

FEDERAL RESERVE BANK OF SAN FRANCISCO  
101 MARKET STREET, SAN FRANCISCO, CALIFORNIA

January 24, 2006

**BANKING SUPERVISION AND REGULATION:  
CREDIT FEATURES ASSOCIATED WITH  
SENIOR CITIZEN CLUB ACCOUNT PROGRAMS**

To State Member Banks, Bank  
Holding Companies, U.S. Branches  
and Agencies of Foreign Banks,  
and Others Concerned,  
in the Twelfth Federal Reserve District

**Credit Features Associated with Senior Citizen Club Account Programs**

Many banking institutions offer various forms of “Senior Club Accounts” that offers a package of benefits to club members. Membership in the club often requires a certain level of deposit balances to obtain the benefits and is based on an individual’s age, typically over age 50 or 55. Benefits generally include features like free checks and money orders, free wire transfers, and free travelers checks. Recently, Federal Reserve examiners have seen a number of these clubs also offering credit features such as free Visa cards, loan fee waivers, higher overdraft limits, interest rate discounts and the like that are not available to customers who are ineligible to be club members (i.e., are under the age requirement).

Because these credit features are available on the basis of age, they have resulted in a number of violations of the Equal Credit Opportunity Act (Regulation B). Pursuant to Regulation B, section 202.6(b)(2), a creditor is prohibited from considering age in evaluating the creditworthiness of an applicant and from offering credit on more favorable terms and conditions based on age. The exception to the rule is that a creditor may consider the age of an elderly applicant as long as age is used to favor the applicant in extending credit. Elderly is defined as age 62 or older.<sup>1</sup> When credit features or benefits attached to a senior club are available to club members younger than 62, but not to the rest of the bank’s customers, it may be determined that the bank has violated Regulation B by engaging in disparate treatment on the prohibited basis of age.<sup>2</sup>

Examiners have also found that institutions include statements in brochures or other marketing materials that indicate a feature or benefit is available based on club membership when the benefit actually is available to other bank customers regardless of membership in the club. Making such statements could violate the Regulation B rules regarding discouragement as outlined in section 202.4(b) as well as be considered an unfair or deceptive practice in violation of section 5 of the Federal Trade Commission Act. Situations where there is a pattern or practice of discrimination or discouragement could result in a referral to the Department of Justice.

In order to ensure compliance with the applicable laws and regulations, banking organizations should:

- Review the criteria for any “senior” club account programs offered;
- Determine whether any credit-related benefits, such as free credit cards, waived or reduced

<sup>1</sup> See the commentary to section 202.6(b)(2).

<sup>2</sup> A credit program that offers more favorable terms to applicants at an age lower than 62 is permissible only if it meets the special purpose credit requirements of section 202.8.

loan fees, more favorable interest rates, or higher overdraft limits, are associated with these programs;

- Ensure that any credit-related benefits associated with these programs are not more favorable for customers who are not considered “elderly” pursuant to the Equal Credit Opportunity Act; and
- Ensure that advertisements or marketing materials for these programs do not suggest features are available only to club members if they are available to other bank customers who are not members of the club.

### **Additional Information**

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco’s Internet site, at <http://www.frbsf.org/banking/letters>.

For additional information, please contact our Banking Supervision and Regulation Department at (415) 974-3028.

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