

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 Issues Clarifications to Regulation Z Provisions That Apply to Open-End Credit Plans, Including Credit Cards

The Federal Reserve Board on March 18, 2011 approved a rule amending Regulation Z (Truth in Lending) to clarify aspects of prior Board rules implementing the Credit Card Accountability Responsibility and Disclosure Act of 2009 (Credit Card Act). This rule is intended to enhance protections for consumers who use credit cards and to resolve areas of uncertainty so that card issuers fully understand their compliance obligations.

In order to protect consumers from incurring unaffordable levels of credit card debt, the Credit Card Act requires that, before opening a new credit card account or increasing the credit limit on an existing account, card issuers consider a consumer's ability to make the required payments on the account. Consistent with the act, the Board's rule addresses practices that can result in extensions of credit to consumers who lack the ability to pay. Specifically, the rule states that credit card applications generally cannot request a consumer's "household income" because that term is too vague to allow issuers to properly evaluate the consumer's ability to pay. Instead, issuers must consider the consumer's individual income or salary.

In addition, the Board's rule clarifies that:

- Promotional programs that waive interest charges for a specified period of time are subject to the same Credit Card Act 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 will 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 Credit Card Act 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 will not be permitted to charge more than \$25 in additional fees during the first year after account opening.

The notice that will be published in the Federal Register is attached.

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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Attachment: [Regulation Z, Final Rule](#)