

## Credit Card Account Management<sup>1</sup>

<b>Exam Date:</b>	[Click&type]
<b>Exam ID No.:</b>	[Click&type]
<b>Prepared By:</b>	[Click&type]
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These Credit Card Account Management Examination Procedures (Procedures) consist of modules covering the various elements of credit card account management; each module identifies specific matters for review. Before using the Procedures, examiners should complete a risk assessment and examination scope memorandum in accordance with CFPB supervisory policy.

Notably, it is unlawful for any provider of consumer financial products or services or a service provider to engage in any unfair, deceptive or abusive act or practice (UDAAP) under the Dodd-Frank Act. UDAAPs can cause significant financial injury to consumers, erode consumer confidence, and undermine the financial marketplace. As examiners conduct card origination examinations, they should be alert to the potential for UDAAPs. The “Unfair, Deceptive, or Abusive Acts or Practices” section of the CFPB Supervision and Examination Manual provides additional information about identifying these practices.

Further, the Equal Credit Opportunity Act (ECOA) and its implementing regulation, Regulation B, applies to credit card lenders. Under ECOA, it is unlawful for a creditor to discriminate against any borrower with respect to any aspect of a credit transaction:

- On the basis of race, color, religion, national origin, sex or marital status, or age (provided the applicant has the capacity to contract);
- Because all or part of the applicant’s income derives from any public assistance program; or
- Because the applicant has in good faith exercised any right under the Consumer Credit Protection Act.

While reviewing a lender’s credit card lending activities (e.g., account origination activities, account servicing activities, or marketing and sale of add-on products), examiners must be mindful of activities that may indicate discrimination in violation of the ECOA. An examination of whether a lender’s credit card lending activities involve discrimination in violation of the ECOA will rely on procedures outlined in the CFPB’s ECOA Examination Program Manual, including the ECOA Baseline Review Modules, and the Interagency Fair Lending Examination Procedures.

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<sup>1</sup> These reflect FFIEC-approved TILA procedures.

Depending on scope, and in conjunction with the compliance management systems review, each examination will cover one or more of the following modules:

Module 1: Advertising and Marketing

Module 2: Account Origination

Module 3: Account Servicing

Module 4: Payments and Periodic Statements

Module 5: Dispute Resolution

Module 6: Marketing, Sale, and Servicing of Credit Card  
Add-on Products

## Module 1: Advertising and Marketing

### *General advertising requirements (12 CFR 1026.16(a)-(b), (f))*

Regulation Z requires that if a credit card advertisement states specific terms, it must only state those terms that the issuer will offer or arrange. For example, an issuer may not advertise a very low annual percentage rate (APR) that will not, in fact, be available at any time; however, it may advertise terms that will only be offered for a limited period or terms that will become available at a future date. This requirement is not limited only to the disclosures that are required by Regulation Z to be included in the advertisement, but also applies to any specific component of the credit plan.

If any charge imposed as part of the plan is set forth affirmatively or negatively in an advertisement for a credit card, additional disclosures must also be included in the advertisement.<sup>2</sup> If any of these terms that trigger additional disclosures are mentioned in an advertisement (so-called “triggering terms”), the advertisement must also include the following information, in a clear and conspicuous manner:<sup>3</sup>

- Any minimum, fixed, transaction, activity or similar charge that is a finance charge under 12 CFR 1026.4 that could be imposed;
- Any periodic rate that may be applied expressed as an APR, and if the plan provides for a variable periodic rate, that fact shall be disclosed; and
- Any membership or participation fee that could be imposed.

This additional information is referred to as “triggering terms.”

If an advertisement for credit to finance the purchase of goods or services specified in the advertisement specifies a periodic payment amount, it must also state the total number of payments and the time period to repay the obligation, assuming that the consumer pays only the periodic payment amount advertised. The disclosure of the total of payments and the time period to repay the obligation must be equally prominent to the statement of the periodic payment amount.

An advertisement may not refer to an APR as “fixed,” or use a similar term, unless the advertisement also specifies a time period that the rate will be fixed and the rate will not increase during that period, or if no such time period is provided, the rate will not increase while the plan is open.

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<sup>2</sup> See Appendix 1 to these procedures or 12 CFR 1026.6(b)(3).

<sup>3</sup> See 12 CFR 1026.16, Supp. I, Comment 1 and 2 regarding the clear and conspicuous standards that apply to advertisements.

***Special rules for television, radio, catalogue or multi-page, and electronic advertisement (12 CFR 1026.16(c) and (e))***

If an advertisement is made through television or radio and states any of the “triggering terms” as discussed previously, the advertisement may comply with the additional disclosure requirements by stating any APRs applicable to the account (and variable rate disclosures, if applicable), and listing a toll-free telephone number (or a number that allows a consumer to reverse phone charges), along with a reference that such number may be used by consumers to obtain the additional cost information.

If the advertisement containing one or more of the “triggering terms” is a catalogue or other multi-page advertisement, or an electronic advertisement (such as an advertisement appearing on a website), Regulation Z permits issuers to put all of the triggered terms in one place. Issuers may use a table or schedule to include the triggered terms, provided the table or schedule is clearly and conspicuously set forth, and if any “triggering terms” are mentioned elsewhere in the advertisement, it must include a reference to the page or location where the table or schedule begins.

***Rules for advertisements for certain promotional/deferred APR and/or fee offers (12 CFR 1026.16(g) and (h))***

From time to time, credit card issuers will offer special interest rates or fees in connection with a credit card account. These special rates and fees can take several types of forms:

- *Promotional rate:* Any APR applicable to one or more balances or transactions for a specified period of time that is lower than the APR that will be in effect at the end of that period on such balances or transactions.
- *Introductory rate:* A promotional rate offered in connection with the opening of an account.
- *Promotional fee:* A fee required to be disclosed in the account-opening summary table<sup>4</sup> where the fee is (1) applicable either to the credit plan or to one or more balances or transactions; (2) applicable for a specified period of time; and (3) is lower than the fee that will be in effect at the end of that period for such plan or types of balances or transactions.
- *Introductory fee:* A promotional fee offered in connection with the opening of an account.
- *Promotional period:* The maximum time period for which a promotional rate or promotional fee may be applicable.
- *Deferred interest:* Finance charges accrued on balances or transactions that a consumer is not obligated to pay or that will be waived or refunded to a consumer if those balances or

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<sup>4</sup> See 12 CFR 1026.6(b)(1) and (2).

transactions are paid in full by a specified date. “Deferred interest” does not include any finance charges the consumer avoids paying in connection with any recurring grace period.

- *Deferred interest period:* The maximum period from the date the consumer becomes obligated for the balance or transaction until the specified date by which the consumer must pay the balance or transaction in full in order to avoid finance charges, or receive a waiver or refund of finance charges.

Regulation Z contains specific requirements for advertisements that include these types of offers:

- If any APR or fee that may be applied to the account is an introductory rate or introductory fee, the term “introductory” or “intro” must be in immediate proximity to each listing of the introductory rate or introductory fee in a written or electronic advertisement. If these terms are included in the same phrase as the listing, they will be deemed to be in “immediate proximity.”
- If any APR or fee that may be applied to the account is a promotional rate or a promotional fee, the following information must also be stated in a clear and conspicuous manner,<sup>5</sup> and for written or electronic advertisements, in a prominent location closely proximate to the first listing of the promotional rate or fee:
  - When the promotional rate will end;
  - The APR that will apply after the end of the promotional period (if the advertisement includes a promotional rate);<sup>6</sup> and
  - The fee that will apply after the end of the promotional period (if the advertisement includes a promotional fee).<sup>7</sup>

If a deferred interest offer is advertised, the following requirements apply:

- The deferred interest period must be stated in a clear and conspicuous manner.
- If the phrase “no interest” or similar term regarding the possible avoidance of interest obligations is stated, the term “if paid in full” must also be stated in a clear and conspicuous manner preceding the disclosure of the deferred interest period.

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<sup>5</sup> For this provision, the term “clear and conspicuous” for purpose of written or electronic advertisements means that the disclosures must be equally prominent to the promotional rate or promotional fee to which they apply. If the disclosures are the same type size as the promotional rate or promotional fee to which they apply, they will be deemed to be equally prominent. See Comment 16(1) and (2) regarding the clear and conspicuous standards that apply to advertisements.

<sup>6</sup> 12 CFR 1026.16(g)(4)(ii) and the Comment 16(g)(1) contain additional detailed explanations of the correct way to disclose the APR that will be in effect at the end of the promotional period if the APR will be a variable rate or is based on the consumer’s creditworthiness.

<sup>7</sup> These requirements do not apply to an envelope or other enclosure in which an application or solicitation is mailed, or to a banner advertisement linked to an application or solicitation provided electronically.

- If the deferred interest offer is included in a written or electronic advertisement, the deferred interest period and, if applicable, the term “if paid in full” must also be stated in immediate proximity to each statement of “no interest,” “no payments,” “deferred interest,” “same as cash,” or similar term regarding interest or payments during the deferred interest period.<sup>8</sup>
- The following additional information must also be included; for written or electronic advertisements, this information must be included in a prominent location closely proximate to the first statement of “no interest” or other similar term referred to in the prior bullet.<sup>9</sup>
  - A statement that interest will be charged from the date the consumer becomes obligated for the balance or transaction subject to the deferred interest offer if the balance or transaction is not paid in full within the deferred interest period; and
  - A statement, if applicable, that interest will be charged from the date the consumer incurs the balance or transaction subject to the deferred interest offer if the account is in default before the end of the deferred interest period.

Comment 16(g)(3) and (4) and 16(h)(4) and (5) identify practices that will and will not be deemed to meet the requirements for “immediate proximity,” “prominent location closely proximate to,” and “first listing” for written and electronic advertisements:

- A term that is in the same phrase as the statement it clarifies will be deemed to be in “immediate proximity.”
- If information appears in the same paragraph as the first listing of a term, it will be deemed to be in a “prominent location closely proximate to” the first statement of the term.
- Information disclosed in a footnote is not considered a “prominent location closely proximate to” the statement.

The “first statement” is the most prominent listing of the statement on the front side of the first page of the principal promotional document. The principal promotional document is the document designed to be seen first by the consumer in a mailing, such as a cover letter or solicitation letter.

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<sup>8</sup> For this provision, the term “clear and conspicuous” for purposes of written or electronic advertisements means that the required information must be equally prominent to each statement of “no interest,” “no payments,” “deferred interest,” “same as cash,” or similar term regarding interest or payments during the deferred interest period. If the information required to be disclosed is the same type size as the statement of “no interest,” “no payments,” “deferred interest,” “same as cash,” or similar term regarding interest or payments during the deferred interest period, the disclosure will be deemed to be equally prominent.

<sup>9</sup> These requirements do not apply to an envelope or other enclosure in which an application or solicitation is mailed, or to a banner advertisement or pop-up advertisement linked to an application or solicitation provided electronically.

- If one of the statements does not appear on the front side of the first page of the principal promotional document, then the first listing of one of these statements is the most prominent listing of a statement on the subsequent pages of the principal promotional document.
- If one of the statements is not listed on the principal promotional document or there is no principal promotional document, the first listing of one of these statements is the most prominent listing of the statement on the front side of the first page of each document containing one of these statements.
- If one of the statements does not appear on the front side of the first page of a document, then the first listing of one of these statements is the most prominent listing of a statement on the subsequent pages of the document.
- If the listing of one of these statements with the largest type size on the front side of the first page (or subsequent pages if one of these statements is not listed on the front side of the first page) of the principal promotional document (or each document listing one of these statements if a statement is not listed on the principal promotional document or there is no principal promotional document) is used as the most prominent listing, it will be deemed to be the first listing.

### ***Marketing to college students (12 CFR 1026.57)***

Regulation Z establishes several requirements related to the marketing of credit cards to students at an institution of higher education. The regulation limits an issuer's ability to offer a college student any tangible item to induce the student to apply for or participate in a credit card plan offered by the issuer. Specifically, Regulation Z prohibits a card issuer from offering tangible items as inducement:

- On the campus of an institution of higher education;
- Near the campus of an institution of higher education; or
- At an event sponsored by or related to an institution of higher education.

A tangible item means physical items, such as gift cards, t-shirts, or magazine subscriptions, but does not include non-physical items such as discounts, reward points, or promotional credit terms. With respect to offers "near" the campus, Comment 57(c)(3) states that a location that is within 1,000 feet of the border of the campus is considered near the campus.

Any card issuer that was a party to one or more college credit card agreements in effect at any time during a calendar year must submit to the CFPB an annual report regarding those agreements. The term "college credit card agreement" means any business, marketing or promotional agreement between a card issuer and an institution of higher education or an affiliated organization in connection with which college student credit cards are issued to college students currently enrolled at that institution. Except for the initial report, a card issuer must

submit its annual report for each calendar year to the CFPB by the first business day on or after March 31 of the following calendar year.

***Internet posting of credit card agreements (12 CFR 1026.58)***

Each quarter, credit card issuers are required to submit to the CFPB any credit card agreement that the issuer offered as of the last business day of the preceding calendar quarter. The CFPB posts these agreements on the CFPB's public website.<sup>10</sup> If the issuer has previously submitted a particular agreement, it does not need to resubmit it unless it has been amended. The issuer must also notify the CFPB if it no longer offers any credit cards whose agreements have been previously submitted. An issuer will not be required to make a quarterly submission if it does not have any new agreements, amendments, or withdrawals. Regulation Z also contains reporting exceptions, including for issuers who have fewer than 10,000 credit card accounts open as of the last business day of the calendar quarter. With respect to agreements that a card issuer is required to submit to the CFPB, the card issuer generally also must provide these same credit card agreements on its publically available website. The card issuer must update these agreements at least quarterly.

In addition, with respect to any open credit card account (i.e., the cardholder can obtain extensions of credit on the account or there is an outstanding balance on the account that has not been charged off), a card issuer must provide the cardholder with access to his or her specific credit card agreement by either (1) posting and maintaining the cardholder's agreement on the card issuer's website; or (2) providing a copy of the agreement within 30 days of receipt of a consumer's request. If the issuer chooses to make the agreements available upon request, it generally must give consumers the ability to place a request through its website or over the phone.

***Unfair, deceptive, or abusive acts or practices (12 USC 5531 and 5536)***

Under the Dodd-Frank Act, it is unlawful for any provider of consumer financial products or services or a service provider to engage in any unfair, deceptive or abusive act or practice. As examiners review credit card advertising materials, they should be aware of any advertising practices that present a risk of harm to consumers. See "Unfair, Deceptive, or Abusive Acts or Practices," CFPB Supervision and Examination Manual, for additional information on identifying unfair, deceptive, or abusive acts or practice.

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<sup>10</sup> Information about the CFPB's database on credit card agreements is available at <http://www.consumerfinance.gov/credit-cards/agreements/>.



## Examination Procedures

### ***Advertising (12 CFR 1026.16)***

1. Sample advertising copy, including any electronic advertising, since the previous examination and verify that the terms of credit are accurate, clear, balanced, and conspicuous. If triggering terms are used, determine that the required disclosures are made (12 CFR 1026.16).
  - A. Determine that the creditor does not offer college students any tangible item to induce such students to apply for or open an open-end consumer credit plan offered by such creditor, if such offer is made:
    - i. On the campus of an institution of higher education;
    - ii. Near the campus of an institution of higher education; or
    - iii. At an event sponsored by or related to an institution of higher education. (12 CFR 1026.57(c))
  - B. If an advertisement refers to an APR as “fixed” (or similar term), determine 1) that the advertisement also specifies a time period that the rate will be fixed and 2) that the rate will not increase during that period. (12 CFR 1026.16(f))
  - C. If an advertisement used the word “fixed” or a similar word and no time period is specified in which the rate will be fixed, determine that the rate will not increase while the plan is open. (12 CFR 1026.16(f))
  - D. If an APR or fee that may be applied to the account is an introductory rate or introductory fee, determine that the term *introductory* or *intro* is in immediate proximity to each listing of the introductory rate or introductory fee in a written or electronic advertisement. (12 CFR 1026.16(g)(3))
  - E. If any APR or fee that may be applied to the account is a promotional rate under 12 CFR 1026.16(g)(2)(i) or any fee that may be applied to the account is a promotional fee under 12 CFR 1026.16(g)(2)(iv), determine that the following information is stated in a clear and conspicuous manner in the advertisement (12 CFR 1026.16(g)(4)):
    - i. When the promotional rate or promotional fee will end and
    - ii. The annual percentage rate that will apply after the end of the promotional period.

NOTE: If such rate is variable, determine that the annual percentage rate complies with the accuracy standards in 12 CFR 1026.60(c)(2), 1026.60(d)(3), 1026.60(e)(4), or 1026.16(b)(1)(ii), as applicable. If such rate cannot be determined at the time disclosures are given because the rate depends at least in part on a later determination of the consumer’s creditworthiness, determine that the advertisement discloses the specific rates

or the range of rates that might apply. (12 CFR 1026.16(g)(4)(ii)). Further, if the promotional rate or fee is stated in a written or electronic advertisement, determine that the information in 12 CFR 1026.16 (g)(4)(i), and, as applicable, 12 CFR 1026 (g)(4)(ii), or (g)(4)(iii) are also stated in a prominent location closely proximate to the first listing of the promotional rate or promotional fee.

- F. If a deferred interest offer is advertised for an open-end account not subject to 12 CFR 1026.40, determine that the deferred interest period is stated in a clear and conspicuous manner in the advertisement. If the phrase “no interest” or similar term regarding the possible avoidance of interest obligations under the deferred interest program is stated, determine that the term “if paid in full” is also stated in a clear and conspicuous manner preceding the disclosure of the deferred interest period in the advertisement. If the deferred interest offer is included in a written or electronic advertisement, determine that the deferred interest period and, if applicable, the term “if paid in full” are stated in immediate proximity to each statement of “no interest,” “no payments,” “deferred interest,” “same as cash,” or similar term regarding interest or payments during the deferred interest period. (12 CFR 1026.16(h)(3))
- G. If any deferred interest offer is advertised for an open-end account not subject to 12 CFR 1026.40, determine that the 12 CFR 1026(h)(4)(i) and (h)(4)(ii) language (of 12 CFR 1026.16(h)(4) ) is stated in the advertisement and is similar to Sample G–24 in Appendix G. If the deferred interest offer is included in a written or electronic advertisement, determine that this information is stated in a prominent location closely proximate to the first statement of “no interest,” “no payments,” “deferred interest,” “same as cash,” or similar term regarding interest or payments during the deferred interest period. (12 CFR 1026.16(h)(4))

NOTE: The requirements in 12 CFR 1026.16(h)(4) apply to any advertisement of an open-end credit plan not subject to 12 CFR 1026.40 (requirements for home equity plans) 12 CFR 1026.16(h)(1). However, the requirements do not apply to an envelope or other enclosure in which an application or solicitation is mailed, or to a banner advertisement or pop-up advertisement linked to an application or solicitation provided electronically. (12 CFR 1026.16(h)(5))

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### ***Annual report to the CFPB (12 CFR 1026.57)***

1. If the card issuer was a party to one or more college credit card agreements in effect at any time during a calendar year, verify that the card issuer submits to the CFPB an annual report regarding those agreements in the form and manner prescribed by the CFPB. (12 CFR 1026.57(d)(1))
  - A. NOTE: A college credit card agreement is any business, marketing, or promotional agreement between a card issuer and an institution of higher education (or an affiliated

alumni organization or foundation) in connection with which credit cards are issued to college students at that institution of higher education. (12 CFR 1026.57(a)(5))

2. The annual report to the CFPB must include the following (12 CFR 1026.57(d)(2)):
  - A. Identifying information about the card issuer and the agreements submitted, including the issuer's name, address, and identifying number (such as an RSSD ID number or tax identification number);
  - B. A copy of any college credit card agreement to which the card issuer was a party that was in effect at any time during the period covered by the report;
  - C. A copy of any memorandum of understanding in effect at any time during the period covered by the report between the card issuer and an institution of higher education or affiliated organization that directly or indirectly relates to the college credit card agreement or that controls or directs any obligations or distribution of benefits between any such entities;
  - D. The total dollar amount of any payments pursuant to a college credit card agreement from the card issuer to an institution of higher education or affiliated organization during the period covered by the report, and the method or formula used to determine such amounts;
  - E. The total number of credit card accounts opened pursuant to any college credit card agreement during the period covered by the report; and
  - F. The total number of credit card accounts opened pursuant to any such agreement that were open at the end of the period covered by the report.
3. If the card issuer is subject to reporting, determine if the card issuer submits its annual report for each calendar year to the CFPB by the first business day on or after March 31 of the following calendar year. (12 CFR 1026.57(d)(3))

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### ***Submission of agreements to the CFPB (12 CFR 1026.58(c))***

1. For card issuers that issue credit cards under a credit card account under an open-end (not home-secured) consumer credit plan, determine that the card issuer makes quarterly submissions to the CFPB in the form and manner specified by the CFPB that contain:
  - A. Identifying information about the card issuer and the agreements submitted, including the issuer's name, address, and identifying number (such as an RSSD ID number or tax identification number) (12 CFR 1026.58(c)(1)(i));

- B. The credit card agreements that the card issuer offered to the public as of the last business day of the preceding calendar quarter that the card issuer has not previously submitted to the CFPB (12 CFR 1026.58(c)(1)(ii));
  - C. Any credit card agreement previously submitted to the CFPB that was amended during the preceding calendar quarter and that the card issuer offered to the public as of the last business day of the preceding calendar quarter as described in 12 CFR 1026.58(c)(3) (12 CFR 1026.58(c)(1)(iii)); and
  - D. Notification regarding any credit card agreement previously submitted to the CFPB that the issuer is withdrawing, as described in 12 CFR 1026.58(c)(4), (c)(5), (c)(6), and (c)(7) (12 CFR 1026.58(c)(1)(iv)).
2. Verify that quarterly submissions were sent to the CFPB no later than the first business day on or after January 31, April 30, July 31, and October 31, of each year. (12 CFR 1026.58(c)(1))
  3. If a credit card agreement that previously has been submitted to the CFPB is amended, verify that the card issuer submits the entire amended agreement to the CFPB, in the form and manner specified by the CFPB, by the first quarterly submission deadline after the last day of the calendar quarter in which the change became effective. (12 CFR 1026.58(c)(3))

NOTE: If a credit card agreement has been submitted to the CFPB, the agreement has not been amended and the card issuer continues to offer the agreement to the public, no additional submission regarding that agreement is required.

4. If a card issuer no longer offers to the public a credit card agreement that previously has been submitted to the CFPB, ensure that the card issuer notifies the CFPB by the first quarterly submission deadline after the last day of the calendar quarter in which the issuer ceased to offer the agreement. (12 CFR 1026.58(c)(4))

NOTE: A card issuer is not required to submit any credit card agreements to the CFPB if the card issuer had fewer than 10,000 open credit card accounts as of the last business day of the calendar quarter. (12 CFR 1026.58(c)(5)(i))

5. If an issuer that previously qualified for the *de minimis* exception ceases to qualify, determine that the card issuer begins making quarterly submissions to the CFPB no later than the first quarterly submission deadline after the date as of which the issuer ceased to qualify. (12 CFR 1026.58(c)(5)(ii))
6. If a card issuer that did not previously qualify for the *de minimis* exception qualifies for the *de minimis* exception, determine that the card issuer continues to make quarterly submissions to the CFPB until the issuer notifies the CFPB that the card issuer is withdrawing all agreements it previously submitted to the CFPB. (12 CFR 1026.58(c)(5)(iii))

7. A card issuer is not required to submit to the CFPB a credit card agreement if, as of the last business day of the calendar quarter, the agreement is offered for accounts under one or more private label credit card plans each of which has fewer than 10,000 open accounts and is not offered to the public other than for accounts under such a plan. ( 12 CFR 1026.58(c)(6)(i))

NOTE: A private label credit card is one that is usable only at a single merchant or affiliated group of merchants. A private label credit card plan is all private label credit card accounts issued by a particular issuer with credit cards usable at the same single merchant or affiliated group of merchants. (12 CFR 1026.58(b)(8))

8. If an agreement that previously qualified for the private label credit card exception ceases to qualify, determine that the card issuer submits the agreement to the CFPB no later than the first quarterly submission deadline after the date as of which the agreement ceased to qualify. (12 CFR 1026.58(c)(6)(ii))
9. If an agreement that did not previously qualify for the private label credit card exception qualifies for the exception, determine that the card issuer continues to make quarterly submissions to the CFPB with respect to that agreement until the issuer notifies the CFPB that the agreement is being withdrawn. (12 CFR 1026.58(c)(6)(iii))

NOTE: A card issuer is not required to submit to the CFPB a credit card agreement if, as of the last business day of the calendar quarter, the agreement is offered as part of a product test offered to only a limited group of consumers for a limited period of time, is used for fewer than 10,000 open accounts, and is not offered to the public other than in connection with such a product test. (12 CFR 1026.58(c)(7)(i))

10. If an agreement that previously qualified for the product testing exception ceases to qualify, determine that the card issuer submits the agreement to the CFPB no later than the first quarterly submission deadline after the date as of which the agreement ceased to qualify. (12 CFR 1026.58(c)(7)(ii))
11. If an agreement that did not previously qualify for the product testing exception qualifies for the exception, determine that the card issuer continues to make quarterly submissions to the CFPB with respect to that agreement until the issuer notifies the CFPB that the agreement is being withdrawn. (12 CFR 1026.58(c)(7)(iii))
12. Verify that each agreement contains the provisions of the agreement and the pricing information in effect as of the last business day of the preceding calendar quarter. (12 CFR 1026.58(c)(8)(i)(A))
13. Verify that agreements do not include any personally identifiable information relating to any cardholder, such as name, address, telephone number, or account number. ( 12 CFR 1026.58(c)(8)(i)(B))

14. Verify that agreements are presented in a clear and legible font. (12 CFR 1026.58(c)(8)(i)(D))

15. Verify that pricing information is set forth in a single addendum to the agreement that contains only the pricing information. (12 CFR 1026.58(c)(8)(ii)(A))

NOTE: With respect to information other than the pricing information that may vary between cardholders depending on creditworthiness, state of residence, or other factors, issuers may, but are not required to, include that information in a single addendum (the optional variable terms addendum) to the agreement separate from the pricing addendum (12 CFR 1026.58(c)(8)(iii)).

16. If pricing information varies from one cardholder to another depending on the cardholder's creditworthiness or state of residence or other factors, verify that the pricing information is disclosed either by setting forth all the possible variations (such as purchase APRs of 13 percent, 15 percent, 17 percent, and 19 percent) or by providing a range of possible variations (such as purchase APRs ranging from 13 percent to 19 percent). (12 CFR 1026.58(c)(8)(ii)(B))

17. If a rate included in the pricing information is a variable rate, verify that the issuer identifies the index or formula used in setting the rate and the margin. (12 CFR 1026.58(c)(8)(ii)(C))

18. If rates vary from one cardholder to another, verify that the issuer discloses such rates by providing the index and the possible margins (such as the prime rate plus 5 percent, 8 percent, 10 percent, or 12 percent) or range of margins (such as the prime rate plus from 5 to 12 percent). (12 CFR 1026.58(c)(8)(ii)(C))

NOTE: The value of the rate and the value of the index are not required to be disclosed.

19. Determine that issuers do not provide provisions of the agreement or pricing information in the form of change-in-terms notices or riders (other than the pricing information addendum and the optional variable terms addendum). (12 CFR 1026.58(c)(8)(iv))

20. Determine that changes in provisions or pricing information are integrated into the text of the agreement, the pricing information addendum or the optional variable terms addendum, as appropriate. (12 CFR 1026.58(c)(8)(iv))

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***Posting of agreements offered to the public (12 CFR 1026.58(d))***

1. Determine that the card issuer posts and maintains on its publicly available website the credit card agreements that the issuer is required to submit to the CFPB under 12 CFR 1026.58(c). (12 CFR 1026.58(d)(1))

2. With respect to an agreement offered solely for accounts under one or more private label credit card plans (and the issuer does not post and maintain the agreements on its publicly available

website), determine that the issuer posts and maintains the agreement on the publicly available website of at least one of the merchants where cards issued under each private label credit card plan with 10,000 or more open accounts may be used. (12 CFR 1026.58(d)(1))

3. Verify that agreements posted pursuant to 12 CFR 1026.58(d) conform to the form and content requirements for agreements submitted to the CFPB specified in 12 CFR 1026.58(c)(8). (12 CFR 1026.58(d)(2))
4. Determine that agreements are posted in an electronic format that is readily usable by the general public. (12 CFR 1026.58(d)(3))
5. Verify that agreements are placed in a location on its website that is prominent and readily accessible by the public and accessible without submission of personally identifiable information. (12 CFR 1026.58(d)(3))
6. Determine that the card issuer updates the agreements posted on its website at least as frequently as the quarterly schedule required for submission of agreements to the CFPB under 12 CFR 1026.58(c). (12 CFR 1026.58(d)(4))

NOTE: If the issuer chooses to update the agreements on its website more frequently, the agreements posted on the issuer's website may contain the provisions of the agreement and the pricing information in effect as of a date other than the last business day of the preceding calendar quarter.

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### ***Posting of agreements for "open" accounts (12 CFR 1026.58(e))***

1. With respect to any open (i.e., the cardholder can obtain extensions or there is an outstanding balance on the account that has not been charged off) credit card account, determine that the card issuer either:
  - A. Posts and maintains the cardholder's agreement on its website; or
  - B. Promptly provides a copy of the cardholder's agreement to the cardholder upon the cardholder's request.
2. If the card issuer makes an agreement available upon request, ensure that the issuer provides the cardholder with the ability to request a copy of the agreement both by:
  - A. Using the issuer's website, such as by clicking on a clearly identified box to make the request (12 CFR 1026.58(e)(1)(ii)), and
  - B. Calling a readily available telephone line the number for which is displayed on the issuer's website and clearly identified as to purpose. (12 CFR 1026.58(e)(1)(ii) and (e)(2))

3. If an issuer does not maintain a website from which cardholders can access specific information about their individual accounts determine that the issuer makes agreements available upon request by providing the cardholder with the ability to request a copy of the agreement by calling a readily available telephone line the number for which is (12 CFR 1026.58(e)(2)):
  - A. Displayed on the issuer's website and clearly identified as to purpose; or
  - B. Included on each periodic statement sent to the cardholder and clearly identified as to purpose.
4. Verify that the card issuer sends to the cardholder or otherwise make available to the cardholder a copy of the cardholder's agreement in electronic or paper form no later than 30 days after the issuer receives the cardholder's request. (12 CFR 1026.58(e)(1)(ii))
5. Determine that agreements posted on the card issuer's website or made available upon the cardholder's request conform to the form and content requirements for agreements submitted to the CFPB specified in 12 CFR 1026.58(c)(8). (12 CFR 1026.58(e)(3)(i))
6. If the card issuer posts an agreement on its website or otherwise provides an agreement to a cardholder electronically, verify that the agreement is posted or provided in an electronic format that is readily usable by the general public and is placed in a location that is prominent and readily accessible to the cardholder. (12 CFR 1026.58(e)(3)(ii))
7. If agreements posted or otherwise provided contain personally identifiable information relating to the cardholder, such as name, address, telephone number, or account number, ensure that the issuer takes appropriate measures to make the agreement accessible only to the cardholder or other authorized persons. (12 CFR 1026.58(e)(3)(iii))
8. Determine that agreements posted or otherwise provided set forth the specific provisions and pricing information applicable to the particular cardholder. (12 CFR 1026.58(e)(3)(iv))
9. Determine that provisions and pricing information are complete and accurate as of a date no more than 60 days prior to (12 CFR 1026.58(e)(3)(iv)):
  - A. The date on which the agreement is posted on the card issuer's website under 12 CFR 1026.58(e)(1)(i);
  - B. The date the cardholder's request is received under 12 CFR 1026.58(e)(1)(ii) or (e)(2).

NOTE: Card issuers may provide credit card agreements in electronic form under 12 CFR 1026.58(d) and (e) without regard to the consumer notice and consent requirements of 15 USC 101(c) of the Electronic Signatures in Global and National Commerce Act (E-Sign Act) (15 USC. 7001 et seq.). (12 CFR 1026.58(f))

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## **Module 2: Account Origination**

### ***Rules on issuance of credit cards (12 CFR 1026.12(a))***

Issuers are generally required to issue credit cards only upon oral or written request, or as a renewal of, or substitute for, an accepted credit card.

Consumers can apply for credit card accounts through a variety of channels; for example, in response to a prescreened offer, by completing a “take-one” application, submitting an electronic application, or directly calling an issuer. Regulation Z contains several requirements for disclosures that generally must accompany application or solicitation materials. The Fair Credit Reporting Act (FCRA)/Regulation V and the Equal Credit Opportunity Act/Regulation B (Regulation B) also contain several requirements with which credit card issuers must comply when soliciting requests from consumers to open a credit or charge card account.

### ***Prescreened consumer reports and opt-out notices (15 USC 1681b(c) and 1681m(d); 12 CFR 1022.54)***

Credit card issuers who use prescreened offers to solicit requests from consumers to open a credit or charge card account must ensure that they do so in compliance with the FCRA, which permits credit card issuers to obtain prescreened consumer reports to make firm offers of credit to consumers, unless the consumer elects to opt out of being included on prescreened lists. The law contains a number of requirements for the content of the prescreened lists, as well as notice and opt-out requirements. These requirements are discussed in detail in the Fair Credit Reporting Act section of the CFPB Examination Manual.<sup>11</sup>

### ***Credit and charge card applications and solicitations (12 CFR 1026.60)***

Regulation Z generally requires credit card issuers to provide disclosures on or with credit card applications and solicitations, in order to ensure that consumers are aware of certain costs and fees associated with a particular credit card prior to applying for or requesting the card. Credit card solicitation or application disclosures generally must be made in a tabular format on or with a solicitation or an application that is mailed to consumers or provided to consumers in electronic form. The regulation also contains certain disclosure requirements for telephone applications and solicitations initiated by the card issuer, as well as applications and solicitations made available to the general public (such as catalog, magazine, or other generally available publications) or provided in-person to the consumer. See Appendix 1 to these procedures for detailed information on the required contents of these disclosures.

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<sup>11</sup> See “Fair Credit Reporting Act,” CFPB Supervision and Examination Manual V.2 (October 2012), at FCRA 23.

***Ability to Pay (12 CFR 1026.51)***

*General Provisions*

Credit card issuers are required to consider an applicant's ability to pay the minimum monthly payment on an account prior to opening a credit card account or increasing a credit limit. The regulation states that this determination must be based on consideration of the applicant's income or assets and the applicant's current obligations. A card issuer may consider other factors at its option, such as credit score, provided the additional factors are permissible under Regulation B. The issuer may consider income based on the following information:

- Information provided by the consumer in connection with the account, including information provided by the consumer through the application process;
- Information provided by the applicant in connection with other financial relationships with the issuer or the issuer's affiliates (subject to information sharing rules);
- Information from third parties (subject to information sharing rules); or
- Information obtained through any empirically derived, demonstrably and statistically sound model that reasonably estimates an applicant's income or assets, including any income or assets to which the applicant has a reasonable expectation of access.

A card issuer may consider the consumer's current obligations based on information provided by the consumer or in a consumer report. In evaluating a consumer's current obligations, a card issuer need not assume that credit lines for other obligations are fully utilized.

Card issuers must use a reasonable method for estimating the minimum monthly payment for the purpose of determining the consumer's ability to pay. Regulation Z contains a "safe harbor" provision, which states that a card issuer complies with the requirement that it use a reasonable method for determining the minimum monthly payment if the card issuer does the following:

- Assumes utilization, from the first day of the billing cycle, of the full credit line that the issuer is considering offering to the consumer; and
- Uses the same minimum monthly payment formula that it uses for the actual product, provided that if the minimum monthly payment calculation includes interest and/or mandatory fees, the issuer includes them in the calculation.

Card issuers are also required to establish and maintain reasonable written policies and procedures to consider the applicant's ability to pay. "Reasonable" policies and procedures include the issuer's policy on consideration of income (whether it will consider income and/or assets (income/assets) to which the consumer has "reasonable expectation of access," or whether it will limit consideration to the consumer's independent income/assets). "Reasonable" policies and procedures also include the consideration of at least one of the following:

- The ratio of debt obligations to income;
- The ratio of debt obligations to assets; or
- Residual income.

### *Applicants 21 or older*

If an applicant is 21 or older, the card issuer is required to determine the applicant's and any co-applicant/cosigner/guarantor's ability to pay based on the applicant/co-applicant/cosigner/guarantor's current or reasonably expected income or assets in order to open a credit card account or increase a credit line. The issuer may also consider any income or assets to which the parties have a "reasonable expectation of access" as part of the applicant(s)' current or reasonably expected income; however, the issuer is not required to do so. Comment 51(a)(1)(i)(4)(ii) provides examples of "current or reasonably expected income," including current or expected salary, wages, bonus pay, tips, and commissions. Other sources of income could include interest or dividends, retirement benefits, public assistance, alimony, child support, or separate maintenance payments. Current or reasonably expected income also includes income that is deposited regularly in an account on which the applicant is an accountholder. The income and/or assets to which an applicant has a "reasonable expectation of access" includes those in which an applicant does not have a current or expected ownership interest but that are available to an applicant through the actions of a non-applicant (for example, the non-applicant regularly pays the expenses of the applicant).

### *Applicants under the age of 21*

If the applicant is under the age of 21, the issuer may not open a credit card account unless the issuer has financial information indicating that the applicant can make the minimum monthly payment based on the applicant's current or reasonably expected income or assets, or the issuer has a signed agreement from a co-applicant/cosigner/guarantor who is 21 or older and has a documented ability to make the minimum monthly payment. It is important to note that if the applicant is under 21, the issuer may not consider income or assets to which the applicant only has a "reasonable expectation of access;" however, it may use that standard to assess the over-21 co-applicant/cosigner/guarantor's ability to pay.

***Disclosures required to be provided to the consumer at account opening (12 CFR 1026.5 and 1026.6)***

Regulation Z requires that card issuers provide certain disclosures to consumers at account opening. These disclosures generally must be made clearly and conspicuously, in a form that the consumer can keep. In general, this means that the disclosures must be written or in electronic form, unless Regulation Z specifically states otherwise.

These disclosures must generally be provided to the consumer before the first transaction is made under the plan, although Regulation Z contains exceptions for certain charges that are imposed as part of the plan and are not required to be disclosed under 12 CFR 1026.6(b)(2)<sup>12</sup> and instances where the consumer establishes the credit card account over the phone and makes the first transaction at that time.<sup>13</sup>

See Appendix 1 to these procedures for detailed information on the required formatting and contents of these disclosures.

***Collection of membership and application fees (12 CFR 1026.5(b)(1)(iv)(A) and 1026.5(b)(1)(v))***

In general, the card issuer may not collect any fee before account opening disclosures are provided; however, Regulation Z permits certain membership fees and application fees to be collected before account opening disclosures are provided, as long as specific requirements are met.

An issuer may collect or obtain the consumer's agreement to pay membership fees, including application fees excludable from the finance charge under 12 CFR 1026.4(c)(1), before providing account-opening disclosures. In order to do so, the consumer must be able to reject the plan after receiving the disclosures and have no obligation to pay these fees, or any other fee or charge.<sup>14</sup> If the consumer rejects the plan, the issuer must promptly refund the membership fee or application fee if it has been paid, or take other action necessary to ensure the consumer is not obligated to pay that fee or any other fee or charge.

***Limitations on fees during first year after account opening (12 CFR 1026.52(a))***

During the first year after the opening of a credit card account, the card issuer may not require the consumer to pay fees in excess of the 25 percent of the credit limit in effect when the account

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<sup>12</sup> See 12 CFR 1026.5(b)(1)(ii)

<sup>13</sup> See 12 CFR 1026.5(b)(1)(iii)

<sup>14</sup> A membership fee for purposes of this 12 CFR 1026.5 has the same meaning as a fee for the issuance or availability of credit described in 12 CFR 12 CFR 1026.60(b)(2).

is opened.<sup>15</sup> The 25 percent limit applies to any fees or other charges that the card issuer may or will require the consumer to pay with respect to the account during the first year after account opening, other than charges attributable to periodic interest rates. For example, the following fees would be counted towards the 25 percent limit:

- Fees for the issuance or availability of credit, including any fee based on account activity or inactivity and any fee that a consumer is required to pay in order to receive a particular credit limit;
- Fees for insurance, debt cancellation, or debt suspension coverage written in connection with the credit transaction, if the insurance, debt cancellation, or debt suspension is required by the terms of the account;
- Fees that the consumer is required to pay in order to engage in transactions using the account (such as cash advance fees, balance transfer fees, foreign transaction fees, and fees for using the account for purchases);
- Fees that the consumer is required to pay for violating the terms of the account (except those specifically excluded, as described later);
- Fixed finance charges;
- Minimum charges imposed if a charge would otherwise have been determined by applying a periodic interest rate to a balance except for the fact that such charge is smaller than the minimum; and
- A security deposit for the account, provided that it is charged to the credit card account.

Certain fees are specifically excluded from this prohibition and do not count towards the 25 percent limitation:

- Late payment fees, over the limit fees, and returned payment fees; and
- Fees that the consumer is not required to pay with respect to the account, such as an expedited payment fee, fees for optional services like travel insurance, fees for reissuing a lost or stolen card, or statement reproduction fees.

A card issuer that charges a fee to a credit card account that exceeds the 25 percent limit will not violate the prohibition if the card issuer waives or removes the fee and any associated interest charges or credits the account for an amount equal to the fee and any associated interest charges within a reasonable amount of time, but no later than the end of the billing cycle following the billing cycle during which the fee was charged.

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<sup>15</sup> For the purposes of this requirement, an account is considered “opened” no earlier than the date on which the consumer may use the account to engage in transactions.

Only decreases to the credit limit during the first year after the account is opened affect the amount of fees that the issuer can assess. If a card issuer decreases the credit limit during the first year after the account is opened, the card issuer is required to waive, remove, or credit the consumer's account for fees that exceed 25 percent of the reduced credit limit.

### ***Limitations on penalty fees (12 CFR 1026.52(b))***

Regulation Z contains specific requirements for card issuers who assess penalty fees against consumers who violate the terms or other requirements of a credit card account. Penalty fees imposed by card issuers must be reasonable and proportional to the violation of the account terms. Card issuers must reevaluate penalty fees at least annually to ensure that the fee represents a reasonable proportion of the total costs incurred by the card issuer as a result of the consumer's violation.<sup>16</sup> If the issuer determines that the fee must be decreased based on this reevaluation, it must decrease the fee within 45 days after completing the reevaluation. Card issuers may also increase a fee if the reevaluation determined that a higher fee represents a reasonable proportion of the cost, and may begin charging the increased fee once it has provided consumers with the Change-in-Terms Notice required by 12 CFR 1026.9.<sup>17</sup>

As an alternative, Regulation Z contains a "safe harbor" provision, which is that a card issuer's penalty fees will be considered reasonable and proportional (and will not require annual reevaluation) if the dollar amount of the fee does not exceed:

- \$27 for the first instance of a violation;
- \$38, if the card issuer previously imposed a penalty fee for a violation of the same type that occurred during the same billing cycle or one of the next six billing cycles; or
- If the account is a charge card that requires payment of the full outstanding balance at the end of each billing cycle, three percent of the delinquent balance if the card issuer has not received the required payment for two or more consecutive billing cycles.<sup>18</sup>

Credit card issuers must not charge penalty fees that exceed the dollar amount associated with the consumer's violation of the terms or other requirements of the credit card account. For example, an issuer may not charge a \$39 late payment fee on the day after a \$20 minimum payment is due but is not received. Instead, in this example, the fee cannot exceed \$20. The regulation also bans imposition of penalty fees when there is no dollar amount associated with the violation, such as transactions that the card issuer declines to authorize, "inactivity" based on the consumer's failure

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<sup>16</sup> The Official Interpretation to 12 CFR 1026.52(b)(1)(i) discusses the factors that should be included in this annual reevaluation of penalty fees.

<sup>17</sup> See the "Change-in-Terms Notice" section of these examination procedures.

<sup>18</sup> The dollar amounts of the "safe harbor" fees are adjusted annually by the CFPB to reflect changes in the Consumer Price Index. The amounts listed are those in effect beginning January 1, 2014. Through December 31, 2016 card issuers were permitted to impose fees of \$26 for the first instance of a violation, and \$36 if the card issuer previously imposed a penalty fee for a violation of the same type that occurred during the same billing cycle or one of the next six billing cycles.

to use the account to make new purchases, or the closure or termination of an account. It also prohibits issuers from charging multiple penalty fees based on a single event or transaction.

## Examination Procedures

### ***Credit and charge card application and solicitation disclosures (12 CFR 1026.60)***

1. Determine that the credit card solicitation or application disclosures were made clearly and conspicuously on or with a solicitation or an application. (12 CFR 1026.60)
2. For the disclosures in 12 CFR 1026.60(b)(1) through (5) (except for (b)(1)(iv)(B) and (b)(7) through (15)), determine that the creditor made the disclosures required for 12 CFR 1026.60(c), (d)(2), (e)(1) and (f) in the form of a table with headings, content, and format substantially similar to the applicable tables found in G-10 in Appendix G to Regulation Z. (12 CFR 1026.60(a)(2)(i))
3. Determine that the table required by 12 CFR 1026.60(a)(2)(i) contains only the information required or permitted by that section of the regulation. If the creditor provides other information, determine that such information appears outside the table. (12 CFR 1026.60(a)(2)(ii))
4. Determine that the disclosures required by 12 CFR 1026.60(b)(1)(iv)(B), (b)(1)(iv)(C), and (b)(6) are placed directly beneath the table required by 12 CFR 1026.60(a)(2)(i). (12 CFR 1026.60(a)(2)(iii))
5. When a tabular format is required, determine that the following disclosures are disclosed in bold text (12 CFR 1026.60(a)(2)(iv)):
  - A. Annual percentage rate required to be disclosed pursuant to 12 CFR 1026.60(b)(1),
  - B. Introductory rate required to be disclosed pursuant to 12 CFR 1026.60(b)(1)(ii),
  - C. Rate that will apply after a premium initial rate expires required to be disclosed under 12 CFR 1026.60(b)(1)(iii), and
  - D. Fee or percentage amounts or maximum limits on fee amounts required to be disclosed pursuant to 12 CFR 1026.60 (b)(2), (b)(4), (b)(8) through (b)(13).

NOTE: Bold text shall not be used for the amount of any periodic fee disclosed pursuant to 12 CFR 1026.60(b)(2) that is not an annualized amount, and other APRs or fee amounts disclosed in the table. (12 CFR 1026.60(a)(2)(iv))
6. Determine that the card issuer discloses, on or with an solicitation or application: (12 CFR 1026.60(b))
  - A. *Annual percentage rate.* Each periodic rate that may be used to compute the finance charge on an outstanding balance for purchases, a cash advance, or a balance transfer, expressed as an annual percentage rate. When more than one rate applies for a category



of transactions, determine that the range of balances to which each rate is applicable is also disclosed. (12 CFR 1026.60(b)(1))

NOTE: The APR for purchases disclosed pursuant to 12 CFR 1026.60(b)(1) shall be in at least 16-point type, except for the following: Oral disclosures of the annual percentage rate for purchases; or a penalty rate that may apply upon the occurrence of one or more specific events.

- i. *Variable rate information.* If a rate is a variable rate, determine that the card issuer discloses the fact that the rate may vary and how the rate is determined. Determine that the card issuer identifies the type of index or formula that is used in setting the rate. Determine that the value of the index and the amount of the margin that are used to calculate the variable rate are not disclosed in the table. Determine further that any applicable limitations on rate increases are not included in the table. (12 CFR 1026.60(b)(1)(i))
- ii. *Discounted initial rate.* If the initial rate is an introductory rate, determine that the card issuer discloses in the table the introductory rate, the time period during which the introductory rate will remain in effect, and the term “introductory” or “intro” in immediate proximity to the introductory rate. Determine further that the card issuer discloses, as applicable, either the variable or fixed rate that would otherwise apply to the account. (12 CFR 1026.60(b)(1)(ii))
- iii. *Premium initial rate.* If the initial rate is temporary and is higher than the rate that will apply after the temporary rate expires, determine that the card issuer discloses the premium initial rate and the time period during which the premium initial rate will remain in effect. Determine that the premium initial rate for purchases is in at least 16-point type. Determine that the issuer discloses in the table the rate that will apply after the premium initial rate expires, in at least 16-point type. (12 CFR 1026.60(b)(1)(iii))
- iv. *Penalty rates.* Except as for provided introductory rate or employee preferential rate requirements (discussed later), if a rate may increase as a penalty for one or more events specified in the account agreement, such as a late payment or an extension of credit that exceeds the credit limit, determine that the card issuer discloses the increased rate that may apply, a brief description of the event or events that may result in the increased rate, and a brief description of how long the increased rate will remain in effect. (12 CFR 1026.60(b)(1)(iv)(A))
- v. *Introductory rate.* If the issuer discloses an introductory rate in the table or in any written or electronic promotional materials accompanying applications or solicitations (and subject to paragraph (c) or (e) of 12 CFR 1026.60), determine that the issuer briefly discloses, directly beneath the table, the circumstances, if

any, under which the introductory rate may be revoked, and the type of rate that will apply after the introductory rate is revoked. (12 CFR 1026.60(b)(1)(iv)(B))

- vi. *Employee preferential rates.* If the issuer discloses in the table a preferential APR for which only employees of the card issuer, employees of a third party, or other individuals with similar affiliations with the card issuer or third party are eligible, determine that the issuer briefly discloses directly beneath the table the circumstances under which such preferential rate may be revoked and the rate that will apply after such preferential rate is revoked. (12 CFR 1026.60(b)(1)(iv)(C))
- vii. *Rates that depend on consumer's creditworthiness.* If a rate cannot be determined at the time disclosures are given because the rate depends, at least in part, on a later determination of the consumer's creditworthiness, determine that the card issuer discloses the specific rates or the range of rates that could apply and a statement that the rate for which the consumer may qualify at account opening will depend on the consumer's creditworthiness, and other factors if applicable. (12 CFR 1026.60(b)(1)(v))

NOTE: If the rate that depends, at least in part, on a later determination of the consumer's creditworthiness is a penalty rate, as described in (b)(1)(iv), the card issuer at its option may disclose the highest rate that could apply, instead of disclosing the specific rates or the range of rates that could apply. (12 CFR 1026.60(b)(1)(v))

- viii. *APRs that vary by state.* Determine that the card issuer does not list annual percentage rates for multiple states in the table. Note, however, that issuers imposing annual percentage rates that vary by state may, at the issuer's option, disclose in the table: the specific annual percentage rate applicable to the consumer's account; or the range of the annual percentage rates, if the disclosure includes a statement that the annual percentage rate varies by state and refers the consumer to a disclosure provided with the table where the annual percentage rate applicable to the consumer's account is disclosed. (12 CFR 1026.60(b)(1)(vi))
- B. *Fees for issuance or availability.* Determine that the card issuer discloses any annual or other periodic fee, expressed as an annualized amount, or any other fee that may be imposed for the issuance or availability of a credit or charge card, including any fee based on account activity or inactivity. (12 CFR 1026.60(b)(2))
  - C. *Fixed finance charge; minimum interest charge.* Determine that the creditor discloses any fixed finance charge that could be imposed during a billing cycle, as well as a brief description of that charge. Determine that the creditor discloses any minimum interest charge if it exceeds \$1.00 that could be imposed during a billing cycle, and a brief description of the charge. (12 CFR 1026.60(b)(3))

- D. *Transaction charge.* Determine that the creditor discloses any transaction charge imposed for the use of the card for purchases. (12 CFR 1026.60(b)(4))
- E. *Grace period.* Determine that the issuer discloses the date by which or the period within which any credit extended for purchases may be repaid without incurring a finance charge due to a periodic interest rate and any conditions on the availability of the grace period. If no grace period is provided, determine that this fact is disclosed. In disclosing in the tabular format a grace period that applies to all types of purchases, determine that the issuer uses the phrase “How to Avoid Paying Interest on Purchases” as the heading for the row describing the grace period. If a grace period is not offered on all types of purchases, in disclosing this fact in the tabular format, determine that the issuer uses the phrase “Paying Interest” as the heading for the row describing this fact.

NOTE: If the length of the grace period varies, the card issuer may disclose the range of days, the minimum number of days, or the average number of days in the grace period, if the disclosure is identified as a range, minimum, or average. (12 CFR 1026.60(b)(5))

- F. *Balance computation method.* Determine that the creditor disclosed the name of the balance computation method that is used to determine the balance on which the finance charge is computed, or an explanation of the method used if it is not listed. In determining which balance computation method to disclose, the creditor should have assumed that the credit extended will not be repaid within any grace period. (12 CFR 1026.60(b)(6))

NOTE: Disclosures required by 12 CFR 1026.60(b)(6) must be placed directly beneath the table.

- G. *Statement on charge card payments.* Determine that the creditor discloses a statement that charges incurred by use of the charge card are due when the periodic statement is received. (12 CFR 1026.60(b)(7))
- H. *Cash advance fee.* Determine that the creditor disclosed any fee imposed for an extension of credit in the form of cash or its equivalent. (12 CFR 1026.60(b)(8))
- I. *Late payment fee.* Determine that the creditor disclosed any fee imposed for a late payment. (12 CFR 1026.60(b)(9))
- J. *Over-the-limit fee.* Determine that the creditor disclosed any fee imposed for exceeding the credit limit. (12 CFR 1026.60(b)(10))
- K. *Balance transfer fee.* Determine that the creditor disclosed any fee imposed to transfer a balance. (12 CFR 1026.60(b)(11))
- L. *Returned payment fee.* Determine that the creditor disclosed any fee imposed for a returned payment. (12 CFR 1026.60(b)(12))

- M. *Required insurance, debt cancellation, or debt suspension coverage.* Determine that the fee imposed required insurance, debt cancellation or suspension coverage is disclosed if the insurance, debt cancellation or coverage is required as part of the plan. (12 CFR 1026.60(b)(13))
- N. *Available credit.* Determine whether total of required fees for the issuance or availability of credit and/or security deposit debited to the account at account opening equal or exceed 15 percent of minimum credit limit for the account. If so, determine that the creditor disclosed, as applicable, the available credit remaining after the fees and/or security deposit are debited to the account. (12 CFR 1026.60(b)(14))
- O. *Website reference.* For issuers of credit cards that are not charge cards, determine that the creditor disclosed a reference to the website established by the Consumer Financial Protection Bureau (CFPB) and a statement that the consumers may obtain on the website information about shopping for and using credit cards. (12 CFR 1026.60(b)(15))

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***Ability to make the required minimum payments (12 CFR 1026.51)***

1. Determine that the card issuer does not open a credit card account for a consumer unless the card issuer considers the ability of the consumer to make the required minimum periodic payments under the terms of the account based on the consumer's income or assets and current obligations. (12 CFR 1026.51(a)(1)(i))
  2. Verify that the card issuer establishes and maintains reasonable written policies and procedures to consider a consumer's income or assets and current obligations. Reasonable policies and procedures to consider a consumer's ability to make the required payments include a consideration of at least one of the following: (12 CFR 1026.51(a)(1)(ii))
    - A. The ratio of debt obligations to income;
    - B. The ratio of debt obligations to assets; or
    - C. The income the consumer will have after paying debt obligations.
- NOTE: Reasonable written policies and procedures may include treating any income and assets to which the consumer has a reasonable expectation of access as the consumer's income or assets, or may be limited to consideration to the consumer's independent income and assets.
3. Confirm that the card issuer does not issue a credit card to a consumer who does not have any income or assets, and that the credit does not issue a credit card without reviewing any information about a consumer's income, assets, or current obligations. (12 CFR 1026.51(a)(1)(ii))

NOTE: A card issuer may consider the consumer's income or assets based on information provided by the consumer, in connection with the credit card account or any other financial relationship the card issuer or its affiliates has with the consumer, subject to any applicable information-sharing rules, and information obtained through third parties, subject to any applicable information-sharing rules. A card issuer may also consider information obtained through any empirically derived, demonstrably and statistically sound model that reasonably estimates a consumer's income or assets. (Comment 12 CFR 1026.51(a)-5)

4. Determine that the card issuer uses a reasonable method for estimating the minimum periodic payments the consumer would be required to pay under the terms of the account. (12 CFR 1026.51(a)(2)(i))
5. A card issuer's estimate of the minimum periodic payment is compliant (i.e., receives the benefit of a safe harbor) if it uses the following method (12 CFR 1026.51(a)(2)(ii)):
  - A. The card issuer assumes utilization, from the first day of the billing cycle, of the full credit line that the issuer is considering offering to the consumer; and
  - B. The card issuer uses a minimum payment formula employed by the issuer for the product the issuer is considering offering to the consumer or, in the case of an existing account, the minimum payment formula that currently applies to that account, provided that:
    - i. If the applicable minimum payment formula includes interest charges, the card issuer estimates those charges using an interest rate that the issuer is considering offering to the consumer for purchases or, in the case of an existing account, the interest rate that currently applies to purchases; and
    - ii. If the applicable minimum payment formula includes mandatory fees, the card issuer must assume that such fees have been charged to the account.
6. Rules affecting young consumers: If the card issuer opens a credit card account under an open-end (not home-secured) consumer credit plan for a consumer less than 21 years old, verify that the issuer requires that such consumers:
  - A. Submit a written application; and
  - B. Either possess an independent ability to make the required minimum periodic payments on the proposed extension of credit in connection with the account under 12 CFR 1026.51(b)(1)(i) or provide a signed agreement of a cosigner, guarantor, or joint applicant who is at least 21 years old who has the ability to make the required minimum periodic payments on such debts, and be either jointly liable with the consumer for any debt on the account, or secondarily liable for any debt on the account incurred by the consumer before the consumer has attained the age of 21 pursuant to 12 CFR 1026.51(b)(1)(ii)(A) and (B).

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***Account opening initial disclosures (12 CFR 1026.6)***

1. Review financial institution policies, procedures, and systems to determine, either separately or when completing the actual file review, whether the account opening initial disclosures are provided before the first transaction is made under the plan (12 CFR 1026.5(b)(1)).
2. Determine that the creditor provided the account-opening disclosures specified in 12 CFR 1026.6(b)(2)(i) through (b)(2)(v) (except for 12 CFR 1026.6 (b)(2)(i)(D)(2) and 12 CFR 1026.6 (b)(2)(vii) through (b)(2)(xiv) in the form of a table with the headings, content, and format substantially similar to any of the applicable tables in G-17 in Appendix G to Regulation Z. (12 CFR 1026.6(b)(1))
3. Determine that the following disclosures are disclosed in bold text (12 CFR 1026.6(b)(1)(i)):
  - A. Any APR required to be disclosed pursuant to 12 CFR 1026.6(b)(2)(i);
  - B. Any introductory rate permitted to be disclosed pursuant to 12 CFR 1026.6 (b)(2)(i)(B) or required to be disclosed under 12 CFR 1026.6 (b)(2)(i)(F);
  - C. Any rate that will apply after a premium initial rate expires permitted to be disclosed pursuant to 12 CFR 1026.6 (b)(2)(i)(C) or required to be disclosed pursuant to 12 CFR 1026.6 (b)(2)(i)(F); and
  - D. Any fee or percentage amounts or maximum limits on fee amounts disclosed pursuant to 12 CFR 1026.6 (b)(2)(ii), (b)(2)(iv), (b)(2)(vii) through (b)(2)(xii).
4. Determine that bold text is not used for: The amount of any periodic fee disclosed pursuant to 12 CFR 1026.6(b)(2) that is not an annualized amount; and other annual percentage rates or fee amounts disclosed in the table. (12 CFR 1026.6(b)(1)(i))
5. Determine that only the information required or permitted by 12 CFR 1026.6 (b)(2)(i) through (b)(2)(v) (except for 12 CFR 1026.6 (b)(2)(i)(D)(2)) and (b)(2)(vii) through (b)(2)(xiv) are provided in the table. Disclosures required by 12 CFR 1026.6 (b)(2)(i)(D)(2), (b)(2)(i)(D)(3), (b)(2)(vi) and (b)(2)(xv) shall be placed directly below the table required by 12 CFR 1026.6(b)(1). (12 CFR 1026.6(b)(1)(ii))

NOTE: Disclosures required by 12 CFR 1026.6(b)(3) through (b)(5) that are not otherwise required to be in the table and other information may be presented with the account agreement or account-opening disclosure statement, provided such information appears outside the required table.

6. For creditors that impose fees referred to in 12 CFR 1026.6(b)(2)(vii) through (b)(2)(xi) that vary by state and that provide the disclosures required by 12 CFR 1026.6(b) in person at the time the open-end (not home-secured) plan is established in connection with financing the

purchase of goods or services determine that the creditor discloses in the account-opening table either:

- A. The specific fee applicable to the consumer's account, or
- B. The range of fees, a statement that the amount of the fee varies by state, and a reference to the account agreement or other disclosure provided with the account-opening table where the amount of the fee applicable to the consumer's account is disclosed. (12 CFR 1026.6(b)(1)(iii))

NOTE: A creditor is not permitted to list fees for multiple states in the account-opening summary table (12 CFR 1026.6(b)(1)(iii)).

- C. If the amount of any fee required to be disclosed under 12 CFR 1026.6 is determined on the basis of a percentage of another amount, the percentage used and the identification of the amount against which the percentage is applied may be disclosed instead of the amount of the fee. (12 CFR 1026.6(b)(1)(iv))
7. Determine that the creditor discloses in the appropriate format, as applicable:
- A. *Annual percentage rate.* Each periodic rate that may be used to compute the finance charge on an outstanding balance for purchases, a cash advance, or a balance transfer, expressed as an APR. When more than one rate applies for a category of transactions, determine that the creditor discloses the range of balances to which each rate is applicable. Ensure that the APR for purchases disclosed pursuant to this paragraph is in at least 16-point type, except for a penalty rate that may apply upon the occurrence of one or more specific events. (12 CFR 1026.6(b)(2)(i))
    - i. *Variable rate information.* If the rate is a variable rate, determine that the creditor also disclosed the fact that the rate may vary and how the rate is determined (i.e., identify the type of index or formula used in setting the rate). (12 CFR 1026.6(b)(2)(i)(A))
    - ii. *Discounted initial rate.* If the initial rate is an introductory rate, determine that the creditor disclosed that the rate would otherwise apply to the account. Where the rate is not tied to an index or formula, determine that the creditor disclosed the rate that will apply after the introductory rate expires. For a variable rate account, determine that the creditor disclosed a rate based on the applicable index or formula in accordance with the accuracy requirements. (12 CFR 1026.6(b)(2)(i)(B))
    - iii. *Premium initial rate.* If the initial rate is temporary and is higher than the rate that will apply after the temporary rate expires, determine that the creditor disclosed the premium initial rate. Determine that the premium rate for purchases is in at least 16-point type. (12 CFR 1026.6(b)(2)(i)(C))

- iv. *Penalty rates.* Except for introductory rates and employee preferential rates (discussed later), if the rate is a penalty rate, determine that the creditor disclosed as part of the APR disclosure the increased rate that may apply, a brief description of the event or events that may result in the increased rate, and a brief description of how long the increased rate will remain in effect. (12 CFR 1026.6(b)(2)(i)(D)(1))
  - v. *Introductory rates.* If the creditor discloses in the table an introductory rate, as that term is defined in 12 CFR 1026.16(g)(2)(ii), determine that the creditor briefly disclosed directly beneath the table the circumstances under which the introductory rate may be revoked, and the rate that will apply after the introductory rate is revoked. (12 CFR 1026.6(b)(2)(i)(D)(2))
  - vi. *Employee preferential rates.* If the creditor discloses in the table a preferential APR for which only employees of the creditor, employees of a third party, or other individuals with similar affiliations with the creditor or third party are eligible, determine that the creditor briefly disclosed directly beneath the table the circumstances under which the preferential rate may be revoked, and the rate that will apply after the preferential rate is revoked. (12 CFR 1026.6(b)(2)(i)(D)(3))
  - vii. *Point of sale where APRs vary by state or based on creditworthiness.* If the creditor imposes an APR that varies by state or based on the consumer's creditworthiness and provides required disclosures in person at the time the open-end (not home-secured) plan is established in connection with financing the purchase of goods or services, determine that the creditor discloses either (12 CFR 1026.6(b)(2)(i)(E)):
    - a. The specific APR applicable to the consumer's account, or
    - b. The range of the APRs, if the disclosure includes a statement that the APR varies by state or will be determined based on the consumer's creditworthiness and refers the consumer to the account agreement or other disclosure provided with the account-opening table where the AP applicable to the consumer's account is disclosed. Determine that the creditor does not list APRs for multiple states in the account opening table.
- B. Determine that the issuer discloses in the table (12 CFR 1026.6(b)(2)(i)(F)):
- c. Any introductory rate, and
  - d. Any rate that would apply upon expiration of a premium initial rate.
- C. *Fees for issuance or availability.* Determine that the creditor disclosed any annual or periodic fee that may be imposed for the issuance or availability of an open-end plan (including any fee based on account activity or inactivity); how frequently the fee will be imposed; and the annualized amount of the fee. (12 CFR 1026.6(b)(2)(ii))



- D. *Fixed finance charge and minimum interest charge.* Determine that the creditor disclosed any fixed finance charge and any minimum interest charge if it exceeds \$1.00 that could be imposed during a billing cycle, and a brief description of the charge. (12 CFR 1026.6(b)(2)(iii))
- E. Determine that the creditor disclosed any non-periodic fee that relates to opening the plan. A creditor must disclose that the fee is a one-time fee. (12 CFR 1026.6(b)(2)(ii)(B))
- F. *Transaction charges.* Determine that the creditor discloses any transaction charge imposed by the creditor for use of the open-end plan for purchases. (12 CFR 1026.6(b)(2)(iv))
- G. *Grace period.* The date by which or the period within which any credit extended may be repaid without incurring a finance charge due to a periodic interest rate and any conditions on the availability of the grace period. If no grace period is provided, that fact must be disclosed. If the length of the grace period varies, the creditor may disclose the range of days, the minimum number of days, or the average number of the days in the grace period, if the disclosure is identified as a range, minimum, or average. In disclosing in the tabular format a grace period that applies to all features on the account, the phrase “How to Avoid Paying Interest” shall be used as the heading for the row describing the grace period. If a grace period is not offered on all features of the account, in disclosing this fact in the tabular format, the phrase “Paying Interest” shall be used as the heading for the row describing this fact. (12 CFR 1026.6(b)(2)(v))
- H. *Balance computation method.* Determine that the creditor disclosed in the account opening disclosures the name of the balance computation method that is used to determine the balance on which the finance charge is computed for each feature, or an explanation of the method used if it is not listed, along with a statement that an explanation of the methods required by 12 CFR 1026.6(b)(4)(i)(D). In determining which balance computation method to disclose, the creditor should have assumed that the credit extended will not be repaid within any grace period. (12 CFR 1026.6(b)(2)(vi))
- I. *Cash advance fee.* Determine that the creditor disclosed any fee imposed for an extension of credit in the form of cash or its equivalent. (12 CFR 1026.6(b)(2)(vii))
- J. *Late payment fee.* Determine that the creditor disclosed any fee imposed for a late payment. (12 CFR 1026.6(b)(2)(viii))
- K. *Over-the-limit fee.* Determine that the creditor disclosed any fee imposed for exceeding the credit limit. (12 CFR 1026.6(b)(2)(ix))
- L. *Balance transfer fee.* Determine that the creditor disclosed any fee imposed to transfer a balance. (12 CFR 1026.6(b)(2)(x))

- M. *Returned payment fee.* Determine that the creditor disclosed any fee imposed for a returned payment. (12 CFR 1026.6(b)(2)(xi))
- N. *Required insurance, debt cancellation, or debt suspension coverage.* Determine that the fee imposed for required insurance, debt cancellation or suspension coverage is disclosed if the insurance, debt cancellation or coverage is required as part of the plan. Creditors must also cross reference additional information about the insurance or coverage as applicable. (12 CFR 1026.6(b)(2)(xii))
- O. *Available credit.* Determine whether total of required fees for the issuance or availability of credit and/or security deposit debited to the account at account opening equal or exceed 15 percent of the credit limit for the account. If so, determine that the creditor disclosed, as applicable, the available credit remaining after the fees and/or security deposit are debited to the account. (12 CFR 1026.6(b)(2)(xiii))
- P. *Website reference.* For issuers of credit cards that are not charge cards, determine that the creditor disclosed a reference to the website established by the CFPB and a statement that the consumers may obtain on the website information about shopping for and using credit cards. (12 CFR 1026.6(b)(2)(xiv))
- Q. *Billing error rights reference.* Determine that the creditor disclosed a statement that information about consumers' right to dispute transactions is included in the account-opening disclosures. (12 CFR 1026.6(b)(2)(xv))
- R. *Charges and finance charges.* For charges imposed as part of open-end (not home-secured) plan, the circumstances under which the charge may be imposed, including the amount of the charge or explanation of how the charge is determined. For finance charges, a statement of when finance charges begin to accrue, including an explanation of whether or not any time period exists within which any credit extended may be repaid without incurring a finance charge. If such a time period is provided, a creditor may, at its option and without disclosure, impose no finance charge when payment is received after the time period's expiration. (12 CFR 1026.6(b)(3)(i))
- S. *Disclosure of rates:* Determine that the creditor disclosed, as applicable, for each periodic rate that may be used to calculate interest (12 CFR 1026.6(b)(4)(i)):
- i. The rate (expressed as a periodic rate and a corresponding APR),
  - ii. The range of balances to which the rate is applicable,
  - iii. The type of transaction to which the periodic rate applies,
  - iv. An explanation of the method used to determine the balance to which the rate is applied.

- T. *Variable-rate Accounts.* For interest rate changes that are tied to increases in an index or formula (variable-rate accounts) determine that the following are specifically set forth in the account agreement (12 CFR 1026.6(b)(4)(ii)):
- i. The fact that the annual percentage rate may increase.
  - ii. How the rate is determined, including the margin.
  - iii. The circumstances under which the rate may increase.
  - iv. The frequency with which the rate may increase.
  - v. Any limitation on the amount the rate may change.
  - vi. The effect(s) of an increase.
  - vii. Except as specified in 12 CFR 1026.6 (b)(4)(ii)(H), a rate is accurate if it is a rate as of a specified date and this rate was in effect within the last 30 days before the disclosures are provided.
- U. *Rate changes not due to index or formula:* For interest rate changes that are specifically set forth in the account agreement and not tied to increases in an index or formula, determine that the creditor discloses (12 CFR 1026.6(b)(4)(iii)):
- i. The initial rate (expressed as a periodic rate and a corresponding APR)
  - ii. How long the initial rate will remain in effect and the specific events that cause the initial rate to change.
  - iii. The rate (expressed as a periodic rate and a corresponding APR) that will apply when the initial rate is no longer in effect and any limitation on the time period the new rate will remain in effect.
  - iv. The balances to which the new rate will apply.
  - v. The balances to which the current rate at the time of the change will apply.
- V. *Voluntary credit insurance, debt cancellation, or debt suspension.* Determine that the creditor disclosed the applicable disclosures if the creditor offers optional credit insurance, or debt cancellation or debt suspension coverage. (12 CFR 1026.6(b)(5)(i))
- W. *Security interests.* Determine that the creditor disclosed the fact that the creditor has or will acquire a security interest in the property purchased under the plan, or in other property identified by item or type. (12 CFR 1026.6(b)(5)(ii))
- X. *Statement of billing rights.* Determine that the creditor disclosed a statement that outlines the consumer's rights and the creditor's responsibilities. (12 CFR 1026.6(b)(5)(iii))

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***Limitations on fees (12 CFR 1026.52)***

1. During the first year after the opening of a credit card account under an open-end (not home-secured) consumer credit plan, determine whether the card issuer required the consumer to pay covered fees in excess of the 25 percent of the credit limit in effect when the account is opened. (12 CFR 1026.52(a)(1))

NOTE: The 25 percent limitation on fees does not apply to fees assessed prior to opening the account.

NOTE ALSO: An account is considered opened no earlier than the date on which the account may first be used by the consumer to engage in transactions.

A. Covered fees include fees (Comment 12 CFR 1026.52(a)(2)-1):

- i. For the issuance or availability of credit, including any fees based on account activity or inactivity;
- ii. For insurance, debt cancellation or debt suspension coverage, if the insurance or debt cancellation or suspension coverage is required by the terms of the account;
- iii. The consumer is required to pay to engage in transactions using the account, such as:
  - a. Cash advance fees;
  - b. Balance transfer fees;
  - c. Foreign transaction fees; and
  - d. Fees for using the account for purchases.

B. Fees the consumer is required to pay for violating the terms of the account, except to the extent they are specifically excluded (see below);

C. Fixed finance charges; and

D. Minimum charges imposed if a charge would otherwise have been determined by applying a periodic interest rate to a balance except for the fact that such charge is smaller than the minimum.

NOTE: Section 1026.52(a) does not authorize the imposition or payment of fees or charges otherwise prohibited by law. (12 CFR 1026.52(a)(3))

E. Fees not covered by this limitation include: (12 CFR 1026.52(a)(2)(i))

- i. Late payment fees, over-the-limit fees, and returned-payment fees; or
  - ii. Fees that the consumer is not required to pay with respect to the account, such as:
    - a. An expedited payment fee;
    - b. Fees for optional services like travel insurance;
    - c. Fees for reissuing a lost or stolen card; or
    - d. Statement reproduction fees.
- F. Review penetration rates of various optional services to determine if they are truly optional and therefore not covered by the 25 percent limitation.
- G. Ensure that the card issuer does not impose a fee for violating the terms or other requirements of a credit card account under an open-end (not home-secured) consumer credit plan unless the dollar amount of the fee is consistent with 12 CFR 1026.52(b)(1) and (b)(2). (12 CFR 1026.52(b))
- H. Determine that a card issuer imposes a fee for violating the terms or other requirements of a credit card account under an open-end (not home-secured) consumer credit plan only if the dollar amount of the fee is consistent with either 12 CFR 1026.52(b)(1)(i) or 12 CFR 1026.52(b)(1)(ii). (12 CFR 1026.52(b)(1))
- I. *Cost determination.* A card issuer may impose a fee for a particular violation (e.g., late payment) if the card issuer has determined that the fee represents a reasonable proportion of the total costs incurred by the issuer as a result of that type of violation. If a card issuer is relying on a cost determination instead of the safe harbors (see below), review (12 CFR 1026.52(b)(1)(i)):
- i. The number of violations of a particular type experienced by the card issuer during a prior period of reasonable length (e.g., a 12-month period).
  - ii. The costs incurred by the card issuer during that period *as a result of* those violations. Losses and associated costs (including the cost of holding reserves against potential losses and the cost of funding delinquent accounts) must be excluded from this analysis.
  - iii. If used by the card issuer when making its determination:
    - a. The number of fees imposed by the card issuer as a result of the type of violation during the period that the issuer reasonably estimates it will be unable to collect.
    - b. Reasonable estimates for an upcoming period of changes in the number of violations of the relevant type, the resulting costs, and the number of fees that the card issuer will be unable to collect.

- J. If applicable, whether the items in paragraph 1-3 have been reevaluated by the card issuer at least once during the prior 12 months. If as a result of the reevaluation the card issuer determines that a lower fee represents a reasonable proportion of the total costs incurred by the card issuer as a result of that type of violation, determine that the card issuer begins imposing the lower fee within 45 days after completing the reevaluation.

NOTE: If as a result of the reevaluation the card issuer determines that a higher fee represents a reasonable proportion of the total costs incurred by the card issuer as a result of that type of violation, the card issuer may begin imposing the higher fee after complying with the notice requirements in 12 CFR 1026.9. (12 CFR 1026.52(b)(1)(i))

- K. *Safe harbors.* A card issuer may impose a fee for violating the terms or other requirements of the account if the dollar amount of the fee does not exceed, as applicable (12 CFR 1026.52(b)(1)(ii)(A)-(C)):
- i. \$26.00,
  - ii. \$37.00 if the card issuer previously imposed a fee pursuant to 12 CFR 1026.52(b)(1)(ii)(A) for a violation of the same type that occurred during the same billing cycle or one of the next six billing cycles or
  - iii. Three percent of the delinquent balance on a charge card account that requires payment of outstanding balances in full at the end of each billing cycle if the card issuer has not received the required payment for two or more consecutive billing cycles.

NOTE: The dollar amounts in paragraphs i and ii above will be adjusted annually by the CFPB to the extent that changes in the Consumer Price Index warrant an increase or decrease of a whole dollar.

- L. Determine that the card issuer does not impose a fee for violating the terms or other requirements of a credit card account under an open-end (not home-secured) consumer credit plan that exceeds the dollar amount associated with the violation. (12 CFR 1026.52(b)(2)(i)(A))
- M. Determine that a card issuer does not impose a fee for violating the terms or other requirements of a credit card account under an open end (not home-secured) consumer credit plan when there is no dollar amount associated with the violation. For purposes of 12 CFR 1026.52(b)(2)(i), there is no dollar amount associated with the following violations (12 CFR 1026.52(b)(2)(i)(B)):
- i. Transactions that the card issuer declines to authorize;
  - ii. Account inactivity; and
  - iii. The closure or termination of an account.

- N. Determine that the card issuer does not impose more than one fee for violating the terms or other requirements of a credit card account under an open-end (not home-secured) consumer credit plan based on a single event or transaction. (12 CFR 1026.52(b)(2)(ii))

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## Module 3: Account Servicing

### *Subsequent disclosure requirements*

#### *Change-in-Terms Notice (12 CFR 1026.9(c)(2))*

When a significant change in account terms is made, the issuer must provide the consumer with a written notice of the change at least 45 days prior to the effective date of the change. A “significant change in account terms” is defined in Regulation Z as a change to a rate, fee, or other account term required to be disclosed under 12 CFR 1026.6(b)(1), (2), or (4); an increase in the minimum periodic payment; or the acquisition of a security interest.<sup>19</sup> For increases in charges required to be disclosed under 12 CFR 1026.6(b)(3) that do not meet the definition of a “significant change in account terms,” the issuer may either provide the Change-in-Terms Notice or provide oral or written notice of the amount of the charge before the consumer agrees to or becomes obligated to pay the charge, at a time and manner that the consumer would be likely to notice the disclosure of the charge.

The 45-day period for notice does not apply if a consumer has agreed to a particular change: in this instance, the Change-in-Terms Notice may be mailed or delivered as late as the effective date of the change. This only applies, however, when a consumer substitutes collateral or when the creditor can advance additional credit only if a change relatively unique to that consumer is made, such as the consumer providing additional security or paying an increased minimum payment amount.<sup>20</sup> Regulation Z also excludes certain account changes from the Change-in-Terms Notice requirements, including changes to the consumer’s credit limit, except as otherwise required by 12 CFR 1026.9(c)(2)(vi), changes in the name of the credit card or credit plan, the termination or suspension of credit privileges, and changes arising by operation of law.<sup>21</sup>

In certain instances, the consumer has the right to reject a significant change to an account term.<sup>22</sup> The consumer may do so by notifying the creditor of the rejection before the effective date of the change. Upon such notification, the creditor may not (1) apply the change to the account; or (2) impose a fee or charge or treat the account as in default solely as a result of the rejection. The creditor also may not require repayment of the balance on the account using a

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<sup>19</sup> See 12 CFR 1026.9(c)(2)(ii).

<sup>20</sup> The following are not considered agreements between the consumer and the creditor for purposes of this notice exception: (a) the consumer's general acceptance of the creditor's contract reservation of the right to change terms; (b) the consumer's use of the account (which might imply acceptance of its terms under state law); (c) the consumer's acceptance of a unilateral term change that is not particular to that consumer, but rather is of general applicability to consumers with that type of account; and (d) the consumer's request to reopen a closed account or to upgrade an existing account to another account offered by the creditor with different credit or other features. See 12 CFR 1026.9(c)(2)(i)(B).

<sup>21</sup> See 12 CFR 1026.9(c)(2)(v) for additional circumstances under which a creditor is not required to provide notice.

<sup>22</sup> The right to reject does not apply when the change in terms is due to the consumer’s failure to make the minimum monthly payment within 60 days after the payment due date. See 12 CFR 1026.9(h)(3).



method that is less beneficial than one of the following: (1) the method of repayment for the account before the change in terms; (2) an amortization period of no less than five years, beginning no earlier than the effective date of the increase; or (3) a required minimum periodic payment that includes a percentage of the balance that is equal to no more than twice the percentage required before the effective date of the increase.<sup>23</sup>

If a creditor decreases the credit limit on an account, advance notice of the decrease must be provided before an over-the-limit fee or a penalty rate can be imposed solely as a result of the consumer exceeding the newly decreased credit limit. The creditor is required to provide notice in writing or orally at least 45 days prior to imposing the over-the-limit fee or penalty rate and must state that the credit limit on the account has been or will be decreased.

See Appendix 1 to these procedures for detailed information on the required formatting and contents of the Change-in-Terms Notice.

*Supplemental credit access devices and additional features (12 CFR 1026.9(b))*

Credit card issuers may add additional features to a credit card account, such as adding overdraft checking to an existing account, or adding the ability to secure cash advances on the credit card when the account did not previously offer that feature. Issuers may also offer supplemental credit access devices, such as convenience checks, that give the consumer an alternative method for accessing the line of credit. If the issuer adds the feature or delivers the supplemental credit access device within 30 days after mailing or delivering the account opening disclosures, and the finance charge terms are the same as those previously disclosed, then Regulation Z does not require the issuer to make any additional disclosures. Except for checks that can be used to access the credit card account (generally referred to as “convenience checks”), if the credit feature that is added or the supplemental credit device has the same finance charge terms as previously disclosed but are issued later than 30 days after account opening disclosures are provided, the card issuer must disclose, before the consumer uses the feature or device for the first time, that it is used for obtaining credit under the terms previously disclosed.

However, except for convenience checks, if a credit feature is added or a credit access device is mailed or delivered to the consumer, and the finance charge terms for the feature or device differ from disclosures previously given, the applicable finance charge disclosures for the added feature or device must be given before the consumer uses the feature or device for the first time.<sup>24</sup> Additional disclosure requirements apply for convenience checks that are provided more than 30 days after account-opening disclosures under 12 CFR 1026.6(b) are mailed or delivered, or are provided within 30 days of the account-opening disclosures and the finance charge terms for the checks differ from the finance charge terms previously disclosed. See Appendix 1 to these procedures for detailed information on the required formatting and contents of this disclosure.

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<sup>23</sup> See 12 CFR 1026.55(c)(2).

<sup>24</sup> See 12 CFR 1026.6(b)(3)(ii)(A) for the specific finance charge disclosures that are required.

*Disclosures required upon renewal of a credit or charge card (12 CFR 1026.9(e))*

A card issuer is required to mail or deliver written notice of the renewal to the cardholder if it imposes any annual or other periodic fee to renew a credit or charge card account of the type subject to 1026.60, including any fee based on account activity or inactivity or any card issuer that has changed or amended any term of a consumer's account required to be disclosed in the table on the account opening disclosures<sup>25</sup> that has not previously been disclosed to the consumer. If the card issuer imposes any annual or other periodic fee for renewal, the notice must be provided at least 30 days or one billing cycle, whichever is less, before the mailing or the delivery of the periodic statement on which any renewal fee is initially charged to the account. If the card issuer has changed or amended any of the terms disclosed in the account opening disclosure table and has not previously disclosed the changes to the consumer, it must provide the notice at least 30 days prior to the scheduled renewal date of the consumer's credit or charge card. The notice must contain the following information:

- The disclosures contained in 12 CFR 1026.60(b)(1) through (b)(7) that would apply if the account were renewed; and
- The manner and timing by which the cardholder may terminate credit availability under the account to avoid paying the renewal fee, if applicable.

These disclosures may be made on or with a periodic statement. If any of the disclosures are provided on the back of a periodic statement, the card issuer must include a reference to those disclosures on the front of the statement.

***Limitations on increasing APRs, fees, and charges (12 CFR 1026.55)***

Unless an exception applies, a card issuer must not increase the following rates, fees, or charges in connection with a credit card account:

- An APR;
- Periodic fees for the issuance or availability of the credit plan (as described in 12 CFR 1026.6(b)(2)(ii));
- A fixed finance charge or minimum interest charge that exceeds \$1 (as described in 12 CFR 1026.6(b)(2)(iii)); or
- A charge for required insurance, debt cancellation, or debt suspension (as described in 12 CFR 1026.6(b)(2)(xii)).

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<sup>25</sup> See 12 CFR 1026.6(b)(1)-(2)

Regulation Z provides for some general exceptions to this prohibition:

- *Temporary or Promotional APRs, fees, or charges:* A card issuer may increase one of these APRs, fees, or charges upon expiration of a specified period of six months or longer, provided that, prior to the commencement of that period, the card issuer provided a written disclosure that clearly and conspicuously discloses the length of time period that the lower APR, fee, or charge will be in effect, and the APR, fee, or charge that will apply after the expiration of the time period. Once the time period expires, the card issuer may not apply the increased APR, fee, or charge to a transaction that occurred prior to the disclosed time period, and may not apply an APR, fee, or charge to a transaction that occurred during the disclosed time period that is higher than the disclosed increased APR. If the required disclosure of the APR, fee, or charge increase is provided to the consumer through a Change-in-Terms Notice, the card issuer may not apply the increased APR, fee, or charge to transactions that occurred within 14 days after provision of the notice.<sup>26</sup>
- *Variable APRs:* A card issuer may increase an APR when the APR varies according to an index that is not under the card issuer's control and is available to the general public, and the increase in the APR is due to an increase in the index.
- *Advance notification:* A card issuer may increase an APR, fee, or charge described previously in accordance with certain subsequent notification provisions of Regulation Z, provided that it meets certain requirements for each type of notification:
  - *Additional credit feature or supplemental credit devices:* If the card issuer has added a credit feature to the existing account or has provided a supplemental credit device (such as a convenience check) which causes an APR, fee, or charge as described previously to increase, and has provided the consumer with advance notice of the increase in the APR, fee, or charge, the card issuer must not apply the increased APR, fee, or charge to transactions that occurred prior to provision of the notice.<sup>27</sup>
  - *Change-in-Terms Notice:* The card issuer may increase the APR, fees, or charges after complying with the applicable notice requirements in 12 CFR 1026.9(b), (c), or (g), provided that:
    - If the notice is provided pursuant to 12 CFR 1026.9(b), the card issuer must not apply the increased APR, fee, or charge to a transaction that occurred prior to provision of the notice; and

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<sup>26</sup> See 12 CFR 1026.9(c)(2)

<sup>27</sup> See Appendix 1 of these procedures or 12 CFR 1026.9(b) for specific disclosure requirements.

- If the notice is provided pursuant to 12 CFR 1026.9(c) or (g), the card issuer must not apply the increased APR, fee, or charge to transactions that occurred prior to or within 14 days after provision of the notice.<sup>28</sup>

This advance notice exception does not permit a card issuer to increase an APR, fee or charge during the first year after the account is opened, while the account is closed, or while the card issuer does not permit the consumer to use the account for new transactions. For purposes of this provision, an account is considered open no earlier than the date on which the account may first be used by the consumer to engage in transactions.

When a card issuer increases an APR, fee, or charge pursuant to the advance notification exception, it may not require repayment of a “protected balance” using a method that is less beneficial to the consumer than one of the following methods:

- The method of repayment of the account before the effective date of the increase;
- An amortization period of not less than five years, beginning no earlier than the effective date of the increase; or
- A required minimum periodic payment that includes a percentage of the balance that is equal to no more than twice the percentage required before the effective date of the increase.

A “protected balance” for the purpose of this requirement means the amount owed for a category of transactions to which an increased APR, fee, or charge cannot be applied after the APR, fee, or charge for that category has been increased.<sup>29</sup>

- *Delinquency:* The card issuer may increase an APR, fee, or charge as described previously if the minimum payment has not been received within 60 days after the due date, provided that the card issuer complied with applicable notice requirements.<sup>30</sup> If the card issuer receives six consecutive required minimum periodic payments on or before the payment due date beginning with the first payment due following the effective date of the increase, the card issuer must reduce the increased APR, fee, or charge with respect to transactions that occurred prior to or within 14 days of the 12 CFR 1026.9(c) or (g) notice to the rate or amount that applied prior to the increase.<sup>31</sup>

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<sup>28</sup> See Appendix 1 of these procedures or 12 CFR 1026.9(c)(2) for specific disclosure requirements.

<sup>29</sup> See 12 CFR 1026.55(c).

<sup>30</sup> See Appendix 1 of these procedures or 12 CFR 1026.9(g) for specific disclosure requirements.

<sup>31</sup> See also 12 CFR 1026.59 for Regulation Z’s requirements for reevaluation of rate increases.

- *Workout and Temporary Hardship Arrangements:* The card issuer may increase an APR, fee, or charge described previously if the consumer successfully completes or fails to comply with the terms of a workout arrangement, provided that card issuer complied with applicable disclosure requirements and adheres to certain requirements upon the completion or failure of the arrangement.
- *Servicemembers' Civil Relief Act (SCRA):* The issuer is permitted to increase the rate, fee, or charge once the SCRA ceases to apply, provided that the card issuer does not apply to any transactions that occurred prior to the decrease an APR, fee, or charge that exceeds the APR, fee, or charge that applied to those transactions prior to the decrease.

These requirements continue to apply to a balance on a credit card account after the account is closed or acquired by another creditor; or the balance is transferred to another credit card account issued by the same creditor, its affiliate, or its subsidiary.<sup>32</sup>

### ***Reevaluation of rate increases (12 CFR 1026.59)***

#### *Requirement to reevaluate APR increases*

If a card issuer has increased an APR on a credit card account, it is required to review the account no less frequently than once every six months and, if appropriate, based on that review, reduce the APR. The requirement to reevaluate rate increases applies both to increases in APRs based on consumer-specific factors, such as changes in the consumer's creditworthiness, and to increases in APRs imposed based on factors that are not specific to the consumer, such as changes in market conditions or the issuer's cost of funds. This review must consider either the same factors on which the increase was originally based or the factors the card issuer currently considers in determining the APR applicable to similar new credit card accounts.

If the consumer's APR was increased because the consumer failed to make his minimum monthly payment within 60 days after the payment due date, the card issuer is required to automatically reduce the APR back to its prior amount with respect to transactions that occurred prior to or within 14 days after the 12 CFR 1026.9(c) or (g) notice if the consumer makes six consecutive minimum monthly payments on time, beginning with the first payment due date following the effective date of the increase. If, however, the consumer does not do so, the card issuer is required to conduct the review described previously no later than six months after the sixth payment due following the effective date of the rate increase.

#### *Timing requirements for APR reductions*

If, based on its review, a card issuer is required to reduce the rate applicable to an account, the issuer must reduce the rate within 45 days after completing the evaluation. The rate reduction is required to apply to any outstanding balances to which the increased rate has been applied, and

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<sup>32</sup> See 12 CFR 1026.55(d) and (e)

to any new transactions that occur after the effective date of the rate reduction that would otherwise have been subject to the increased rate. If the issuer does not reduce the rate to an amount equal to or lower than the rate applicable prior to the increase, the issuer will be required to conduct the reevaluation every six months until the rate is reduced to or below that amount.<sup>33</sup>

### *Exceptions*

The requirement to reevaluate rate increases does not apply to increases in an APR that was previously decreased pursuant to the requirements of the Servicemembers' Civil Relief Act. The requirements also do not apply to accounts that a card issuer has charged off in accordance with loan loss provisions.

### ***Requirements for over-the-limit transactions (12 CFR 1026.56)***

An "over-the-limit transaction" means any extension of credit by a card issuer to complete a transaction that causes a consumer's credit card account balance to exceed the credit limit. Credit card issuers have the option as to whether to permit over-the-limit transactions. Regulation Z does not require that they permit them, nor does it prohibit them from doing so. However, if a card issuer permits over-the-limit transactions and charges a fee for such transactions, it must provide the consumer notice and reasonable opportunity to affirmatively consent (opt in) to the card issuer's payment of the over-the-limit transaction prior to the assessment of any over-the-limit fee or charge on the consumer's account.

The initial notice must be oral, written, or electronic, and segregated from all other information. It must include the following information:

- The dollar amount of any fees or charges assessed by the card issuer for an over-the-limit transaction;
- Any increased periodic rate (expressed as an APR) that may be imposed on the account as a result of an over-the-limit transaction; and
- An explanation of the consumer's right to affirmatively consent (opt in) to the card issuer's payment of over-the-limit transactions, including the method(s) by which the consumer may consent.<sup>34</sup>

If the consumer affirmatively consents, the issuer is also required to provide written confirmation (or electronic confirmation if the consumer agrees to receive electronic communications) of the

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<sup>33</sup> If the rate applicable immediately prior to the increase was a variable rate, the reevaluation will be required unless the rate has been reduced to a variable rate determined by the same formula that was used to calculate the APR applicable immediately prior to the increase.

<sup>34</sup> Safe Harbor: Appendix G to Regulation Z contains a "safe harbor" provision if the issuer uses the model forms in Appendix G to the regulation. The appendix contains two Model Forms for this type of notice, Model Forms G-25(A) and G-25(B). Card issuers who use either of these forms, or substantially similar notices, for the initial notice and opt-in will be deemed to be in compliance with the notice content requirements.

consumer's consent. The issuer must also provide a consumer notice in writing of the right to revoke that consent following the assessment of an over-the-limit fee or charge. This notice of the right to revoke must be provided on the front page of any periodic statement that reflects the imposition of an over-the-limit fee. A consumer's affirmative consent is effective until it is revoked by the consumer, or until the card issuer decides for any reason to cease paying over-the-limit transactions for the consumer. A consumer may affirmatively consent to the issuer's payment of over-the-limit transactions at any time in the manner described by the initial notice. A consumer may affirmatively *revoke consent* at any time in the manner described by the notice of the right to revoke. A card issuer must comply with the consumer's revocation request as soon as reasonably practicable after the card issuer receives it.

Even if the consumer has affirmatively consented to the issuer's payment of over-the-limit transactions, Regulation Z prohibits certain issuer practices in connection with the assessment of over-the-limit fees or charges. An issuer can only charge one over-the-limit fee or charge per billing cycle, and only if the credit limit was exceeded during the billing cycle. An issuer cannot impose an over-the-limit fee on the account for the same transaction in more than three billing cycles where the consumer has not reduced the account balance below the credit limit by the payment due date for either of the last two billing cycles. The prohibition on imposing an over-the-limit fee or charge in more than three billing cycles for the same over-the-limit transaction(s) does not apply if another over-the-limit transaction occurs during either of the last two billing cycles.

Regulation Z also prohibits certain acts or practices in connection with the over-the-limit fees or other penalty charges. Specifically, issuers are prohibited from engaging in three practices:

- Assessing an over-the-limit fee solely because the issuer failed to promptly replenish the consumer's available credit following the crediting of the consumer's payment;
- Conditioning the amount of available credit on the consumer's consent to the payment of over-the-limit transactions if the card issuer assesses a fee or charge for such service (e.g., opting in to an over-the-limit service to obtain a higher credit limit); and
- Imposing any over-the-limit fee if the credit limit is exceeded solely because of the issuer's assessment of certain interest charges or fees on the consumer's account during that billing cycle.

### ***Credit line increases (12 CFR 1026.51)***

Credit card issuers may not increase a consumer's credit limit unless they consider the consumer's ability to make the minimum monthly payment on the account with the increased credit limit. The ability to pay requirements for credit line increases are the same as the ability to pay requirements for opening a credit card account.<sup>35</sup>

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<sup>35</sup> See Module 2 of these procedures, or 12 CFR 1026.51.

If the consumer is under the age of 21, and the credit card account was opened based on the under-21 applicant's independent ability to pay, the issuer cannot increase the credit limit on the account if the consumer is still under 21 unless the consumer has the independent ability to make the minimum monthly payment on the increased limit, or a co-applicant/cosigner/guarantor agrees in writing to assume liability for the debt. If the consumer is still under 21 and the account had a cosigner/guarantor/joint applicant at account opening, the cosigner/guarantor/joint applicant must agree in writing to assume liability on the increase (unless the cosigner/guarantor/joint applicant requested the credit line increase).



## Examination Procedures

### ***Subsequent disclosure requirements (12 CFR 1026.9)***

1. If, 30 days after mailing or delivering the account-opening disclosures under 12 CFR 1026.6(a)(1) or (b)(3)(ii)(A), the creditor adds a credit feature or furnishes a credit access device (other than as a renewal, resupply, or the original issuance of a credit card, or except with regard to checks that access a credit card account) on the same finance charge terms, determine that the creditor discloses, before the consumer uses the feature or device for the first time, that it is for use in obtaining credit under the terms previously disclosed. (12 CFR 1026.9(b)(1))
2. Determine that, except with regard to checks that access a credit card account, whenever a credit feature is added or a credit access device is mailed or delivered to the consumer, and the finance charge terms for the feature or device differ from disclosures previously given, the disclosures required by 12 CFR 1026.6(a)(1) or (b)(3)(ii)(A) that are applicable to the added feature or device are given before the consumer uses the feature or device for the first time. (12 CFR 1026.9(b)(2))
3. *Checks that access a credit card account.* If checks that can be used to access a credit card account are provided more than 30 days after account-opening disclosures under 12 CFR 1026.6(b) are mailed or delivered, or are provided within 30 days of the account-opening disclosures and the finance charge terms for the checks differ from the finance charge terms previously disclosed, determine that the creditor discloses on the front of the page containing the checks the following terms in the form of a table with the headings, content, and form substantially similar to Sample G-19 in Appendix G to Regulation Z. (12 CFR 1026.9(b)(3)):
  - A. If a promotional rate applies to the checks, determine that the creditor discloses:
    - i. The promotional rate and the time period during which the promotional rate will remain in effect (12 CFR 1026.9(b)(3)(i)(A)(1));
    - ii. The type of rate that will apply (such as whether the purchase or cash advance rate applies) after the promotional rate expires, and the annual percentage rate that will apply after the promotional rate expires. For a variable-rate account, a creditor must disclose an annual percentage rate based on the applicable index or formula in accordance with the accuracy requirements set forth in paragraph (b)(3)(ii) of this (12 CFR 1026.9(b)(3)(i)(A)(2)); and
    - iii. The date, if any, by which the consumer must use the checks in order to qualify for the promotional rate. If the creditor will honor checks used after such date but will apply an annual percentage rate other than the promotional rate, the creditor must disclose this fact and the type of annual percentage rate that will apply if the consumer uses the checks after such date (12 CFR 1026.9(b)(3)(i)(A)(3)).

iv. If any APR required to be disclosed pursuant to 12 CFR 1026.9(b)(3)(i) is a variable rate, determine that the creditor also disclosed the fact that the rate may vary and how the rate is determined. Determine that the creditor identified the type of index or formula used in setting the rate. Determine that the creditor does not disclose the value of the index and the amount of the margin that are used to calculate the variable rate in the table and that any applicable limitations on rate increases are not included in the table (12 CFR 1026.9(b)(3)(iii)).

B. If no promotional rate applies to the checks, determine that the creditor discloses the type of rate that will apply to the checks and the applicable annual percentage rate. For a variable-rate account, a creditor must disclose an annual percentage rate based on the applicable index or formula in accordance with the accuracy requirements set forth in 12 CFR 1026.9(b)(3)(ii). (12 CFR 1026.9(b)(3)(i)(B)(1))

C. Determine that the creditor discloses:

i. Any transaction fees applicable to the checks disclosed under 12 CFR 1026.6(b)(2)(iv). (12 CFR 1026.9(b)(3)(i)(C))

ii. Whether or not a grace period is given within which any credit extended by use of the checks may be repaid without incurring a finance charge due to a periodic interest rate. When disclosing whether there is a grace period, the phrase “How to Avoid Paying Interest on Check Transactions” shall be used as the row heading when a grace period applies to credit extended by the use of the checks. When disclosing the fact that no grace period exists for credit extended by use of the checks, the phrase “Paying Interest” shall be used as the row heading. (12 CFR 1026.9(b)(3)(i)(D))

NOTE: The disclosures in 12 CFR 1026.9(b)(3)(i) must be accurate as of the time the disclosures are mailed or delivered. A variable APR is accurate if it was in effect within 60 days of when the disclosures are mailed or delivered. (12 CFR 1026.9(b)(3)(ii))

4. Except as provided in 12 CFR 1026.9(c)(2)(i)(B), (c)(2)(iii) and (c)(2)(v), when a significant change in account terms as described in 12 CFR 1026.9(c)(2)(ii) is made, determine that the creditor provides a written notice of the change at least 45 days prior to the effective date of the change to each consumer who may be affected. (12 CFR 1026.9(c)(2)(i)(A))

5. The 45-day timing requirement, however, does not apply if the consumer has agreed to a particular change as described in 12 CFR 1026.9(c)(2)(i)(B). For these instances, however, determine that the creditor provided a notice in accordance with the timing requirements of 12 CFR 1026.9(c)(2)(i)(B). (12 CFR 1026.9(c)(2)(i)(A))

6. For open-end (not home-secured) plans, determine that increases in the rate applicable to a consumer’s account due to delinquency, default or as a penalty described in 12 CFR 1026.9(g) that are not due to a change in the contractual terms of the consumer’s account are

disclosed pursuant to 12 CFR 1026.9(g) instead of 12 CFR 1026.9(c)(2). (12 CFR 1026.9(c)(2)(i)(A))

7. When a notice of change in terms is required, determine that it is mailed or delivered no later than the effective date of the change, if the consumer agrees to the particular change. Section 1026.9(c)(2)(i)(B) applies only when a consumer substitutes collateral or when the creditor can advance additional credit only if a change relatively unique to that consumer is made, such as the consumer's providing additional security or paying an increased minimum payment amount. (12 CFR 1026.9(c)(2)(i)(B))

NOTE: The 45-day timing requirements does not apply in certain narrow circumstances, as described in 12 CFR 1026.9(c)(2)(i)(B). The following are not considered agreements between the consumer and the creditor for purposes of 12 CFR 1026.9(c)(2)(i)(B):

- A. The consumer's general acceptance of the creditor's contract reservation of the right to change terms;
  - B. The consumer's use of the account (which might imply acceptance of its terms under state law);
  - C. The consumer's acceptance of a unilateral term change that is not particular to that consumer, but rather is of general applicability to consumers with that type of account; and,
  - D. The consumer's request to reopen a closed account or to upgrade an existing account to another account offered by the creditor with different credit or other features. (12 CFR 1026.9(c)(2)(i)(B))
8. The 45-day advance notice requirement applies to changes to the following terms (12 CFR 1026.9(c)(2)(ii)):
    - A. APR increase, including each periodic rate that may be used to compute the finance charge on outstanding balances for purchases, a cash advance, or a balance transfer (such rates may include any discounted initial rate, premium initial rate, or penalty rate that may be applied to the account);
      - i. Variable-rate information;
      - ii. Discounted or premium initial rates;
      - iii. Penalty rates;
    - B. Fees for issuance or availability, including any fee based upon account activity or inactivity;
    - C. Fixed finance charge or minimum interest charge, if it exceeds \$1.00;

- D. Transaction charge for purchases;
  - E. Grace period;
  - F. Balance computation method;
  - G. Cash advance fee;
  - H. Late payment fee;
  - I. Over-the-limit fee;
  - J. Balance transfer fee;
  - K. Returned payment fee;
  - L. Required insurance, debt cancellation, or debt suspension coverage; and
  - M. Increase in required minimum periodic payment, or the acquisition of a security interest.
9. Except as provided in 12 CFR 1026.9(c)(2)(vi), if a creditor increases any component of a charge, or introduces a new charge, required to be disclosed under 12 CFR 1026.6(b)(3) that is not a significant change in account terms as described in paragraph (c)(2)(ii), determine that the creditor either (12 CFR 1026.9(c)(2)(iii)):
- A. Complies with the requirements of 12 CFR 1026.9(c)(2)(i), or
  - B. Provides notice of the amount of the charge before the consumer agrees to or becomes obligated to pay the charge, at a time and in a manner that a consumer would be likely to notice the disclosure of the charge, either in writing or orally.
10. Ensure that the written change-in-terms notice contains the following disclosures (12 CFR 1026.9(c)(2)(iv)(A)):
- A. A summary of the changes made to terms required by 12 CFR 1026.6(b)(1) and (b)(2) or 12 CFR 1026.6(b)(4), a description of any increase in the required minimum payment, and a description of any security interests being acquired by the creditor.
  - B. A statement that changes are being made to the account.
  - C. For accounts other than credit card accounts under an open-end (not home-secured) consumer credit plan subject to 12 CFR 1026.9(c)(2)(iv)(B), a statement indicating that the consumer has the right to opt out of the changes, if applicable, and a reference to the opt-out right provided in the notice, if applicable.
  - D. The date the changes will become effective.

- E. If applicable, a statement that the consumer may find additional information about the summarized changes, and other changes, in the notice.
- F. In the case of a rate change, other than a penalty rate, a statement that if a penalty rate currently applies to the consumer's account, the new rate described in the notice will not apply to the consumer's account until the consumer's account balances are no longer subject to the penalty rate.
- G. If the change in terms being disclosed is an increase in the APR, the balances to which the increased rate will apply. If applicable, creditors should disclose a statement identifying the balances to which the current rate will apply as of the effective date of the change.
- H. If the change in terms being disclosed is an increase in an annual percentage rate for a credit card account under an open-end (not home-secured) consumer credit plan, a statement of no more than four principal reasons for the rate increase, listed in their order of importance.

NOTE: The disclosed reasons must accurately describe the principal factors actually considered by the card issuer in increasing the rate. (Comment 12 CFR 1026.9(c)(2)(iv)-11)

11. In addition to the disclosures in 12 CFR 1026.9(c)(2)(iv)(A), if a card issuer makes a significant change in account terms on a credit card account, determine that the creditor provides the following information on the notice provided pursuant to 12 CFR 1026.9(c)(2)(i) (12 CFR 1026.9(c)(2)(iv)(B)):

NOTE: This information is not required to be provided in the case of an increase in the required minimum periodic payment, an increase in a fee as a result of a reevaluation of a determination made under 12 CFR 1026.52(b)(1)(i) or an adjustment to the safe harbors in 12 CFR 1026.52(b)(1)(ii) to reflect changes in the Consumer Price Index, a change in an annual percentage rate applicable to a consumer's account, an increase in a fee previously reduced consistent with 50 USC app. 527 (Servicemembers Civil Relief Act) or similar federal or state statute or regulation if the amount of the increased fee does not exceed the amount of that fee prior to the reduction, or when the change results from the creditor not receiving the consumer's required minimum periodic payment within 60 days after the due date for that payment.

- A. A statement that the consumer has the right to reject the change or changes prior to the effective date of the changes, unless the consumer fails to make a required minimum periodic payment within 60 days after the due date for that payment;
- B. Instructions for rejecting the change or changes, and a toll-free telephone number that the consumer may use to notify the creditor of the rejection; and

- C. If applicable, a statement that if the consumer rejects the change or changes, the consumer's ability to use the account for further advances will be terminated or suspended.
12. *Changes resulting from failure to make minimum periodic payment within 60 days from due date for credit card accounts under an open-end (not home-secured) consumer credit plan.* (12 CFR 1026.9(c)(2)(iv)(C)):
- A. If the significant change required to be disclosed pursuant to 12 CFR 1026.9(c)(2)(i) is an increase in an annual percentage rate or a fee or charge required to be disclosed under 12 CFR 1026.6(b)(2)(ii), (b)(2)(iii), or (b)(2)(xii) based on the consumer's failure to make a minimum periodic payment within 60 days from the due date for that payment, determine that the notice provided pursuant to 12 CFR 1026.9(c)(2)(i) states that the increase will cease to apply to transactions that occurred prior to or within 14 days of provision of the notice, if the creditor receives six consecutive required minimum periodic payments on or before the payment due date, beginning with the first payment due following the effective date of the increase.
- B. If the significant change required to be disclosed pursuant to 12 CFR 1026.9(c)(2)(i) is an increase in a fee or charge required to be disclosed under 12 CFR 1026.6(b)(2)(ii), (b)(2)(iii), or (b)(2)(xii) based on the consumer's failure to make a minimum periodic payment within 60 days from the due date for that payment, determine that the notice provided pursuant to 12 CFR 1026.9(c)(2)(i) also states the reason for the increase.
13. Determine that the summary of changes described in 12 CFR 1026.9(c)(2)(iv)(A)(1) is in a tabular format (except for a summary of any increase in the required minimum periodic payment, a summary of a term required to be disclosed under 12 CFR 1026.6(b)(4) that is not required to be disclosed under 12 CFR 1026.6(b)(1) and (b)(2), or a description of any security interest being acquired by the creditor), with headings and format substantially similar to any of the account-opening tables found in G-17 in Appendix G to Regulation Z. Determine that the table discloses the changed term and information relevant to the change, if that relevant information is required by 12 CFR 1026.6(b)(1) and (b)(2). Determine that the new terms are described in the same level of detail as required when disclosing the terms under 12 CFR 1026.6(b)(2). (12 CFR 1026.9(c)(2)(iv)(D)(1))
14. If a notice required by 12 CFR 1026.9(c)(2)(i) (change in terms) is included on or with a periodic statement, determine that the information described in 12 CFR 1026.6(c)(2)(iv)(A)(1) is disclosed on the front of any page of the statement. Determine that the summary of changes described in 12 CFR 1026.9(c)(2)(iv)(A)(1) immediately follows the information described in 12 CFR 1026.9(c)(2)(iv)(A)(2) through 12 CFR 1026.9(c)(2)(iv)(A)(7) and, if applicable, 12 CFR 1026.9(c)(2)(iv)(A)(8), 12 CFR 1026.9(c)(2)(iv)(B), and 12 CFR 1026.9(c)(2)(iv)(C), and is substantially similar to the format shown in Sample G-20 or G-21 in Appendix G to Regulation Z. (12 CFR 1026.9(c)(2)(iv)(D)(2))

15. If a notice required by 12 CFR 1026.9(c)(2)(i) is not included on or with a periodic statement, determine that the information described in 12 CFR 1026.9(c)(2)(iv)(A)(1) is disclosed on the front of the first page of the notice or segregated on a separate page from other information given with the notice. (12 CFR 1026.9(c)(2)(iv)(D)(3))

NOTE: The summary of changes required to be in a table pursuant to 12 CFR 1026.9(c)(2)(iv)(A)(1) may be on more than one page, and may use both the front and reverse sides, so long as the table begins on the front of the first page of the notice and there is a reference on the first page indicating that the table continues on the following page.

16. Determine that the summary of changes described in 12 CFR 1026.9(c)(2)(iv)(A)(1) immediately follows the information described in 12 CFR 1026.9(c)(2)(iv)(A)(2) through 12 CFR 1026.9(c)(2)(iv)(A)(7) and, if applicable, 12 CFR 1026.9(c)(2)(iv)(A)(8), (c)(2)(iv)(B), and (c)(2)(iv)(C), and is substantially similar to the format shown in Sample G-20 or G-21 in Appendix G to Regulation Z. (12 CFR 1026.9(c)(2)(iv)(D)(3))
17. For open-end plans (other than home equity plans subject to the requirements of 12 CFR 1026.40), note that a creditor is not required to provide notice under this if (12 CFR 1026.9(c)(2)(v)):
- A. The change involves:
    - i. Charges for documentary evidence;
    - ii. A reduction of any component of a finance or other charge;
    - iii. A suspension of future credit privileges (except as provided in 12 CFR 1026.9(c)(2)(vi)) or termination of an account or plan;
    - iv. When the change results from an agreement involving a court proceeding;
    - v. When the change is an extension of the grace period; or
    - vi. The change is applicable only to checks that access a credit card account and the changed terms are disclosed on or with the checks in accordance with 12 CFR 1026.9(b)(3) (12 CFR 1026.9(c)(2)(v)(A));
  - B. The change is an increase in an APR upon the expiration of a specified period of time, provided that (12 CFR 1026.9(c)(2)(v)(B)):
    - i. Prior to commencement of that period, the creditor disclosed in writing to the consumer, in a clear and conspicuous manner, the length of the period and the APR or fee that would apply after expiration of the period;
    - ii. The disclosure of the length of the period and the APR or fee that would apply after expiration of the period are set forth in close proximity and in equal prominence to

- the first listing of the disclosure of the rate or fee that applies during the specified period of time; and
- iii. The APR or fee that applies after that period does not exceed the rate disclosed pursuant to 12 CFR 1026.9(c)(2)(v)(B)(1) or, if the rate disclosed pursuant to 12 CFR 1026.9(c)(2)(v)(B)(1) was a variable rate, the rate following any such increase is a variable rate determined by the same formula (index and margin) that was used to calculate the variable rate disclosed pursuant to 12 CFR 1026.9(c)(2)(v)(B)(1);
- C. The change is an increase in a variable APR in accordance with a credit card or other account agreement that provides for changes in the rate according to operation of an index that is not under the control of the creditor and is available to the general public (12 CFR 1026.9(c)(2)(v)(C)); or
- D. The change is an increase in an APR, a fee or charge required to be disclosed under 12 CFR 1026.6(b)(2)(ii), (b)(2)(iii), (b)(2)(viii), (b)(2)(ix) or (b)(2)(xii), or the required minimum periodic payment due to the completion of a workout or temporary hardship arrangement by the consumer or the consumer's failure to comply with the terms of such an arrangement, provided that (12 CFR 1026.9(c)(2)(v)(D)):
- i. The APR or fee or charge applicable to a category of transactions or the required minimum periodic payment following any such increase does not exceed the rate or fee or charge or required minimum periodic payment that applied to that category of transactions prior to commencement of the arrangement or, if the rate that applied to a category of transactions prior to the commencement of the workout or temporary hardship arrangement was a variable rate, the rate following any such increase is a variable rate determined by the same formula (index and margin) that applied to the category of transactions prior to commencement of the workout or temporary hardship arrangement; and
  - ii. The creditor has provided the consumer, prior to the commencement of such arrangement, with a clear and conspicuous disclosure of the terms of the arrangement (including any increases due to such completion or failure). This disclosure must generally be provided in writing. However, a creditor may provide the disclosure of the terms of the arrangement orally by telephone, provided that the creditor mails or delivers a written disclosure of the terms of the arrangement to the consumer as soon as reasonably practicable after the oral disclosure is provided.
18. If a creditor decreases the credit limit on the account, determine that advance notice of the decrease is provided before an over-the-limit fee or a penalty rate can be imposed solely as a result of the consumer exceeding the newly decreased credit limit. Determine that notice is provided in writing or orally at least 45 days prior to imposing the over-the-limit fee or penalty rate and that it states that the credit limit on the account has been or will be decreased. (12 CFR 1026.9(c)(2)(vi))



19. Determine that the disclosures contained in 12 CFR 1026.60(b)(1) through (b)(7) are provided if the account is renewed and (1) the card issuer imposes an annual or other periodic fee for the renewal or (2) the card issuer has changed or amended any term of the account required to be disclosed under 12 CFR 1026.6(b)(1) and (b)(2) that has not previously been disclosed to the consumer. Additionally, the disclosure provided upon renewal must disclose how and when the cardholder may terminate the credit to avoid paying the renewal fee, if any. (12 CFR 1026.9(e))
20. Determine that the creditor provides a written notice to each consumer who may be affected when (12 CFR 1026.9(g)(1)):
  - A. A rate is increased due to the consumer's delinquency or default; or
  - B. A rate is increased as a penalty for one or more events specified in the account agreement, such as making a late payment or obtaining an extension of credit that exceeds the credit limit.
21. Whenever any notice is required to be given pursuant to paragraph 12 CFR 1026.9(g)(1), determine that the creditor provided written notice of the increase in rates at least 45 days prior to the effective date of the increase. The notice must be provided after the occurrence of the events described in 12 CFR 1026.9(g)(1)(i) and (g)(1)(ii) that trigger the imposition of the rate increase. (12 CFR 1026.9(g)(2))
22. If a creditor is increasing the rate due to delinquency or default or as a penalty, determine that the creditor provided the following information on the notice sent pursuant to 12 CFR 1026.9(g)(1) (12 CFR 1026.9(g)(3)(i)(A)):
  - A. A statement that the delinquency or default rate or penalty rate, as applicable, has been triggered;
  - B. The date on which the delinquency or default rate or penalty rate will apply;
  - C. The circumstances under which the delinquency or default rate or penalty rate, as applicable, will cease to apply to the consumer's account, or that the delinquency or default rate or penalty rate will remain in effect for a potentially indefinite time period;
  - D. A statement indicating to which balances the delinquency or default rate or penalty rate will be applied;
  - E. If applicable, a description of any balances to which the current rate will continue to apply as of the effective date of the rate increase, unless a consumer fails to make a minimum periodic payment within 60 days from the due date for that payment; and
  - F. For a credit card account under an open-end (not home-secured) consumer credit plan, a statement of no more than four principal reasons for the rate increase, listed in their order of importance.

NOTE: The disclosed reasons must accurately describe the principal factors actually considered by the card issuer in increasing the rate. (Commentary 12 CFR 1026.9(g) - 7)

23. If the rate increase required to be disclosed pursuant to 12 CFR 1026.9(g)(1) is an increase pursuant to 12 CFR 1026.55(b)(4) based on the consumer's failure to make a minimum periodic payment within 60 days from the due date for that payment, determine that the notice provided pursuant to 12 CFR 1026.9(g)(1) also states that the increase will cease to apply to transactions that occurred prior to or within 14 days of provision of the notice, if the creditor receives six consecutive required minimum periodic payments on or before the payment due date, beginning with the first payment due following the effective date of the increase. (12 CFR 1026.9(g)(3)(i)(B))
24. If a notice required by 12 CFR 1026.9(g)(1) (*Increase in rates due to delinquency or default or as a penalty*) is included on or with a periodic statement, determine that the disclosure described in paragraph (g)(3)(i) is in the form of a table and provided on the front of any page of the periodic statement, above the notice described in paragraph 12 CFR 1026.9(c)(2)(iv) if that notice is provided on the same statement. (12 CFR 1026.9(g)(3)(ii)(A))
25. If a notice required by 12 CFR 1026.9(g)(1) (increase in rates) is not included on or with a periodic statement, determine that the information described in 12 CFR 1026.9(g)(3)(i) is disclosed on the front of the first page of the notice. Ensure that only information related to the increase in the rate to a penalty rate is included with the notice.

NOTE: This notice may be combined with a notice described in 12 CFR 1026.9(c)(2)(iv) or (g)(4) (A statement indicating to which balances the delinquency or default rate or penalty rate will be applied). (12 CFR 1026.9(g)(3)(ii)(B))

26. *Exception for Decreases in the Credit Limit* – If a creditor does not provide the 45-day notice under 12 CFR 1026.9(g)(1) prior to increasing the rate for obtaining an extension of credit that exceeds the credit limit, determine that the creditor provides at least 45 days in advance of imposing the penalty rate a notice, in writing, that includes (12 CFR 1026.9(g)(4)):
  - A. A statement that the credit limit on the account has or will be decreased.
  - B. The date on which the penalty rate will apply, if the outstanding balance exceeds the credit limit as of that date;
  - C. A statement that the penalty rate will not be imposed on that date, if the outstanding balance does not exceed the credit limit as of that date;
  - D. The circumstances under which the penalty rate, if applied, will cease to apply to the account, or that the penalty rate, if applied, will remain in effect for a potentially indefinite period of time;

- E. A statement indicating to which balances the penalty rate may be applied; and
  - F. If applicable, a description of any balances to which the current rate will continue to apply as of the effective date of the rate increase, unless the consumer fails to make a minimum periodic payment within 60 days from the due date for that payment.
  - G. In addition to this notice, determine that the creditor does not increase the applicable rate to the penalty rate if the outstanding balance does not exceed the credit limit on the date set forth in the notice. (12 CFR 1026.9(g)(4)(ii))
27. If a notice provided pursuant to 12 CFR 1026.9(g)(4)(i) is included on or with a periodic statement, determine that the information described in 12 CFR 1026.9(g)(4)(i) is in the form of a table and provided on the front of any page of the periodic statement (12 CFR 1026.9(g)(4)(iii)(A)); or,
28. If a notice required by 12 CFR 1026.9(g)(4)(i) is not included on or with a periodic statement, determine that the information described in 12 CFR 1026.9(g)(4)(i) is disclosed on the front of the first page of the notice. Determine that only information related to the reduction in credit limit is included with the notice, except that this notice may be combined with a notice described in 12 CFR 1026.9(c)(2)(iv) or (g)(1). (12 CFR 1026.9(g)(4)(iii)(B))
29. When the consumer is given the right to reject a significant change to an account term prior to the effective date of the change, determine whether the consumer was given the option to reject the change by notifying the creditor of the rejection before the effective date of the change. (12 CFR 1026.9(h)(1))
30. If the creditor was notified of the rejection of a significant change to an account term, determine that the creditor did not:
- A. Apply the charge to the account;
  - B. Impose a fee or charge or treat the account as in default solely as a result of the rejection; or
  - C. Require repayment of the balance on the account using a method that is LESS beneficial to the consumer than one of the following methods:
    - i. The method of repayment for the account on the date on which the creditor was notified of the rejection;
    - ii. An amortization period of not less than five years, beginning no earlier than the date on which the creditor was notified of the rejection; or
    - iii. A required minimum periodic payment that includes a percentage of the balance that is equal to no more than twice the percentage required on the date on which the creditor was notified of the rejection. (12 CFR 1026.9(h)(2))

NOTE: These requirements do not apply if the creditor has not received the consumer's required minimum periodic payment within 60 days after the due date for that payment and the creditor has provided timely change in terms disclosures. (12 CFR 1026.9(h)(3))

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***Limitations on increasing APRs, fees, and charges (12 CFR 1026.55)***

1. With respect to a credit card account under an open-end (not home-secured) consumer credit plan, determine that the card issuer did not increase an APR or fee or charge required to be disclosed under 12 CFR 1026.6(b)(2)(ii) (fee for issuance or availability (e.g., an annual fee)), (b)(2)(iii) (fixed finance charge or minimum interest charge), or (b)(2)(xii) (fee for required insurance, debt cancellation, or debt suspension coverage), unless as permitted by one of the six exceptions:
  - A. Temporary rate, fee, or charge exception;
  - B. Variable rate exception;
  - C. Advance notice exception;
  - D. Delinquency exception;
  - E. Workout and temporary hardship arrangement; and
  - F. Servicemembers Civil Relief Act exception (12 CFR 1026.55(a)-(b)).
2. To assess whether the temporary rate, fee, or charge exception applies (12 CFR 1026.55(b)(1)), determine whether:
  - A. The card issuer increased the APR, fee, or charge upon the expiration of a specified period of six months or longer and
  - B. Prior to the commencement of that period, the card issuer disclosed in writing to the consumer, in a clear and conspicuous manner, the length of the period and the APR, fee, or charge that would apply after expiration of the period.
3. If the temporary rate exception applies, determine that the card issuer:
  - A. Did not apply an APR, fee, or charge to transactions that occurred prior to the period that exceeds the APR, fee, or charge that applied to those transactions prior to the period;
  - B. Provided the required notice, but did not apply an APR, fee, or charge (to transactions that occurred within 14 days after provision of the notice) that exceeds the APR, fee, or charge that applied to that category of transactions prior to provision of the notice; and

- C. Did not apply an annual percentage rate to transactions that occurred during the period that exceeds the increased APR, fee, or charge.
4. If the variable rate exception applies (12 CFR 1026.55(b)(2)), determine that the card issuer did not increase an APR unless:
    - A. The increase in the APR is due to an increase in the index; and
    - B. The annual percentage rate varies according to an index that is not under the card issuer's control and is available to the general public.

NOTE: For purposes of qualifying under this exception, an index is considered under the card issuer's control if the card issuer applies a minimum rate or floor below which the rate cannot decrease. However, because there is no disadvantage to consumers, issuers are not prevented from setting a maximum rate or ceiling. (Comment 12 CFR 1026.55(b)(2) – 2(ii))

5. If the advance notice exception applies (12 CFR 1026.55(b)(3)), determine that the card issuer:
  - A. Did not apply that increased APR, fee, or charge to transactions that occurred prior to provision of the notice;
  - B. Did not apply the increased APR, fee, or charge to transactions that occurred prior to or within 14 days after provision of the notice; and
  - C. Did not increase the APR, fee, or charge during the first year after the account is opened.
6. If the delinquency exception applies (12 CFR 1026.55(b)(4)), determine that the card issuer:
  - A. Disclosed in a clear and conspicuous manner in the required notice a statement of the reason for the increase, and
  - B. Will cease the increase if the card issuer receives six consecutive required minimum periodic payments on or before the payment due date, beginning with the first payment due following the effective date of the increase.
7. If the delinquency exception applies and the card issuer received six consecutive required minimum periodic payments on or before the payment due date beginning with the first payment due following the effective date of the increase, determine that the card issuer reduces any APR, fee, or charge (increased pursuant to the delinquency exception) to the original APR, fee, or charge that applied prior to the increase with respect to transactions that occurred prior to or within 14 days after provision of the required notice.
8. If the workout and temporary hardship arrangement exception applies (12 CFR 1026.55(b)(5)), determine that:
  - A. Prior to commencement of the arrangement (except as provided in 12 CFR 1026.9(c)(2)(v)(D)) the card issuer provided the consumer with a clear and conspicuous

written disclosure of the terms of the arrangement (including any increases due to the completion or failure of the arrangement); and

- B. Upon the completion or failure of the arrangement, the card issuer did not apply to any transactions that occurred prior to commencement of the arrangement an APR, fee, or charge that exceeds the APR, fee, or charge that applied to those transactions prior to commencement of the arrangement.
9. If the Servicemembers Civil Relief Act exception applies (12 CFR 1026.55(b)(6)), determine that the card issuer increased the APR, fee, or charge only after 50 U.S.C. app. 527 or a similar federal or state statute or regulation no longer applied. Further, determine that the issuer did not apply to any transactions that occurred prior to the decrease an APR, fee, or charge that exceeded the APR, fee, or charge that applied to those transactions prior to the decrease.
10. For protected balances (12 CFR 1026.55(c)), determine that the card issuer did not require repayment using a method that is less beneficial to the consumer than one of the following methods:
- A. The method of repayment for the account before the effective date of the increase;
  - B. An amortization period of not less than five years, beginning no earlier than the effective date of the increase; or
  - C. A required minimum periodic payment that includes a percentage of the balance that is equal to no more than twice the percentage required before the effective date of the increase.
11. If a card issuer promotes the waiver or rebate of finance charges due to a periodic interest rate or fees or charges (12 CFR 1026.6(b)(2)(ii), (b)(2)(iii), or (b)(2)(xii)) and applies the waiver or rebate to a credit card account under an open-end (not home-secured) consumer credit plan, any cessation of the waiver or rebate on that account constitutes an increase in an annual percentage rate, fee, or charge for purposes of 12 CFR 1026.55.

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### ***Reevaluation of rate increases (12 CFR 1026.59)***

1. If a card issuer increases an APR that applies to a credit card account under an open-end (not home-secured) consumer credit plan, based on the credit risk of the consumer, market conditions, or other factors, or increased such a rate on or after January 1, 2009, and 45 days' advance notice of the rate increase is required pursuant to 12 CFR 1026.9(c)(2) or (g), determine that the card issuer (12 CFR 1026.59(a)(1)):
- A. Evaluates the factors described in 12 CFR 1026.59(d); and

- B. Based on its review of such factors, reduces the APR applicable to the consumer's account, as appropriate.
2. If a card issuer is required to reduce the rate applicable to an account pursuant to 12 CFR 1026.59(a)(1), determine that the card issuer reduces the rate not later than 45 days after completion of the evaluation described in 12 CFR 1026.59(a)(1). (12 CFR 1026.59(a)(2)(i))  
  
NOTE: Any reduction in an APR required pursuant to 12 CFR 1026.59(a)(1) shall apply to (12 CFR 1026.59(a)(2)(ii)):
    - A. Any outstanding balances to which the increased rate described in 12 CFR 1026.59(a)(1) has been applied; and
    - B. New transactions that occur after the effective date of the rate reduction that would otherwise have been subject to the increased rate.
  3. Determine that the card issuer has reasonable written policies and procedures in place to conduct the review described in 12 CFR 1026.59(a). (12 CFR 1026.59(b))
  4. Determine that a card issuer that is subject to 12 CFR 1026.59(a) conducts the review described in 12 CFR 1026.59(a)(1) not less frequently than once every six months after the rate increase. (12 CFR 1026.59(c))
  5. Except as provided in 12 CFR 1026.59(d)(2), determine that the card issuer reviews either (12 CFR 1026.59(d)(1)):
    - A. The factors on which the increase in an APR was originally based; or
    - B. The factors that the card issuer currently considers when determining the APRs applicable to similar new credit card accounts under an open-end (not home-secured) consumer credit plan.
  6. For rate increases imposed between January 1, 2009 and February 21, 2010, determine that an issuer considered the factors described in 12 CFR 1026.59(d)(1)(ii) when conducting the first two reviews required under 12 CFR 1026.59(a), unless the rate increase subject to 12 CFR 1026.59(a) was based solely upon factors specific to the consumer, such as a decline in the consumer's credit risk, the consumer's delinquency or default, or a violation of the terms of the account. (12 CFR 1026.59(d)(2))
  7. If an issuer increases a rate applicable to a consumer's account pursuant to 12 CFR 1026.55(b)(4) based on the card issuer not receiving the consumer's required minimum periodic payment within 60 days after the due date, note that the issuer is not required to perform the review described in 12 CFR 1026.59(a) prior to the sixth payment due date after the effective date of the increase. However, if the APR applicable to the consumer's account is not reduced pursuant to 12 CFR 1026.55(b)(4)(ii), determine that the card issuer performs the review described in 12 CFR 1026.59(a). Determine that the first such review occurs no

later than six months after the sixth payment due following the effective date of the rate increase. (12 CFR 1026.59(e))

8. The obligation to review factors described in 12 CFR 1026.59(a) and (d) ceases to apply (12 CFR 1026.59(f)):
  - A. If the issuer reduces the APR applicable to a credit card account under an open-end (not home-secured) consumer credit plan to the rate applicable immediately prior to the increase, or, if the rate applicable immediately prior to the increase was a variable rate, to a variable rate determined by the same formula (index and margin) that was used to calculate the rate applicable immediately prior to the increase; or
  - B. If the issuer reduces the APR to a rate that is lower than the rate described in 12 CFR 1026.59(f)(1).
9. Except as provided in 12 CFR 1026.59(g)(2), 12 CFR 1026.59 applies to credit card accounts that have been acquired by the card issuer from another card issuer. (12 CFR 1026.59(g))
  - A. Determine that a card issuer that complies with 12 CFR 1026.59 by reviewing the factors described in 12 CFR 1026.59(d)(1)(i) reviews the factors considered by the card issuer from which it acquired the accounts in connection with the rate increase. (12 CFR 1026.59(g)(1))
  - B. If, not later than six months after the acquisition of such accounts, a card issuer reviews all of the credit card accounts it acquires in accordance with the factors that it currently considers in determining the rates applicable to its similar new credit card accounts (12 CFR 1026.59(g)(2)):
    - i. Except as provided in 12 CFR 1026.59(g)(2)(iii), determine that the card issuer conducts reviews described in 12 CFR 1026.59(a) for rate increases that are imposed as a result of its review under this paragraph.
    - ii. Except as provided in 12 CFR 1026.59(g)(2)(iii), note that the card issuer is not required to conduct reviews in accordance with 12 CFR 1026.59(a) for any rate increases made prior to the card issuer's acquisition of such accounts.
    - iii. Note that if as a result of the card issuer's review, an account is subject to, or continues to be subject to, an increased rate as a penalty, or due to the consumer's delinquency or default, the requirements of 12 CFR 1026.59(a) apply.

*Servicemembers Civil Relief Act exception:* Note that the requirements of 12 CFR 1026.59 do not apply to increases in an APR that was previously decreased pursuant to the Servicemembers Civil Relief Act (50 U.S.C. app. 527), provided that such a rate increase is made in accordance with 12 CFR 1026.55(b)(6). (12 CFR 1026.59(h)(1))



*Charged off accounts exception:* Note that the requirements of 12 CFR 1026.59 do not apply to accounts that the card issuer has charged off in accordance with loan-loss provisions. (12 CFR 1026.59(h)(2))

NOTE: Appendix G to Regulation Z is amended by revising Forms G-10(B), G-10(C), G-10(E), G-17(B), G-17(C), G-18(B), G-18(D), G-18(F), G-18(G), G-20, G-21, G-22, G-25(A), and G-25(B).

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### ***Over-the-limit transactions (12 CFR 1026.56)***

1. If the credit card issuer charges a fee for over-the-limit transactions, determine that the oral, written or electronic “opt-in” notice includes all of the following applicable items (and not any information not specified in or otherwise permitted) (12 CFR 1026.56(e)(1)):
  - A. *Fees* – The dollar amount of any fees or charges assessed by the card issuer on a consumer’s account for an over-the-limit transaction;
  - B. *APR(s)* – Any increased periodic rate(s) (expressed as an APR(s)) that may be imposed on the account as a result of an over-the-limit transaction; and
  - C. *Disclosure of opt-in right* – An explanation of the consumer’s right to affirmatively consent to the card issuer’s payment of over-the-limit transactions, including the method(s) by which the consumer may consent.
2. Determine that the written notice informing the consumer of the right to revoke consent following the assessment of an over-the-limit fee or charge describes that right, including the method(s) by which the consumer may revoke consent. (12 CFR 1026.56(e)(2))
3. Joint Relationships. Determine that, if two or more consumers are jointly liable on a credit card account, the card issuer treats the affirmative consent of any of the joint consumers as affirmative consent for that account. Similarly, determine that the card issuer treats a revocation of consent by any of the joint consumers as revocation of consent for that account. (12 CFR 1026.56(f))
4. Notwithstanding a consumer’s affirmative consent to a card issuer’s payment of over-the-limit transactions, determine that the card issuer does not (12 CFR 1026.56(j)):
  - A. Impose more than one over-the-limit fee or charge on a consumer’s credit card account per billing cycle, and, in any event, only if the credit limit was exceeded during the billing cycle. In addition, the card issuer may not impose an over-the-limit fee or charge on the consumer’s credit card account for more than three billing cycles for the same over-the-limit transaction where the consumer has not reduced the account balance below the credit limit by the payment due date for either of the last two billing cycles.

NOTE: There is an exception to the latter prohibition if another over-the-limit transaction occurred in the last two billing cycles

- B. Impose an over-the-limit fee or charge solely because of the card issuer's failure to promptly replenish the consumer's available credit following the crediting of the consumer's payment following the crediting of the consumer's payment under 12 CFR 1026.10.
- C. Condition the amount of a consumer's credit limit on the consumer affirmatively consenting to the card issuer's payment of over-the-limit transactions if the card issuer assesses a fee or charge for such service.
- D. Impose an over-the-limit fee or charge for a billing cycle if a consumer exceeds a credit limit solely because of fees or interest charged by the card issuer (defined as charges imposed as part of the plan under 12 CFR 1026.6(b)(3)) to the consumer's account during that billing cycle.

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***Credit line increases (12 CFR 1026.51)***

1. Determine that the card issuer does increase the credit limit for a consumer unless the card issuer considers the ability of the consumer to make the required minimum periodic payments under the terms of the account based on the consumer's income or assets and current obligations. (12 CFR 1026.51(a)(1)(i))
2. Verify that the card issuer establishes and maintains reasonable written policies and procedures to consider a consumer's income or assets and current obligations. Reasonable policies and procedures to consider a consumer's ability to make the required payments include a consideration of at least one of the following: (12 CFR 1026.51(a)(1)(ii))
  - A. The ratio of debt obligations to income;
  - B. The ratio of debt obligations to assets; or
  - C. The income the consumer will have after paying debt obligations.

NOTE: Reasonable written policies and procedures may include treating any income and assets to which the consumer has a reasonable expectation of access as the consumer's income or assets, or may be limited to consideration to the consumer's independent income and assets.

3. Determine that the card issuer uses a reasonable method for estimating the minimum periodic payments the consumer would be required to pay under the terms of the account. (12 CFR 1026.51(a)(2)(i))

4. A card issuer's estimate of the minimum periodic payment is compliant (i.e., receives the benefit of a safe harbor) if it uses the following method (12 CFR 1026.51(a)(2)(ii)):
  - A. The card issuer assumes utilization, from the first day of the billing cycle, of the full credit line that the issuer is considering offering to the consumer; and
  - B. The card issuer uses a minimum payment formula employed by the issuer for the product the issuer is considering offering to the consumer or, in the case of an existing account, the minimum payment formula that currently applies to that account, provided that:
    - i. If the applicable minimum payment formula includes interest charges, the card issuer estimates those charges using an interest rate that the issuer is considering offering to the consumer for purchases or, in the case of an existing account, the interest rate that currently applies to purchases; and
    - ii. If the applicable minimum payment formula includes mandatory fees, the card issuer must assume that such fees have been charged to the account.
5. If a credit card account was opened for a consumer under the age of 21 without a cosigner, guarantor, or joint applicant pursuant to 12 CFR 1026.51(b)(1), determine that the issuer does not increase the credit limit on the account before the consumer turns 21 unless:
  - A. At the time of the contemplated increase, the consumer has an independent ability to make the required minimum periodic payments; or
  - B. A cosigner, guarantor, or joint accountholder who is at least 21 years old and has the ability to make the required minimum periodic payments agrees in writing to assume liability for any debt incurred on the account. (12 CFR 1026.51(b)(2)(i))
6. If a credit card account was opened for such a consumer with a cosigner, guarantor, or joint applicant pursuant to 12 CFR 1026.51(b)(1)(ii), determine that the issuer does not increase the credit limit on such account before the consumer attains the age of 21 unless the cosigner, guarantor, or joint accountholder who assumed liability at account opening agrees in writing to assume liability on the increase. (12 CFR 1026.51(b)(2))

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## Module 4: Payments and Periodic Statements

### ***Periodic statements (12 CFR 1026.5(b)(2); 12 CFR 1026.7; 12 CFR 1026.8)***

Regulation Z requires credit card issuers to provide a consumer with a periodic statement for each billing cycle at the end of which an account has a debit or credit balance of more than \$1 or on which a finance charge has been imposed. The issuer is not required to send a periodic statement for an account if:

- It is deemed to be uncollectible;
- Delinquency proceedings have been instituted;
- The issuer has charged off the account in accordance with loan loss provisions and will not charge any additional fees or interest in the account; or
- Furnishing the statement would violate Federal law.

Credit card issuers must adopt reasonable procedures to ensure that periodic statements are mailed or delivered at least 21 days prior to the payment due date disclosed on the periodic statement, and that payments are not treated as late for any purpose if they are received within 21 days after mailing or delivery of the statement. In addition, for all consumer credit card accounts with grace periods, issuers must adopt reasonable procedures designed to ensure that periodic statements are mailed or delivered at least 21 days prior to the date on which a grace period (if any) expires and that finance charges are not imposed as a result of the loss of a grace period if a payment is received within 21 days after mailing or delivery of a statement.<sup>36</sup>

See Appendix 1 to these procedures for detailed information on the required formatting and contents of the periodic statement.

### ***Payments (12 CFR 1026.10)***

#### *General and specific requirements (12 CFR 1026.10(a) and (b))*

A credit card issuer is generally required to credit a payment to the consumer's account as of the date of receipt. The "date of receipt" is the date that the payment instrument or other means of completing payment reaches the issuer. A card issuer does not violate this provision when a delay in crediting does not result in a finance or other charge. Also, issuers may specify reasonable requirements for payments that enable most consumers to make conforming payments. These may include, but are not limited to:

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<sup>36</sup> For purposes of this requirement, a "grace period" is defined as a period within which any credit extended may be repaid without incurring a finance charge due to a periodic interest rate.

- Specifying that payments include the account number or a payment stub;
- Setting reasonable cut-off times for payments to be credited on a particular day; or
- Specifying that only checks or money orders should be sent by mail, and that payment is to be made in U.S. dollars.

If the issuer accepts a payment that does not conform to the requirements specified on or with the periodic statement, the issuer is required to credit the payment within five days of receipt.<sup>37</sup>

Generally, a card issuer may set reasonable cut-off times for payments to be received by mail, by electronic means, by telephone, and in person, provided that such cut-off times shall be no earlier than 5 p.m. on the payment due date at the location specified by the creditor for the receipt of such payments. Special rules apply for payments made in person at a branch or office of a card issuer that is a financial institution.<sup>38</sup> For those payments, any payments received prior to the close of business of that branch or office will be considered received on the date on which the consumer makes the payment. Card issuers may not impose a cut-off time for in-person payments earlier than the close of business for the branch or office. A card issuer may impose a cut-off time earlier than 5 p.m. for such payments, if the close of business of the branch or office is earlier than 5 p.m.

#### *Limitations on fees related to method of payment (12 CFR 1026.10(e))*

An issuer, or any third-party processor that collects, receives, or processes payments on behalf of a creditor, may not impose a separate fee for processing a payment unless the payment method is for an expedited service which involves the assistance of a live customer service representative. An expedited service requires the payment to be credited the same day, or if the payment is received after any cut-off time established by the issuer, the next business day.

#### *Issuer's failure to credit payment (12 CFR 1026.10(c), 1026.10(d), and 1026.10(f))*

If an issuer fails to properly credit a payment in time to avoid the imposition of a finance charge or other charges, the issuer is required to adjust the consumer's account so that the charges imposed are credited to the consumer's account during the next billing cycle.

If an issuer does not accept payments by mail on the due date for payments (for example, if the U.S. Postal Service does not deliver mail on that date), the issuer generally must not treat payments received on the next business day as late for any purpose such as increasing the APR as a penalty, reporting the consumer as delinquent to a credit reporting agency, assessing a late

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<sup>37</sup> If a creditor promotes a method for making payments, such payments must be considered conforming payments and (if made prior to any reasonably cut-off time specified by the creditor) must be credited to the consumer's account as of the date of receipt, except when a delay in crediting does not result in a finance or other charge.

<sup>38</sup> For purposes of this provision, "financial institution" means a bank, savings association, or credit union.

fee or any other fee, initiating collection activities, or terminating benefits (such as rewards on purchases).<sup>39</sup>

If an issuer changes the address for receiving payments, such as a mailing address or the address of a branch where customers can make payments, and the change causes a delay in crediting payment to a customer's account, the issuer cannot charge a late payment fee or finance charge during the 60-day period following the date on which the change took effect. The issuer can also credit an amount equal to the fee or charge if such a fee or charge has been imposed.

### ***Payment allocation (12 CFR 1026.53)***

When different rates apply to different balances on a credit card account, issuers are generally required to allocate payments in excess of the minimum payment first to the balance with the highest APR and any remaining portion to the other balances in descending order based on the applicable APR. Regulation Z does not require card issuers to allocate the minimum monthly payment in any particular manner.

However, if any of the balances are subject to a deferred interest program, issuers must allocate excess payments first to the deferred interest balance during the last two billing cycles of the deferred interest period. In addition, during a deferred interest period, issuers are permitted (but not required) to allocate excess payments in the manner requested by the consumer.<sup>40</sup>

For accounts with secured balances, issuers are permitted (but not required) to allocate excess payments to the secured balance if requested by the consumer.

### ***Limitations on the imposition of finance charge related to loss of grace period (12 CFR 1026.54)***

Section 1026.54 prohibits a credit card issuer from calculating finance charges based on balances for days in previous billing cycles as a result of the loss of a grace period (a practice sometimes referred to as "double-cycle billing"). In addition, when a consumer pays some, but not all, of a balance prior to the expiration of a grace period, an issuer is prohibited from imposing finance charges based on the portion of the balance that has been repaid (but only if that balance was subject to the grace period).

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<sup>39</sup> If a creditor accepts or receives payments made on the due date by a method other than mail, such as electronic or telephone payments, the creditor is not required to treat a payment made by that method on the next business day as timely, even if it does not accept mailed payments on the due date.

<sup>40</sup> Balances subject to a temporary or promotional interest rate are not included in this exception, unless the consumer may be obligated to pay interest that accrues during the period if the balance is not paid in full prior to the expiration of the period. See Comment 53(b).

***Treatment of credit balances (12 CFR 1026.11(a))***

Issuers are required to credit the amount of any credit balance of greater than \$1 to a customer's account. Credit balances greater than \$1 must be refunded within seven business days of receiving a written request from the consumer. Issuers must also make a good faith effort to refund to the consumer by cash, check, or money order, or credit to a deposit account of the consumer, any part of the credit balance of more than \$1 remaining in the account for more than six months.

## Examination Procedures

### *Periodic statement disclosures (12 CFR 1026.7)*

1. Review financial institution policies, procedures, and systems to determine, either separately or when completing the actual file review, whether the periodic statement is furnished when required by Regulation Z: if at the end of a billing cycle, the account has a debit or credit balance of \$1 or more or if a finance charge has been imposed (12 CFR 1026.5(b)(2)(i)). Also, the creditor must adopt reasonable procedures designed to ensure that periodic statements for credit card accounts are mailed or delivered at least 21 days prior to the payment due date and the date on which any grace period expires (for non-credit card open-end credit, there is a 21-day rule if there is a grace period and a 14-day rule if there is no grace period). (12 CFR 1026.5(b)(2)(ii)(B)(2))
2. Determine that the creditor discloses on the periodic statement (12 CFR 1026.7(b)):
  - A. *Previous balance*. The account balance outstanding at the beginning of the billing cycle. (12 CFR 1026.7(b)(1))
  - B. *Identification of transactions*. An identification of each credit transaction in accordance with 12 CFR 1026.8. (12 CFR 1026.7(b)(2))
  - C. *Credits*. Any credit to the account during the billing cycle, including the amount and the date of crediting. The date need not be provided if a delay in crediting does not result in any finance or other charge. (12 CFR 1026.7(b)(3))
  - D. *Periodic rates*. Each periodic rate that may be used to compute the interest charge expressed as an annual percentage rate and using the term *Annual Percentage Rate*, along with the range of balances to which it is applicable. (12 CFR 1026.7(b)(4))

NOTE: If no interest charge is imposed when the outstanding balance is less than a certain amount, the creditor is not required to disclose that fact, or the balance below which no interest charge will be imposed. The types of transactions to which the periodic rates apply shall also be disclosed. For variable-rate plans, the fact that the APR may vary; and

A promotional rate, as that term is defined in 12 CFR 1026.16(g)(2)(i), is required to be disclosed only in periods in which the offered rate is actually applied.

- E. *Balance on which finance charge computed*. The amount of the balance to which a periodic rate was applied and an explanation of how that balance was determined, using the term *Balance Subject to Interest Rate*. (12 CFR 1026.7(b)(5))
- F. *Charges imposed*. The amounts of any charges imposed as part of a plan as stated in 12 CFR 1026.6(b)(3), grouped together, in proximity to transactions identified under 12



CFR 1026.6 (b)(2), substantially similar to Sample G-18(A) in Regulation Z. (12 CFR 1026.7(b)(6))

- i. *Interest.* Finance charges attributable to periodic interest rates, using the term *Interest Charge*, must be grouped together under the heading *Interest Charged*, itemized and totaled by type of transaction, and a total of finance charges attributable to periodic interest rates, using the term *Total Interest*, must be disclosed for the statement period and calendar year to date, using a format substantially similar to Sample G-18(A).
  - ii. *Fees.* Charges imposed as part of the plan other than charges attributable to periodic interest rates must be grouped together under the heading *Fees*, identified consistent with the feature or type, and itemized, and a total of charges, using the term *Fees*, must be disclosed for the statement period and calendar year to date, using a format substantially similar to Sample G-18(A).
- G. *Change-in-terms and increased penalty rate summary for open-end (not home-secured) plans.* Creditors that provide a change-in-terms notice required by 12 CFR 1026.9(c), or a rate increase notice required by 12 CFR 1026.9(g), on or with the periodic statement, must disclose the information in 12 CFR 1026.9(c)(2)(iv)(A) and (c)(2)(iv)(B) (if applicable) or 12 CFR 1026.9(g)(3)(i) on the periodic statement in accordance with the format requirements in 12 CFR 1026.9(c)(2)(iv)(D), and 12 CFR 1026.9(g)(3)(ii). See Forms G-18(F) and G-18(G). (12 CFR 1026.7(b)(7))
- H. *Grace period.* The date by which or the time period within which the new balance or any portion of the new balance must be paid to avoid additional finance charges. If such a time period is provided, a creditor may, at its option and without disclosure, impose no finance charge if payment is received after the time period's expiration. (12 CFR 1026.7(b)(8))
- I. *Address for notice of billing errors.* The address to be used for notice of billing errors. Alternatively, the address may be provided on the billing rights statement permitted by 12 CFR 1026.9(a)(2). (12 CFR 1026.7(b)(9))
- J. *Closing date of billing cycle; new balance.* The closing date of the billing cycle and the account balance outstanding on that date disclosed in accordance with 12 CFR 1026.7(b)(13). (12 CFR 1026.7(b)(10))
- K. *Due date; late payment costs.* With the exception of periodic statements provided solely for charge cards and periodic statements provided for a charged-off account where payment of the entire account balance is due immediately, determine that the creditor disclosed (in accordance with 12 CFR 1026.7(b)(13)):
- i. The due date for a payment (the due date must be the same day of the month for each billing cycle). (12 CFR 1026.7(b)(11)(i)(A))

- ii. The amount of any late payment fee and any increased periodic rate(s) (expressed as an annual percentage rate(s)) that may be imposed on the account as a result of a late payment. If a range of late payment fees may be assessed, verify that the card issuer either states a range of fees or the highest fee and an indication that the fee imposed could be lower. (12 CFR 1026.7(b)(11)(i)(B))

NOTE: If the rate may be increased for more than one feature or balance, the card issuer may state the range of rates or the highest rate that could apply and at the issuer's option an indication that the rate imposed could be lower.

NOTE: Further, with the exception of the negative or no amortization disclosures required by 12 CFR 1026.7(b)(12)(ii), the repayment disclosures in 12 CFR 1026.7(b)(12) (as listed in step 12 below) are not required for:

- a. Charge card accounts that require payment of outstanding balances in full at the end of each billing cycle;
  - b. A billing cycle immediately following two consecutive billing cycles in which the consumer paid the entire balance in full, had a zero outstanding balance or had a credit balance; and
  - c. A billing cycle where paying the minimum payment due for that billing cycle will pay the entire outstanding balance on the account for that billing cycle.
- L. Given those exceptions above, determine that the card issuer disclosed on the periodic statement 12 CFR 1026.7(b)(12):
- i. The following statement with a bold heading: “**Minimum Payment Warning:** If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance” (12 CFR 1026.7(b)(12)(i)(A));
  - ii. The minimum payment repayment estimate, as described in Appendix M1 to Regulation Z. NOTE: If the minimum payment repayment estimate is less than two years, determine that the card issuer disclosed the estimate in months. Otherwise, the estimate must be disclosed in years and rounded to the nearest whole year (12 CFR 1026.7(b)(12)(i)(B));
  - iii. The minimum payment total cost estimate, as described in Appendix M1 to Regulation Z, rounded to the nearest whole dollar or to the nearest cent, at the card issuer's option (12 CFR 1026.7(b)(12)(i)(C));
  - iv. A statement that the minimum payment repayment estimate and the minimum payment total cost estimate are based on the current outstanding balance shown on the periodic statement. A statement that the minimum payment repayment estimate and the minimum payment total cost estimate are based on the assumption that only

- minimum payments are made and no other amounts are added to the balance (12 CFR 1026.7(b)(12)(i)(D));
- v. A toll-free telephone number where the consumer may obtain from the card issuer information about credit counseling services (12 CFR 1026.7(b)(12)(i)(E)); and
  - vi. The disclosures required for 12 CFR 1026.7(b)(12)(i)(F)(1):
    - a. The estimated monthly payment for repayment in 36 months, as described in Appendix M1 to Regulation Z. The estimated monthly payment for repayment in 36 months must be rounded to the nearest whole dollar or to the nearest cent, at the card issuer's option (12 CFR 1026.7(b)(12)(i)(F)(1)(i));
    - b. A statement that the card issuer estimates that the consumer will repay the outstanding balance shown on the periodic statement in three years if the consumer pays the estimated monthly payment for three years (12 CFR 1026.7(b)(12)(i)(F)(1)(ii));
    - c. The total cost estimate for repayment in 36 months, as described in Appendix M1 to Regulation Z. The total cost estimate for repayment in 36 months must be rounded to the nearest whole dollar or to the nearest cent, at the card issuer's option (12 CFR 1026.7(b)(12)(i)(F)(1)(iii)); and
    - d. The savings estimate for repayment in 36 months, as described in Appendix M1 to Regulation Z. The savings estimate for repayment in 36 months must be rounded to the nearest whole dollar or to the nearest cent, at the card issuer's option (12 CFR 1026.7(b)(12)(i)(F)(1)(iv)).

NOTE: The disclosures (listed in a through d above) required for 12 CFR 1026.7(b)(12)(i)(F)(1) do not apply to a periodic statement in any of the following circumstances:

- a. The minimum payment repayment estimate that is disclosed on the periodic statement pursuant to paragraph 12 CFR 1026.7(b)(12)(i)(B) after rounding is three years or less;
- b. The estimated monthly payment for repayment in 36 months, as described in Appendix M1 to Regulation Z, rounded to the nearest whole dollar or nearest cent that is calculated for a particular billing cycle is less than the minimum payment required for the plan for that billing cycle; and
- c. A billing cycle where an account has both a balance in a revolving feature where the required minimum payments for this feature will not amortize that balance in a fixed amount of time specified in the account agreement and a balance in a fixed repayment feature where the required minimum payment

- for this fixed repayment feature will amortize that balance in a fixed amount of time specified in the account agreement which is less than 36 months.
- vii. If negative or no amortization occurs when calculating the minimum payment estimate as described in Appendix M1 to Regulation Z, determine that the card issuer provides the following disclosures on each periodic statement instead of the disclosures set forth in 12 CFR 1026.7(b)(12)(i) (12 CFR 1026.7(b)(12)(ii)):
- a. “**Minimum Payment Warning:** Even if you make no more charges using this card, if you make only the minimum payment each month we estimate **you will never pay off the balance shown on this statement** because your payment will be less than the interest charged each month” (12 CFR 1026.7(b)(12)(ii)(A));
  - b. “If you make more than the minimum payment each period, you will pay less in interest and pay off your balance sooner” (12 CFR 1026.7(b)(12)(ii)(B));
  - c. The estimated monthly payment for repayment in 36 months rounded to the nearest whole dollar or to the nearest cent, at the creditor’s option (12 CFR 1026.7(b)(12)(ii)(C));
  - d. A statement that the card issuer estimates that the consumer will repay the outstanding balance shown on the periodic statement in three years if the consumer pays the estimated monthly payment each month for three years (12 CFR 1026.7(b)(12)(ii)(D)); and
  - e. A toll-free telephone number where the consumer may obtain from the card issuer information about credit counseling services consistent with 12 CFR 1026.7(b)(12)(iv). (12 CFR 1026.7(b)(12)(ii)(E))
- viii. Verify that the items required to be disclosed, as addressed in the procedures in step L above (required by 12 CFR 1026.7(b)(12)) are disclosed in accordance with the format requirements of 12 CFR 1026.7(b)(13) and are substantially similar to the samples provided in Appendix G of Regulation Z.
- ix. Determine that a card issuer provides (to the extent available from the United States Trustee or a bankruptcy administrator) through the disclosed toll-free telephone number the name, street address, telephone number, and website address for at least three organizations that have been approved by the United States Trustee or a bankruptcy administrator to provide credit counseling services in either the state in which the billing address for the account is located or the state specified by the consumer. (12 CFR 1026.7(b)(12)(iv)(A))
- x. Determine that the card issuer at least annually updates the credit counseling information it discloses for consistency with the information available from the

United States Trustee or a bankruptcy administrator. (12 CFR 1026.7(b)(12)(iv)(B))

- M. Determine that the card issuer provided periodic statement disclosures according to the following format requirements (12 CFR 1026.7(b)(13)):
- i. The due date is disclosed on the front of the first page of the periodic statement and that the amount of the late payment fee and the APR(s) are stated in close proximity thereto.
  - ii. The ending balance and the repayment disclosures (required by 12 CFR 1026.7(b)(12) are disclosed closely proximate to the minimum payment due.
  - iii. The due date, late payment fee and APR, ending balance, minimum payment due, and repayment disclosures are grouped together.

NOTE: Sample G-18(D) in Appendix G of Regulation Z sets forth an example of how these terms may be grouped.

- N. For accounts with an outstanding balance subject to a deferred interest or similar program, determine that the creditor disclosed the date by which that outstanding balance must be paid in full in order to avoid the obligation to pay finance charges on such balance on the front of any page of each periodic statement issued during the deferred interest period beginning with the first periodic statement issued during the deferred interest period that reflects the deferred interest or similar transaction. The disclosure provided pursuant to this paragraph must be substantially similar to Sample G-18(H) in Appendix G to Regulation Z. (12 CFR 1026.7(b)(14))

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### ***Crediting a consumer's account (12 CFR 1026.10)***

1. Ensure that the creditor credits payment to a consumer's account as of the date of receipt, except when a delay in crediting does not result in a finance charge or other charge. (12 CFR 1026.10(a))
2. If a creditor specifies requirements for payments, determine that they are reasonable and enable most consumers to make conforming payments. (12 CFR 1026.10(b))
3. Except as provided by 12 CFR 1026.10(b)(4)(ii), if a creditor specifies, on or with the periodic statement, requirements for the consumer to follow in making payments as permitted under 12 CFR 1026.10, but accepts a payment that does not conform to the requirements, determine that the payment is credited within five days of receipt. (12 CFR 1026.10(b)(4)(i))

4. If the creditor promotes a method for making payments, determine that the creditor considers such payments conforming payments in accordance with 12 CFR 1026.10(b) and that they are credited to the consumer's account as of the date of receipt, except when a delay in crediting does not result in a finance charge or other charge. (12 CFR 1026.10(b)(4)(ii))
5. If the creditor sets a cut-off time for payments to be received by mail, by electronic means, by telephone, or in person, verify that the cut-off time is 5 p.m. or later on the payment due date at the location specified by the creditor for the receipt of such payments. (12 CFR 1026.10(b)(2)(ii))
6. For in-person payments on a credit card account under an open-end (not home-secured) consumer credit plan at a financial institution branch or office that accepts such payments, a card issuer shall not impose a cut-off time earlier than the close of business for any such payments made in person at any branch or office of the card issuer at which such payments are accepted. However, a card issuer may impose a cut-off time earlier than 5 p.m. for such payments, if the close of business of the branch or office is earlier than 5 p.m. (12 CFR 1026.10(b)(3)(i))
7. If a creditor fails to credit a payment as required and imposes a finance or other charge, ensure that the creditor credits the charge(s) to the consumer's account during the next billing cycle. (12 CFR 1026.10(c))
8. If (due to a weekend or holiday, for example) a creditor does not receive or accept payments by mail on the due date for payments, determine that the creditor treats as timely a payment received on the next business day. (12 CFR 1026.10(d)(1))

NOTE: If a creditor accepts or receives payments made on the due date by a method other than mail, such as electronic or telephone payments, the creditor is not required to treat a payment made by that method on the next business day as timely.

9. For credit card accounts under an open-end (not home-secured) consumer credit plan, determine that the creditor does not impose a separate fee to allow consumers to make a payment by any method, such as mail, electronic, or telephone payments, unless such payment method involves an expedited service by a customer service representative of the creditor. (12 CFR 1026.10(e))

NOTE: For purposes of 12 CFR 1026.10(e), the term "creditor" includes a third party that collects, receives, or processes payments on behalf of a creditor.

10. If a card issuer makes a material change in the address for receiving payments or procedures for handling payments, and such change causes a material delay in the crediting of a payment to a consumer's account during the 60-day period following the date on which such change took effect, ensure that the card issuer does not impose any late fee or finance charge for a late payment on the credit card account during the 60-day period following the date on which the change took effect. (12 CFR 1026.10(f))

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***Allocation of payments (12 CFR 1026.53)***

1. Determine whether, when a consumer makes a payment in excess of the required minimum periodic payment, the card issuer allocates the excess amount:
  - A. First to the balance with the highest APR, and
  - B. Any remaining portion to the other balances in descending order based on the applicable APR.
2. For balances on a credit card account subject to a deferred interest or similar program, determine whether the card issuer allocated any amount paid by the consumer in excess of the required minimum periodic payment:
  - A. Consistent with the general requirement discussed above, except that, during the two billing cycles immediately preceding expiration of the deferred interest period, the excess amount must have been allocated first to the balance subject to the deferred interest or similar program and any remaining portion allocated to any other balances consistent with 12 CFR 1026.53(a) (12 CFR 1026.53(b)(1)(i)), or
  - B. In the manner requested by the consumer (12 CFR 1026.53(b)(1)(ii)).
3. When a balance on a credit card account is secured, the card issuer may at its option allocate any amount paid by the consumer in excess of the required minimum periodic payment to that balance if requested by the consumer. (12 CFR 1026.53(b)(2))

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***Loss of a grace period (12 CFR 1026.54)***

1. Determine whether the card issuer imposed finance charges as a result of the loss of a grace period on a credit card account under an open-end (not home-secured) consumer credit plan based on:
  - A. Balances for days in billing cycles that precede the most recent billing cycle, a prohibited practice; or
  - B. Any portion of a balance subject to a grace period that was repaid prior to the expiration of the grace period. (12 CFR 1026.54).
2. With respect to the prohibition discussed above, issuers are not required to follow any specific methodology, but an issuer is in compliance if it applies the consumer's payment to the balance subject to the grace period and calculates interest charges on the amount of the balance that remains unpaid. (Comment 12 CFR 1026.54(a)(1)-5)

Exceptions: This rule does not apply to adjustments to the finance charge as a result of:

- A. The resolution of a dispute under 12 CFR 1026.12, unauthorized use, or 12 CFR 1026.13, billing error; or
- B. The return of a payment.

[Click&type]

***Treatment of credit balances, account termination (12 CFR 1026.11)***

1. Determine institution's treatment of credit balances. Specifically, if the account's credit balance is in excess of \$1, the institution must take the actions listed below. (12 CFR 1026.11)
  - A. Credit the amount to the consumer's account; and
  - B. Either:
    - i. Refund any part of the remaining credit balance within seven business days from receiving a written request from the consumer; or
    - ii. If no written request is received and the credit remains for more than six months, make a good faith effort to refund the amount of the credit to the consumer by cash, check, money order, or credit to a deposit account of the consumer. No further action is required if the consumer's current location is not known to the creditor and cannot be traced through the consumer's last known address or telephone number.
2. Determine that institution has not terminated an account prior to its expiration date solely because the consumer did not incur a finance charge. However, a creditor is not prohibited from closing an account that, for three consecutive months, no credit has been extended (such as by purchase, cash advance, or balance transfer) and the account has had no outstanding balance. (12 CFR 1026.11(b))
3. Determine that, for credit card accounts under an open-end (not home-secured) consumer credit plan, the card issuer has adopted reasonable written policies and procedures designed to ensure that an administrator of an estate of a deceased account holder can determine the amount of and pay any balance on the account in a timely manner. (12 CFR 1026.11(c)(1)(i))

NOTE: This does not apply to the account of a deceased consumer if a joint account holder remains on the account.

4. Ensure that, upon request by the administrator of an estate, the card issuer provides the administrator with the amount of the balance on a deceased consumer's account in a timely manner. (12 CFR 1026.11(c)(2)(i))

NOTE: Providing the amount of the balance on the account within 30 days of receiving the request is deemed to be timely.



5. Verify that, after receiving a request from the administrator of an estate for the amount of the balance on a deceased consumer's account, the card issuer does not impose any fees on the account (such as a late fee, annual fee, or over the-limit fee) or increase any annual percentage rate, except as provided by 12 CFR 1026.55(b)(2) (i.e., due to the operation of an index). (12 CFR 1026.11(c)(3)(i))
6. Determine that, if payment in full of the disclosed balance, pursuant to 12 CFR 1026.11(c)(2), is received within 30 days after disclosure, the card issuer waives or rebates any additional finance charge due to a periodic interest rate. (12 CFR 1026.11(c)(3)(ii))

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## Module 5: Dispute Resolution

### *Billing error resolution (12 CFR 1026.13)*

Regulation Z contains an error resolution process that a card issuer must follow in the event of a billing error on or related to the periodic statement. The error resolution process is triggered when the consumer provides the issuer with written notice of a billing error within the 60-day timeframe discussed later. A “billing error” is defined under Regulation Z as any of the following items that are reflected on or, in some cases, with or pertaining to a periodic statement:

- An extension of credit that is not made to the consumer or a person who has authority to use the consumer’s credit card account;
- An extension of credit that is not identified in accordance with Regulation Z’s requirements for identification of transactions on a periodic statement;
- An extension of credit for property or services that the consumer did not accept, or that were not delivered to the consumer as agreed;
- The issuer’s failure to properly credit a payment or other credit issued to the consumer’s account;
- A computational or similar accounting error that is made by the issuer;
- An extension of credit for which the consumer requests additional clarification, including documentary evidence; or
- The issuer’s failure to mail or deliver a periodic statement to the consumer’s last known address, if that address was received by the issuer, in writing, at least 20 days before the end of the billing cycle for which the statement was required.

The error resolution process is triggered if the issuer receives a billing error notice from a consumer within 60 days after the issuer transmitted the first periodic statement that reflects the alleged billing error, or if the issuer failed to provide the periodic statement, 60 days from the time the statement should have been sent. The written notice must contain enough information to enable the issuer to identify the consumer’s name and account number and must, to the extent possible, indicate the consumer’s belief and the reasons for the belief that a billing error exists, along with the type, date, and amount of the error.

The issuer must mail or deliver to a consumer a written acknowledgment within 30 days of receiving a billing error notice, unless the issuer is able to resolve the issue before the 30 days have passed. The issuer then has two complete billing cycles or 90 days (whichever is shorter) to comply with the resolution procedures discussed later.

Until a billing error is resolved, the consumer is not required to pay (and the issuer is not permitted to attempt to collect) any portion of any required payment that the consumer believes

is related to the disputed amount, including related finance and other charges; and the issuer may not accelerate any part of the debt or restrict or close the account solely because the consumer has exercised his right to dispute the charge. The issuer also cannot make or threaten to make an adverse report to any person about the consumer's credit standing, or report that the account is delinquent because the consumer failed to pay the disputed amount or related charges. However, the issuer:

- May take action to collect any undisputed portion of the item or bill;
- May deduct any disputed amount and related finance or other charges from the consumer's credit limit on the account; or
- May reflect a disputed amount and related finance or other charges on a periodic statement, provided that the issuer indicates on or with the periodic statement that payment of any disputed amount and related finance or other charges is not required until the billing error is resolved.

If the issuer determines that a billing error has occurred as asserted, it is required to correct the billing error and credit the consumer's account with any disputed amount and related finance or other charge as applicable, and mail or deliver a written correction notice to the consumer. If the issuer, after conducting a reasonable investigation, determines that a billing error did not occur or that a different billing error occurred from that asserted, the issuer is required to provide the consumer with a written explanation asserting the issuer's belief as to why the alleged billing error does not exist, along with copies of documentary evidence of the consumer's debt (if the consumer has requested it). If the issuer determined that a different billing error occurred than the one originally alleged, the issuer must correct the billing error and credit the consumer's account with any disputed amount and related finance or other charges, as applicable.<sup>41</sup>

If a card issuer determines that a consumer owes all or part of the disputed amount and related finance or other charges, the issuer must also notify the consumer in writing of the amount owed and the time when payment is due. The issuer must give the consumer the length of any disclosed grace period applicable to the consumer during which the consumer can pay the amount due without incurring additional finance or other charges.

The issuer generally may report an account or amount as delinquent because the amount due remains unpaid after allowing any disclosed grace period as discussed previously or 10 days (whichever is longer) during which the consumer can pay the amount. However, a card issuer may not report an account or amount as delinquent because such amount remains unpaid, if the issuer receives further written notice from the consumer that any portion of the billing error is in dispute, unless the card issuer (a) promptly reports that the amount or account is in dispute; (b) mails or delivers to the consumer (at the same time the report is made) a written notice of the

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<sup>41</sup> If the billing error asserted related to unauthorized use (as defined in 12 CFR 1026.12(b)(1)(i)), the issuer may hold the consumer liable for up to \$50 of the unauthorized amount. See 12 CFR 1026.12.

name and address of each person to whom the creditor makes a report; and (c) promptly reports any subsequent resolution of the reported delinquency to all persons to whom the creditor has made a report. An issuer that has already fully complied with the resolution procedures is not required to reinvestigate if a consumer reasserts substantially the same billing error.

***Liability of cardholder for unauthorized use (12 CFR 1026.12(b))***

Regulation Z provides special rules for the unauthorized use of a credit card. The term “unauthorized use” means the use of a credit card by a person, other than the consumer who is authorized on the account, who does not have actual, implied, or apparent authority to use, and from which the consumer receives no benefit. Generally, consumers become aware of unauthorized use of their credit card account by discovering that their card has been lost or stolen, by noticing an unauthorized charge on their billing statement, or through notification from the card issuer. Regulation Z limits the consumer’s liability for unauthorized use to the lesser of \$50 or the amount of unauthorized charges obtained before the card issuer is notified of the unauthorized use. In order for the card issuer to hold the consumer liable for up to \$50 of unauthorized charges, the following must be true:

- The credit card must be an accepted credit card;
- The card issuer must have provided the consumer with adequate notice that the consumer’s liability will not exceed \$50 (or any lesser amount), that the cardholder may give oral or written notification, and the means by which the consumer can notify the issuer of the unauthorized use (for example, a telephone number, an address, or both); and
- The card issuer has provided a means to identify the cardholder on the account or the authorized user of the card (for example, a signature, photograph, or fingerprint on the card or other biometric means, or electronic or mechanical confirmation).<sup>42</sup>

As discussed previously, Regulation Z limits the consumer’s liability for unauthorized use to the lesser of \$50 or the amount of unauthorized charges obtained before the card issuer is notified of the unauthorized use. Notice is considered “given” when the steps are taken by the consumer as may be reasonably required in the ordinary course of business to provide the card issuer with the pertinent information about the loss, theft, or possible unauthorized use of a credit card account,

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<sup>42</sup> The cardholder may not be held liable for any amount under 12 CFR 1026.12(b) when the card itself (or some other sufficient means of identification of the cardholder) is not used to conduct the unauthorized transaction. Since the issuer has not provided a means to identify the user under these circumstances, the issuer has not fulfilled one of the conditions for imposing liability. For example, when merchandise is ordered by telephone or the Internet by a person without authority to do so, using a credit card account number by itself or with other information that appears on the card (for example, the card expiration date and a 3- or 4-digit cardholder identification number), no liability may be imposed on the cardholder. See Comment 12(b)(2)(iii).

regardless of whether any particular officer, employee, or agent of the card issuer does, in fact, receive the information.<sup>43</sup>

If a card issuer seeks to impose liability when a claim of unauthorized use is made by a consumer, the card issuer must conduct a reasonable investigation of the claim. In conducting its investigation, the card issuer may reasonably request the consumer's cooperation. The card issuer may not automatically deny a claim based solely on the consumer's failure or refusal to comply with a particular request, including providing an affidavit or filing a police report; however, if the card issuer otherwise has no knowledge of facts confirming the unauthorized use, the lack of information resulting from the consumer's failure or refusal to comply with a particular request may lead the card issuer reasonably to terminate the investigation. The procedures involved in investigating claims may differ, but actions such as the following represent steps that a card issuer may take, as appropriate, in conducting a reasonable investigation of an unauthorized transaction:

- Reviewing the types or amounts of purchases made in relation to the consumer's previous purchasing pattern.
- Reviewing where the purchases were delivered in relation to the consumer's residence or place of business.
- Reviewing where the purchases were made in relation to where the consumer resides or has normally shopped.
- Comparing any signature on credit slips for the purchases to the signature of the consumer or an authorized user in the card issuer's records, including other credit slips.
- Requesting documentation to assist in the verification of the claim.
- Requiring a written, signed statement from the consumer or authorized user. For example, the issuer may include a signature line on a billing rights form that the consumer may send in to provide notice of the claim. However, an issuer may not require the consumer to provide an affidavit or signed statement under penalty of perjury as part of a reasonable investigation.
- Requesting a copy of a police report, if one was filed.
- Requesting information regarding the consumer's knowledge of the person who allegedly used the card or of that person's authority to do so.

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<sup>43</sup> A consumer may also initiate the error resolution process under 12 CFR 1026.13, as unauthorized use is a "billing error." Regardless of whether or not the consumer exercises his rights under 12 CFR 1026.13, the liability limitations for unauthorized use in 12 CFR 1026.12(b) apply.

***Annual Statement of Billing Rights (12 CFR 1025.6(b)(5)(iii) and 12 CFR 1026.9(a)(1) and (2))***

Prior to the first transaction for a credit card account, card issuers are required to provide to a consumer a statement that outlines the consumer's rights and the creditor's responsibilities regarding billing error resolution and the right of a cardholder to assert claims or defenses against the card issuer (the so-called "billing rights summary"). This statement must be substantially similar to the statement found in Model Form G-3(A) in Appendix G to Regulation Z. A card issuer also must mail or deliver the billing rights summary at least once per calendar year, at intervals of not less than 6 months and not more than 18 months, either to all consumers or to each consumer entitled to a periodic statement in the billing cycle in which the billing rights summary is provided. As an alternative, the creditor may include a statement substantially similar to Model Form G-4(A) in Appendix G to Regulation Z on or with each periodic statement.

***Right of a consumer to assert claims or defenses against the card issuer (12 CFR 1026.12(c))***

When a person who honors a credit card fails to satisfactorily resolve a dispute as to property or services purchased with the credit card, the consumer may assert against the card issuer all claims (other than tort claims) and defenses arising out of the transaction and relating to the failure to resolve the dispute. The consumer may withhold payment up to the amount of credit outstanding for the property or services that gave rise to the dispute and any finance or other charges imposed on that amount. The card issuer may not report the amount withheld as delinquent until the dispute is settled or judgment is rendered.

These rights only apply if:

- The consumer has made a good faith attempt to resolve the dispute with the person honoring the credit card; and
- The amount of credit extended to obtain the property or services that result in the assertion of the claim or defense by the cardholder exceeds \$50, and the disputed transaction occurred in the same state as the cardholder's current designated address or, if not within the same state, within 100 miles from that address; unless the person honoring the credit card:
  - Is the same person as the card issuer;
  - Is controlled by the card issuer directly or indirectly;
  - Is under the direct or indirect control of a third person that also directly or indirectly controls the card issuer;
  - Controls the card issuer directly or indirectly;

- Is a franchised dealer in the card issuer's products or services; or
- Has obtained the order for the disputed transaction through a mail solicitation made or participated in by the card issuer.

***Prohibitions on offsets (12 CFR 1026.12(d))***

Card issuers are generally prohibited from offsetting a consumer's credit card debt against the consumer's funds held on deposit with the issuer. However, Regulation Z does permit automatic payment plans that allow the card issuer to periodically deduct all or part of the consumer's credit card debt for a deposit account held with the issuer, if authorized in writing by the consumer.<sup>44</sup>

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<sup>44</sup> This prohibition does not alter or affect the right of a card issuer acting under state or Federal law to do any of the following with regard to funds of a cardholder held on deposit with the card issuer if the same procedure is constitutionally available to creditors generally: (a) obtain or enforce a consensual security interest in the funds; (b) attach or otherwise levy upon the funds; or (c) obtain or enforce a court order relating to the funds.

## Examination Procedures

### ***Billing error resolution (12 CFR 1026.12 and 13)***

1. Review a sample of billing error resolution files and a sample of consumers who have asserted a claim or defense against the financial institution for a credit card dispute regarding property or services. Verify the following (12 CFR 1026.12 and 12 CFR 1026.13):
  - A. Liability for unauthorized credit card use is limited to \$50;
  - B. Disputed amounts are not reported delinquent unless remaining unpaid after the dispute has been settled;
  - C. Offsetting credit card indebtedness is prohibited; and
  - D. Errors are resolved within two complete billing cycles.

### ***Annual billing rights statement (12 CFR 1026.9(a)(1))***

1. Determine whether the creditor mailed or delivered the billing rights statement at least once per calendar year, at intervals of not less than 6 months or more than 18 months, customers and whether the institution used the short form notice with each periodic statement. (12 CFR 1026.9(a)(1))

NOTE: As an alternative to the annual billing rights statement (12 CFR 1026.9(a)(1)), the creditor may mail or deliver, on or with each periodic statement, a statement substantially similar to Model Form G-4(A) in Appendix G to Regulation Z, as applicable. (12 CFR 1026.9(a)(2))

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## Module 6: Marketing, Sale, and Servicing of Credit Card Add-on Products

Credit card issuers market various “add-on” products to card users that are supplementary to the credit provided by the card itself. Consumers may purchase the products when they apply for a new credit card or can add them to an existing credit card account. Card issuers often enroll new account holders in these products through either the credit card application, or at the time the consumer activates the credit card. Existing account holders can typically purchase the product by telephone, mail, or through the credit card issuer’s website. In general, consumers are charged a monthly fee for the product, typically either a flat fee or a percentage of the statement balance.

Debt protection and identity theft protection products are two common “add-on” products. Debt protection products typically offer to suspend or cancel all or part of a consumer’s obligation to repay an outstanding credit card balance when a qualifying event occurs. “Cancellation” benefits usually promise forgiveness of some or all of a cardholder’s debt;-; either cancelling the minimum monthly payment for a certain period of time and reducing the account balance, or forgiving the total credit card balance altogether. “Suspension” benefits typically offer to allow a cardholder to skip the minimum monthly payment without penalty and without accruing interest for a specific period, but do not reduce the cardholder’s account balance. Qualifying events may vary across products, but generally include loss of life, disability, involuntary unemployment, and leave of absence from employment. Some products also include certain “life events” such as the birth or adoption of a child, marriage, relocation, divorce, hospitalization, and retirement. Identity theft protection products are promoted as helping protect consumers against identity theft. These products often take the form of credit score monitoring. In order to receive the full benefits of many identity theft protection products, consumers must authorize the product administrator to access the consumer’s credit report.

Credit card issuers who offer credit card add-on products should ensure that the products are marketed, sold, and serviced in a manner that is not unfair, deceptive, or abusive to consumers. The CFPB has found that issuers have engaged in deceptive practices, for instance, when they:

- Sell consumers a product despite the consumer providing information that indicated they would be ineligible for the product’s primary benefits.
- Lead consumers to believe that they could avoid paying the product fee by paying their balance in full before the monthly payment due date when they would have had to pay it before the end of the billing cycle in order to avoid the fee.
- Inform consumers that the products were a “limited time offer” or that the consumer’s account was eligible for a limited time “special offer,” when, in fact, almost all consumers were eligible for and were offered products.
- Fail to disclose that the products were optional or representing that the products were an “additional feature” of the account.

- Represent that the products would improve the consumer's credit score.
- Represent that consumers could try the product for "free for 30 days," when in fact consumer was billed beginning at the time of purchase and had to call and cancel within 30 days to obtain a refund.
- Imply that consumer would receive benefits immediately upon reporting a claim when, in fact, consumers were required to submit benefit forms and supporting documentation.<sup>45</sup>

The CFPB has identified unfair billing practices in connection with the offering of some identity theft protection products. As noted previously, for many identity theft products, the consumer cannot receive the full benefits of the product by agreeing verbally. Rather, the consumer must complete and submit a form with additional information, including an authorization for the administrator to access the consumer's credit report. The CFPB has found instances when consumers verbally agreed to enrollment but never returned the authorization form. These consumers were still charged for the product despite not completing the second step, but when they attempted to claim the product's benefits, they were unable to do so.<sup>46</sup>

As examiners review credit card add-on products, they should be aware of these and any additional marketing, sales, or servicing practices that present a risk of harm to consumers. See "Unfair, Deceptive, or Abusive Acts or Practices," CFPB Supervision and Examination Manual, for additional information on identifying unfair, deceptive, or abusive acts or practice.

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<sup>45</sup> See *In the Matter of American Express Centurion Bank*, Administrative Proceeding File No. 2013-CFPB-0011 (December 24, 2013); *In the Matter of American Express, FSB*, Administrative Proceeding File No. 2013-CFPB-0012 (December 24, 2013); *In the Matter of American Express Travel Related Services*, Administrative Proceeding File No. 2013-CFPB-0013 (December 24, 2013); *In the Matter of Bank of America, N.A.; and FIA Card Services, N.A.*, Administrative Proceeding File No. 2014-CFPB-0004 (April 9, 2014); *In the Matter of Synchrony Bank, f/k/a GE Capital Retail Bank*, Administrative Proceeding File No. 2014-CFPB-0007 (June 19, 2014).

<sup>46</sup> See *In the Matter of JPMorgan Chase Bank, N.A. and Chase Bank USA N.A.*, Administrative Proceeding File No. 2013-CFPB-0007 (September 19, 2013); *In the Matter of American Express Centurion Bank*, Administrative Proceeding File No. 2013-CFPB-0011 (December 24, 2013); *In the Matter of American Express, FSB*, Administrative Proceeding File No. 2013-CFPB-0012 (December 24, 2013); *In the Matter of American Express Travel Related Services*, Administrative Proceeding File No. 2013-CFPB-0013 (December 24, 2013); *In the Matter of U.S. Bank, National Association*; Administrative Proceeding File No. 2014-CFPB-0013 (September 25, 2014).

## Examination Procedures

### *General information*

1. Briefly describe the types of credit card add-on products offered by the bank during the Review Period, including their key terms, conditions, and features.
2. Name and describe the involvement of any affiliates or service providers in offering the products and whether they are a third party provider or affiliate. Also describe the services provided and how much of the time during the review period services were provided by the third party provider or affiliate. If the services changed over time, note the dates of the changes and describe how the services changed.

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### *Compliance management, quality control, and training*

1. Review copies of any internal audit reports that would have included a review of the products that were offered to consumers during the review period.
  - A. Assess whether the audit(s) appear to have been comprehensive, accurate, adequate, and timely. A few examples of factors to consider in reviewing the reports include the following:
    - i. Who conducted the audits - Internal auditors or external auditors?
    - ii. What time period was covered by the reports? When was the report issued?
    - iii. What products were covered by the reports? For example, an internal audit report may document the results of a review of the bank's credit reporting products but not its debt protection products.
    - iv. If the review focused upon marketing, what marketing channels were covered by the reports?
    - v. Are any activities of service providers or affiliates included in any of the reports?
    - vi. Did audit listen to a sample of inbound or outbound calls if the products are marketed or serviced by telephone? Was the size of the sample adequate?
    - vii. What other areas, if any, were not covered by the reports? To the extent that areas were not covered, consider whether these are areas that should be included in the scope of the review. To the extent review is required, document the results of the additional review in the space below or refer to the portion of these procedures under which you have documented the results of the additional review.

- viii. If no audit reports were issued during the review period, review internal audit's plans for the next two calendar years. Did audit have a reasonable, risk-based basis for not auditing the products during the applicable time period?
    - a. Were the bank's UDAAP risks considered in the audit plan?
    - b. If so, was the assessment of the risks reasonable?
    - c. Was an appropriate audit schedule implemented that considered these risks?
    - d. Were UDAAP reviews done of other types of products, such as "add on" products relating to other types of loans, such as auto loans?
  - B. Review any findings noted in the reports and assess the status of any actions taken by the bank in response. Consider whether further review is needed by examiners. To the extent further review is required, document the results of the additional review in the space below or refer to the portion of these procedures under which you have documented the results of the additional review. For example, an internal audit report may contain findings indicating possible inaccuracies in calculating the fees for the product. If so, that finding should be noted below and a determination made about the extent that we need to do further review of fee calculations.
2. Review copies of any compliance risk management reports that would have included a review of the products that were offered to consumers during the review period.
- A. Assess the scope of the reports. A few examples of factors to consider in reviewing the scope include the following:
    - i. What time period was covered by the reports? When were the reports issued?
    - ii. What products were covered by the reports?
    - iii. If the reports include data on marketing, what marketing channels were covered by the reports? Do the reports contain data from all marketing channels used by the bank to market the products?
    - iv. Are any activities of service providers or affiliates included in any of the reports?
    - v. What other areas (other than specific products and marketing channels) if any, were not covered by the reports?
    - vi. Is the bank's MIS sufficient to monitor and manage the various debt protection products?
    - vii. Where there negative trends or information evident in the reports which management failed to note?

- B. Document any negative findings noted in the reports and the status of any actions taken by the bank in response.
  - i. Assess whether the bank's planned responses were adequate and whether management has determined that any planned corrective action is complete. If management reports that corrective actions are complete, document the basis for management's determination that they are complete and assess whether management has an adequate basis for that determination.
  - ii. Determine if examiners need to conduct a further review of any deficiencies noted in the report or management's determination that corrective actions have been completed. If so, note the need for an additional review in the findings below and document the findings of any additional review by describing the additional review that was performed and the outcome of the review.
- 3. Assess the manuals and other materials provided regarding any formal or informal training that any individual receives regarding the sale and marketing of the products. Consider the following:
  - A. Which employees of the bank, its service providers (if any), and its affiliates (if any) receive training related to UDAAP or the products?
  - B. Is the training appropriate for the scope of those employees' responsibilities, such as enrollment, claims processing, cancellation, or refunds?
- 4. Assess the bank's policies and procedures for conducting Quality Assurance (QA) reviews of telemarketing calls and the QA reports (if any) provided by the bank.
  - A. Do the reports appear to have been produced as required by any procedures? For example, were they produced with the frequency provided by the procedures?
  - B. Review the findings in the QA reports. Describe any trends in the numbers or types of issues found that are red flags which require further review. To the extent further review is required, document the results of the additional review in the space below or refer to the portion of these procedures under which you have documented the results of the additional review.
  - C. Document any findings noted in the reports and the status of any actions taken by the bank in response. Consider whether further review is needed by examiners. To the extent further review is required, document the results of the additional review in the space below or refer to the portion of these procedures under which you have documented the results of the additional review. For example, an internal audit report may contain findings indicating possible inaccuracies in calculating the fees for the product. If so, that finding should be noted below and a determination made about the extent that we need to do further review of fee calculations

5. Review the records regarding any disciplinary actions or other actions taken against any part of the bank, any affiliate, any employee, or any third party concerning the marketing, sales, and/or operation of the products.
  - A. Summarize any actions taken.
  - B. Document any examiner concerns with the actions taken.
6. Review and summarize consumer complaints received.
  - A. Review the complaint data provided. Describe any trends in the numbers and/or types of complaints that are red flags which require further examiner review.
  - B. To the extent further review of any trends is required, document the results of the additional review in the space below or refer to the portion of these procedures under which you have documented the results of the additional review.
7. Review the reports used by management to monitor customer complaints related to the marketing, sales, and/or operation of the products during the review period.
  - A. Who uses these reports?
  - B. Do the reports note any of the same trends in numbers or types of complaints that were noted during the review of the complaints themselves under Procedure 6 above?
  - C. If the reports note particular trends or red flags, did management take appropriate action to address them?
8. Review the bank's summary of significant litigation. Describe any trends noted. Document any procedures or additional reviews performed during the examination to address any concerns noted by the examiner.

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### ***Marketing and sales***

1. Assess the marketing campaign materials for the products sold during the review period:
  - A. Were marketing materials provided for each of the bank's products? If not, discuss with bank. Obtain copies of any missing materials.
  - B. Do the terms presented in the marketing materials match the product descriptions given to examiners by the bank? If not, discuss with management to obtain an explanation.
2. Describe the enrollment process for each product.

- A. Does the bank enroll customers in the products? Are service providers or Bank affiliates involved with the enrollment of any products? Which ones?
  - B. When customers indicate that they want to purchase one of these products, are they required to complete additional steps to activate and/or receive the full benefits of the products? For example, are customers required to provide written consents to allow the service provider or others to obtain copies of their credit reports or other records? If additional information or consents are required,
  - C. What controls are in place to ensure that customers are not billed for the products until the information or consents are provided?
3. Select a sample from the list of consumers who purchased the products during the review period that required consumer to complete more than one step to activate and/or receive the full benefits of the products. In selecting the sample, consider the following:
- A. Generally, each product will require a separate sample, unless the products are subject to the same additional steps.
  - B. If the bank used one or more affiliates or service providers in administering its enrollment process, treat the products administered by each service provider as a separate population and select a sample from each population.
  - C. When providing the bank with the selected sample, request: (a) account statements which show when customers were billed for the products and how much they were billed and (b) copies of bank records indicating whether the required additional steps were completed, and if it was, the date that the process was completed. If the additional steps involved customers' submitting signed authorizations, request a copy of the signed authorizations also.
4. Review the scripts for the products sold during the review period. Were scripts provided for each of the bank's products? If not, discuss this with bank. Obtain copies of any missing scripts. Summarize the results below.
5. Select a sample of the inbound telemarketing calls and a sample of the outbound telemarketing calls. If the bank used one or more affiliates or service providers to make inbound or outbound telemarketing calls, treat the calls made by each party as a separate call population and select a sample from each population.
- A. When providing the bank with the selected sample, request (a) copies of any disclosures mailed to customers following the telephone purchase, (b) proof that the disclosures were mailed, and (c) copies of any signed applications or authorizations that were required to be returned by customers.

- B. Listen to the **entire conversation** for each of the inbound or outbound calls that are a part of the selected samples. Record observations regarding the sample (including any observations about mailed disclosures). Upon completion of the samples, summarize findings below.
6. Review the description of any customer targeting model or other mechanism or process that the Bank, its components, affiliates, or third parties have used, uses, or have created to target product marketing and sales to **specific** customers or groups of customers.
- A. Summarize any targeting model, mechanism, or process below.
  - B. If the bank targets specific types of customers, does the bank tailor advertisements, promotional materials, disclosures, and scripts to take into account the level of sophistication and experience of the target audience?
7. Assess any incentives or incentive programs connected to the sales and marketing of any product offered to customers during the review period. Consider whether the incentive programs may have negatively or positively influenced the likelihood that customers received accurate information about the products and customers understood what they were being offered.

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### ***Customer cancellations and benefit claims requests***

1. Select a sample of the calls containing customer cancellation requests.
- A. If the bank used one or more affiliates or service providers to handle these calls, treat the calls handled by each party as a separate call population and select a sample from each population.
  - B. Review the information supplied by the bank about each product type. Listen to the **entire conversation** for each of the tapes from the sample containing customer cancellation requests. Record observations regarding the calls. Upon completion of the sample, summarize findings below.
2. Select a sample of the calls containing customer claims for benefits.
- A. If the bank used one or more affiliates or service providers to handle these calls, treat the calls handled by each party as a separate call population.
  - B. Review the information about each product type. Listen to the **entire conversation** for each of the tapes from the sample containing customer benefit claims. Record observations regarding the calls. Upon completion of the sample, summarize findings below.

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## Appendix 1: Disclosure Requirements

This Appendix contains content and format requirements for the various disclosures required under Regulation Z. It should be used in conjunction with the Credit Card Account Management Examination Procedures in order to gain an understanding of the specific requirements for each type of disclosure.

### ***Module 2: Application and solicitation disclosures (12 CFR 1026.60)***

The following information is required to be disclosed on or with a direct mail or electronic credit card application or solicitation. Certain information, as designated later, must be included in a table with headings, content, and format substantially similar to the applicable tables found in G-10 in Appendix G to Regulation Z. If the amount of any fee required to be disclosed is determined on the basis of a percentage of another amount, the percentage used and the identification of the amount against which the percentage is applied may be disclosed instead of the amount of the fee.

- ***APR:*** The disclosure must include the APR for purchases, cash advances, and balance transfers. If more than one rate applies for a category of transactions, the disclosure must contain the range of balances to which each rate applies. The APR for purchases must be in 16-point type,<sup>47</sup> and all APRs must be in bold type. The APRs must be included in the table. (12 CFR 1026.60(b)(1)) (Charge cards are not subject to this requirement.)
  - ***Variable rates:*** If any of the APRs are variable, the disclosure must state that the rate may vary and how the rate is determined, along with the type of index or formula used in setting the rate. This information must be included in the table. Information on the value of the index and the amount of the margin that are used to calculate the variable rate, and any applicable limitations on rate increases may not be included in the table. (12 CFR 1026.60(b)(1)(i))
  - ***Discounted initial rate:*** If the initial APR is an introductory rate (as defined in 12 CFR 1026.16(g)(2)(ii)), the disclosure must include in the table:
    - The introductory rate in bold type,
    - The time period during which it will remain in effect,
    - The term “introductory” or “intro” in immediate proximity to the rate.
    - The rate that will apply after the introductory rate expires. If this rate is variable, the rate must be based on the applicable index or formula in accordance with the

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<sup>47</sup> The 16-point font requirement does not apply to oral disclosures of the APR for purchases or to a penalty rate that may apply upon the occurrence of one or more specific events.

accuracy requirements in 12 CFR 1026.60(c)(2), (d)(3), or (e)(4), as applicable (12 CFR 1026.60(b)(1)(ii)).

- *Premium Rates:* If the initial APR is temporary and is higher than the rate that will apply after the temporary rate expires, the disclosure must include in the table the premium initial rate and the time period during which the premium initial rate will remain in effect. The premium initial rate for purchases must be in at least 16-point type, and the table must include the rate that will apply after the premium initial rate expires, in at least 16-point bold type. (12 CFR 1026.60(b)(1)(iii))
- *Penalty rates:* Except for introductory rates or employee preferential rates (discussed later), if a rate may increase as a penalty for one or more events specified in the account agreement, such as a late payment or an extension of credit that exceeds the credit limit, the card issuer must disclose the increased rate that may apply, a brief description of the event or events that may result in the increased rate, and a brief description of how long the increased rate will remain in effect. (12 CFR 1026.60(b)(1)(iv)(A)) If a penalty rate depends, at least in part, on a later determination of the consumer's creditworthiness, the disclosure may state the highest rate that could apply, instead of the specific rate or the range of rates that could apply. (12 CFR 1026.60(b)(1)(v))
  - *Introductory rate:* If the issuer discloses an introductory rate in the table or in any written or electronic promotional materials accompanying applications or solicitations for direct mail applications or applications made available to the general public, the disclosure must include, directly beneath the table, the circumstances, if any, under which the introductory rate may be revoked, and the type of rate that will apply after the introductory rate is revoked. (12 CFR 1026.60(b)(1)(iv)(B))
  - *Employee preferential rates:* If the issuer discloses in the table a preferential APR for which only employees of the card issuer, employees of a third party, or other individuals with similar affiliations with the card issuer or third party are eligible, the circumstances under which such preferential rate may be revoked and the rate that will apply after such preferential rate is revoked must be disclosed directly beneath the table. (12 CFR 1026.60(b)(1)(iv)(C))
- *Rates that depend on consumer's creditworthiness:* If the APR cannot be determined at the time disclosures are given because it depends, at least in part, on a later determination of the consumer's creditworthiness, the disclosure must include the specific rates or the range of rates that could apply and a statement that the rate for which the consumer may qualify at account opening will depend on the consumer's creditworthiness, and other factors if applicable. (12 CFR 1026.60(b)(1)(v))
- *APRs that vary by state:* If the APR varies by state, the disclosure may include in the table either the specific APR that would apply to the consumer's account or the range of the APRs, if the disclosure includes a statement that the APR varies by state and refers

the consumer to a disclosure provided with the table where the APR applicable to the consumer's account is disclosed. The card issuer may not list APRs for multiple states in the table. (12 CFR 1026.60(b)(1)(vi))

- *Fees for issuance or availability.* The disclosure must include in the table, in bold type, any annual or other periodic fee that may be imposed for the issuance or availability of a credit or charge card, including any fee based on account activity or inactivity; how frequently it will be imposed; and any annualized amount of the fee. (The bold text must not be used for the amount of any periodic fee described previously that is not an annualized amount.) The card issuer must include in the table, in bold type, any non-periodic fee that relates to opening an account and disclose that the fee is a one-time fee. (12 CFR 1026.60(b)(2))<sup>48</sup>
- *Fixed finance charge; minimum interest charge.* The disclosure must include in the table any fixed finance charge, as well as a brief description of that charge. The card issuer must disclose any minimum interest charge if it exceeds \$1.00<sup>49</sup> that could be imposed during a billing cycle, and a brief description of the charge. The issuer has the option of disclosing in the table any minimum interest charge below \$1.00. (12 CFR 1026.60(b)(3)) (Charge cards are not subject to this requirement.)
- *Transaction charge:* The disclosure must include in the table, in bold type, any transaction charge imposed for the use of the card for purchases. (12 CFR 1026.60(b)(4))
- *Grace Period:* The disclosure must include in the table the date by which or the period within which any credit extended for purchases may be repaid without incurring a finance charge due to a periodic interest rate and any conditions on the availability of the grace period. (Charge cards are not subject to this requirement.)
  - If no grace period is provided, that fact must be disclosed.
  - If the length of the grace period varies, the disclosure may include the range of days, the minimum number of days, or the average number of days in the grace period, if the disclosure is identified as a range, minimum, or average.
  - In disclosing in the tabular format a grace period that applies to all types of purchases, the phrase “How to Avoid Paying Interest on Purchases” is required to be used as the heading for the row describing the grace period. If a grace period is not offered on all types of purchases, in disclosing this fact in the tabular format, the phrase “Paying

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<sup>48</sup> For examples of these types of fees, see Comment 60(b)(2).

<sup>49</sup> The \$1.00 threshold amount shall be adjusted periodically by the CFPB to reflect changes in the Consumer Price Index. The CFPB shall calculate each year a price level adjusted minimum interest charge using the Consumer Price Index in effect on June 1 of that year. When the cumulative change in the adjusted minimum value derived from applying the annual Consumer Price level to the current minimum interest charge threshold has risen by a whole dollar, the minimum interest charge will be increased by \$1.00.

Interest” must be used as the heading for the row describing this fact. (12 CFR 1026.60(b)(5))

- *Balance Computation Method:* The name of the balance computation method (listed in 12 CFR 1026.60(g)) used to determine the balance for purchases on which the finance charge is computed must be disclosed directly beneath the table. (12 CFR 1026.60(b)(6)) (Charge cards are not subject to this requirement.)
- *Statement on Charge Card Payments:* If the card is a charge card, a statement that charges incurred are due when the periodic statement is received must be included in the table. (12 CFR 1026.60(b)(7))
- The following fees must be disclosed in the table, in bold type. If these fees vary by state (with the exception of the fees listed in 1026.60(b)(13)), the issuer may, at its option, disclose in the table, either the specific fee that would apply to the consumer’s account or the range of the fees, if the disclosure includes a statement that the fee varies by state and refers the consumer to a disclosure provided with the table where the fee applicable to the consumer’s account is disclosed. The card issuer may not list fees for multiple states in the table.
  - Cash advance fee (12 CFR 1026.60(b)(8))
  - Late payment fee (12 CFR 1026.60(b)(9))
  - Over-the-limit fee (12 CFR 1026.60(b)(10))
  - Balance transfer fee (12 CFR 1026.60(b)(11))
  - Returned payment fee (12 CFR 1026.60(b)(12))
  - Fees for any required insurance, debt cancellation, or debt suspension coverage, along with a cross-reference to any additional information provided about the insurance or coverage accompanying the application or solicitation. (12 CFR 1026.60(b)(13)) (Charge cards are not subject to this requirement.)
- *Available Credit:* If the card issuer requires fees for the issuance or availability of credit or a security deposit, and the total amount of those required fees and/or security deposit that will be imposed and charged to the account when the account is opened is 15 percent or more of the minimum credit limit for the card, a card issuer must disclose in the table the available credit remaining after these fees or security deposit are debited to the account, assuming that the consumer receives the minimum credit limit. (Charge cards are not subject to this requirement.)
  - If fees for issuance or availability are optional, these fees should not be considered in determining whether the disclosure must be given.

- If the 15 percent threshold test is met, the issuer must disclose the amount of available credit calculated by excluding those optional fees, and the available credit including those optional fees. (12 CFR 1026.60(b)(14))
- *CFPB Website Reference:* A reference to the website established by the Bureau and a statement that consumers may obtain on the website information about shopping for and using credit cards must be included in the table. (12 CFR 1026.60(b)(15))

If the application or solicitation is initiated by the card issuer by telephone, the issuer is required to orally disclose the information in 12 CFR 1026.60(b)(1)-(7) and (b)(14), to the extent applicable. These oral disclosures must be accurate as of the time they are given. In the alternative, the card issuer does not need to give the oral disclosures if it does not impose fees for issuance or availability, as described in 12 CFR 1026.60(b)(2), or if it imposes such a fee, the card issuer provides the consumer with a right to reject the plan. To use this alternative, the card issuer must disclose in writing within 30 days after the consumer requests the card (but not later than the delivery of the card) the applicable information in 12 CFR 1026.60(b) and, as applicable, the fact that the consumer has the right to reject the plan and not be obligated to pay fees described in 12 CFR 1026.60(b)(2) or any other fees or charges until the consumer has used the account or made a payment on the account after receiving a billing statement. The alternative disclosures generally must be accurate as of the time they are mailed or delivered.<sup>50</sup> (12 CFR 1026.60(d))

If the application or solicitation is made available to the general public, such as through a catalog, magazine, or other generally available publication, the card issuer may disclose in a prominent location on the application or solicitation the following information:

- The applicable information from 12 CFR 1026.60(b);
- The date the required information was printed, including a statement that the required information was accurate as of that date and is subject to change after that date; and
- A statement that the consumer should contact the card issuer for any change in the required information since it was printed, and a toll-free number or mailing address for that purpose.

In the alternative, if none of the items in 12 CFR 1026.60(b) are provided on or with the application or solicitation, the card issuer may state in a prominent location on the application or solicitation that there are costs associated with the use of the card, and that the consumer may

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<sup>50</sup> A variable annual percentage rate is one that is accurate if it was: (A) in effect at the time the disclosures are mailed or delivered; or (B) in effect as of a specified date (and the rate is then updated from time to time, but no less frequently than each calendar month).

contact the card issuer to request specific information about the costs, along with a toll-free number and mailing address for that purpose. The card issuer must promptly respond to any requests. (12 CFR 1026.60(e))

Applications and solicitations initiated by the card issuer and given to the consumer in person must include the information required by 12 CFR 1026.60(b), to the extent applicable. A card issuer complies with this requirement if the issuer provides disclosures in accordance with 12 CFR 1026.60(c)(1) or (e)(1).

### ***Module 2: Account opening disclosures (12 CFR 1026.6)***

**The following are required to be disclosed in the account-opening table:**

- **APR:** The disclosure must include the APR for purchases, cash advances, and balance transfers. If more than one rate applies for a category of transactions, the disclosure must contain the range of balances to which each rate applies. The APR for purchases must be in 16-point type,<sup>51</sup> and all APRs must be in bold type. (12 CFR 1026.6(b)(2)(i))
  - **Variable Rates:** If any of the APRs are variable, the disclosure must state that the rate may vary and how the rate is determined, along with the type of index or formula used in setting the rate. Information on the value of the index and the amount of the margin that are used to calculate the variable rate, and any applicable limitations on rate increases or decreases may not be included in the table. (12 CFR 1026.6(b)(2)(A))
  - **Discounted Initial Rates:** If the initial APR is an introductory rate (as defined in 12 CFR 1026.16(g)(2)(ii)), the disclosure must include the rate that would otherwise apply to the account (if the issuer was not offering the introductory rate). If the rate is not tied to an index or formula, the disclosure must include the rate that will apply after the introductory rate expires. In a variable-rate account, the disclosure must include a rate based on the applicable index or formula (in accordance with the accuracy requirements of 12 CFR 1026.6(b)(4)(ii)(G)). The issuer also is required to disclose in the table the introductory rate, and the time period during which the introductory rate will remain in effect. The card issuer must disclose the introductory rate using the term “introductory” or “intro” in immediate proximity to the introductory rate. (12 CFR 1026.6(b)(2)(i)(B) and (F))
  - **Premium Rates:** If the initial APR is temporary and is higher than the rate that will apply after the temporary rate expires, the disclosure must include the premium initial rate in the table. The premium initial rate for purchases must be in at least 16-point type. (12 CFR 1026.6(b)(2)(i)(C)) The issuer also is required to disclose in the table the time period during which the premium initial rate will remain in effect and the

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<sup>51</sup> The 16-point font requirement does not apply to a penalty rate that may apply upon the occurrence of one or more specific events.

- rate that will apply after the premium initial rate expires. The rate that will apply after the premium initial rate for purchases expires must be in at least 16-point type. (12 CFR 1026.6(b)(2)(i)(C) and (F))
- *Penalty rates:* Except for introductory rates or employee preferential rates (discussed later), if a rate may increase as a penalty for one or more events specified in the account agreement, such as a late payment or an extension of credit that exceeds the credit limit, the disclosure must include the increased rate that may apply, a brief description of the event or events that may result in the increased rate, and a brief description of how long the increased rate will remain in effect. (12 CFR 1026.6(b)(2)(i)(D)(1))
    - *Introductory rate:* If the issuer discloses an introductory rate in the table, the disclosure must include, directly beneath the table, the circumstances, if any, under which the introductory rate may be revoked, and the rate that will apply after the introductory rate is revoked. (12 CFR 1026.6(b)(2)(i)(D)(2))
    - *Employee preferential rates:* If the issuer discloses in the table a preferential APR for which only employees of the card issuer, employees of a third party, or other individuals with similar affiliations with the card issuer or third party are eligible, the circumstances under which such preferential rate may be revoked and the rate that will apply after such preferential rate is revoked must be disclosed directly beneath the table. (12 CFR 1026.6(b)(2)(i)(D)(3))
  - *Point of Sale where APR varies by state or based on creditworthiness:* If the APR varies by state or depends on the consumer's creditworthiness, and the account opening disclosure is provided in person at the time the plan is established in connection with financing the purchase of goods or services, the issuer may, at its option, disclose either the specific APR that would apply to the consumer's account or the range of the APRs, if the disclosure includes a statement that the APR varies by state or will be determined based on the consumer's creditworthiness, and refers the consumer to the account agreement or other disclosure provided with the table where the APR applicable to the consumer's account is disclosed. The card issuer may not list APRs for multiple states in the table. (12 CFR 1026.6(b)(2)(i)(E))
  - *Fees for issuance or availability:* The disclosure must include, in bold type, any annual or other periodic fee that may be imposed for the issuance or availability of a credit or charge card, including any fee based on account activity or inactivity; how frequently it will be imposed; and the annualized amount of the fee. (The bold text must not be used for the amount of any periodic fee described previously that is not an annualized amount.) The disclosure must also include any non-periodic fee that related to opening the plan, and state that the fee is a one-time fee. (12 CFR 1026.6(b)(2)(ii))

- *Fixed finance charge; minimum interest charge:* The disclosure must include any fixed finance charge, as well as a brief description of that charge. The card issuer must disclose any minimum interest charge if it exceeds \$1.00 that could be imposed during a billing cycle, and a brief description of the charge. The issuer has the option of disclosing in the table any minimum interest charge below \$1.00. (12 CFR 1026.6(b)(2)(iii))
- *Transaction charge:* The disclosure must include, in bold type, any transaction charge imposed for the use of the card for purchases. (12 CFR 1026.6(b)(2)(iv))
- *Grace Period:* The disclosure must include the date by which or the period within which any credit extended may be repaid without incurring a finance charge due to a periodic interest rate and any conditions on the availability of the grace period.
  - If no grace period is provided, that fact must be disclosed.
  - If the length of the grace period varies, the disclosure may include the range of days, the minimum number of days, or the average number of days in the grace period, if the disclosure is identified as a range, minimum, or average.
  - In disclosing in the tabular format a grace period that applies to all features on the account, the phrase “How to Avoid Paying Interest” must be used as the heading for the row describing the grace period. If a grace period is not offered on all features of the account, in disclosing this fact in the tabular format, the phrase “Paying Interest” must be used as the heading for the row describing this fact. (12 CFR 1026.6(b)(2)(v))
- *Balance Computation Method:* The name of the balance computation method used to determine the balance on which the finance charge is computed for each feature, or an explanation of the method used (if it is not one of the methods listed in 12 CFR 1026.60(g)), along with a statement that an explanation of the method is provided with the account opening disclosure. In determining which balance computation method to disclose, the issuer is required to assume that the credit extended will not be repaid within any grace period, if one is offered. (12 CFR 1026.6(b)(2)(vi))
- The following fees must be disclosed in bold type. If the fee varies by state (with the exception of the fees described in 12 CFR 1026.6(b)(2)(xii)) and the account opening disclosure is provided in person at the time the plan is established in connection with financing the purchase of goods or services, the card issuer may, at its option, disclose either the specific fee that would apply to the consumer’s account or the range of the fees, if the disclosure includes a statement that the fee varies by state, and refers the consumer to the account agreement or other disclosure provided with the table where the fee applicable to the consumer’s account is disclosed. The card issuer may not list fees for multiple states in the table. (12 CFR 1026.6(b)(1)(iii))
  - Cash advance fee (12 CFR 1026.6(b)(2)(vii))



- Late payment fee (12 CFR 1026.6(b)(2)(viii))
- Over-the-limit fee (12 CFR 1026.6(b)(2)(ix))
- Balance transfer fee (12 CFR 1026.6(b)(2)(x))
- Returned payment fee (12 CFR 1026.6(b)(2)(xi))
- Fees for any required insurance, debt cancellation, or debt suspension coverage, along with a cross-reference to any additional information provided about the insurance or coverage. (12 CFR 1026.6(b)(2)(xii))
- *Available Credit:* If the card issuer requires fees for the issuance or availability of credit or a security deposit, and the total amount of those required fees and/or security deposit that will be imposed and charged to the account when the account is opened is 15 percent or more of the minimum credit limit for the card, a card issuer must disclose the available credit remaining after these fees or security deposit are debited to the account. The determination whether the 15 percent threshold is met must be based on the minimum credit limit for the plan. However, if the 15 percent threshold is met, the disclosure provided must be based on the actual initial credit limit provided on the account. The card issuer must also disclose that the consumer has the right to reject the plan and would not be obligated to pay those fees or any other fee or charges until the consumer has used the account or made a payment on the account after receiving a periodic statement.
  - If fees for issuance or availability are optional, these fees should not be considered in determining whether the disclosure must be given.
  - If the 15 percent threshold test is met, the issuer must disclose the amount of available credit calculated by excluding those optional fees, and the available credit including those optional fees. (12 CFR 1026.6(b)(2)(xiii))
- *Website Reference:* For credit cards that are not charge cards, a reference to the website established by the CFPB and a statement that consumer may obtain on the website information about shopping for and using credit cards. (12 CFR 1026.6(b)(2)(xiv))
- *Billing Error Rights Reference:* A statement that information about the consumer's right to dispute transactions is included in the account opening disclosures. (12 CFR 1026.6(b)(2)(xv))

**The following information is required to be disclosed outside of the table.<sup>52</sup>**

- *Charges imposed as part of the plan:* For charges imposed as part of the plan, the circumstances under which the charge may be imposed, including the amount of the charge or an explanation of how the charge is determined. For finance charges, include a statement of when the charge begins to accrue and an explanation of whether or not the account includes a grace period.<sup>53</sup> (12 CFR 1026.6(b)(3))
  - Charges imposed as part of the plan are:
    - Finance charges identified under 12 CFR 1026.4(a) and 12 CFR 1026.4(b). (12 CFR 1026.6(b)(3)(ii)(A))
    - Charges resulting from the consumer's failure to use the plan as agreed, except amounts payable for collection activity after default, attorney's fees whether or not automatically imposed, and post-judgment interest rates permitted by law. (12 CFR 1026.6(b)(3)(ii)(B))
    - Taxes imposed on the credit transaction by a state or other governmental body, such as documentary stamp taxes on cash advances. (12 CFR 1026.6(b)(3)(ii)(C))
    - Charges for which the payment, or nonpayment, affect the consumer's access to the plan, the duration of the plan, the amount of credit extended, the period for which credit is extended, or the timing or method of billing or payment. (12 CFR 1026.6(b)(3)(ii)(D))
    - Charges imposed for terminating a plan. (12 CFR 1026.6(b)(3)(ii)(E))
    - Charges for voluntary credit insurance, debt cancellation or debt suspension. (12 CFR 1026.6(b)(3)(ii)(F))
  - Charges that are not imposed as part of the plan include (12 CFR 1026.6(b)(3)(iii)):
    - Charges imposed on a cardholder by an institution other than the card issuer for the use of the other institution's ATM in a shared or interchange system. (12 CFR 1026.6(b)(3)(iii)(A))
    - A charge for a package of services that includes an open-end credit feature, if the fee is required whether or not the open-end credit feature is included and the non-

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<sup>52</sup> Charges imposed as part of the plan that are not required to be disclosed in the account-opening table may be disclosed along with the account-opening table (outside of the table) prior to the first transaction, or may be disclosed after account opening but before the consumer agrees to pay or becomes obligated to pay for the charge, provided they are disclosed at a time and in a manner that a consumer would be likely to notice them. (12 CFR 1026.5(b)(1)(ii))

<sup>53</sup> If a grace period is provided, an issuer may, at its option and without disclosure, elect not to impose a finance charge when payment is received after the time period expires.

credit services are not merely incidental to the credit feature. (12 CFR 1026.6(b)(3)(iii)(B))

- Charges under 12 CFR 1026.4(e) (Certain security interest charges) disclosed as specified. (12 CFR 1026.6(b)(3)(iii)(C))
- *Rates* (12 CFR 1026.6(b)(4))
  - For each periodic rate that may be used to calculate interest (12 CFR 1026.6(b)(4)(i)):
    - *Rates*: The rate, expressed as a periodic rate and a corresponding APR. (12 CFR 1026.6(b)(4)(i)(A))
    - *Range of balances*: The range of balances to which the rate is applicable; however, an issuer is not required to adjust the range of balances disclosure to reflect the balance below which only a minimum charge applies. (12 CFR 1026.6(b)(4)(i)(B))
    - *Type of transaction*: The type of transaction to which the rate applies, if different rates apply to different types of transactions. (12 CFR 1026.6(b)(4)(i)(C))
    - *Balance computation method*: An explanation of the method used to determine the balance to which the rate is applied. (12 CFR 1026.6(b)(4)(i)(D))
  - *Variable-rate accounts*: For interest rate changes that are tied to increases in an index or formula specifically set forth in the account agreement (12 CFR 1026.6(b)(4)(ii)):
    - The fact that the APR may increase. (12 CFR 1026.6(b)(4)(ii)(A))
    - How the rate is determined, including the margin. (12 CFR 1026.6(b)(4)(ii)(B))
    - The circumstances under which the rate may increase. (12 CFR 1026.6(b)(4)(ii)(C))
    - The frequency with which the rate may increase. (12 CFR 1026.6(b)(4)(ii)(D))
    - Any limitation on the amount the rate may change. (12 CFR 1026.6(b)(4)(ii)(E))
    - The effect(s) of an increase. (12 CFR 1026.6(b)(4)(ii)(F))
    - Except as specified in 12 CFR 1026.6(b)(4)(ii)(H), a rate is accurate if it is a rate as of a specified date and this rate was in effect within the last 30 days before the disclosures are provided. (12 CFR 1026.6(b)(4)(ii)(G))
    - Issuers imposing APRs that vary according to an index that is not under the issuer's control that provide the disclosures required 12 CFR 1026.6(b) in person at the time the open-end plan is established in connection with financing the

purchase of goods or services may disclose in the table a rate, or range of rates to the extent permitted by 12 CFR 1026.6(b)(2)(i)(E), that was in effect within the last 90 days before the disclosures are provided, along with a reference directing the consumer to the account agreement or other disclosure provided with the account-opening table where an APR applicable to the consumer's account in effect within the last 30 days before the disclosures are provided is disclosed. (12 CFR 1026.6(b)(4)(ii)(H))

- *Rate changes not due to index or formula.* For interest rate changes that are specifically set forth in the account agreement and not tied to increases in an index or formula (12 CFR 1026.6(b)(4)(iii)):
  - The initial rate (expressed as a periodic rate and a corresponding APR) required under 12 CFR 1026.6(b)(4)(i)(A). (12 CFR 1026.6(b)(4)(iii)(A))
  - How long the initial rate will remain in effect and the specific events that cause the initial rate to change. (12 CFR 1026.6(b)(4)(iii)(B))
  - The rate (expressed as a periodic rate and a corresponding APR) that will apply when the initial rate is no longer in effect and any limitation on the time period the new rate will remain in effect. (12 CFR 1026.6(b)(4)(iii)(C))
  - The balances to which the new rate will apply. (12 CFR 1026.6(b)(4)(iii)(D))
  - The balances to which the current rate at the time of the change will apply. (12 CFR 1026.6(b)(4)(iii)(E))
- *Voluntary credit insurance, debt cancellation or debt suspension:* The disclosures in 12 CFR 1026.4(d)(1)(i) and (d)(1)(ii) and (d)(3)(i) through (d)(3)(iii) if the issuer offers optional credit insurance or debt cancellation or debt suspension coverage that is identified in 12 CFR 1026.4(b)(7) or (b)(10). (12 CFR 1026.6(b)(5)(i))
- *Security interests:* The fact that the issuer has or will acquire a security interest in the property purchased under the plan, or in other property identified by item or type. (12 CFR 1026.6(b)(5)(ii))
- A statement that outlines the consumer's rights and the issuer's responsibilities under 12 CFR 1026.12(c) and 12 CFR 1026.13 and that is substantially similar to the statement found in Model Form G-3(A) in appendix G to 12 CFR 12 CFR 1026. (12 CFR 1026.6(b)(5)(iii))

**Module 3: Change-in-Terms Notice (12 CFR 1026.9(c)(2)(iv))**

If a creditor makes a significant change in account terms that requires a 45-day advance notice, the notice must contain the following information:

- A summary of the changes made to terms required to be disclosed by 12 CFR 1026.6(b)(1) and (b)(2) or 12 CFR 1026.6(b)(4), a description of any increase in the required minimum periodic payment, and a description of any security interest being acquired by the creditor (12 CFR 1026.9(c)(2)(iv)(A)(1)).
  - If the change is to a term required to be disclosed by 12 CFR 1026.6(b)(1) or (2), this change must be in tabular format, with headings and format substantially similar to any of the account-opening tables found in G-17 in Appendix G to 12 CFR 1026. The table must disclose the changed term and information relevant to the change, if that relevant information is required by 12 CFR 1026.6(b)(1) and (b)(2). The new terms shall be described in the same level of detail as required when disclosing the terms under 12 CFR 1026.6(b)(2) (12 CFR 1026.9(c)(2)(iv)(D)(1)).
- A statement that changes are being made to the account (12 CFR 1026.9(c)(2)(iv)(A)(2));
- The date the changes will become effective (12 CFR 1026.9(c)(2)(iv)(A)(4));
- If applicable, a statement that the consumer may find additional information about the summarized changes, and other changes to the account, in the notice (12 CFR 1026.9(c)(2)(iv)(A)(5));
- If the creditor is changing a rate on the account, other than a penalty rate, a statement that if a penalty rate currently applies to the consumer's account, the new rate described in the notice will not apply to the consumer's account until the consumer's account balances are no longer subject to the penalty rate (12 CFR 1026.9(c)(2)(iv)(A)(6));
- If the change in terms being disclosed is an increase in an APR, the balances to which the increased rate will be applied. If applicable, a statement identifying the balances to which the current rate will continue to apply as of the effective date of the change in terms (12 CFR 1026.9(c)(2)(iv)(A)(7)); and
- If the change in terms being disclosed is an increase in an APR, a statement of no more than four principal reasons for the rate increase, listed in their order of importance (12 CFR 1026.9(c)(2)(iv)(A)(8)).
- If the change in terms is an increase in an APR or fee or charge required to be disclosed under 12 CFR 1026.6(b)(2)(ii), (b)(2)(iii), or (b)(2)(xii) based on the consumer's failure to make a minimum periodic payment within 60 days of the payment due date:

- The reason for the increase if there is an increase in a fee or charge required to be disclosed under 12 CFR 1026.6(b)(2)(ii), (b)(2)(iii), or (b)(2)(xii) (12 CFR 1026.9(c)(2)(iii)(C)(2)); and
- A statement that the increase will cease to apply to transactions that occurred prior to or within 14 days of provision of the notice, if the creditor receives six consecutive required minimum periodic payments on or before the payment due date, beginning with the first payment due following the effective date of the increase (12 CFR 1026.9(c)(2)(iii)(C)(1)).
- Information concerning the consumer's right to reject the change in terms.<sup>54</sup>
  - A statement that the consumer has the right to reject the change or changes prior to the effective date of the changes, unless the consumer fails to make a required minimum periodic payment within 60 days after the due date for that payment (12 CFR 1026.9(c)(2)(iv)(B)(1));
  - Instructions for rejecting the change or changes, and a toll-free telephone number that the consumer may use to notify the creditor of the rejection (12 CFR 1026.9(c)(2)(iv)(B)(2)); and
  - If applicable, a statement that if the consumer rejects the change or changes, the consumer's ability to use the account for further advances will be terminated or suspended (12 CFR 1026.9(c)(2)(iv)(B)(3)).
- If the notice is included on or with a periodic statement, the summary of changes (pursuant to 12 CFR 1026.9(c)(2)(iv)(A)(1)) must be disclosed on the front of any page of the statement. The summary of changes must immediately follow the information described in 12 CFR 1026.9(c)(2)(iv)(A)(2) through (c)(2)(iv)(A)(7) and, if applicable, 12 CFR 1026.9(c)(2)(iv)(A)(8), (c)(2)(iv)(B), and (c)(2)(iv)(C), and be substantially similar to the format shown in Sample G-20 or G-21 in Appendix G to 12 CFR 12 CFR 1026.
- If a notice required by 12 CFR 1026.9(c)(2)(i) is not included on or with a periodic statement,
  - The summary of changes (pursuant to 12 CFR 1026.9(c)(2)(iv)(A)(1)) must, at the creditor's option, be disclosed on the front of the first page of the notice or segregated on a separate page from other information given with the notice. The summary of

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<sup>54</sup> This information is not required to be provided in the case of an increase in the required minimum periodic payment, an increase in a fee as a result of a reevaluation of a determination made under 12 CFR 1026.52(b)(1)(i), or an adjustment to the safe harbors in 12 CFR 1026.52(b)(1)(ii) to reflect changes in the Consumer Price Index, a change in an APR applicable to a consumer's account, an increase in a fee previously reduced consistent with 50 U.S.C. USC app. 527 or a similar Federal or state statute or regulation if the amount of the increased fee does not exceed the amount of that fee prior to the reduction, or when the change results from the creditor not receiving the consumer's required minimum periodic payment within 60 days after the due date for that payment (1026.9(c)(2)(iv)(B))

changes required to be in a table pursuant to 12 CFR 1026.9(c)(2)(iv)(A)(1) may be on more than one page, and may use both the front and reverse sides, so long as the table begins on the front of the first page of the notice and there is a reference on the first page indicating that the table continues on the following page. The summary of changes described in 12 CFR 1026.9(c)(2)(iv)(A)(1) must immediately follow the information described in 12 CFR 1026.9(c)(2)(iv)(A)(2) through (c)(2)(iv)(A)(7) and, if applicable, 12 CFR 1026.9(c)(2)(iv)(A)(8), (c)(2)(iv)(B), and (c)(2)(iv)(C), substantially similar to the format shown in Sample G-20 or G-21 in Appendix G to 12 CFR 12 CFR 1026. (12 CFR 1026.9(c)(2)(iv)(D))

***Module 3: Checks that access a credit card account (12 CFR 1026.9(b)(3))***

If checks that can be used to access a credit card account are provided more than 30 days after account-opening disclosures under 12 CFR 1026.6(b) are mailed or delivered, or are provided within 30 days of the account-opening disclosures and the finance charge terms for the checks differ from the finance charge terms previously disclosed, the following information must be disclosed on the front of the page containing the checks in the form of a table with the headings, content, and form substantially similar to Sample G-19 in Appendix G to 12 CFR 12 CFR 1026 (12 CFR 1026.9(b)(3)(i)):

- If a promotional rate applies to the checks (12 CFR 1026.9(b)(3)(i)(A)):
  - The promotional rate and the time period during which the promotional rate will remain in effect (12 CFR 1026.9(b)(3)(i)(A)(1));
  - The type of rate that will apply (such as whether the purchase or cash advance rate applies) after the promotional rate expires, and the APR that will apply after the promotional rate expires (12 CFR 1026.9(b)(3)(i)(A)(2)); and
  - The date, if any, by which the consumer must use the checks in order to qualify for the promotional rate. If the creditor will honor checks used after such date but will apply an APR other than the promotional rate, the creditor must disclose this fact and the type of APR that will apply if the consumer uses the checks after such date (12 CFR 1026.9(b)(3)(i)(A)(3)).
- If no promotional rate applies to the checks, the type of rate that will apply to the checks and the applicable APR (12 CFR 1026.9(b)(3)(i)(B)(1)).
- Any transaction fees applicable to the checks disclosed under 12 CFR 1026.6(b)(2)(iv) (12 CFR 1026.9(b)(3)(i)(C)); and
- Whether or not a grace period is given within which any credit extended by use of the checks may be repaid without incurring a finance charge due to a periodic interest rate. When disclosing whether there is a grace period, the phrase “How to Avoid Paying

Interest on Check Transactions” must be used as the row heading when a grace period applies to credit extended by the use of the checks. When disclosing the fact that no grace period exists for credit extended by use of the checks, the phrase “Paying Interest” shall be used as the row heading (12 CFR 1026.9(b)(3)(i)(D)).

- *Accuracy:*
  - The disclosures must be accurate as of the time the disclosures are mailed or delivered. A variable APR is accurate if it was in effect within 60 days of when the disclosures are mailed or delivered (12 CFR 1026.9(b)(3)(ii)).
  - If any APR required to be disclosed is a variable rate, the card issuer must also disclose the fact that the rate may vary and how the rate is determined. In describing how the applicable rate will be determined, the card issuer must identify the type of index or formula that is used in setting the rate. The value of the index and the amount of the margin that are used to calculate the variable rate, and any applicable limitations on rate increases may not be disclosed in the table (12 CFR 1026.9(b)(3)(iii)).

***Module 3: Notice of increase in rates due to delinquency, default, or as a penalty (12 CFR 1026.9(g))***

Creditors must provide notice of an increase in rates due to delinquency, default, or as a penalty at least 45 days prior to the effective date of the rate increase. If this notice is provided on or with a periodic statement, it must be in the form of a table and provided on the front of any page of the periodic statement, above any notice of changes in account terms under 12 CFR 1026.9(c)(2)(iv). If the notice is not included on or with the periodic statement, the required information must be disclosed on the front of the first page of the notice. The only other information that may be included along with this notice is a notification of a change in significant account terms (pursuant to 12 CFR 1026.9(c)(2)(iv)) or notification of an increase of rate for obtaining an extension of credit that exceeds the credit limit (pursuant to 12 CFR 1026.9(g)(4)).

- The notice must include the following information:
  - A statement that the delinquency or default rate or penalty rate, as applicable, has been triggered (12 CFR 1026.9(g)(3)(i)(A)(1));
  - The date on which the delinquency or default rate or penalty rate will apply (12 CFR 1026.9(g)(3)(i)(A)(2));
  - The circumstances under which the delinquency or default rate or penalty rate, as applicable, will cease to apply to the consumer's account, or that the delinquency or default rate or penalty rate will remain in effect for a potentially indefinite time period (12 CFR 1026.9(g)(3)(i)(A)(3));



- A statement indicating to which balances the delinquency or default rate or penalty rate will be applied (12 CFR 1026.9(g)(3)(i)(A)(4));
- If applicable, a description of any balances to which the current rate will continue to apply as of the effective date of the rate increase, unless a consumer fails to make a minimum periodic payment within 60 days from the due date for that payment (12 CFR 1026.9(g)(3)(i)(A)(5)); and
- A statement of no more than four principal reasons for the rate increase, listed in their order of importance (12 CFR 1026.9(g)(3)(i)(A)(6)).
- If the rate increase is based on the consumer's failure to make a minimum periodic payment within 60 days from the due date for that payment, the notice must also state that the increase will cease to apply to transactions that occurred prior to or within 14 days of provision of the notice, if the creditor receives six consecutive required minimum periodic payments on or before the payment due date, beginning with the first payment due following the effective date of the increase (12 CFR 1026.9(g)(3)(i)(B)).
- If a creditor has decreased a consumer's credit limit and will apply a penalty rate if the consumer exceeds the reduced credit limit, notice is not required prior to increasing the rate for obtaining an extension of credit that exceeds the credit limit, provided that (12 CFR 1026.9(g)(4)):
  - The creditor provides at least 45 days in advance of imposing the penalty rate a notice, in writing, that includes the following information (12 CFR 1026.9(g)(4)(i)):
    - A statement that the credit limit on the account has been or will be decreased (12 CFR 1026.9(g)(4)(i)(A));
    - A statement indicating the date on which the penalty rate will apply, if the outstanding balance exceeds the credit limit as of that date (12 CFR 1026.9(g)(4)(i)(B));
    - A statement that the penalty rate will not be imposed on the date specified in 12 CFR 1026.9(g)(4)(i)(B), if the outstanding balance does not exceed the credit limit as of that date (12 CFR 1026.9(g)(4)(i)(C));
    - The circumstances under which the penalty rate, if applied, will cease to apply to the account, or that the penalty rate, if applied, will remain in effect for a potentially indefinite time period (12 CFR 1026.9(g)(4)(i)(D));
    - A statement indicating to which balances the penalty rate may be applied (12 CFR 1026.9(g)(4)(i)(E)); and
    - If applicable, a description of any balances to which the current rate will continue to apply as of the effective date of the rate increase, unless the consumer fails to

make a minimum periodic payment within 60 days from the due date for that payment; (12 CFR 1026.9(g)(4)(i)(F));

- The creditor does not increase the rate applicable to the consumer's account to the penalty rate if the outstanding balance does not exceed the credit limit on the date set forth in the notice and described in 12 CFR 1026.9(g)(4)(i)(B). (12 CFR 1026.9(g)(4)(ii))

**Module 4: Periodic statements (12 CFR 1026.7(b); 12 CFR 1026.8)**

The following information is required to be disclosed on the periodic statement, as applicable:

- *Previous balance.* The account balance outstanding at the beginning of the billing cycle. (12 CFR 1026.7(b)(1))
- *Identification of transactions:* An identification of each credit transaction in accordance with 12 CFR 1026.8. (12 CFR 1026.7(b)(2)) The issuer shall identify credit transactions on or with the first periodic statement that reflects the transaction by furnishing the following information, as applicable (12 CFR 1026.8):
  - *Sale credit:* (12 CFR 1026.8(a))
    - For each credit transaction involving the sale of property or services, the issuer must disclose the amount and date of the transaction, and either (12 CFR 1026.8(a)(1)):
      - A brief identification of the property or services purchased, for issuers and sellers that are the same or related (12 CFR 1026.8(a)(1)(i)); or
      - The seller's name; and the city and state or foreign country where the transaction took place. The issuer may omit the address or provide any suitable designation that helps the consumer to identify the transaction when the transaction took place at a location that is not fixed; took place in the consumer's home; or was a mail, Internet, or telephone order. (12 CFR 1026.8(a)(1)(ii))
    - Issuers are not required to include this information if an actual copy of the receipt or other credit document is provided with the first periodic statement reflecting the transaction, and the amount of the transaction and either the date of the transaction to the consumer's account or the date of debiting the transaction are disclosed on the copy or on the periodic statement. (12 CFR 1026.8(a)(2))
  - *Nonsale credit:* For each credit transaction not involving the sale of property or services, the issuer must disclose a brief identification of the transaction; the amount of the transaction; and at least one of the following dates:

- the date of the transaction,
- the date the transaction was debited to the consumer's account, or,
- if the consumer signed the credit document, the date appearing on the document.

If an actual copy of the receipt or other credit document is provided and that copy shows the amount and at least one of the specified dates, the brief identification may be omitted. (12 CFR 1026.8(b))

- *Alternative issuer procedures; consumer inquiries for clarification or documentation:* The following procedures apply to issuers that treat an inquiry for clarification or documentation as a notice of a billing error, including correcting the account in accordance with 12 CFR 1026.13(e) (12 CFR 1026.8(c)):
  - Failure to disclose the information required by 12 CFR 1026.8(a) and (b) is not a failure to comply with the regulation, provided that the issuer also maintains procedures reasonably designed to obtain and provide the information. This applies to transactions that take place outside a state, as defined in 12 CFR 1026.2(a)(26), whether or not the issuer maintains procedures reasonably adapted to obtain the required information. (12 CFR 1026.8(c)(1))
  - As an alternative to the brief identification for sale or nonsale credit, the issuer may disclose a number or symbol that also appears on the receipt or other credit document given to the consumer, if the number or symbol reasonably identifies that transaction with that issuer. (12 CFR 1026.8(c)(2))
- *Credits:* Any credit to the account during the billing cycle, including the amount and the date of crediting. The date need not be provided if a delay in crediting does not result in any finance or other charge. (12 CFR 1026.7(b)(3))
- *Periodic rates:* (12 CFR 1026.7(b)(4))
  - Each periodic rate that may be used to compute the interest charge expressed as an APR and using the term “Annual Percentage Rate,” along with the range of balances to which it is applicable.
    - A promotional rate is only required to be disclosed in periods in which the offered rate is actually applied. (12 CFR 1026.7(b)(4)(ii))
    - For variable-rate plans, the statement must include the fact that the APR may vary.
  - The types of transactions to which the periodic rates apply.

- If no interest charge is imposed when the outstanding balance is less than a certain amount, the issuer is not required to disclose that fact, or the balance below which no interest charge will be imposed.
- *Balance on which finance charge computed:* The amount of the balance to which a periodic rate was applied and an explanation of how that balance was determined, using the term “Balance Subject to Interest Rate.” (12 CFR 1026.7(b)(5))
  - When a balance is determined without first deducting all credits and payments made during the billing cycle, that fact and the amount of the credits and payments must be disclosed.
  - As an alternative to providing an explanation of how the balance was determined, an issuer that uses a balance computation method identified in 12 CFR 1026.60(g) may, at the issuer's option, identify the name of the balance computation method and provide a toll-free telephone number where consumers may obtain from the issuer more information about the balance computation method and how resulting interest charges were determined. If the method used is not identified in 12 CFR 1026.60(g), the issuer shall provide a brief explanation of the method used.<sup>55</sup>
- *Charges imposed.* The following information must be disclosed in a format substantially similar to Sample G-18(A) in Appendix G to 12 CFR 12 CFR 1026. (12 CFR 1026.7(b)(6))
  - The amount of any charges imposed as part of a plan, grouped together, in proximity to the identified credit transactions.
  - Finance charges attributable to periodic interest rates, using the term “Interest Charge,” must be grouped together under the heading “Interest Charged,” itemized and totaled by type of transaction. A total of finance charges attributable to periodic interest rates, using the term “Total Interest,” must be disclosed for the statement period and calendar year to date.
  - Charges imposed as part of the plan other than charges attributable to periodic interest rates must be grouped together under the heading “Fees,” identified consistent with the feature or type, and itemized. A total of charges, using the term “Fees,” must be disclosed for the statement period and calendar year to date.
- *Certain Changes in Terms:* If a change-in-terms notice required by 12 CFR 1026.9(c)(2) is provided on or with the periodic statement, a tabular summary of key changes must appear on the front of the statement. Similarly, if a notice of a rate increase due to

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<sup>55</sup> These balance computation methods include Average Daily Balance (including new purchases); Average Daily Balance (excluding new purchases); Adjusted Balance; Previous Balance; and Daily Balance. See 12 CFR 1026.60(g) for the definitions of each method.

delinquency or default or as a penalty required by 12 CFR 1026.9(g)(1) is provided on or with the periodic statement, information required to be provided about the increase must be presented in a table on the front of the statement. See Forms G-18(F) and G-18(G) in Appendix G to 12 CFR 12 CFR 1026. (12 CFR 1026.7(b)(7))

- *Grace period:* The date by which or the time period within which the new balance or any portion of the new balance must be paid to avoid additional finance charges. If such a time period is provided, an issuer may, at its option and without disclosure, impose no finance charge if payment is received after the time period's expiration. (12 CFR 1026.7(b)(8))
- *Address for notice of billing errors:* The address to be used for notice of billing errors. Alternatively, the address may be provided on the billing rights statement permitted by 12 CFR 1026.9(a)(2). (12 CFR 1026.7(b)(9))
- *Closing Date of Billing Cycle:* The closing date of the billing cycle. (12 CFR 1026.7(b)(10))
- *New Balance, Due Date, Late Payment Costs, and Repayment Disclosures:* The following items must be included on the periodic statement, in the specific format described. Regulation Z requires that these items be grouped together on the periodic statement (see Sample G-18D in Appendix G to 12 CFR 12 CFR 1026 for an example of how these terms may be grouped).
  - *Ending Balance:* The account balance outstanding on the closing date of the billing cycle. The ending balance must be disclosed in close proximity to the minimum payment due (12 CFR 1026.7(b)(10) and (13)).
  - *Due date; late payment costs:* The due date and late payment cost must be disclosed as described below (12 CFR 1026.7(b)(11)):
    - The payment due date must be disclosed on the front of the first page of the statement. The due date disclosed must be the same day of the month for each billing cycle. (12 CFR 1026.7(b)(11)(i)(A); 12 CFR 1026.7(b)(13))
    - The amount of any late payment fee and any increased APR that may be imposed on the account as a result of a late payment must be included in the periodic statement, in close proximity to the due date. If a range of late payment fees may be assessed, the card issuer may state the range of fees, or the highest fee and an indication that the fee imposed could be lower. If the rate may be increased for more than one feature or balance, the card issuer may state the range of rates or

the highest rate that could apply and at the issuer's option an indication that the rate imposed could be lower. (12 CFR 1026.7(b)(11)(i)(B) and 1026.7(b)(13))<sup>56</sup>

- *Repayment disclosures* (12 CFR 1026.7(b)(12))
  - Unless negative or no amortization occurs when calculating the minimum payment repayment estimate, the following disclosures must be included on each periodic statement, closely proximate to the minimum payment due. See Appendix M1 to 12 CFR 12 CFR 1026 for the specific language and formatting that must be used for repayment disclosures.<sup>57</sup>
    - The following statement with a bold heading: “Minimum Payment Warning: If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance.” (12 CFR 1026.7(b)(12)(i)(A));
    - The minimum payment repayment estimate as described in Appendix M1 to 12 CFR 12 CFR 1026. If the minimum payment repayment estimate is less than 2 years, the card issuer must disclose the estimate in months. Otherwise, the estimate must be disclosed in years and rounded to the nearest whole year (12 CFR 1026.7(b)(12)(i)(B));
    - The minimum payment total cost estimate as described in Appendix M1 to 12 CFR 12 CFR 1026, rounded either to the nearest whole dollar or to the nearest cent, at the card issuer's option (12 CFR 1026.7(b)(12)(i)(C));
    - A statement that the minimum payment repayment estimate and the minimum payment total cost estimate are based on the current outstanding balance shown on the periodic statement. A statement that the minimum payment repayment estimate and the minimum payment total cost estimate are based on the assumption that only minimum payments are made and no other amounts are added to the balance (12 CFR 1026.7(b)(12)(i)(D));
    - A toll-free telephone number where the consumer may obtain from the card issuer information about credit counseling services consistent with 12 CFR 1026.7(b)(12)(i)(E); and

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<sup>56</sup> These disclosure requirements do not apply to the following: periodic statements provided solely for charge card accounts (12 CFR 1026.7(b)(11)(ii)(A)); and periodic statements provided for a charged-off account where payment of the entire account balance is due immediately (12 CFR 1026.7(b)(11)(ii)(B)).

<sup>57</sup> Repayment disclosures under 12 CFR 1026.7(b)(12) are not required in the following instances: charge card accounts that require payment of outstanding balances in full at the end of each billing cycle; a billing cycle immediately following two consecutive billing cycles in which the consumer paid the entire balance in full, had a zero outstanding balance, or had a credit balance; and a billing cycle where paying the minimum payment due for that billing cycle will pay the entire outstanding balance on the account for that billing cycle. See 12 CFR 1026.7(b)(12)(v).

- The following disclosures (12 CFR 1026.7(b)(12)(i)(F)(1)):
  - The estimated monthly payment for repayment in 36 months as described in Appendix M1 to 12 CFR 1026, rounded either to the nearest whole dollar or to the nearest cent, at the card issuer's option (12 CFR 1026.7(b)(12)(i)(F)(1)(i));
  - A statement that the card issuer estimates that the consumer will repay the outstanding balance shown on the periodic statement in 3 years if the consumer pays the estimated monthly payment each month for 3 years (12 CFR 1026.7(b)(12)(i)(F)(1)(ii));
  - The total cost estimate for repayment in 36 months as described in Appendix M1 to 12 CFR 1026, rounded either to the nearest whole dollar or to the nearest cent, at the card issuer's option (12 CFR 1026.7(b)(12)(i)(F)(1)(iii)); and
  - The savings estimate for repayment in 36 months as described in Appendix M1 to 12 CFR 1026, rounded either to the nearest whole dollar or to the nearest cent, at the card issuer's option (12 CFR 1026.7(b)(12)(i)(F)(1)(iv)).<sup>58</sup>
- *Negative or no amortization.* If negative or no amortization occurs when calculating the minimum payment repayment estimate, the following disclosure must appear on the periodic statement instead of the Repayment Disclosures described in 12 CFR 1026.7(b)(12)(i):
  - The following statement: “Minimum Payment Warning: Even if you make no more charges using this card, if you make only the minimum payment each month we estimate you will never pay off the balance shown on this statement because your payment will be less than the interest charged each month” (12 CFR 1026.7(b)(12)(ii)(A));
  - The following statement: “If you make more than the minimum payment each period, you will pay less in interest and pay off your balance sooner” (12 CFR 1026.7(b)(12)(ii)(B));
  - The estimated monthly payment for repayment in 36 months, as described in Appendix M1 to 12 CFR 1026. The estimated monthly payment for

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<sup>58</sup> The requirements of 12 CFR 1026.7(b)(12)(i)(F)(1) do not apply to a periodic statement in any of the following circumstances: The minimum payment repayment estimate that is disclosed on the periodic statement after rounding is three years or less; the estimated monthly payment for repayment in 36 months that is calculated for a particular billing cycle is less than the minimum payment required for the plan for that billing cycle; and a billing cycle where an account has both a balance in a revolving feature where the required minimum payments for this feature will not amortize that balance in a fixed amount of time specified in the account agreement and a balance in a fixed repayment feature where the required minimum payment for this fixed repayment feature will amortize that balance in a fixed amount of time specified in the account agreement which is less than 36 months. See 12 CFR 1026.7(b)(12)(i)(F)(2).

repayment in 36 months must be rounded either to the nearest whole dollar or to the nearest cent, at the issuer's option (12 CFR 1026.7(b)(12)(ii)(C));

- A statement that the card issuer estimates that the consumer will repay the outstanding balance shown on the periodic statement in 3 years if the consumer pays the estimated monthly payment each month for 3 years (12 CFR 1026.7(b)(12)(ii)(D)); and
- A toll-free telephone number where the consumer may obtain from the card issuer information about credit counseling services consistent with 12 CFR 1026.7(b)(12)(iv). (12 CFR 1026.7(b)(12)(ii)(E))
- Provision of information about credit counseling services. (12 CFR 1026.7(b)(12)(iv))
  - *Required information:* To the extent available from the United States Trustee or a bankruptcy administrator, a card issuer must provide through the toll-free telephone number, disclosed pursuant to 12 CFR 1026.7(b)(12)(i) or (b)(12)(ii), the name, street address, telephone number, and website address for at least three organizations that have been approved by the United States Trustee or a bankruptcy administrator pursuant to 11 USC 111(a)(1) to provide credit counseling services in, at the card issuer's option, either the state in which the billing address for the account is located or the state specified by the consumer (12 CFR 1026.7(b)(12)(iv)(A)).
  - *Updating required information:* At least annually, a card issuer must update the information provided pursuant to 12 CFR 1026.7(b)(12)(iv)(A) for consistency with the information available from the United States Trustee or a bankruptcy administrator (12 CFR 1026.7(b)(12)(iv)(B)).
- *Deferred interest or similar transactions:* For accounts with an outstanding balance subject to a deferred interest or similar program, the date by which that outstanding balance must be paid in full in order to avoid the obligation to pay finance charges on such balance must be disclosed on the front of any page of each periodic statement issued during the deferred interest period beginning with the first periodic statement issued during the deferred interest period that reflects the deferred interest or similar transaction. The disclosure provided pursuant to this paragraph must be substantially similar to Sample G-18(H) in Appendix G to 12 CFR 1026. (12 CFR 1026.7(b)(14))



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## Appendix 2: Calculating Finance Charge and APR

### *Finance charge (12 CFR 1026.6(b)(3) and 12 CFR 1026.7(b)(5) and (b)(6)(ii))*

On periodic statements, finance charges attributable to periodic interest rates, using the term “Interest Charge,” must be grouped together under the heading “Interest Charged,” itemized and totaled by type of transaction. A total of finance charges attributable to periodic interest rates, using the term “Total Interest,” must be disclosed for the statement period and calendar year to date, using a format substantially similar to Sample G-18(A) in Appendix G to 12 CFR 1026. In addition, the periodic statement must disclose the amount of the balance to which a periodic rate was applied, using the term *Balance Subject to Interest Rate*. The examiner must know how to compute the balance to which the periodic rate is applied. Common methods used are the previous balance method, the daily balance method, and the average daily balance method, which are described as follows:

- *Previous balance method:* The balance on which the periodic finance charge is computed is based on the balance outstanding at the start of the billing cycle. The periodic rate is multiplied by this balance to compute the finance charge.
- *Daily balance method:* A daily periodic rate is applied to either the balance on each day in the cycle or the sum of the balances on each of the days in the cycle. If a daily periodic rate is multiplied by the balance on each day in the billing cycle, the finance charge is the sum of the products. If the daily periodic rate is multiplied by the sum of all the daily balances, the result is the finance charge.
- *Average daily balance method:* The average daily balance is the sum of the daily balances (either including or excluding current transactions) divided by the number of days in the billing cycle. A periodic rate is then multiplied by the average daily balance to determine the finance charge. If the periodic rate is a daily one, the product of the rate multiplied by the average balance is multiplied by the number of days in the cycle.

In addition to these common methods, financial institutions have other ways of calculating the balance to which the periodic rate is applied. By reading the financial institution’s explanation, the examiner can calculate the balance to which the periodic rate was applied. In some cases, the examiner may need to obtain additional information from the financial institution to verify the explanation disclosed. Examiners must discuss any inability to understand the disclosed explanation with management and examiners must emphasize to management Regulation Z’s requirement that disclosures be clear and conspicuous.

When a balance is determined without first deducting all credits and payments made during the billing cycle, that fact and the amount of the credits and payments must be disclosed on the periodic statement.

If the financial institution uses the daily balance method and applies a single daily periodic rate, disclosure of the balance to which the rate was applied may be stated as any of the following:

- *A balance for each day in the billing cycle.* The daily periodic rate is multiplied by the balance on each day and the sum of the products is the finance charge.
- *A balance for each day in the billing cycle on which the balance in the account changes.* The finance charge is figured by the same method as discussed previously, but the statement shows the balance only for those days on which the balance changed.
- *The sum of the daily balances during the billing cycle.* The balance on which the finance charge is computed is the sum of all the daily balances in the billing cycle. The daily periodic rate is multiplied by that balance to determine the finance charge.
- *The average daily balance during the billing cycle.* If this is stated, the financial institution may, at its option, explain that the average daily balance is or can be multiplied by the number of days in the billing cycle and the periodic rate applied to the product to determine the amount of interest.

If the financial institution uses the daily balance method, but applies two or more daily periodic rates, the sum of the daily balances may not be used. Acceptable ways of disclosing the balances include:

- A balance for each day in the billing cycle;
- A balance for each day in the billing cycle on which the balance in the account changes; or
- Two or more average daily balances, each applicable to the daily periodic rates imposed for the time that those were in effect, provided that the creditor explains that interest is or may be determined by:
  - multiplying each of the average daily balances by the number of days in the billing cycle (or if the daily rate varied during the cycle, by multiplying by the number of days the applicable rate was in effect),
  - by multiplying each of the results by the applicable daily periodic rate, and
  - adding these products together.

In explaining the method used to find the balance on which the finance charge is computed, the financial institution need not reveal how it allocates payments or credits. That information may be disclosed as additional information, but all required information must be clear and conspicuous.

NOTE: Section 1026.54 prohibits a credit card issuer from calculating finance charges based on balances for days in previous billing cycles as a result of the loss of a grace period (a practice sometimes referred to as “double-cycle billing”).

*Finance Charge Resulting from Two or More Periodic Rates*

Some financial institutions use more than one periodic rate in computing the finance charge. For example, one rate may apply to balances up to a certain amount and another rate to balances more than that amount. If two or more periodic rates apply, the financial institution must disclose all rates and conditions. The range of balances to which each rate applies also must be disclosed.

***Annual percentage rate (12 CFR 1026.14)***

The basic method for determining the APR in open-end credit transactions involves multiplying each periodic rate by the number of periods in a year. This method is used in all types of open-end disclosures, including:

- The corresponding APR in the initial disclosures;
- The corresponding APR on periodic statements;
- The APR in early disclosures for credit card accounts;
- The APR in advertising; and
- The APR in oral disclosures.

The corresponding APR is prospective and it does not involve any particular finance charge or periodic balance.

The disclosed APR on an open-end credit account is accurate if it is within one-eighth of one percentage point of the APR calculated under Regulation Z.