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MEMORANDUM

June 15, 2010

To Our Clients and Friends

Re: Regulation Z Amendments

The Federal Reserve Board (the “Board”) has adopted amendments to Regulation Z, Truth in Lending, to implement provisions of the Credit Card Accountability Responsibility and Disclosure Act of 2009. The rules require penalty fees imposed by credit card issuers to be reasonable and proportional to the violation of the account terms. Furthermore, the rules require credit card issuers at least every six months to reassess interest rates that were increased on or after January 1, 2009. In addition, the final rules require that notices of rate increases on credit card accounts disclose the principal reasons for the increases.

The rules are effective August 22, 2010, except for the mandatory compliance date for amendments to penalty fee disclosures, which will become effective December 1, 2010.

DISCUSSION

The rules provide that a card issuer may impose a penalty fee only if the amount of the fee represents a reasonable proportion of the total costs incurred by the card issuer as a result of a violation. A card issuer must reevaluate this determination at least once every twelve months. However, the rule provides a safe harbor by permitting a card issuer to impose a penalty fee if the amount of the fee does not exceed \$25 for the first violation, and \$35 for an additional violation of the same type during the next six billing cycles.

Card issuers are also prohibited from charging penalty fees that exceed the amount associated with the consumer's violation. For example, if a consumer is late in making a \$20 minimum payment, card issuers will not be permitted to charge a fee that exceeds the amount of the late payment, in this case, \$20.

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Card issuers may not charge inactivity fees, such as fees based on the consumer's failure to use the account to make new purchases. The rules also prohibit inactivity fees on idle accounts and do not permit multiple penalty fees based on a single late payment or other violation of terms.

A copy of the final rules can be found at our website at <http://www.schwartzandballen.com>

If you have any questions, please call Gilbert Schwartz, Robert Ballen, Tom Fox or Heidi Wicker at (202) 776-0700.