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The Federal Reserve Board recently approved a final rule to protect credit card users from unreasonable late payment and other penalty fees. The rule also requires credit card issuers to reconsider any interest rate increases imposed since the beginning of 2009. The final rule represents the third stage of the Federal Reserve's implementation of the Credit Card Accountability Responsibility and Disclosure Act of 2009 ("CARD Act"). The CARD Act was enacted in May 2009 and the provisions of the Act addressed in this final rule went into effect August 22, 2010. The final rule, which amends Regulation Z of the Truth In Lending Act, includes the following provisions:

i) It prohibits credit card issuers from charging a penalty fee of more than $25 for paying late or otherwise violating the account's terms unless the consumer has engaged in repeated violations or the card issuer can show that a higher fee represents a reasonable proportion of the costs it incurs as a result of violations.

ii) It prohibits card issuers from charging penalty fees that exceed the dollar amount associated with a consumer's violation. For instance, an issuer may not charge a $39 fee if a customer is late in making a $20 minimum payment; the fee charged could not exceed the $20 that was due.

iii) It bans "inactivity fees," such as those based on a consumer's failure to use an account to make new purchases.

iv) It prevents issuers from charging multiple penalty fees based on a single late payment or other violation of the account terms.

v) It requires card issuers that have increased interest rates since January 1, 2009, to evaluate whether the reason for the rate increases has changed and, if appropriate, to reduce the rate.

Click here to read the rule from the Federal Reserve about unreasonable late payment fees.
