



FEDERAL RESERVE press release

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For immediate release

The Federal Reserve Board on Friday proposed rules to prohibit unfair practices regarding credit cards and overdraft services that would, among other provisions, protect consumers from unexpected increases in the rate charged on pre-existing credit card balances.

The rules, proposed for public comment under the Federal Trade Commission Act (FTC Act), also would forbid banks from imposing interest charges using the "two-cycle" billing method, would require that consumers receive a reasonable amount of time to make their credit card payments, and would prohibit the use of payment allocation methods that unfairly maximize interest charges. They also include protections for consumers that use overdraft services offered by their bank.

"The proposed rules are intended to establish a new baseline for fairness in how credit card plans operate," said Federal Reserve Chairman Ben S. Bernanke. "Consumers relying on credit cards should be better able to predict how their decisions and actions will affect their costs."

The proposed changes to the Board's Regulation AA (Unfair or Deceptive Acts or Practices) would be complemented by separate proposals that the Board is issuing under the Truth in Lending Act (Regulation Z) and the Truth in Savings Act (Regulation DD).

The provisions addressing credit card practices are part of the Board's ongoing effort to enhance protections for consumers who use credit cards, and follow the Board's 2007 proposal to improve the credit card disclosures under the Truth in Lending Act. The FTC Act proposal includes five key protections for consumers that use credit cards:

- Banks would be prohibited from increasing the rate on a pre-existing credit card balance (except under limited circumstances) and must allow the consumer to pay off that balance over a reasonable period of time.
- Banks would be prohibited from applying payments in excess of the minimum in a manner that maximizes interest charges.
- Banks would be required to give consumers the full benefit of discounted promotional rates on credit cards by applying payments in excess of the minimum to any higher-rate balances first, and by providing a grace period for purchases where the consumer is otherwise eligible.
- Banks would be prohibited from imposing interest charges using the "two-cycle" method, which computes interest on balances on days in billing cycles preceding the most recent billing cycle.
- Banks would be required to provide consumers a reasonable amount of time to make payments.

The proposal would also address subprime credit cards by limiting the fees that reduce the available credit. In addition, banks that make firm offers of credit advertising multiple rates or credit limits would be required to disclose in the solicitation the factors that determine whether a consumer will qualify for the lowest rate and highest credit limit.

"Unfair practices can impose significant costs on credit card users," said Federal Reserve Board Governor Randall S. Kroszner. "The new proposed rules would provide the benefit of substantial protection against practices that can harm consumers."

The Board's proposal under the FTC Act also addresses acts or practices in connection with a bank's payment of overdrafts on a deposit account, whether the overdraft is created by check, a withdrawal at an automated teller machine, a debit card purchase, or other transactions. The proposal requires institutions to provide consumers with notice and an opportunity to opt out of the payment of overdrafts, before any overdraft fees or charges may be imposed on consumers' accounts.

To ensure that consumers enjoy the same protections regardless of the institution from which they obtain a credit card or receive overdraft protection, the Board's FTC Act proposal is issued concurrently with substantively similar proposals by the Office of Thrift Supervision and the National Credit Union Administration that would apply, respectively, to savings associations and federally-chartered credit unions.

All three *Federal Register* notices are attached. In light of the significance of the issues raised, the comment period for the FTC Act proposal ends seventy-five days after publication of the proposal in the *Federal Register*, while the comment periods for the Regulation Z and DD proposals end sixty days after publication. Publication of each of the proposals is expected shortly.

[Highlights of Proposed Rules Regarding Credit Cards and Overdraft Services](#)

[Statement by Chairman Ben S. Bernanke](#)

[Statement by Governor Randall S. Kroszner](#)

Federal Register Notices

Regulation AA (Federal Trade Commission Act) -- Unfair or Deceptive Acts or Practices
[409 KB PDF](#) | [TEXT](#)

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Proposals for Comment

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