

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

November 3, 2009

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

Board Approves Proposed Rule Amending Credit Card Provisions of Regulation Z (Truth in Lending)

The Federal Reserve Board proposed rules on September 29, 2009 amending Regulation Z (Truth in Lending) to protect consumers who use credit cards from a number of potentially costly practices.

"This proposal is another step forward in the Federal Reserve's efforts to ensure that consumers who rely on credit cards are treated fairly," said Federal Reserve Governor Elizabeth A. Duke. "The rule bans several harmful practices and requires greater transparency in the disclosure of the terms and conditions of credit card accounts."

Among other things, the proposed rule would:

- Protect 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 applies to an existing credit card balance.
- Prohibit creditors from issuing a credit card to a consumer who is under 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 with the ability to do so.
- Require creditors to obtain a consumer's consent before charging fees for transactions that exceed the credit limit.
- Limit the high fees associated with subprime credit cards.
- Ban creditors from using the "two-cycle" billing method to impose interest charges.
- Prohibit creditors from allocating payments in ways that maximize interest charges.

In December 2008, the Federal Reserve adopted final regulations prohibiting unfair credit card practices and improving the disclosures consumers receive in connection with credit card accounts. This proposal would amend aspects of those regulations to incorporate provisions of the Credit Card Accountability Responsibility and Disclosure Act of 2009 (Credit Card Act), which was enacted in May 2009.

The proposed rule represents the second stage of the Federal Reserve's implementation of the Credit Card Act. On July 15, 2009, the Board issued an interim final rule implementing the provisions of the Credit Card Act that went into effect on August 20, 2009. The proposed rule would implement the provisions that go into effect on February 22, 2010. The remaining provisions of the Credit Card Act go into effect on August 22, 2010 and will be implemented by the Federal Reserve at a later date.

The notice that will be published in the Federal Register is attached. Comments on the proposal must be submitted within 30 days after publication in the Federal Register, which is expected shortly.

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:

Federal Reserve Bank of San Francisco
Banking Supervision and Regulation
(415) 974-3214

Attachment: [Proposed Rule Regarding Regulation Z](#)