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WHEN THE PERIODIC RATE AND CORRESPONDING ANNUAL PERCENTAGE RATE ON A REVOLVING ACCOUNT ARE TIED TO A FLUCTUATING BASE RATE, A CHANGE IN THE PERIODIC RATE AND THE CORRESPONDING ANNUAL PERCENTAGE RATE RESULTING FROM A CHANGE IN THE BASE RATE IS NOT A "CHANGE IN TERMS" REQUIRING WRITTEN NOTICE TO BE GIVEN AT LEAST THREE TIMES DURING THE SIX MONTHS PRIOR TO THE CHANGE.

Certain creditors in Colorado have entered into revolving credit agreements with their customers which provide that the rate of finance charge will vary with fluctuations in a base rate. As an example, the agreement might provide that finance charges would be assessed at an annual rate three percentage points higher than the prime rate of a given New York clearing house bank. As the prime rate fluctuates, the rate of finance charge will also fluctuate.

Section 5-2-416, C.R.S. 1973 with respect to revolving charge accounts, and Section 5-3-408, C.R.S. 1973 with respect to revolving loan accounts, require that prior written notice be given to the buyer or debtor of any "change in terms" of a revolving account when the change involves a significant cost to the buyer or debtor. If the change is to apply to existing balances, the notice must be sent at least three times, with the first notice at least six months prior to the effective date of the change.

The fluctuation of a periodic rate and the corresponding annual percentage rate which results from the fluctuation in a base rate to which it is tied is not a "change in terms" of a revolving account which triggers the prior written notice requirements of Section 5-2-416 and 5-3-408, C.R.S. 1973, since the terms of the debtor's agreement with the creditor have not changed.

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This is an official interpretation of the Administrator, as contemplated in 5-6-104(4), C.R.S. 1973, as amended.