FEDERAL RESERVE SYSTEM

[12 CFR Part 226]

[Reg. Z]

TRUTH IN LENDING

Notice of Proposed Rule Making

The Board of Governors of the Federal Reserve System is considering the adoption of a new Part 226 (Regulation Z), to be issued pursuant to authority contained in the Truth in Lending Act, which is Title I of the Consumer Credit Protection Act (Public Law 90–321; 82 Stat. 146).

The purpose of the regulation is to implement the Truth in Lending Act which covers three broad areas: (1) Disclosure by creditors of the terms and cost of credit, including the dollar amount of the finance charge and the annual percentage rate, (2) the right of a customer to rescind certain credit transactions if a lien on his residence is or will be involved, and (3) standards for the advertising of credit terms.

The Act directs that the Board's regulation shall include certain provisions, and further provides that the regulation "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."

The proposed regulation seeks to carry out the Congressional directives by the inclusion of provisions which will facilitate compliance with the Act and insure that consumer credit customers will receive meaningful disclosures.

This notice is published pursuant to section 553(b) of title 5, United States Code, and § 262.2(a) of the rules of procedure of the Board of Governors of the Federal Reserve System.

To aid in the consideration of this matter by the Board, interested persons are invited to submit relevant data, views, or arguments. Such comments should be submitted in writing to any Federal Reserve Bank on or before November 18, 1968.

Dated at Washington, D.C., this 14th day of October 1968.

By order of the Board of Governors.

[SEAL] ROBERT P. FORRESTAL, *Assistant Secretary.*

AUTHORITY: The provisions of this Part 226 issued under 15 U.S.C. 1601–1605.

§ 226.1 Authority, scope, purpose, etc.

(a) *Authority, scope, and purpose.* (1) This part comprises the regulations which are 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. (Public Law 90–321; 82 Stat. 146 et seq.). Except as otherwise provided herein, this part applies to all persons who in the ordinary course of business extend, or arrange for the extension of, credit for personal, family, household, or agricultural purposes.

(2) This part implements the purpose of the Act, which is to assure that every customer who has need for loan or sale credit for the purposes stated above is given meaningful information as to the cost of credit, in most cases expressed in dollars of finance charge and an annual percentage rate computed on the declining unpaid balance. Other relevant terms must also be disclosed so that the customer may readily compare the various credit terms available to him and use consumer credit on an informed basis to his best advantage. This part also implements a provision of the Act under which a customer has a right to cancel a credit transaction which involves a lien on his residence, other than a purchase-money first lien, and void that lien without any liability by notifying the creditor of his cancellation within 3 business days. All advertising of consumer credit terms must comply with specific standards, and certain credit terms may not be advertised unless they are made available to all who qualify. Certain provisions of the Act are incorporated in this part to facilitate their use. Neither the Act nor this part controls consumer credit charges, or interferes 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 as to certain creditors is assigned to the Federal agencies which otherwise regulate or supervise those creditors; namely, 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), Director of the Bureau of Federal Credit Unions, Interstate Commerce Commission, Civil Aeronautics Board, Secretary of Agriculture, and Board of Governors of the Federal Reserve System.

(2) Except to the extent that administrative enforcement is specifically committed to other agencies, compliance with the requirements imposed under the Act and this part will be enforced by the Federal Trade Commission.

(c) *Preservation and inspection of records.* Evidence of compliance with this part shall be preserved by the creditor for the life of the transaction to which it relates or for a period of not less than 2 years from the date of that transaction, whichever is longer. Each creditor shall, when directed by the appropriate administrative enforcement agency designated in section 108 of the Act, permit that agency to inspect its relevant records and evidence of compliance with this part.

(d) *Penalties and liabilities.* Section 112 of the Act provides for criminal liability for willful and knowing failure to comply with any requirement imposed under the Act and this part, and section 130 of the Act provides for civil liability on the part of any creditor who fails to disclose any information required under chapter 2 of the Act and this part.

§ 226.2 Definitions and rules of construction.

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

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

(b) "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, or which is delivered or made available in any manner whatsoever.

(c) "Agricultural purpose" means a purpose related to the production, harvest, exhibition, marketing, transportation, processing, or manufacture of agricultural products by a natural person who cultivates, plants, propagates, or nurtures 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.

(d) "Billing cycle" means the time interval for which a creditor bills a customer.

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

(f) "Cash price" means the price at which the creditor would, in the ordinary course of business, 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, but shall not include any charges of the types described in § 226.4.

(g) "Comparative Index of Credit Cost" means that relative measure of the cost of credit under an open end credit account, computed in accordance with § 226.12, which is the expression of "average effective annual percentage rate of return" and "projected rate of return" which appear in section 127(a)(5) of the Act.

(h) "Consumer credit" or "consumer loan" 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 and for which either a finance charge is or may be imposed or which is payable in more than four installments.

(i) "Credit" means the right granted by a creditor to a customer to defer payment of debt or to incur debt and defer its payment or to purchase goods or services and defer payment therefor. (See also paragraph (w) of this section.).

(j) "Creditor" means a person who in the ordinary course of business extends or arranges for the extension of consumer credit, or offers to extend or arrange for the extension of such credit, whether in connection with loans, sales of property or services, or otherwise.

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

(l) "Customer" means a natural person to whom consumer credit is or will be extended.

(m) "Dwelling" means a residential-type structure containing one but not more than four family housing units, whether or not the customer resides or expects to reside in the structure.

(n) "Open end credit" means consumer credit extended on an account pursuant to an agreement between a creditor and a customer 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 agreement may provide; (2) the credit so extended and related charges are debited to the customer's account; and (3) a finance charge may be imposed periodically by the creditor on an outstanding unpaid balance.

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

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

(q) "Periodic rate" means a percentage rate of finance charge which is or may be imposed by a creditor against an unpaid balance in an open end credit account for a period or billing cycle.

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

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

(t) "Residence" means a dwelling in which the customer resides or expects to reside.

(u) "Security interest" and "security" mean 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 and deeds of trust, mechanic's, materialmen's, artisan's, and other similar liens, vendor's liens in both real and personal property, the interest of the seller in a contract for the sale of real property, and any interest in a lease when used to secure payment or performance of an obligation.

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

(w) In the succeeding sections of this part, unless the context indicates otherwise, the term "credit" shall be construed to mean "consumer credit," the term "loan" to mean "consumer loan," and the term "transaction" to mean "consumer credit transaction."

(x) A transaction shall be considered consummated at the time a bilateral contractual relationship is created between a creditor and a customer irrespective of the time of performance of either party.

(y) 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.

§ 226.3 Exempted transactions.

This part does not apply to:

(a) *Business or governmental credit.* Credit transactions involving extensions of credit for business or commercial purposes,[1] or to governments or governmental agencies or instrumentalities, or to organizations.

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

(c) *Nonreal property credit over $25,000.* Credit transactions, other than real property transactions, in which the amount financed[2] exceeds $25,000, or in which the transaction is pursuant to an express commitment by the creditor to extend credit in excess of $25,000. For this purpose, a real property transaction is an extension of credit in connection with which a security interest in real property is or will be retained or acquired.

(d) *Certain public utility bills.* Transactions of a public utility under public utility tariffs involving services for which charges are imposed for delayed payment, or discounts are allowed for early payment, if such public utility establishes to the Board's satisfaction, by certification of a State regulatory body, that its charges for public utility services and its related delayed payment charges or early payment discounts are regulated by that body.

§ 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 a condition of the extension of credit, including any of the following types of charges, whether paid or payable by the customer, the seller, or any person on behalf of the customer to the creditor or to a third party with the knowledge or consent of the creditor:

(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.[3]

(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 with[4] any credit transaction unless—

(i) The coverage of the customer 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 customer applying for or obtaining the extension of credit; and

(ii) In order to obtain the insurance in connection with the extension of credit, the customer is required to give specific affirmative written indication of his desire to do so after written disclosure to him of the cost thereof.

(6) Charges or premiums for insurance, written in connection with[5] any

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[1] See § 226.2(h).

[2] For this purpose, the amount financed is the amount which is required to be disclosed under § 226.8 (b)(7), or (c)(5), as applicable, or would be so required if the transaction were subject to this part.

[3] These charges include any additional charge for the handling of checks, sales slips, for making account entries, for account maintenance or otherwise, imposed in connection with an account only during the time any balance therein represents an extension of credit.

[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 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.

credit transaction, against loss of or damage to property or against liability arising out of the ownership or use of property, unless a clear 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, if applicable, and stating that the customer may choose the agent or other person through which the insurance is to be obtained.[6]

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

(8) Charges of the following types when added to the credit extended, unless itemized and disclosed:

(i) 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.

(ii) The premium payable for any insurance in lieu of perfecting any security interest otherwise required by the creditor in connection with the transaction, but the premium shall be included if it exceeds the fees and charges described in subdivision (i) of this subparagraph which would otherwise be payable.

(iii) Taxes imposed upon the customer.

(iv) License fees.

(v) Certificate of title fees.

(vi) Registration fees.

(9) Any charge imposed by a creditor upon another creditor for purchasing or accepting a written order, sales draft, or similar obligation to be debited to a customer's open end credit account, unless there is a written agreement between the two creditors providing that the customer shall not be required to pay any part of that charge through any increase in price or otherwise, and in fact the customer is not required to do so.

(b) *Excluded charges, real property transactions.* The following charges in connection with any extension of credit secured by an interest in real property, 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:

(1) Fees or premiums for title examinations, 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.

(c) *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 otherwise taken into consideration in computing the annual percentage rate.

(d) *Demand obligations.* Obligations payable on demand shall be considered to have a maturity of 6 months for the purpose of computing the amount of the finance charge and the annual percentage rate.

(e) *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 extending over the period of time the creditor will require the customer to maintain insurance coverage in connection with the transaction. For the purpose of computing the amount of insurance premiums included in the finance charge, it shall be assumed that the rates and classifications applicable at the time the credit is extended apply 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.

§ 226.5 Determination of annual percentage rate.

(a) *General rule—open end credit accounts.* The annual percentage rate or rates for open end credit accounts shall be computed to the nearest hundredth of 1 percent and shall be determined as follows:

(1) Where the finance charge is exclusively the product of the application of one or more periodic rates, by multiplying each periodic rate by the number of billing cycles in a year to determine each annual percentage rate, except that if the finance charge is the product of the application of two or more periodic rates, at the creditor's option, a single annual percentage rate may be determined by dividing the total finance charge by the sum of the balances to which applicable and multiplying the quotient (expressed as a percentage) by the number of billing cycles in a year.

(2) Where the 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,[7] and is or includes a minimum, fixed, or other charge not due to the application of a periodic rate, the annual percentage rate shall be determined by dividing the total finance charge by the amount of the balance to which applicable and multiplying the quotient (expressed as a percentage) by the number of billing cycles in a year.

(b) *General rule—other credit.* The annual percentage rate for credit other than open end credit shall be determined in accordance with the actuarial method as described in paragraph (a) of § 226.11, or by the use of charts or tables which conform to the requirements of paragraph (b) of § 226.11.

(1) *Regulation Z tables.* The Regulation Z tables produced by the Board may be used to determine the annual percentage rate in commonly encountered transactions. An annual percentage rate determined in accordance with the instructions for the use of these tables will comply with the requirements of this part. The tables are available at cost from the Board in Washington, D.C., the Federal Reserve Banks and branches, and the other agencies responsible for administrative enforcement of the Act and this part.

(2) *Computation by other method.* In any instance where circumstances require that a creditor determine an annual percentage rate by a method other than that provided in paragraph (a) of § 226.11, the creditor may use the constant ratio method of computation, as set forth in paragraph (g) of § 226.11, provided such use is not for the purpose of circumvention or evasion of the requirements of this part.

(3) *Minor irregularities.* If an obligation is payable in equal instalments at scheduled equal intervals, except for one or both of the irregularities described in subdivisions (i) and (ii) of this subparagraph, and the period from the date credit is extended to 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, in determining the annual percentage rate, the creditor may, at his option, treat the following irregularities as if they were regular in amount or time, as the case may be:

(i) The amount of one payment is unequal, but not more than 50 percent greater nor 50 percent less than the amount of a regular payment; or

(ii) The interval between the date credit is extended and the date the first payment is due is unequal, but not less than 5 days for an obligation payable in weekly instalments, not less than 10 days for an obligation payable in biweekly or semimonthly instalments, or not less than 20 days for an obligation payable in monthly instalments.

(4) *Finance charge applicable to range of balances.* Where a creditor imposes the same finance charge for all balances within a specified range and requires payments of equal amount, except for a final payment which may be for a lesser amount, and requires all payments to be made at equal intervals, the annual percentage rate shall be determined as prescribed in paragraph (b)(5) of § 226.11.

(c) *Error in a table or chart.* In the event an error occurs in disclosure of an annual percentage rate because of a cor-

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

[7] Where the finance charge is not more than 50 cents for a monthly or longer billing cycle, or the pro rata part of 50 cents for a billing cycle shorter than monthly, and is or includes a minimum, fixed, or other charge, the annual percentage rate or rates may be determined by multiplying each applicable periodic rate by the number of billing cycles in a year irrespective of such minimum, fixed, or other charge.

responding error in a table or chart acquired 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 table or chart and immediately notifies the Board or a Federal Reserve Bank in writing of the error and identifies the inaccurate table or chart by giving the name and address of the person responsible for its production and its serial number. Nothing in this paragraph shall affect the possible civil liability of any creditor under section 130 of the Act.

(d) *Rounding.* Any annual percentage rate determined in accordance with paragraph (a) or (b) of this section may, for the purpose of disclosure, be rounded to the nearest quarter of 1 percent in the case of annual percentage rates of 2 percent or more and to the nearest one-eighth of 1 percent in the case of annual percentage rates of less than 2 percent. (For example, 18.31 percent may be rounded to 18.25 percent, which also may be expressed as 18¼ percent.)

§ 226.6 General disclosure requirements.

(a) *Clear and conspicuous disclosure.* Disclosures required by §§ 226.7 and 226.8 shall be made clearly and conspicuously in the order and terminology set forth in the applicable section or in substantially similar order or in other terminology conveying substantially the same meaning, except that where the terms "annual percentage rate", "annual percentage rate of finance charge", or "Comparative Index of Credit Cost" are specified, no alternative terminology may be used.

(b) *Use of figures—size of type.* All numerical amounts and percentages shall be stated in figures. Except as provided in § 226.9(b), terminology identifying disclosures, numerical amounts, and percentages shall be printed in not less than 10-point roman boldface type numerals and capital letters, 0.079-inch computer type, elite size typewritten capital letters, or legibly handwritten in equivalent size figures and letters.

(c) *Additional information.* Additional information or explanations may be supplied with any disclosure required or in any advertisement subject to § 226.10, but none shall be stated, utilized, placed, or subsequently omitted so as to contradict, mislead, confuse, obscure, or detract attention from the information required to be disclosed by this part.

(d) *Copy to customer.* At the time disclosures are made, the creditor shall furnish the customer with a duplicate of the instrument or statement by which the disclosures required by this part are made. Such copy shall clearly identify the creditor by name and address.

(e) *Multiple creditors: joint disclosure.* If there is more than one creditor in a transaction, each creditor shall be responsible for the disclosures required by this part. If two or more creditors make a joint disclosure, each shall be clearly identified by name and address.

(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, and the creditor has made a reasonable effort to ascertain it, the creditor 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, and is not used for the purpose of circumventing or evading the disclosure requirements of this part.

(g) *Overstatement.* The disclosure of an amount or percentage which is greater than the amount 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.

(h) *Transitional period.* Prior to January 1, 1970, any creditor may utilize existing supplies of printed forms, irrespective of type size, for the purpose of complying with the disclosure requirements of this part, except that required under paragraph (b) of § 226.9, provided 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.

(i) *Percentage rate as dollars per hundred.* Prior to January 1, 1971, any rate required under this part 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 using the term "Dollars finance charge per year per $100 of unpaid balance." (For example, an add on finance charge of 4 percent on an obligation payable in 36 equal monthly instalments is equivalent to an annual percentage rate (rounded to the nearest quarter of 1 percent) of 7.50 percent which may be stated as "$7.50 finance charge per year per $100 of unpaid balance".)

§ 226.7 Open end credit accounts—specific disclosures.

(a) *Opening new account.* Before opening any open end credit account, the creditor shall disclose to the customer in a single written statement, 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 directly or indirectly, including 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, 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 billing cycles in a year.

(5) If the creditor so elects, the Comparative Index of Credit Cost in accordance with § 226.12.

(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 of the interest or interests which may be so retained or acquired.

(8) The minimum periodic payment required.

(b) *Periodic statements required.* The creditor of any open end credit account shall transmit to the customer, for each billing cycle at the end of which there is an outstanding debit balance in excess of $1 in that account or with respect to which a finance charge is imposed, a statement, or statements in accordance with paragraph (c) of this section, which the customer may retain, setting forth each of the following items to the extent applicable:

(1) The outstanding balance in the account at the beginning of the billing cycle using the term "previous balance."

(2) The amount, date, and type of each extension of credit during the billing cycle and, unless previously furnished, a brief identification[8] of any goods or services purchased, and the amount of any other charge not part of the finance charge.

(3) Each amount credited to the account during the billing cycle for payments, returns, rebates of finance charges, and adjustments, using appropriate descriptive terminology, and unless previously furnished, a brief identification[8] of each item credited.

(4) 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, such as a minimum, fixed, check service, or activity charge,[9] using appropriate descriptive terminology.

(5) Each periodic rate, using the term "periodic rate" (or "rates"), that

[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 additional charge for the handling of checks, sales slips, for making account entries, for account maintenance or otherwise, imposed in connection with an account only during the time any balance therein represents an extension of credit.

may be used to compute the finance charge (whether or not applied during the billing cycle), and the range of balances to which it is applicable.

(6) The annual percentage rate or rates determined under § 226.5(a) identified by the term "annual percentage rate (or 'rates') of finance charge," and where there is more than one rate, the part of the balance to which each is applicable.

(7) If the creditor so elects, the Comparative Index of Credit Cost in accordance with § 226.12.

(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 billing cycle, that fact and the amount of such credits shall also be disclosed.

(9) The outstanding balance in the account at the end of the billing cycle, using the term "new balance," accompanied by the statement, "pay this amount before ____________ (Date) to avoid additional finance charges," or a statement of the same meaning, if that is the case.

(c) *Location of disclosures*. The disclosures required by paragraph (b) of this section may be made on the periodic statement and its reverse side, or on the periodic statement supplemented by separate statement forms provided they are enclosed together and delivered to the customer at the same time, and further provided that—

(1) The disclosure required by paragraph (b)(1) of this section, the respective totals of the amounts required to be disclosed under paragraph (b) (2), (3), and (4) of this section and the disclosure required by paragraph (b)(9) of this section, appear in that order on the face of the periodic statement;

(2) The charges and credits required to be disclosed under paragraph (b) (2) and (3) of this section, if not itemized on the statement, are disclosed on separate slips which identify each charge and credit, and show the dates and amounts thereof;

(3) The disclosures required by paragraph (b) (4), (5), (6), and (8) of this section appear on the face of a single supplemental statement;

(4) The face of the periodic statement states the following, as applicable, in type size consistent with the requirements of § 226.6(b): "NOTICE: See reverse side for important information" or "NOTICE: See accompanying statement (statements) for important account information;" and

(5) The disclosures are not separated so as to confuse or mislead the customer or obscure or detract attention from the information required to be disclosed.

(d) *Change in terms*. If any change is to be made in terms previously disclosed to the customer, the creditor shall give the customer written disclosure of such proposed change not less than 30 days prior to the effective date of such change or 30 days prior to the beginning of the billing cycle within which such change will become effective, whichever is the earlier date.

(e) *Open end accounts existing on July 1, 1969*. In the case of any open end credit account in existence on July 1, 1969, the items described in paragraph (a) of this section, to the extent applicable, shall be disclosed in a notice mailed or delivered to the customer not later than July 31, 1969.

§ 226.8 **Credit other than open end—specific disclosures.**

(a) *General rule*. Any creditor when extending other than open end credit shall, to the extent applicable, make the disclosures required by this section. Except as provided in paragraphs (g) and (h) of this section, such disclosures shall be made before the transaction is consummated. The disclosures shall be made on either—

(1) The face of the note or other instrument evidencing the obligation; or

(2) The face of a separate statement identifying the transaction, no smaller in paper size than the note or other instrument evidencing the obligation.

(b) *Credit sales*. In the case of a credit sale, in addition to the items required to be disclosed under paragraph (d) 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 downpayment, consisting of all amounts to be credited against the cash price as downpayment using, as applicable, the term "total downpayment," and itemized as to downpayment in money using the term "cash downpayment," and downpayment in property, using the term "trade-in."

(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 charges, individually itemized, which are included in the amount financed but which are not part of the finance charge, using the term "other charges" for the total.

(5) the sum of (3) and (4) 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 the total of such items using the term "total prepaid finance charge and required deposit balance."

(7) The difference between (5) and (6) using the term "amount financed."

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

(i) The total amount of the finance charge, with description of each amount included, using the term "total finance charge,"

(ii) The sum of (1), (4), and (8)(i) using the term "time sale price," and

(iii) The sum of (5) and (8)(i) (equal to the total amount of all payments) using the term "time balance."

(c) *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 (d) of this section, the following items, as applicable, shall be disclosed:

(1) The amount of the loan or other credit extended using the term "amount of loan" or "amount of credit," as applicable.

(2) 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 the total of such items using the term "total prepaid finance charge and required deposit balance."

(3) The difference between (1) and (2) using the term, "available credit."

(4) All charges individually itemized and described which are to be included in the amount financed, but which are not part of the finance charge, using the term "other charges" for the total.

(5) The sum of (3) and (4), using the term "amount financed."

(6) 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,

(i) The total amount of the finance charge, with description of each amount included, using the term "total finance charge," and

(ii) The sum of (1), (4), and (6)(i), (equals total amount of all payments) using the term "time loan balance."

(d) *Additional disclosures in sale and nonsale credit*. In any transaction subject to this section, in addition to the items required to be disclosed under paragraphs (b) and (c) of this section, the following items, as applicable, shall be disclosed:

(1) The finance charge expressed as an annual percentage rate, using the term "annual percentage rate of finance charge," 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 consumer credit into two or more transactions to avoid the disclosure of an annual percentage rate.

(2) The number, amount, and due dates or periods of payments scheduled to repay the indebtedness. If a final payment is more than one and one-half times the amount of regularly scheduled equal payments, the creditor shall identify the amount of the final payment by the term "balloon final payment" and shall state the conditions, if any, under which that payment may be refinanced if not paid when due.

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

(4) 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 identifi-

cation[10] of the property to which the security interest relates. If after-acquired property will be subject to the security interest, this fact shall be stated. If other or future indebtedness is or may be secured by any such property, this fact shall be clearly set forth.

(5) A description of any penalty charge for prepayment of the principal of the obligation that may be imposed by the creditor or his assignee with an explanation of the manner in which such penalty may be computed, and conditions under which it may be imposed.

(6) If the obligation includes a finance charge, identification of the method of computing the unearned portion of the finance charge and a statement of the amount of any fixed or other charge that may be deducted from the amount of any rebate that will be credited to the obligation or refunded to the customer in the event of prepayment.

(e) *Finance charge payable separately or withheld; required deposit balances.* In determining the amount financed, to the extent any finance charge is payable separately, in cash or otherwise, to the creditor or, with the creditor's knowledge, to another person, or is withheld by the creditor from the proceeds of the credit extended,[11] and to the extent any deposit balance other than an escrow account under § 226.4(b) is required[12] as a condition of the extension of credit, an equivalent amount shall—

(1) In a credit sale, be deducted as provided in paragraph (b)(6) of this section;

(2) In other extensions of credit, be deducted as provided in paragraph (c)(2) of this section.

(f) *First lien to finance construction of dwelling.* In any case where a security interest is to be retained or acquired by a creditor in connection with the financing of the initial construction of a dwelling, or in connection with a previously committed 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, telephone, or other communication.* If a creditor receives a purchase order or a request for an extension of credit by mail, telephone, or written communication without personal solicitation, and (1) in the case of credit sales, the cash price, the downpayment, the finance charge, the time sale price, the annual percentage rate, and the number, frequency, and amount of payments are set forth in the creditor's current 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 time loan balance, the number, frequency, and amount of payments, and the annual percentage rate for each representative amount or range of credit are set forth in the creditor's printed material distributed to the public, in the contract of loan, or in other printed material delivered to the customer, then the disclosures required under this section may be made any time not later than the date the first payment is due.

(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, and (1) the customer has approved in writing both the annual percentage rate or rates and the method of 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, 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. For the purposes of this paragraph, 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 loans made pursuant to a written agreement under which a creditor is committed to extend a specified amount of credit to a customer, 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 transaction, and the disclosures required under this section need be made only at the time of consummation of the agreement.

(j) *Refinancing, consolidating, or increasing.* Any extension of credit with respect to refinancing, consolidating, or increasing an existing obligation shall be considered a new transaction subject to the disclosure requirements of this part. For purposes of such disclosure, if any unearned portion of the finance charge is not credited to the existing obligation, it shall be added to the new finance charge and shall not be included in the new amount financed.

(k) *Deferrals or extensions.* If the creditor defers or extends payment under an existing obligation and imposes a finance charge for the period of deferral or extension, the creditor shall disclose to the customer at the time of the deferral or extension—

(1) The amount deferred or extended;

(2) The date to which payment is deferred or extended; and

(3) The amount of the finance charge for the deferral or extension.

(l) *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 section.

(m) *Permissible periodic statements.* If a creditor transmits a periodic billing statement other than a delinquency notice, payment coupon book, or payment passbook, in connection with an extension of credit made on or after July 1, 1969, it shall be in a form which the customer may retain and shall be subject to the following requirements:

(1) Such statement shall set forth 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".

(ii) The amount, date, and type of each extension of credit during the billing cycle and, unless previously furnished, a brief identification[13] of any goods or services purchased, and the amount of any other charge not part of the finance charge.

(iii) Each amount credited to the account during the billing cycle for payments, returns, rebates of finance charges, and adjustments, using appropriate descriptive terminology and, unless previously furnished, a brief identification[14] of each.

(iv) The amount of any finance charge, using the term "finance charge," added to the account during the billing cycle, itemized and identified to show the amount of the balance on which imposed.

(v) The annual percentage rate of the finance charge as of the close of the billing cycle, using the term "annual percentage rate of finance charge."

(vi) The outstanding balance in the account at the end of the billing cycle, using the term "new balance," accompanied by the statement, "pay this amount before ____________ (Date) to avoid additional finance charges," or a statement of the same meaning, if that is the case.

(2) Such statement need contain only the following, to the extent applicable, if it relates only to a single transaction, all required disclosures have been made, and nothing has occurred since the consummation of the transaction to change the terms originally disclosed:

(i) The annual percentage rate of the total finance charge using the term "annual percentage rate of finance charge."

(ii) 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) If disclosures are made pursuant to subparagraph (1) of this paragraph, they may be made on the periodic billing statement and its reverse side, or on the

[10] An identification of the property sufficient to satisfy the requirements of the then current Uniform Commercial Code promulgated by the National Conference of Commissioners on Uniform State Laws will satisfy this requirement.

[11] Finance charges deducted as provided by this paragraph shall, nevertheless, be included in determining the finance charge under § 226.4.

[12] A deposit balance which was in existence more than 15 days prior to the extension of credit is not considered a required deposit balance for the purpose of this paragraph, except to the extent the creditor requires the customer to increase that balance.

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

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

periodic billing statement supplemented by separate forms provided they are enclosed together and delivered to the customer at the same time, and further provided that—

(i) The disclosure required by subparagraph (1)(i), the respective totals of the amounts required to be disclosed under subparagraphs (1) (ii), (iii), and (iv) and the disclosure required by subparagraph (1)(vi), appear in that order on the face of the periodic billing statement;

(ii) The disclosures required by subparagraph (1) (iv) and (v) appear on the face of single supplemental statement;

(iii) The face of the periodic statement states the following, as applicable, in type size consistent with the requirements of § 226.6(b); "NOTICE: See reverse side for important information" or "NOTICE: See accompanying statement (statements) for important account information"; and

(iv) The disclosures are not separated so as to confuse or mislead the customer or obscure or detract attention from the information required to be disclosed.

(n) *Charge for delaying payment.* Except as provided under § 226.3(d), the amount of any discount allowed for payment of an obligation on or before a specified date, or charge for delaying payment after a specified date, shall be disclosed on the billing statement as a finance charge imposed on the least amount payable in satisfaction of the obligation (amount financed) for the period of time between the specified date and the due date of the obligation, or in the absence of a designated due date, the date the billing cycle ends. Except as provided in paragraph (d)(1) of this section, each such billing statement shall, in addition to stating the amount of that "finance charge," using that term, state the "annual percentage rate of finance charge," using that term, as a percentage accurate to the nearest hundredth of 1 percent, determined by (1) dividing the amount of the finance charge by the amount financed; (2) dividing the quotient so obtained by the number of days between the specified date and the due date of the obligation, or in the absence of a designated due date, the date the billing cycle ends; and (3) multiplying the quotient so obtained by 360. (For example, a $1,000 purchase of grain, subject to terms of 2 percent/10 days, net 30 days, results in a "finance charge" of $20 and an amount financed of $980 for a period of 20 days. The "annual percentage rate of finance charge" is 36.73 percent which may be rounded to 36.75 percent or 36¾ percent.

§ 226.9 Right to rescind certain transactions.

(a) *General rule.* Except in the creation or retention of a first lien or equivalent security interest against a residence to finance the acquisition of that residence, 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 residence of the customer, the customer shall have the right to rescind that transaction until midnight of the third business day [15] following the consummation of that transaction or the 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. Where mail is used, notification shall be considered given at the time of mailing; when telegram is used, notification shall be considered given at the time of filing; and notification by other writing shall be considered given at the time delivered to the creditor's designated place of business.

(b) *Disclosure; opportunity to rescind.* In addition to all other disclosures required by this part, the creditor shall clearly and conspicuously disclose to the customer the customer's right of rescission by the following notice which shall be furnished in duplicate to the customer and printed in type which is not less than 12-point roman boldface capital letters and numerals on the face of the disclosure statement, the document creating the obligation, or on any other document which also identifies the transaction to which it relates:

NOTICE TO CUSTOMER:

YOU HAVE A LEGAL RIGHT TO CANCEL THIS TRANSACTION FOR ANY REASON WITHOUT ANY PENALTY OR OBLIGATION AND VOID ANY LIEN, MORTGAGE, OR OTHER SECURITY INTEREST TO WHICH YOUR HOME IS SUBJECTED BY REASON OF THIS TRANSACTION, AND RECEIVE A REFUND OF ANY DOWNPAYMENT OR OTHER CONSIDERATION BY NOTIFYING:

________________ AT ____________
(Name of creditor) (Address of creditor's
________________ OF SUCH CANCELLATION
place of business)
BY MAIL OR TELEGRAM SENT NOT LATER THAN MIDNIGHT OF ____________ OR BY
(Date)
ANY OTHER FORM OF WRITTEN NOTICE IDENTIFYING THE TRANSACTION DELIVERED TO THAT ADDRESS NOT LATER THAN THAT TIME. IF YOU DECIDE TO CANCEL, YOU MAY USE THIS NOTICE FOR THAT PURPOSE BY DATING AND SIGNING BELOW. FOR YOUR PROTECTION, THE USE OF REGISTERED OR CERTIFIED MAIL WITH RETURN RECEIPT REQUESTED IS SUGGESTED.

I HEREBY CANCEL THIS TRANSACTION.

____
(Customer's signature)

____
(Date)

(c) *Delay of performance.* The creditor shall not disburse any money other than in escrow, make any deliveries, make any physical changes in the property of the customer, or perform any work or service for the customer until he has reasonably satisfied himself that the customer has not exercised his right of rescission.

(d) *Nature of security interest.* For the purposes of this section any lien upon a residence in favor of a creditor, vendor, contractor, subcontractor, supplier of material or services, or any of their employees, that may result as a consequence of agreement of the parties, delivery of material, work performed, or services rendered pursuant to a transaction shall be regarded as a security interest retained or acquired in real property.

(e) *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.

(f) *Waiver of right of rescission.* If (1) the customer has determined that an extension of credit must be obtained, (2) the creditor will not or cannot grant the extension of credit without retaining or acquiring a security interest in the residence of the customer, and (3) a delay of 3 business days in performance of the creditor's obligation under the transaction will jeopardize the peace of mind, welfare, health, or safety of natural persons or endanger property which the customer owns or for which he is responsible, the customer may modify or waive the right of rescission to which he is entitled under this section by furnishing the creditor a separate dated and signed personal statement describing the situation requiring immediate remedy, and modifying or waiving his right of rescission.

(g) *First lien to construct residence.* In any case where a security interest is to be 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 previously committed loan 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, such security interest shall be considered a first lien against that residence to finance the acquisition of that residence.

§ 226.10 Advertising credit terms.

(a) *General rule.* No advertisement to aid, promote, or assist directly or in-

[15] For the purposes of this section, a business day is any calendar day except Sunday, New Year's Day, Washington's Birthday, Memorial Day, Independence Day, Labor Day, Veterans' Day, Thanksgiving, and Christmas.

directly any extension of credit may state—

(1) That a specific periodic 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 will be accepted in connection with any extension of credit, unless the creditor usually and customarily arranges downpayments in that amount; or

(3) Any credit terms less conspicuously or with less emphasis than any other credit terms. For this purpose, cash price is not a credit term.

(b) *Catalogs.* If a catalog or other multiple-page advertisement sets forth the disclosures required by this section in a credit terms table, such catalog or multiple-page advertisement shall be considered a single advertisement provided:

(1) The table and the disclosures made therein are set forth clearly and conspicuously, and

(2) Any statement of credit terms appearing in any place other than in the credit terms table clearly and conspicuously refers to the page or pages on which that table appears, unless that statement discloses all of the credit terms required to be stated under this section.

(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 no downpayment, a specified downpayment, or a specified periodic payment is required unless it also clearly and conspicuously sets forth all the following items in terminology consistent with the requirements of § 226.7:

(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 may be imposed.

(3) The method of determining the amount of the finance charge, including the determination of any minimum, fixed, check service, activity, or similar charge, 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 billing cycles in a year.

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

(d) *Advertising credit other than open end.* No advertisement to aid, promote, or assist directly or indirectly any credit sales 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 a finance charge unless it also states the rate of that charge expressed as an "annual percentage rate," using that term;

(2) The amount of the downpayment or that no downpayment is required, the amount of any installment payment, the dollar amount of any finance charge, or the number of installments or the period of repayment, unless it states all of the following items in terminology consistent with the requirements of § 226.8:

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

(ii) The amount of the downpayment or that no downpayment is required.

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

(iv) The rate of the finance charge expressed as an annual percentage rate.

(v) Except in the case of the sale of a dwelling or a purchase money loan secured by a first lien on a dwelling, the time sale price or time loan balance, as appropriate.

§ 226.11 Calculation of annual percentage rate.

(a) *General rule.* The annual percentage rate applicable to any extension of credit, other than open end credit, shall be determined as that nominal annual percentage rate which will yield a sum equal to the amount of the finance charge when it is applied periodically 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 which exceeds the amount of the finance charge is applied first to the accumulated finance charge and the balance is applied to the unpaid amount financed. If the payment is not sufficient to pay the finance charge for the period, or if there is no payment, the amount by which the finance charge for the period exceeds the payment becomes a part of the accumulated finance charge.

(b) *Charts and tables.* A creditor may use a chart or table for the purpose of determining the annual percentage rate provided:

(1) It is prepared by the appropriate adaptation of the formula in paragraph (e) or (f) of this section, as applicable;

(2) It bears the name and address of the person responsible for its production and a serial number which shall be the same for each chart or table so produced with like numerical content and configuration;

(3) All dollar amounts and percentage figures are accurate to the nearest two decimal places; and

(4) It permits, except as provided in subparagraph (5) of this paragraph, determination of the annual percentage rate to the nearest one-eighth of 1 percent up to and including 2 percent and the nearest one-quarter of 1 percent above 2 percent where the range of rates covered by the chart or table includes such rates.

(5) In addition to the requirements of subparagraphs (1), (2), and (3) of this paragraph, it is prepared to show the annual percentage rate on the median balance within each range where a creditor imposes the same finance charge for all balances within a specified range and requires payments at equal intervals and in equal amounts, except for a final payment which may be for a lesser amount, subject to the following requirements:

(i) If the annual percentage rate determined on the median balance understates the annual percentage rate determined on the lowest balance in that range by more than 8 percent of the rate on the lowest balance, then the annual percentage rate for that range shall be computed upon any balance lower than the median balance within that range so that any understatement will not exceed 8 percent of the rate on the lowest balance, and

(ii) The annual percentage rates to be used in making the determination required under (i) of this subparagraph shall be computed in accordance with paragraph (e)(1)(i) of this section, where all payments are equal and in accordance with paragraph (e)(1)(ii) of this section where the final payment is less than another payment.

(c) *Time factors.* For the purposes of utilizing the formulas set forth in paragraphs (e), (f), and (g) of this section, the common interval to be used in computations is a month, semimonth, week, or day, whichever is the largest, and is evenly divisible into the smallest interval between advances or between payments. For this purpose, each calendar month shall be considered an equal period of time. The following shall be applicable in the determination of the common interval:

(1) The term of the transaction commences on the date of its consummation, except that if the finance charge does not begin to accrue until a later date, the creditor may, at his option, consider the term of the transaction as beginning on the date the finance charge begins to accrue.

(2) The intervals between date of consummation and date of first advance thereafter or date of first payment thereafter are intervals for the purposes of this paragraph.

(3) If variations from monthly intervals are less than 11 days, from semimonthly intervals are less than 6 days, and from weekly intervals are less than 3 days, such intervals may be considered as whole intervals: *Provided,* That if

such variations occur in more than 20 percent of the number of intervals in a transaction, then the common interval shall be the next lowest of a semimonth, week, or day, so as to reduce the frequency of variations within the 20 percent maximum limitation.

(d) *Symbols.* Except where otherwise provided in this section, the following definitions of symbols apply:

U_j=The amount of credit advanced directly or indirectly at the end of the jth interval.

q_j=The number of intervals from the date of consummation to the jth advance.

m=The number of advances made by the creditor.

P_j=The amount of the payment made at the end of the jth interval.

v_j=The number of intervals from the date of consummation to the jth payment.

n=The number of payments.

k=The number of intervals in a year.

i=Rate of finance charge per interval.

R=Annual percentage rate expressed as a decimal number which shall be converted into a percentage rate by moving the decimal point two places to the right.

(e) *Installment transactions.* The following relationship among the terms of a credit transaction applies to all transactions except those involving a single advance by the creditor and a single payment by the customer:

$$\frac{U_1}{(1+i)^{q_1}}+\frac{U_2}{(1+i)^{q_2}}+\cdots+\frac{U_m}{(1+i)^{q_m}}=\frac{P_1}{(1+i)^{v_1}}+\frac{P_2}{(1+i)^{v_2}}+\cdots+\frac{P_n}{(1+i)^{v_n}}$$

R is determined as follows:

If intervals are months, $R=12i$.
If intervals are semi-months, $R=24i$.
If intervals are weeks, $R=52i$.
If intervals are days, $R=365i$.

(1) *Transactions involving a single advance by creditor.* (i) Payments at equal intervals, even amounts:

Assume creditor advances $1,000, and customer is to make 24 equal monthly payments of $47.50 starting 1 month from date of consummation.

Intervals are months.

U_1=$1,000	$q_1=0$
P_1=$47.50	$v_1=1$
P_2=$47.50	$v_2=2$
. . .	. . .
P_{24}=$47.50	$v_{24}=24$

The equation is adapted as follows:

$$1{,}000=\frac{47.50}{(1+i)^1}+\frac{47.50}{(1+i)^2}+\cdots+\frac{47.50}{(1+i)^{24}}$$

$i=0.01076$.
$R=12i=12\times0.01076=0.1291$ or 12.91%.

(ii) Payments at equal intervals, uneven amounts:

Assume creditor advances $1,000, and customer is to make three payments of $200 each at the end of the third, sixth, and ninth months and a $600 payment at the end of 1 year from the date of consummation.

Intervals are months.

U_1=$1,000	$q_1=0$
P_1=$200	$v_1=3$
P_2=$200	$v_2=6$
P_3=$200	$v_3=9$
P_4=$600	$v_4=12$

The equation is adapted as follows:

$$1{,}000=\frac{200}{(1+i)^3}+\frac{200}{(1+i)^6}+\frac{200}{(1+i)^9}+\frac{600}{(1+i)^{12}}$$

$i=0.02075$.
$R=12i=12\times0.02075=0.2491$ or 24.91%.

(iii) Payments at unequal intervals, even amounts:

Assume creditor advances $1,000, customer is to make four payments of $290 each at the end of second, sixth, eighth, and 12th months after consummation.

Intervals are months.

U_1=$1,000	$q_1=0$
P_1=$290	$v_1=2$
P_2=$290	$v_2=6$
P_3=$290	$v_3=8$
P_4=$290	$v_4=12$

The equation is adapted as follows:

$$1{,}000=\frac{290}{(1+i)^2}+\frac{290}{(1+i)^6}+\frac{290}{(1+i)^8}+\frac{290}{(1+i)^{12}}$$

$i=0.021873$.
$R=12i=12\times0.021873=0.26247$ or 26.25%.

(iv) Payments at unequal intervals, unequal amounts:

Assume creditor advances $1,000, and customer is to make payments as follows: $200 at end of second month, $300 at end of fifth month, $350 at end of eighth month, and $300 at end of 12th month.

Intervals are months.

U_1=$1,000	$q_1=0$
P_1=$200	$v_1=2$
P_2=$300	$v_2=5$
P_3=$350	$v_3=8$
P_4=$300	$v_4=12$

The equation is adapted as follows:

$$1{,}000=\frac{200}{(1+i)^2}+\frac{300}{(1+i)^5}+\frac{350}{(1+i)^8}+\frac{300}{(1+i)^{12}}$$

$i=0.019886$.
$R=12i=12\times0.019886=0.23864$ or 23.86%.

(v) Payment intervals greater than 1 year:

Assume creditor advances $1,000, and customer is to make two payments of $550 each at the end of the 18th and 36th months from the date of consummation.

Intervals are months.

U_1=$1,000	$q_1=0$
P_1=$550	$v_1=18$
P_2=$550	$v_2=36$

The equation is adapted as follows:

$$1{,}000=\frac{550}{(1+i)^{18}}+\frac{550}{(1+i)^{36}}$$

$i=0.003555$.
$R=12i=12\times0.003555=0.04266$ or 4.27%.

(2) *Transaction involving multiple advances by creditors.*

Assume a college loan in which a creditor plans to make eight advances to the borrower: $1,800 each September 1 for 4 years and $1,000 each January 1 for 4 years. The borrower is to make 50 regular equal monthly payments of $240 beginning July 1 prior to the first advance in September.

Intervals are all months.

U_1=$1,800	$q_1=2$
U_2=$1,000	$q_2=6$
U_3=$1,800	$q_3=14$
U_4=$1,000	$q_4=18$
U_5=$1,800	$q_5=26$
U_6=$1,000	$q_6=30$
U_7=$1,800	$q_7=38$
U_8=$1,000	$q_8=42$
P_1=$240	$v_1=0$
P_2=$240	$v_2=1$
P_3=$240	$v_3=2$
. . .	. . .
P_{50}=$240	$v_{50}=49$

The equation is applied as follows:

$$\frac{1{,}800}{(1+i)^2}+\frac{1{,}000}{(1+i)^6}+\frac{1{,}800}{(1+i)^{14}}+\frac{1{,}000}{(1+i)^{18}}+\frac{1{,}800}{(1+i)^{26}}+\frac{1{,}000}{(1+i)^{30}}+\frac{1{,}800}{(1+i)^{38}}+\frac{1{,}000}{(1+i)^{42}}=240+\frac{240}{(1+i)^1}+\frac{240}{(1+i)^2}+\cdots+\frac{240}{(1+i)^{49}}$$

$i=0.02522$.
$R=12i=12\times0.02522=0.30265$ or 30.27%.

(3) *Transactions involving required deposit balances.* (i) Required constant deposit balance:

Assume creditor advances $1,000 and requires that the customer maintain a deposit balance of $200 during the 12-month loan. The customer is to make 12 equal monthly payments of $90 starting 1 month from date of consummation. The deposit balance will be released to the customer upon final payment of the advance.

Intervals are all months.

U_1=$800	$q_1=0$
U_2=$200	$q_2=12$
P_1=$90	$v_1=1$
P_2=$90	$v_2=2$
. . .	. . .
P_{12}=$90	$v_{12}=12$

The equation is applied as follows:

$$800+\frac{200}{(1+i)^{12}}=\frac{90}{(1+i)^1}+\frac{90}{(1+i)^2}+\cdots+\frac{90}{(1+i)^{12}}$$

$i=0.018524$.
$R=12i=12\times0.018524=0.22230$ or 22.23%.

(ii) Required varible deposit balance:

Assume creditor advances $5,000 and requires a $1,000 deposit balance which is to be released in amounts of $500 per quarter beginning at the end of the first quarter immediately following consummation. Customer is to make 6 equal monthly payments of $900 beginning 1 month following consummation.

Intervals are all months.

U_1=$4,000	$q_1=0$
U_2=$500	$q_2=3$
U_3=$500	$q_3=6$
P_1=$900	$v_1=1$
P_2=$900	$v_2=2$
. . .	. . .
P_{12}=$900	$v_{12}=12$

The equation is applied as follows:

$$4{,}000+\frac{500}{(1+i)^3}+\frac{500}{(1+i)^6}=\frac{900}{(1+i)^1}+\frac{900}{(1+i)^2}+\cdots+\frac{900}{(1+i)^6}$$

$i = 0.029932$.
$R = 12i = 12 \times 0.029932 = 0.35919$ or 35.92%.

(iii) Transaction where customer is required to make periodic deposits into a restricted savings account:

Assume creditor advances $1,000, and customer is to make 12 equal monthly payments of $110, $90 of which is to be applied to repayment of the advance and the finance charge and $20 of which is to be deposited into a savings account. The savings account will be released to the customer upon final payment of the advance.

Intervals are months.

$U_1 = \$1,000 \quad q_1 = 0$
$U_2 = \$240 \quad q_2 = 12$
$P_1 = \$110 \quad v_1 = 1$
$P_2 = \$110 \quad v_2 = 2$
$\cdots \quad \cdots$
$P_{12} = \$110 \quad v_{12} = 12$

The equation is applied as follows:

$$1{,}000 + \frac{240}{(1+i)^{12}} = \frac{110}{(1+i)^1} + \frac{110}{(1+i)^2} + \cdots + \frac{110}{(1+i)^{12}}$$

$i = 0.014822$.
$R = 12i = 12 \times 0.014822 = 0.17787$ or 17.79%.

(f) *Single advance and single payment transactions*. The following relationship among the terms of a credit transaction applies to those transactions involving a single advance by the creditor and a single payment by the customer:

$$R = \left(\frac{k}{v_1}\right)\left(\frac{P-U}{U}\right)$$

(1) Transactions with maturities of 12 months or less:

Assume creditor advances $1,000, and customer agrees to make a single payment of $1,100, 8 months from the date of consummation.

Intervals are months.

$U_1 = \$1,000 \quad q_1 = 0$
$P_1 = \$1,100 \quad v_1 = 8$

The equation is applied as follows:

$$R = \left(\frac{12}{8}\right)\left(\frac{1{,}100 - 1{,}000}{1{,}000}\right)$$

$R = 0.1500$ or 15.00%.

(2) Transactions with maturities of more than 12 months:

Assume creditor advances $1,000, and customer is to make one payment of $1,212.42, 17 months from date of consummation.

Intervals are months.

$U_1 = \$1,000 \quad q_1 = 0$
$P_1 = \$1,212.42 \quad v_1 = 17$

The equation is applied as follows:

$$R = \left(\frac{12}{17}\right)\left(\frac{1{,}212.42 - 1{,}000}{1{,}000}\right)$$

$R = 0.1500$ or 15.00%.

(g) *Approximation of annual percentage rate*. Creditors who qualify under the provisions of paragraph (b)(2) of § 226.5 may approximate the annual percentage rate by using the constant ratio method.

(1) The following is the relationship among the terms of a credit transaction involving a single advance under the constant ratio method:

$$R' = \frac{\left(\frac{D}{U}\right)k}{T_P}$$

(2) The following is the relationship among the terms of a credit transaction involving multiple advances under the constant ratio method:

$$R' = \frac{\left(\frac{D}{U}\right)k}{T_P - T_U}$$

(3) For the purposes of this paragraph, the symbols set forth in paragraph (d) of this section shall apply, as applicable, as shall the following symbols:

R' = The approximate annual percentage rate expressed as a decimal number which shall be converted into a percentage rate by moving the decimal point two places to the right.
D = Finance charge in dollars.
T_P = The number of intervals from the date of consummation to the central point of the payments.

$$= \frac{P_1 v_1 + P_2 v_2 + \ldots + P_n v_n}{P_1 + P_2 + \ldots + P_n}$$

T_U = The number of intervals from the date of consummation to the central point of the advances.

$$= \frac{U_1 q_1 + U_2 q_2 + \ldots + U_m q_m}{U_1 + U_2 + \ldots + U_m}$$

(4) Transactions involving a single advance by creditor:

(i) Payments at equal intervals, even amounts:

The amount U is financed by 24 monthly payments of P each starting 1 month from date of consummation. The finance charge is D. T_P in the case of payments at equal intervals of even amounts, whether beginning one or more intervals after date of consummation, is determined by taking the average of the times to first and last payment. That is, $\frac{1+24}{2} = 12\frac{1}{2}$ months in this example so that $R' = \frac{\left(\frac{D}{U}\right)12}{12\frac{1}{2}}$. If D were $140 and U were $1,000, the result would be 0.1344 or 13.44%. The annual percentage rate determined by the actuarial method is 12.91%. The constant ratio method always overstates the annual percentage rate determined by the actuarial method in the case of single payments and payments at equal intervals of even amounts, the extent of overstatement being greater with higher rates of finance charge and longer terms of payment.

(ii) Single payment:

Assume creditor advances $1,000 (amount financed), and customer is to make one payment of $1,052.64, 8 months from date of consummation. The formula is applied as follows:

$$R' = \frac{\left(\frac{52.64}{1{,}000}\right)12}{8} = 0.07896 \text{ or } 7.90\%.$$

(iii) Payments irregular in amounts and/or intervals:

Assume creditor advances $1,000 (amount financed), and customer is to repay $1,120 in accordance with the schedule below. The weighted average time (T_P) in months is determined by computing column (3) and dividing its total by the total payments.

(1) Payment P_j	(2) Months until payment v_j	(3) (1) x (2) $P_j v_j$
$50	1	50
60	3	180
60	4	240
100	5	500
100	7	700
300	8	2400
300	10	3000
150	11	1650
1120		8720

Weighted average time (T_P) is

$$\frac{8720}{1120} = 7.79 \text{ months.}$$

$$R' = \frac{\left(\frac{120}{1{,}000}\right)12}{7.79} = 0.18485 \text{ or } 18.49\%.$$

(5) Transactions involving multiple advances by creditor:

Assume transaction is consummated on April 15 under the terms of which creditor makes equal advances of $900 on April 15, July 15, and November 15, and customer is to make 24 regular equal monthly payments of $120 beginning May 15.

T_P measured from April 15 $= \frac{1+24}{2}$

$= 12\frac{1}{2}$ months.

T_U measured from April 15

$$= \frac{900(0) + 900(3) + 900(7)}{2{,}700} = 3.33 \text{ months.}$$

$$R' = \frac{\left(\frac{180}{2{,}700}\right)12}{12.50 - 3.33} = 0.0872 \text{ or } 8.72\%.$$

§ 226.12 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 § 226.7(b);

(3) Shall, when making such disclosure under the provisions of § 226.7 (a)(5) or (b)(7), make the disclosure to all open end credit account customers; and

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

(b) *Computation of Comparative Index of Credit Cost.* The Comparative Index of Credit Cost shall be computed by applying the terms of the creditor's open end credit account 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 shall impose 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 in each subsequent and successive billing cycle until the amount of the single transaction, together with applicable finance charges, is paid in full. The creditor shall select and disclose a common payment date, which shall be the same relative date within each billing cycle, provided that in no event shall it be prior to the 10th day of each subsequent billing cycle.

(4) The Comparative Index of Credit Cost shall be expressed and disclosed as a percentage accurate to the nearest hundredth of 1 percent 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 by 360. For this purpose, each billing cycle shall be considered to have an equal number of days.

(c) *Form of disclosure.* (1) Any disclosure of the Comparative Index of Credit Cost shall be made in the form of the following statement:

Our Comparative Index of Credit Cost under the terms of our open end credit account plan is ______ percent 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 ______ 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) Any newly computed Comparative Index of Credit Cost shall be disclosed 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)
with the words "will be" substituted for the word "is" in the second line of the statement.

§ 226.13 Exemption of certain State regulated transactions.

Pursuant to the provisions of section 123 of the Act, the Board has determined that the specified classes of transactions in the States designated in Supplement I to this part are exempt from the requirements of chapter 2 of the Act and the corresponding provisions of this part.

NOTE: Supplement I to be issued with the final regulations.

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