

Highlights of the Amended Regulations Z & AA: New Rules to Ensure Wise Choice & Use of Credit Cards



National Consumer Protection Week Conference
March 31, 2009

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Purpose of Amendments

To enhance protections for consumer credit card accounts

More Specifically:

- To provide improved disclosures that consumers will pay attention to, will understand, and be able to use in their decision-making. (Z)
- To ensure that consumers have the ability to make informed decisions about the use of credit card accounts without being subjected to unfair or deceptive acts or practices. (AA)



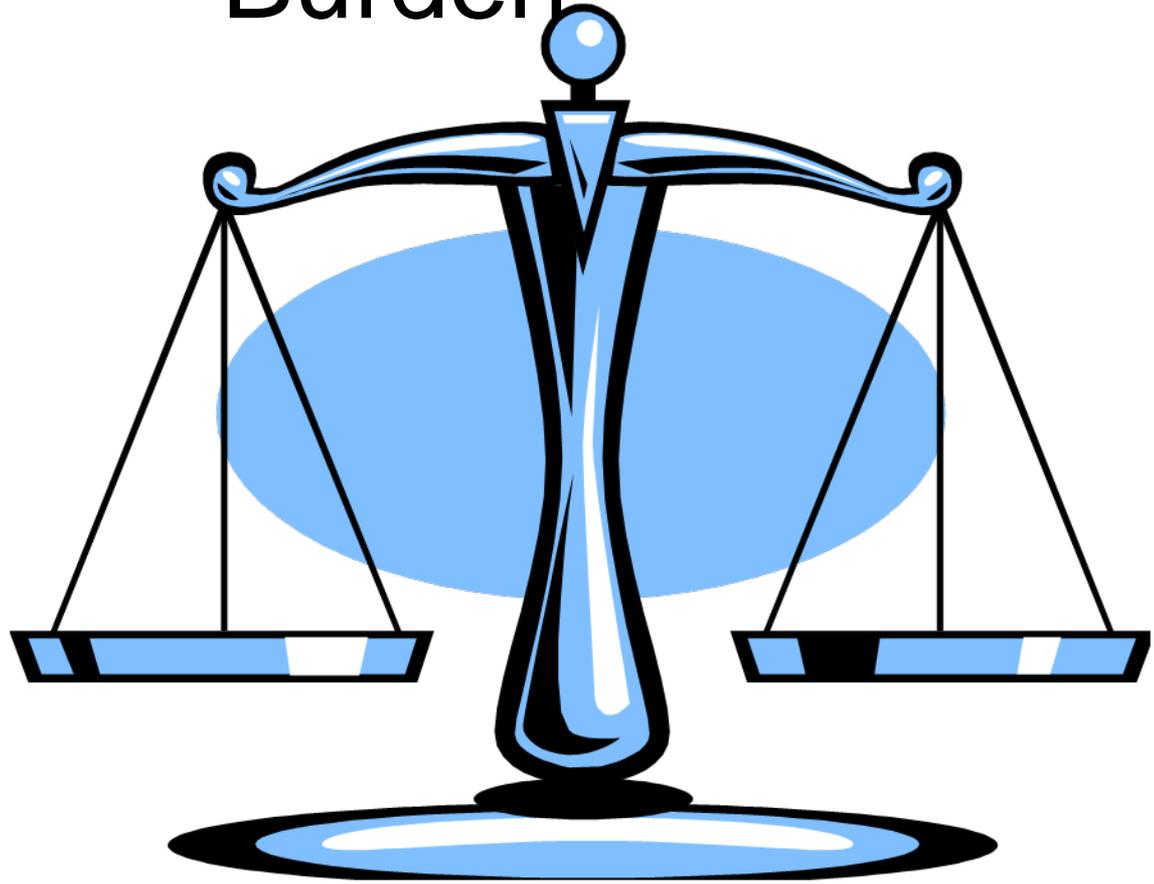
Focus Today:

Regulation Z: Implements the TILA. Dictates requirements for credit card account disclosures.

Regulation AA: Prohibits certain unfair card practices using Board's rulemaking authority under FTC Act.

Board's Revisions to
Z
Effective July 1, 2010

Improved Disclosures V. Industry Burden



New Reg. Z affects **format, timing** and **content** of 5 types of credit card disclosures :

- 1) Application and Solicitation Disclosures
- 2) Account Opening Disclosures
- 3) Periodic Statement Disclosures
- 4) Change in Term Notices
- 5) Advertising Provisions



Applications & Solicitations

Changes to Tabular Disclosures (Schumer Box) both in content and terminology: (see model form G-10(B))

- Separate Rows for Each APR
- Penalty APR (replaces Default rate): describes increased rate that may apply if late payment or over the limit
- Penalty rate triggers must be in the Schumer Box
- Separation of Interest Rates and Interest Charges from fees
- All fees in the Box
- Reference to Federal Reserve Board website for more info

Note: Detailed info about variable rate calculations—no longer permitted in Box

Applications & Solicitations

The following language will appear immediately following **range of rates** rather than in footnote:

Selection of Initial APR *“Based On Your Creditworthiness.”*

Account Opening Disclosures

More conspicuous: Tabular format
(G-17(B))



A little more meat: Includes statement indicating whether or not there is a **grace period** for all account features

Subprime cards: Notice of right to reject when fees charged but consumer hasn't used plan

Periodic Statement Disclosures

New Formatting and Terminology (G-18(f)):

- Use terms “interest charges” & “fees” instead of “finance charge”
- Interest & fees identified by type and listed under transactions
- Provide both cycle and **year-to-date** totals for interest and fees
- Effective APR not required



Periodic Statement Warnings

G-18(f)



Late Payment Warning:

- Alerts consumer of consequences
- In close proximity to due date
- Includes late payment fee and penalty APR



Minimum Payment Warning:

- 1) Warning statement indicating that paying minimum will increase interest and time it will take to pay balance;
- 2) Hypothetical example of how long it would take to pay off balance if only minimum payments made;* and
- 3) Toll free number for consumer to get an estimate of how long it would take to pay back balance.

OR

Provide actual repayment disclosure on periodic statement.

*Instead of using hypothetical, issuer can establish toll-free number to provide customers with actual number of months it will take to repay balance.

Change in Account Terms

Notice Requirement

Advance notice of rate increases or other key account terms: **45 days.**

Expands events triggering advance notice to include increases triggered by **default or delinquency.**

Change in Account Terms

Notice Format (G-18(f))

If changed term is one that must be provided in account opening summary table, creditors must provide that change in a **summary table** (more effective notice).

Table must appear on periodic statement directly above transaction list (not on a separate notice).

Other Provisions

- Issuers prohibited from **advertising** rate as “fixed” unless fixed for life of plan or disclosed time period
- **Cut-off time** for receipt of mailed payment must be reasonable (safe harbor 5:00 P.M. or later)
- Card issuer that does not accept mailed payments on **Sundays or holiday due date**, must treat payment received on next business day as timely



Convenience Check Disclosures

For checks provided more than 30 days after account opening disclosures:

Key terms to be disclosed in summary table on front of page containing checks.

(G-19)



Regulation AA Unfair and Deceptive Credit Card Practices

Effective July 1, 2010



Time to Make Payments

Issuer prohibited from treating payment as late unless consumer has reasonable amount of time to pay.

Safe Harbor: Mail or deliver statement 21 days before due date.

Payment Allocation

When different APRs apply to different balances (e.g., cash advances, purchases, balance transfers), card issuer required to allocate payments in excess of minimum to highest rate balance first or pro rata among all balances.



Protection Against Interest Rate Increases

Restrictions have been placed on interest rate increases:

Exceptions:

- If rate was **disclosed at opening with expiration date**, issuer can apply increased rate that was disclosed at opening.
- Rate was originally disclosed as **variable**.
- After 1st year, issuer can increase rate for **new transactions** if comply with Reg. Z **45 day notice** rule. Applies only to transactions that occur more than 7 days after 45 day notice was provided.
- Increase rate if borrower more than **30 days late in making minimum payment**.

Two Cycle Billing is Prohibited!



Security Deposits & Fees Limiting Credit Availability

Card issuers prohibited from financing security deposits and fees that exceed 50% of the credit limit in the first year.

During first billing cycle, total security deposits and fees that can be charged at account opening, cannot exceed 25% of initial credit amount.

Presentation available at www.bos.frb.org/consumer

