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 Representatives of the United States of America in Congress assembled,
2. That this Act may be cited as the "Truth in Lending Act".
3. DECLARATION OF PURPOSE
4. Sec. 2. The Congress finds and declares that economic stabilization would be enhanced and that competition among the various financial institutions and other firms engaged in the extension of consumer credit would be strengthened by the informed use of credit. The informed use of credit results from an awareness of the costs thereof by consumers. It is
the purpose of this Act to assure a full disclosure of such
costs with a view to promoting the informed use of consumer
credit to the benefit of the national economy.

DEFINITIONS

Sec. 3. For the purposes of this Act—

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

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

(c) "Consumer credit sale" means a transaction in
which credit is granted by a seller in connection with the sale
of goods or services, if such seller regularly engages in credit
transactions as a seller, and such goods or services are pur-
chased primarily for a personal, family, household, or agri-
cultural purpose. The term does not include any contract in
the form of a bailment or lease unless the obligor contracts to
pay as compensation for use a sum substantially equivalent to
or in excess of the value of the goods or services involved, and
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-
tion to the duly itemized and disclosed costs referred to in
clauses (A), (B), (C), and (D) of paragraph (2), the
costs of (i) title examination, title insurance, or correspond-
ing procedures; (ii) preparation of the deed, settlement
statement, or other documents; (iii) escrows for future pay-
ments of taxes and insurance; (iv) notarizing the deed and
other documents; (v) appraisal fees; and (vi) credit
reports.

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

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

For purposes of this calculation it may be assumed that:

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

(B) All payments are equal if every scheduled pay-
ment in the series of payments is equal except one which
may not be more than double any other scheduled pay-
ment in the series.

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

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

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

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

(g) “Open-end credit plan” means a plan prescribing
the terms of credit transactions which may be made there-
under from time to time and under the terms of which a
finance charge may be computed on the outstanding unpaid
balance from time to time thereunder.

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

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

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

DISCLOSURE OF FINANCE CHARGES

Sec. 4. (a) Each creditor shall furnish to each person
to whom credit is extended and upon whom a finance charge
(b) This subsection applies to consumer credit sales other than sales under an open-end credit plan. For each such sale the creditor shall disclose, to the extent applicable—

(1) the cash price of the property or service purchased;

(2) the sum of any amounts credited as downpayment (including any trade-in);

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

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

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

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

(7) the finance charge expressed as an annual percentage rate, if the amount of such charge is $10.00 or more;
(8) the number, amount, and due dates or periods
of payments scheduled to repay the indebtedness; and
(9) the default, delinquency, or similar charges payable in the event of late payments.

Except as otherwise hereinafter provided, the disclosure required by this subsection shall be made before the credit is extended. Compliance may be attained by disclosing such information in the contract or other evidence of indebtedness to be signed by the obligor. Where a seller receives a purchase order by mail or telephone without personal solicitation by a representative of the seller and the cash price and deferred payment price and the terms of financing, including the annual percentage rate, are set forth in the seller's catalog or other printed material distributed to the public, the disclosure shall be made on or before the date the first payment is due.

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

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

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

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

(4) the amount of the finance charge;

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

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

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

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

S. 5—2
the disclosure shall be made on or before the date the first
payment is due.

(d) (1) This subsection applies to open-end credit plans.
(2) Before opening any account under an open-end
credit plan, the creditor shall, to the extent applicable, dis-
close to the person to whom credit is to be extended—

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

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

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

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

(3) For each billing cycle at the end of which there is
an outstanding balance under any such account, the creditor
shall disclose to the extent applicable—
(A) the outstanding balance in the account at the beginning of the billing period;

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

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

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

(E) the balance on which the finance charge was computed and a statement of how the balance was determined;

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

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

(H) the date by which, or the period (if any) within which, payment must be made to avoid additional finance charges.
(4) If a creditor adds to this billing under an open-end credit plan one or more installments of other indebtedness from the same obligor, the creditor is not required to disclose under this subsection any information which has been disclosed previously in compliance with subsection (b) or (c).

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

(f) If there is more than one obligor, a creditor may furnish a statement of required information to only one of them. Required information need not be given in the sequence or order set forth in this section. Additional information or explanations may be included. So long as it conveys substantially the same meaning, a creditor may use language or terminology in any required statement different from that prescribed by this Act.
(g) If applicable State law requires disclosure of items of information substantially similar to those required by this Act, then a creditor who complies with such State law may comply with this Act by disclosing only the additional items of information required by this Act.

(h) If information disclosed in accordance with this section and any regulations prescribed by the Board is subsequently rendered inaccurate as the result of a prepayment, late payment, adjustment, or amendment of the credit agreement through mutual consent of the parties or as permitted by law, or as the result of any act or occurrence subsequent to the delivery of the required disclosures, the inaccuracy resulting therefrom shall not constitute a violation of this section.

(i) (1) Subject to paragraph (2) —

(A) whenever an annual percentage rate is required to be disclosed by this section, such rate may be expressed either as a percentage rate per year, or as a dollars per hundred per year rate of the average unpaid balance; and

(B) whenever a rate other than an annual rate is used to compute a finance charge and is required to be disclosed under subsection (d), such rate may be ex-
pressed either as a percentage rate per period of the balance upon which the finance charge is computed, or as a dollars per hundred per period rate of such balance.

(2) On and after January 1, 1972, all rates required to be disclosed by this section shall be expressed as percentage rates.

REGULATIONS

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

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

(2) prescribing procedures to ensure that the information required to be disclosed under section 4 is set forth clearly and conspicuously; and

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

(b) In prescribing regulations with respect to reasonable tolerances of accuracy as required by subsection (a), the Board shall observe the following limitations:

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

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

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

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

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

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

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

Sec. 6. (a) This Act shall not be construed to annul, alter or affect, or to exempt any creditor from complying with, the laws of any State relating to the disclosure of information in connection with credit transactions, except to the extent that such laws are inconsistent with the provisions of this Act, or regulations issued thereunder, and then only to the extent of the inconsistency. This Act shall not otherwise be construed to annul, alter or affect in any manner the meaning, scope or applicability of the laws of any State, including, but not limited to, laws relating to the types, amounts or rates of charges, or any element or elements of charges, permissible under such laws in connection with the extension or use of credit, nor to extend the applicability of such laws to any class of persons or transactions to which such laws would not otherwise apply, nor shall the disclosure of the annual percentage rate in connection with any consumer credit sale as required by this Act be evidence in any action or proceeding that such sale was a loan or any transaction other than a credit sale.

(b) The Board shall by regulation exempt from the requirements of this Act any class of credit transactions which it determines are subject to any State law or regulation which requires disclosures substantially similar to those required
by section 4, and contains adequate provisions for enforce-
ment.

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

CIVIL AND CRIMINAL PENALTIES

SEC. 7. (a) (1) Any creditor who, in connection with
any credit transaction, knowingly fails in violation of this
Act, or any regulation issued thereunder, to disclose any
information to any person to whom such information is
required to be given shall be liable to such person in the
amount of $100, or in any amount equal to twice the finance
charge required by such creditor in connection with such
transaction, whichever is the greater, except that such lia-

ability shall not exceed $1,000 on any credit transaction.

(2) In any action brought under this subsection in which
it is shown that the creditor disclosed a percentage rate or
amount less than that required to be disclosed by section 4 or
regulations prescribed by the Board (after taking into ac-
count permissible tolerances), or failed to disclose information
so required, there shall be a rebuttable presumption that such
violation was made knowingly. Such presumption shall be

rebutted if the creditor shows by a preponderance of evidence
that the violation was not intentional and resulted from a
bona fide error notwithstanding the maintenance of procedures reasonably adapted to avoid any such error: Provided, That a creditor shall have no liability under this subsection if within fifteen days after discovering the error, and prior to the institution of an action hereunder or the receipt of written notice of the error, the creditor notifies the person concerned of the error and makes whatever adjustments in the appropriate account as are necessary to ensure that such person will not be required to pay a finance charge in excess of the amount or percentage rate so disclosed.

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

(4) As used in this subsection, the term “court of competent jurisdiction” means either any Federal court of competent jurisdiction regardless of the amount in controversy, or any State court of competent jurisdiction.

(b) Any person who knowingly and willfully gives false or inaccurate information or fails to provide information required to be disclosed under the provisions of this Act or any regulation issued thereunder, or who otherwise know-
ingly and willfully violates any provision of this Act or any regulation issued thereunder, shall be fined not more than $5,000 or imprisoned not more than one year, or both. The responsibility for enforcing this subsection is hereby assigned to the Attorney General.

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

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

EXCEPTIONS

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

(1) credit transactions involving extensions of credit for business or commercial purposes, or to governments or governmental agencies or instrumentalities, or to organizations;
(2) transactions in securities or commodities in accounts by a broker-dealer registered with the Securities and Exchange Commission;

(3) credit transactions, other than real property transactions, in which the total amount to be financed exceeds $25,000; or

(4) transactions involving extensions of credit secured by first mortgages on real estate.

REPORTS

Sec. 9. Not later than January 3 of each year commencing after the effective date of this Act, the Board of Governors of the Federal Reserve System and the Attorney General shall, respectively, make reports to the Congress concerning the administration of their functions under this Act, including such recommendations as the Board and the Attorney General, respectively, deem necessary or appropriate.

In addition, reports of the Board of Governors of the Federal Reserve System shall include the Board’s assessment of the extent to which compliance with the provisions of this Act, and regulations prescribed thereunder, is being achieved.
EFFECTIVE DATE

Sec. 10. The provisions of this Act shall take effect upon July 1, 1969; except that section 5 shall take effect immediately upon enactment.

Passed the Senate July 11, 1967.

Attest: FRANCIS R. VALEO,
Secretary.
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, 1957
Referred to the Committee on Banking and Currency