

Periodic Statements for Multi-featured, Open-end Lending



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On December 18, 2008, the Federal Reserve Board published changes to Regulation Z which focused on open-end credit. The most significant change affecting periodic statements for multi-featured, open-end lending (MFOEL) plans was the elimination of the effective (or historical) APR. The new requirements will impact periodic statements for all plans, including existing ones, and goes into effect by July 1, 2010.

The list of elements required on a periodic statement has changed slightly. The 12 items, as listed in Regulation Z, section 226.7(b) are:

1. Previous balance
2. Identification of transactions
3. Credits
4. Periodic rates
5. Balance on which finance charge is computed
6. Charges imposed
7. Change-in-terms and increased penalty rate summary for open-end plans
8. Grace period
9. Address for notice of billing errors
10. Closing date of billing cycle; new balance
11. Due date; late payment costs
12. Minimum payment

The commentary still allows for many of the disclosures to be made separately for each sub-account, but some must be made at the plan level. This will require some structure in the data processing system for tracking which balances are associated with which plans. A sample statement is included at the end of this article.

Previous balance

The *previous balance* is defined as the account balance outstanding at the beginning of the statement period. This disclosure may be made at the sub-account level, which we strongly recommend. For most sub-accounts included in your plan, the amount of finance charge (interest) that has accrued since the borrower's last payment is directly deducted from each new payment, rather than being separately added to each statement and reflected as an increase in the obligation. As such, the previous balance need not reflect finance charges accrued since the last payment. If the previous balance is a credit balance, it must be disclosed in such a way so as to inform the borrower that it is a credit balance, rather than a debit balance.

Identification of transactions

Fees and other charges have been moved to a new section (Charges imposed), leaving simply credit advances in the *identification of transactions*. This disclosure may be made at the sub-account level, which we strongly recommend once more. Section 226.8 of the regulation details the disclosure requirements which include the date, a description, and the amount of the transaction.

Credits

Typical *credits* on a multi-featured plan are loan payments. These may be listed with the transactions as long as it is clear they are credits through the use of a minus sign or parentheses. The same information may be disclosed as with transactions, that is, the date, a description, and the amount of the credit. All transactions and credit may be listed chronologically. We strongly recommend this approach.

Periodic rates

Although this disclosure is called *periodic rates*, you no longer disclose the actual periodic rate. Only disclose the periodic rate expressed as an annual percentage rate, and using the term “Annual Percentage Rate.” Another change is that a required credit life insurance component is no longer included in the periodic rate disclosure. The charge assessed for the required credit life insurance will be included in the new charges imposed disclosure. The only periodic rate that will be disclosed is an interest periodic rate.

All periodic rates that may be imposed during the statement period must be disclosed. This includes any secured advances plus any active line of credit sub-accounts, even if the line has a zero balance. Rates should be disclosed separately for each sub-account. If the periodic rate changes during the statement period, then both rates must be disclosed. Although not required, we recommend that you disclose the date when the rate changed. If the plan calls for a variable rate, you must disclose the fact that the annual percentage rate may vary.

Balance on which finance charge is computed

The *balance on which the finance charge is computed* is the amount of the balance to which the periodic rate was applied. This must be disclosed using the phrase “balance subject to interest rate.” An explanation of how that balance was determined must be given. For most multi-featured plans, interest is computed on the balance each day by application of the daily periodic rate. A sample explanation of this approach is as follows:

“The balance used to compute interest is the unpaid balance each day after payments and credits to that balance have been subtracted and any additions to the balance have been made.”

When this is the case, the balance to which it is applicable may be stated as a balance for each day on which the balance in the account changes. A simple way to disclose these balances is to add a column to the listing of transactions (including the previous balance, credits, and new balance) which includes the account balance on each of these dates. Fees, although not disclosed in the listing of transactions, must be taken into account if they have been added to the account balance. This column should be labeled “balance subject to interest rate.” This disclosure must be made separately for each sub-account of a multi-featured plan, so this approach meets this requirement as well. Our sample statement at the end of this article uses this approach.

Charges imposed

This new disclosure in essence takes the place of the effective (or historical) APR. *Charges imposed* include all finance charges attributable to periodic rates (interest) and all other charges assessed to the account (fees). A required credit life insurance is no longer included as part of the periodic rate and the resulting charge is disclosed as a fee. This disclosure must be in close proximity to the transaction disclosure and must be at the plan level, not the sub-account level. The format contained in Sample G-18A of Regulation Z must be used.

Fees must be disclosed under the heading “Fees.” It includes all fees which were once considered a finance charge and the other charges disclosed under the old format. Some examples of fees include late payment charges, fees assessed for choosing a skip payment option, and charges for credit life insurance, whether required or not. A simple date, description, and amount format may be used. The description should identify the type of fee and the sub-account to which it applies. Totals must be given for the statement period and year-to-date using the term “Fees”.

Interest must be disclosed using the term “Interest Charge” and under the heading “Interest Charged.” The disclosure should be itemized and totaled by type of transaction, with totals for the statement period and year-to-date using the term “Total Interest.”

If the statement periods do not correspond to a single month, that is, the beginning and ending dates are not the first and last day of the month, then year-to-date totals may be made on the basis of either the statement with a beginning date in December or the statement with a beginning date in January. If the first statement used has the beginning date in December, then the final statement for the year-to-date total will be that statement with a beginning date in November. Likewise, if the first statement has the beginning date in January, then the final statement will have the beginning date in December.

Change-in-terms and increased penalty rate summary for open-end plans

The *change-in-terms and increased penalty rate summary* is a new, optional disclosure for statements. In the past, these notices were separate and might have been included with the periodic statement. Going forward, if they are included with the statement, then they must be on the front of the first page of the statement in a tabular format. If they are sent separately from the periodic statement, then no mention of them need be made on the periodic statement. Since the timing for these notices has been increased from 15-days prior to the change to 45-days prior to the change, there may be more incentive to send them separately. Including them in the periodic statement will result in 60 or more days advance notice due to the monthly cycle of these statements. Please note that the format and content of these disclosures has changed significantly (see sections 226.9(c) and (g)). The sample in this article does not include this disclosure.

Grace period

The *grace period* disclosure must indicate the date by which or the time period within which the new balance or any portion of the new balance must be paid to avoid additional finance charges. The wording used must be consistent with that used on the account-opening disclosure statement. If the plan contains no grace period, then no disclosure needs to be made here. The sample in this article does not include this disclosure.

Address for notice of billing errors

The address for notice of billing errors must be provided on the statement or on the billing rights statement permitted by section 226.9(a)(2). Particular wording is not required but should indicate the general purpose for the address for billing, that is, error inquiries. A telephone number, e-mail address, or Web site location may be included in addition to the required address as long as the address is clear and conspicuous. Clear and conspicuous means that a statement indicating these other means will not preserve the consumer's billing rights is given. Sample language is available in Appendix G-18(F) Periodic Statement Form of Regulation Z. The sample in this article does not include this disclosure.

Closing date of billing cycle; new balance

The periodic statement must disclose the *closing date of the billing cycle* and the account balance on that date (*new balance*). This can be done by sub-account and is easily accomplished by including it as the final line of the list of transactions. A total new balance for all sub-accounts is not required. As with the previous balance disclosure, the new balance need not reflect finance charges accrued since the last payment.

Due date; late payment costs

The *due date* for a payment and any *late payment costs*, including amount of the late payment fee and any increased APR that may be imposed as a result of a late payment, must be given on the front of the first page of the statement. The current rules proposed by the Federal Reserve Board for the Credit CARD Act of 2009 applies this requirement only to credit card accounts under an open-end (not home-secured) consumer credit plan. In other words, these disclosures do not apply to multi-featured plans anymore; which is a change from the changes made in December 2008. With this disclosure requirement gone, quarterly statements are still a viable option for credit unions. The sample in this article does not include these elements.

Minimum payment

The *minimum payment* disclosure is new and applies to credit card accounts under an open-end lending plan. The Credit CARD Act of 2009 created additional disclosure requirements, but only applies to credit cards, too. It is a best practice not to include credit cards in a multi-featured plan. The example statement does not include a credit card and so it need not make these disclosures. For those choosing to include credit cards in their multi-featured plan, guidance will be provided from another source.

Additional formatting requirements

A final formatting requirement is given that the minimum payment due, the due date, the late payment costs, the ending balance, and the minimum payment example, when it applies, should be made on the front of the first page of the statement in close proximity to each other. The Commentary clarifies that, for combined deposit account and credit account statements, the first page shall be the page on which credit transactions first appear. Typically, none of these items must be disclosed for a multi-featured plan. The sample in this article does not include any of these elements.

Sample statement

Plan account number: 12345
 July 01, 2010 to July 31, 2010

Sub-account 100-Line of Credit (LOC)

Credit Limit: \$1,000.00
 Available Credit: \$671.95
 Annual Percentage Rate (APR): 9.990% (variable rate)

Date	Description	Amount	Balance Subject to Interest Rate**
7/01	Previous balance		\$253.84
7/09	Payment	\$25.00-	\$229.81
7/15	Advance	\$121.44	\$351.25
7/23	Payment	\$25.00-	\$327.40
7/31	See Fees below		\$328.05
7/31	New balance		\$328.05

Sub-account 200-Used Auto

Annual Percentage Rate (APR): 6.000%

Date	Description	Amount	Balance Subject to Interest Rate**
7/01	Previous balance		\$20,182.53
7/09	Payment	\$241.66-	\$19,987.32
7/23	Payment	\$241.66-	\$19,791.66
7/31	See Fees below		\$19,831.24
7/31	New balance		\$19,831.24

Sub-account 300-Computer

Annual Percentage Rate (APR): 7.500%

Date	Description	Amount	Balance Subject to Interest Rate**
7/01	Previous balance		\$0.00
7/13	Advance	\$4,569.47	\$4,569.47
7/23	Payment	\$100.00-	\$4,478.86
7/31	See Fees below		\$4,487.82
7/31	New balance		\$4,487.82

**The balance used to compute interest is the unpaid balance each day after payments and credits to that balance have been subtracted and any additions to the balance have been made.

Fees:

Date	Description	Amount
7/31	Debt Prot (100-LOC)	\$0.65
7/31	Debt Prot (200-Used Auto)	\$39.58
7/31	Debt Prot (300-Computer)	\$8.96
	TOTAL FEES FOR THIS PERIOD	\$49.19

Interest Charged:

Description	Amount
Interest charge on 100-LOC	\$2.12
Interest charge on 200-Used Auto	\$92.45
Interest charge on 300-Computer	\$9.39
TOTAL INTEREST FOR THIS PERIOD	\$103.96

2010 Totals Year-to-Date:

Total fees charged in 2010: \$297.76
 Total interest charged in 2010: \$763.37



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