

CFPB Backs Down on Credit Card Fee Caps in Wake of Court Decision

April 13, 2012 - The Consumer Financial Protection Bureau is backing down on certain fee caps it attempted to impose on banks issuing credit cards to subprime borrowers. The agency had tried to limit all fees associated with subprime credit cards to 25% of the credit limit in the first year after issuance. Included in those rules were application and activation fees. But a court in South Dakota issued a restraining order preventing the agency from putting those fee caps into effect. Now the agency has issued new rules which don't include fees charged prior to activation of the card.

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The CFPB acknowledges that the new rule will be less beneficial to borrowers. But the agency had little choice given the decision of the court. When the agency attempted to implement their original rule, they were sued by a bank claiming that the CFPB and the FED had overstepped their authority. The court agreed.

Under the newly proposed rule, card issuers will be able to charge any amount they want to review a card application and for activation. Once the card is issued and has been activated, bank fees would be limited to 25% of the credit limit of the card for the first year.

The new rules are currently slated to go into effect in the second half of this year. Until then, banks can continue to charge any fees that they deem appropriate.

by Jim Malmberg

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