**INTERPRETIVE LETTER 92-14 (SEPTEMBER 15, 1992)**

**State bank that chooses to operate under the Consumer Installment Loan Act (CILA) in order to collect the charges permitted under CILA must comply with the disclosure provisions for Rule of 78s.**

We are in receipt of your letter addressing the applicability of the Rule of 78s ("Rule") provisions in the Consumer Installment Loan Act ("CILA") to banks. In particular, you asked if banks are required to comply with the Rule's provisions in CILA when they disclose their methods of computing the unearned portions of finance charges in the event installment loans are prepaid. Illinois state banks are not required to comply with those provisions unless they choose to contract for or receive charges regulated by CILA.

When Public Act 86-385 added language to CILA addressing the Rule, it required licensees to not only describe to borrowers their methods of computing the unearned portions of finance charges but also, when using the Rule, to provide an example of the computation. Licensees were to have commenced complying with those requirements as of July 1, 1992.

Illinois state banks do not automatically have to comply with CILA. Only when state banks choose to collect the charges regulated by CILA are they required to comply with its provisions. See Section 21 of CILA, Ill. Rev. Stat. ch. 17, par. 5427 (1991). Even when a state bank contracts for the charges authorized by CILA, it is not required to be a licensee.

If a state bank does not choose to comply with CILA regarding installment loans, then it must comply with Section 4a of the Interest Act, Ill. Rev. Stat ch. 17, par. 6410 (1991). If a bank uses the Rule to compute the unearned portions of finance charges, Section 4a(f)(13) merely requires that the bank disclose to its borrowers that the Rule is being used. There are no additional requirements for the bank to provide descriptions or examples of the Rule to borrowers.

It is the opinion of this Agency that when an Illinois state bank uses the Rule in the event of prepayment, it needs merely to disclose to installment loan customers the fact that the Rule is being used. Only when a state bank contracts for or receives charges regulated by CILA must it additionally describe the Rule and provide borrowers with examples of the manner in which the unearned portions of finance charges are computed.

**Note: Banks may no longer elect to treat loans as having been made under CILA. P.A. 90-437, effective January 1, 1998, amended CILA to exclude banks from its coverage.**