Comments of the

National Consumer Law Center
(On behalf of its Low-Income Clients)

and

Center for Responsible Lending
Consumer Action
Consumer Federation of America
Consumers Union
Dēmos: A Network for Ideas & Action
National Association of Consumer Advocates
U.S. Public Interest Research Group

Regarding

Board of the Governors of the Federal Reserve System
Truth in Lending
Federal Reserve System
12 CFR Part 226
Docket No. R–1364

Interim Final Rule and
Request for Comments

September 21, 2009

These comments are submitted by the National Consumer Law Center (on behalf of its low income clients),¹ and the Center for Responsible Lending,² Consumer Action,³

¹ The National Consumer Law Center, Inc. (NCLC) is a non-profit Massachusetts corporation, founded in 1969, specializing in low-income consumer issues, with an emphasis on consumer credit. On a daily basis, NCLC provides legal and technical consulting and assistance on consumer law issues to legal services, government, and private attorneys representing low-income consumers across the country. NCLC publishes a series of sixteen practice treatises and annual supplements on consumer credit laws, including Truth In Lending, (6th ed. 2007) and Cost of Credit (4th ed. 2009) as well as bimonthly newsletters on a range of topics related to consumer credit issues and low-income consumers. NCLC attorneys have written and advocated extensively on all aspects of consumer law affecting low income people, conducted training for tens of thousands of legal services and private attorneys on the law and litigation strategies to deal predatory lending and other consumer law problems, and provided extensive oral and written testimony to numerous Congressional committees on these topics. NCLC’s attorneys have been closely involved with the enactment of the all federal laws affecting consumer credit since the 1970s, and regularly provide comprehensive comments to the federal agencies on the regulations under these laws. These comments are written by Chi Chi Wu of NCLC, with the assistance of Carolyn Carter of NCLC, Ruth Susswein of Consumer Action, and Josh Frank of Center for Responsible Lending.

² The Center for Responsible Lending is dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. A non-profit, non-partisan research and policy
Consumer Federation of America, Consumers Union, Demos: A Network for Ideas & Action, National Association of Consumer Advocates, and U.S. Public Interest Research Group. These comments are in response to the July 22, 2009 Interim Final Rule issued by the Federal Reserve Board. The Board’s Interim Final Rule implements two provisions of the Credit Card Accountability, Responsibility and Disclosures (CARD) Act of 2009: (1) Section 101(a), which adds Section 127(i) of TILA (15 U.S.C. § 1637(i)) requiring creditors to provide 45 days advance notice for rate increases and significant changes in term and (2) Section 101(a), which adds Section 163 of TILA (15 U.S.C. § 1666b), requiring that creditors provide periodic statements to consumers twenty-one days prior to any payment due date or end of a grace period.

The Board has requested comment on the interim final rule, which amended Sections 226.5(b)(2)(ii), 226.9(c) and 226.9(g) of Regulation Z, as well as adding new Section 226.9(h). In short, we urge the Board to:

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4 Consumer Federation of America (CFA) is a nonprofit association of some 300 pro-consumer groups, with a combined membership of 50 million people. CFA was founded in 1968 to advance consumers' interests through research, advocacy, and education.

5 Consumers Union of United States, Inc., publisher of Consumer Reports, is a nonprofit membership organization chartered in 1936 to provide consumers with information, education, and counsel about goods, services, health and personal finance. Consumers Union's publications have a combined paid circulation of approximately 7.3 million. These publications regularly carry articles on Consumers Union's own product testing; on health, product safety, and marketplace economics; and on legislative, judicial, and regulatory actions that affect consumer welfare. Consumers Union's income is solely derived from the sale of Consumer Reports, its other publications and services, and noncommercial contributions, grants, and fees. Consumers Union's publications and services carry no outside advertising and receive no commercial support.

6 Demos: A Network for Ideas & Action is a non-partisan public policy research and advocacy organization. Headquartered in New York City, Demos works with advocates and policymakers around the country in pursuit of four overarching goals: a more equitable economy; a vibrant and inclusive democracy; an empowered public sector that works for the common good; and responsible U.S. engagement in an interdependent world.

7 The National Association of Consumer Advocates (NACA) is a non-profit corporation whose members are private and public sector attorneys, legal services attorneys, law professors, and law students, whose primary focus involves the protection and representation of consumers. NACA’s mission is to promote justice for all consumers.

8 U.S. PIRG serves as the federation of state Public Interest Research Groups, which are non-profit, non-partisan public interest advocacy organizations.

require creditors to give 45 days written notice for ALL significant changes in
terms, including all fees (unless for expedited or one-time services), security
interests, and mandatory arbitration provisions.
require that all reductions in a credit limit be disclosed in writing.
require that a notice of rate increase (whether due to a penalty or not) should
indicate to what balances the increased rate applies.
properly acknowledge that deferred "retroactive" interest plans are not permitted
under the Credit CARD Act.
permit consumers to reject any increases in the minimum payment that exceed the
limits of TILA Section 171(c)(2)/Reg. Z Section 226.9(h)(2)(iii).
provide that treatment as “late for any purpose” includes the loss of credit card
rewards.

I. Change-in-terms and Penalty Rate Notices

a. Creditors should be required to give 45 days written notice for ALL significant changes in terms.

The Credit CARD Act amends Section 127(i) of TILA to require that creditors
due.
provide a change-in-terms notice 45 days in advance for “any significant change, as
determined by rule of the Board, in terms (including an increase in any fee or finance
charge,...)” While the Act provides great latitude for the Board to establish what is a
“significant” change, it also shows Congress’s concern that consumers receive 45 days
notice for important changes to their accounts. This concern is especially acute with
respect to any increase in a “fee or finance charge” since the Act specifically mentions
changes in those terms.

Yet the Board has chosen to take a very restrictive view of what constitutes a
“significant term” other than the APR, including only those terms required to be
disclosed in the account opening table required under Section 226.6(b)(2) of the January
2009 Final Rule revising Regulation Z. This is an extremely limited list in that it only
includes certain important non-interest terms of an account, such as only specific fees, the
grace period, balance computation method, and fixed/minimum finance charges.

This list is entirely too limited. It does not even include other important terms for
which the current (pre-January 2009) Regulation Z requires a change-in-terms notice,
such as addition of a fee required to be disclosed in the current version of Section 226.6
or the addition of a security interest. It does not include extremely critical terms such as a
binding mandatory arbitration provision, which has a profound impact on a consumer’s
fundamental access to the judicial system for violations of TILA, as discussed below in
subsection I.d. By reducing the number of terms for which a change requires advance
notice to consumers, the Interim Final Rule does not reflect Congress’s intent to provide
greater protection to consumers.
b. Fees permitted to be disclosed orally and immediately prior to their imposition should be limited to only fees involving expedited or one-time services.

Throughout the course of the Regulation Z rulemaking, we have consistently and vehemently opposed limiting the scope of fees that would require a change-in-terms notice. We were (and still are) concerned that a creditor could establish a completely new fee not covered under the categories set forth in Section 226.6(b)(2) of revised Regulation Z, e.g., a monthly "calculation" fee, and not be required to provide 45 days written notice before imposing such a fee. Yet the Board has chosen again to ignore our very serious concerns.

Furthermore, we note that there is a difference between requiring a fee to be disclosed at account opening and requiring that the consumer receive a change-in-terms notice for that fee. In its June 2007 proposal, the Board specifically cited concerns that creditors not be subject to liability for failing to disclose every single fee that could possibly or potentially be imposed in the future. In addition to the fact that such concerns are not legitimate in promulgating a consumer protection rule, the same logic does not exist when a creditor adds a new fee. In the latter case, the creditor knows that the fee will imposed and thus can take measures to minimize litigation risk – the only issue is whether the creditor gets to impose it right away, or will be required to wait 45 days.

In this rulemaking, the Board has provided another reason for its restrictive approach, stating that waiting 45 days to impose a fee would be problematic, given that it contemplates that these fees would primarily involve a single service, for which disclosure 45 days in advance would not be useful. These services would probably be purchased by telephone, would not be central to the account, and some of these fees would be for an expedited service. If these are the Board’s main concerns, then the ability to disclose a fee orally immediately prior to imposition should be limited to those circumstances. It makes sense not to require 45 days notice for a fee involving an expedited service or a single service that is time sensitive (e.g., providing a replacement card). However, no such logic applies to fees that do not involve a time sensitive or one-time service, particularly for those fees imposed on a monthly or periodic basis.

Thus, the dividing line as to whether imposition of a new fee requires 45 days prior written notice should be whether the fee is for a service that is one-time or time sensitive. This distinction will prevent creditors from imposing new, creative fees, such as a monthly “calculation” fee, without 45 days written notice, while permitting fees such as a replacement card fee to be imposed orally immediately prior to imposition.

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13 Id; see also 74 Fed. Reg. 5244, 5269 (Jan. 29, 2009).
At a minimum, a change-in-terms notice should be required for all new penalty fees. Creditors have probably already begun the process of imagining new fees to make up for potential decreases in late payment or over-the-limit fees. Such new penalty fees, such as an “inactivity” fee or “excessive transactions” fees, should at least require 45 days written notice before they are imposed.

c. Reductions in a credit limit should be disclosed in writing.

Section 226.9(c)(2)(vi) of the Interim Final Rule requires a reduction in credit limit to be disclosed 45 days prior to imposing a penalty rate or fee for exceeding that limit. However, this notice may be provided either in writing or orally. Permitting oral disclosure of a reduced credit limit creates a great risk of harm to consumers.

Oral notice is unreliable. The creditor may think it has reached the cardholder, but may in fact have reached some other household member. The cardholder may lack proficiency in English, or have a hearing impairment, or be unable for one reason or another to take written notes. The difficulties of proving what was disclosed orally could create huge problems for both consumers and creditors. Furthermore, this provision conflicts with Section 226.9(g)(4)(ii)(A) of the Interim Final Rule, which does require a written notice.

Creditors should always be required to disclose a reduction of credit limit in writing, for no other reason than consumers should have a piece of paper to refer to when trying to recall what their credit limit is. If consumers are informed only orally of their credit limit, there is a chance they may forget that limit. As the Board notes, Regulation Z generally does not require disclosure of an account’s credit limit.\footnote{See 74 Fed. Reg. 36,077, 36,086 (July 22, 2009).}

Without a written documentation of a credit limit reduction, how will these consumers be able to determine what their credit limit is to avoid going over it? While new protections against penalty rate increases and the over-the-limit fee opt-in requirement may prevent some of the worst consequences of exceeding a credit limit, consumers will suffer harm if they accidentally exceed a credit limit because they can’t remember what it is and don’t have it in writing. Knowledge of the credit limit is also important for calculation of a credit score. Consumers need to know what their credit limits are if they want to ensure that they only uses a portion of the available credit to keep a credit score from decreasing.

Our concern about consumers not knowing their credit limits is further heightened by the recent practice of creditors to inform consumers that their credit cards have “no preset spending limit.” In fact, these cards do have a limit, but the consumer is permitted to make transaction above this limit. Any balance above this limit must be paid by the due date as part of the minimum payment, like a charge card. One potential problem with this practice is that, if consumers make transactions that go above the limit without realizing how much they have exceeded it, they may be unable to pay the minimum payment and will be charged late payment fees. If the limit is not disclosed, or if the
limit is lowered without a written notice, this increases the chances that the consumer will go over that limit and be faced with an unexpected high minimum payment that they cannot pay.

Finally, consumers should also be given written notice of an account closure, even if sent at the time of account closure and received after the fact. While we understand the Board’s safety and soundness concerns about advance notice, consumers should be sent a written notice at the time their account is closed so that they have formal confirmation of the fact. This is especially true for credit card accounts that a consumer might not use frequently, such as a “backup” card. At a minimum, the Board should note in section 226.9(c)(2)(V)(a) exempting account closures that the Equal Credit Opportunity Act and Fair Credit Reporting Act may require written notice of an account closure.

d. A binding mandatory arbitration clause must be considered a “significant” term.

The proposed regulation does not include waiver of the right to sue as a “significant” term. Nevertheless, one of the most significant changes possible for a consumer credit agreement is a requirement that the consumer give up the right to utilize the court system and the constitutional right to a jury trial. Another highly significant change is a requirement, when the consumer is forced to utilize arbitration, that the consumer give up the right to bring that arbitration action in conjunction with other consumers so as to obtain class-wide relief.

Furthermore, a central purpose of the Credit CARD Act’s notice requirements for significant changes is to allow the consumer to cancel the account if the consumer does not accept the change. Clearly, consumers need the right to cancel an account (or reject a change) when being asked to give up Constitutional rights or where an arbitration requirement is being stacked against the consumer so as to make it impractical as a means of remedying the card issuer’s illegal conduct. Over 50 appellate and federal district court cases have found unconscionable creditor limitations on the consumer’s right to bring class-wide arbitrations. See National Consumer Law Center, Consumer Arbitration Agreements § 6.5.5 (5th ed. and 2008 Supp.). Certainly the consumer should have a right to cancel an account/reject a change where the creditor unilaterally is limiting the arbitration remedy in a way that many courts have found to be unconscionable.

As the law stands, creditors must provide notice of any change in an arbitration requirement, or it will not be effective. The Board should provide clarity as to the nature of that notice, giving consumers both 45 days written, clear and conspicuous notice and a clear course of action if they do not accept the change in terms.

e. A notice of rate increase (whether due to a penalty rate or not) should indicate to what balances the increased rate applies.

Because the protections against rate increases for an outstanding balance are not yet effective, the Interim Final Rule’s requirements for a change-in-terms notice and
penalty rate notice do not require disclosure of whether an increased rate applies to outstanding balances or only to new transactions. The Board has stated that it anticipates reviewing this issue for potential additional content requirements for conformity with the CARD Act protections.

We strongly support a disclosure to make clear to consumers when an increased rate applies only to new transactions, or when differing rates apply to different balances. Consumers need to know exactly what the consequences of a rate increase are, so that they understand how a rate increase will affect their account, can adjust their behavior accordingly, and determine if the creditor is applying the correct APR to any protected outstanding balance.

Indeed, in our comments to the Board’s May 19, 2008 NPRM, we had urged the Board to revise its model language in Sample Form G-20 to make clearer how a rate increase would apply to an outstanding balance, by using language similar to the following:

The current purchase APR of 12.99% will apply to all purchases made before 1/15/11. The new purchase APR of 16.99% will apply to purchases made after that date.

We believe that it is particularly important to disclose the prior rate in the change-in-terms notice so that consumers will have an indication of the magnitude of the change and its impact on their finances. Otherwise, consumers will have to go hunting for their prior rate, which they may not readily find. In addition, this disclosure makes clear that purchases made after 14 days (not 45 days) will have the higher rate applied to them. Any notice of a rate increase must make clear what transactions will be subject to the rate increase, so that consumers can adjust their behavior accordingly. Finally, for rate increases that apply to an outstanding balance, the consumer’s right to have the original rate reinstated after six months of timely payment must be disclosed. Requiring that the original rate also be disclosed helps consumers understand the benefits of having their rate reinstated.

II. Deferred “Retroactive” Interest Plans Are Not Permitted Under the CARD Act

The Supplementary Information to the Interim Final Rule states the Board’s determination that the Credit CARD Act permits deferred interest plans in which interested may be retroactively imposed based on the entire balance if not paid off by the end of a certain date. In addition, the rule contains a number of exceptions reflecting that determination. Since these plans involve the retroactive imposition of interest for the entire balance back to the original transaction date, we will refer to them in this discussion as “deferred retroactive interest plans.”

We recognize that the main rulemaking regarding deferred retroactive interest plans will take place when the remainder of the CARD Act is implemented. We are addressing such plans in this rulemaking, however, because we believe that discussion about this issue in the Supplementary Information is simply wrong. This discussion assumes that since the Credit CARD Act’s addition of Section 164 of TILA creates a special payment allocation rule for “deferred interest arrangements” that Congress meant to permit them. However, Section 164 does not expressly authorize such plans. More importantly, even if an implicit authorization can be assumed, Section 164 does not expressly state what kind of deferred interest plan is permissible. It does not specify that deferred interest plans that permit retroactive imposition of interest all the way back to the transaction date for the entire balance are permissible. Section 164’s reference could be to plans in which interest is not imposed during the deferred interest period, then only retroactively imposed on the remaining unpaid balance if not fully repaid. For example, a deferred interest plan could provide that if a consumer makes a $1,000 purchase and pays off $800, that the accrued deferred interest only for the remaining $200 can be imposed.

This distinction is critical, because the Credit CARD Act also contains an explicit prohibition of deferred retroactive interest plans in the prohibition against double cycle billing. Section 127(j) of TILA provides, with great particularity, that a finance charge cannot be assessed as a result of the loss of any time period within which the consumer may repay a balance without incurring a finance charge based on any balances from prior billing cycles. This language specifically prohibits deferred retroactive interest plans, which impose a finance charge based on balances from prior billing cycles if the consumer does not repay the entire balance within the specified time period (which would qualify as “the loss of any time period within which the consumer may repay a balance without incurring a finance charge”).

Thus, Section 127(j) bans deferred retroactive interest plans where interest for the entire balance can be retroactively imposed, but does not ban plans in which the deferred interest only on the remaining unpaid balance is imposed at the end of the deferred interest period. Furthermore, Section 127(j) does not contain an exception for deferred interest plans. In fact, such an exception was included in a prior version of the bill. See Attachment 1 - copy of H.R. 627 as introduced in the House of Representatives. Its removal from the final version enacted into law reflects Congress’s determination that deferred retroactive interest plans are prohibited by Section 127(j).

III. Right to Reject Changes

a. Consumers should be permitted to reject any increases in the minimum payment that exceed the limits of TILA Section 171(c)(2)/Reg. Z Section 226.9(h)(2)(iii).

The Board’s Interim Final Rule essentially provides that a consumer is not permitted to reject a change if the change is an increase in the minimum payment. The

\[16\] Id.
Board believed that permitting a consumer to reject a minimum payment increase would potentially subject a consumer to increased interest charges and an extended amortization period. However, the Board’s rule leaves consumers vulnerable to dramatic minimum payment increases that far exceed the limits of TILA Section 171(c)(2)/Reg. Z Section 226.9(h)(2)(iii). This is because, since the consumer cannot reject the minimum payment increase, the protections of those provisions do not apply at all. Thus, creditors are free to increase the minimum payment, even potentially to the entire amount of the balance, essentially accelerating a debt.

Creditors certainly have an incentive to make dramatic increases in the minimum payment, because such increases can be used to coerce consumers to accept other changes in an account. One major credit card lender has already engaged in such conduct, increasing the minimum payment but advising consumers that they could switch to an account with a higher interest rate (a change that would otherwise be rejectable, or in February 2010, prohibited). (See Attachment 2 which documents this conduct.)

The Board’s concern that rejecting minimum payment increases would potentially subject a consumer to increased interest charges should be balanced by Congress’s explicit concern that permitting minimum payment increases above the limits in TILA Section 171(c)(2) could undermine a consumer’s right to cancel an account or protections against rate increases. The appropriate method to strike that balance is to provide a right to reject any minimum payment increases above the formula set forth in Reg. Z Section 226.9(h)(2)(iii).

Furthermore, such a rule should apply for the life of the account. In other words, if a creditor increases the minimum payment in month one by doubling the percentage of the balance included in the payment from 2% to 4%, the creditor must be prohibited from increasing the minimum payment from 4% to 8% in month six.

IV. Periodic Statement Timing Requirements

   a. Treatment as “late for any purpose” should include loss of rewards.

Section 163(a) of TILA, as amended by the Credit CARD Act, prohibits a creditor from treating a payment as late for any purpose if a statement is not mailed 21 days before the due date. In Comment 5(b)(2)(ii)-2, the Board has rightfully defined “late for any purpose” to include imposing a late fee or penalty rate, or reporting the consumer as delinquent to a consumer reporting agency. We propose that an additional action be added to this list – that treating a payment as “late for any purpose” includes revoking rewards from a credit card reward program.

As the Board knows, one of the highly promoted aspects of credit cards are rewards programs, such as cash back, airline mileage, or points redeemable for merchandise. Some creditors will revoke the rewards accrued by consumers if they make a late payment. Thus, if a creditor has violated the periodic statement timing

17 Id.
requirements of Section 163(a), the creditor should not be permitted to treat a payment as late by revoking the consumer’s accrued rewards.

b. Consumers should be able to submit proof of timely payment.

Creditors should be required to reverse a decision to treat a payment mailed before the due date as late if the consumer provides certain evidence to the creditor. The deadline should be three days before the due date – the normal delivery time that consumers expect for first class mail. The Board should also adopt a parallel rule for electronic payments, pegged to the time when the consumer’s bank or the credit card issuer promised to credit the payment.

Evidence that a creditor should be required to accept includes a receipt from the United States Postal Service or from a delivery service such as, or comparable to, United Parcel Service, Federal Express, DHL or Airborne Express, or a printout of the computer screen or email confirmation showing the date on which an online payment was scheduled to be made.

IV. Provisions That We Support

The Board has promulgated a number of provisions that we support, the most important of which is to clarify that there is a substantive right to reject changes to an account.

• We strongly support Section 226.9(h) of the Interim Final Rule clarifying that there is a substantive right to reject changes to an account. We agree that TILA Section 127(i)(3)’s requirement for a notice of the right to cancel the account is illogical and deceptive without a corresponding substantive right to reject changes. Clarifying that this substantive right exists is important for all the reasons that the Board cites in the Supplementary Information.

• We strongly support the timing requirements for penalty rate notices in Section 226.9(g)(2) of the Interim Final Rule, i.e., that penalty rate notices can only be sent after the occurrence of the event that triggers the penalty rate. Creditors should not be permitted to send general, boilerplate notices to all consumers about the mere possibility of a penalty rate imposition. Boilerplate notices would be meaningless, have no use to consumers, and be ignored.

• We support Comment 226.5(b)(2)(ii)-3’s treatment of the official payment due date as excluding any courtesy period or state-required waiting period that is provided before a late fee is imposed.
H.R.627
Credit Cardholders' Bill of Rights Act of 2009 (Introduced in House)

SEC. 3. ADDITIONAL PROVISIONS REGARDING ACCOUNT FEATURES, TERMS, AND PRICING.

(a) Double Cycle Billing Prohibited- Section 127B of the Truth in Lending Act is amended by inserting after subsection (c) (as added by section 2(c)) the following new subsection:

 `(d) Double Cycle Billing-

 `(1) IN GENERAL- No finance charge may be imposed by a creditor with respect to any balance on a credit card account under an open end consumer credit plan that is based on balances for days in billing cycles preceding the most recent billing cycle.

 `(2) EXCEPTIONS- Paragraph (1) shall not apply so as to prohibit a creditor from--

 `(A) charging a consumer for deferred interest even though that interest may have accrued over multiple billing cycles; or

 `(B) adjusting finance charges following resolution of a billing error dispute.'.

(b) Limitations Relating to Account Balances Attributable Only to Accrued Interest-Section 127B is amended by inserting after subsection (d) (as added by subsection (a)) the following new subsection:

 `(e) Limitations Relating to Account Balances Attributable Only to Accrued Interest--

 `(1) IN GENERAL- If the outstanding balance on a credit card account under an open end consumer credit plan at the end of a billing period represents an amount attributable only to interest accrued during the preceding billing
RE: Your account ending in [redacted]

Dear [redacted],

In November 2008, you received a notice advising you of changes to your credit card account effective with your January 2009 statement. In that notice, we communicated a $10 monthly service charge would be applied to your account.

Beginning April 1, 2009, we will no longer assess a $10 monthly account service charge. We will credit your account for any $10 monthly service charge(s) billed since January 1, 2009 along with any finance charges related to the $10 monthly account service charge. You will see the adjustment on your April billing statement. Your minimum payment due each month will remain at 5% of your New Balance as communicated in the November 2008 notice.

There is an optional alternate offer available. Those terms include moving your current balances subject to an APR with no defined expiration date to (a) a new Annual Percentage Rate (APR) of 7.99% until January 1, 2011, and (b) a minimum payment calculation that consists of the greater of $10, 2% of your New Balance or 1% of your New Balance plus billed interest and any billed late fees. After January 1, 2011, the APR for any remaining portion of the balance(s) would be the applicable APR associated with this type of balance as outlined in your Cardmember Agreement and any subsequent disclosures. As always, your account remains subject to all terms and conditions, including default APR actions, as outlined in your Cardmember Agreement.

If you have any questions or wish to take advantage of the optional alternate offer described above, please call us at the toll-free number on the back of your card. For your convenience, we are available 24 hours a day to assist you.

Sincerely,

[Signature]

Deb Walden
Executive Vice President
Cardmember Experience