



FEDERAL RESERVE BANK *of* KANSAS CITY

January 14, 2009

FINAL RULES TO BETTER PROTECT CREDIT CARD USERS

Attention: Chief Executive Officer of Each Tenth District State Member Bank

Subject: New Final Rules that Amend Regulations AA, Z, and DD to Address Credit Card Accounts and Overdraft Services

In Brief: On December 18, 2008, the Federal Reserve Board (Board) approved final rules that would better protect credit card users by prohibiting certain unfair acts or practices in connection with credit card accounts and other revolving credit plans. The Board also adopted final rules to revise the disclosures consumers receive in connection with credit card accounts and other revolving credit plans to ensure that information is provided in a timely manner and in a form that is readily understandable. Finally, the Board adopted final amendments to Regulation DD (Truth in Savings) to address depository institutions' disclosure practices related to overdraft services. These final rules were issued after consideration of over 60,000 comment letters and information obtained through consumer testing.

Highlights: The final rules amend three regulations, Regulation AA, Regulation Z, and Regulation DD. Following are key changes to each regulation:

Regulation AA (Unfair Acts or Practices) Final Rule

1. Banks are prohibited from treating a payment as late for any purpose unless the bank provides a reasonable amount of time for the consumer to make that payment. The rule provides a safe harbor for banks that send periodic statements at least 21 days prior to the payment due date.
2. When different annual percentage rates (APRs) apply to different balances on a credit card account, banks must allocate payments exceeding the minimum payment to the balance with the highest rate first or pro rata among all of the balances.
3. Banks must disclose at account opening all interest rates that will apply to the account and are prohibited from increasing those rates, except in certain circumstances. First, if a rate disclosed at account opening expires after a specified period of time, banks may apply an increased rate that was also disclosed at account opening. Second, banks may increase a rate due to the operation of an index. Third, after the first year, banks may increase a rate for new transactions only after complying with the 45-day advance notice requirement in Regulation Z. Fourth, banks may increase a rate if the minimum payment is received more than 30 days after the due date.

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4. Banks are prohibited from calculating interest using a method referred to as “two-cycle billing.” Under this method, 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.
5. Banks are prohibited from financing security deposits and fees for credit availability if charges assessed during the first 12 months exceed 50 percent of the initial credit limit. Security deposits and fees charged at account opening are limited to 25 percent of the initial credit limit, and any additional amounts, up to 50 percent, are required to be spread evenly over at least the next five billing cycles.

Regulation Z (Truth in Lending) Final Rule

1. Format and content changes have been established to make the credit and charge card application and solicitation disclosures more meaningful and easier for consumers to use. These disclosures are provided in the form of a table that summarizes the key account terms.
2. Cost disclosures provided at account opening have been enhanced to make the information more conspicuous and easier to read. Certain key terms must be disclosed in a summary table at account opening.
3. Periodic statement disclosures have been revised to make them more understandable, primarily by making changes to the format requirements, such as by grouping fees and interest charges together. The changes include:
 - a) Interest charges and fees must be grouped separately, with a monthly total for each. Interest charges must be itemized according to the type of transaction. Separate year-to-date totals for fees and interest charges are also required.
 - b) The requirement to disclose an “effective annual percentage rate” is eliminated.
 - c) The effect of making only the minimum required payment on the time to repay balances must be disclosed, as required by the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005.
4. The circumstances under which consumers receive written notice of changes in the account terms have been expanded, and the amount of time these notices must be sent before the change becomes effective has increased. The changes include:
 - a) Increases in the amount of advance notice before a changed term can be imposed from 15 to 45 days.



- b) Requires creditors to provide 45 days prior notice before the creditor increases a rate due to the consumer's delinquency or default or as a penalty.
 - c) Requires creditors to provide a tabular disclosure on the front side of the periodic statement showing the key terms being changed when a change-in-terms or penalty-rate notice accompanies a periodic statement.
5. Advertisements may refer to a rate as "fixed" only if a 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, if the rate will not increase for any reason while the plan is open.
6. Creditors must set reasonable cut-off hours for mailed payments to be considered timely on the due date. The final rule deems 5 p.m. to be a reasonable time.

Regulation DD (Truth in Savings) Final Rule

- 1. All institutions are required to disclose on periodic statements the aggregate dollar amounts charged for overdraft fees and for returned item fees (for the statement period and the year-to-date).
- 2. Institutions that provide account balance information through an automated system are required to provide a balance that does not include additional funds that may be made available to cover overdrafts.

Effective

Dates:

The effective date for the Regulation AA and Z amendments is **July 1, 2010**. The Regulation DD amendments are effective **January 1, 2010**.

Further

Information:

Questions regarding the final rules or requests for copies (the final rules, in aggregate, are approximately 1,500 pages long) may be directed to the Consumer Affairs Department at one of the numbers below:

Kansas City Office
(800) 333-1010, ext. 12488

Denver Office
(800) 333-1020, ext. 22605

Internet:

A copy of the final rules is available on the Board's web site at:

<http://www.federalreserve.gov/newsevents/press/bcreg/20081218a.htm>