

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

June 25, 2010

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

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

The Federal Reserve Board approved a final rule on June 15, 2010 to protect credit card users from unreasonable late payment and other penalty fees and to require credit card issuers to reconsider interest rate increases imposed since the beginning of last year.

"The new rules require that late payment and other penalty fees be assessed in a way that is fairer and generally less costly for consumers," said Federal Reserve Governor Elizabeth A. Duke. "Card issuers must also reevaluate recent interest rate increases and, if appropriate, reduce the rate."

Among other things, the final rule, which amends Regulation Z (Truth in Lending):

- Prohibits credit card issuers from charging a penalty fee of more than \$25 for paying late or otherwise violating the account's terms unless the consumer has engaged in repeated violations or the issuer can show that a higher fee represents a reasonable proportion of the costs it incurs as a result of violations.
- Prohibits credit card issuers from charging penalty fees that exceed the dollar amount associated with the consumer's violation. For example, card issuers will no longer be permitted to charge a \$39 fee when a consumer is late making a \$20 minimum payment. Instead, the fee cannot exceed \$20.
- Bans "inactivity" fees, such as fees based on the consumer's failure to use the account to make new purchases.
- Prevents issuers from charging multiple penalty fees based on a single late payment or other violation of the account terms.
- Requires 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 final rule represents the third stage of the Federal Reserve's implementation of the Credit Card Accountability Responsibility and Disclosure Act of 2009, which was enacted in May 2009. The provisions of the Act addressed in this rule will generally go into effect on August 22, 2010.

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

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 Effective Aug. 22.](#)" It explains key changes consumers can expect from their credit card companies as a result of the third phase of the new credit card rules. Additional information about credit cards can be found on the Board's website at: <http://www.federalreserve.gov/creditcard/>.

**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 \(Truth in Lending\) Final Rule](#)