

Highlights of Final Rules Regarding Credit Card Accounts

Regulation AA (Unfair Acts or Practices) Final Rule

The final rule amends Regulation AA to prohibit unfair or deceptive acts or practices by banks in connection with credit card accounts. The effective date for the Regulation AA amendments is July 1, 2010.

- Time to Make Payments. The final rule prohibits banks 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.
- Allocation of Payments. When different annual percentage rates (APRs) apply to different balances on a credit card account (for example, purchases, balance transfers, cash advances), the final rule requires banks to allocate payments exceeding the minimum payment to the balance with the highest rate first or pro rata among all of the balances.
- Increasing Interest Rates. The final rule requires banks to disclose at account opening all interest rates that will apply to the account and prohibits increases in 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 (in other words, the rate is a variable rate). 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.
- Two-Cycle Billing. The final rule prohibits banks 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.
- Financing of Security Deposits and Fees. The final rule addresses concerns regarding subprime credit cards with high fees and low credit limits. Banks would be prohibited from financing security deposits and fees for credit availability (such as account-opening fees or membership fees) if charges assessed during the first 12 months would exceed 50 percent of the initial credit limit. The rule also 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 evenly over at least the next five billing cycles.

Regulation Z (Truth in Lending) Final Rule

The final rule amends Regulation Z to improve the effectiveness of the disclosures consumers receive in connection with credit card accounts and other revolving (non home-secured) credit plans. The effective date for the Regulation Z amendments is July 1, 2010.

- Applications and solicitations. The final rule contains format and content changes 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. The changes include:
 - Format Revisions. New format requirements for the summary table include rules regarding type size, the use of boldface type for certain key terms, and the placement of information.
 - Content Revisions. Creditors must disclose the duration that penalty rates may be in effect, simplify disclosures about variable rates and revise disclosures regarding when a grace period is offered on purchases or when no grace period is offered.
- Account-opening disclosures. The final rule enhances the cost disclosures provided at account opening to make the information more conspicuous and easier to read. Certain key terms must be disclosed in a summary table at account opening, which is substantially similar to the table required for credit and charge card applications and solicitations.
- Periodic statement disclosures. The final rule contains revisions to make disclosures on periodic statements more understandable, primarily by making changes to the format requirements, such as by grouping fees and interest charges together. The changes include:
 - Interest Charges and Fees. 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 (such as interest charged on purchases, and interest charged on cash advances). Separate year-to-date totals for fees and interest charges are also required.
 - Effective APR. The requirement to disclose an “effective annual percentage rate” is eliminated due to the lack of consumer understanding of this term. New requirements to disclose interest and fee totals for the month and year-to-date should more effectively inform consumers of the total cost of credit.

- Minimum Payment Disclosure. 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.
- Changes in consumer's interest rate and other account terms. The final rule expands the circumstances under which consumers receive written notice of changes in the account terms (such as, an increase in the interest rate), and increases the amount of time these notices must be sent before the change becomes effective. The changes include:
 - Increase in Advance Notice for Changes in Terms. The final rule increases the amount of advance notice before a changed term can be imposed from 15 to 45 days to better allow consumers to obtain alternative financing or change their account usage.
 - Requiring Prior Notice for Penalty Rate Increases. Creditors must provide 45 days' prior notice before the creditor increases a rate due to the consumer's delinquency or default or as a penalty.
 - Summary Table. When a change-in-terms or penalty-rate notice accompanies a periodic statement, the final rule requires creditors to provide a tabular disclosure on the front side of the periodic statement showing the key terms being changed.
- Additional protections. The final rule includes the following additional protections for consumers:
 - "Fixed" Rates. 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.
 - Cut-off Times and Due Dates for Mailed Payments. 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. When mailed payments are not accepted on the due date, such as on weekends or holidays, creditors must consider a payment received on the next business day as timely.

Highlights of Rules Regarding Overdraft Services

Regulation DD (Truth in Savings) Final Rule

The final rule amends Regulation DD to address depository institutions' disclosure practices related to overdrafts. The effective date for the Regulation DD amendments is January 1, 2010.

- Disclosure of Aggregate Overdraft Fees. The final rule extends to all institutions the requirement 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). Currently, only institutions that promote or advertise the payment of overdrafts must disclose aggregate amounts.
- Disclosure of Balance Information. The final rule requires institutions that provide account balance information through an automated system to provide a balance that does not include additional funds that may be made available to cover overdrafts.

Regulation E (Electronic Fund Transfers) Proposed Rule

The proposal amends Regulation E to provide consumers certain protections relating to the assessment of overdraft fees. The proposal replaces previously proposed amendments under Regulations AA and DD addressing overdraft services.

- Consumer Choice Regarding Overdraft Services. The proposal solicits comment on two approaches to providing consumers a choice regarding the payment of ATM and one-time debit card overdrafts by their financial institution.
 - Opt-out: Under one approach, an institution would be prohibited from imposing an overdraft fee unless the consumer is given an initial notice and a reasonable opportunity to opt out of the institution's overdraft service, and the consumer does not opt out.
 - Opt-in: The second approach would prohibit an institution from imposing an overdraft fee for paying such overdrafts unless the consumer affirmatively consents (or opts in) to the institution's overdraft service.
- Debit Holds. The proposal would prohibit institutions from imposing an overdraft fee when the account is overdrawn because of a hold placed on funds in the consumer's account that exceeds the actual transaction amount. The proposed rule is limited to debit card transactions in which the actual transaction amount generally can be determined within a short period of time after the transaction is authorized (for example, transactions at gas stations and restaurants).