

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 Approves Final Rules to Protect Credit Card Users from a Number of Costly Practices

The Federal Reserve Board approved a final rule on January 12, 2010 amending Regulation Z (Truth in Lending) to protect consumers who use credit cards from a number of costly practices. Credit card issuers must comply with most aspects of the rule beginning on February 22, 2010.

"This rule marks an important milestone 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 rule will:

- 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 younger than 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 rule amends aspects of those regulations to implement provisions of the Credit Card Accountability Responsibility and Disclosure Act of 2009 (Credit Card Act), which was enacted in May 2009.

The final 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 rule implementing the provisions of the Credit Card Act that went into effect on August 20, 2009. In addition to finalizing that interim rule, this rule implements the provisions of the Credit Card Act 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.

Consumers can learn more about changes to their credit card accounts by accessing a new online publication. "[What You Need to Know: New Credit Card Rules](#)." It explains key changes consumers can expect from their credit card companies as a result of the new rules. The Board plans to release additional "What You Need to Know" publications in conjunction with other major rulemakings.

The notices that are published in the *Federal Register* are 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:

Federal Reserve Bank of San Francisco
Banking Supervision and Regulation
(415) 974-2955

Attachment: Federal Register notice-- [Regulation Z, Final Rule](#)

Federal Register notice-- [Regulation Z, Final Rule 2](#)

Federal Register notice-- [Regulation AA, Final Rule](#)

[Technical Specifications Document](#)