

S. 5

IN THE HOUSE OF REPRESENTATIVES

JULY 12, 1967

Referred to the Committee on Banking and Currency

AN ACT

To assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extension of credit.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Truth in Lending Act".

4 **DECLARATION OF PURPOSE**

5 **SEC. 2.** The Congress finds and declares that economic
6 stabilization would be enhanced and that competition among
7 the various financial institutions and other firms engaged in
8 the extension of consumer credit would be strengthened by
9 the informed use of credit. The informed use of credit results
10 from an awareness of the costs thereof by consumers. It is

1 the purpose of this Act to assure a full disclosure of such
2 costs with a view to promoting the informed use of consumer
3 credit to the benefit of the national economy.

4 DEFINITIONS

5 SEC. 3. For the purposes of this Act—

6 (a) "Board" means the Board of Governors of the
7 Federal Reserve System.

8 (b) "Credit" means the right granted by a creditor to
9 a person other than an organization to defer payment of
10 debt or to incur debt and defer its payment, where the debt
11 is contracted by the obligor primarily for personal, family,
12 household, or agricultural purposes. The term does not in-
13 clude any contract in the form of a bailment or lease except
14 to the extent specifically included within the term "consumer
15 credit sale".

16 (c) "Consumer credit sale" means a transaction in
17 which credit is granted by a seller in connection with the sale
18 of goods or services, if such seller regularly engages in credit
19 transactions as a seller, and such goods or services are pur-
20 chased primarily for a personal, family, household, or agri-
21 cultural purpose. The term does not include any contract in
22 the form of a bailment or lease unless the obligor contracts to
23 pay as compensation for use a sum substantially equivalent to
24 or in excess of the value of the goods or services involved, and
25 unless it is agreed that the obligor is bound to become, or for

1 no other or a merely nominal consideration has the option of
2 becoming, the owner of the goods upon full compliance with
3 the provisions of the contract.

4 (d) (1) "Finance charge" means the sum of all the
5 charges imposed directly or indirectly by a creditor, and pay-
6 able directly or indirectly by an obligor, as an incident to the
7 extension of credit, including loan fees, service and carrying
8 charges, discounts, interest, time price differentials, investi-
9 gators' fees, costs of any guarantee or insurance protecting
10 the creditor against the obligor's default or other credit loss,
11 and any amount payable under a point, discount, or other
12 system of additional charges.

13 (2) If itemized and disclosed under section 4, the term
14 does not include amounts collected by a creditor, or included
15 in the credit, for (A) fees and charges prescribed by law
16 which actually are or will be paid to public officials for deter-
17 mining the existence of or for perfecting or releasing or satis-
18 fying any security related to a credit transaction; (B) taxes;
19 (C) charges or premiums for insurance against loss of or
20 damage to property related to a credit transaction or against
21 liability arising out of the ownership or use of such property;
22 and (D) charges or premiums for credit life and accident
23 and health insurance.

24 (3) Where credit is secured in whole or in part by an
25 interest in real property, the term does not include, in addi-

1 tion to the duly itemized and disclosed costs referred to in
2 clauses (A), (B), (C), and (D) of paragraph (2), the
3 costs of (i) title examination, title insurance, or correspond-
4 ing procedures; (ii) preparation of the deed, settlement
5 statement, or other documents; (iii) escrows for future pay-
6 ments of taxes and insurance; (iv) notarizing the deed and
7 other documents; (v) appraisal fees; and (vi) credit
8 reports.

9 (e) "Creditor" means any individual, or any partner-
10 ship, corporation, association, cooperative, or other entity,
11 including the United States or any agency or instrumentality
12 thereof, or any other government or political subdivision or
13 agency or instrumentality thereof, if such individual or en-
14 tity regularly engages in credit transactions, whether in
15 connection with the sale of goods and services or otherwise,
16 and extends credit for which the payment of a finance
17 charge is required.

18 (f) (1) "Annual percentage rate" means, for the pur-
19 poses of sections 4 (b) and 4 (c), the nominal annual rate
20 determined by the actuarial method (United States rule).

21 For purposes of this calculation it may be assumed that:

22 (A) The total time for repayment of the total
23 amount to be financed is the time from the date of the
24 transaction to the date of the final scheduled payment.

25 (B) All payments are equal if every scheduled pay-

1 ment in the series of payments is equal except one which
2 may not be more than double any other scheduled pay-
3 ment in the series.

4 (C) All payments are scheduled at equal intervals,
5 if all payments are so scheduled except the first payment
6 which may be scheduled to be paid before, on, or after
7 one period from the date of the transaction. A period of
8 time equal to one-half or more of a payment period may
9 be considered one full period.

10 (2) The Board may prescribe methods other than the
11 actuarial method, if the Board determines that the use of
12 such other methods will materially simplify computation
13 while retaining reasonable accuracy as compared with the
14 rate determined under the actuarial method.

15 (3) For the purposes of section 4 (d), the term "equiv-
16 alent annual percentage rate" means the rate or rates com-
17 puted by multiplying the rate or rates used to compute the
18 finance charge for any period by the number of periods in
19 a year.

20 (4) Where a creditor imposes the same finance charge
21 for all balances within a specified range, the annual percent-
22 age rate or equivalent annual percentage rate shall be com-
23 puted on the median balance within the range for the pur-
24 poses of sections 4 (b), 4 (c), and 4 (d).

25 (g) "Open-end credit plan" means a plan prescribing

1 the terms of credit transactions which may be made there-
2 under from time to time and under the terms of which a
3 finance charge may be computed on the outstanding unpaid
4 balance from time to time thereunder.

5 (h) "Installment open-end credit plan" means an open-
6 end credit plan which has one or more of the following
7 characteristics: (1) creates a security interest in, or provides
8 for a lien on, or retention of title to, any property (whether
9 real or personal, tangible or intangible), (2) provides for
10 a repayment schedule pursuant to which less than 60 per
11 centum of the unpaid balance at any time outstanding under
12 the plan is required to be paid within twelve months, or
13 (3) provides that amounts in excess of required payments
14 under the repayment schedule are applied to future pay-
15 ments in the order of their respective due dates.

16 (i) "First mortgage" means such classes of first liens as
17 are commonly given to secure advances on, or the unpaid
18 purchase price of, real estate under the laws of the State in
19 which the real estate is located.

20 (j) "Organization" means a corporation, government
21 or governmental subdivision or agency, business or other
22 trust, estate, partnership, or association.

23 DISCLOSURE OF FINANCE CHARGES

24 SEC. 4. (a) Each creditor shall furnish to each person
25 to whom credit is extended and upon whom a finance charge

1 is or may be imposed the information required by this
2 section, in accordance with regulations prescribed by the
3 Board.

4 (b) This subsection applies to consumer credit sales
5 other than sales under an open-end credit plan. For each
6 such sale the creditor shall disclose, to the extent applicable—

7 (1) the cash price of the property or service pur-
8 chased;

9 (2) the sum of any amounts credited as down-
10 payment (including any trade-in) ;

11 (3) the difference between the amounts set forth in
12 paragraphs (1) and (2) ;

13 (4) all other charges, individually itemized, which
14 are included in the amount of the credit extended but
15 which are not part of the finance charge;

16 (5) the total amount to be financed (the sum of
17 the amounts disclosed under (3) and (4) above) ;

18 (6) the amount of the finance charge (such charge,
19 or a portion of such charge, may be designated as a
20 time-price differential or as a similar term to the extent
21 applicable) ;

22 (7) the finance charge expressed as an annual
23 percentage rate, if the amount of such charge is \$10.00
24 or more;

- 1 (8) the number, amount, and due dates or periods
2 of payments scheduled to repay the indebtedness; and
3 (9) the default, delinquency, or similar charges pay-
4 able in the event of late payments.

5 Except as otherwise hereinafter provided, the disclosure re-
6 quired by this subsection shall be made before the credit is
7 extended. Compliance may be attained by disclosing such
8 information in the contract or other evidence of indebtedness
9 to be signed by the obligor. Where a seller receives a pur-
10 chase order by mail or telephone without personal solicitation
11 by a representative of the seller and the cash price and de-
12 ferred payment price and the terms of financing, including the
13 annual percentage rate, are set forth in the seller's catalog or
14 other printed material distributed to the public, the disclosure
15 shall be made on or before the date the first payment is due.

16 (c) This subsection applies to extensions of credit other
17 than consumer credit sales or transactions under an open-end
18 credit plan. Any creditor making a loan or otherwise extend-
19 ing credit under this subsection shall disclose, to the extent
20 applicable—

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

24 (2) all charges, individually itemized, which are

1 included in the amount of the credit extended but which
2 are not part of the finance charge;

3 (3) the total amount to be financed (the sum of
4 items (1) and (2) above);

5 (4) the amount of the finance charge;

6 (5) the finance charge expressed as an annual per-
7 centage rate, if the amount of such charge is \$10.00 or
8 more;

9 (6) the number, amount, and due dates or periods
10 of payments scheduled to repay the indebtedness; and

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

13 Except as otherwise hereinafter provided, the disclosure re-
14 quired by this subsection shall be made before the credit is
15 extended. Compliance may be attained by disclosing such in-
16 formation in the note or other evidence of indebtedness to be
17 signed by the obligor. Where a creditor receives a request for
18 an extension of credit by mail or telephone without personal
19 solicitation by a representative of the creditor and the terms
20 of financing, including the annual percentage rate for repre-
21 sentative amounts of credit, are set forth in the creditor's
22 printed material distributed to the public, or in the contract
23 of loan or other printed material delivered to the obligor,

1 the disclosure shall be made on or before the date the first
2 payment is due.

3 (d) (1) This subsection applies to open-end credit plans.

4 (2) Before opening any account under an open-end
5 credit plan, the creditor shall, to the extent applicable, dis-
6 close to the person to whom credit is to be extended—

7 (A) the conditions under which a finance charge
8 may be imposed, including the time period, if any,
9 within which any credit extended may be repaid with-
10 out incurring a finance charge;

11 (B) the method of determining the balance upon
12 which a finance charge will be imposed;

13 (C) the method of determining the amount of the
14 finance charge (including any minimum or fixed amount
15 imposed as a finance charge), the percentage rate per
16 period of the finance charge to be imposed if any, and,
17 in the case of an installment open-end credit plan, the
18 equivalent annual percentage rate; and

19 (D) the conditions under which any other charges
20 may be imposed, and the method by which they will be
21 determined.

22 (3) For each billing cycle at the end of which there is
23 an outstanding balance under any such account, the creditor
24 shall disclose to the extent applicable—

1 (A) the outstanding balance in the account at the
2 beginning of the billing period;

3 (B) the amount and date of each extension of credit
4 during the period and, if a purchase was involved, a
5 brief identification (unless previously furnished) of the
6 goods or services purchased;

7 (C) the total amount credited to the account during
8 the period;

9 (D) the amount of any finance charge added to the
10 account during the period, itemized to show the amount,
11 if any, due to the application of a percentage rate and
12 the amount, if any, imposed as a minimum or fixed
13 charge;

14 (E) the balance on which the finance charge was
15 computed and a statement of how the balance was de-
16 termined;

17 (F) the rate, if any, used in computing the finance
18 charge and, in the case of an installment open-end credit
19 plan, the equivalent annual percentage rate;

20 (G) the outstanding balance in the account at the
21 end of the period; and

22 (H) the date by which, or the period (if any) with-
23 in which, payment must be made to avoid additional
24 finance charges.

1 (4) If a creditor adds to this billing under an open-end
2 credit plan one or more installments of other indebtedness
3 from the same obligor, the creditor is not required to dis-
4 close under this subsection any information which has been
5 disclosed previously in compliance with subsection (b) or
6 (c).

7 (e) Written acknowledgment of receipt by a person to
8 whom a statement is required to be given pursuant to this
9 section shall be conclusive proof of the delivery thereof and,
10 unless the violation is apparent on the face of the statement,
11 of compliance with this section in any action or proceeding
12 by or against an assignee of the original creditor without
13 knowledge to the contrary by such assignee when he acquires
14 the obligation. Such acknowledgment shall not affect the
15 rights of the obligor in any action against the original
16 creditor.

17 (f) If there is more than one obligor, a creditor may
18 furnish a statement of required information to only one of
19 them. Required information need not be given in the sequence
20 or order set forth in this section. Additional information or
21 explanations may be included. So long as it conveys sub-
22 stantially the same meaning, a creditor may use language or
23 terminology in any required statement different from that
24 prescribed by this Act.

1 (g) If applicable State law requires disclosure of items
2 of information substantially similar to those required by this
3 Act, then a creditor who complies with such State law may
4 comply with this Act by disclosing only the additional items
5 of information required by this Act.

6 (h) If information disclosed in accordance with this
7 section and any regulations prescribed by the Board is sub-
8 sequently rendered inaccurate as the result of a prepayment,
9 late payment, adjustment, or amendment of the credit agree-
10 ment through mutual consent of the parties or as permitted
11 by law, or as the result of any act or occurrence subsequent
12 to the delivery of the required disclosures, the inaccuracy re-
13 sulting therefrom shall not constitute a violation of this sec-
14 tion.

15 (i) (1) Subject to paragraph (2) —

16 (A) whenever an annual percentage rate is re-
17 quired to be disclosed by this section, such rate may be
18 expressed either as a percentage rate per year, or as a
19 dollars per hundred per year rate of the average unpaid
20 balance; and

21 (B) whenever a rate other than an annual rate is
22 used to compute a finance charge and is required to be
23 disclosed under subsection (d), such rate may be ex-

1 pressed either as a percentage rate per period of the bal-
2 ance upon which the finance charge is computed, or as a
3 dollars per hundred per period rate of such balance.

4 (2) On and after January 1, 1972, all rates required
5 to be disclosed by this section shall be expressed as percent-
6 age rates.

7 REGULATIONS

8 SEC. 5. (a) The Board shall prescribe regulations to
9 carry out this Act, including provisions—

10 (1) describing the methods which may be used in
11 determining annual percentage rates under section 4,
12 including, but not limited to, the use of any rules, charts,
13 tables, or devices by creditors to convert to an annual
14 percentage rate any add-on, discount or other method of
15 computing a finance charge;

16 (2) prescribing procedures to ensure that the in-
17 formation required to be disclosed under section 4 is set
18 forth clearly and conspicuously; and

19 (3) prescribing reasonable tolerances of accuracy
20 with respect to disclosing information under section 4.

21 (b) In prescribing regulations with respect to reason-
22 able tolerances of accuracy as required by subsection

23 (a) (3), the Board shall observe the following limitations:

24 (1) The annual percentage rate may be rounded
25 to the nearest quarter of 1 per centum for credit transac-

1 tions payable in substantially equal installments when
2 a creditor determines the total finance charge on the
3 basis of a single add-on, discount, periodic, or other
4 rate, and such rates are converted into an annual
5 percentage rate under procedures prescribed by the
6 Board.

7 (2) The use of rate tables or charts may be author-
8 ized in cases where the total finance charge is determined
9 in a manner other than that specified in paragraph
10 (1). Such tables or charts may provide for the dis-
11 closure of annual percentage rates which vary up to 8
12 per centum of the rate as defined by section 3 (f). How-
13 ever, any creditor who willfully and knowingly uses
14 such tables or charts in such a manner so as to con-
15 sistently understate the annual percentage rate, as defined
16 by section 3 (f), shall be liable for criminal penalties
17 under section 7 (b) of this Act.

18 (3) In the case of creditors determining the annual
19 percentage rate in a manner other than as described
20 in paragraph (1) or (2), the Board may authorize
21 other reasonable tolerances.

22 (4) In order to simplify compliance where irreg-
23 ular payments are involved, the Board may authorize
24 tolerances greater than those specified in paragraph (2).

25 (c) Any regulation prescribed hereunder may contain

1 such classifications and differentiations and may provide for
2 such adjustments and exceptions from this Act or the regu-
3 lations thereunder for any class of transactions, as in the
4 judgment of the Board are necessary or proper to effectuate
5 the purposes of this Act or to prevent circumvention or
6 evasion of, or to facilitate compliance by creditors with,
7 this Act or any regulation issued hereunder. In prescribing
8 exceptions, the Board shall consider, among other things,
9 whether any class of transactions is subject to any Federal
10 or State law or regulation which requires disclosures sub-
11 stantially similar to those required by section 4.

12 (d) In the exercise of its powers under this Act, the
13 Board may request the views of other Federal agencies which
14 in its judgment exercise regulatory functions with respect
15 to any class of creditors, and such agencies shall furnish
16 such views upon request of the Board.

17 (e) The Board shall establish an advisory committee,
18 to advise and consult with it in the exercise of its powers
19 under this Act. In appointing such members to such com-
20 mittee the Board shall seek to achieve a fair representation
21 of the interests of sellers of merchandise on credit, lenders,
22 and the public. Such committee shall meet from time to time
23 at the call of the Board, and members thereof shall be paid
24 transportation expenses and not to exceed \$100 per diem.

EFFECT ON STATE LAWS

1
2 SEC. 6. (a) This Act shall not be construed to annul,
3 alter or affect, or to exempt any creditor from complying
4 with, the laws of any State relating to the disclosure of
5 information in connection with credit transactions, except
6 to the extent that such laws are inconsistent with the provi-
7 sions of this Act, or regulations issued thereunder, and then
8 only to the extent of the inconsistency. This Act shall not
9 otherwise be construed to annul, alter or affect in any man-
10 ner the meaning, scope or applicability of the laws of any
11 State, including, but not limited to, laws relating to the
12 types, amounts or rates of charges, or any element or ele-
13 ments of charges, permissible under such laws in connection
14 with the extension or use of credit, nor to extend the appli-
15 cability of such laws to any class of persons or transactions to
16 which such laws would not otherwise apply, nor shall the dis-
17 closure of the annual percentage rate in connection with any
18 consumer credit sale as required by this Act be evidence in
19 any action or proceeding that such sale was a loan or any
20 transaction other than a credit sale.

21 (b) The Board shall by regulation exempt from the
22 requirements of this Act any class of credit transactions which
23 it determines are subject to any State law or regulation which
24 requires disclosures substantially similar to those required

1 by section 4, and contains adequate provisions for enforce-
2 ment.

3 (c) Except as specified in section 7, nothing contained
4 in this Act or any regulations issued thereunder shall affect
5 the validity or enforcibility of any contract or obligation
6 under State or Federal law.

7 CIVIL AND CRIMINAL PENALTIES

8 SEC. 7. (a) (1) Any creditor who, in connection with
9 any credit transaction, knowingly fails in violation of this
10 Act, or any regulation issued thereunder, to disclose any
11 information to any person to whom such information is
12 required to be given shall be liable to such person in the
13 amount of \$100, or in any amount equal to twice the finance
14 charge required by such creditor in connection with such
15 transaction, whichever is the greater, except that such lia-
16 bility shall not exceed \$1,000 on any credit transaction.

17 (2) In any action brought under this subsection in which
18 it is shown that the creditor disclosed a percentage rate or
19 amount less than that required to be disclosed by section 4 or
20 regulations prescribed by the Board (after taking into ac-
21 count permissible tolerances), or failed to disclose information
22 so required, there shall be a rebuttable presumption that such
23 violation was made knowingly. Such presumption shall be
24 rebutted if the creditor shows by a preponderance of evidence
25 that the violation was not intentional and resulted from a

1 bona fide error notwithstanding the maintenance of proce-
2 dures reasonably adapted to avoid any such error: *Provided,*
3 That a creditor shall have no liability under this subsection if
4 within fifteen days after discovering the error, and prior to
5 the institution of an action hereunder or the receipt of writ-
6 ten notice of the error, the creditor notifies the person con-
7 cerned of the error and makes whatever adjustments in the
8 appropriate account as are necessary to ensure that such
9 person will not be required to pay a finance charge in excess
10 of the amount or percentage rate so disclosed.

11 (3) Any action under this subsection may be brought in
12 any court of competent jurisdiction within one year from the
13 date of the occurrence of the violation. In any such action in
14 which a person is entitled to recover a penalty as prescribed
15 in paragraph (1), the defendant shall also be liable for
16 reasonable attorneys' fees and court costs as determined by
17 the court.

18 (4) As used in this subsection, the term "court of com-
19 petent jurisdiction" means either any Federal court of com-
20 petent jurisdiction regardless of the amount in controversy,
21 or any State court of competent jurisdiction.

22 (b) Any person who knowingly and willfully gives
23 false or inaccurate information or fails to provide informa-
24 tion required to be disclosed under the provisions of this Act
25 or any regulation issued thereunder, or who otherwise know-

1 ingly and willfully violates any provision of this Act or any
2 regulation issued thereunder, shall be fined not more than
3 \$5,000 or imprisoned not more than one year, or both. The
4 responsibility for enforcing this subsection is hereby assigned
5 to the Attorney General.

6 (c) No punishment or penalty provided by this Act shall
7 apply to the United States, or any agency thereof, or to any
8 State, any political subdivision thereof, or any agency of any
9 State or political subdivision.

10 (d) No person shall be subject to punishment or penalty
11 under this Act solely as the result of the disclosure of a
12 finance charge or percentage which is greater than the
13 amount of such charge or percentage required to be disclosed
14 by such person under section 4, or regulations prescribed by
15 the Board.

16 EXCEPTIONS

17 SEC. 8. The provisions of this Act shall not apply to—

18 (1) credit transactions involving extensions of credit
19 for business or commercial purposes, or to governments
20 or governmental agencies or instrumentalities, or to orga-
21 nizations;

1

EFFECTIVE DATE

2

SEC. 10. The provisions of this Act shall take effect upon

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July 1, 1969; except that section 5 shall take effect immedi-

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ately upon enactment.

Passed the Senate July 11, 1967.

Attest:

FRANCIS R. VALEO,

Secretary.

90TH CONGRESS
1ST SESSION

S. 5

AN ACT

To assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extension of credit.

JULY 12, 1967

Referred to the Committee on Banking and Currency