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Media Advisory

FOR IMMEDIATE RELEASE

NCUA Finalizes Unfair and Deceptive Consumer Credit Rule

December 18, 2008, Alexandria, Va. -- The NCUA Board joins the Office of Thrift Supervision and the Federal Reserve Board today in approving final rule, Part 706, governing unfair or deceptive acts or practices related to credit cards.

The ruling, which applies only to federal credit unions, recognizes that in some cases disclosures do not provide adequate protection for consumers. The rule restricts or prohibits certain practices that are considered unfair based on the test set forth in the Federal Trade Commission Act, including: (1) it causes or is likely to cause substantial injury to consumers; (2) the injury is not reasonably avoidable by consumers themselves; and (3) the injury is not outweighed by countervailing benefits to consumers or to competition.

“This new rule represents a considerable improvement for consumers in their ability to manage credit cards,” stated Chairman Michael Fryzel. “Where there was possible deception, there will now be clarity; where there were patently unfair practices, there will now be new awareness, and real enforcement to prevent it. In short, this is a long-overdue step in the right direction, and I am pleased that NCUA was able to join with fellow federal regulators in taking action.”

The following summarizes specifics of the rule designed to prohibit certain credit card practices deemed unfair or deceptive.

Late payments -- Prohibits treating a payment as late unless consumers are given a reasonable time period for payment. A credit card statement must be sent at least 21 days before payment is due.

Payment allocation -- Requires reasonable allocation of amounts paid in excess of a required minimum payment in relation to interest rate accruals The rule specifically requires allocation to segments with the highest APRs in descending order or among the balances in the same proportion to the total outstanding balance.

Application of interest rate increases to pre-existing balances -- Prohibits credit card issuers from applying an increased APR to existing balances except in cases of a variable rate account, where payments are 30 days late or do not comply with a workout arrangement, and when a “go to” rate has been previously disclosed on an account with a specified term or expiration date.

Double cycle billing -- Prohibits a finance charge based on days in a prior billing cycle for an outstanding balance in the current cycle.

Security deposits and fees for providing credit -- Prohibits an FCU from financing a security deposit or other account opening fees if the charges constitute a majority of the available credit offered. The rule modifies the proposal to limit first month fees to no more than 25 percent of available credit, and requires that fees between 25 and 50 percent of available credit be spread equally over the next five months.

The final rule is effective July 1, 2010.

The National Credit Union Administration charters and supervises federal credit unions. NCUA, with the backing of the full faith and credit of the U.S. government, operates and manages the National Credit Union Share Insurance Fund, insuring the accounts of 88.5 million account holders in all federal credit unions and the majority of state-chartered credit unions. NCUA is funded by credit unions, not federal tax dollars.

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