs no liability from the unauthorized use of a credit card.

******§ 134. Fraudulent use of credit card**

(a) Whoever knowingly in a transaction affecting interstate or foreign commerce, uses or attempts or conspires to use any counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained credit card to obtain money, goods, services, or anything else of value which within any one-year period has a value aggregating \$1,000 or more; or

(b) Whoever, with unlawful or fraudulent intent, transports or attempts or conspires to transport in interstate or foreign commerce a counterfeit, fictitious, altered, forged, lost, stolen, or

* Added 10/28/74.

** Added 10/26/70.

*** Added 10/26/70, effective 1/25/71.

**** Added 10/26/70, amended 10/28/74.

fraudulently obtained credit card knowing the same to be counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained; or

(c) Whoever, with unlawful or fraudulent intent, uses any instrumentality of interstate or foreign commerce to sell or transport a counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained credit card knowing the same to be counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained; or

(d) Whoever knowingly receives, conceals, uses, or transports money, goods, services, or anything else of value (except tickets for interstate or foreign transportation) which (1) within any one-year period has a value aggregating \$1,000 or more, (2) has moved in or is part of, or which constitutes interstate or foreign commerce, and (3) has been obtained with a counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained credit card; or

(e) Whoever knowingly receives, conceals, uses, sells, or transports in interstate or foreign commerce one or more tickets for interstate or foreign transportation, which (1) within any one-year period have a value aggregating \$500 or more, and (2) have been purchased or obtained with one or more counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained credit cards; or

(f) Whoever in a transaction affecting interstate or foreign commerce furnishes money, property, services, or anything else of value, which within any one-year period has a value aggregating \$1,000 or more, through the use of any counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained credit card knowing the same to be counterfeit, fictitious, altered, forged, lost, stolen, or fraudulently obtained— shall be fined not more than \$10,000 or imprisoned not more than ten years, or both.

*** § 135. Business credit cards**

The exemption provided by section 104(1) does not apply to the provisions of sections 132, 133, and 134, except that a card issuer and a business or other organization which provides credit cards issued by the same card issuer to ten or more of its employees may by contract agree as to liability of the business or other organization with respect to unauthorized use of such credit cards

* Added 10/28/74.

without regard to the provisions of section 133, but in no case may such business or other organization or card issuer impose liability upon any employee with respect to unauthorized use of such a credit card except in accordance with and subject to the limitations of section 133.

CHAPTER 3—CREDIT ADVERTISING

Sec.

- 141. Catalogs and multiple-page advertisements.
- 142. Advertising of downpayments and installments.
- 143. Advertising of open end credit plans.
- 144. Advertising of credit other than open end plans.
- 145. Nonliability of media.
- 146. More-than-four-installment rule.

§ 141. Catalogs and multiple-page advertisements

For the purposes of this chapter, a catalog or other multiple-page advertisement shall be considered a single advertisement if it clearly and conspicuously displays a credit terms table on which the information required to be stated under this chapter is clearly set forth.

§ 142. Advertising of downpayments and installments

No advertisement to aid, promote, or assist directly or indirectly any extension of consumer credit may state

- (1) that a specific periodic consumer credit amount or installment amount can be arranged, unless the creditor usually and customarily arranges credit payments or installments for that period and in that amount.
- (2) that a specified downpayment is required in connection with any extension of consumer credit, unless the creditor usually and customarily arranges downpayments in that amount.

§ 143. Advertising of open end credit plans

No advertisement to aid, promote, or assist directly or indirectly the extension of consumer credit under an open end credit plan may set forth any of the specific terms of that plan or the appropriate rate determined under section 127(a)(5) unless it also clearly and conspicuously sets forth all of the following items:

- (1) The time period, if any, within which any

credit extended may be repaid without incurring a finance charge.

(2) The method of determining the balance upon which a finance charge will be imposed.

(3) The method of determining the amount of the finance charge, including any minimum or fixed amount imposed as a finance charge.

(4) Where periodic rates may be used to compute the finance charge, the periodic rates expressed as annual percentage rates.

(5) Such other or additional information for the advertising of open end credit plans as the Board may by regulation require to provide for adequate comparison of credit costs as between different types of open end credit plans.

§ 144. Advertising of credit other than open end plans

(a) Except as provided in subsection (b), this section applies to any advertisement to aid, promote, or assist directly or indirectly any consumer credit sale, loan, or other extension of credit subject to the provisions of this title, other than an open end credit plan.

(b) The provisions of this section do not apply to advertisements of residential real estate except to the extent that the Board may by regulation require.

(c) If any advertisement to which this section applies states the rate of a finance charge, the advertisement shall state the rate of that charge expressed as an annual percentage rate.

(d) If any advertisement to which this section applies states the amount of the downpayment, if any, the amount of any installment payment, the dollar amount of any finance charge, or the number of installments or the period of repayment, then the advertisement shall state all of the following items:

(1) The cash price or the amount of the loan as applicable.

(2) The downpayment, if any.

(3) The number, amount, and due dates or period of payments scheduled to repay the indebtedness if the credit is extended.

(4) The rate of the finance charge expressed as an annual percentage rate.

§ 145. Nonliability of media

There is no liability under this chapter on the part of any owner or personnel, as such, of any

medium in which an advertisement appears or through which it is disseminated.

*** § 146. More-than-four-installment rule**

Any advertisement to aid, promote, or assist directly or indirectly the extension of consumer credit repayable in more than four installments shall, unless a finance charge is imposed, clearly and conspicuously state, in accordance with the regulations of the Board:

"THE COST OF CREDIT IS INCLUDED IN THE PRICE QUOTED FOR THE GOODS AND SERVICES."

*** CHAPTER 4—CREDIT BILLING**

Sec.

- 161. Correction of billing errors.
- 162. Regulation of credit reports.
- 163. Length of billing period.
- 164. Prompt crediting of payments.
- 165. Crediting excess payments.
- 166. Prompt notification of returns.
- 167. Use of cash discounts.
- 168. Prohibition of tie-in services.
- 169. Prohibition of offsets.
- 170. Rights of credit card customers.
- 171. Relation to State laws.

§ 161. Correction of billing errors

(a) If a creditor, within sixty days after having transmitted to an obligor a statement of the obligor's account in connection with an extension of consumer credit, receives at the address disclosed under section 127(b)(11) a written notice (other than notice on a payment stub or other payment medium supplied by the creditor if the creditor so stipulates with the disclosure required under section 127(a)(8)) from the obligor in which the obligor—

(1) sets forth or otherwise enables the creditor to identify the name and account number (if any) of the obligor,

(2) indicates the obligor's belief that the statement contains a billing error and the amount of such billing error, and

(3) sets forth the reasons for the obligor's be-

* Added 10/28/74.

lief (to the extent applicable) that the statement contains a billing error, the creditor shall, unless the obligor has, after giving such written notice and before the expiration of the time limits herein specified, agreed that the statement was correct—

(A) not later than thirty days after the receipt of the notice, send a written acknowledgment thereof to the obligor, unless the action required in subparagraph (B) is taken within such thirty-day period, and

(B) not later than two complete billing cycles of the creditor (in no event later than ninety days) after the receipt of the notice and prior to taking any action to collect the amount, or any part thereof, indicated by the obligor under paragraph (2) either—

(i) make appropriate corrections in the account of the obligor, including the crediting of any finance charges on amounts erroneously billed, and transmit to the obligor a notification of such corrections and the creditor's explanation of any change in the amount indicated by the obligor under paragraph (2) and, if any such change is made and the obligor so requests, copies of documentary evidence of the obligor's indebtedness; or

(ii) send a written explanation or clarification to the obligor, after having conducted an investigation, setting forth to the extent applicable the reasons why the creditor believes the account of the obligor was correctly shown in the statement and, upon request of the obligor, provide copies of documentary evidence of the obligor's indebtedness. In the case of a billing error where the obligor alleges that the creditor's billing statement reflects goods not delivered to the obligor or his designee in accordance with the agreement made at the time of the transaction, a creditor may not construe such amount to be correctly shown unless he determines that such goods were actually delivered, mailed, or otherwise sent to the obligor and provides the obligor with a statement of such determination.

After complying with the provisions of this subsection with respect to an alleged billing error, a creditor has no further responsibility under this section if the obligor continues to make substantially the same allegation with respect to such error.

(b) For the purpose of this section, a "billing error" consists of any of the following:

(1) A reflection on a statement of an extension of credit which was not made to the obligor or, if made, was not in the amount reflected on such statement.

(2) A reflection on a statement of an extension of credit for which the obligor requests additional clarification including documentary evidence thereof.

(3) A reflection on a statement of goods or services not accepted by the obligor or his designee or not delivered to the obligor or his designee in accordance with the agreement made at the time of a transaction.

(4) The creditor's failure to reflect properly on a statement a payment made by the obligor or a credit issued to the obligor.

(5) A computation error or similar error of an accounting nature of the creditor on a statement.

(6) Any other error described in regulations of the Board.

(c) For the purposes of this section, "action to collect the amount, or any part thereof, indicated by an obligor under paragraph (2)" does not include the sending of statements of account to the obligor following written notice from the obligor as specified under subsection (a), if—

(1) the obligor's account is not restricted or closed because of the failure of the obligor to pay the amount indicated under paragraph (2) of subsection (a), and

(2) the creditor indicates the payment of such amount is not required pending the creditor's compliance with this section. Nothing in this section shall be construed to prohibit any action by a creditor to collect any amount which has not been indicated by the obligor to contain a billing error.

(d) Pursuant to regulations of the Board, a creditor operating an open end consumer credit plan may not, prior to the sending of the written explanation or clarification required under paragraph (B)(ii), restrict or close an account with respect to which the obligor has indicated pursuant to subsection (a) that he believes such account to contain a billing error solely because of the obligor's failure to pay the amount indicated to be in error. Nothing in this subsection shall be deemed to prohibit a creditor from applying against the credit limit on the obligor's account the amount indicated to be in error.

(e) Any creditor who fails to comply with the requirements of this section or section 162 for-

feits any right to collect from the obligor the amount indicated by the obligor under paragraph (2) of subsection (a) of this section, and any finance charges thereon, except that the amount required to be forfeited under this subsection may not exceed \$50.

§ 162. Regulation of credit reports

(a) After receiving a notice from an obligor as provided in section 161(a), a creditor or his agent may not directly or indirectly threaten to report to any person adversely on the obligor's credit rating or credit standing because of the obligor's failure to pay the amount indicated by the obligor under section 161(a)(2), and such amount may not be reported as delinquent to any third party until the creditor has met the requirements of section 161 and has allowed the obligor the same number of days (not less than ten) thereafter to make payment as is provided under the credit agreement with the obligor for the payment of undisputed amounts.

(b) If a creditor receives a further written notice from an obligor that an amount is still in dispute within the time allowed for payment under subsection (a) of this section, a creditor may not report to any third party that the amount of the obligor is delinquent because the obligor has failed to pay an amount which he has indicated under section 161(a)(2), unless the creditor also reports that the amount is in dispute and, at the same time, notifies the obligor of the name and address of each party to whom the creditor is reporting information concerning the delinquency.

(c) A creditor shall report any subsequent resolution of any delinquencies reported pursuant to subsection (b) to the parties to whom such delinquencies were initially reported.

§ 163. Length of billing period

(a) If an open end consumer credit plan provides a time period within which an obligor may repay any portion of the credit extended without incurring an additional finance charge, such additional finance charge may not be imposed with respect to such portion of the credit extended for the billing cycle of which such period is a part unless a statement which includes the amount upon which the finance charge for that period is based was mailed at least fourteen days prior to the date specified in the statement by which

payment must be made in order to avoid imposition of that finance charge.

(b) Subsection (a) does not apply in any case where a creditor has been prevented, delayed, or hindered in making timely mailing or delivery of such periodic statement within the time period specified in such subsection because of an act of God, war, natural disaster, strike, or other excusable or justifiable cause, as determined under regulations of the Board.

§ 164. Prompt crediting of payments

Payments received from an obligor under an open end consumer credit plan by the creditor shall be posted promptly to the obligor's account as specified in regulations of the Board. Such regulations shall prevent a finance charge from being imposed on any obligor if the creditor has received the obligor's payment in readily identifiable form in the amount, manner, location, and time indicated by the creditor to avoid the imposition thereof.

§ 165. Crediting excess payments

Whenever an obligor transmits funds to a creditor in excess of the total balance due on an open end consumer credit account, the creditor shall promptly (1) upon request of the obligor refund the amount of the overpayment, or (2) credit such amount to the obligor's account.

§ 166. Prompt notification of returns

With respect to any sales transaction where a credit card has been used to obtain credit, where the seller is a person other than the card issuer, and where the seller accepts or allows a return of the goods or forgiveness of a debit for services which were the subject of such sale, the seller shall promptly transmit to the credit card issuer, a credit statement with respect thereto and the credit card issuer shall credit the account of the obligor for the amount of the transaction.

§ 167. Use of cash discounts

*(a)(1) With respect to credit card which may be used for extensions of credit in sales transactions in which the seller is a person other than the card issuer, the card issuer may not, by contract or otherwise, prohibit any such seller from offer-

* Amended 2/27/76.

ing a discount to a cardholder to induce the cardholder to pay by cash, check, or similar means rather than use a credit card.

* (2) No seller in any sales transaction may impose a surcharge on a cardholder who elects to use a credit card in lieu of payment by cash, check, or similar means.

(b) With respect to any sales transaction, any discount not in excess of 5 per centum offered by the seller for the purpose of inducing payment by cash, check, or other means not involving the use of a credit card shall not constitute a finance charge as determined under section 106, if such discount is offered to all prospective buyers and its availability is disclosed to all prospective buyers clearly and conspicuously in accordance with regulations of the Board.

§ 168. Prohibition of tie-in services

Notwithstanding any agreement to the contrary, a card issuer may not require a seller, as a condition to participating in a credit card plan, to open an account with or procure any other service from the card issuer or its subsidiary or agent.

§ 169. Prohibition of offsets

(a) A card issuer may not take any action to offset a cardholder's indebtedness arising in connection with a consumer credit transaction under the relevant credit card plan against funds of the cardholder held on deposit with the card issuer unless—

(1) such action was previously authorized in writing by the cardholder in accordance with a credit plan whereby the cardholder agrees periodically to pay debts incurred in his open end credit account by permitting the card issuer periodically to deduct all or a portion of such debt from the cardholder's deposit account, and

(2) such action with respect to any outstanding disputed amount not be taken by the card issuer upon request of the cardholder.

In the case of any credit card account in existence on the effective date of this section, the previous written authorization referred to in clause (1) shall not be required until the date (after such effective date) when such account is renewed, but in no case later than one year after such effective date. Such written authorization

shall be deemed to exist if the card issuer has previously notified the cardholder that the use of his credit card account will subject any funds which the card issuer holds in deposit accounts of such cardholder to offset against any amounts due and payable on his credit card account which have not been paid in accordance with the terms of the agreement between the card issuer and the cardholder.

(b) This section does not alter or affect the right under State law of a card issuer to attach or otherwise levy upon funds of a cardholder held on deposit with the card issuer if that remedy is constitutionally available to creditors generally.

§ 170. Rights of credit card customers

(a) Subject to the limitation contained in subsection (b), a card issuer who has issued a credit card to a cardholder pursuant to an open end consumer credit plan shall be subject to all claims (other than tort claims) and defenses arising out of any transaction in which the credit card is used as a method of payment or extension of credit if (1) the obligor has made a good faith attempt to obtain satisfactory resolution of a disagreement or problem relative to the transaction from the person honoring the credit card; (2) the amount of the initial transaction exceeds \$50; and (3) the place where the initial transaction occurred was in the same State as the mailing address previously provided by the cardholder or was within 100 miles from such address, except that the limitations set forth in clauses (2) and (3) with respect to an obligor's right to assert claims and defenses against a card issuer shall not be applicable to any transaction in which the person honoring the credit card (A) is the same person as the card issuer, (B) is controlled by the card issuer, (C) is under direct or indirect common control with the card issuer, (D) is a franchised dealer in the card issuer's products or services, or (E) has obtained the order for such transaction through a mail solicitation made by or participated in by the card issuer in which the cardholder is solicited to enter into such transaction by using the credit card issued by the card issuer.

(b) The amount of claims or defenses asserted by the cardholder may not exceed the amount of credit outstanding with respect to such transaction at the time the cardholder first notifies the card issuer or the person honoring the credit card of

* Added 2/27/76.

such claim or defense. For the purpose of determining the amount of credit outstanding in the preceding sentence, payments and credits to the cardholder's account are deemed to have been applied, in the order indicated, to the payment of: (1) late charges in the order of their entry to the account; (2) finance charges in order of their entry to the account; and (3) debits to the account other than those set forth above, in the order in which each debit entry to the account was made.

§ 171. Relation to State laws

(a) This chapter does not annul, alter, or affect, or exempt any person subject to the provisions of this chapter from complying with the laws of any State with respect to credit billing practices, except to the extent that those laws are inconsistent with any provision of this chapter, and then only to the extent of the inconsistency. The Board is authorized to determine whether such inconsistencies exist. The Board may not determine that any State law is inconsistent with any provision of this chapter if the Board determines that such law gives greater protection to the consumer.

(b) The Board shall by regulation exempt from the requirements of this chapter any class of credit transactions within any State if it determines that under the law of that State that class of transactions is subject to requirements substantially similar to those imposed under this chapter or that such law gives greater protection to the consumer, and that there is adequate provision for enforcement.

(c) Notwithstanding any other provisions of this title, any discount offered under section 167(b) of this title shall not be considered a finance charge or other charge for credit under the usury laws of any State or under the laws of any State relating to disclosure of information in connection with credit transactions, or relating to the types, amounts or rates of charges, or to any element or elements of charges permissible under such laws in connection with the extension or use of credit.

** CHAPTER 5—CONSUMER LEASES

Sec.

- 181. Definitions.
- 182. Consumer lease disclosures.
- 183. Lessee's liability on expiration or termination of lease.
- 184. Consumer lease advertising.
- 185. Civil liability.
- 186. Relation to State laws.

§ 181. Definitions

For purposes of this chapter—

(1) The term "consumer lease" means a contract in the form of a lease or bailment for the use of personal property by a natural person for a period of time exceeding four months, and for a total contractual obligation not exceeding \$25,000, primarily for personal, family, or household purposes, whether or not the lessee has the option to purchase or otherwise become the owner of the property at the expiration of the lease, except that such term shall not include any credit sale as defined in section 103(g). Such term does not include a lease for agricultural, business, or commercial purposes, or to a government or governmental agency or instrumentality, or to an organization.

(2) The term "lessee" means a natural person who leases or is offered a consumer lease.

(3) The term "lessor" means a person who is regularly engaged in leasing, offering to lease, or arranging to lease under a consumer lease.

(4) The term "personal property" means any property which is not real property under the laws of the State where situated at the time offered or otherwise made available for lease.

(5) The terms "security" and "security interest" mean any interest in property which secures payment or performance of an obligation.

§ 182. Consumer lease disclosures

Each lessor shall give a lessee prior to the consummation of the lease a dated written statement on which the lessor and lessee are identified setting out accurately and in a clear and conspicuous manner the following information with respect to that lease, as applicable:

* Added 2/27/76.

** Added 3/23/76.

(1) A brief description or identification of the leased property;

(2) The amount of any payment by the lessee required at the inception of the lease;

(3) The amount paid or payable by the lessee for official fees, registration, certificate of title, or license fees or taxes;

(4) The amount of other charges payable by the lessee not included in the periodic payments, a description of the charges and that the lessee shall be liable for the differential, if any, between the anticipated fair market value of the leased property and its appraised actual value at the termination of the lease, if the lessee has such liability;

(5) A statement of the amount or method of determining the amount of any liabilities the lease imposes upon the lessee at the end of the term and whether or not the lessee has the option to purchase the leased property and at what price and time;

(6) A statement identifying all express warranties and guarantees made by the manufacturer or lessor with respect to the leased property, and identifying the party responsible for maintaining or servicing the leased property together with a description of the responsibility;

(7) A brief description of insurance provided or paid for by the lessor or required of the lessee, including the types and amounts of the coverages and costs;

(8) A description of any security interest held or to be retained by the lessor in connection with the lease and a clear identification of the property to which the security interest relates;

(9) The number, amount, and due dates or periods of payments under the lease and the total amount of such periodic payments;

(10) Where the lease provides that the lessee shall be liable for the anticipated fair market value of the property on expiration of the lease, the fair market value of the property at the inception of the lease, the aggregate cost of the lease on expiration, and the differential between them; and

(11) A statement of the conditions under which the lessee or lessor may terminate the lease prior to the end of the term and the amount or method of determining any penalty or other charge for delinquency, default, late payments, or early termination.

The disclosures required under this section may be made in the lease contract to be signed by the lessee. The Board may provide by regulation that any portion of the information required to be disclosed under this section may be given in the form of estimates where the lessor is not in a position to know exact information.

§ 183. Lessee's liability on expiration or termination of lease

(a) Where the lessee's liability on expiration of a consumer lease is based on the estimated residual value of the property such estimated residual value shall be a reasonable approximation of the anticipated actual fair market value of the property on lease expiration. There shall be a rebuttable presumption that the estimated residual value is unreasonable to the extent that the estimated residual value exceeds the actual residual value by more than three times the average payment allocable to a monthly period under the lease. In addition, where the lessee has such liability on expiration of a consumer lease there shall be a rebuttable presumption that the lessor's estimated residual value is not in good faith to the extent that the estimated residual value exceeds the actual residual value by more than three times the average payment allocable to a monthly period under the lease and such lessor shall not collect from the lessee the amount of such excess liability on expiration of a consumer lease unless the lessor brings a successful action with respect to such excess liability. In all actions, the lessor shall pay the lessee's reasonable attorney's fees. The presumptions stated in this section shall not apply to the extent the excess of estimated over actual residual value is due to physical damage to the property beyond reasonable wear and use, or to excessive use, and the lease may set standards for such wear and use if such standards are not unreasonable. Nothing in this subsection shall preclude the right of a willing lessee to make any mutually agreeable final adjustment with respect to such excess residual liability, provided such an agreement is reached after termination of the lease.

(b) Penalties or other charges for delinquency, default, or early termination may be specified in the lease but only at an amount which is reasonable in the light of the anticipated or actual harm caused by the delinquency, default, or early ter-

mination, the difficulties of proof of loss, and the inconvenience or nonfeasibility of otherwise obtaining an adequate remedy.

(c) If a lease has a residual value provision at the termination of the lease, the lessee may obtain at his expense, a professional appraisal of the leased property by an independent third party agreed to by both parties. Such appraisal shall be final and binding on the parties.

§ 184. Consumer lease advertising

(a) No advertisement to aid, promote, or assist directly or indirectly any consumer lease shall state the amount of any payment, the number of required payments, or that any or no down-payment or other payment is required at inception of the lease unless the advertisement also states clearly and conspicuously and in accordance with regulations issued by the Board each of the following items of information which is applicable:

(1) That the transaction advertised is a lease.

(2) The amount of any payment required at the inception of the lease or that no such payment is required if that is the case.

(3) The number, amounts, due dates or periods of scheduled payments, and the total of payments under the lease.

(4) That the lessee shall be liable for the differential, if any, between the anticipated fair market value of the leased property and its appraised actual value at the termination of the lease, if the lessee has such liability.

(5) A statement of the amount or method of determining the amount of any liabilities the lease imposes upon the lessee at the end of the term and whether or not the lessee has the option to purchase the leased property and at what price and time.

(b) There is no liability under this section on the part of any owner or personnel, as such, of any medium in which an advertisement appears or through which it is disseminated.

§ 185. Civil liability

(a) Any lessor who fails to comply with any requirement imposed under section 182 or 183 of this chapter with respect to any person is liable to such person as provided in section 130.

(b) Any lessor who fails to comply with any requirement imposed under section 184 of this chapter with respect to any person who suffers

actual damage from the violation is liable to such person as provided in section 130. For the purposes of this section, the term "creditor" as used in sections 115, 130, and 131 shall include a lessor as defined in this chapter.

(c) Notwithstanding section 130(e), any action under this section may be brought in any United States district court or in any other court of competent jurisdiction. Such actions alleging a failure to disclose or otherwise comply with the requirements of this chapter shall be brought within one year of the termination of the lease agreement.

§ 186. Relation to State laws

(a) This chapter does not annul, alter, or affect, or exempt any person subject to the provisions of this chapter from complying with, the laws of any State with respect to consumer leases, except to the extent that those laws are inconsistent with any provision of this chapter, and then only to the extent of the inconsistency. The Board is authorized to determine whether such inconsistencies exist. The Board may not determine that any State law is inconsistent with any provision of this chapter if the Board determines that such law gives greater protection and benefit to the consumer.

(b) The Board shall by regulation exempt from the requirements of this chapter any class of lease transactions within any State if it determines that under the law of that State that class of transactions is subject to requirements substantially similar to those imposed under this chapter or that such law gives greater protection and benefit to the consumer, and that there is adequate provision for enforcement.

TITLE V—GENERAL PROVISIONS

Sec.

- 501. Severability.
- 502. Captions and catchlines for reference only.
- 503. Grammatical usages.
- 504. Effective dates.

§ 501. Severability

If a provision enacted by this Act is held invalid, all valid provisions that are severable from the invalid provision remain in effect. If a provision enacted by this Act is held invalid in one or more of its applications, the provision remains

in effect in all valid applications that are severable from the invalid application or applications.

§ 502. Captions and catchlines for reference only

Captions and catchlines are intended solely as aids to convenient reference, and no inference as to the legislative intent with respect to any provision enacted by this Act may be drawn from them.

§ 503. Grammatical usages

In this Act:

(1) The word "may" is used to indicate that an action either is authorized or is permitted.

(2) The word "shall" is used to indicate that an action is both authorized and required.

(3) The phrase "may not" is used to indicate that an action is both unauthorized and forbidden.

(4) Rules of law are stated in the indicative mood.

§ 504. Effective dates

(a) Except as otherwise specified, the provisions of this Act take effect upon enactment.

(b) Chapters 2 and 3 of title I take effect on July 1, 1969.

(c) Title III takes effect on July 1, 1970.

**TRUTH IN LENDING
INTERPRETATIONS OF REGULATION Z**

SECTION 226.1

**SECTION 226.101—USE OF “ANNUAL
PERCENTAGE RATE” IN ORAL
COMMUNICATIONS**

Under § 226.1(a)(2), a stated purpose of the Truth in Lending Act and Regulation Z is to assure that every customer who has need for consumer credit is given meaningful information with respect to the cost of that credit so that he may readily compare the various credit terms available to him from different sources and avoid the uninformed use of credit. Under § 226.6(a), a creditor is required to make disclosures using certain prescribed terminology, including the “annual percentage rate.” The question arises as to the propriety of a creditor quoting annual rates other than “annual percentage rate” in response to consumer inquiries about the cost of credit, where such other rates could not be used in an advertisement under the proscriptions of § 226.10.

The Truth in Lending Act and Regulation Z are intended to facilitate “shopping” between competitive credit plans. If a customer inquires about the cost of credit and the creditor responds by quoting an add-on or discount rate, he may mislead the customer since the use of such rates is prohibited in consumer credit advertising and such rates are significantly lower than the annual percentage rate which must be shown on the creditor’s disclosure statement. The quotation of these rates can frustrate the stated purpose of the Act and prevent the customer from making an informed use of credit.

In response to any oral inquiry by a customer about the cost of credit, a creditor when quoting annual rates should use only those rates permitted to be used in advertisements under § 226.10. Irrespective of the method used by the creditor to compute finance charges, the annual rate of the creditor’s total finance charges should be quoted only in terms of the “annual percentage rate.”

6/29/73

SECTION 226.102—(Rescinded effective
6/30/76)

SECTION 226.2

**SECTION 226.201—LAY-AWAY PLANS AS
EXTENSIONS OF CREDIT**

Many vendors offer lay-away plans under which they retain the merchandise for a customer until the cash price is paid in full and the customer has no contractual obligation to make payments and may, at his option, revoke a purchase made under the plan and request and receive prompt refund of any amounts paid toward the cash price of the merchandise.

A purchase under such a lay-away plan shall not be considered an extension of credit subject to the provisions of Regulation Z.

5/5/69

**SECTION 226.202—SECURITY INTEREST—
CONFESSIONS OF JUDGMENT—
COGNOVIT NOTES**

Under § 226.2(gg) “security interest” is defined to include confessed liens whether or not recorded and, in general, to include any interest in property which secures payment or performance of an obligation. In certain transactions involving a security interest, under § 226.9 the customer has a right of rescission.

In some of the States, confession of judgment clauses or cognovit provisions are lawful and make it possible for the holder of an obligation containing such clause or provision to record a lien on property of the obligor simply by recording entry of judgment; the obligor is afforded no opportunity to enter a defense against such action prior to entry of the judgment.

Since confession of judgment clauses and cognovit provisions in such States have the effect of depriving the obligor of the right to be notified of a pending action and to enter a defense in a judicial proceeding *before* judgment may be entered or recorded against him, such clauses and provisions in those States are security interests under § 226.2(gg) and for the purposes of § 226.7(a)(7), § 226.8(b)(5), and § 226.9. This is the case even if the judgment cannot be entered until after a default by the obligor.

Confession of judgment clauses and cognovit provisions which, by their terms, exclude a lien on all real property which is used or is expected to be used as the principal residence of the cus-

tomers, would not bring a transaction under the provisions of § 226.9.

5/26/69

**SECTION 226.203—OPEN END CREDIT
DISTINGUISHED FROM OTHER
CREDIT**

The fundamental qualification for "open end credit" under § 226.2(x) is that consumer credit be extended on an account pursuant to a plan under which (1) the creditor may permit the customer to make purchases or obtain loans from time to time directly or indirectly from the creditor, as the plan may provide; (2) the customer has the privilege of paying the balance in full or in instalments; and (3) a finance charge may be computed by the creditor from time to time on an outstanding unpaid balance. Under an open end credit account plan, it is contemplated that there will or may be repetitive transactions on a revolving basis.

In certain cases, a form of contract or note relating to a single transaction provides that the finance charge be computed from time to time by application of a rate to the unpaid balance and stipulates required minimum periodic payments. However, the obligor has the privilege of making larger and more frequent payments than stipulated or paying the obligation in full at any time without penalty. The question arises as to whether the creditor should make disclosures in such circumstances under § 226.7 for open end credit accounts or under § 226.8 for credit other than open end.

Although the terms of such a contract or note meet the second and third requirements for such a plan, they do not meet the first of such requirements nor the basic qualification that consumer credit be extended on an account pursuant to a plan. Therefore, disclosures in this case are required to be made under § 226.8.

5/26/69

SECTION 226.3

**SECTION 226.301—AGRICULTURAL
PURPOSES—WHEN EXEMPT FROM
THE REGULATION**

Under § 226.3(a), the Regulation does not apply to "Extensions of credit to organizations,

including governments, or for business or commercial purposes, other than agricultural purposes." The definition of "organization" in § 226.2(y) includes a corporation, trust, estate, partnership, cooperative, or association as well as governmental entities. The question arises as to whether the Regulation applies to extensions of credit to organizations, including governments, for agricultural purposes.

Extensions of credit to organizations, including governments, for agricultural purposes are exempt from the Regulation.

5/26/69

**SECTION 226.302—CREDIT FOR BUSINESS
OR COMMERCIAL PURPOSES—MORE
THAN 4 FAMILY UNITS**

Under § 226.3(a), extensions of credit for business or commercial purposes, other than agricultural purposes, are not subject to Regulation Z. The question arises as to whether an extension of credit relating to a dwelling (as defined in § 226.2(v)) which contains more than 4 family housing units is an extension of credit for business or commercial purposes.

Credit extended to an owner of a dwelling containing more than 4 family housing units for the purpose of acquiring, financing, refinancing, improving, or maintaining that dwelling is an extension of credit for business or commercial purposes.

1/28/70

SECTION 226.4

**SECTION 226.401—SERVICE CHARGES ON
ACCOUNTS NOT PAID WITHIN A GIVEN
PERIOD OF TIME**

Some vendors bill their customers for property or services purchased under the terms of a credit plan which requires that the full amount of each billing be paid within a stipulated period after billing, with no privilege of paying in instalments. If a bill is not paid within that stipulated period of time, the vendor imposes a service charge periodically on the unpaid balance until the account is paid in full. The question arises as to whether Regulation Z applies to such transactions.

When in the ordinary course of business a vendor's billings are not paid in full within that stipulated period of time, and under such circumstances the vendor does not, in fact, regard such accounts in default, but continues or will continue to extend credit and imposes charges periodically for delaying payment of such accounts from time to time until paid, the charge so imposed comes within the definition of a "finance charge" (§ 226.2(w)) applicable in each case to the amount of the unpaid balance of the account. Under such circumstances the credit so extended comes within the "open end credit" in § 226.2(x), the vendor is a creditor as defined in § 226.2(s), and the disclosures required for open end credit accounts under § 226.7 shall be made.

4/22/69

SECTION 226.402—TERM OF INSURANCE COVERAGE

Under § 226.4(a)(5) and (6) certain disclosures of insurance premium costs, if applicable, are required. The question arises as to whether such amounts of cost disclosed must include the cost of insurance for the full term of the transaction.

Under § 226.4(h) the cost of insurance for the full period of insurance coverage which the creditor will require shall be disclosed if the cost of the insurance premium is required to be included in the finance charge. However, if the cost of insurance is not required to be included in the finance charge, the cost to be disclosed need only be the cost of premiums for the term of the initial policy or policies written in connection with the transaction, accompanied by a statement of the type of insurance and the term thereof.

5/5/69

SECTION 226.403—DISCLOSURE OF COST OF PROPERTY INSURANCE WHEN NOT OBTAINABLE FROM OR THROUGH THE CREDITOR

In many cases a creditor requires insurance against loss or damage to property or liability arising out of its use but such insurance is not obtainable from or through him. The question arises under § 226.4(a)(6) as to whether such a creditor must make any disclosures to avoid hav-

ing to include the insurance premium in the finance charge.

Irrespective of whether such insurance may be obtained from or through the creditor, if the creditor requires property insurance and wishes to exclude the cost from the finance charge, he is required to state clearly and conspicuously to the customer that he may choose the person through which the insurance is to be obtained. However, if the insurance is not obtainable from or through the creditor, he is not required to disclose the cost of that insurance, unless, of course, the premiums are included in the "amount financed," in which case it would have to be disclosed under § 226.8(c)(4) or (d)(1), as the case may be.

5/26/69

SECTION 226.404—PREMIUMS FOR VENDOR'S SINGLE INTEREST INSURANCE REQUIRED BY CREDITOR

The question arises whether charges or premiums for single interest insurance (Vendor's Single Interest Insurance) written in connection with a credit transaction may be excluded from the finance charge under § 226.4(a)(6) if the insurer waives subrogation.

If the insurer waives all right of subrogation against the customer in a single interest policy of insurance against loss of or damage to property (which may include coverage for skip, concealment, conversion, and embezzlement) written in connection with a credit transaction, and the creditor complies with the requirements of § 226.4(a)(6), charges or premiums for such insurance may be excluded from the amount of the finance charge on that transaction. However, if the insurer does not so waive subrogation in such policy of insurance, the charges or premiums shall be included in the finance charge.

1/28/70 (*Supersedes interpretation § 226.404 issued 8/1/69*)

SECTION 226.405—PROPERTY INSURANCE WRITTEN IN CONNECTION WITH A TRANSACTION—OBTAINED FROM OR THROUGH THE CREDITOR

Footnote 4 to § 226.4(a)(6) specifies that a policy of insurance against loss or damage to

property or liability arising out of its use is not considered to be "written in connection with" a transaction when it ". . . was not purchased by the customer for the purpose of being used in connection with that extension of credit." Therefore, whenever such a policy is purchased by the customer for the purpose of being used in connection with a specific extension of credit, it is insurance "written in connection with" that transaction.

If the customer elects to purchase such insurance otherwise than from or through the creditor, the creditor is not required to disclose the cost of the insurance or include the premium in the finance charge. However, if the cost of such insurance is to be financed through the creditor, the premiums must be included in the "amount financed" and disclosed under § 226.8(c)(4) or (d)(1), as the case may be.

9/11/69

SECTION 226.406—SELLER'S POINTS AND DISCOUNTS UNDER REGULATION Z

Section 226.4(a) of Regulation Z includes in the finance charge any charge "payable directly or indirectly by the customer, and imposed directly or indirectly by the creditor as an incident to or as a condition of the extension of credit. . . ." The question arises as to the proper treatment of discounts paid by the seller, including points imposed on the seller by the lender in connection with a real estate transaction.

Under the general rule in § 226.4(a), any such discount, to the extent it is passed on to the buyer through an increase in the selling price, must be included in the finance charge. However, as a practical matter, it may be difficult to determine whether or not a discount paid by the seller in connection with a real estate transaction has been, in fact, passed along to the customer as a part of the purchase price of the property. The same situation may exist in other cases, for example, those in which the creditor sells at a discount obligations payable in more than four instalments.

The Board has concluded that in any such transaction coming within its administrative enforcement authority, where seller's points or discounts were, in fact, passed along to the customer or buyer and the amount thereof was not disclosed as a finance charge, the Board will take

such action as may be appropriate in the circumstances. However, it will not attempt to prescribe rules creating a presumption that all discounts or points are passed on to the customer or buyer and hence must be included in the finance charge in any particular class of transaction. On the other hand, the inclusion of seller's points or discounts in the finance charge will be acceptable to the Board as a correct disclosure under Regulation Z.

This position relates only to the Board's administrative enforcement procedures and it is not intended in any way to restrict or prejudice the rights of any customer or buyer to bring an action under sections 130 and 131 of the Act where he has reason to believe he is or was required to pay directly or indirectly a finance charge imposed directly or indirectly by the creditor of the transaction and the amount of that finance charge was not disclosed to him.

10/23/70

SECTION 226.407—CHARGES FOR MEMBERSHIP IN OPEN END CREDIT PLAN

A credit card issuer charges the cardholder an annual fee for membership in the credit plan and for issuance of a credit card for use in conjunction with the plan. The payment of the fee is required as a condition of membership in the plan, whether or not the cardholder uses his card for the purpose of obtaining credit. The question arises whether these fees are finance charges under § 226.4(a) of Regulation Z.

Since such fees are imposed as a qualification of membership in the plan and for the issuance of a credit card, and not as incident to or as a condition of any specific extension of credit, they do not fall within the definition of a "finance charge" under § 226.4(a) of Regulation Z.

8/12/71

SECTION 226.5

SECTION 226.501—USE OF RANGES OR BRACKETS TO DETERMINE PERIODIC RATE OF FINANCE CHARGE ON OPEN END ACCOUNTS

Section 226.5(a)(1) of Regulation Z, in effect, gives a creditor the option in certain circum-

stances of stating (1) two or more separate annual percentage rates (e.g., the rate on a \$700 balance might be stated as 18% on balance to \$500 and 12% on balance over \$500), or (2) a single annual percentage rate determined by the "quotient method" resulting from applying the rates to a total balance (e.g., in the example above, an annual percentage rate of 16¼% on a \$700 balance).

Section 226.5(a)(2), which relates to the use of ranges or brackets to compute periodic finance charges, does not prevent a creditor who uses such brackets from exercising the options referred to in § 226.5(a)(1).

4/2/69

SECTION 226.502—ANNUAL PERCENTAGE RATE ON SINGLE ADD-ON RATE TRANSACTIONS

The application of a single add-on rate to transactions of varying maturities, when converted to an annual percentage rate determined by the actuarial method, results in minor variations. Such annual percentage rate variations on maturities up to 60 months are so insignificant that separate computations are unwarranted.

The question arises as to whether a creditor may disclose a single annual percentage rate on all such transactions based upon the highest rate which will arise from the application of the same single add-on rate to each of such transactions.

When the same add-on rate is applied to all transactions within a range of maturities up to 60 months, and provided that all payments on each transaction are equal in amount and due at equal intervals of time within the limits provided by § 226.5(d), a single annual percentage rate may be disclosed in which case it shall be the highest annual percentage rate that may be applicable to any such transactions.

5/26/69

SECTION 226.503—MINOR IRREGULARITIES—MAXIMUM IRREGULAR PERIOD LIMITS

Section 226.5(d) specifies certain minimums in determining what minor irregularities in first payment periods may be disregarded in determining

the annual percentage rate. The question arises as to what maximum limits for such periods would still permit the irregular periods to be considered regular in computing the annual percentage rate.

If the period from the date on which the finance charge begins to accrue and the date the final payment is due is not less than 3 months in the case of weekly payments, 6 months in the case of biweekly or semimonthly payments, or 1 year in the case of monthly payments, the maximum interval of time from the date the finance charge begins to accrue to the date the first payment is due is as follows:

- (1) in the case of weekly payments, 12 days;
- (2) in the case of biweekly or semimonthly payments, 25 days;
- (3) in the case of monthly payments, 50 days.

If the period from the date on which the finance charge begins to accrue and the date the final payment is due is less than 3 months in the case of weekly payments, 6 months in the case of biweekly or semimonthly payments, or 1 year in the case of monthly payments, the maximum interval of time from the date the finance charge begins to accrue to the date the first payment is due is as follows:

- (1) in the case of weekly payments, 10 days;
- (2) in the case of biweekly or semimonthly payments, 21 days;
- (3) in the case of monthly payments, 42 days.

6/10/69

SECTION 226.504—TREATMENT OF "PICK-UP PAYMENT" IN AN INSTALMENT CONTRACT

In some instances involving an instalment contract arising from a credit sale, the purchaser may not pay the full amount of the required downpayment at the time he signs the contract or otherwise enters into the credit transaction. In such cases, the creditor may include in the instalment contract or accept a separate obligation for the unpaid portion of the downpayment, commonly called a "pick-up payment," the amount of which usually carries no finance charge and is to be paid on or before a specified date independent of the other scheduled payments.

The question arises whether the "pick-up payment" must be treated as part of the "amount financed" for purposes of disclosure and determi-

nation of the "annual percentage rate" or whether it may be treated as a deferred portion of the downpayment.

In determining the "amount financed" the creditor may exclude the amount of the "pick-up payment" provided that:

(1) The amount of the finance charge applicable to the transaction does not exceed the amount that would have been imposed had the required downpayment been paid in full upon consummation of the transaction; and

(2) The due date of the "pick-up payment" is not later than the due date of the second payment otherwise scheduled.

In making the disclosures required under § 226.8(b)(3), if such "pick-up payment" is more than twice the amount of an otherwise regularly scheduled equal payment, the creditor shall state the conditions, if any, under which such "pick-up payment" may be refinanced if not paid when due; and such "pick-up payment" may be identified using that term or the term "balloon payment."

9/11/69

SECTION 226.505—APPLICATION OF THE MINOR IRREGULARITIES PROVISIONS IN DETERMINING THE AMOUNT OF THE FINANCE CHARGE

Some creditors calculate finance charges in a credit transaction on the basis of predetermined percentage rate or rates, e.g., 1% per month on the unpaid balances. Determination of the amount of the finance charge is fairly routine for these creditors if the contracts are written for regular payments at regular intervals. However, many times the first payment may be irregular either in amount or payment period, or both, especially in those instances where creditors require payments to fall due on fixed dates or those who are paid by means of payroll deductions. The minor irregularities provisions of § 226.5(d) of the Regulation and § 226.503 of the interpretations to Regulation Z, which pertain to the determination of the annual percentage rate, also apply to the determination of the finance charge. For convenient reference, the applicable provisions of § 226.5(d) and § 226.503 as they apply to the determination of the finance charge are set forth below.

In determining the finance charge, a creditor may, at his option, consider the payment irregularities set forth below in subparagraphs (1) and (2) as if they were regular in amount or time, as applicable, provided that the transaction to which they relate is otherwise payable in equal instalments scheduled at equal intervals.

(1) If the period from the date on which the finance charge begins to accrue and the date the final payment is due is not less than 3 months in the case of weekly payments, 6 months in the case of biweekly or semimonthly payments, or 1 year in the case of monthly payments, either or both of the following:

(i) The amount of 1 payment other than any downpayment is not more than 50 per cent greater nor 50 per cent less than the amount of a regular payment; or

(ii) The interval between the date on which the finance charge begins to accrue and the date the first payment is due is not less than 5 nor more than 12 days for an obligation otherwise payable in weekly instalments, not less than 10 nor more than 25 days for an obligation otherwise payable in biweekly or semimonthly instalments, or not less than 20 nor more than 50 days for an obligation otherwise payable in monthly instalments.

(2) If the period from the date on which the finance charge begins to accrue and the date the final payment is due is less than 3 months in the case of weekly payments, 6 months in the case of biweekly or semimonthly payments, or 1 year in the case of monthly payments, either or both of the following:

(i) The amount of 1 payment other than any downpayment is not more than 25 per cent greater nor 25 per cent less than the amount of a regular payment; or

(ii) The interval between the date on which the finance charge begins to accrue and the date the first payment is due is not less than 6 nor more than 10 days for an obligation otherwise payable in weekly instalments, not less than 12 nor more than 21 days for an obligation otherwise payable in biweekly or semimonthly instalments, or not less than 25 nor more than 42 days for an obligation otherwise payable in monthly instalments.

For the purposes of § 226.8(b)(3) in disclosing the number, amount and due dates or periods of payments scheduled to repay the indebtedness

and the "total of payments," the creditor may treat such irregular payments or payment periods, or both, as if they were regular. If the creditor so elects, he may indicate the exact amount of payment period involved in the minor irregularity.

9/11/69

SECTION 226.506—DAILY PERIODIC RATE; COMPUTATION OF THE ANNUAL PERCENTAGE RATE

Under § 226.5(a)(1)(ii), (3)(i), and (3)(ii), the quotient used in computing the annual percentage rate in open end credit accounts must be multiplied "by the number of billing cycles in a year." The question arises as to the method which should be used to compute the annual percentage rate under those sections where a daily periodic rate or rates is used.

In any open end credit account to which the provisions of § 226.5(a)(1)(ii) or 226.5(a)(3)(i) apply where all or a portion of the finance charge is determined by the application of one or more daily periodic rates, the annual percentage rate may be determined (1) by dividing the total finance charge by the average of daily balances and multiplying the quotient by the number of billing cycles in a year, or alternatively (2) by dividing the total finance charge by the sum of the daily balances and multiplying the quotient by 365.

In any open end credit account to which the provisions of § 226.5(a)(3)(ii) apply, where a portion of the finance charge is determined by application of one or more daily periodic rates, the phrase "sum of the balances" in footnote 5a shall also mean the "average of daily balances."

6/1/73

SECTION 226.6

SECTION 226.601—OVERSTATEMENT OF ANNUAL PERCENTAGE RATE

Section 226.6(h) of Regulation Z provides that in certain circumstances the disclosure of an annual percentage rate which is greater than that required to be disclosed under the Regulation does not in itself constitute a violation of the Regulation. Under this section may a disclosure

regarding an annual percentage rate (e.g., "the annual percentage rate does not exceed 18%") be preprinted on a contract or periodic statement and comply with disclosure requirements when the actual rate will at times be lower (e.g., 15%) for some transactions?

Section 226.5 specifies the methods which shall be employed in determining annual percentage rates. Section 226.6(h) is not intended to provide an alternative to these requirements, but is merely to provide appropriate relief to a creditor who overstates accidentally. Any disclosure of an annual percentage rate whether preprinted or otherwise which overstates the annual percentage rate determined in accordance with § 226.5 other than through inadvertence does not comply with requirements.

4/2/69

SECTION 226.602—(Rescinded effective 3/1/74)

SECTION 226.603—DISCLOSURES IN TRANSACTION INVOLVING MULTIPLE CUSTOMERS

Section 226.6(e) states the general rule that, except in the case of a rescindable transaction under § 226.9, where there are multiple customers in a transaction, the creditor is only required to make disclosures to one of them. However, in determining which customer shall receive disclosures, the creditor may not select a customer who is secondarily liable, such as an endorser, co-maker (when designated as surety), guarantor, or a similar party. This does not prohibit the creditor from also furnishing disclosures to such persons who are secondarily liable.

4/2/69

SECTION 226.604—INCONSISTENT STATE REQUIREMENTS

Section 226.6(b) of Regulation Z indicates types of State law requirements that are inconsistent with Regulation Z, and § 226.6(c) indicates the methods of dealing with such inconsistent requirements of State law.

Whether State laws are inconsistent with Regulation Z necessarily depends on the nature of the

State laws. Section 226.6(b)(1) provides that State law is inconsistent to the extent that it "requires a creditor to make disclosures different from the requirements of this Part with respect to form, content, terminology, or time of delivery." This refers to disclosures of the kinds of information covered by Regulation Z, and *not* to other or collateral information such as a statement telling the customer that he should read the contract carefully, or that there should be no blanks in the contract. Similarly, it does not refer to headings that State law may require on a contract such as "Retail Installment Contract." Similarly, a specification in a State law that certain size type must be used is not necessarily inconsistent with the requirements of Regulation Z.

4/22/69

SECTION 226.605—(Rescinded effective 3/1/74)

**SECTION 226.606—MODIFICATION OF
SEMIANNUAL STATEMENTS PURSUANT
TO STATE LAW**

Sections 226.7(a)(9) and 226.7(d)(5) prescribe statements regarding customers' rights and creditors' responsibilities under certain sections of the Regulation. These statements contain specific references to the "Federal Truth in Lending Act," "Federal Fair Credit Billing Act," and the "Act."

Certain States have adopted, or intend to adopt, regulations or statutes identical to the amendments to Regulation Z adopted by the Board on September 15, 1975, for the purpose of implementing the Fair Credit Billing Act. The question has arisen whether the statements prescribed by §§ 226.7(a)(9) and 226.7(d)(5) may be modified under these circumstances to include a reference to the State law immediately following the relevant reference to the Federal law, or whether separate statements are required under both the State law and Federal law.

In the circumstances described above, it is permissible for a creditor to modify the statements prescribed by §§ 226.7(a)(9) and 226.7(d)(5) in the form of a reference to the relevant State law by name. Such a disclosure, if made immediately following the relevant reference to the titled Federal law in substantially the following manner: "and the [insert the name of the State and the State law involved]," is permissible under Regula-

tion Z and any State law requiring such a disclosure is not inconsistent with the Act or Regulation within the meaning of § 226.6(b). It is similarly permissible to substitute "these Acts" for the words "the Act" where they appear in the statement required by § 226.7(a)(9).

1/30/76

SECTION 226.7

**SECTION 226.701—PERIODIC STATEMENTS
—FINANCE CHARGE RESULTING
FROM MORE THAN ONE
PERIODIC RATE**

Section 226.7(b)(1)(iv) of Regulation Z requires that a periodic statement for open end credit show the amount of any finance charge, and that the statement also itemize and identify that portion of the finance charge that is due to application of one or more periodic rates and that portion due to any other charge such as minimum, fixed, check service, transaction, activity, or similar charge.

This does not require the statement to state separately the portions of a finance charge due to application of two or more periodic rates. For example, if a creditor charges 1½% per month on the first \$500 of a balance and 1% per month on amounts over \$500, the monthly charge on a \$600 balance would be \$8.50, which must be shown. However, it would not be necessary to itemize the two components (\$7.50 and \$1.00) of the \$8.50 charge. Under § 226.7(b)(5), the periodic rates that may apply to the account, and the applicable range of balances must, of course, be shown, but this could be preprinted.

4/2/69

SECTION 226.702 is incorporated into § 226.7(c) effective 6/1/73, and is revoked effective that date.

**SECTION 226.703—FINANCE CHARGE
BASED ON AVERAGE DAILY
BALANCE OR DAILY BALANCES IN
OPEN END CREDIT ACCOUNTS**

Section 226.7(b)(1)(viii) requires that periodic statements for open end accounts shall disclose, among other things, "the balance on which the

finance charge was computed, and a statement of how that balance was determined." In some instances, creditors compute a finance charge on the average daily balance by application of a monthly periodic rate or rates. In such case, this information is adequately disclosed if the statement gives the amount of the average daily balance on which the finance charge was computed, and also states how the balance is determined.

In other instances, the finance charge is computed on the balance each day by application of one or more daily periodic rates, and the question arises as to how the balance on which the finance charge was computed should be disclosed in such circumstances:

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

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

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

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

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

If two or more daily periodic rates may be imposed, the balances to which the rates are applicable may be stated in accordance with (i) or (ii) above or as two or more average daily balances, each applicable to the daily periodic rates imposed. For example, if the creditor imposes one daily periodic rate on balances up to \$500 and another daily periodic rate on balances over \$500, the creditor would show average daily balances of \$500 and \$200 in an account which had a \$700 balance for the entire billing cycle. If the average daily balances are stated, the creditor shall state (on the face of the periodic statement, on its reverse side, or on an enclosed supplement) wording to the effect that the finance charge is or may be determined by (1) multiplying each of the average daily balances by the number of days in the billing

cycle, (2) multiplying each of the results by the applicable daily periodic rate, and (3) adding these products together.

12/27/74 (*Supersedes interpretation § 226.703 issued 6/21/72 and prior interpretation § 226.703 issued 5/5/69*)

SECTION 226.704 is incorporated into § 226.5(a)(3) effective 6/1/73, and is revoked effective that date.

SECTION 226.705—OPEN END CREDIT— CHANGE IN THE METHOD OF DETERMINING THE BALANCE ON WHICH FINANCE CHARGES ARE COMPUTED

The creditor of an open end credit account plan desires to change his method of determining the balance on which finance charges are computed from a method in which payments and credits made during the billing cycle are not deducted in determining such balance to a method in which such payments and credits are deducted in determining such balance. This change results in a reduction in finance charges to the customer, where full payment of the account is deferred. The question arises whether notice of such change is required to be sent to customers of open end credit accounts under § 226.7(f), since that section also provides that prior notice is not required if the only change is a reduction in the "periodic rate or rates, or in any minimum, fixed, check service, transaction, activity, or similar charge applicable to the account."

Where a creditor changes his method of determining the balance on which finance charges are computed from a method in which payments and credits made during the billing cycle are not deducted in determining such balance, to a method in which such payments and credits are deducted in determining such balance, § 226.7(f) requires no prior notice of such change in terms, provided no other changes in terms applicable to the account are made simultaneously which would require § 226.7(f) notification.

7/29/71

SECTION 226.706—OPEN END CREDIT— ALLOCATION OF PAYMENTS

Section 226.7(a)(2) provides that before the first transaction is made on any open end credit

account, the creditor must disclose "the method of determining the balance upon which a finance charge may be imposed." Section 226.7(b)(1)(viii) requires the creditor to disclose on the periodic statement "the balance on which the finance charge was computed, and a statement of how that balance was determined." The question is raised whether these provisions require a creditor to provide a description of the manner in which payments or other credits are applied to various portions of the balance or balances on which finance charges are computed.

In disclosing the method of determining the balance(s) upon which finance charges are computed, it is not necessary to show the method of allocating payments or other credits. For example, explanation of the manner in which payments or credits may be applied to late charges, overdue balances, finance charges, insurance premiums or other portions of balances is not required. Similarly, explanation of the method of allocating such payments between cash advance and purchase portions of the account is not required. Such explanations in many cases involve lengthy and complex descriptions which may unduly complicate disclosures.

Explanation of the allocation method may be made by creditors where it can be done in conformity with § 226.6(c) which authorizes additional information or explanations as long as they are not stated, utilized, or placed so as to mislead or confuse the customer or contradict, obscure, or detract attention from the required disclosures.

6/21/72

SECTION 226.707—DISCLOSURES— VARIABLE PERIODIC RATES

Under the terms of some open end credit plans the periodic rates of finance charges and corresponding annual percentage rates are tied to a fluctuating base rate, for example, the "prime rate." Consequently, both the periodic rates and annual percentage rates may change from time to time with changes in the base rate. The question arises as to the proper disclosure, if any, which should be made under § 226.7(a)(4), § 226.7(b)(1)(v), § 226.7(b)(1)(vi), § 226.7(f), and § 226.10(c)(4) in connection with such plans.

Where any creditor's open end credit plan provides that the account is subject to variations in

any periodic rate of finance charge, the creditor need not comply with § 226.7(f) with respect to any prospective change in any periodic rate or corresponding annual percentage rate applicable to the account, *provided* that in connection with the disclosures made pursuant to paragraph 226.7(a)(4) the creditor has disclosed that such rates are subject to change, the conditions under which such rates may be changed, and, if applicable, the maximum and minimum limits of such rates. The requirements of § 226.7(b)(1)(v) and § 226.10(c)(4) may be complied with by similarly disclosing the method of computing the periodic or annual percentage rates which are subject to variation. In disclosing an annual percentage rate or rates under § 226.7(b)(1)(vi) where there have been variations during the billing cycle, the computations as specified in § 226.5(a)(1)(ii), § 226.5(a)(2), § 226.5(a)(3)(i) or § 226.5(a)(3)(ii), as applicable, should be used.

11/2/72

SECTION 226.708—TIMING AND MODIFICATION OF SEMI-ANNUAL STATEMENTS

Sections 226.7(d)(1) through 226.7(d)(4) set out the method by which the statement required by § 226.7(a)(9) is to be provided to customers on a semi-annual basis. Section 226.7(d)(5) provides for a shorter statement which, as an alternative to the provisions of §§ 226.7(d)(1) through 226.7(d)(4), may, under certain conditions, be provided with each periodic statement.

The question has arisen of when the first statement, either the longer statement required by § 226.7(a)(9) or the alternate shorter statement under § 226.7(d)(5), must be provided under § 226.7(d). Creditors must mail or deliver one or the other of these statements, pursuant to § 226.7(d), not later than seven months after October 28, 1975. In determining when to send the first statement pursuant to § 226.7(d), the initial statements prescribed by § 226.7(a)(9) which are sent to customers with accounts in existence on October 28, 1975, pursuant to § 226.7(i), may not be considered a statement sent for purposes of § 226.7(d).

A second question has arisen regarding the timing of disclosures should a creditor change practices and provide the statement under § 226.7

(d)(5) instead of the longer statement prescribed in § 226.7(a)(9). The same question has arisen with respect to the opposite case, i.e., when a creditor first makes disclosure under § 226.7(d)(5) and subsequently decides to make disclosure of the statement prescribed by § 226.7(a)(9) semi-annually. If a creditor first discloses the § 226.7(a)(9) statement semiannually and subsequently decides to use the § 226.7(d)(5) alternative, the first statement which must be provided pursuant to § 226.7(d)(5) must be mailed or delivered not later than the time that the next § 226.7(a)(9) statement would have been required had no change in the creditor's practice occurred. If a creditor first chooses to make disclosure pursuant to § 226.7(d)(5) and subsequently decides to provide the longer statement prescribed in § 226.7(a)(9) semi-annually, the creditor must mail or deliver such longer statement to those customers receiving periodic statements (not later than the mailing or delivery of such periodic statements) pursuant to § 226.7(b) for the billing cycle immediately subsequent to the billing cycle for which the last statements were mailed or delivered pursuant to § 226.7(d)(5). The timing of mailing or delivery of § 226.7(a)(9) statements on a semiannual basis subsequent thereto is to be determined in accordance with §§ 226.7(d)(1), (2), (3), and (4).

A further question has arisen whether a creditor may delete portions of the statement prescribed in § 226.7(d)(5) which are inapplicable to its particular credit plan as in the case of the statement prescribed by § 226.7(a)(9). In line with the general policy of the Truth in Lending Act and Regulation Z which attempt to avoid disclosures which might be confusing to consumers, any portions of the § 226.7(d)(5) statement which are inapplicable to a credit plan may be deleted from the § 226.7(d)(5) statement by the creditor of that plan.

The question has also arisen whether references to the "creditor" in the statement prescribed by § 226.7(d)(5) may be altered or modified as is permitted with regard to the statement prescribed by § 226.7(a)(9). Such alteration or modification is permissible; wherever the word "creditor" appears or is referred to in the statement prescribed by § 226.7(d)(5), the creditor may substitute appropriate references, such as "company," "bank," "we" or a specific name.

1/30/76

SECTION 226.8

SECTION 226.801—LOCATION OF DISCLOSURES WHEN CONTRACT, SECURITY AGREEMENT, AND EVIDENCE OF TRANSACTION ARE COMBINED IN A SINGLE DOCUMENT

Some creditors incorporate the terms of a contract, a security agreement, and evidence of a transaction in a single document. These documents are designed for processing by mechanical and electronic equipment. If all of the required disclosures under § 226.8 should be placed on the face of such a document, the creditor will be unable to utilize conventional accounting and record-keeping equipment because of the size of the resulting document. The question arises as to whether required disclosures may be made on the face and the reverse side of such a document.

Where a creditor elects to combine disclosures with the contract security agreement, and evidence of a transaction in a single document, the disclosures required under § 226.8 shall, in accordance with § 226.6, be made on the face of that document, on its reverse side, or on both sides, provided that the amount of the finance charge and the annual percentage rate shall appear on the face of the document, and, if the reverse side is used, the printing on both sides of the document shall be equally clear and conspicuous, both sides shall contain the statement, "NOTICE: See other side for important information," and the place for the customer's signature shall be provided following the full content of the document.

4/22/69

SECTION 226.802—DISCLOSURES ON MAIL OR TELEPHONE ORDERS

Under § 226.8(g), disclosures may be made at any time not later than the date the first payment is due under certain conditions. The question arises as to when disclosures shall be made on mail or telephone orders where the information outlined in § 226.8(g)(1) and (2) is not available to the customer or prospective customer.

Under the circumstances set forth in the above question, the creditor shall make the disclosures required under Regulation Z as follows:

(1) With respect to credit sales, not later than at the time of delivery of the property or first performance of service ordered.

(2) With respect to loans, not later than at the time proceeds of the loan are disbursed.

(3) Except that if the transaction is subject to the provisions of § 226.9, the disclosures shall be made before the transaction is consummated.

5/5/69

SECTION 226.803—DISCLOSURES WHEN DISCOUNTS APPLY FOR PROMPT PAYMENT

Under § 226.8(o), disclosures shall be made on the billing statement whereas under § 226.8(a) disclosures shall be made before the transaction is consummated. The question arises as to which provision prevails.

The provisions of § 226.8(o) prevail under the conditions set forth in that paragraph unless the transaction is also subject to the provisions of § 226.9 in which event the disclosures shall be made before the transaction is consummated.

5/5/69

SECTION 226.804—SERIES OF SALES—CONTENT OF AGREEMENT

Under § 226.8(h), if a credit sale is one of a series of transactions made under an agreement providing for the addition of a current sale to an existing outstanding balance and the customer has approved in writing the annual percentage rate or rates and certain other requirements are met, disclosures may be made at any time not later than the date the first payment for that sale is due.

The question arises as to how the annual percentage rate or rates should be shown in an agreement where, for example, an 18% annual percentage rate applies to the first \$500 of balance, a 12% annual percentage rate applies to all balances over \$500, and the mix of the two rates on transactions over \$500 will produce a gradually decreasing annual percentage rate as the amount of balance over \$500 increases.

In addition to meeting the other requirements of § 226.8(h), if two or more annual percentage rates apply to ranges of balances, the agreement need only state each annual percentage rate and the range of balances to which it applies. How-

ever, the disclosures which must be made not later than the date the first payment is due must include the actual annual percentage rate applicable to that sale.

5/5/69

SECTION 226.805—SERIES OF SALES AS DISTINGUISHED FROM REFINANCING, CONSOLIDATING, OR INCREASING

The question arises as to the distinction between the provisions of § 226.8(h) *Series of sales*, and the provisions of § 226.8(j) *Refinancing, consolidating, or increasing*.

Section 226.8(h) is applicable *only* when a credit sale is made pursuant to an agreement which provides for the addition of a current (or new) sale to an existing outstanding balance. In such cases, and provided that all of the requirements of § 226.8(h)(1) and (2) are met, the disclosures may be made at any time not later than the date the first payment for that sale is due.

If there is no agreement, or if the agreement does *not* meet all of the requirements of § 226.8(h), the disclosures required in connection with any subsequent sale, which is added to a previously outstanding balance shall be made under the provisions of § 226.8(j). For example, the fact that an agreement provides a method of computing an unearned portion of the finance charge in the event of prepayment, but does not otherwise meet the requirements of § 226.8(h), will not qualify transactions made pursuant to that agreement for disclosure under the terms of § 226.8(h).

5/26/69

SECTION 226.806—DEPOSIT BALANCES APPLIED TOWARD SATISFACTION OF CUSTOMER'S OBLIGATION

Section 226.8(e)(2) provides that required deposit balances must be deducted under § 226.8(c)(6) and excluded under § 226.8(d)(1) in determining the amount financed. Subdivision (ii) of § 226.8(e)(2) provide an exception in the case of Morris Plan type transactions in which payments in the transaction are made and accumulated in a deposit account which is then wholly applied to satisfy the obligation.

Unless the deposit balance account is created for the sole purpose of accumulating payments

and then being applied toward satisfaction of the customer's obligation in the transaction, such deposit balance does not fall within the exception provided in subdivision (ii).

In any case in which a deposit balance qualifies for this exception, each deposit made into the account shall be considered the same as a payment on the obligation for the purpose of computations and disclosures.

5/26/69

SECTION 226.807—ASSUMPTION OF AN OBLIGATION—DISCLOSURES

The question arises as to which disclosures are required to be made under § 226.8(k).

For the purposes of § 226.8(k), an "assumption" occurs only when, by written agreement entered into between a subsequent customer and the creditor, that subsequent customer is or will be accepted by that creditor as an obligor on an existing evidence of debt. In such circumstances, disclosures shall be made as follows:

(1) If the finance charge originally imposed on the existing evidence of debt was an add-on or discount type finance charge, the creditor need only disclose:

(i) The unpaid balance of the obligation assumed;

(ii) The total amount of the charges imposed by the creditor, individually itemized, in connection with the assumption;

(iii) The number, amount, and due dates of remaining payments to be made after assumption, the total of such payments, and any other applicable information required under § 226.8(b)(3);

(iv) Identification of the type of security interest, if any, retained or to be acquired in any property of the assuming customer and a brief identification of that property;

(v) The information required to be disclosed under § 226.8(b)(4), (6) and (7);

(vi) If applicable in connection with the assumption, the disclosures required under § 226.4(a)(5) and (6); and

(vii) If that obligation was entered into on or after July 1, 1969, the annual percentage rate originally disclosed on the existing obligation.

(2) If the existing evidence of debt is subject to a finance charge computed from time to time by application of a percentage rate to an unpaid

balance, the creditor shall make the disclosures required under § 226.8(b) and (d), and, if applicable in connection with the assumption, the disclosures required under § 226.4(a)(5) and (6), except that in determining the amount of the finance charge and the annual percentage rate to be disclosed to the customer who assumes the obligation, the creditor may disregard any prepaid finance charges paid by the original customer, but shall include in the finance charge as a "prepaid finance charge" the total amount of the charges imposed by the creditor, individually itemized, in connection with the assumption.

6/10/69

SECTION 226.808—DISCLOSURE OF AMOUNT OF SCHEDULED PAYMENTS

Section 226.8(b)(3) requires the creditor to disclose the "amount . . . of payments scheduled to repay the indebtedness." In certain transactions each payment consists of an equal amount to apply on principal and a finance charge which is determined by application of a rate to the decreasing unpaid balance. In such cases no two payments are equal in amount. The question arises as to whether it is necessary to list the respective dollar amount of each such payment to comply with this requirement of § 226.8(b)(3), or whether an optional disclosure is permitted.

In any transaction in which the amount of each regularly scheduled payment (other than a 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, at the creditor's option the requirement of § 226.8(b)(3) with respect to the amount of each payment may be met by disclosing the following information:

(1) The amount of each payment to be applied on principal, and an identification of that amount as payment on principal; and

(2) The respective amount of finance charge included in the first and last scheduled payments so described.

If this option is utilized, the exceptions provided under paragraphs (b)(3), and (c)(8) and (d)(3) of § 226.8 shall not apply.

6/10/69

SECTION 226.809—DISCLOSURES FOR CERTAIN STUDENT LOANS

Footnotes 10 and 11 to Regulation Z provide an exception from specified disclosure requirements for interim student loans under certain federally insured student loan programs. These exceptions are applicable to other student loans of the same type, including those made to students under federally supported loan programs or programs of loan guarantee, administered by or under agreement with the U.S. Department of Health, Education, and Welfare. In all of such cases, however, all disclosures must be made prior to the time the final note is executed or repayment schedule is agreed upon.

6/10/69

SECTION 226.810—DISCLOSURES—VARIABLE INTEREST RATES

In some cases a note, contract, or other instrument evidencing an obligation provides for prospective changes in the annual percentage rate or otherwise provides for prospective variation in the rate. The question arises as to what disclosures must be made under these circumstances when it is not known at the time of consummation of the transaction whether such change will occur or the date or amount of change.

In such cases, the creditor shall make all disclosures on the basis of the rate in effect at the time of consummation of the transaction and shall also disclose the variable feature.

If disclosure is made prior to the consummation of the transaction that the annual percentage rate is prospectively subject to change, the conditions under which such rate may be changed, and, if applicable, the maximum and minimum limits of such rate stipulated in the note, contract, or other instrument evidencing the obligation, such subsequent change in the annual percentage rate in accordance with the foregoing disclosures is a subsequent occurrence under § 226.6(g) and is not a new transaction.

6/20/69

SECTION 226.811—RENEWALS OF NOTES

Any renewal of an extension of credit providing for payment of the full principal sum on a specified date shall not be considered a refinanc-

ing under § 226.8(j), and no disclosures need be made in connection with such renewal, provided:

(i) All disclosures required under this Part were made in connection with the original extension of credit or a prior renewal thereof;

(ii) The amount of the renewal does not exceed the amount of the unpaid balance plus any accrued and unpaid finance charge;

(iii) The annual percentage rate (or rates) previously disclosed is not increased; and

(iv) The period for which renewal is made does not exceed by more than 4 days the period of the extension of credit for which disclosures were made.

In instances in which disclosures are required to be made and renewal is made by mail, the creditor may not know whether the customer will reduce his obligation by a payment on principal or, if reduced, the amount of that reduction. The question arises as to what disclosures should be made by mail to the customer in these circumstances.

If the creditor knows the amount of the principal payment, all disclosures should be made on the basis of the resulting new amount financed. If, however, the creditor does not know whether the customer will reduce his original obligation, or if so, by how much, he should disclose on the assumption that there will be no reduction. In such circumstances, at the creditor's option, he may make one or more additional disclosures based on one or more examples of graduated principal reduction. For example, if a single payment note for \$1,000 at 7% is proposed to be renewed for \$1,000 at 8% for 3 months, in addition to the other required disclosures, the creditor should disclose an amount financed of \$1,000 with a finance charge of \$20, and may, in addition, disclose that with a principal payment of \$300 the amount financed would be \$700 with a finance charge of \$14, and with a principal payment of \$500 the amount financed would be \$500 with a finance charge of \$10.

1/28/70 (*Supersedes interpretation § 226.811 issued 8/1/69*)

SECTION 226.812—ADVANCES UNDER OPEN END REAL ESTATE MORTGAGES FOR AGRICULTURAL PURPOSES

Under § 226.8(p) disclosures are permitted in connection with certain extensions of credit for

agricultural purposes which may involve advances under an open end real estate mortgage or similar lien. Section 226.8(j) in part treats advances for agricultural purposes under an open end real estate mortgage or similar lien. The question arises as to the respective application of these paragraphs to such advances.

If an extension of credit involving multiple advances, whether or not under an open end mortgage, meets the tests of § 226.8(p), disclosures need only be made prior to consummation of the credit transaction and need not be made at the time of each individual advance, even though such advance for agricultural purposes may not meet the tests in § 226.8(j). Conversely, extensions of credit for agricultural purposes involving advances under an open end real estate mortgage or similar lien which do not meet the tests for disclosure under § 226.8(p) are subject to the relevant provisions of § 226.8(j) dealing with such advances.

11/6/69

SECTION 226.813—DISCLOSURES ON MULTIPLE ADVANCE LOANS

In connection with construction and other multiple advance loans under § 226.8(i), which are payable in a single sum or permanently financed by the same creditor at maturity of the construction phase with interest only payable up to such maturity, and in which either the amount or date of an advance is not determinable, the question arises whether a method might be utilized to estimate the information to be disclosed under § 226.8(b)(2) and (3) and (d)(3).

In such cases, at the creditor's option, required information may be estimated and disclosed as follows:

(1) The following mathematical equations based upon assumed continuous advances may be utilized in estimating the amount of the interest component of the finance charge and the annual percentage rate by substituting the appropriate numerical amounts for the following symbols in the equations:

(i) Symbols

L = Amount of loan commitment.

r = Stated annual interest rate expressed as a decimal figure.

n = Number of interest payments to be made to maturity.

m = Number of interest periods (unit-periods) in 1 year.

P = Total amount of any prepaid finance charge under § 226.8(e).

B = Amount of any required deposit balance under § 226.8(e).

(ii) If interest is computed from the date of each advance on only the amounts advanced:

$$\text{Estimated annual percentage rate} = \frac{nrL + 2mP}{n(L - 2P - 2B)}$$

$$\text{Estimated interest finance charge} = \frac{nrL}{2m}$$

(iii) If interest is computed on the full amount of the commitment without regard for the dates of disbursements or actual amounts disbursed:

$$\text{Estimated annual percentage rate} = \frac{2nrL + 2mP}{n(L - 2P - 2B)}$$

$$\text{Estimated interest finance charge} = \frac{nrL}{m}$$

(2) If the equations under subdivision (ii) of paragraph (1) are utilized, the amounts of any required interest payments during the construction phase may be omitted in making the disclosure required under § 226.8(b)(3); however, if the equations under subdivision (iii) of paragraph (1) are utilized, then the amount of each scheduled interest payment shall be disclosed as required under § 226.8(b)(3).

(3) In the case of a combination construction loan and permanent financing provided by the same creditor:

(i) The amount of interest finance charge to be paid prior to the due date of the first amortization payment shall be estimated as prescribed under subdivision (ii) or (iii) of paragraph (1) as the case may be and shall be treated as prepaid finance charge for computational purposes; and

(ii) Estimation of the annual percentage rate shall be made without regard to the number of interest only payments to be made, assuming the first payment period to be that interval between the date the finance charge begins to accrue and the date the first amortization payment is due.

(4) Disclosures made in accordance with this interpretation, when made along with the other disclosures required under § 226.8(b) and (d),

shall constitute "all other material disclosures required under this Part" referred to under § 226.9(a):

Example I

A \$20,000 construction loan commitment on which the precise dates or amounts of advances are not determinable. The obligation bears a stated 6% interest rate and interest is to be paid monthly on the amounts advanced, and the total of the amounts advanced under the commitment plus any unpaid interest is due and payable at the end of nine months from the date the finance charge begins to accrue. There is a loan fee of 1% (\$200), but there is no required deposit balance. Substituting these terms for the symbols, the equations become:

$$\frac{(9 \times .06 \times 20,000) + (2 \times 12 \times 200)}{9 \times [20,000 - (2 \times 200)]} = .0884 \text{ or } 8.84\% \text{ c. } 8\frac{3}{4}\% \text{ estimated annual percentage rate.}$$

$$\frac{9 \times .06 \times 20,000}{2 \times 12} = 450 \text{ or } \$450 \text{ estimated interest finance charge component of the finance charge.}$$

If the terms stated in the example were changed so that interest would be computed on the full amount of the commitment from the date the finance charge begins to accrue without regard for the dates of disbursements or actual amounts of funds disbursed, the equations under (iii) above become:

$$\frac{(2 \times 9 \times .06 \times 20,000) + (2 \times 12 \times 200)}{9 \times [20,000 - (2 \times 200)]} = .1497 \text{ or } 14.97\% \text{ or } 15\% \text{ estimated annual percentage rate.}$$

$$\frac{9 \times .06 \times 20,000}{12} = 900 \text{ or } \$900 \text{ estimated interest finance charge component of the finance charge. This interest would be payable in 9 monthly payments of } \$100 \text{ each.}$$

Example II

A \$20,000 construction loan followed by permanent financing in same amount. Six per cent interest. One point loan fee. Nine months to maturity of construction phase. Nine months payments of interest only during construction phase. Twenty-year maturity on permanent financing to be amortized in 240 equal monthly payments including interest and principal.

From mortgage amortization tables:

Amortization of a \$20,000 6% 20-year loan in 240 equal monthly payments including interest and principal requires each monthly payment to be \$143.29.

Total of 240 payments =	240 × \$143.29 = \$34,389.60
Subtract amount of loan principal	\$20,000.00
Interest finance charge on permanent financing	\$14,389.60
Add: Estimated interest finance charge on construction phase (pursuant to subdivision (ii))	450.00
Add: Loan fee 1 point	200.00
Estimated finance charge	\$15,039.60

(If the interest on the construction phase is computed on the full amount of the commitment for the full time to maturity without regard for the dates of disbursements or actual amounts disbursed pursuant to subdivision (iii), the estimated interest finance charge for the construction phase would be \$900.00 which would result in a total estimated finance charge of \$15,489.60.)

Loan fee 1 point prepaid finance charge	\$ 200.00
For computational purposes consider interest to be paid on construction phase as prepaid (not to be disclosed as prepaid)	\$ 450.00
Total amount treated as prepaid finance charge for computational purposes	\$ 650.00

	Computational Purposes	Disclosure Purposes
Amount of loan	\$20,000	\$20,000
Deduct total of estimated finance charge treated as prepaid	\$ 650	
Deduct actual amount of prepaid finance charge		\$ 200
Estimated amount financed for computational purposes	\$19,350	
Amount financed to be disclosed		\$19,800

Adjust first payment period (period of construction loan plus period from maturity date of construction loan to due date of first amortization payment) by dividing the period of the construction loan by 2 and adding the period of time between the maturity date of the construction loan and the date the first amortization payment is due.

9 months divided by 2 = 4½ months plus 1 month = 5½ months

From Appendix A (page A2) of Volume I of the Board's Annual Percentage Rate Tables, read across to 5 months and on the line below opposite 15 days (½ month) read +9.0. This adjustment should be added to the number of regular amortization payments to determine the number of payments in utilizing the Annual Percentage Rate Tables:

240 monthly payments + adjustment 9.0 = 249

Following the directions on page 1 of Volume I: Estimated finance charge $\$15,039.60 \times 100 = \$1,503,960$ which should be divided by the estimated amount financed for computational purposes:

$\$1,503,960 \div 19,350 = \77.72 estimated finance charge per \$100 of estimated amount financed for computational purposes.

Refer to page 309M of Volume I, read down number of payments column to 249; read across to 78.71 (which is nearest to \$77.72 computed above), and read up to 6.25% which is the estimated annual percentage rate to be disclosed.

In the example where the interest on the construction phase is computed on the full amount of the commitment without regard for the dates of advances or actual amounts advanced, the estimated finance charge per \$100 of amount financed is \$81.96. On page 309M of Volume I, read down to the 249th payment line and across to 82.39 which is the nearest amount to \$81.96, and read up to 6.50% which is the estimated annual percentage rate to be disclosed.

1/28/70

**SECTION 226.814—PREMIUMS FOR
INSURANCE ADDED TO AN
EXISTING BALANCE**

Subsequent to the consummation of a consumer credit transaction the customer may wish to purchase optional insurance in connection with

the obligation. Typically, mortgage life and disability insurance may be offered to the customer at some date after consummation under a plan in which the lender will advance the amount of the premium due and add that amount to the existing unpaid balance of the obligation. Generally, each instalment on the original obligation paid during the period before the next premium is due will be increased proportionately to liquidate the amount of the additional advance plus any finance charge. Additional advances are made automatically for renewal premiums as they become due unless the borrower requests discontinuance of the coverage. The question arises as to the required disclosures.

In such cases the insurance agreement may be considered a single separate transaction, and the disclosures required under § 226.8, at the creditor's option, need be made only prior to the time the agreement is executed and only with respect to the amount of the initial advance. For example, a mortgage life and disability insurance plan in which the annual premium advanced was \$145 repayable in 12 monthly instalments of \$12.61 added to the regular monthly mortgage payments would be disclosed as an "amount financed" of \$145, a "finance charge" of \$6.32, and a "total of payments" of \$151.32. Additional disclosures as applicable under § 226.8 would, of course, be made. If, as in some cases, only a portion of the advance is liquidated during the premium period with the remainder payable at the end of the mortgage contract, the creditor would likewise calculate the amount of finance charge which would accrue on the advance until paid in full.

In some cases the advance is secured by a security interest in real property which is used or expected to be used as the principal residence of the customer. In those cases the premium advance agreement is rescindable under § 226.9, and notice of the right of rescission provided in § 226.9(b) need only be given at the time the agreement is executed. Subsequent advances for renewal premiums are not subject to the right of rescission.

1/28/70

**SECTION 226.815—DISCLOSURE FOR
DEMAND LOANS**

Section 226.8(b)(3) requires a creditor to disclose the number, amount and due dates or pe-

riods of payments scheduled to repay an extension of credit other than open end and, in appropriate cases, the total of payments. The question arises as to how these requirements should be met in the case of demand loans.

Section 226.4(g) provides that for the purpose of calculating the finance charge and annual percentage rate, demand loans are considered to have a one-half year maturity unless the obligation is alternatively payable upon a stated maturity, in which case the stated maturity shall be used.

In order to comply with the requirements of § 226.8(b)(3), if no alternative maturity date is specified, the creditor need disclose only the due dates or periods of payments of all scheduled interest payments for the first one-half year. In such cases, the creditor need not disclose the number, amounts or total of payments or identify any balloon payment. Effective May 1, 1970, creditors shall disclose the fact that the obligation is payable on demand.

If an alternative maturity date is specified, all disclosures required under § 226.8(b)(3) shall be made, using that date.

1/28/70

SECTION 226.816—MORTGAGES WITH DEMAND FEATURES

In some cases real estate mortgages are written for a stated period, for example one year, with the provision that they shall be payable on demand after expiration of that period, provided that until such demand is made the principal and interest shall be paid in scheduled periodic installments until paid in full. The obligation is thus payable according to a specified amortization schedule subject to the holder's right to demand payment after the stated period.

The question arises whether the creditor may make disclosures based on the specified amortization schedule or whether disclosures must be made on the basis of the maturity established by the expiration of the stated period.

In such cases the creditor may make disclosures based on the specified amortization schedule, provided he discloses clearly and conspicuously that the obligation is payable on demand after the stated period together with the fact that disclosures are made on the basis of the specified amortization schedule. Otherwise, disclosures

shall be based upon the earliest date demand for payment in full may be made under the terms of the mortgage showing the unpaid balance due at that time as a "balloon payment."

The disclosure requirements of this interpretation shall become effective May 1, 1970.

1/28/70

SECTION 226.817—REDUCTION IN ANNUAL PERCENTAGE RATE

Section 226.8(j) specifies that if any existing extension of credit is refinanced, such transaction shall be considered a new transaction subject to the disclosure requirements of Regulation Z. The question arises as to whether a reduction in the annual percentage rate applicable to an existing extension of credit, when no other credit terms are changed, constitutes a refinancing under § 226.8(j).

When no other credit terms are changed, a reduction in the annual percentage rate applicable to an existing extension of credit does not constitute a refinancing under § 226.8(j), and no disclosures are required.

3/31/70

SECTION 226.818—REFUND OF UNEARNED FINANCE CHARGE; PREPAYMENT PENALTY

Under § 226.8(b)(7) a creditor must provide an identification of the method of computing any unearned portion of the finance charge in the event of prepayment of an obligation, as well as a statement of the amount or method of computation of any charge that may be deducted from the amount of any rebate. Section 226.8(b)(6) requires the creditor to provide "a description of any penalty charge that may be imposed by the creditor or his assignee for prepayment of the principal of the obligation. . . ." A question arises whether the computation of certain rebates of unearned finance charges on contracts with precomputed finance charges involves a "prepayment penalty." A second question concerns the disclosures required to identify the method of computing any finance charge rebate.

Section 226.8(b)(6) relates only to charges assessed in connection with obligations which do not involve precomputed finance charges included in the obligation. It applies to transactions in

which the finance charge is computed from time to time by application of a rate to the unpaid principal balance. Prepayment penalties which require disclosure under this section (which principally arise in connection with prepayment of real estate mortgages) occur when the obligor in such a transaction is required to pay separately an additional amount for paying all or part of the obligation before maturity. On the other hand, § 226.8(b)(7) is designed to encompass the disclosures necessary with regard to the prepayment of an obligation involving precomputed finance charges which are included in the face amount of the obligation. Therefore, although in a precomputed obligation the finance charge rebate to a customer may be less when calculated according to the "Rule of 78's," "sum of the digits," or other method than if calculated by the actuarial method, such difference does not constitute a penalty charge for prepayment that must be described pursuant to § 226.8(b)(6).

Section 226.8(b)(7) requires "identification" of the rebate method used on precomputed contracts. Many State statutes provide for rebates of unearned finance charges under methods known as the "Rule of 78's," or "sum of the digits" or other methods. In view of the fact that such statutory provisions involve complex mathematical descriptions which generally cannot be condensed into simple accurate statements, and which if repeated at length on disclosure forms could detract from other important disclosures, the requirement of rebate "identification" is satisfied simply by reference by name to the "Rule of 78's" or other method, as applicable.

4/30/73

SECTION 226.819—PREPAID FINANCE CHARGES; ADD-ONS AND DISCOUNTS

Sections 226.8(c)(6), 226.8(d)(2) and 226.8(e)(1) require that certain finance charges be disclosed as "prepaid finance charges." They also require that such prepaid finance charges be excluded or deducted from the credit extended in arriving at the "amount financed." The question arises whether add-on, discount or other precomputed finance charges which are reflected in the face amount of the debt instrument as part of the customer's obligation, but which are excluded from

the "amount financed," must be labeled as "prepaid" finance charges.

The concept of prepaid finance charges was adopted to insure that the "amount financed" reflected only that credit of which the customer had the actual use. Precomputed finance charges which are included in the face amount of the obligation are not the type contemplated by the "prepaid" finance charge disclosure concept. Although such precomputed finance charges are not to be included in the "amount financed," they need not be regarded as finance charges "paid separately" or "withheld by the creditor from the proceeds of the credit extended" within the meaning of § 226.8(e) to require labeling "prepaid" under § 226.8(c)(6) and 226.8(d)(2). They are "finance charges," of course, to be disclosed under § 226.8(c)(8) and 226.8(d)(3).

8/23/73

SECTION 226.820—(Rescinded effective 8/6/76)

SECTION 226.9

SECTION 226.901—WAIVER OF SECURITY INTERESTS—EFFECT ON THE RIGHT OF RESCISSION

Section 226.9(a) provides for a right of rescission "in the case of any [consumer] credit transaction in which a security interest is or will be retained or acquired in any real property which is used or is expected to be used as the principal residence of the customer." Under § 226.2(gg), security interests include mechanic's and materialmen's liens. If a creditor effectively waives his right to retain, or to acquire such a lien, he has not retained or acquired such security interest. The question arises, however, of whether waiver of a creditor's lien rights is effective to remove a transaction from the scope of rescission when lien rights which are not waived arise in favor of subcontractors, workmen, or others who are not creditors in the transaction.

The fact that the creditor waives his lien rights does not, in itself, determine whether or not the transaction is rescindable. If *all* security interests are effectively waived, the transaction is not rescindable. On the other hand, if as a result of the transaction, a security interest is or will be retained or acquired by a subcontractor, workman,

or other person, the transaction is rescindable. In the latter case the creditor would be responsible for delivering the rescission notice as well as other applicable disclosures, delaying performance as provided under § 226.9(c), and identifying himself as the creditor on the rescission notice. The subcontractors, workmen, and others would not be responsible for delivering rescission notices to the customer.

5/26/69

**SECTION 226.902—“CUSTOMERS” AND
JOINT OWNERS OF PROPERTY
UNDER THE RIGHT OF
RESCISSION**

Section 226.9(f) provides that, for the purpose of the right of rescission, “customer” shall include two or more customers where joint ownership is involved. The question arises of whether this means that all joint owners of record, regardless of whether or not they are parties to the transaction, are customers for this purpose, and whether each of such owners of record (1) must receive disclosures and a notice of the right of rescission, (2) may exercise the right of rescission, and (3) must join in signing a waiver if one is appropriately taken by the creditor.

Under § 226.9(f) where there are joint owners, the right to receive disclosures and notice of the right of rescission, the right to rescind, and the need to sign a waiver of such right, apply only to those joint owners who are parties to the transaction.

5/26/69

**SECTION 226.903—REFINANCING AND
INCREASING—DISCLOSURES AND
EFFECTS ON THE RIGHT
OF RESCISSION**

In some cases the creditor of an obligation will refinance that obligation at the request of a customer by permitting the customer to execute a new note, contract, or other document evidencing the transaction under the terms of which one or more of the original credit terms, including the maturity date of the obligation, are changed. Except as provided in § 226.811, such refinancing constitutes a new transaction, and all disclosures required under § 226.8 must be made. The ques-

tion arises as to whether that transaction is subject to the right of rescission under § 226.9 where the obligation is already secured by a security interest in real property which is used or expected to be used as the principal residence of that customer.

If the amount of such new transaction does not exceed the amount of the unpaid balance plus any accrued and unpaid finance charge on the existing obligation, § 226.9 does not apply to the transaction.

If, however, such new transaction is for an increased amount, that is, for an amount in excess of the amount of the unpaid balance plus any accrued and unpaid finance charge on the existing obligations, § 226.9 applies to the transaction. However, such right of rescission applies only to such excess and does not affect the existing obligation (or related security interest) for the unpaid balance plus accrued unpaid finance charge.

If a transaction is refinanced by a creditor other than the creditor of the existing obligation, the entire transaction is subject to § 226.9.

1/28/70 (*Supersedes interpretation § 226.903 issued 6/20/69*)

SECTION 226.10

**SECTION 226.1001—ADVERTISING OF
CREDIT TERMS IN OTHER THAN
OPEN END CREDIT**

The statement of certain credit terms in advertisements such as “no downpayment,” the amount of any instalment payments, dollar amount of finance charge, number of payments, etc., as provided in § 226.10(d)(2), requires that certain other terms also be stated in the same advertisement. The question arises as to how a creditor may advertise credit terms in a meaningful way when all of his credit sales or loans are not made on the same basis.

The advertising of credit terms may be made by giving one or more examples of typical extensions of credit and stating all of the terms applicable to each example. In any such case, the advertiser shall set forth one or more examples which are, in fact, typical of the type of credit and terms usually and customarily made available by the creditor to present and prospective cus-

tomers and each shall be clearly and conspicuously identified as examples of typical transactions.

4/22/69

SECTION 226.1002—CATALOGS—TABLES OR SCHEDULES OF CREDIT TERMS

Under § 226.10(b) in order that a catalog may qualify as a single advertisement, among other things, it must include a table or schedule of credit terms. It has been the practice of catalog houses to include such tables in catalogs; however, such tables generally state amounts of purchases, amounts of finance charges, and number and amount of payments for brackets up to a certain level and then contain an instruction to include a specified dollar amount in computing the finance charge by application of a percentage rate on any purchase in excess of that level. Tables to show the actual terms including annual percentage rates for all purchases into thousands of dollars would be unwieldy, present a formidable appearance, and may be more confusing than helpful to the user. The question arises as to

whether a creditor who publishes a catalog is required to include tables in detailed amounts from the minimum up to, for example, \$5,000, his highest priced cataloged merchandise.

Tables or schedules of terms in catalogs must include all amounts up to a level of the more commonly sold higher priced property or services which are offered for sale, but in no event greater than \$1,000 unless the creditor elects to do so. If the creditor offers property or service for sale at prices higher than the uppermost level covered by his table, he shall state the method by which the finance charge is computed on larger amounts, how the amount of payments and the number and periods of payments are determined and state, for each representative amount in increments of not more than \$500 up to the highest priced property or service offered, the annual percentage rate. Any catalog which contains such a table or schedule of credit terms will comply with requirements of § 226.10(b) provided all other requirements are met and such catalog shall be considered adequate for the purpose of § 226.8(g)(1).

4/22/69

SECTION 226.15

Lease Disclosure Statements and Instructions to follow.

SECTION 226.1501—OPEN-END OR FINANCE VEHICLE LEASE DISCLOSURE STATEMENT

Date _____

These disclosures are provided pursuant to the Federal Consumer Leasing Act.

1. LESSOR(S) _____ LESSEE(S) _____

2. Description of leased property

Year	Make	Model	Body Style	Vehicle ID #
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3. (a) Initial Charges, consisting of
 Capitalized Cost Reduction Trade-in Allowance _____ \$ _____
 (b) Other Charges Payable at Inception, consisting of
 Advance Monthly Payment of _____ \$ _____
 Refundable Security Deposit Delivery Charge _____
 Registration Fees _____

Total Payment Due at Inception: _____ \$ _____

4. (a) Basic Monthly Payment: _____ \$ _____

(b) Other Charges Payable Monthly:
 Maintenance Registration Fees _____ \$ _____
 Insurance _____

Total Monthly Payment: _____ \$ _____

5. Term of this lease: _____
 The first monthly payment of \$ _____ is due on _____; _____ subsequent payments of \$ _____ on _____ of each month thereafter.

6. Total of Basic Monthly Payments: _____ \$ _____

7. Total of Other Charges Payable to Lessor:
 Disposition \$ _____ Maintenance \$ _____
 _____ \$ _____

8. Fees and Taxes
 Total amount you will pay during the term for official fees, registration, certificate of title, license fees and taxes. _____ \$ _____

9. Insurance
 The following types and amounts of insurance will be acquired in connection with this lease: _____

We (lessor) will provide the insurance coverage quoted above for a total premium cost of \$ _____.
 You (lessee) agree to provide insurance coverage in the amounts and types indicated above. _____ \$ _____

10. Estimated _____ value of the vehicle at the end of the lease term:
 (Your liability for this sum may be limited. See Item 14.) _____ \$ _____

11. Total Lease Obligation: _____ \$ _____

(Items 3(a), 6 and 10.)

12. Initial Value of Vehicle: _____ \$ _____

13. Difference: _____ \$ _____

(Item 11 less Item 12.)

14. End of Term Liability

(a) The estimated value of the vehicle stated in Item 10 is based on a reasonable, good faith estimate of the value of the vehicle at the end of the lease term. If the actual value of the vehicle at that time is greater than the estimated value, you will have no further liability under this lease, except for other charges already incurred [and are entitled to a credit or refund of any surplus].
 If the actual value of the vehicle is less than the estimated value, you will be liable for any difference up to \$ _____ (3 times Item 4(a)). For any difference in excess of that amount, you will be liable only if

1. Excessive use or damage [as described in Item 13] representing more than normal wear and tear) resulted in an unusually low value at the end of the term.
 2. You voluntarily agree with us after the end of the lease term to make a higher payment.

3. The matter is not otherwise resolved and we win a lawsuit against you seeking a higher payment.

Should we bring a lawsuit against you, we must prove that our original estimate of the value of the leased property at the end of the lease term was reasonable and was made in good faith. For example, we might prove that the actual value was less than the original estimated value, although the original estimate was reasonable, because of an unanticipated decline in value for that type of vehicle.

Unless we prove that the excess amount owed was the result of excessive use or unreasonable wear and tear, we will pay your reasonable attorney's fees.

(b) If you disagree with the value we assign to the vehicle, you may obtain, at your own expense, from an independent third party agreeable to both of us, a professional appraisal of the _____ value of the leased vehicle which could be realized at sale. The appraised value shall then be used as the actual value.

15. Standards for Wear and Use
 The following standards are applicable for determining unreasonable or excessive wear and use of the leased vehicle: _____

16. Maintenance
 [You are responsible for the following maintenance and servicing of the leased vehicle: _____]

[We are responsible for the following maintenance and servicing of the leased vehicle: _____]

17. Warranties
 The leased vehicle is subject to the following express warranties: _____

18. Early Termination and Default

(a) You may terminate this lease before the end of the lease term under the following conditions: _____

The charge for such early termination is _____

(b) We may terminate this lease before the end of the lease term under the following conditions: _____

Upon such termination we shall be entitled to the following charge(s) for _____

(c) To the extent these charges take into account the value of the vehicle at the end of the lease term, you have the same right to a professional appraisal as that stated in Item 14(b).

19. Security Interest
 We reserve a security interest of the following type in the property listed below to secure performance of your obligations under this lease: _____

20. Late Payments
 The charge for late payments is _____

21. Option to Purchase
 [You have an option to purchase the leased vehicle at the following times: _____]

If at the end of the term, the price will be \$ _____.

If prior to the end of the term, the price will be \$ _____.

[You have no option to purchase the leased vehicle.]

INSTRUCTIONS FOR COMPLETION OF § 226.1501—OPEN-END OR FINANCE
VEHICLE LEASE DISCLOSURE STATEMENT**General Instructions**

Completion of this form may be facilitated by reference to the following instructions. Any question as to the permissibility or accuracy of a specific disclosure may be answered by reference to Regulation Z, 12 CFR Part 226. Parenthetical citations are to Regulation Z.

Information which is required to be disclosed may be estimated if the information is unknown or unavailable, provided that the information is clearly identified as an estimate and the estimate is based on the best information available and is reasonable (§ 226.6(f)).

Any inapplicable disclosures should be deleted. This form is based on a monthly periodic payment. Any lessor whose lease contemplates a different payment period should change the form where it refers to "monthly" amounts to read "weekly" or other time period, as appropriate.

All numerical amounts must be stated in figures and shall be printed in not less than the equivalent of ten point type or elite typewritten numerals or legibly handwritten (§ 226.6(a)). Paragraph numbers need not be printed in ten point type or its equivalent.

Specific Instructions

Item 1. The disclosures must be made on a written dated statement. All lessors and lessees must be identified by name (§ 226.15(a)). If, for example, one person arranges the lease and another person enters into the lease, both must be identified as lessors (§ 226.2(h) and (o)). An address may augment the identification but need not be supplied as part of the disclosure form.

Item 2. This disclosure provides a brief description of the leased property (§ 226.15(b)(1)). Lessors may include a more detailed description including, for example, special accessories. There is no requirement that a vehicle identification number for the vehicle be disclosed.

Item 3. This disclosure shows the total amount of any initial payment the customer must make when the lease is entered into (§ 226.15(b)(2)). The components of the initial payment *must* be identified and *may*, at the lessor's option, be itemized with respect to dollar amount.

This item is divided into two distinct parts. The

items identified in 3(a) are those which are included in the calculation of the "Total Lease Obligation." Those which appear in 3(b) are not included in the "Total Lease Obligation." For convenient reference and to provide the customer with the total amount due at the inception of the lease, subtotals for 3(a) and 3(b) are provided as well as a combined total of 3(a) and 3(b) (shown as "Total Payment Due at Inception").

The term "Capitalized Cost Reduction" is used to indicate a payment in the nature of a down-payment which reduces the value of the leased vehicle to be amortized over the term of the lease.

The "Advance Monthly Payment" is the total of all amounts collected at the inception of the lease which are to be attributed to a monthly payment(s). For example, if the first month's rental payment is collected at the inception, the form might read "Advance Monthly Payment of the first month's rent" or a similar phrase. If the last month's payment, or any other payment in the nature of rental for a portion of the term, is collected at the inception, appropriate language should be provided to describe the components of the "Advance Monthly Payment."

Checklists are provided for both 3(a) and 3(b) to aid in identifying their components. Blank spaces and check boxes are provided to identify any other elements which are to be included in these items.

Item 4. This item discloses the payment a lessee must make each payment period. This item is divided into two parts. The terms in 4(a) are those portions of each payment which are included in the computation of the "Total Lease Obligation." This item includes sales/use taxes paid on the periodic (monthly) payment. The terms in 4(b) are not included in the "Total Lease Obligation." For convenient reference and to provide the customer with the total amount of each payment, subtotals are provided for 4(a) and 4(b) as well as the combined total of 4(a) and 4(b) (shown as the "Total Monthly Payment"). The components of 4(a) and 4(b) may be itemized as to dollar amount.

Item 5. This item discloses the term of the lease, the date of the first periodic payment and the dates or periods of all subsequent periodic payments. The blank spaces should be filled in

with the appropriate terms. For example, after the phrase "Term of this lease:" the lessor may place the words "24 months" or "April 2, 1977, through April 2, 1979," as appropriate. In the blank spaces provided after the phrase "The first monthly payment of:" should be the appropriate amount and date. The first monthly payment may be part or all of the "Advance Monthly Payment" disclosed under 3(b). The phrase "subsequent payments of" should be preceded by the appropriate number of payments and followed with the appropriate terms, such as "\$100.00 on the 2d of each month thereafter."

Item 6. This item discloses the total of the basic monthly payments payable over the term of the lease. This figure is computed by multiplying the basic monthly payment from Item 4(a) by the number of subsequent payments in Item 5 and adding to the product the basic portion of the first monthly payment. This figure will be used in computing the "Total Lease Obligation."

Item 7. This item discloses the total of other charges payable to the lessor (§ 226.15(b)(5)). This excludes charges for official fees, taxes, insurance and charges disclosed as totals under other items. The individual components must be identified and itemized as to amount. A blank check box is provided in order to add to the list, as necessary.

Item 8. This item discloses the total amount to be paid by the lessee during the lease term for taxes and other official fees (§ 226.15(b)(4)).

Item 9. This item requires disclosure of the types and amounts of insurance coverage, with their total premium cost, if the insurance is provided by the lessor (§ 226.15(b)(6)(i)). In the alternative, only the types and amounts of coverage required of the lessee must be disclosed if the lessee provides the insurance coverage (§ 226.15(b)(6)(ii)). The disclosure is to be completed by identifying the types and amounts of insurance coverage following the colon at the end of the first sentence. If the lessor is to provide the coverage the top check box should be filled in and the total premium cost indicated in the blank space provided. Otherwise the bottom check box should be filled in.

Item 10. This item provides for disclosure of the estimated value of the leased vehicle at the end of the term, an element of the "Total Lease Obligation" (§ 226.15(b)(15)(i)). The reference to Item 14 is to call the lessee's attention to the

qualifying disclosures in that item required by §§ 226.15(b)(14) and 226.15(b)(15)(ii) and (iii). A blank space is provided in which to indicate whether the value shown is, for example, "retail" or "wholesale" value.

Items 11, 12 and 13. These items provide for disclosure of the difference between the "Total Lease Obligation" and the vehicle's value at the inception of the lease. The definition of "Total Lease Obligation" (§ 226.2(rr)) is the sum of any initial charges (Item 3(a)), the total of basic monthly payments (Item 6) and the estimated value of the property at the end of the term (Item 10). The Board has indicated it does not consider items such as refundable security deposits and insurance premiums to be amounts properly includable in the "Total Lease Obligation." 41 *Federal Register* 45537.

Item 14. This item provides disclosures with respect to the lessee's liability at the end of the lease term. The bracketed phrase in the second sentence is appropriate only where the lessee will be given any surplus resulting from the disposition. Item 14(a) implements, in lay language, the disclosures required by § 226.15(b)(15)(ii) and (iii). The lessor may, in Item 14(a)1, reference the standards set forth in Item 15, if the lessor set such standards. If the lessor does not set standards for wear and use, the second bracketed phrase should be used. Item 14(b) discloses the lessee's right to an independent appraisal required by § 226.15(b)(14). The blank space in Item 14(b) is provided to indicate whether the value of the appraisal should be, for example, "wholesale" or "retail." This item should be consistent with the type of value used in Item 10.

Item 15. This item discloses reasonable standards for wear and use established by the lessor. The lessor is permitted but not required to set such standards. Therefore, the disclosure may be omitted by lessors who do not set standards for wear and use (§ 226.15(b)(8)).

Item 16. This item provides for disclosure of the maintenance and servicing responsibilities of the parties (§ 226.15(b)(8)). These responsibilities may be allocated either to the lessor or to the lessee, or may be divided between them.

Item 17. This item discloses all express warranties on the leased property made by the manufacturer or lessor and available to the lessee (§ 226.15(b)(7)). A brief identification of the warranty must be supplied. A reference to the stand-

ard manufacturer's warranty, for example, would suffice.

Item 18. This item discloses the conditions under which the lessee may terminate the lease prior to the end of the lease term. It also discloses the amount or method of determining the amount of the charge which the lessee must pay for early termination (§ 226.15(b)(12)). This item should disclose the conditions under which the lessor may terminate the lease prior to the end of the term, such as default. This item should also be used to disclose the amount or method of determining the amount of any default charges (§ 226.15(b)(10)). The charges or method of determining the charges for early termination by the lessor other than for lessee's default should be separately specified in this item.

Item 19. This disclosure of the security taken must include, in the space provided, a brief iden-

tification of the types of security interests and an identification of the property covered by each (§ 226.15(b)(9)).

Item 20. This disclosure indicates the amount or method of determining the amount of any charges for late payment (§ 226.15(b)(10)).

Item 21. This item provides alternative disclosures covering the several options a lessor may offer to a lessee to purchase the leased property. A lessor should use the disclosures applicable to the lease plan used. For example, if no option to purchase is offered, only the last sentence of the item should be used. If the lessor offers an option to purchase, the times at which it may be exercised must be supplied. The price must be disclosed for an option exercised at the end of the term and the price or method of computing the price for an option exercised during the lease term must be supplied (§ 226.15(b)(11)).

SECTION 226.1502—CLOSED-END OR NET VEHICLE LEASE DISCLOSURE STATEMENT

Date _____

These disclosures are provided pursuant to the Federal Consumer Leasing Act.

1. LESSOR(S) _____ LESSEE(S) _____

2. Description of leased property				
Year	Make	Model	Body Style	Vehicle ID #

3. Total Payment Due at Inception:

<input type="checkbox"/> Capitalized Cost Reduction	<input type="checkbox"/> Delivery Charge	\$ _____
<input type="checkbox"/> Trade-in Allowance	<input type="checkbox"/> Registration Fees	
<input type="checkbox"/> Advance Monthly Payment of _____		
<input type="checkbox"/> Refundable Security Deposit _____		

4. Term of this lease: _____
 The first monthly payment of \$ _____ is due on _____; _____ subsequent payments of \$ _____ on the _____ of each month thereafter.

5. Total Monthly Payment: \$ _____

6. Total of Monthly Payments: \$ _____

7. Total of Other Charges Payable to Lessor:

<input type="checkbox"/> Disposition \$ _____	<input type="checkbox"/> Maintenance \$ _____	\$ _____
<input type="checkbox"/> _____	<input type="checkbox"/> \$ _____	

8. Fees and Taxes
 Total amount you will pay during the term for official fees, registration, certificate of title, license fees and taxes. \$ _____

9. Insurance
 The following types and amounts of insurance will be acquired in connection with this lease: _____

<input type="checkbox"/> We (lessor) will provide the insurance coverage quoted above for a total premium cost of \$ _____.	\$ _____
<input type="checkbox"/> You (lessee) agree to provide insurance coverage in the amounts and types indicated above.	

10. Standards for Wear and Use
 The following standards are applicable for determining unreasonable or excessive wear and use of the leased vehicle: _____

11. Maintenance
 (You are responsible for the following maintenance and servicing of the leased vehicle: _____)

[We are responsible for the following maintenance and servicing of the leased vehicle: _____]

12. Warranties
 The leased vehicle is subject to the following express warranties: _____

13. Early Termination and Default
 (a) You may terminate this lease before the end of the lease term under the following conditions: _____

The charge for such early termination is _____

(b) We may terminate this lease before the end of the lease term under the following conditions: _____

Upon such termination we shall be entitled to the following charge(s) for _____

(c) To the extent that these charges take into account the value of the vehicle at the end of the lease term, if you disagree with the value we assign to the vehicle, you may obtain at your own expense, from an independent third party agreeable to both of us, a professional appraisal of the _____ value of the leased vehicle which could be realized at sale. The appraised value shall then be used as the actual value.

14. Security Interest
 We reserve a security interest of the following type in the property listed below to secure performance of your obligations under this lease: _____

15. Late Payments
 The charge for late payments is _____

16. Lessee's Option to Purchase
 (You have an option to purchase the leased vehicle at the following times: _____)

If at the end of the term, the price will be \$ _____.

If prior to the end of the term, the price will be \$ _____.

[You have no option to purchase the leased vehicle.]

INSTRUCTIONS FOR COMPLETION OF
§ 226.1502—CLOSED-END OR NET
VEHICLE LEASE DISCLOSURE
STATEMENT

General Instructions

Completion of this form may be facilitated by reference to the following instructions. Any question as to the permissibility or accuracy of a specific disclosure may be answered by reference to Regulation Z, 12 CFR Part 226. Parenthetical citations are to Regulation Z.

Information which is required to be disclosed may be estimated if the information is unknown or unavailable, provided that the information is clearly identified as an estimate and the estimate is based on the best information available and is reasonable (§ 226.6(f)).

Any inapplicable disclosures should be deleted. This form is based on a monthly periodic payment. Any lessor whose lease contemplates a different payment period should change the form where it refers to "monthly" amounts to read "weekly" or other time period, as appropriate.

All numerical amounts must be stated in figures and shall be printed in not less than the equivalent of ten point type or elite typewritten numerals or legibly handwritten (§ 226.6(a)). Paragraph numbers need not be printed in ten point type or its equivalent.

Specific Instructions

Item 1. The disclosures must be made on a written dated statement. All lessors and lessees must be identified by name (§ 226.15(a)). If, for example, one person arranges the lease and another person enters into the lease, both must be identified as lessors (§ 226.2(h) and (oo)). An address may augment the identification but need not be supplied as part of the disclosure form.

Item 2. This disclosure provides a brief description of the leased property (§ 226.15(b)(1)). Lessors may include a more detailed description including, for example, special accessories. There is no requirement that a vehicle identification number for the vehicle be disclosed.

Item 3. This disclosure shows the total amount of any initial payment the customer must make when the lease is entered into (§ 226.15(b)(2)). The components of the initial payment *must* be identified and *may*, at the lessor's option, be itemized with respect to dollar amount.

The term "Capitalized Cost Reduction" is used

to indicate a payment in the nature of a down-payment which reduces the value of the leased vehicle to be amortized over the term of the lease.

The "Advance Monthly Payment" is the total of all amounts collected at the inception of the lease which are to be attributed to a monthly payment(s). For example, if the first month's rental payment is collected at the inception, the form might read "Advance Monthly Payment of the first month's rent" or a similar phrase. If the last month's payment, or any other payment in the nature of rental for a portion of the term, is collected at the inception, appropriate language should be provided to describe the components of the "Advance Monthly Payment."

Checklists are provided to aid in identifying the components. Blank spaces and check boxes are provided to identify any other elements which are to be included in this item.

Item 4. This item discloses the term of the lease, the date of the first periodic payment and the dates or periods of all subsequent periodic payments. The blank spaces should be filled in with the appropriate terms. For example, after the phrase "Term of this lease:" the lessor may place the words "24 months" or "April 2, 1977, through April 2, 1979," as appropriate. In the blank spaces provided after the phrase "The first monthly payment of:" should be the appropriate amount and date. The first monthly payment may be part or all of the "Advance Monthly Payment" disclosed under Item 3. The phrase "subsequent payments of" should be preceded by the appropriate number of payments and followed with the appropriate terms, such as "\$100.00 on the 2d of each month thereafter."

Item 5. This item discloses the payment the lessee must make each payment period (§ 226.15(b)(3)). The component parts of the "Total Monthly Payment" may but need not be identified and itemized as to amount.

Item 6. This item discloses the total of the monthly payments payable over the term of the lease (§ 226.15(b)(3)). This figure is computed by multiplying the monthly payment from Item 5 by the number of subsequent payments in Item 4 and adding the first monthly payment to the product.

Item 7. This item discloses the total of other charges payable to the lessor (§ 226.15(b)(5)). This excludes charges for official fees, taxes, insurance and charges disclosed as totals under other items. The individual components must be identified and

CONTINUED

1 OF 2

itemized as to amount. A blank check box is provided in order to add to the list, as necessary.

Item 8. This item discloses the total amount to be paid by the lessee during the lease term for taxes and other official fees (§ 226.15(b)(4)).

Item 9. This item requires disclosure of the types and amounts of insurance coverage, with their total premium cost, if the insurance is provided by the lessor (§ 226.15(b)(6)(i)). In the alternative, only the types and amounts of coverage required of the lessee must be disclosed if the lessee provides the insurance coverage (§ 226.15(b)(6)(ii)). The disclosure is to be completed by identifying the types and amounts of insurance coverage following the colon at the end of the first sentence. If the lessor is to provide the coverage the top check box should be filled in and the total premium cost indicated in the blank space provided. Otherwise the bottom check box should be filled in.

Item 10. This item discloses reasonable standards for wear and use established by the lessor. The lessor is permitted but not required to set such standards (§ 226.15(b)(8)). Therefore, the disclosure may be omitted by lessors who do not set standards for wear and use.

Item 11. This item provides for disclosure of the maintenance and servicing responsibilities of the parties (§ 226.15(b)(8)). These responsibilities may be allocated either to the lessor or to the lessee, or may be divided between them.

Item 12. This item discloses all express warranties on the leased property made by the manufacturer or lessor and available to the lessee (§ 226.15(b)(7)). A brief identification of the warranty must be supplied. A reference to the standard manufacturer's warranty, for example, would suffice.

Item 13. This item discloses the conditions under which the lessee may terminate the lease prior to the end of the lease term. It also discloses the amount or method of determining the amount of the charge which the lessee must pay for early termination (§ 226.15(b)(12)). This item should disclose the conditions under which the lessor may terminate the lease prior to the end of the term, such as default. This item should also be used to disclose the amount or method of determining the amount of any default charges (§ 226.15(b)(10)). The charges or method of determining the charges for early termination by the lessor other than for lessee's default should be separately specified in this item. The blank space in 13(c) is provided to indicate whether the appraisal should be, for example, "retail" or "wholesale."

Item 14. This disclosure of the security taken must include, in the space provided, a brief identification of the types of security interests and an identification of the property covered by each (§ 226.15(b)(9)).

Item 15. This disclosure indicates the amount or method of determining the amount of any charges for late payment (§ 226.15(b)(10)).

Item 16. This item provides alternative disclosures covering the several options a lessor may offer to a lessee to purchase the leased property. A lessor should use the disclosures applicable to the lease plan used. For example, if no option to purchase is offered, only the last sentence of the item should be used. If the lessor offers an option to purchase, the times at which it may be exercised must be supplied. The price must be disclosed for an option exercised at the end of the term, and the price or method of computing the price for an option exercised during the lease term must be supplied (§ 226.15(b)(11)).

SECTION 226.1503—FURNITURE LEASE DISCLOSURE STATEMENT

Date _____

These disclosures are provided pursuant to the Federal Consumer Leasing Act.

1. LESSOR(S) _____ LESSEE(S) _____

2. Description of leased property [is attached].

Item	Color	Stock #	Mfg.	Qty.					

3. Total Payment Due at Inception:
 Refundable Security Deposit
 Advance Monthly Payment of _____
 Delivery Charge _____ \$ _____

4. Term of this lease: _____
 The first monthly payment of \$ _____ is due on _____; _____ subsequent payments of \$ _____ on the _____ of each month thereafter.

5. Total Monthly Payment: _____ \$ _____

6. Total of Monthly Payments: _____ \$ _____

7. Total of Other Charges Payable to Lessor:
 Pick-up Charge \$ _____ \$ _____

8. Fees and Taxes
 Total amount you will pay during the term for official fees and taxes. _____ \$ _____

9. Insurance
 You (lessee) agree to provide insurance coverage of the following types in the following amounts: _____
 We (lessor) will provide the following types and amounts of insurance coverage: _____

Total premium cost: _____ \$ _____
 You agree to pay a waiver fee of \$ _____ per month in lieu of insurance.

Total Waiver Fee: _____ \$ _____

10. Maintenance
 [You are responsible for the following maintenance of the leased property: _____]
 [We are responsible for the following maintenance of the leased property: _____]

11. Warranties
 The leased property is subject to the following express warranties: _____

12. Standards for Wear and Use
 The following standards are applicable for determining unreasonable or excessive wear and use of the leased property: _____

13. Early Termination and Default
 (a) You may terminate this lease before the end of the lease term under the following conditions: _____
 The charge for such early termination is _____

(b) We may terminate this lease before the end of the lease term under the following conditions: _____

Upon such termination we shall be entitled to the following charge(s): _____

14. Security Interest
 We reserve a security interest of the following type in the property listed below to secure performance of your obligations under this lease: _____

15. Late Payments
 The charge for late payments is _____

16. Option to Purchase
 [You have an option to purchase any or all items of the leased property at the following times: _____
 If at the end of the term, the price will be \$ _____
 If prior to the end of the term, the price will be \$ _____
 [You have no option to purchase the leased property.]

INSTRUCTIONS FOR COMPLETION
OF § 226.1503—FURNITURE LEASE
DISCLOSURE STATEMENT

General Instructions

Completion of this form may be facilitated by reference to the following instructions. Any question as to the permissibility or accuracy of a specific disclosure may be answered by reference to Regulation Z, 12 CFR Part 226. Parenthetical citations are to Regulation Z.

Information which is required to be disclosed may be estimated if the information is unknown or unavailable, provided that the information is clearly identified as an estimate and the estimate is based on the best information available and is reasonable (§ 226.6(f)).

Any inapplicable disclosures should be deleted. This form is based on a monthly periodic payment. Any lessor whose lease contemplates a different payment period should change the form where it refers to "monthly" amounts to read "weekly" or other time period, as appropriate.

All numerical amounts must be stated in figures and shall be printed in not less than the equivalent of ten point type or elite typewritten numerals or legibly handwritten (§ 226.6(a)). Paragraph numbers need not be printed in ten point type or its equivalent.

Specific Instructions

Item 1. The disclosures must be made on a written dated statement. All lessors and lessees must be identified by name (§ 226.15(a)). If, for example, one person arranges the lease and another person enters into the lease, both must be identified as lessors (§ 226.2(h) and (oo)). An address may augment the identification but need not be supplied as part of the disclosure form.

Item 2. This disclosure provides a brief description of the leased items (§ 226.15(b)(1)). In the left column the name of the item should appear. The relevant entry should be made in the appropriate box in the columns to the right of the names of the items as indicated by the column headings. All of the descriptive elements in the column headings, except the one labeled "Item," are examples only. Those which are inapplicable to a lease plan may be deleted. Other descriptive column headings may be added (as indicated by the blank columns) if the lessor desires.

Item 3. This disclosure shows the total amount

of any initial payment the customer must make when the lease is consummated (§ 226.15(b)(2)). The components of the initial payment *must* be identified and *may*, at the lessor's option, be itemized with respect to dollar amount. Additional components may be added to the list, as necessary, by use of the blank check box.

The "Advance Monthly Payment" is the total of all amounts collected at the inception of the lease which are to be attributed to a monthly payment(s). For example, if the first month's rental payment is collected at the inception, the form might read "Advance Monthly Payment of the first month's rent" or a similar phrase. If the last month's payment, or any other payment in the nature of rental for a portion of the term, is collected at the inception, appropriate language should be provided to describe the components of the "Advance Monthly Payment."

Item 4. This item discloses the term of the lease, the date of the first periodic payment and the dates or periods of all subsequent periodic payments. The blank spaces should be filled in with the appropriate terms. For example, after the phrase "Term of this lease:" the lessor may place the words "24 months" or "April 2, 1977, through April 2, 1979," as appropriate. In the blank spaces provided after the phrase "The first monthly payment of:" should be the appropriate amount and date. The first monthly payment may be part or all of the "Advance Monthly Payment" disclosed under Item 3. The phrase "subsequent payments of" should be preceded by the appropriate number of payments and followed with the appropriate terms, such as "\$100.00 on the 2d of each month thereafter."

Item 5. This item discloses the payment the lessee must make each month (§ 226.15(b)(3)). The component parts of the monthly payment may but need not be itemized as to amount.

Item 6. This item discloses the total of the monthly payments payable over the term of the lease. This figure is computed by multiplying the amount of the monthly payment in Item 5 by the number of subsequent payments in Item 4 and adding to that product the amount of the first monthly payment.

Item 7. This item discloses the total of other charges payable to the lessor (§ 226.15(b)(5)). This excludes charges for official fees, taxes, insurance and charges disclosed as totals under other items. The individual components must be

identified and itemized as to amount. A blank check box is provided in order to add to the list, as necessary.

Item 8. This item discloses the total amount to be paid by the lessee during the lease term for taxes and other official fees (§ 226.15(b)(4)).

Item 9. This item provides alternative methods of disclosing insurance coverage. It provides a disclosure for situations in which the lessee provides the coverage, in which case the types and amounts of coverage must be specified (§226.15(b)(6)(ii)). It provides a disclosure for situations in which the lessee procures coverage through the lessor, in which case the types, amounts and costs of coverage must be specified (§ 226.15(b)(6)(i)). It also provides for disclosure of a fee in lieu of insurance.

Item 10. This item provides for disclosure of the maintenance and servicing responsibilities of the parties (§ 226.15(b)(8)). These responsibilities may be allocated either to the lessor or to the lessee, or may be divided between them.

Item 11. This item discloses all express warranties applicable to the leased property made by the manufacturer or lessor and available to the lessee (§ 226.15(b)(7)). A brief identification of the warranty must be supplied. A reference to the standard manufacturer's warranty would suffice.

Item 12. This item discloses standards for wear and use established by the lessor. The lessor is permitted, but not required, to set such standards (§ 226.15(b)(8)).

Item 13. This item discloses the conditions under which the lessee may terminate the lease

prior to the end of the lease term. It also discloses the amount or method of determining the amount of the charge which the lessee must pay for early termination (§ 226.15(b)(12)). This item should disclose the conditions under which the lessor may terminate the lease prior to the end of the term, such as default. This item should also be used to disclose the amount or method of determining the amount of any default charges (§ 226.15(b)(10)). The charges or method of determining the charges for early termination by the lessor other than for lessee's default should be separately specified in this item.

Item 14. This disclosure of the security taken must include, in the space provided, a brief identification of the types of security interests and an identification of the property covered by each such interest (§ 226.15(b)(9)).

Item 15. This disclosure indicates the amount or method of determining the amount of any charges for late payment (§ 226.15(b)(10)).

Item 16. This item provides alternative disclosures covering the several options a lessor may offer to a lessee to purchase the leased property. A lessor should use the disclosures applicable to the lease plan used. For example, if no option to purchase is offered, only the last sentence of the item should be used. If the lessor offers an option to purchase, the times at which it may be exercised must be supplied. The price must be disclosed for an option exercised at the end of the term and the price or method of computing the price for an option exercised during the lease term must be supplied (§ 226.15(b)(11)).

APPENDIX A

QUESTIONS AND ANSWERS

If you extend consumer credit, issue credit cards or engage in consumer leasing as a lessor, you must become familiar with Regulation Z. You will be responsible for complying with the Regulation and this pamphlet tells you how Regulation Z affects your business. The questions and answers that follow are stated as simply and clearly as possible. *HOWEVER, FOR EXACT INFORMATION ON WHAT YOU MUST DO TO COMPLY WITH THE LAW, YOU MUST READ THOROUGHLY THE APPLICABLE SECTIONS OF REGULATION Z.*

SOME GENERAL QUESTIONS AND ANSWERS

Q: What is the purpose of Regulation Z?

A: The purpose is to let borrowers and consumers know the cost of credit so that they can compare costs between various credit sources and avoid the uninformed use of credit. Regulation Z also regulates issuance of credit cards and sets maximum liability for the unauthorized use of credit cards. It provides a procedure for resolving billing errors which occur in open end credit accounts. In addition, its purpose is to inform lessees of the costs of consumer leasing and to place certain restrictions on the lessee's ultimate liability when leasing personal property. (Reg. Z/226.1)

Q: What kinds of businesses are affected?

A: Regulation Z applies to credit card issuers and any individual or organization that extends or arranges credit for which a finance charge is or may be payable or which is repayable by agreement in more than four instalments. It also applies to an individual or organization who leases or arranges for the lease of personal property. For example, the Regulation applies to banks, savings and loan associations, credit unions, consumer finance companies and residential mortgage brokers. It may also apply to department stores, automobile, furniture and appliance dealers and lessors, craftsmen such as plumbers and electricians, doctors, dentists and other professional people, and hospitals. (Reg. Z/226.2(p), (q) and (s))

Q: What types of credit transactions are covered under Regulation Z?

A: Generally, credit you extend to people for personal, family, household or agricultural uses, not exceeding \$25,000. (Reg. Z/226.2(p)) But all real estate credit transactions for these purposes are covered regardless of the amount, except agricultural credit over \$25,000. (Reg. Z/226.3(c) and (e))

Q: What types of credit transactions are not covered?

A: The following are not affected by Regulation Z: (Reg. Z/226.3)

1. Business and commercial credit—except agricultural credit.
2. Credit to Federal, State and local government. (However, governmental units extending credit to individuals are affected by this law.)
3. Transactions in securities and commodities accounts with a broker-dealer registered with the Securities and Exchange Commission.
4. Transactions under certain public utility tariffs.
5. Credit over \$25,000—except real estate transactions.
6. Agricultural credit over \$25,000—including real estate transactions.

Q: What types of lease transactions are covered under Regulation Z?

A: Leases of personal property primarily for personal, household and family use, where the lessee is obligated for less than \$25,000 and the term of the lease is more than four months. The Regulation covers both purchase option and non-purchase option leases. (Reg. Z/226.2(mm))

Q: What types of lease transactions are not covered?

A: The following are not affected by Regulation Z: (Reg. Z/226.2(mm) and 226.3(f))

1. Business, commercial and agricultural leases.
2. Leases to organizations.
3. Leases for a period of time less than four months.
4. Leases for a total contractual obligation exceeding \$25,000.
5. Leases which meet the definition of a credit sale. (Reg. Z/226.2(t))
6. Leases of personal property which are incident to the lease of real property where the lessee has no liability for the value of the property except for abnormal wear and tear and the lessee has no option to purchase the leased property.

Q: Can a State law be substituted for Regulation Z?

A: Yes, it can, provided the Federal Reserve Board makes that determination as provided by law. Any determination made will be published. (Reg. Z/226.12) With regard to certain sections of the Regulation which implement the Fair Credit Billing Act (discussed in more detail elsewhere in this Appendix), the State law can be followed in some cases, if doing so does not violate the Regulation. (Reg. Z/226.6(b))

Q: What happens if I not only follow Regulation Z but also elect to follow inconsistent State law?

A: In these cases the State disclosures may be shown on a separate sheet. They may also be shown on the same statement as the Federal disclosures. But in this event they must appear separately and below the Federal disclosures, clearly marked that they are inconsistent with the Federal disclosures, and separated by a dividing line. (Reg. Z/226.6(c)) Special rules on this question apply to the Fair Credit Billing requirements of the Regulation. (Reg. Z/226.6(b)(2)(iii))

Q: Is any special terminology prescribed?

A: Yes, certain terminology is specified that must be used in making disclosures concerning credit transactions required by the Regulation. (Reg. Z/226.6(a); Reg. Z/226.7(a), (b) and (c); Reg. Z/226.8(b), (c) and (d); Reg. Z/226.9(b); Reg. Z/226.10(f); Reg. Z/226.11(c))

Q: Do disclosures have to be made in the order they appear in the Regulation?

A: No, but they must be listed in an order which will be meaningful to your customer. (Reg. Z/226.6(a))

Q: What terms are used to describe credit transactions in the Regulation?

A: The Regulation divides all consumer credit transactions into two broad categories: open end credit and credit other than open end. These are discussed in subsequent sections of these Questions and Answers.

Q: How long do I have to keep records?

A: You should keep evidence of compliance for two years. (Reg. Z/226.6(i))

Q: Will anyone inspect my records?

A: If asked by the proper agency you must show your records relating to disclosure and evidence of compliance. (Reg. Z/226.6(i))

Q: Are there provisions for enforcement?

A: Specific responsibilities for enforcement of Regulation Z are divided among nine Federal agencies. A complete list of these agencies and types of businesses they cover can be found in Appendix E. If you need additional information, you should contact the appropriate Federal agency. (Reg. Z/226.1(b))

APPENDIX A

Q: Are there any penalties for violating the Act?

A: If you fail to make disclosures as required under the Truth in Lending Act, you may be sued for actual damages plus twice the amount of the finance charge in the case of a credit transaction, and for 25% of the total monthly payments in the case of a consumer lease, as well as court costs and attorney's fees. The finance charge and consumer lease portions of damages are subject to a minimum of \$100 and maximum of \$1,000. If you are convicted in a criminal action for willfully or knowingly violating the Act or the Regulation, you could be fined up to \$5,000 or imprisoned for up to one year, or both. (Reg. Z/226.1(c)) In addition, a forfeiture penalty (maximum of \$50) applies to any failure to comply with the Fair Credit Billing provisions. (Reg. Z/226.14(f)) If you violate the lease advertising provisions of the Consumer Leasing Act, you may be sued for actual damages.

SOME QUESTIONS AND ANSWERS ON THE FINANCE CHARGE AND ANNUAL PERCENTAGE RATE

Q: What is the finance charge?

A: It is the total of all costs which your customer must pay, directly or indirectly, for obtaining credit. (Reg. Z/226.4)

Q: What costs are included in the finance charge?

A: Here are some of the more common items that you must include in your finance charge. See Reg. Z/226.4 for others and for qualifications which apply.

1. Interest.
2. Loan fee.
3. Finder's fee or similar charge.
4. Time price differential.
5. Amount paid as a discount.
6. Service, transaction or carrying charge.
7. Points.
8. Appraisal fee (except in real estate transactions).
9. Premium for credit life insurance, should you make this a condition for granting credit.
10. Investigation or credit report fee (except in real estate transactions).

Q: In what form is the finance charge to be shown to the customer?

A: It must be clearly typed or written, stating the dollars and cents total and the annual percentage rate. The words "finance charge" and "annual percentage rate" must stand out especially clearly. (Reg. Z/226.6(a)) In some transactions involving the sale of dwellings, the total dollar finance charge need not be stated, although the annual percentage rate must be disclosed.

Q: What is the annual percentage rate?

A: Simply put, it is the relative cost of credit in percentage terms. (Reg. Z/226.2(g))

Q: Are maximum or minimum rates specified in Regulation Z?

A: No. Regulation Z does not fix maximum, minimum, or any charges for credit. But it requires that you show whatever annual percentage rate you do charge.

Q: How accurate must the annual percentage rate be?

A: It must be computed so as to permit disclosure with an accuracy at least to the nearest one-quarter of 1%. (Reg. Z/226.5)

Q: How is the annual percentage rate computed?

A: It depends on whether the credit is *open end* (Reg. Z/226.5(a)) or *other than open end credit*. (Reg. Z/226.5(b))

SOME QUESTIONS AND ANSWERS ABOUT OPEN END CREDIT**Q: What is open end credit?**

A: Typically it covers most credit cards, as well as all revolving charge accounts in retail stores and check overdraft plans in banks, where finance charges are usually imposed on unpaid amounts each month. (Reg. Z/226.2(s), (x) and 226.7)

Q: What must an open end credit customer be told under this law?

A: If it is a *new* account, then your customer must receive these specific items in writing to the extent applicable: (Reg. Z/226.7(a))

1. The conditions under which the finance charge may be imposed and the period in which payment can be made without incurring a finance charge.
2. The method used in determining the balance on which the finance charge is to be imposed.
3. How the actual finance charge is calculated.
4. The periodic rates used and the range of balances to which each applies.
5. The conditions under which additional charges may be made along with details of how they are calculated.
6. Descriptions of any lien which you may acquire on a customer's property.
7. The minimum payment that must be made on each billing.
8. A statement of the customer's rights under the Fair Credit Billing Act. (Reg. Z/226.7(a)(9))

Q: Are periodic statements necessary on open end accounts?

A: Yes, but only where there is a debit or credit balance over \$1 or where a finance charge is imposed. (Reg. Z/226.7(b))

Q: What sort of information must accompany a monthly statement?

A: Where applicable, you must give customers this information: (Reg. Z/226.7(b))

1. The debit or credit balance at the start of the billing period.
2. A copy of the sales voucher or written identification of the transaction.
3. Amounts and dates of payments made by a customer, as well as other credits, including returns, rebates and adjustments.
4. The finance charge shown in dollars and cents.
5. The rates used in calculating the finance charge plus the range of balances to which they apply, the corresponding annual percentage rate in each case calculated by multiplying the rate for the time period by the number of periods you use each year, and any minimum charge.
6. The annual percentage rate, when a finance charge is imposed.
7. The unpaid balance on which the finance charge was calculated.
8. The closing date of the billing cycle and the debit or credit balance at that time.
9. A statement of the customer's rights under the Fair Credit Billing provisions. (Reg. Z/226.7(d))
10. An address to which billing error inquiries may be sent.

Q: Where must this information appear?

A: Some items must appear on the actual face of the statement. Others may be shown on the reverse side, or on a separate form enclosed in the same envelope. (Reg. Z/226.7(c))

APPENDIX A

Q: How is the annual percentage rate determined on open end credit?

A: The finance charge is divided by the unpaid balance to which it applies. This gives the rate per month or whatever time period is used. The result is multiplied by 12 or the other number of time periods used by you during the year. (Reg. Z/226.5(a)) For example, a typical charge of 1½ % is made on an unpaid balance where bills are sent out monthly. The annual percentage rate would be twelve times 1½ % or 18%. Other methods for calculating the annual percentage rate on open end credit are detailed in Reg. Z/226.5(a).

SOME QUESTIONS AND ANSWERS ABOUT CREDIT OTHER THAN OPEN END

Q: What types of credit are included?

A: Both loans and sales credit—in every case for a specified period of time where the total amount, number of payments, and due dates are agreed upon by you and your customer. Typically, it is used in buying or financing the purchase of “big ticket” items. A good example is a loan from a finance company to buy an automobile. Another example is credit extended by a store to buy a washing machine, a television set, or other major appliance. It also includes single payment loans and mortgages. (Reg. Z/226.8)

Q: What must the credit customer be told in these types of transactions?

A: You must present to your customer in writing the following information as applicable, plus additional information relating to the type of credit extended: (Reg. Z/226.8(b))

1. The total dollar amount of the finance charge and, if there is more than one type of charge, a description of the amount of each type, except in the case of a credit transaction to finance the purchase of a dwelling.
2. The date on which the finance charge begins to accrue, if this is different from the date of the transaction.
3. The annual percentage rate. (For exception, see Reg. Z/226.8(b)(2)(i) and (ii))
4. The number, amounts, and due dates of payments.
5. The total payments, except in the case of first mortgages on dwelling purchases.
6. The amount you charge for any default, delinquency, etc., or method you use for calculating that amount.
7. Description of any security you will hold and identification of the property to which it relates.
8. Description of any penalty charge for prepayment of principal.
9. Identification of the method used to compute the amount of any finance charge rebate in the case of prepayment in full of contracts involving precomputed finance charges. Charges deducted from any rebate must be stated. If no rebate is given, that fact must be stated.

Q: Are there any other things customers must be told?

A: That depends on the transaction—whether it is a loan or a credit sale.

Q: In the case of a loan, what do I have to tell my customers?

A: In addition to the information given your customer, as previously indicated, you must also provide this information: (Reg. Z/226.8(d))

1. The amount of credit to be given to your customer. This includes all charges which are part of the amount of credit extended but are not a part of the finance charge. This information must be itemized.
2. Amounts that are deducted as prepaid finance charges and required deposit balances. (Reg. Z/226.8(e))

Q: Regarding credit sales, what additional information do I give these customers?

A: Again, you must give your customers all the information in the answer to the second question in this section, and the following additional information as applicable: (Reg. Z/226.8(c))

1. The cash price.
2. The downpayment, including trade-in and cash.
3. The difference between the two.
4. All other charges, itemized, that are included in the amount financed but not part of the finance charge.
5. The unpaid balance.
6. Amounts deducted as prepaid finance charges or required deposit balances. (Reg. Z/226.8(e))
7. The amount financed.
8. The deferred payment price, which is the total of the cash price, finance charge and all other charges. (This does not apply to the sale of a dwelling.)

Q: When must customers receive all this information on loans or credit sales?

A: Before the credit is extended. (Reg. Z/226.8(a))

Q: Must this information be given to customers in writing?

A: Yes. You must include the information on the note or other instrument evidencing the obligation above or adjacent to the customer's signature, or on one side of a separate sheet that identifies the transaction. (Reg. Z/226.8(a))

Q: Are monthly statements required?

A: Most closed end creditors need not send monthly statements but the Regulation provides an exception to this rule for closed end credit extended by use of a credit card. (Reg. Z/226.8(q)) If you do send out monthly statements, you must show clearly the annual percentage rate and the period in which a payment must be made to avoid late charges. (Reg. Z/226.8(n))

Q: How is the annual percentage rate calculated on loans or credit other than open end?

A: By the actuarial method—payments are applied first to interest due and any remainder is then applied to reduce principal. (Reg. Z/226.5(b))

Q: What are examples of the actuarial method?

A: Here are two simple examples:

1. A bank loan of \$100 repayable in equal monthly instalments over one year is made, at a 6% add-on finance charge. The annual percentage rate would be 11%. The borrower would repay \$106 over one year. He would only have use of the full \$100 until he made his first payment, and less and less each month as payments are made. The effect is that the actual annual percentage rate is almost twice the add-on percentage rate.
2. Using the same example as above with the 6% finance charge discounted in advance, the annual percentage rate would be 11½% because the customer would only receive \$94 and have to repay \$100. He would have full use of only \$94 of the loan up to the time he makes his first payment.

Q: But isn't the actuarial method very complicated?

A: Yes, it is. Recognizing this, the Federal Reserve Board has prepared tables showing the annual percentage rate based on the finance charge and the number of weekly or monthly payments to be made. These tables are available from the Federal Reserve Board and Federal Reserve Banks at \$1.00 per copy. (Reg. Z/226.5(c))

APPENDIX A

Q: Must I use the Board's Annual Percentage Rate tables?

A: No. You may wish to purchase specially prepared tables for your type of business from one of several table or chart publishers. Trade associations and financial institutions can be helpful also. (Reg. Z/226.5(c)(2))

Q: Must the creditor always show the annual percentage rate?

A: Generally yes, except that on credit other than open end credit, if the finance charge is \$5 or less, and applies to credit of \$75 or less, it need not be shown. The same exception applies to a finance charge of \$7.50 or less on credit of more than \$75. (Reg. Z/226.8(b)(2)(i) and (ii))

SOME QUESTIONS AND ANSWERS ABOUT REAL ESTATE

Q: Is real estate credit covered under Regulation Z?

A: Yes. All real estate credit *in any amount* is covered under this Regulation when it is to an individual and not for business purposes, except that real estate credit for agricultural purposes in excess of \$25,000 is exempt. (Reg. Z/226.3)

Q: Does such real estate credit cover more than mortgages?

A: Yes, very definitely. Any credit transaction (other than a business credit transaction) that involves any type of security interest in real estate of a consumer is covered. (Reg. Z/226.2(dd), (ee), (ff) and (gg))

Q: Are there any special provisions that apply to real estate credit?

A: Two basic points:

1. In many cases, you do not have to show the total dollar amount of the finance charge on a credit sale or first mortgage loan to finance the purchase of the customer's dwelling. (Reg. Z/226.8(c)(8) and (d)(3); 226.808)
2. In many instances, your customer has the right to cancel a credit arrangement within three business days if his residence is used as collateral for credit. (Reg. Z/226.9)

Q: Must a creditor inform his customer of the right to cancel?

A: Yes. He must furnish the Notice prescribed by the Regulation. (Reg. Z/226.9(b))

Q: What must the customer do to cancel a real estate transaction under the Regulation?

A: A customer may cancel a transaction

1. by signing and dating the Notice to customer required by Federal law, which he receives from the creditor, *and* either
 - (a) mailing the Notice to the creditor at the address shown on the Notice,
 - or* (b) delivering the Notice to the creditor at the address shown on the Notice either personally or by messenger (or by other agents),
- or* 2. by sending a telegram to the creditor at the address shown on the Notice. A brief description of the transaction which the customer wishes to cancel should be included in the telegram,
- or* 3. by preparing a letter (or other writing) which includes a brief description of the transaction which he wishes to cancel, *and* either
 - (a) mailing the letter (or other writing) to the creditor at the address shown on the Notice,
 - or* (b) delivering the letter (or other writing) to the creditor at the address shown on the Notice either personally or by messenger (or by other agents).

Q: What if the customer telephones that he is going to cancel?

A: A telephone call to the creditor may not be used to cancel a transaction; *WRITTEN* notice of cancellation is required. If the customer takes one of the above steps to cancel within the three-day period, he has effectively cancelled the transaction.

Q: What if I haven't received the notice of cancellation in three days?

A: You should allow time for a mailed letter or telegram sent within the three-day period to be delivered, or otherwise determine that your customer has not cancelled the transaction.

Q: Does this right of cancellation apply to a first mortgage?

A: A first mortgage to finance the purchase of your customer's dwelling carries no right to cancel, *However*, a first mortgage for any other purpose and a second mortgage on the same dwelling may be cancelled. (Reg. Z/226.9(g))

Q: What happens regarding cancellation in the case of a mechanic's lien or similar security interest acquired by a craftsman who works on credit?

A: Take a craftsman, for example, who charges his customers a finance charge or agrees to accept payment in more than four instalments. His customer does have a right to cancel, but only within three business days. Unless there is an emergency the craftsman should wait the three days before starting work. (Reg. Z/226.9(c))

Q: Suppose a customer needs emergency repairs and cannot wait for three days?

A: A customer may waive his right to cancel a credit agreement if credit is needed to meet a bona fide personal financial emergency and if failure to start repairs would endanger him, his family, or his property. Preprinted waiver forms may not be used. (Reg. Z/226.9(e))

SOME QUESTIONS AND ANSWERS ABOUT CREDIT CARDS

Q: What is a credit card?

A: A credit card is a single credit device existing for the purpose of being used from time to time upon presentation to obtain money, property, labor, or services on credit. (Reg. Z/226.2(r))

Q: Are there restrictions on issuance of credit cards?

A: Yes. A credit card may not be issued except in response to a request or application or as a renewal of, or in substitution for, an accepted credit card. (Reg. Z/226.13(a))

Q: What is an accepted credit card?

A: An accepted credit card is a credit card which the cardholder has requested or applied for and received, or has signed, or has used, or has authorized another person to use. Any credit card issued in renewal of, or in substitution for, an accepted credit card becomes an accepted credit card when received by the cardholder. (Reg. Z/226.2(a))

Q: Does Regulation Z apply to credit cards issued for business purposes?

A: In general, Regulation Z applies to all credit cards whether issued for personal, family, household, agricultural, business, or commercial purposes, regardless of whether issued to an individual person or to an organization. But special provisions on liability may apply to certain credit cards issued for business purposes to an organization. (Reg. Z/226.13(a) and (h))

APPENDIX A

Q: Is a cardholder liable for unauthorized use of a credit card?

A: A cardholder is liable for unauthorized use of a credit card only if

1. the credit card is an accepted credit card;
2. the liability does not exceed the lesser of \$50 or the amount of money, property, labor or services obtained by unauthorized use prior to notification of the card issuer;
3. the card issuer has given the cardholder adequate notice on the credit card or within two years preceding unauthorized use regarding the cardholder's potential liability;
4. the card issuer has provided the cardholder with an addressed postage-paid notification to be mailed in event of loss, theft, or possible unauthorized use of the credit card, and
5. the card issuer has provided a method whereby the user of the card can be identified as the person authorized to use it, such as by signature, photograph, or fingerprint on the card, or by electronic or mechanical confirmation.

SOME QUESTIONS AND ANSWERS ABOUT THE ADVERTISING OF CREDIT AND LEASES

Q: Does Regulation Z affect credit and lease advertising?

A: Yes, it does. It affects all advertising to aid or promote any extension of consumer credit or any consumer lease regardless of who the advertiser may be. An association, for example, which advertises that its members extend consumer credit or lease personal property is subject to the advertising provisions of Regulation Z.

Q: What kinds of advertising are affected?

A: All types of advertising: television, radio, newspapers, magazines, leaflets, flyers, catalogs, public address announcements, direct mail literature, window displays, billboards, etc. (Reg. Z/226.2(d))

Q: How does Regulation Z affect your advertising as a creditor?

A: Generally, you may not advertise that the downpayment, instalment plan or amount of credit can be arranged unless you usually arrange terms of this type. (Reg. Z/226.10(a)(1))

Q: How else is credit advertising affected?

A: If it is open end credit, see Reg. Z/226.10(c). For credit *other* than open end, see Reg. Z/226.10(d). If you advertise in catalogs, see Reg. Z/226.10(b). If you impose no specific finance charge and advertise instalment credit, see Reg. Z/226.10(f). But generally you are not permitted to advertise any specific credit term unless all other terms involved are stated clearly and can be easily determined.

Q: How does Regulation Z affect your advertising as a lessor?

A: Generally, you may not advertise that a specific lease at specific amounts or terms can be arranged unless you usually arrange leases at those terms. (Reg. Z/226.10(a)(2))

Q: How else is lease advertising affected?

A: Generally, you are not permitted to advertise any specific lease term unless all other relevant terms are stated and can be easily determined. (Reg. Z/226.10(g)) If you advertise in catalogs, see Reg. Z/226.10(b). If you are a multiple-item lessor who employs merchandise tags, see Reg. Z/226.10(h).

SOME QUESTIONS AND ANSWERS ABOUT FAIR CREDIT BILLING

Q: Must all creditors comply with the Fair Credit Billing provisions?

A: No. Generally, only open end creditors, including *all* credit card issuers, must comply. (Reg. Z/

226.2(s) and (x)) But creditors who offer other than open end credit by use of a credit card are also subject to its requirements. (Reg. Z/226.8(q) and 226.14(g))

Q: How should a customer notify the creditor of suspected errors on a periodic statement?

A: Send a written notice to the creditor so that it is received at the address specified for this purpose within 60 days of the date the periodic statement on which the suspected error first appeared was sent. The notice should contain the customer's name and account number (if any), the amount believed to be in error, and the reasons (to the extent known) why the customer believes there is an error. (Reg. Z/226.2(cc))

Q: What is a billing error?

A: Among other things, a billing error is any mistake made by the creditor in billing or identifying a transaction on a periodic statement, or it may be a creditor's failure to send a periodic statement to the customer's correct address. A customer may also allege as a billing error that the item which was purchased was not delivered as was agreed by the merchant. The customer may ask for information or clarification about an item on the periodic statement or for documentary proof that the item is correct. This, too, is a billing error, even though a mistake may not, in fact, have been made. (Reg. Z/226.2(j))

Q: What must I do in response to a proper written notification of a billing error?

A: In general, you must acknowledge the inquiry within 30 days and give a complete written response based on your findings within two complete billing cycles (in no case more than 90 days). If you agree with the customer as to the existence of an error, then within the time limits you must make corrections on the account. If you do not completely agree with the customer, then within the time limits you must explain in writing why you do not agree and send any documentary proof of the indebtedness that the customer may have requested. (Reg. Z/226.14(a) and (b))

Q: How should the amount alleged to be a billing error and any finance charges or other charges on that amount be treated during the error resolution process?

A: Neither the amount in dispute nor any charges imposed on that amount need be set apart or separately identified during the time you are resolving the alleged error. It is sufficient if you indicate on the periodic statement that payment of the amount in dispute is not required pending your compliance with the billing error provisions of the Fair Credit Billing Act. (Reg. Z/226.14(b))

Q: Must I comply with any special requirements regarding credit reporting after a billing error notice is received?

A: Yes. Until you have completed the response procedure, you may not report or threaten to report to anyone adversely about the customer's credit standing. In some cases you must indicate on any reports made that there is a dispute and report any resolution of a dispute. (Reg. Z/226.14(e))

Q: Are there any prohibitions on closing or restricting an account because a customer fails to pay a disputed amount?

A: Yes. A customer's account may not be closed or restricted during the time the error resolution procedure is pending, solely because the disputed amount is not paid. (Reg. Z/226.14(d))

Q: After completion of the error resolution procedure, how must finance charges be adjusted?

A: If there was an error of any kind on the periodic statement, then no finance charges may be collected on the transaction which was the subject of the dispute, for any period before the error resolution procedure is completed. In addition, you must give the customer a period for payment without incurring additional finance charges, if you normally allow one, before you may begin calculating and collecting finance charges. If there was no error of any kind on the periodic statement, all

APPENDIX A

finance charges may be collected and no period for payment without incurring additional finance charges need be provided. (Reg. Z/226.14(b))

Q: How are minimum payments to be treated?

A: During the error resolution procedure, you may not require the customer to make a minimum payment calculated on the amount in dispute. After the error is resolved, you may require the customer to make up missed minimum payments, but you cannot accelerate the entire debt because the customer asserted a billing error. (Reg. Z/226.14(b))

Q: May a customer assert against the card issuer any claims and defenses regarding unsatisfactory merchandise or services obtained by use of a credit card? If so, under what conditions?

A: Yes, a customer may do so if

1. the customer first attempts to settle the problem with the merchant involved;
2. the original transaction was in excess of \$50; and
3. the transaction took place within the customer's home State or, if outside the customer's home State, within 100 miles of the customer's home address.

These amount and distance limitations do not apply in some cases, such as when the card issuer and the merchant are the same entity or related entities. (Reg. Z/226.13(i))

Q: Must I inform the customer of his rights and duties under the error resolution procedure?

A: Yes. Two notices are provided. The longer form (Reg. Z/226.7(a)(9)) must be given to all new customers when they open an account. This same form may be used for the semiannual notice required to be sent to the customers. (Reg. Z/226.7(d)) As an alternative to the semiannual disclosure, a shorter form is provided (Reg. Z/226.7(d)(5)) which can be sent with each periodic statement. If you choose to use the shorter form, you must also provide your customer a copy of the longer form upon request and each time a proper written notification of a billing error is submitted.

Q: Can funds held in a deposit account for a customer be applied against the customer's debt on a credit card account?

A: Only if the customer agrees in writing to allow you to do so as a method of periodic payment of his bill. Otherwise, you can do so only pursuant to a court order under a procedure available to all creditors generally. (Reg. Z/226.13(j))

Q: What should I do if a customer pays more than is owed?

A: You may credit the customer's account with the entire amount sent. If you do, you must return the excess (\$1 or more) to the customer if requested to do so and, at any later time, you may of your own volition return the excess. You may also credit the customer's account with only the amount owed and return the excess within five business days of receipt. (Reg. Z/226.7(b))

Q: Are there any requirements concerning how quickly payments and other credits must be credited to a customer's account?

A: Yes. Specific requirements regarding how promptly your customer's payments must be credited are set forth in the Regulation. (Reg. Z/226.7(g)) There are also requirements regarding how promptly refund credits for returns must be credited to a credit card account. (Reg. Z/226.13(k))

Q: Are there any other provisions of which a credit card issuer should be particularly aware?

A: Credit card issuers cannot prohibit merchants who honor their cards from offering a discount to customers who pay cash, nor can card issuers require merchants who honor their cards to procure from the issuers any services not essential to the credit card plan, such as unrelated banking services. (Reg. Z/226.13(1))

SOME QUESTIONS AND ANSWERS ABOUT CONSUMER LEASING**Q: What types of leases are covered?**

A: Leases of personal property primarily for personal, family or household use for a period of time exceeding four months and for a total contractual obligation of less than \$25,000. It includes both purchase option and non-purchase option leases. Examples of consumer leases are long-term automobile leases and home furniture leases.

Q: What must the lessee be told in these types of transactions?

A: You must present to the lessee in writing the following information as applicable: (Reg. Z/226.15(b))

1. A brief description of the leased property.
2. The total amount of any payment to be paid by the lessee at the beginning of the lease.
3. The number, amount and due dates or periods of payments under the lease and the total amount of such periodic payments.
4. The total amount payable by the lessee during the lease term for official fees and taxes.
5. The total amount of all other charges payable by the lessee to the lessor.
6. A brief identification of insurance in connection with the lease.
7. A statement identifying any express warranties available to the lessee.
8. Identification of the party responsible for maintenance and servicing of the property, and a statement of reasonable standards for wear and use if the lessor sets such standards.
9. A description of any security interest retained by the lessor.
10. A description of any penalty charge for delinquency, default or late payments.
11. A statement whether or not the lessee has the option to purchase the leased property and when the lessee may exercise the option and at what price.
12. A statement of the conditions and charges for early termination.

Q: Are there any other things that lessees must be told?

A: In the case of closed end or net leases, where the lessee bears no responsibility for the value of the property at the end of the term, other than for depreciation caused by abnormal wear and tear, no further disclosures are required. In the case of open end or finance leases, where the lessee's liability is based upon the value of the property at the end of the term, certain other disclosures must be made.

Q: In the case of an open end lease what do I have to tell the lessee?

A: In addition to the information given the lessee, as previously indicated, you must also provide the following information: (Reg. Z/226.15(b)(13),(14),(15))

1. A statement that the lessee shall be liable for the difference between the estimated value of the property and its realized value at early termination or the end of the lease term.
2. Where the lessee's liability at early termination or at the end of the term is based on the estimated value of the property, a statement that the lessee may obtain at his or her expense a professional appraisal of the value of the property by an independent third party.
3. The disclosure of the value of the property at the beginning of the lease term, the total lease obligation and the difference between them.
4. That there is a rebuttable presumption that the estimated value of the property at the end of the term is unreasonable to the extent that it exceeds the actual value by more than three times the average monthly payment, and that you cannot collect the amount of excess liability unless you bring a successful court action in which you pay the lessee's attorney's fees.
5. A statement that the lessee may make any mutually agreeable final adjustment regarding the excess liability.

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Q: When must lessees receive this information on leases?

A: Before the lease is consummated. (Reg. Z/226.15(a))

Q: Must this information be given to lessees in writing?

A: Yes. You must include all the information on the front and back of the lease or other instrument evidencing the obligation or on a separate statement that identifies the transaction. There are exceptions to this requirement in the case of multiple-item leases. (Reg. Z/226.15(a))

APPENDIX B

NOTICE OF RIGHT OF RESCISSION

The following form is the form of notice of the right to rescind a transaction required to be given to customers under certain circumstances set forth in Section 226.9 of Regulation Z. Where the property on which the security interest may arise does not include a dwelling, the creditor may substitute the words "the property you are purchasing" for "your home" or "lot" for "home" where these words appear in the form of notice. This exhibit is set in capital and lower case letters of 12 point bold faced type, the minimum size permissible under Regulation Z.

(Identification of Transaction)

Notice To Customer Required By Federal Law:

You have entered into a transaction on _____ which may
(Date)
result in a lien, mortgage, or other security interest on your home. You have a legal right under Federal law to cancel this transaction, if you desire to do so, without any penalty or obligation within three business days from the above date or any later date on which all material disclosures required under the Truth in Lending Act have been given to you. If you so cancel the transaction, any lien, mortgage, or other security interest on your home arising from this transaction is automatically void. You are also entitled to receive a refund of any downpayment or other consideration if you cancel. If you decide to cancel this transaction, you may do so by notifying

(Name of Creditor)

at _____

(Address of Creditor's Place of Business)

by mail or telegram sent not later than midnight of _____ You
(Date)
may also use any other form of written notice identifying the transaction if it is delivered to the above address not later than that time. This notice may be used for that purpose by dating and signing below.

I hereby cancel this transaction.

(Date)

(Customer's signature)

APPENDIX B

The following paragraph shall appear on the face or the reverse side of the notice shown on the opposite page. If it appears on the reverse side of the notice, the face of the notice shall state, "See reverse side for important information about your right of rescission."

EFFECT OF RESCISSION. When a customer exercises his right to rescind under paragraph (a) of this section, he is not liable for any finance or other charge, and any security interest becomes void upon such a rescission. Within 10 days after receipt of a notice of rescission, the creditor shall return to the customer any money or property given as earnest money, downpayment, or otherwise, and shall take any action necessary or appropriate to reflect the termination of any security interest created under the transaction. If the creditor has delivered any property to the customer, the customer may retain possession of it. Upon the performance of the creditor's obligations under this section, the customer shall tender the property to the creditor, except that if return of the property in kind would be impracticable or inequitable, the customer shall tender its reasonable value. Tender shall be made at the location of the property or at the residence of the customer, at the option of the customer. If the creditor does not take possession of the property within 10 days after tender by the customer, ownership of the property vests in the customer without obligation on his part to pay for it.

The following text, or one substantially similar, must accompany the Truth in Lending disclosures, where required by Sections 226.7(a), (d), or (i) of Regulation Z. It may appear on the face or reverse of the statement on which the Truth in Lending disclosures are made, or on one or both sides of a separate accompanying statement. Except as provided by Section 226.6(a), the text need not be printed in a particular type face or size, but must be shown clearly and conspicuously. Creditors may delete any portion of the text which is not applicable to their credit plans.

IN CASE OF ERRORS OR INQUIRIES ABOUT YOUR BILL

The Federal Truth in Lending Act requires prompt correction of billing mistakes.

1. *If you want to preserve your rights under the Act, here's what to do if you think your bill is wrong or if you need more information about an item on your bill:*
 - a. *Do not write on the bill. On a separate sheet of paper write [Alternate: Write on the bill or other sheet of paper] (you may telephone your inquiry but doing so will not preserve your rights under this law) the following:*
 - i. *Your name and account number (if any).*
 - ii. *A description of the error and an explanation (to the extent you can explain) why you believe it is an error.*
If you only need more information, explain the item you are not sure about and, if you wish, ask for evidence of the charge such as a copy of the charge slip. Do not send in your copy of a sales slip or other document unless you have a duplicate copy for your records.
 - iii. *The dollar amount of the suspected error.*
 - iv. *Any other information (such as your address) which you think will help the creditor to identify you or the reason for your complaint or inquiry.*
 - b. *Send your billing error notice to the address on your bill which is listed after the words: "Send Inquiries To." or similar wording. [Alternate: Send your billing error notice to: (creditor's name and address).]*
Mail it as soon as you can, but in any case, early enough to reach the creditor within 60 days after the bill was mailed to you. If you have authorized your bank to automatically pay from your checking or savings account any credit card bills from that bank, you can stop or reverse payment on any amount you think is wrong by mailing your notice so the creditor receives it within 16 days after the bill was sent to you. However, you do not have to meet this 16-day deadline to get the creditor to investigate your billing error claim.
2. *The creditor must acknowledge all letters pointing out possible errors within 30 days of receipt, unless the creditor is able to correct your bill during that 30 days. Within 90 days after receiving your letter, the creditor must either correct the error or explain why the creditor believes the bill was correct. Once the creditor has explained the bill, the creditor has no further obligation to you even though you still believe that there is an error, except as provided in paragraph 5 below.*
3. *After the creditor has been notified, neither the creditor nor an attorney nor a collection agency may send you collection letters or take other collection action with respect to the amount in dispute; but periodic statements may be sent to you, and the disputed amount can be applied against your credit limit. You cannot be threatened with damage to your credit rating or sued for the amount in question, nor can the disputed amount be reported to a credit bureau or to other creditors as delinquent until the creditor has answered your inquiry. However, you remain obligated to pay the parts of your bill not in dispute.*

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4. *If it is determined that the creditor has made a mistake on your bill, you will not have to pay any finance charges on any disputed amount. If it turns out the creditor has not made an error, you may have to pay finance charges on the amount in dispute, and you will have to make up any missed minimum or required payments on the disputed amount. Unless you have agreed that your bill was correct, the creditor must send you a written notification of what you owe; and if it is determined that the creditor did make a mistake in billing the disputed amount, you must be given the time to pay which you normally are given to pay undisputed amounts before any more finance charges or late payment charges on the disputed amount can be charged to you.*
5. *If the creditor's explanation does not satisfy you and you notify the creditor in writing within 10 days after you receive his explanation that you still refuse to pay the disputed amount, the creditor may report you to credit bureaus and other creditors and may pursue regular collection procedures. But the creditor must also report that you think you do not owe the money, and the creditor must let you know to whom such reports were made. Once the matter has been settled between you and the creditor, the creditor must notify those to whom the creditor reported you as delinquent of the subsequent resolution.*
6. *If the creditor does not follow these rules, the creditor is not allowed to collect the first \$50 of the disputed amount and finance charges, even if the bill turns out to be correct.*
7. *If you have a problem with property or services purchased with a credit card, you may have the right not to pay the remaining amount due on them, if you first try in good faith to return them or give the merchant a chance to correct the problem. There are two limitations on this right:*
 - a. *You must have bought them in your home State or if not within your home State within 100 miles of your current mailing address; and*
 - b. *The purchase price must have been more than \$50.**However, these limitations do not apply if the merchant is owned or operated by the creditor, or if the creditor mailed you the advertisement for the property or services.*

ALTERNATIVE TO SEMIANNUAL STATEMENT OF BILLING ERROR RIGHTS

The following text, or one substantially similar, must be sent with each periodic statement required under Section 226.7(b)(1), if the creditor chooses to use the provisions of Section 226.7(d)(5) instead of mailing the text provided in Section 226.7(a)(9) semiannually. Except as provided by Section 226.6(a), the Regulation does not specify the type face and size to be used, but the statement must be printed clearly and conspicuously.

IN CASE OF ERRORS OR INQUIRIES ABOUT YOUR BILL

Send your inquiry in writing [at creditor's option: on a separate sheet] so that the creditor receives it within 60 days after the bill was mailed to you. Your written inquiry must include:

- 1. Your name and account number (if any);*
- 2. A description of the error and why (to the extent you can explain) you believe it is an error; and*
- 3. The dollar amount of the suspected error.*

If you have authorized your creditor to automatically pay your bill from your checking or savings account, you can stop or reverse payment on any amount you think is wrong by mailing your notice so that the creditor receives it within 16 days after the bill was sent to you.

You remain obligated to pay the parts of your bill not in dispute, but you do not have to pay any amount in dispute during the time the creditor is resolving the dispute. During that same time, the creditor may not take any action to collect disputed amounts or report disputed amounts as delinquent.

If you have a problem with property or services purchased with a credit card, you may have the right not to pay the remaining amount due on them if you first try in good faith to return them or give the merchant a chance to correct the problem. There are two limitations on this right:

- 1. You must have bought them in your home State or, if not within your home State, within 100 miles of your current mailing address; and*
- 2. The purchase price must have been more than \$50.*

However, these limitations do not apply if the merchant is owned or operated by the creditor, or if the creditor mailed you the advertisement for the property or services.

This is a summary of your rights; a full statement of your rights and the creditor's responsibilities under the Federal Fair Credit Billing Act will be sent to you both upon request and in response to a billing error notice.

APPENDIX D

SAMPLE PAGE FROM TABLE FOR COMPUTING ANNUAL PERCENTAGE RATE FOR LEVEL MONTHLY PAYMENT PLANS

EXAMPLE

Finance charge= \$35.00; Total amount financed=\$200; Number of monthly payments=24.

SOLUTION

Step 1—Divide the finance charge by the total amount financed and multiply by \$100. This gives the finance charge per \$100 of amount financed. That is, $\$35.00 \div \$200 = .1750 \times \$100 = \17.50 .

Step 2—Follow down the left hand column of the table to the line for 24 months. Follow across this line until you find the nearest number to \$17.50. In this example \$17.51 is closest to \$17.50. Reading up the column of figures shows an annual percentage rate of 16%.

(This table is one page of the tables compiled by the Federal Reserve Board to assist creditors in figuring out the annual percentage rate of the cost of credit, or the amount of the finance charge for a given rate.)

APPENDIX E

FEDERAL ENFORCEMENT AGENCIES

From the list that follows, you will be able to tell which Federal agency covers your particular business. Any questions you have should be directed to that agency. These agencies are also responsible for enforcing Regulation Z.

National Banks

Comptroller of the Currency
United States Treasury Department
Washington, D.C. 20220

State Member Banks

Federal Reserve Bank serving the area in which the State member bank is located.

Nonmember Insured Banks

Federal Deposit Insurance Corporation Supervising Examiner for the District in which the nonmember insured bank is located.

Savings Institutions Insured by the FSLIC and Members of the FHLB System (except for Savings Banks insured by FDIC)

The FHLBB's Supervisory Agent in the Federal Home Loan Bank District in which the institution is located.

Federal Credit Unions

Regional Office of the National Credit Union Administration, serving the area in which the Federal Credit Union is located.

Creditors Subject to Civil Aeronautics Board

Director, Bureau of Enforcement
Civil Aeronautics Board
1825 Connecticut Avenue, N.W.
Washington, D.C. 20428

Creditors Subject to Packers and Stockyards Act

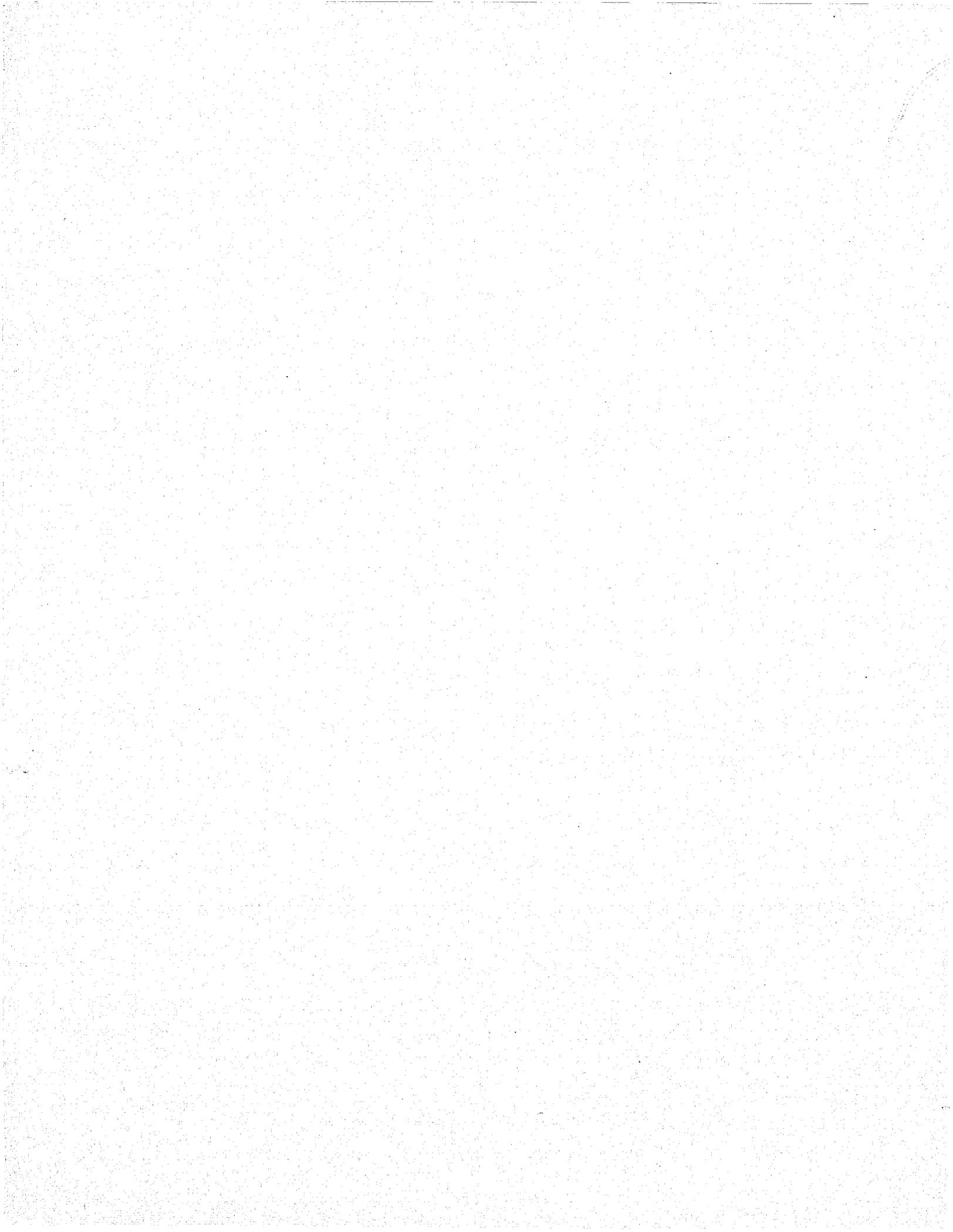
Nearest Packers and Stockyards Administration area supervisor.

Federal Land Banks, Federal Land Bank Associations, Federal Intermediate Credit Banks, and Production Credit Associations

Farm Credit Administration
490 L'Enfant Plaza West
Washington, D.C. 20024

Retail Department Stores, Consumer Finance Companies, All Other Creditors, and All Nonbank Credit Card Issuers

Truth in Lending
Federal Trade Commission
Washington, D.C. 20580



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