

LEGISLATIVE UPDATE
CARD ACT CHANGES EFFECTIVE AUGUST 22, 2010

The Federal Reserve Board approved a final rule 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 violation 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 new rule is effective August 22, 2010. Should any of these changes affect the Credit Union’s credit card program, the necessary changes should be made immediately.

PETER J. LISKA, LLC
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