

# FINAL CREDIT CARD ACT RULES ISSUED

The next phase of amendments to Regulation Z (*Truth in Lending*) was issued by the **Federal Reserve Board** (FRB) on January 12, 2010. This amendment implements the provisions of the *Credit CARD Act* that are effective February 22, 2010. The amendments pertain primarily to credit cards although there are some provisions that refer to other types of open-end credit.

This Rule is the second stage of three stages that will be involved in implementing all the *Credit CARD Act* rules. The first stage was in July 2009 and was an interim rule that is being finalized as part of this Rule. The third stage involves two remaining provisions dealing with reasonable and proportional penalty fees and re-evaluation of rate increases. Those provisions are effective August 22, 2010.

## FEBRUARY 22, 2010, PROVISIONS

These changes have been described as the most sweeping changes ever made in rules governing credit cards. The changes are aimed at protecting consumers and giving credit card users greater control and clearer terms for their accounts.

The new protections implemented by this Rule include:

- Protecting consumers from unexpected increases in credit card interest rates by generally prohibiting increases in a rate during the first year after an account is opened and increases in a rate that applied to an existing credit card balance.
- Prohibiting creditors from issuing a credit card to a consumer who is younger than the age of 21 unless the consumer has the ability to make the required payments or obtains the signature of a parent or other cosigner.
- Requiring creditors to obtain a consumer's consent before charging fees for transactions that exceed the credit limit.
- Requiring creditors to provide 45 days prior notice before interest rate changes on future charges with the right to reject the changes.
- Limiting the high fees associated with subprime credit cards.
- Banning creditors from using the "two-cycle" billing method to impose interest charges.
- Requiring that payments in excess of the minimum be allocated first to the balance with the highest rate of interest.
- Requiring due dates to be the same date every month.
- Requiring information to be included on the monthly bill explaining how long it will take to pay off the balance if only minimum payments are made.

The following provisions apply to *all* open-end consumer credit:

- Requiring that the payment cut-off time not be earlier than 5 p.m., unless a branch has a later closing time;
- Crediting a payment on the first business day if the due date is not a business day; and
- Prohibiting certain marketing restrictions.

The following provisions apply to all *unsecured* open-end credit:

- Advance notice of change in terms (note that the proposed home equity lines of credit (HELOC) rule which is currently outstanding imposes a 45-day advance notice); and
- Advance notice of rate increase due to default.

## **JULY 1, 2010, PROVISIONS**

In addition to the *Credit CARD Act* provisions, there are a few other new Regulation Z requirements related to disclosures that are effective on July 1, 2010, based on this Rule. (Note that some of the provisions are effective before July 1 because they were part of the *Credit CARD Act*.)<sup>1</sup>

These requirements apply to all open-end credit, other than HELOCS, not just credit cards. The new disclosure requirements include the following;

- New format and content rules requiring credit application forms and non-mortgage credit card account-opening disclosures to include a table containing a summary of key account terms;
- New periodic statement format requirements including a requirement to provide the total interest charges and fees paid for that month and year-to-date; and
- New advertising rules.

The Rule has not yet been published in the *Federal Register*; however, the January 12 edition can be reviewed at <http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20100112a1.pdf>.

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<sup>1</sup> See pages 22-23 of the Final Rule issued by the FRB on January 12 at <http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20100112a1.pdf> for a table of which provisions apply to which products.