



Highlights of New Credit Card Rules Released December 18, 2008

The Federal Reserve Board, Office of Thrift Supervision, the National Credit Union Administration released final rules prohibiting financial institutions from engaging in certain credit card acts or practices that are deemed unfair or deceptive. The Federal Reserve Board also released revisions to Regulation Z, Truth-in-Lending, governing disclosures for credit cards and other revolving (non-home secured) credit plans. Both rules become effective July 1, 2010.

Final Rule on Unfair Credit Card Acts or Practices

Interest Rate Changes

- Requires disclosure at account opening of all applicable interest rates on all transaction categories (purchases, cash advances, etc.).
- Prohibits interest rate increases on existing balances unless expressly permitted by one of the exceptions noted below.
 - Increases permitted at the expiration of a specified period if the increased rate is also disclosed at account opening.
 - Increases permitted if the rate is an indexed variable rate.
 - Increases permitted after account is open for one year if financial institution complies with the Regulation Z 45-day advance notice requirement (limitation does not apply to accounts opened prior to July 1, 2010).
 - Increases permitted when credit card account is more than 30 days delinquent.
 - Allows a decreased rate to revert to pre-existing rate if consumer fails to abide by workout arrangement terms.

Reasonable Time to Pay/Late Payments

- Prohibits treating a payment as late for any purpose unless consumers are provided a reasonable amount of time to make payment. Treating a payment as late includes:
 - Increasing APR as a late penalty
 - Reporting account as delinquent to a credit reporting agency
 - Assessing a late fee or any fee based on the consumer's failure to make a payment within the amount of time provided
- Establishes a safe harbor for statements mailed or delivered at least 21 days before the payment due date if reasonable procedures are in place to ensure statements are mailed or delivered within a certain number of days from the safe harbor. For example, if an institution had reasonable procedures in place designed to ensure that statements are mailed or delivered within three days of the closing date of the billing cycle, the institution could comply with safe harbor by stating a payment due date of 21 days plus three days.
- Prohibits treating a payment as late if the due date is a day on which the U.S. Postal Service does not deliver mail or the creditor does not accept payments by mail.
- Allows institutions only providing electronic periodic statements and only accepting electronic payments to deliver statements less than 21 days before the payment due date.

Payment Allocation

- When an account carries different balances at different APRs, financial institutions may use one of two approaches for allocating the amount exceeding the minimum payment required.
 - Apply the entire amount to the balance with the highest APR; or
 - Allocate the payment proportionally among the balances.

Double Cycle Billing

- Prohibits reaching back to earlier billing cycles when calculating the amount of interest charged in the current cycle. For example, when a consumer pays the entire account balance one month, but does not do so the following month, the bank calculates interest for the second month using the account balance for days in the previous billing cycle as well as the current cycle.

Subprime Credit Cards

- Prohibits the financing of security deposits or fees for the issuance or availability of credit during the first year after account opening if deposits or fees exceed 50 percent of the initial credit limit.
- Limits the security deposits and fees charged at account opening to 25 percent of the initial credit limit and requires any additional amounts (up to 50 percent) to be spread over at least the next five billing cycles.

Final Rule on Regulation Z Disclosure Changes

Applications and Solicitations

- Adopts new format requirements (type size and the use of boldface type) for the summary table.
- Requires disclosure of the duration of any penalty rates that may be in effect.
- Simplifies variable rate disclosures.
- Revises disclosure requirement regarding when a grace period is offered on purchases or when no grace period is offered.

Account Opening Disclosures

- Requires disclosure of certain key terms in a summary table similar to table for applications and solicitations.

Periodic Statements

- Charges and fees must be grouped separately, with a monthly total for each.
- Interest must be itemized by transaction type (purchases, cash advances, etc.).
- Requires separate year-to-date totals for fees and interest charges.
- Eliminates “effective annual percentage rate” disclosure requirement.
- Requires disclosing the effect of making only the required minimum payment.

Changes in Interest Rates and Other Account Terms

- Increases the amount of advance notice before a change in terms can be imposed from 15 to 45 days.
- Requires 45 days’ prior notice before increasing rates due to delinquency, default, or as a penalty.
- Change-in-terms or penalty-rate notice accompanying periodic statement must include a tabular disclosure on the front side of the periodic statement showing the key terms being changed.

Miscellaneous Provisions

- Permits use of the term “fixed rate” only if time period is specified for which the rate is fixed and the rate will not increase for any reason during that time, or if a time period is not specified, the rate will not increase for any reason while the plan is open.
- Prohibits cut-off times earlier than 5:00 pm for mailed payments to be considered timely.