

New Credit Card Disclosure Rules



By Robert Rowe

No one likes a con artist trying to pull a fast one. As consumers, we all want to be treated fairly and honestly. When we buy something, we want to know what we're getting and exactly what is involved in the transaction. Community bankers understand this. In fact, one trademark that distinguishes a community bank from other financial institutions is how community bankers treat customers.

Recently, the Federal Reserve presented a major proposal that will fundamentally change how banks inform their customers of credit card account information. The measure aims to simplify and clarify how banks explain these accounts to their customers.

In developing the proposal, the Federal Reserve took a step that ICBA has long encouraged—working directly with consumers to find out what information they want and need. Stripped of “hereinaboves,” “wherefores,” “ipso factos” and other legalese, the information will be presented in simple English. And since most

of us find it easier to pick up information from a summary table, the Federal Reserve plans to expand the table—known as the “Schumer Box” after Sen. Charles Schumer (D-N.Y.)—that is already included in credit card account applications. The Federal Reserve will require “Schumer Boxes” for account opening agreements, too. These boxes and other steps are designed to highlight the most important information for customers.

Model for Other Disclosures

Perhaps most important, the Federal Reserve plans to use these changes as a model for all consumer disclosures. The credit card proposal is only the first step. The Truth in Lending Act, implemented by the Federal Reserve's Regulation Z, is designed to ensure that consumers understand the terms of credit and are provided the information they need to shop for credit that suits their needs. Because Regulation Z covers such broad territory and



governs all consumer loans, the Federal Reserve is taking the revisions in steps. ICBA agrees this is the best approach. The Federal Reserve is using a similar approach to simplify and clarify mortgage disclosures.

The credit card proposal would affect all aspects of communication between credit card issuers and their customers. The Federal Reserve proposes changes in five key areas: solicitations and applications, account opening statements, periodic statements, term notices, and advertising. Fundamentally, the Federal Reserve is trying to make sense out of what's been called the "mouse print" in the disclosures so customers understand what's going on.

For community banks, the effort will have two critical benefits. First, it will help banks avoid arguments with customers since there shouldn't be any question about how a credit card account operates. Second, and more important, the simplified and streamlined disclosures will make it very clear to consumers that community banks offer simple, straightforward credit card accounts at lower rates, with lower fees and without a lot of junk fees or hidden charges. This measure will make it clear that community banks aren't constantly changing and revising the rules of the game once an account is opened.

Highlighted Items

The proposed changes are designed to call attention to key terms in the credit card relationship. If there is an introductory rate, then the bank has to label it as such and clearly explain how

long the rate will last. If there's a grace period on the account, the bank has to clearly explain it along with information about the deadline for making payments before any late fees will apply. The proposal is moving everyone towards universal credit card account terminology.

spending their money. A change in terms must be disclosed on the periodic statement in some cases. But more important, if a bank wants to change a term on the account, including but not limited to increasing the interest rate on the account because of default, notice must be given 45

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Another important change has to do with *when* card issuers inform customers. Ordinarily, all the information about a credit card account is included with the account agreement. Since some fees might not come into play until later, the proposal encourages banks to provide that information to customers when it is most appropriate. For instance, if a customer calls to ask for a replacement card and there's a fee for issuing the replacement, the bank would use that opportunity to explain the associated fee before issuing the replacement to the customer. That way there are no surprises.

Perhaps the two most significant changes in the Federal Reserve's proposal apply to periodic statements and change-in-terms notices. The proposal is designed to ensure key information is included and clearly explained in the periodic statement. Fees and charges would be regrouped for clarity, and a summary of year-to-date fees would be added so customers can see exactly how they've been

days in advance (up from 15 days). ICBA explained to the Federal Reserve that, as a practical matter, this means banks would have to give 60 to 90 days notice because of the time schedules for preparing and mailing periodic statements. However, since the goal of the Federal Reserve is to give customers time to shop for alternative financing once they get the notice, it will be hard to persuade the Federal Reserve to shorten the requirement.

ICBA is working to convince Congress that the changes proposed by the Federal Reserve will help educate customers and should be allowed to become effective before new laws changing the rules for credit cards are needed. While the first hurdle of implementing the Federal Reserve's changes after they go into effect will be a major one, ICBA will be there to help our members adapt. **ib**

Robert Rowe is an ICBA regulatory counsel. Reach him at robert.rowe@icba.org.