

Proposed Rules

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This section of the FEDERAL REGISTER contains notices to the public of the proposed issuance of rules and regulations. The purpose of these notices is to give interested persons an opportunity to participate in the rule making prior to the adoption of the final rules.

FEDERAL RESERVE SYSTEM

12 CFR Part 226

[Regulation Z; Docket No. R-0883]

Truth in Lending

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Request for comments.

SUMMARY: The Board is soliciting comment on how rules for credit advertising could be modified to increase consumer benefit and decrease creditor costs. Comment is also requested on how current rules could be modified, if at all, for radio and television advertisements without diminishing consumer protection. The Riegle Community Development and Regulatory Improvement Act of 1994 directs the Board to submit a report to the Congress regarding these issues. Under present law, creditors that state a rate in an advertisement must state the annual percentage rate (APR). Stating the APR or other terms triggers additional disclosure requirements such as annual fees imposed on a credit line or the repayment terms for an installment loan.

DATES: Comments must be received on or before August 11, 1995.

ADDRESSES: Comments should refer to Docket No. R-0883, and may be mailed to William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW., Washington, DC 20551. Comments also may be delivered to Room B-2222 of the Eccles Building between 8:45 a.m. and 5:15 p.m. weekdays, or to the guard station in the Eccles Building courtyard on 20th Street NW. (between Constitution Avenue and C Street) at any time. Comments may be inspected in Room MP-500 of the Martin Building between 9:00 a.m. and 5:00 p.m. weekdays, except as provided in 12 CFR 261.8 of the Board's rules regarding the availability of information. **FOR FURTHER INFORMATION CONTACT:** Jane E. Ahrens, Senior Attorney, or Jose M.

Gabilondo, Staff Attorney, Division of Consumer and Community Affairs, Board of Governors of the Federal Reserve System, at (202) 452-3667 or 452-2412; for the hearing impaired only, Dorothea Thompson, Telecommunications Device for the Deaf, at (202) 452-3544.

SUPPLEMENTARY INFORMATION:

I. Background

Section 336 of the Riegle Community Development and Regulatory Improvement Act of 1994, Pub. L. 103-325, 108 Stat. 2160, enacted into law on September 23, 1994, directs the Board to submit a report to the Congress on existing rules for credit advertising and how current rules could be modified in a way that increases consumer benefit and decreases, specifically for radio advertisements.

II. Current Rules for Credit Advertising

The Truth in Lending Act (15 U.S.C. 1601 et seq.) contains rules about consumer credit advertisements. The act is implemented by the Board's Regulation Z (12 CFR part 226). Regulation Z defines an advertisement as a commercial message in any medium that promotes a credit transaction, directly or indirectly. Examples of advertisements include direct mail literature, messages in newspapers or on computer screens, and telephone solicitations. Direct personal contacts, such as cost estimates for a specific transaction being negotiated, are not advertisements.

Regulation Z covers advertisements for all consumer credit transactions. Creditors advertising specific credit terms must state those actually offered to consumers. Stating certain credit terms triggers the disclosure of additional terms. The specific requirements differ somewhat for closed-end loans (typically, installment loans) and open-end plans (for example, credit card plans or home-secured credit lines).

Special rules govern multi-page advertisements. If a multi-page advertisement contains a term that triggers additional disclosures, the advertisement may clearly state the additional disclosures in a table or schedule on one page, so long as the pages where the triggering term appears refers to the page where the table or schedule is printed. The table or

schedule must represent the creditor's more commonly sold higher-price property or services.

Closed-end Credit

If creditors advertise a rate, it must be stated as the APR. A simple annual interest rate also may be stated, but not more conspicuously than the APR.

The following terms in an advertisement trigger additional disclosures: (1) The amount or percentage of a downpayment (in an advertisement for a credit sale), (2) the number of payments or period of repayment, (3) the amount of any payment, and (4) the amount of any finance charge. If an advertisement contains a trigger term, creditors must also state the following: (1) The APR, using that term (and if the rate may increase, that fact), (2) the terms of repayment, and (3) in an advertisement for a credit sale, the amount or percentage of a downpayment. Creditors need not state every loan available—creditors may advertise an example of one or more typical loans, as long as all the terms for the example are listed.

Open-end Credit

General

Disclosures are triggered for open-end plans if creditors advertise any of the terms required to be furnished in account-opening disclosures, such as how the finance charge on an open-end plan may be determined. For example, a creditor advertising "service charge on balances" describes how the finance charge will be determined and triggers the following additional disclosure requirements: (1) Any minimum or fixed charge, (2) the periodic rate used to compute the finance charge (expressed as an APR), (3) if the rate may increase, that fact, and (4) any membership fee, such as an annual fee.

Home Equity Lines of Credit

Creditors advertising home-secured credit lines have extra responsibilities. Advertisements cannot refer to home equity plans as "free money" (or similar terms) or cannot discuss the tax consequences of interest deductions in a misleading way.

Creditors trigger additional disclosures if they advertise—affirmatively or negatively—account-opening disclosures relating to finance charges and other significant charges or