

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 Proposes Amendments to Regulation Z to Clarify Rules Pertaining to Credit Cards

The Federal Reserve Board proposed on October 19, 2010 a rule amending Regulation Z (Truth in Lending) to clarify aspects of the Board's rules protecting consumers who use credit cards. The proposal is intended to enhance protections for consumers and to resolve areas of uncertainty so that card issuers fully understand their compliance obligations. In particular, the proposal would clarify that:

- Promotional programs that waive interest charges for a specified period of time are subject to the same protections as promotional programs that apply a reduced rate for a specified period. For example, a card issuer that offers to waive interest charges for six months would be prohibited from revoking the waiver and charging interest during the six-month period unless the account becomes more than 60 days delinquent.
- Application and similar fees that a consumer is required to pay before a credit card account is opened are covered by the same limitations as fees charged during the first year after the account is opened. Because the total amount of these fees cannot exceed 25 percent of the account's initial credit limit, a card issuer that, for example, charges a \$75 fee to apply for a credit card with a \$400 credit limit generally would not be permitted to charge more than \$25 in additional fees during the first year after account opening.
- When evaluating a consumer's ability to make the required payments before opening a new credit card account or increasing the credit limit on an existing account, card issuers must consider information regarding the consumer's independent income, rather than his or her household income.

The proposal would clarify portions of the Federal Reserve's final rules implementing the Credit Card Accountability Responsibility and Disclosure Act of 2009 (Credit Card Act), which was enacted in May 2009. The last of these rules went into effect on August 22, 2010.

Comments on the proposal must be submitted within 60 days after publication in the *Federal Register*.

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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