

Federal Reserve Bank of San Francisco  
101 Market Street, San Francisco, California 94105

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To State Member Banks, Bank  
Holding Companies, Financial Holding  
Companies, and Foreign Bank Offices  
in the Twelfth Federal Reserve District

**Federal Reserve Announces Proposed Rules to Protect Credit Card Users from Certain Practices**

The Federal Reserve Board proposed on March 3, 2010 a rule amending Regulation Z (Truth in Lending) to protect credit card users from unreasonable late payment and other penalty fees and to require credit card issuers to reconsider increases in interest rates.

"This proposal addresses two key costs of using a credit card--fees and interest rates," said Federal Reserve Governor Elizabeth A. Duke. "The rule would prevent credit card issuers from charging large penalty fees for small missteps by consumers and would require issuers to reevaluate rate increases imposed since the beginning of last year."

Among other things, the proposed rule would:

- Prohibit credit card issuers from charging penalty fees (including late payment fees and fees for exceeding the credit limit) that exceed the dollar amount associated with the consumer's violation of the account terms. For example, card issuers would no longer be permitted to charge a \$39 fee when a consumer is late making a \$20 minimum payment. Instead, the fee could not exceed \$20.
- Ban inactivity fees, such as fees based on the consumer's failure to use the account to make new purchases.
- Prevent issuers from charging multiple penalty fees based on a single late payment or other violation of the account terms.
- Require credit card issuers to inform consumers of the reasons for increases in rates.
- Require issuers that have increased rates since January 1, 2009 to evaluate whether the reasons for the increase have changed and, if appropriate, to reduce the rate.

The proposed rule represents the third stage of the Federal Reserve's implementation of the Credit Card Accountability Responsibility and Disclosure Act of 2009 (Credit Card Act), which was enacted in May 2009. The provisions of the Credit Card Act addressed in this proposal will go into effect on August 22, 2010. In July 2009, the Board issued a rule implementing the provisions of the Credit Card Act that went into effect on August 20, 2009. In January 2010, the Board issued a rule to implement the provisions of the Credit Card Act that went into effect on February 22, 2010.

Comments on the proposal must be received on or before April 14, 2010.

**Additional Information**

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

For additional information, please contact:

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