REPORT OF THE
TAYLOE MURPHY INSTITUTE
THE COLGATE DARDEN GRADUATE SCHOOL
OF BUSINESS ADMINISTRATION
UNIVERSITY OF VIRGINIA

Credit Card Billing Practices in Virginia

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

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UNIVERSITY OF VIRGINIA THE COLGATE DARDEN GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

TAYLOE MURPHY INSTITUTE

October 18, 1985

TO: Committee on Commerce and Labor,
Senate of Virginia, and
The General Assembly of Virginia

During the 1985 General Assembly the Senate passed Senate Resolution No. 34, which requested that the Tayloe Murphy Institute of the University of Virginia study credit card procedures. The Tayloe Murphy Institute was requested to report its findings to the 1986 General Assembly; and herewith submits its report entitled Credit Card Billing Practices in Virginia.

Respectfully submitted,

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Contents

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Charlotte H. Scott

Summary

The amount a credit card user pays in finance charges depends heavily on three factors--the rate of the finance charge, the balance on which the finance charge is computed, and the free period, if any, within which finance charges may be avoided. This report, prepared at the request of Virginia's 1985 General Assembly, deals with the latter two components. The first component, the rate of finance charge, was addressed by the Virginia legislature in 1983 when prohibitions on the maximum rate of finance charge were removed.

Current legislative interest in credit card balance computation methods and free period allowances has several origins. The cost of credit for consumers has traditionally been a major concern of state legislative bodies. More families are now using credit cards, fewer families are paying in full during a billing period, and outstanding balances are larger than ever. Moreover, the effects of regional interstate banking on the pricing and availability of consumer credit services pose new uncertainties. Competition for cardholder accounts is nationwide. Yet card issuers, even those within a region, extend credit under differing state laws.

The report focuses on three public policy issues: Is the information card issuers disclose about the methods they use to assess finance charges adequate? Is card billing efficiently done? Is card credit fairly priced? Materials relevant to these issues were collected from a variety of sources and by several methods, including survey questionnaires sent to card-issuing banks and retailers, interviews with public officials, and perusal of government files of consumer complaints.

The study concentrates on bank and retail credit cards. Users of these cards are more apt than users of American Express, Carte Blanche, and other types of cards, to roll over unpaid balances from one billing cycle to the next and, therefore, to pay finance charges.

One of the study's main findings is that consumers are not adequately informed about the financial consequences of rolling over unpaid balances. Banks and retailers, as the free period provision of Virginia law requires, do not impose a finance charge upon a cardholder if the account balance is paid in full during the billing cycle. (The free period pertains only to purchases of merchandise or services and is not required of card issuers for cash advances made under bank credit card plans.) A practice that is becoming more common is to charge interest in the second billing cycle retroactive to the date of the posting of each purchase to the account during the first billing cycle, if the account was not paid in full. The calculation of finance charges is complex and can vary substantially among

cards, even though identical balance computation methods and annual percentage rates (APRs) are used. People who have unpaid balances on their credit cards can pay more than double the stated APR and not get a 25-day free period.

A second main finding relates to the need to find a way to reduce any subsidies rollover customers make to support the convenience needs of non-revolvers. From the day a purchase is posted to a customer's account until payment is received, funds are loaned to the customer. Yet, under the free period provisions, no finance charge revenues are received from non-revolvers. The pricing of bank and retail credit cards, in effect, reflects the need to cover a major share of the total costs of credit card operations through finance charge revenues derived from accounts with rollover balances.

A third main finding is that banks and retailers with large volumes of credit card transactions have made card processing more efficient by the application of electronic fund technology to these operations. Multi-purpose cards, which combine credit with money transfer services, are becoming common. While state government policy should be to foster electronic transfer and related efficiencies, a free period discourages consumer use of money transfer services at the point of sale.

A fourth main finding is that the statutory requirements relating to payment posting periods of financial institutions and merchants are becoming out-dated. Payments are increasingly posted to accounts soon after the date of transaction, and payments are credited on the date of receipt. Most card issuers mail bills no later than six days after the close of the billing cycle.

Several legislative options are possible to remedy perceived market deficiencies:

1. Prohibit calculation of finance charges using purchases from a previous billing cycle.

2. Allow a user fee for a credit account by eliminating the statutory free period requirement.

3. Bar minimum finance charges and late fees.

4. Repeal the statutory provision that mandates that a free period be given on purchases of merchandise and services.

5. Simplify the state's consumer credit laws by deleting provisions relating to the mailing of card statements; monitor new and developing credit transaction methods.

6. Require a standard method of assessing finance charges.

7. Provide Virginians with information about consumer credit laws that clearly states how the APR, balance computation method, and free period affect the total cost of credit.

The first four proposals relate to the fairness issue, the next one to mailing dates, and the final two to information disclosed. All are suggestions as to what the General Assembly might do, not what it should do; that decision rests with legislators as they review and reflect on the study's findings.

I - Purpose and Scope of Study

Consideration of interstate banking by federal and state legislative bodies has heightened public interest in banking and in the services financial institutions offer consumers. Proponents of legislation to permit banks to expand across state boundaries argue that interstate banking, by increasing the number of potential entrants into banking markets, enhances competition that could make better financial services available at less cost. The expectation of public benefits from interstate and regional banking was reflected in the action taken by Virginia's 1985 General Assembly when it passed legislation reducing geographic restraints on bank expansion by permitting reciprocal interstate banking with 12 other southeastern states and the District of Columbia. This study on credit card billing practices in Virginia is related to that action.

More specifically, the approval of reciprocal interstate banking had been recommended by the Joint Subcommittee Studying the Revision of the Savings and Loan Laws and Interest Rate Laws of the Commonwealth, and the Issue of Interstate Banking. This subcommittee had been established pursuant to House Joint Resolution No. 30 of the 1984 General Assembly. Since the work of the subcommittee was not completed by the opening of the new session, the 1985 General Assembly authorized the subcommittee to continue, specifically to work on the revision of the Commonwealth's interest-rate laws and to monitor federal activity in the areas of savings and loan laws and interstate banking.

Integral parts of the Commonwealth's consumer interest-rate laws are provisions relating to the methods that credit card grantors can use to calculate the unpaid balance against which the rate of finance charge is applied, and the "free" period during which no charges are imposed. The applicable statutes (specifically §6.1-330.19:1 and §6.1-330.20) appeared to Senator J. Granger Macfarlane of Roanoke and Senator Peter K. Babalas of Norfolk, Chairman of the Joint Subcommittee's interest-rate subcommittee, as particularly ambiguous and in need of clarification.

Together, Senators Macfarlane and Babalas introduced Senate Resolution No. 34. (The text of the resolution is given in Appendix A.) The resolution requests the Tayloe Murphy Institute of the University of Virginia to study credit card procedures. It states that many people are concerned about (1) the method by which their interest on unpaid balances is computed and (2) an unduly short period between the date they receive a bill and the payment due date. The Institute is requested in its study to "include, but not be limited to, a thorough investigation of the methods used in computing interest charges on credit card purchases by, and payment posting periods of, financial institutions and merchants in Virginia and in other states." The Institute is to report its findings to the 1986 General Assembly.

This report has been prepared in response to that resolution. It provides a summary of current credit card billing practices, based largely on surveys of Virginia's financial institutions and retailers, and on creditors' disclosure statements. Perceived market deficiencies are identified on the basis of several sources, including consumer complaint files of government agencies and creditors' comments. Regulatory enforcement of the statutes is examined as is also legislation of other states. All this information is used to suggest legislative options which the 1986 General Assembly might consider.

The more important public policy issues that the report addresses are:

1. Is the information that credit card issuers provide concerning balance computation methods and the free period for which no interest is charged adequate to allow consumers to compare accurately and completely their credit options? If additional information is desirable, what disclosure provisions are necessary at the state level to supplement federal disclosure requirements? To whom should the information be directed and when?

2. Does competition for credit card business sufficiently protect consumers from inefficiencies of credit grantors in the posting and handling of credit card transactions?

3. Does a loss of earnings from a statutory free period result in higher finance charges, reduced availability of credit card plans, and restriction of consumers' credit card choices to fewer outlets? Should a free period be required by law?

4. Do credit card holders who use the rollover payment feature of revolving credit subsidize credit card holders who pay their balances in full within the 30-day billing period and incur no interest charge? If so, is such subsidization undesirable?

The federal consumer credit requirements are embodied in Truth in Lending regulations. Lenders, by regulation, must quote an annual percentage rate (APR) for credit. The APR is to be computed by multiplying the periodic rate by the number of periods in a year; thus a monthly rate of 1.5 percent yields an APR of 18 percent. The APR on periodic disclosure statements may differ from the APR quoted on the initial disclosure statement by the inclusion in the former of types of finance charges other than interest, such as a minimum, fixed, or transaction charge. Also, certain charges may be excluded from the APR. An annual card fee, for instance, is excluded from the APR since it is considered a fee for convenience, or membership. Other examples of charges that, like the annual fee, are excluded from the APR but that, nevertheless, must be disclosed are fees for a minimum payment made after due date, for over-the-credit-limit charges, and for provision of documentary evidence of transactions for the correction of billing errors. (A more complete listing of excluded fees is given on pages B-6 and B-7.)

Truth in Lending regulations also require that the balance computation method, and the free period, if any, be disclosed. In addition, creditors offering a free period, or wishing to impose a charge for late payments, must mail or deliver the periodic statement at least 14 days prior to the date by which payment must be received. (This is in contrast to the eight-day limit in the Virginia law.)

Consumer credit protection measures at the federal level are primarily disclosure statutes. State laws set the maximum rates of interest that can be charged for consumer credit, specify permissible finance charges, and otherwise influence the amount of finance charges. Usury limits exist, according to the Appendix D tabulation, in 40 states, including neighboring states such as North Carolina, Maryland, and in the District of Columbia. Virginia deregulated interest-rate ceilings on consumer credit in April 1983. The provisions approved in 1972 relating to balance computation methods were retained, as were the provisions of 1968 relating to a free period and those of 1970 relating to the posting of the statement. (A history of the evolution of Virginia's statutes is given in Appendix A.)

Issuers of Credit Cards in Virginia

This study focuses on revolving credit card plans with a rollover payment feature that produces a finance charge. Consequently, it chiefly covers cards of financial institutions and retail stores. Other credit card plans are available that offer monthly credit, such as travel and entertainment cards (e.g., American Express, Carte Blanche, and Diners Club) and cards offered by gasoline companies, telephone companies, car-rental agencies, and airlines. Their card holders, however, are required to pay their balances in full within the billing period and, hence, do not roll over credit from one month to the next.[1]

Most financial institutions are issuing Visa and MasterCard--commonly referred to as bank cards.[2] Virginia has at least 55 card-issuing

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[1]Some of these card programs have provisions permitting revolving credit terms for "big-ticket" items. Credit receivables under these special provisions, however, constitute a relatively small portion of the total accounts receivable under credit card plans of these companies. This observation is confirmed by the 1983 Survey of Consumer Finances: The percentage of credit card users with zero unpaid balances following the last payment prior to the Survey interview, by type of card credit, was as follows: travel and entertainment, 89 percent; gasoline, 88 percent; miscellaneous, 86 percent; retail other than national chain, 60 percent; national chain retail, 51 percent; and bank, 46 percent. Robert Avery, Glenn Canner, Gregory Elliehausen and Thomas Gustafson, 1983 Survey of Consumer Finances (Washington, D. C.: Board of Governors of the Federal Reserve System, 1983.)

[2]Visa, U.S.A. and MasterCard International Inc. franchise their products to financial institutions. Each provides a card that is widely accepted by merchants nationally and even internationally. Franchise members are licensed to use the card's name, format and related processing systems. They are free to determine the particular features their credit card plans will have (e.g., interest rate, balance computation method, fees).

commercial banks. Information for this report collected by a survey questionnaire from commercial banks shows that most of these banks issue Visa and MasterCard with their own logo but are associated with a principal bank that handles their card operations. Principal banks perform such tasks as approving credit applications, issuing lines of credit, and preparing billing statements. This arrangement allows the agent bank to offer credit card services to its consumer and merchant customers without the administrative cost burden and risks of running a credit card operation. Virginia's ten principal banks all completed the survey questionnaire.

A number of out-of-state banks compete with Virginia banks for the credit card accounts of Virginians.[3] The APR charged by some of these competitors is controlled by their home-state laws on maximum charges, since banks generally comply with the laws of the state from which they operate.[4] For the card plans of these banks, disclosure statements were the primary source of information.

Only since 1980, when Congress passed the Depository Institutions Deregulation and Monetary Control Act, have savings and loan associations had the authority to issue credit cards. Almost half of the state's savings and loan associations now issue credit cards. Fewer than two dozen of Virginia's credit unions offer credit card services. Survey information was collected from a few large savings and loans and credit unions. Since their plans, and those of other financial institutions such as finance companies, closely resemble those of commercial banks, they are not separately discussed.

Only a sample of the many retail stores offering credit card plans to their customers could be surveyed. National chains such as Sears, Montgomery Ward, and J. C. Penney participated in the survey, as well as many of Virginia's independent retailers. Thalhimers, Leggett, and Circuit City were all respondents. Altogether, 91 questionnaires were completed by retail store firms, for a response rate of 41 percent. Almost 80 percent of the respondents indicated that, besides having their own in-house account, they accept third-party cards (cards issued, maintained, or financed by a party other than the store) such as MasterCard, Visa, and American Express. Some of the small retailers offer revolving credit but do not issue a credit card. Such accounts are included in the survey compilations.

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[3]A 1984 listing of the 20 banks in the United States with the largest out-of-state credit card programs shows seven banks with over one million cards out-of-state: Citibank, Chemical, Manufacturers Hanover, First National Bank of Chicago, Bank of America, Chase Manhattan, and First Interstate Bancorp. Bank of Virginia, the one Virginia bank included in this list, has 25 percent of its cardholders out-of-state. "Largest Out-of-State Programs: Banks Soliciting Credit Card Customers in Other States," The Nilson Report 342 (October 1984): 6.

[4]By contrast, retailers usually follow the credit card rules of the laws of the state in which the customer resides.

II - Market Analysis

Methods of Assessing Finance Charges

A finance rate of, say, 1½ percent per month on a bank or retail card can produce various dollar amounts of finance charges, depending on the amount of the balance against which the rate is applied. Neither federal nor state statutes completely define the balance that is subject to finance charges. Consequently, a wide range of options for defining the finance charge balance is open to lenders and sellers.

Both the computation method used and the free period allowed are critical in determining the size of the finance charge balance. The Virginia Code states that the computation may be made using the average daily balance, balance existing on the billing date of the month, or any other balance that does not result in a charge greater than would be charged in the other two ways. The law, in effect, restricts the use of the previous balance method--that is, use of the balance existing at the beginning of the billing period--since charges yielded by this method are usually higher than for the two other specified methods, especially if sizable payments have been made on the account during the billing cycle. In the hypothetical account given on page 6, finance charges under the previous balance method are $2.25 more than under the average daily balance method, and $3.75 more than under the ending balance method.

All of Virginia's principal card-issuing banks report using the average daily balance method. It is preferred because it produces greater revenue from finance charges than most other permissible computation methods. (See page 6.) And it has become more feasible to use as banks have acquired access to advanced types of data processing and computer equipment.

A variety of balance computation methods are in use by Virginia retailers. Less than a third of the retailers reported using average daily balances to compute finance charges; rather, they are relying on methods that can be readily computed manually. Some are using ending balance or adjusted balance. A few retailers have continued with the previous balance method.

Likewise, the banks and retailers differ in their handling of a free period. As defined in Virginia's statutes, the free period requires that no finance charge be imposed on the cardholder or borrower if the account balance is paid in full during the billing cycle, which shall be at least

Finance Charge Under Four Assessment Methods

	Previous balance	Average daily balance	Ending balance	Adjusted balance
Monthly rate	1.5%	1.5%	1.5%	1.5%
APR	18%	18%	18%	18%
Previous balance	$400	$400	$400	$400
Payments	$300	$300 on 15th day	$300	$300
Purchase or cash advance	$50	$50 on 15th day	$50	$50
Finance charge	$6.00 (1.5% of $400)	$3.75 (1.5% of average daily balance of $250 if current purchases are excluded)	$2.25 (1.5% of $150)	$1.50 (1.5% of $100)

Note: Definitions of the four assessment methods are given also on page B-5. Actual finance charges under each method also depend on the number, size and timing of purchases and payments during the billing cycle as well as on fees assessed.

Source: Adapted from table shown in <u>If You Use A Credit Card</u>, (Washington, D. C.: Board of Governors of the Federal Reserve System, Revised December 1984.)

25 days in length.[5] The allowance pertains to purchases of merchandise or services and is not required for cash advances made under bank credit card plans.

Virginia's banks reported having a free period on purchases but not on cash advances. Credit cards are regarded as providing two distinct services--payment for goods and services and cash advances. The resulting two-tier pricing of credit card services reflects general bank policies to move from offering "free" services, to pricing services explicitly, and to charging customers for the services they use. At some banks, this policy also affects finance charges on purchases when balances are not paid in full. Finance charges are calculated from the day the purchase is posted to the customer's account until payment is received, on the grounds that this is the length of time the funds are loaned to the customer.

The possible impact of free time on the amount of finance charge, and in turn on gross finance charge revenues, is evident from the example shown at the top of the next page. All three banks--Banks A, B, and C--have identical annual percentage rates and are using the average daily balance computation system. Bank A offers a free period on purchases, but if the account balance is not paid in full, the finance charge is retroactive to the posting date of each purchase in the previous billing cycle.[6] The charges on the customer's October bill amounted to $674.05 for purchases and $11.25 for the annual fee. The total unpaid balance was $685.30, since nothing was owed on the beginning date of the billing cycle. (A copy of the bill is shown on pages C-14 and C-15.) If the customer's payment on November 2nd had been the full amount due, $685.30 instead of $500.30, a finance charge of $12.14, billed at the close of the November billing cycle, would have been avoided. Stated differently, because the balance was not paid in full, no free period was granted. Bank C's card differs in that no period without finance charges is given. Finance charges at Bank B are lower than at Banks A and C, because that bank includes new purchases in unpaid balances on the first day of the billing period following the new purchases. By this method, a partial free period was granted for the customer's partial payment.

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[5]The billing cycle is usually a month, so that, although the law requires 25 days, most sellers and lenders give 30 days.

[6]The trend toward eliminating the free period is evident in a national survey made by MasterCard of its member banks in April 1984. Over 57 percent of the banks reported that they have eliminated the free period for a new purchase made while the account is in a rollover status; that is, no interest is charged on the purchase the first month, but interest is charged retroactive to the date of posting if the cardholder rolls the account over a second time. Another 20 percent of the respondents indicated that they have eliminated the free period completely on rollover accounts.

Ninety percent of the banks reported that they will grant a free period on new purchases if the account is paid in full within the billing cycle. The remaining 10 percent indicated that they will not. From Joseph W. Powell, "Survey Profiles Bank Pricing Policies," Insight, MasterCard Magazine (December 1984): 13.

Finance Charge Under Differing Free Period Assumptions

	Average daily balance[a]	Monthly Rate	Total finance charge[b]
Bank A	$810.00	1.5%	$12.14
Bank B	437.96	1.5%	6.57
Bank C	424.03	1.5%	12.03

[a]For derivation of figures see Table C.3. Figures relate to the November billing cycle.

[b]Figures are for the total charges covering both the October and November billing cycles. Banks B and C, unlike Bank A, exclude annual fees and any unpaid finance charges from average daily balances.

Almost all of Virginia's retailers reported giving a free period to their credit customers as a general policy, and some also give it for special promotions. For example, a retailer might offer credit card customers a holiday bonus plan allowing no finance charge for 90 or so days to boost customers' spending in the store. While the retailers, like the banks are operating under acute pressures to keep expenses down, the free period is nevertheless offered because it is regarded as an important merchandising tool. Revolving credit is a way of blending the provisions of 30-day charge credit (wherein customers are expected to pay for their merchandise within 30 days) with the extended-payment terms of installment credit. By adding a free period to revolving credit, the retailer is able to make it convenient for customers to spend beyond the amount they have immediately available. Some of the comments received from Virginia retailers indicate the importance they attach to promoting good customer relations by extending to their cash-paying customers the convenience of a revolving credit account without finance charges. As a men's clothing shop owner put it: "I simply do not use a finance charge, regardless of the amount of time a customer takes. I find I spend more with the accounting firm preparing the interest, so I don't use any." On the other hand, another retailer noted that granting a free period encourages prompt payment. Many retailers regard a free period as necessary to maintain their share of the market.

Is Information Disclosed Adequate?

Confusion among consumers about computation methods appears to have several sources. The more troubling are:

1. Uncertainty about when credit transactions are added into the average daily balance: The disclosure statement given to the consumer is often vague or unclear about this subject, making it impossible for the average customer to reproduce the calculation. Thus, consumers find it difficult to understand how the amount and timing of purchases and payments

affect the daily balance. Take the account discussed on page C-16. The Bank A customer was disturbed that, with no purchases in November, and total purchases during the preceding month of $674.05, finance charges were calculated on an average daily balance of $810.00, not only more than he ever purchased, but even more than his credit limit.

2. Misunderstanding the distinction between a "finance charge" and a "late charge": The terms are used interchangeably by some creditors. More commonly, a late charge is defined as the amount, in addition to the finance charge, that must be paid when the minimum required payment is not received within some stated period of time. Similarly, the meaning of the term "minimum finance charge" is sometimes incorrectly thought to be the annual percentage rate. It is an amount imposed when an unpaid balance rolls over; the annual percentage rate applied to the balance produces a lower amount. Late charges and minimum finance charges are used by less than a third of the Virginia retailers, according to our survey data.[7] Late charges are fairly common among Virginia banks, as also are annual fees and over-credit-limit charges. The late charge is usually 5 percent of the past due amount, the annual fee $15.00, and the over-credit-limit charge $10.00. (See Tables C.1c and C.2b)

3. Uncertainty about the order in which payments are applied to billed finance charges, billed principal charges, unpaid principal charges, and unpaid finance charges: Some disclosures state the order; others do not.

4. Inability readily to compare the total cost of credit of alternative credit cards: The APR (rate) alone provides insufficient information to permit accurate comparison of credit alternatives.

<u>Is Billing Done Efficiently</u>?

Credit card users must receive their billing statements promptly at the close of the billing cycle to take advantage of any free period available, or to benefit from early payment when unpaid balances are rolled over. Hence, for cardholders, the key issues about credit card processing systems are (1) whether they provide the bill or statement to the cardholder within a few days after the close of the billing cycle and (2) whether they credit the cardholder's account on the day payments are received by the card issuer.

The Virginia Code addresses the first issue. It specifies that no service charge shall be charged on bills mailed later than eight days (excluding Saturdays, Sundays, and holidays) after the billing date, except when the creditor is prevented, delayed, or hindered from doing so by an act of God, war, civil disorder, natural disaster, strike, or by some

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[7]By Virginia Statute §6.1-330.20, a seller or lender may charge and collect a minimum service charge of 50 cents per month, providing the account has an unpaid balance. Most banks operate under §6.1-330.19:1 which does not have the minimum service charge provision. The statutes contain no provisions relating to late charges.

other act that has an excusable or justifiable cause.[8] Federal regulations, designed to prohibit unfair billing practices, apply to both. A creditor has up to 14 days before the end of the billing cycle to mail bills. Payments must be credited to the consumer's account as of the date of receipt if the consumer follows the creditor's instructions for making payments. Otherwise, the creditor must credit the payment within five days of receipt.

Virginia's banks mail credit card statements three to four days after the end of the billing period. All of Virginia's card-servicing banks report that they credit payments the same day that they are received at a designated post office box. It may take longer, by a day or so, for payments received at a branch office.

These results were achieved because much of the processing of bank credit card transactions is being done electronically. Banks have been installing at merchant locations terminals that can be used to authorize and settle credit card transactions electronically. Virginia's largest bank, Sovran Bank, has 1,490 point of sale terminals in 1,077 merchant locations to speed credit authorization. In about 600 of these locations immediately following authorization, the draft is credited to the merchant through the terminal. As a result, fewer paper sales slips, which produce inefficiencies in the entire processing operation, are being handled. Descriptive billing on monthly statements--now almost the universal billing method--instead of including individual transaction receipts with the monthly statement, has also reduced the volume of paper associated with credit card transactions.

The processing sequence for card sales may be summarized as follows: from the merchant, charge items go to the merchant's card-servicing bank, which may, in turn, send them to MasterCard or Visa.[9] These organizations have worldwide telecommunications facilities for bank card authorization and settlement. They, in turn, sort charge items for relay to card-issuing banks. Those banks prepare and mail cardholder bills and, when customers' payments are received, send them back by the same route. Especially because of the cost of funds, it is important to both card-servicing and card-issuing banks that this process be completed as quickly as possible.

Various studies have concluded that, for a high volume of transactions, electronic card processing has significant cost-savings advantages

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[8]One question sometimes asked is whether the list of exceptions to the statutory time allowance for mailing billing statements includes, along with an act of God or other circumstances beyond the control of the creditor, machine failures and malfunctioning electronic funds transfer systems. Even with machine breakdowns, however, the eight-day statutory limit appears to be ample time to prepare billings, unless a flood or fire occurs.

[9]MasterCard and Visa provide an exchange for credit card transactions, like the Federal Reserve for check clearance. Financial institutions that are their members clear card transactions through them. Members use their operating rules and regulations. Each member does its own processing of transactions, dealing directly with merchants and consumers.

over manual operations.[10] These advantages accrue because so much of card processing involves repetitive actions, such as seeking authorizations, processing transactions, and preparing monthly bills. Potential cost savings provide a strong incentive for high volume processors to perform these functions electronically. A by-product of the electronic processing is that delays in mailing statements to cardholders or in posting payments are minimized.

Retailers' experiences in mailing monthly statements and posting payments depend somewhat on the volume of their credit card business. The national chains have highly automated systems with electronic terminals at the stores' cash registers to transmit to a central credit administration the customer's account number, the amount charged, and various other details about the sale. Sears and Penney's are beginning to offer smaller retailers a clearing process for their cards through a nationwide electronic communications network. Small business bureaus that do billings for doctors and dentists also do billings for small retail merchants.

About half of the Virginia retailers reported that bill statements are usually mailed within four days after the close of the billing cycle. For another 30 percent of retailers, mailing is within five to eight days. Less than 6 percent of the retailers indicated that it took longer, up to 15 days.

As for the posting of payments, most of the retailers are able to accomplish this task within two days. Federal regulatory provisions do not require that creditors post payments on the day they are received--only that payments be credited as of the date of receipt. This leeway permits especially small retailers to delay posting payments to customers' accounts.

Apparently, the most frequent cause of an unduly short period between the cardholder receiving a bill and the payment due date is slowness in mail delivery, especially of bills sent during the December holiday season and from out-of-state stores. In order to make some allowance for mail delays, retailers report that they customarily credit an account up until the billing cycle closing date, even after the payment due date has passed. At least one Virginia retailer updates cardholder accounts two days after the closing date.

Is Pricing Fair?

From all available evidence, many Virginians use credit cards. In a 1984 tabulation of bank cards by state, Virginia ranked 12th with almost two million accounts. The states with the largest numbers of bank cards were New York and California, with 9.5 million and 7.1 million accounts, respectively.[11] Even on a per capita basis, Virginia ranks high.

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[10]See, for example, the study by David A. Walker, "Economics of Scale in Electronic Funds Transfer Systems. Working Paper no. 76-5 revised. (Washington, D. C.: Federal Deposit Insurance Corporation, 1976.)

[11]"Bank Cards by State," The Nilson Report 342 (October 1984): 3.

Almost two-thirds of all families in the United States now have at least one credit card. Over four-fifths of credit card holders have multiple cards, frequently both a retail and a gasoline or bank card. Credit card usage rises with family income and is most prevalent among families whose head has at least a college degree and is between 25 and 64 years of age.[12] The percentage of credit card users by family income is given in Table C.5.

Credit card use continues to grow. The total volume of cardholder transactions on credit cards issued by Virginia banks rose 30 percent during 1983 and another 17 percent last year. The volume of purchase transactions during the two-year period rose 48 percent, and that of cash advances, 92 percent. Retail card use has also increased, though the growth has been less than in bank card use.

Several studies show that credit sales cost more for merchants to handle than cash sales. A 1983 report of the Federal Reserve's Board of Governors estimates that total net costs to retailers of a credit card transaction are higher, typically, by about 2 to 3 percent of the transaction amount.[13] The higher costs include those associated with (1) the time it takes sales clerks to write credit slips and obtain credit

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[12]Glenn B. Canner and Anthony W. Cyrnak, Recent Developments in Credit Card Holding and Use Patterns among U.S. Families (Washington, D. C.: Board of Governors of the Federal Reserve System, unpublished paper.)

[13]This report was requested by Congress when it enacted the Cash Discount Act in 1981. The Board studied the impact of credit cards on the costs that creditors incur, on the pricing of goods sold by retailers, and on the volume of retail sales. It considered the thesis underlying the Cash Discount Act that (1) credit and cash buyers pay the same price for a given item at a given store, (2) credit card transactions are more costly for merchants to handle than cash, (3) the higher card costs are not recouped by higher retail sales volume, and, therefore, (4) cash purchasers in effect, subsidize credit card users. Two possible legislative methods of minimizing this subsidy are discussed in the Board's report. They are (1) continued state legislative action promoting the elimination of legal ceilings on consumer interest rates and of other impediments to the ability of creditors to cover credit card costs through credit card revenues, and (2) federal legislative action encouraging a two-tier price structure whereby discounts are received by consumers for cash or surcharges are paid by consumers for payment by credit card.

The Cash Discount Act of 1981 amended the Truth in Lending Act to encourage merchants to offer discounts for cash. It prohibited surcharges for credit card use. The prohibition expired on February 27, 1984. Although bills were introduced in both the House and the Senate to extend prohibition, agreement could not be reached on legislation by the two houses.

New York and a few other states currently ban the imposition of a surcharge. The issue has been discussed in other state legislatures. (See Appendix D.)

authorization, (2) delinquent and uncollectible accounts, and (3) the delay in the receipt of funds by the retailer. Bookkeeping expenses must be included for in-house credit card plans. For third-party cards accepted, the discount on card sales volume paid by the merchant to the card processor must be counted. Those costs retailers must recoup from the sale of merchandise and services. However, since credit card sales constitute a relatively small share of total sales, the impact of the added credit-related costs on the price of a given item, the Board study concludes, is likely to be minimal--producing a price increase of less than 1 percent. Hence, key sources of funds to pay the costs of credit operations are finance charge revenues and fee income.

Only two studies have been found that divide total costs of retail credit card operations between accounts that are usually paid in full each month and accounts with rollover balances. Both studies were done by Touche, Ross, Bailey, and Smart, and covered a group of New York City department stores.[14] The average cost of servicing an account with rollover balances was apparently more than for a nonrevolving account. The additional expenses arose partly from the cost of funds for carrying accounts receivable balances, as well as from higher account servicing expenses. Nonetheless, because of finance charge revenues, the net costs of accounts with rollover balances were less than for nonrevolving accounts.

Studies of bank card revenues and costs have reached similar conclusions.[15] A main finding of a 1983 study by the Bank Administration Institute was that 50 percent of the average bank credit card department's operating expenses stemmed from the cost of funds. The float in bank credit card operations can be significant because banks issuing credit cards typically pass funds on to merchants 45 days before the banks are reimbursed. Revenues to cover the cost of float must come largely from fees and finance charges to card holders with only a small portion from merchant discounts. The Institute's research indicated that on the average in card-issuing banks 30 percent of card holders paid their bills immediately and generated half the amount of float. "Revolvers" pay the float bill of "nonrevolvers," the study concluded. Credit card departments were urged to

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[14]The first study, conducted in 1968, is titled "Economic Characteristics of Credit Revenues and Costs in Department Stores" and is included in Economic Characteristics of Department Store Credit, (New York: National Retail Merchants Association, 1969.) The second study, "Economics of New York State Retail Store Revolving Credit Operations for the Fiscal Year Ended January 31, 1973" is in Robert P. Shay and William C. Dunkelberg, Retail Store Credit Card Use in New York. Studies in Consumer Credit, No. 4, Graduate School of Business, Columbia University, (New York: Columbia University Press, 1975.)

[15]See, for example, Philip S. Hayman, "The Need for Equitable Pricing of Card Services", Journal of Retail Banking, Vol. III, No. I, March 1981, pp. 7-15. He argues that "what the law must recognize is that inherent in every payment device, whether that device is a card or a check, are the separate and distinct services that should be recognized as separate and thus separately priced." (page 15)

"put as much emphasis on reducing float as check-processing areas have in recent years."[16]

The families providing the subsidy for the free period appear to be mainly of middle income. In Table C.5, the proportion of families that hardly ever pay their credit card balances in full is highest for families with incomes of less than $5,000 and between $15,000 and $30,000. It is lowest for families with incomes of $50,000 or more. At the same time, the average size of unpaid balances rises with family income; thus the families paying the most in finance charges are probably those in the middle-income brackets.

As evident in Table C.6, the proportion of bank cardholders with outstanding balances increased from 52 percent in 1978 to 54 percent in 1983. Moreover, the average size of the outstanding balance has grown, even after allowing for inflation. (Statistics for Virginia banks given in Table C.8 show that the average of unpaid balances on active bank card accounts increased from $419 on March 31, 1982 to $740 on March 31, 1985.) Fewer retail than bank card holders roll over unpaid balances, and the average retail card balance tends to be lower. These revenue differences no doubt contribute to the greater profitability problems associated with retail, than with bank credit cards.

Retail stores have traditionally been more likely than banks to make credit available to low income people because of the importance of credit in promoting the sale of goods and services. This situation has been changing, however, as is evident in Table C.7. In 1978, in the $10,000 to $14,999 income category, 27 percent of families used national chain retail cards, almost twice as many as used bank credit cards. By 1983, the proportions were closer--31 percent and 26 percent, respectively. The access of lower income families to bank credit cards has evidently been growing. This development no doubt reflects partly the contribution card use by these families has made to the overall profitability of bank credit card programs.

To summarize, many schemes for pricing credit card services involve some card users in paying significantly for services rendered others. Over 47 percent of all bank and retail cardholders pay no finance charges, receiving credit free of interest from 35 to 65 days between making the purchase and paying the bill. The cost of this free time must be at least partially, if not completely, defrayed by other cardholders, who, in some cases, may not receive even one day free of a finance charge. Moreover, although the stated APR may be 18 percent, cardholders who roll over, say, $100 each month, may pay more than double that rate. (See Table C.4.) The pricing discrepancy between nonrevolvers and revolvers appears large enough to warrant questions about fairness or equity.

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[16]See report of this study in American Banker, April 9, 1985.

III - Regulatory Enforcement

Enforcement responsibilities for consumer credit laws, including 6.1-330.19:1 and 6.1-330.20, rest largely with federal and state supervisory agencies. In Virginia, the Bureau of Financial Institutions of the State Corporation Commission regulates all state-chartered lending institutions. It therefore regulates compliance with the state's credit card billing laws of state chartered banks, savings and loan associations, industrial loan associations, credit unions, and consumer finance companies. All other credit grantors are regulated by federal authorities.

Among the federal regulators is the Comptroller of the Currency, which regulates federally chartered banks in the state. The Federal Reserve and the Federal Deposit Insurance Corporation, as well, have bank regulatory functions. The Federal Home Loan Bank Board supervises mainly federally insured savings and loan associations, and the National Credit Union Administration oversees federally chartered credit unions. The Federal Trade Commission, by section 108 of Truth in Lending, is responsible for the enforcement of consumer credit laws for a variety of "all others." The Commission, therefore, handles the compliance with credit laws of such card issuers as retailers, American Express, Diners Club, Carte Blanche, and gasoline companies.

The specific duties of each supervisory agency are somewhat fuzzy, and the lines of authority are unclear: One reason is that the statutes apply to lender and seller transactions in industries that have different federal supervisory authorities. Also, the role that the state bank supervisor should take in the enforcement of state laws in relation to federally chartered institutions poses legal as well as practical questions.

All of the supervisory agencies are prepared to receive consumer complaints about credit and billing practices. Evidently, complaints do come in to the state's Bureau of Financial Institutions about interest charged. The kinds of complaints they receive include: "I paid off a bill one day after the cutoff date and I am charged interest"; "I did not pay 15 cents of my last bill and am charged interest on all of the month's purchases"; and "The annual charge last year was in July. Why April this year?" Many "complaints" turn out to be requests for information.

The Bureau of Financial Institutions has no provision for surveillance of the state's credit statutes other than through customer complaints. They do not examine all state banks, or a sample of banks, for compliance with Virginia credit laws. They stress that the risk of a class action suit and competitive market pressures keep financial institutions in compliance.

Under Truth in Lending, an aggrieved consumer can take legal action against a creditor. The individual may sue for actual damages, or twice the finance charge in the case of certain credit disclosures. The least the court may award in damages is $100 and the most is $1,000, in addition to court costs and attorney's fees. Class action suits are also permitted.

Although the federal agencies accept consumer complaints about credit card procedures, they give their attention mainly to complaints relating to federal credit laws. The exception is the Federal Trade Commission, which has a complaint tracking system for all complaints.

Consumer complaints about a wide variety of matters, including credit, are received also by the state's Office of Attorney General, Division of Consumer Counsel. However, complaints received by the Attorney General's office are generally referred to the State Office of Consumer Affairs, Department of Agriculture and Consumer Services. This office also receives complaints directly, and processes every complaint. Although the office receives almost 2,000 complaints each year, fewer than 5 percent of them relate to credit. The state office will refer complaints to one of the seven local government offices of consumer protection, especially if the complaint is a problem confined to that locality.[17] Few complaints about billing practices have come into the local offices.

Considering the programs of all ten government bodies, the main thrust of credit law enforcement is by way of receiving and resolving consumer complaints. The state agencies note that they do not have the funds to engage in efforts to educate consumers and smaller businesses about credit. Consequently, an effective method of enforcing consumer credit laws--namely, informing and educating the public about credit laws and credit costs--cannot be implemented.

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[17]The seven local offices are: Arlington County Office of Consumer Affairs; Fairfax County Department of Consumer Affairs; Prince William County Office on Consumer Affairs; Alexandria Office of Citizens Assistance; Norfolk Division of Consumer Affairs; Roanoke Consumer Protection Division; and Virginia Beach Division of Consumer Protection. Three are county offices, while four are city offices. These offices were created in response to local interest.

IV - Legislative Options

Each of the seven possible legislative options presented here was selected either because it helps to reflect the spectrum of opinion on appropriate legal remedies or because it has received strong support in public forums. Also considered was that the state agencies that enforce credit laws largely depend on consumer complaints and market-based creditor incentives rather than surveillance.

The first four proposals relate to the fairness issue, the next one to mailing dates, and the final two to information disclosed. In some respects, the options are alternatives. For example, additional information (option 7) may be regarded as an alternative to standardization of balance computation method (option 6). Competition among credit card issuers may be enhanced by removing the statutory free period requirement (option 4) but hampered by prohibiting retroactive finance charges (option 1).

No attempt has been made to assess the effects of the proposals on bank or retail card profitability or their broader economic implications. Such an evaluation would require much more staff time and financial resources than available for this study. Nor are the proposals recommendations for legislative action; they are, rather, options for consideration, as legislators determine the appropriate mix of the three objectives, namely, the promotion of fairness, or equity, in credit card pricing, the promotion of efficient credit card operations, and the promotion of the informed use of credit cards by consumers.

The seven options are:

1. <u>Prohibit calculation of finance charges using purchases from a previous billing cycle</u>. Such a prohibition was discussed by the U.S. Senate in February 1973 when the Senate was considering a bill introduced by Senator William Proxmire to prohibit unfair credit billing practices and amend the provisions of the Truth in Lending Act. The discussion has been summarized thus:

> S.914, as introduced, contained provisions which would have prohibited creditors from imposing retroactive finance charges against any balances outstanding in a customer's account prior to the time when payment is due to avoid a finance charge and prohibited minimum finance charges on revolving charge accounts, except when imposed on all accounts to recover billing expenses. The Consumer Credit Subcommittee voted to retain the prohibition of minimum finance charges and substituted for the section regarding retroactive finance charges a new section governing the computation of finance charges. The full Committee

voted not to include either of these provisions in the bill ordered reported.[18]

The Committee considered limiting a creditor to the adjusted and average daily balance methods of computing finance charges, and prohibiting use of the previous balance method. The discussion summary states that the proposed provisions were defeated because the majority of the Committee

> (1) were concerned over the impact that outlawing the previous balance method would have on the small business firms which used this method, and
>
> (2) saw this as a piecemeal approach to Federal rate regulation. The amount of finance charge is dependent upon both the periodic rate set under State usury laws and the balance method of computation. The Committee felt that it would not be appropriate at this time for the Federal government to intervene into this area of rate regulation which has been the exclusive prerogative of the states. The method of applying rates should be determined by the states as it is now in conjunction with all of the other factors considered when establishing usury or rate statutes.[19]

Virginia had a year earlier introduced provisions relating to permissible balance computation methods and billing posting dates into its consumer credit laws. The amendments made in 1972 became effective January 1, 1973. (See Appendix A.) Virginia's legislators, like federal lawmakers, may have thought that, by specifying computation methods, they would, in effect, be prohibiting retroactive finance charges on consumer credit balances.

As noted earlier, calculation of finance charges using retroactively purchases made in a previous billing cycle, such as that used by Bank A in the example shown on page C-16, is becoming fairly common when a free period, for legal or other reasons, is required. The adoption of a prohibition on retroactive finance charges would somewhat ease the inequities in card pricing between "nonrevolvers" and "revolvers." All cardholders would be treated alike on an interest-free period. However, creditors would be under pressure to recover the "lost" revenues.

Massachusetts, Minnesota, Mississippi, Montana and a few other states impose limitations which result in purchases made since the last billing date being excluded from daily balances in the current billing period. These restrictions, in effect, guarantee that all credit card users--both revolvers and non-revolvers--receive on purchases a period without interest charges.

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[18]U.S. Congress, Senate, Committee on Banking, Housing and Urban Affairs, Report of the Committee to Accompany S.2101, Together with Additional Views. Report No. 93-278, 93d Congress, 1st sess. 1973, p. 11.

[19]*Ibid*, p. 12.

2. <u>Allow a user fee for a credit account by eliminating the statutory free period requirement</u>. One way of gaining revenue from credit users who pay their bills in full each month is to assess a fee based on the number of credit transactions on each monthly statement. An alternative approach used, for example, by some Missouri banks, is to charge a monthly maintenance fee. Missouri has no free period requirement. Further, it prohibits annual fees; the common charge is $1.75 monthly on nonrevolving accounts. If an account has no activity, no fee can be charged.

A user fee could be in lieu of an annual fee which banks charge all cardholders. Retailers generally have not imposed annual fees. Travel and entertainment cards have an across-the-board annual fee but all cardholders are required to be "non-revolvers."

User fees would also limit the incentives card users now have to use the credit card free period on purchases, and to repay one month later with a cash advance at, say, a 12 percent finance charge instead of revolving the balance and paying the usual 18 percent rate for purchases. (See Tables C.1c and C.2b.) Also, the price a consumer pays for credit card services could be made to reflect more accurately the cost of the services provided.

3. <u>Bar minimum finance charges and late fees</u>. Most states allow a minimum finance charge on open end credit.[20] However, almost two dozen states, like Virginia, have set a limit on the fee, generally 50 cents.

The chief argument for the abolition of minimum finance charges is that they tend to affect low-income cardholders the most. As provided by the Virginia statutes, "no service charge shall be charged against a zero balance." Consequently, minimum fees are only paid by persons who carry small balances from one billing cycle to another. Often these cardholders are persons who can afford only to pay small amounts each month. Moreover, the annual percentage rate they pay can be high--for example, a finance charge of 50 cents on a $10 balance yields a rate of 5 percent per month, or an APR of 60 percent, compared to the more usual 18 percent per year.

Late charges are prohibited by at least nine states, including North Carolina, Indiana, Ohio, and Idaho. The prohibition reflects the view that late charges are unfair because when a payment is late, the cardholder does pay added finance charges. The extra charge, like a minimum finance charge, is regarded by creditors as important to encourage prompt payment of bills. The charge also helps to defray the additional administrative costs associated with late payments.

Alternatively, Virginia could allow minimum fees but delete the provision that "no service charge shall be charged against a zero balance." Small retailers, if they so chose, could then apply the minimum charge to all credit accounts that have any credit activity during the month. This charge would help the retailer recover the cost of billing and mailing statements each month. Also, all customers choosing to use a credit card, rather than cash for purchases, would be charged. However, if the charge

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[20] See Appendix D.

exceeds 50 cents, the merchant must disclose the APR.[21]

4. Repeal the statutory provision that mandates that a free period be given on purchases of merchandise and services. Besides Virginia, only 12 states require a free period: Maryland, North Carolina, Maine, Rhode Island, Vermont, Minnesota, Alabama, Mississippi, Louisiana, Texas, Colorado, and New Mexico.

Under this assumption the granting of a free period on purchases would be at the creditor's option. Market forces would be allowed to prevail. The result would probably be that free period allowances would remain much as they currently are. National chain retailers testify that a credit card without a free period "would be completely unacceptable in our marketplace." Card-issuing Virginia banks are likely to follow the retailers' free period allowance so that their cards remain competitive with retail cards in the purchase of goods and services on credit.[22]

5. Simplify the state's consumer credit laws by deleting provisions relating to the mailing of card statements; monitor new and developing credit transaction methods. Virginia's statutory mailing requirement is more stringent than that provided in federal regulations, in that Virginia law requires mailing within eight days of the billing date, and federal law, states no later than 14 days prior to the due date. The allowed period is shorter by almost a week. Nevertheless, the requirements are similar enough to be considered redundant.[23]

Moreover, new methods for electronic transfer of funds are somewhat displacing payment by check and providing faster settlement of account balances. Currently, banks' debit cards provide customers access to their deposit accounts through automated teller machines. At least two large Virginia banks have introduced to their deposit account customers debit cards for use in stores and gasoline stations, and more banks are planning to do so. Federal Reserve staff members predict that

> Debit cards, indistinguishable in appearance from credit cards, are likely to become increasingly important as a means of payment at the point of sale. Financial institutions will promote

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[21]It has been argued that "truth in lending effectively limits minimum finance charges to 50 cents by requiring that the corresponding annual percentage be disclosed on minimum finance charges above 50 cents. Because of the computational difficulties involved in annualizing a flat monthly fee on standardized billing forms where the amount of credit and corresponding rate vary from month to month, creditors have generally not imposed minimum finance charges in excess of 50 cents." U.S. Congress, Senate, Report of the Committee to Accompany S.2101 together with Additional Views, op. cit. p. 34.

[22]See statistics given in footnote 6.

[23]The state law, since it is tougher, is not preempted by federal law. Provisions for the preemption of state consumer credit legislation by Federal regulations are given on pages B.4 and B.5.

them because it costs less to process a debit card transaction than a check transaction. In a few years, the distinction between bank credit and debit cards will probably disappear; multipurpose cards, having both credit and debit functions, will replace the ordinary credit card.[24]

When this becomes so, retailers will probably not be able to distinguish whether payment for a purchase is being made by accessing funds on deposit or by drawing on an overdraft credit line that places funds in the deposit account. Smaller retailers who currently do not accept bank cards will increasingly have to do so. National retailers, having large credit card transaction volumes, have already begun to expand the capabilities of their proprietary credit cards to include automated teller machine access and other money transfer services at the point of sale. In Spring 1985, Sears announced plans to issue a new Discover Card, which combines credit with financial services.

6. Require a standard method of assessing finance charges. The desirability of prescribing a standard assessment method to facilitate comparison shopping by consumers has been considered at both federal and state government levels. Consumer advocates suggest that the easiest way to make certain that Truth in Lending is effective is to standardize the method of assessing finance charges and let creditors charge the APR they feel appropriate. An opposite viewpoint on standardization is enunciated by Roy McAlister and Edward DeSpain. They argue that methods of finance charge assessment should be a matter of choice by the creditor based on his competitive situation, financial condition, technical capabilities, and the needs and desires of his customers.[25] Rather than standardization, they advocate fuller voluntary disclosure of billing systems.

Competitive market conditions are inducing standardization in assessment methods in so far as a growing number of card-issuing banks and national chains are using some version of the average daily balance system. However, many smaller stores, even if they wanted to use this method, are without the automated facilities to do so easily.

7. Provide Virginians information about consumer credit laws that clearly states how the APR, balance computation method, and free period affect the total cost of credit. Consumers engage in comparison shopping much more for credit cards than for most other types of consumer credit. Card applications come to them through the mail, even from banks with which they do not have an existing customer relationship. In his local area a consumer can use the card of an out-of-state bank as readily as that of a

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[24]Lynn C. Goldfaden and Gerald P. Hurst, "Regulatory Response to Changes in the Consumer Financial Services Industry," Federal Reserve Bulletin, February 1985, p. 81. Federal regulatory initiatives regarding debit cards currently focus largely on making debit and credit card regulations, such as those relating to customer liability for unauthorized use, essentially the same where appropriate.

[25]"Credit Card Yields Under Alternative Assessment Methods," Journal of Retail Banking, Vol. II, 3 (September 1980): 70.

local bank. Much of the marketing of credit cards is directed toward encouraging consumers to switch card use, in acknowledgment that many consumers already have all the cards they want. Promotional brochures emphasize "enhancements," such as card registration, travel and health insurance, interest-free emergency cash, and car rental discounts. Rarely will there be a reference to the card's APR, and certainly not to total credit costs. Such promotional materials are most useful for nonrevolvers. Newspaper advertising of credit card plans is likewise inadequate in the information presented.

The APR, when it is advertised, is usually not coupled with the other indicators of credit cost needed by the consumer to select wisely the best alternative.[26] Samples of promotional materials that feature the APR are shown in Exhibits 4.1 and 4.2. The latter features a variable APR that has no imposed cap by bank action or as the result of a state usury ceiling. As shown, the APR is below the APRs of fixed interest-rate cards. However, at some time in the future, if prevailing interest rates should rise above current levels, and the variable APR is adjusted accordingly, the credit card holder may find himself locked into repaying balances at an APR higher than the present rate of the fixed interest-rate cards. Futhermore, nothing is said in the brochure about the method used to determine balances on which the finance charge is computed.

This and similar examples suggest that state consumer affairs personnel should assume responsibility for providing information that could help consumers better understand credit card costs. A flyer might be prepared for creditors to include in their billing statements. (Information requirements should be set forth for those creditors who wish to prepare their own educational materials.) By helping to make consumers more discriminating in their card choices, such efforts can have indirect effects on the policies of sellers and lenders. For example, at the present time, creditors seem to be inclined to keep what is known to consumers, namely the APR, as high as competitively feasible, while gaining additional credit revenues by other "hidden" means.

In general, Virginia is an attractive state for credit card operations. Consumers have benefited from the availability of numerous credit card alternatives. However, they should not be misled when comparing the pricing of these alternatives.

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[26] Section 226.16 of Truth and Lending gives the requirements governing credit card advertising. See page B-4.

Exhibit 4.1

A Newspaper Advertisement

ENTREE

Bank of Virginia MasterCard .... *(served with a $15.00 annual fee)*	**18.00%**
Charter Federal S&L MasterCard/Visa ..... *(served with a $15.00 annual fee)*	**18.00%**
Colonial-American Bank MasterCard/Visa . *(served with a $15.00 annual fee)*	**18.00%**
Dominion Bank Visa .... *(served with a $15.00 annual fee)*	**18.00%**
Dominion Federal S&L MasterCard/Visa ... *(served with a $15.00 annual fee)*	**18.00%**
First Federal S&L MasterCard/Visa .... *(served with a $15.00 annual fee)*	**18.00%**
First VA Bank MasterCard .... *(served with a $15.00 annual fee)*	**18.00%**
Sovran Bank MasterCard/Visa .... *(served with a $15.00 annual fee)*	**18.00%**
United VA Bank Visa .... *(served with a $15.00 annual fee)*	**18.00%**

Above entrees include a 2% charge up front for cash advances.

[redacted] MasterCard .... *(served without an annual fee)*	**16.08%**

Above entree includes no charge for a cash advance.

May We Serve You?

[redacted]

Exhibit 4.2

A Page from a Bank Brochure

4 REASONS WHY THE PREMIER VISA CARD IS SO EXTRA SPECIAL AND SO EXTRA VALUABLE

1. 15% Lower Interest Rates Than Most Major Banks Charge

Most major banks charge interest rates from 18.9% to 19.8%. At [redacted], our variable interest rate is lower—up to 15% lower. This one difference alone can mean significant savings for you each and every year.

INTERESTRATES* ON AVERAGE BALANCES:		
CARD-ISSUING BANK	From $1 TO $4,000	Over $4,000
Bank of America	19.5%	19.5%
Beneficial	18.9%	18.9%
Chase Manhattan	19.8%	19.8%
Citibank	19.8%	19.8%
[redacted]	16.9%	14.9%

Source: The Nilson Report—Issue #346

*Annual Percentage Rates

2. 1% Rebate On Anything And Everything You Purchase

Each time you use your card to charge something, whether it's a little necessity or a large luxury—you save 1% on the purchase price. And if you use your card regularly, that can mount up. See the back of this brochure for a typical example of how it works.

3. Up To A $15,000 Credit Line

Based on your good credit history, we've reserved a line of credit for you from $5,000 up to $15,000. Available to use whenever and however you'd like. Maybe it's to buy a computer. A fur. Remodeling the kitchen. Braces for the kids. Or the Caribbean cruise you've always wanted.

4. 25 Day "Grace Period" On Purchases

Many banks charge interest from the moment you've made a purchase on your card. Not [redacted]. We give you a 25-day "break" before your interest charges start if you pay your purchase balance in full.

Low, Low Interest + 1% Rebate

Satisfaction Guaranteed

Appendix A
Legislation of the Commonwealth of Virginia

Included in this appendix are the Senate Resolution mandating this study and the statutes referred to in that Resolution. The evolution of the current statutes is also briefly reviewed.

I. Senate Resolution No. 34

Offered January 22, 1985

Requesting the Tayloe Murphy Institute at the University of Virginia to study credit card procedures.

Patrons-Macfarlane and Babalas

WHEREAS, §§6.1-330.19:1 and 6.1-330.20 of the Code of Virginia allow lenders of open-end credit to charge the market rate of interest on credit card charges to be computed in one of three ways, on the average daily balance for the period ending on the billing date, on the balance existing on the billing date of the month or on any other balance which does not result in a charge greater than what would be charged in the other two ways; and

WHEREAS, these sections also provide that no charges shall be imposed on the cardholder for the extension of credit for the purchase of merchandise or services if payment is received within twenty-five days of the billing date and that the lender has up to eight days to mail the statement; and

WHEREAS, many people are concerned that the actual payment period is much less due to normal delays in the postal service which are lengthened by weekends and holidays and to the various posting periods of the lenders; and

WHEREAS, many people are also concerned about the method by which their interest on unpaid balances is computed; and

WHEREAS, in addition to studying other issues, the joint-subcommittee, established pursuant to House Joint Resolution No. 30 of the 1984 Session of the General Assembly, studied the interest rate provisions, an integral part of which are §§6.1-330.19:1 and 6.1-330.20, yet was unable to complete its study due to time constraints, therefore the study is to be continued; and

WHEREAS, it is important that these issues and the citizens' concerns are carefully studied; now, therefore, be it

RESOLVED by the Senate, That the Tayloe Murphy Institute at the University of Virginia is requested to study credit card procedures. The study should include, but not be limited to a thorough investigation of the methods used in computing interest charges on credit card purchases by and payment posting periods of financial institutions and merchants in Virginia and in other states.

The Institute is requested to report its findings to the 1986 General Assembly.

II. Statutes Referred to in Senate Resolution No. 34

§6.1-330.19:1. Charges by banks. -- A. Any bank may charge a rate as agreed between it and the borrower under a contract for revolving credit or any plan which permits an obligor to avail himself of the credit so established. Any charge computed on the basis of a rate shall be charged at the option of the bank on either (1) the average daily balance for the period ending on the billing date or (2) the balance existing on the billing date of the month, or (3) any other balance which does not result in the seller or lender charging and receiving any sum in excess of what would be charged and received in (1) or (2). No service charge shall be charged unless the bill is mailed not later than eight days (excluding Saturdays, Sundays and holidays) after the billing date, except that such time limitation shall not apply in any case where the seller or lender has been prevented, delayed, or hindered in mailing or delivering the bill within such time period because of an act of God, war, civil disorder, natural disaster, strike, or other excusable or justifiable cause.

In the event of the extension of credit by a bank hereunder to be effected by the use of a credit card for the purchase of merchandise or services, no charge shall be imposed upon the cardholder or borrower on such extension if payment in full of the unpaid balance owing for extensions for merchandise or services is received at the place designated by the creditor prior to the next billing date (which shall be at least twenty-five days later than the prior billing date).

B. The higher rate in excess of charges permitted prior to July 1, 1982, shall not take effect as to balances existing on or before April 1, 1983, unless (1) such creditor shall notify the borrower in writing of the proposed change, that acceptance of the higher charge on existing balances and balances incurred prior to the effective date of the change is accepted by use of the revolving credit after the giving of the notice, and such borrower is given at least nine months prior to the effective date of such change to pay off balances existing on the date of such notice, and (2) such borrower accepts the proposed change and modification of interest rates by using the revolving credit at any time thirty days or more after the giving by the creditor of the notice. (1982, c. 438).

Effective date--This section is effective April 1, 1983.

§6.1-330.20. Open-end sales and loan plans. -- A. Any seller or lender engaged in the extension of credit under an open-end credit or similar plan under which a service charge is imposed upon the cardholder or consumer if payment in full of the unpaid balance is not received at the place designated by the creditor prior to the next billing date (which shall be at least twenty-five days later than the prior billing date) may charge and collect a service charge at such rate or rates as may be agreed upon by the seller or lender and the cardholder or consumer, computed at the option of the seller or lender on either (1) the average daily balance for the period ending on the billing date or (2) the balance existing on the billing date of the month, or (3) any other balance which does not result in the seller or lender charging and receiving any sum in excess of what would be charged and received in (1) or (2) above. No service charge shall be charged unless the bill is mailed not later than eight days (excluding Saturdays and Sundays and holidays) after the billing date, except that such time limitation shall not apply in any case where the seller or lender has been prevented, delayed, or hindered in mailing or delivering the bill within such time period because of an act of God, war, civil disorder, natural disaster, strike or other excusable or justifiable cause. Notwithstanding the provisions of this section, a seller or lender may charge and collect a minimum service charge of one-half dollar per month; however, no service charge shall be charged against a zero balance. For the purposes of this section the average daily balance for any period shall be that amount which is the sum of the actual amounts outstanding each day during the period, divided by the number of days in the period.

B. Notwithstanding the provisions of §6.1-330.16 of the Code of Virginia any loan made under this section may be secured in whole or in part by a subordinate mortgage or deed of trust on residential real estate improved by the construction thereon of housing consisting of four or less family dwelling units. For the purposes of this chapter relating to money and interest, a subordinate mortgage or deed of trust is one subject to a prior mortgage or deed of trust in existence at the time of the making of the loan secured by such subordinate mortgage.

C. No increase in service charge rate shall take effect unless at least thirty days prior to the effective date of such increase a written notice of the increase has been mailed or otherwise delivered to the cardholder or consumer explaining that the making of additional charges under the plan on or after the effective date of the increase shall be deemed to constitute acceptance of such higher charge on existing balances and charges incurred thereafter under the plan. (Code 1950 §6.1-362; 1970, c. 616; 1972, c. 666; 1975, c. 448; 1980, cc. 430, 431, 435; 1982, c. 341.)

The 1982 amendment, effective April 1, 1983, substituted "such rate or rates as may be agreed upon by the seller or lender and the cardholder or consumer" for "a rate not to exceed one and one-half per centum per month" in the first sentence of subsection A. and added subsection C. The amendment also divided the former first sentence of subsection A into the present first and second sentences.

Source of both statutes is Code of Virginia, Banking and Finance - General Provisions, pp. 119, 120.

III. Evolution of the Statutes, 1960-1984

At present two statutes, §6.1-330.19:1 and §6.1-330.20, address revolving credit. The first applies only to banks, whereas the second applies to all sellers and lenders, including banks. Both sections were last amended in 1982.

The evolution of these statutes, by date of change, is as follows:

§6.1-330.19:1. Charges by banks.

1960. §6.1-320

Amendment to §6-348 to permit a charge of 1 percent on revolving credit to facilitate overdraft (check credit) financing.

1960. §6.1-321

Amendment to 6-348.1 to permit a 2 percent investigation fee in addition to rates allowed under 6.1-320.

§6.1-330.20. Open-end sales and loan plans.

1968. §6.1-361

Applied only to lenders extending consumer credit under an open-end credit or similar plan. Permitted a 1½ percent per month charge, computed on maximum fiscal monthly balances, if no service charge was imposed when the balance was paid within a period of 25 days from billing day.

1970. §6.1-362

Enacted to supersede §6.1-361 to have the limitations apply also to sellers engaged in extending open-end consumer credit.

Included also a provision prohibiting a service charge either by a seller or lender if the bill was not mailed within eight days from the billing date.

1970. §6.1-363

Enacted to provide that, if charges on revolving credit were in excess of those permitted by §6.1-362, certain provisions relating to usury would apply. This section clarified that the service charge was an interest charge and therefore could be taken as a federal income tax deduction by individuals.

§6.1-330.19:1. Charges by banks. (continued)

1975. §6.1-330.19
Enacted in the recodification of the interest rate laws to replace §6.1-320 and §6.1-321. Contained no 25-day rule or eight-day rule. Still permitted only 1 percent per month, plus a 2 percent investigation fee.

1982. §6.1-330.19:1, to be Effective April 1, 1983.
Enacted to replace §6.1-330.19. Substituted for permission to charge 1 percent of the maximum fiscal monthly balance and the 2 percent

§6.1-330.20. Open-end sales and loan plans. (continued)

1972. Chapter 666 of the Acts of Assembly, effective January 1, 1983.
Amended §6.1-362 to apply to all open-end plans, not just to consumer plans, and to require the 1½ percent service charge or interest to be computed at the option of the creditor on (1) the average daily balance for the fiscal month, (2) the balance existing on the last day of such fiscal month, or (3) any other balance that does not result in the lender charging or receiving a sum in excess of the amount to be charged or received under (1) or (2). The eight-day period for mailing was lengthened to exclude Saturdays, Sundays, and holidays. The change was made primarily to accommodate small merchants without sophisticated computerized equipment.

1975. §6.1-330.20.
Recodification of §6.1-362.

1980. Chapter 431
Amended §6.1-330.20 to permit a seller or lender to collect a minimum charge of 50 cents per month against an active balance. The statute expressly prohibited any service charge against a zero balance.

1982. §6.1-330.20 amended by Chapter 341, to be effective April 1, 1983.
Substituted "on such rate or rates as may be agreed upon by the seller or lender and the cardholder or consumer" for the maximum of 1½

§6.1-330.19:1. Charges by banks. (continued)

service charge the right to charge the rate as agreed between the bank and the borrower under a contract involving revolving credit or any plan that permitted an obligor to avail himself of the credit so established. The language relating to the three methods of computing balance was inserted, with the requirement that the bill be mailed not later than eight days, excluding Saturdays, Sundays and holidays, from the billing date, except if the mailing was delayed because of an act of God, etc. The 25-day free period was imposed on merchandise or service credit extended, and not on card loans or cash advances.

§6.1-330.20. Open-end sales and loan plans. (continued)

percent per month on the balance. The eight-day rule was retained with the exception made for acts of God, etc. The 50 cents charge per month, and no service charge against a zero balance, provisions were retained.

Note: Fiscal month refers to dates within a month, say from the 8th of one month to the 8th of the next month, in contrast to a calendar month.

Appendix B
Federal Disclosure Requirements

The Division of Consumer Affairs of the Board of Governors of the Federal Reserve System has direct responsibility for a number of federal consumer protection statutes, including two relating to credit card billing practices. The Division's responsibilities cover not only rule writing but also administering regulations and monitoring enforcement activities with regard to state chartered banks that are members of the Federal Reserve System. The Division also prepares and disseminates educational materials, which set forth the regulatory rights and responsibilities of both creditors and consumers.

The federal statute pertaining to credit and billing practices for which the Division is responsible is the Truth in Lending Act of Title I of the Consumer Credit Protection Act, as amended. Truth in Lending includes the Fair Credit Billing Act as Chapter 4. Both Truth in Lending and Fair Credit Billing are implemented in the Board's Regulation Z.

The Board first wrote Regulation Z in 1969 and amended it in 1981 to reflect the Truth in Lending Simplification and Reform Act. As Regulation Z states, its purpose is to "promote the informed use of consumer credit by requiring disclosure about its terms and costs." It specifies, for instance, the form and time of disclosures as well as rules that creditors and consumers must follow for the resolution of billing errors. Seven sections of Regulation Z and six sections of the Official Staff Commentary on Regulation Z applicable to the issues of this study (namely, balance computation methods and the free period) are presented below:

I. Regulation Z

1. Subpart B-Open-End Credit
   SECTION 226.5 General Disclosure Requirements. (b) Time of Disclosures.
   (2) Periodic statements.

(i) The creditor shall mail or deliver a periodic statement as required by section 226.7 for each billing cycle at the end of which an account has a debit or credit balance of more than $1 or on which a finance charge has been imposed. A periodic statement need not be sent for an account if the creditor deems it uncollectible, or if delinquency collection proceedings have been instituted, or if furnishing the statement would violate federal law.

(ii) The creditor shall mail or deliver the periodic statement at least 14 days prior to any date or the end of any time period required to be disclosed under section 226.7(j) in order for the consumer to avoid an additional finance or other charge.[10] A creditor that fails to meet this requirement shall not collect any finance or other charge imposed as a result of such failure.

2. SECTION 226.6--Initial Disclosure Statement

The creditor shall disclose to the consumer, in terminology consistent with that to be used on the periodic statement, each of the following items, to the extent applicable:

(a) Finance charge. The circumstances under which a finance charge will be imposed and an explanation of how it will be determined, as follows:

(1) A statement of when finance charges begin to accrue, including an explanation of whether or not any time period exists within which any credit extended may be repaid without incurring a finance charge. If such a time period is provided, a creditor may, at its option and without disclosure, impose no finance charge when payment is received after the time period's expiration.

(2) A disclosure of each periodic rate that may be used to compute the finance charge, the range of balances to which it is applicable,[11] and the corresponding annual percentage rate.[12] When different periodic rates apply to different types of transactions, the types of transactions to which the periodic rates apply shall also be disclosed.

(3) An explanation of the method used to determine the balance on which the finance charge may be computed.

(4) An explanation of how the amount of any finance charge will be determined,[13] including a description of how any finance charge other than the periodic rate will be determined.

(b) Other charges. The amount of any charge other than a finance charge that may be imposed as part of the plan, or an explanation of how the charge will be determined.

(c) Security interests. The fact that the creditor has or will acquire a security interest in the property purchased under the plan, or in other property identified by item or type.

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[10]This timing requirement does not apply if the creditor is unable to meet the requirement because of an act of God, war, civil disorder, natural disaster, or strike.

[11]A creditor is not required to adjust the range of balances disclosure to reflect the balance below which only a minimum charge applies.

[12]If a creditor is offering a variable rate plan, the creditor shall also disclose: (1) the circumstances under which the rate(s) may increase; (2) any limitations on the increase, and (3) the effect(s) of an increase.

[13]If no finance charge is imposed when the outstanding balance is less than a certain amount, no disclosure is required of that fact or of the balance below which no finance charge will be imposed.

(d) Statement of billing rights. A statement that outlines the consumer's rights and the creditor's responsibilities under sections 226.12(c) and 226.13 and that is substantially similar to the statement found in appendix G.

3. SECTION 226.7--Periodic Statement

The creditor shall furnish the consumer with a periodic statement that discloses the following items, to the extent applicable:

(a) Previous balance. The account balance outstanding at the beginning of the billing cycle.

(b) Identification of transactions. An identification of each credit transaction in accordance with section 226.8.

(c) Credits. Any credit to the account during the billing cycle, including the amount and the date of crediting. The date need not be provided if a delay in crediting does not result in any finance or other charge.

(d) Periodic rates. Each periodic rate that may be used to compute the finance charge, the range of balances to which it is applicable,[14/] and the corresponding annual percentage rate.[15/] If different periodic rates apply to different types of transactions, the types of transactions to which the periodic rates apply shall also be disclosed.

(e) Balance on which finance charge computed. The amount of the balance to which a periodic rate was applied and an explanation of how that balance was determined. When a balance is determined without first deducting all credits and payments made during the billing cycle, that fact and the amount of the credits and payments shall be disclosed.

(f) Amount of finance charge. The amount of any finance charge debited or added to the account during the billing cycle, using the term "finance charge." The components of the finance charge shall be individually itemized and identified to show the amount(s) due to the application of any periodic rates and the amount(s) of any other type of finance charge. If there is more than one periodic rate, the amount of the finance charge attributable to each rate need not be separately itemized and identified.

(g) Annual percentage rate. When a finance charge is imposed during the billing cycle, the annual percentage rate(s) determined under section 226.14, using the term "annual percentage rate."

(h) Other charges. The amounts, itemized and identified by type, of any charges other than finance charges debited to the account during the billing cycle.

[14/]See footnotes 11 and 13.

[15/]If a variable rate plan is involved, the creditor shall disclose the fact that the periodic rate(s) may vary.

(i) Closing date of billing cycle; new balance. The closing date of the billing cycle and the account balance outstanding on that date.

(j) Free-ride period. The date by which or the time period within which the new balance or any portion of the new balance must be paid to avoid additional finance charges. If such a time period is provided, a creditor may, at its option and without disclosure, impose no finance charge when payment is received after the time period's expiration.

(k) Address for notice of billing errors. The address to be used for notice of billing errors. Alternatively, the address may be provided on the billing rights statement permitted by section 226.9(a)(2).

4. SECTION 226.10--Prompt Crediting of Payments

(a) General rule. A creditor shall credit a payment to the consumer's account as of the date of receipt, except when a delay in crediting does not result in a finance or other charge or except as provided in paragraph (b) of this section.

(b) Specific requirements for payments. If a creditor specifies, on or with the periodic statement, requirements for the consumer to follow in making payments, but accepts a payment that does not conform to the requirements, the creditor shall credit the payment within five days of receipt.

(c) Adjustment of account. If a creditor fails to credit a payment, as required by paragraphs (a) or (b) of this section, in time to avoid the imposition of finance or other charges, the creditor shall adjust the consumer's account so that the charges imposed are credited to the consumer's account during the next billing cycle.

5. SECTION 226.16--Advertising

(a) Actually available terms. If an advertisement for credit states specific credit terms, it shall state only those terms that actually are or will be arranged or offered by the creditor.

(b) Advertisement of terms that require additional disclosures. If any of the terms required to be disclosed under section 226.6 is set forth in an advertisement, the advertisement shall also clearly and conspicuously set forth the following:

(1) Any minimum, fixed, transaction, activity, or similar charge that could be imposed.

(2) Any periodic rate that may be applied expressed as an annual percentage rate as determined under section 226.14(b). If the plan provides for a variable periodic rate, that fact shall be disclosed.

(3) Any membership or participation fee that could be imposed.

6. SUBPART D-MISCELLANEOUS
SECTION 226.28--Effect on State Laws

(a) Inconsistent disclosure requirements. (1) State law requirements that are inconsistent with the requirements contained in chapter 1 (General

Provisions), chapter 2 (Credit Transactions), or chapter 3 (Credit Advertising) of the act and the implementing provisions of this regulation are preempted to the extent of the inconsistency. A state law is inconsistent if it requires a creditor to make disclosures or take actions that contradict the requirements of the federal law. A state law is contradictory if it requires the use of the same term to represent a different amount or a different meaning than the federal law, or if it requires the use of a term different from that required in the federal law to describe the same item. A creditor, state, or other interested party may request the Board to determine whether a state law requirement is inconsistent.

7. APPENDIX G--Open-End Model Forms and Clauses
G-1--Balance Computation Methods Model Clauses

(a) Adjusted balance method
We figure [a portion of] the finance charge on your account by applying the periodic rate to the "adjusted balance" of your account. We get the "adjusted balance" by taking the balance you owed at the end of the previous billing cycle and subtracting [any unpaid finance charges and] any payments and credits received during the present billing cycle.

(b) Previous balance method
We figure [a portion of] the finance charge on your account by applying the periodic rate to the amount you owe at the beginning of each billing cycle [minus any unpaid finance charges]. We do not subtract any payments or credits received during the billing cycle. [The amount of payments and credits to your account this billing cycle was $_______.]

(c) Average daily balance method (excluding current transactions)
We figure [a portion of] the finance charge on your account by applying the periodic rate to the "average daily balance" of your account (excluding current transactions). To get the "average daily balance" we take the beginning balance of your account each day and subtract any payments or credits [and any unpaid finance charges]. We do not add in any new [purchases/advances/loans]. This gives us the daily balance. Then, we add all the daily balances for the billing cycle together and divide the total by the number of days in the billing cycle. This gives us the "average daily balance."

(d) Average daily balance method (including current transactions)
We figure [a portion of] the finance charge on your account by applying the periodic rate to the "average daily balance" of your account (including current transactions). To get the "average daily balance" we take the beginning balance of your account each day, add any new [purchases/advances/loans], and subtract any payments or credits, [and unpaid finance charges]. This gives us the daily balance. Then, we add up all the daily balances for the billing cycle and divide the total by the number of days in the billing cycle. This gives us the "average daily balance."

Source: Board of Governors of the Federal Reserve System, Regulation Z, Truth in Lending, effective July 1, 1969, amended to April 1, 1981, pp. 6-8, 10, 18, 27, 35.

II. **Regulation Z Commentary**

1. SECTION 226.6--Initial Disclosure Statement 6(a) Finance charge
   Paragraph 6(a)(1)

1. When finance charges accrue. Creditors may provide a general explanation about finance charges beginning to run and need not disclose a specific date. For example, a disclosure that the consumer has 30 days from the closing date to pay the new balance before finance charges will accrue on the account would describe when finance charges begin to run.

2. Free-ride periods. In disclosing whether or not a free-ride period exists, the creditor need not use "free period," "free-ride period," or any other particular descriptive phrase or term. For example, a statement that "the finance charge begins on the date the transaction is posted to your account" adequately discloses that no free-ride period exists. In the same fashion, a statement that "finance charges will be imposed on any new purchases only if they are not paid in full within 25 days after the close of the billing cycle" indicates that a free-ride period exists in the interim.

Paragraph 6(a)(3)

1. Explanation of balance computation method. A shorthand phrase such as "previous balance method" does not suffice in explaining the balance computation method. (See appendix G-1 for model clauses.)

2. Allocation of payments. Disclosure about the allocation of payments and other credits is not required. For example, the creditor need not disclose that payments are applied to late charges, overdue balances, and finance charges before being applied to the principal balance, or in a multifeatured plan, that payments are applied first to finance charges, then to purchases, and then to cash advances. (See comment 7-1 for definition of multifeatured plan.)

Paragraph 6(a)(4)

1. Finance charges. In addition to disclosing the periodic rate(s) under section 226.6(a)-(2), disclosure is required of any other type of finance charge that may be imposed, such as minimum, fixed, transaction, and activity charges; required insurance; or appraisal or credit report fee (unless excluded from the finance charge under section 226.4(c)(7)).

2. 6(b)Other Charges

1. General; examples of other charges. Under section 226.6(b), significant charges related to the plan (that are not finance charges) must also be disclosed. For example:

- Late payment and over-the-credit-limit charges
- Fees for providing documentary evidence of transactions requested under section 226.13 (billing-error resolution)
- Charges imposed in connection with real estate transactions (See section 226.4(c)-(7).)

- Taxes and filing or notary fees excluded from the finance charge under section 226.4(e)
- A tax imposed on the credit transaction by a state or other governmental body, such as a documentary stamp tax on cash advances (See the commentary to section 226.4(a).)
- Membership or participation fees for a package of services that includes an open-end credit feature, unless the fee is required whether or not the open-end credit feature is included. For example, a membership fee to join a credit union would not be an "other charge," even if membership is required to apply for credit.
- Automated teller machine (ATM) charges described in comment 4(a)-5 that are not finance charges.

2. <u>Exclusions</u>. The following are examples of charges that are not "other charges":

- Fees charged for documentary evidence of transactions for income tax purposes
- Amounts payable by a consumer for collection activity after default; attorney's fees, whether or not automatically imposed; foreclosure costs; post-judgment interest rates imposed by law; and reinstatement or reissuance fees
- Premiums for voluntary credit life or disability insurance, or for property insurance, that are not part of the finance charge
- Application fees under section 226.4(c)-(1)
- A monthly service charge for a checking account with overdraft protection that is applied to all checking accounts, whether or not a credit feature is attached
- Charges for submitting as payment a check that is later returned unpaid (See commentary to section 226.4(c)(2).
- Charges imposed on a cardholder by an institution other than the card issuer for the use of the other institution's ATM in a shared or interchange system. (See also comment 7(b)-2).

3. SECTION 226.7--Periodic Statements 7(e) Balance on which Finance Charge Computed

7. <u>Information to compute balance</u>. In connection with disclosing the finance charge balance, the creditor need not give the consumer all of the information necessary to compute the balance if that information is not otherwise required to be disclosed. For example, if current purchases are indicated from the date they are posted to the account, the posting date need not be disclosed.

8. <u>Nondeduction of credits</u>. The creditor need not specifically identify the total dollar amount of credits not deducted in computing the finance charge balance. Disclosure of the amount of credits not deducted is accomplished by listing the credits (§226.7(c)) and indicating which credits will not be deducted in determining the balance (for example, "Credits after the 15th of the month are not deducted in computing the finance charge").

9. <u>Use of one balance-computation method explanation when multiple balances disclosed</u>. Sometimes the creditor will disclose more than one

balance to which a periodic rate was applied, even though each balance was computed using the same balance-computation method. For example, if a plan involves purchases and cash advances that are subject to different rates, more than one balance must be disclosed, even though the same computation method is used for determining the balance for each feature. In these cases, one explanation of the balance-computation method is sufficient. Sometimes the creditor separately discloses the portions of the balance that are subject to different rates because different portions of the balance fall within two or more balance ranges, even when a combined balance disclosure would be permitted under comment 7(e)-2. In these cases, one explanation of the balance-computation method is also sufficient (assuming, of course, that all portions of the balance were computed using the same method).

4. 7(j) Free-Ride Period.

1. Wording. Although the creditor is required to indicate any time period the consumer may have to pay the balance outstanding without incurring additional finance charges, no specific wording is required, so long as the language used is consistent with that used on the initial disclosure statement. For example, "To avoid additional finance charges, pay the new balance before ______________" would suffice.

5. SECTION 226.10--Prompt Crediting of Payments

10(a) General Rule

1. Crediting date. Section 226.10(a) does not require the creditor to post the payment to the consumer's account on a particular date; the creditor is only required to credit the payment as of the date of receipt.

2. Date of receipt. The "date of receipt" is the date that the payment instrument or other means of completing the payment reaches the creditor. For example:

- Payment by check is received when the creditor gets it, not when the funds are collected.
- In a payroll deduction plan in which funds are deposited to an asset account held by the creditor, and from which payments are made periodically to an open-end credit account, payment is received on the date when it is debited to the asset account (rather than on the date of the deposit), provided the payroll deduction method is voluntary and the consumer retains use of the funds until the contractual payment date.
- If the consumer elects to have payment made by a third-party payor such as a financial institution, through a preauthorized payment or telephone bill-payment arrangement, payment is received when the creditor gets the third-party payor's check or other transfer medium, such as an electronic fund transfer, as long as the payment meets the creditor's requirements as specified under section 226.10(b).

10(b) Specific Requirements for Payments

1. Payment requirements. The creditor may specify requirements for making

payments, such as:

- Requiring that payments be accompanied by the account number or the payment stub
- Setting a cut-off hour for payment to be received, or setting different hours for payment by mail and payments made in person
- Specifying that only checks or money orders should be sent by mail
- Specifying that payment is to be made in U.S. dollars
- Specifying one particular address for receiving payments, such as a post office box

The creditor may be prohibited, however, from specifying payment for preauthorized electronic fund transfer. (See section 913 of the Electronic Fund Transfer Act.)

2. Payment requirements--limitations. Requirements for making payments must be reasonable; it should not be difficult for most consumers to make conforming payments. For example, it would not be reasonable to require that all payments be made in person between 10 a.m. and 11 a.m., since this would require consumers to take time off from their jobs to deliver payments.

3. Acceptance of nonconforming payments. If the creditor accepts a nonconforming payment (for example, payment at a branch office, when it had specified that payment be sent to headquarters), finance charges may accrue for the period between receipt and crediting of payments.

4. Implied guidelines for payments. In the absence of specified requirements for making payments (see section 226.10(b)):

- Payments may be made at any location where the creditor conducts business
- Payments may be made at any time during the creditor's normal business hours
- Payment may be by cash, money order, draft or other similar instrument in properly negotiable form, or by electronic fund transfer if the creditor and consumer have so agreed.

6. SECTION 226.16--Advertising
16(b) Advertisement of Terms that Require Additional Disclosures

1. Use of positive terms. An advertisement must state a credit term as a positive number in order to trigger additional disclosures. For example, "no annual membership fee" would not trigger the additional disclosures required by section 226.16(b).

2. Implicit terms. Section 226.16(b) applies even if the triggering term is not stated explicitly but may be readily determined from the advertisement. For example, a statement that "the equity in your home becomes spendable with an XYZ line of credit" implicitly states that the creditor will take a security interest in the consumer's home.

3. Membership fees. A membership fee is not a triggering term nor need it be disclosed under section 226.16(b)(3) if it is required for par-

ticipation in the plan whether or not an open-end credit feature is attached. (See comment 6(b)-1.)

4. Variable-rate plans. In disclosing the annual percentage rate in an advertisement for a variable plan, as required by section 226.16(b)(2), the creditor may use an insert showing the current rate, may give the rate as of a specified recent date, or may disclose an estimated rate under section 226.5(c). The additional requirement in section 226.16(b)(2) to disclose the variable-rate feature may be satisfied by disclosing that "the annual percentage rate may vary" or a similar statement, but the advertisement need not include the information required by footnote 12 to section 226.6(a)(2).

5. Discounted variable-rate plans--disclosure of the annual percentage rates. The advertised annual percentage rates for discounted variable-rate plans must, in accordance with comment 6(a)(2)-10, include both the initial rate (with the statement of how long it will remain in effect) and the current indexed rate (with the statement that this second rate may vary). The options listed in comment 16(b)-4 may be used in disclosing the current indexed rate.

6. Triggering terms: The following are examples of terms that trigger disclosures:

"Small monthly service charge on the remaining balance."
"12 percent Annual Percentage Rate."
"A $15 annual membership fee buys you $2,000 in credit."

7. Minimum, fixed, transaction, activity, or similar charge. The charges to be disclosed under section 226.16(b)(1) are those that are considered finance charges under section 226.4.

Source: Board of Governors of the Federal Reserve System, Official Staff Commentary on Regulation Z, Truth in Lending, as amended effective October 16, 1984, pp. 28, 30, 31, 35, 36, 43, 44, 64, 65.

Appendix C
Tables and Exhibits

Explanatory Notes

The information presented in the first section of this appendix was derived from survey questionnaires mailed during April and May 1985 to Virginia banks and retailers. The questionnaires were designed with the assistance of the Virginia Bankers Association and the Virginia Retail Merchants Association.

Survey respondents included all of Virginia's principal card-servicing banks as well as 91 retailers. The tables give data for 82 retailers because nine respondents indicated that they do not offer their customers an in-house account. All nine retailers reported that they have never offered credit accounts.

For more than 45 percent of the retailers, in-house credit was responsible for more than 80 percent of their total credit sales. Another 25 percent of the retailers indicated in-house credit yielded between 60 and 80 percent of total credit sales. The retail respondents represented a variety of businesses: 15 department stores, 33 specialty stores, 3 mass merchandise and 31 miscellaneous other stores such as hardware stores, fuel dealers, grocery stores, furniture stores, and consumer electronic stores. By size of business (annual sales), the distribution of the respondents was as follows: less than $100 thousand, 6 percent; $100-999 thousand, 30 percent; $1-9.9 million, 38 percent; $10-49.9 million, 12 percent; and over $50 million, 14 percent.

The sources of the materials presented in the other sections of this appendix are cited separately in each table and exhibit.

CREDIT CARD BILLING PRACTICES OF VIRGINIA'S PRINCIPAL CARD-ISSUING BANKS

Table C.1a

Assessment Methods

	Number of banks	Percent of banks
Balance computation method		
average daily balance	10	100.0%
Free period on:		
purchases		
Yes	10	100.0
cash advances		
No	10	100.0

Table C.1b

Mailing Dates

	Number of banks	Percent of banks
Number of days after the billing cycle that statements are mailed		
1 to 2 days	2	20.0%
3 to 4 days	7	70.0
5 to 8 days	1	10.0
Total	10	100.0

Table C.1c

Finance Charges and Fees

	Banks Offering Visa and MasterCard			
	Regular		Premium	
	Number	Percent	Number	Percent
Annual percentage rate on:				
purchases				
12% or less	0	0%	3	50.0%
18	10	100.0	2	33.3
18.8%	0	0	1	16.7
Total	10	100.0	6	100.0
cash advances				
12% or less	5	50.0	4	66.6
18	5	50.0	1	16.7
18.8%	0	0	1	16.7
Total	10	100.0	6	100.0
Initial fees on cash advances				
no fee	5	50.0	2	33.3
2%	5	50.0	4	66.7
Total	10	100.0	6	100.0
Annual fee				
no charge	2	20.0	0	0
$15	8	80.0	0	0
35	0	0	1	16.7
36-40	0	0	5	83.3
Total	10	100.0	6	100.0
Late charge				
no charge	1	10.0	0	0
5% of past due amount	9	90.0	6	100.0
Total	10	100.0	6	100.0
Over-limit charge				
no charge	1	10.0	1	16.7
$10	9	90.0	5	83.3
Total	10	100.0	6	100.0
Returned check charge				
no charge	4	40.0	0	0
$10	4	40.0	4	66.6
12	1	10.0	1	16.7
15	1	10.0	1	16.7
Total	10	100.0	6	100.0

Note: One bank indicated a replacement fee for a lost/stolen card.

Table C.1d

Posting Dates for Charges

Item	Percent of banks including specified item in finance charge: On date of transaction	On date of posting	Not Applicable[a]	Total
Purchases	40.0%	60.0%	0%	100.0%
Cash advances	30.0	70.0	0	100.0
Debit/credit adjustments	30.0	70.0	0	100.0
Over-limit fee	20.0	60.0	20.0	100.0

[a]Not applicable since some banks do not charge the specified item.

Table C.1e

Posting Dates for Payments

	Number of banks	Percent of banks
Number of days required to post payments received at: designated post office box		
same day	9	90.0%
1 day	1	10.0
Total	10	100.0
received at: branch		
same day	3	30.0
1 day	2	20.0
1½ days	2	20.0
3 to 4 days	1	10.0
5 days	2	20.0
Total	10	100.0

CREDIT CARD BILLING PRACTICES OF VIRGINIA RETAILERS

Table C.2a

Assessment Methods

In-house accounts	Number of retailers	Percent of retailers
Balance computation method		
average daily balance	26	31.7%
other	56	68.3
Total	82	100.0
Free period on purchases		
yes	79	93.3
not specified	3	6.7
Total	82	100.0
Free period on purchases		
as a general policy	53	67.1
special promotions only	9	11.4
both special promotions and general policy	17	21.5
Total	79	100.0

Free period conditions reported:

30 days from first billing.
Special conditions by agreement; up to four months interest free on some accounts.
First 12 months of account interest free, no finance charge.
No finance or handling charges on lay-aways.
Holiday Bonus Plan--delayed billing on purchases October 17 through December 24. Customer must apply and be approved.
Table Top Plan--no finance charge assessed if paid as agreed.
Engagement rings only--no service charge.

Table C.2b

Finance Charges and Fees

In-house accounts	Number of retailers	Percent of retailers
Charges on balances		
not specified	5	6.1%
one rate on entire balance[a]	77	93.9
Total	82	100.0
Annual percentage rate		
not specified	5	6.1
less than 18%	3	3.7
18	46	56.0
18.1 - 21	13	15.9
21.1 - 24%	15	18.3
Total	82	100.0
Minimum finance charge		
not specified	2	2.4
none	57	69.6
25 cents	1	1.2
50 cents	20	24.4
1 dollar	1	1.2
5 dollars	1	1.2
Total	82	100.0
Late charge		
not specified	2	2.4
yes	23	28.1
no	57	69.5
Total	82	100.0

[a]One respondent indicated no finance charge at all, and another indicated a finance charge only on amounts over $28.00.

Notes: None of the respondents charged an application fee. Six respondents indicated that their other fees/charges were: uncollectible insurance fee, fee for an itemized statement, or returned check fee.

Table C.2c

Difference between Transaction and Posting Dates of Charges

In-house accounts	Number of retailers	Percent of retailers	Number of retailers	Percent of retailers
	Charges to the customer's account:			
Dates differ	on purchases		on debit/credit adjustments	
yes	9	11.0%	6	7.3%
no	73	89.0	76	92.7
Total	82	100.0	82	100.0

Table C.2d

Posting Dates for Payments

In-house accounts	Number of retailers	Percent of retailers	Number of retailers	Percent of retailers
	Payments received at:			
Number of days	designated post office		store	
not applicable[a]	32	39.1%	12	14.7%
same day	12	14.6	20	24.4
1 to 2 days	32	39.1	45	54.9
3 to 4 days	2	2.4	2	2.4
5 to 7 days	2	2.4	2	2.4
10 days or over	2	2.4	1	1.2
Total	82	100.0	82	100.0

[a]Store does not have a post office box, or customer payments are mailed directly to a regional credit administration unit.

Table C.2e

Mailing Dates

In-house accounts	Number of retailers	Percent of retailers
Number of days after the billing cycle that statement is mailed:		
not applicable[a]	11	13.4%
same day	6	7.3
1 to 2 days	18	22.0
3 to 4 days	17	20.7
5 to 6 days	15	18.3
7 to 8 days	10	12.2
9 to 10 days	4	4.9
11 to 15 days	1	1.2
	82	100.0

[a]Mailing of bills handled by regional credit administration unit.

Table C.2f

Third-Party Credit Cards Accepted

	Number of retailers	Percent of retailers
Cards Accepted		
MasterCard	79	86.8%
Visa	80	87.9
Choice	42	46.2
American Express	30	33.0
Diners Club	3	3.3
Carte Blanche	3	3.3
Finance company	5	5.5
Other	2	2.2

Table C.2g

Rate of Merchant Discount

	Number of retailers				Percent of retailers			
	MasterCard	Visa	Choice	American Express	MasterCard	Visa	Choice	American Express
Discount rate								
none specified	20	21	9	12	25.3%	26.3%	21.4%	40.0%
1.50% or less	6	6	3	0	7.6	7.5	7.1	0
1.60-1.75	6	6	4	0	7.6	7.5	9.5	0
1.76-2.00	12	12	6	1	15.2	15.0	14.4	3.3
2.01-2.50	11	11	8	0	13.9	13.7	19.1	0
2.51-2.75	7	7	4	0	8.9	8.8	9.5	0
2.75-3.00	8	8	5	2	10.1	10.0	11.9	6.7
Over 3.00%	9	9	3	15	11.4	11.2	7.1	50.0
Total	79	80	42	30	100.0	100.0	100.0	100.0

Table C.2h

unts for Cash Purchases and Surcharges for Credit Purchases

	Number of retailers	Percent of retailers
offered		
	11	12.1%
	80	87.9
Total	91	100.0
of discount		
;pecified	2	18.2
or less	2	18.2
5.0	4	36.3
·7.5	1	9.1
-10	2	18.2
Total	11	100.0
ıarge charged		
	91	100.0

Table C.2i

Survey Coverage

	Number of retailers	Percent of retailers
ype of business		
department store	15	16.5%
specialty shop	33	36.3
mass merchandise	3	3.3
other	40	43.9
Total	91	100.0
Size of business (annual sales)		
no response	2	2.2
less than $100 thousand	5	5.5
100-999 thousand	27	29.7
1-9.9 million	33	36.2
10-49.9 million	12	13.2
over $50 million	12	13.2
Total	91	100.0
Type of credit accepted		
in-house account only	10	11.0
third-party card only	9	9.9
both	72	79.1
Total	91	100.0

Exhibit C.1

Disclosure Statements of Three Banks

for Calculating Their Finance Charge Balances

Credit Card of a Virginia Bank: Bank A

Finance Charge Calculation: We figure the finance charge on your account by multiplying your "average daily balances" for credit purchases and advances by the appropriate periodic rates. This is how to calculate your "average daily balances."

A. For Credit Purchases:

Step 1: If you paid the Previous Balance shown on the front of this statement in full by the due date that appeared on your last statement, your "average daily balance of credit purchases" is zero. Otherwise, go to Step 2.

Step 2: Start with the Previous Balance shown on this statement. Subtract from this amount any finance charges, late charges, and advances that it includes. You may need to review one or more of your prior statements to determine how much to subtract. This gives you your "Old Credit Purchase Balance."

Step 3: Go through the billing cycle shown on this statement one day at a time. For each day, take your "Old Credit Purchase Balance" and subtract any payments or credits that apply towards credit purchases and that have posted since the beginning of the cycle. (Remember that your payments and credits apply first to finance and late charges, then to billed advances, and then to billed credit purchases.) This gives you a daily balance for each day.

Step 4: Add all the daily balances obtained in Step 3 and divide the sum by the number of days in the billing cycle. Save this figure for use in Step 7.

Step 5: Now get your last statement and go through that billing cycle one day at a time. For each day, start with a zero balance and add any credit purchases that posted since the beginning of that cycle. This gives you a daily balance for each day.

Step 6: Add all the daily balances obtained in Step 5 and divide the sum by the number of days in the billing cycle shown on your last statement. Save this figure for Step 7.

Step 7: Add the figures you obtained in Steps 4 and 6. The sum is your "average daily balance of credit purchases."

B. For Advances:

Step 1: Start with the Previous Balance shown on this statement. Subtract from this amount any finance charges, late charges, and credit purchases that it includes. (Your annual membership fee is considered a credit purchase.) You may need to review one or more of your prior statements to determine how much to subtract. This gives you your "Old

Advance Balance."

Step 2: Go through the billing cycle shown on this statement one day at a time. For each day, take your "Old Advance Balance" and add any advances that have posted since the beginning of the cycle. Then subtract any payments or credits that apply towards advances and that have posted since the beginning of the cycle. (Remember that your payments and credits apply to finance charges and late charges before they apply to billed advances.) This gives you a daily balance for each day.

Step 3: Add all the daily balances obtained in Step 2 and divide the sum by the number of days in the billing cycle. This gives you your "average daily balance of advances."

Credit Card of a Virginia Bank: Bank B

To determine the Average Daily Balance, we start with the beginning balance in your Account each day (excluding unpaid Finance Charges and Annual Fee). To this amount we add new Cash Advances and depending on the amount and timing of your payment, we add new Purchases. If your previous balance is paid in full on or before the Payment Due Date shown on the preceding Billing Statement, then the new Purchases are added to the Average Daily Balance on the first day of the Billing Period following the new Purchases. We then subtract Payments and Credits. This gives us the daily balance.

Then, we add up all the daily balances for the Billing Period and divide the total by the number of days in the Billing Period. This gives us the Average Daily Balance.

Credit Card of an Out-of-State Bank: Bank C

Finance Charge Balance is the sum of the Average Daily Balances owing on your account during the billing period ending on the date of this billing statement, excluding any amount charged to your account as an annual fee and any unpaid Finance Charge. (Average daily balance means the sum of the balances owing in your account at the end of each day during a billing period divided by the number of days in the billing period. A separate average daily balance is calculated for each type of transaction at each applicable rate.) Purchases and advances are included in the balance owing on your account from the date BANK C posts each purchase or advance to your account up to the date payment is posted by BANK C.

Exhibit C.2

Billing Statements of Bank A

ACCOUNT NUMBER	CREDIT LIMIT	AVAILABLE CREDIT	DAYS IN BILLING CYCLE	BILLING CYCLE CLOSING DATE	PAYMENT DUE DATE	MINIMUM PAYMENT DUE
....	800	114	30	10/18/84	11/12/84	34.00

DATE OF TRANS	DATE OF POST	REFERENCE NUMBER	CHARGES, PAYMENTS AND CREDITS SINCE LAST STATEMENT	AMOUNT
0922	0926	7824227..........	WILSONS MENS SHOP.................	267.88
0922	0927	7529100..........	STRIDE RITE BTRY..................	27.56
0922	1002	7848530..........	MISS HARPER.......................	213.16
0922	1004	7520200..........	HAHN SHOES........................	47.84
1004	1004	F433500..........	ANNUAL FEE 10/84-06/85............	11.25
1001	1015	7548530..........	MERRY GO ROUND....................	36.39
0922	1018	7548530..........	CHILDREN'S DISC MART..............	81.22

PREVIOUS BALANCE	PAYMENTS	CREDITS	PURCHASES AND ADVANCES	DEBT ADJUSTMENT	FINANCE CHARGE	LATE CHARGE	NEW BALANCE
0.00	0.00	0.00	685.30	0.00	0.00	0.00	685.30

AN AMOUNT FOLLOWED BY A MINUS SIGN (-) IS A CREDIT OR A CREDIT BALANCE UNLESS OTHERWISE INDICATED

Send Inquiries To: ....

	ADVANCES	PURCHASES
ANNUAL PERCENTAGE RATES	18.00 %	18.00 %
PERIODIC RATES (MONTHLY)	1.500 %	1.500 %

1. Average Daily Balance of Credit Purchases	2. Average Daily Balance of Advances
0.00	0.00

MasterCard 7R

To avoid additional finance charges on Credit Purchases, you must pay the "New Balance" in full by the "Payment Due Date". Finance charges on Advances will accrue until the Advances have been paid in full.

NOTICE: See reverse side for important information.

Exhibit C.2 (continued)

ACCOUNT NUMBER	CREDIT LIMIT	AVAILABLE CREDIT	DAYS IN BILLING CYCLE	BILLING CYCLE CLOSING DATE	PAYMENT DUE DATE	MINIMUM PAYMENT DUE
....	800	549	29	11/16/84	12/11/84	10.00

DATE OF TRANS	DATE OF POST	REFERENCE NUMBER	CHARGES, PAYMENTS AND CREDITS SINCE LAST STATEMENT	AMOUNT
1102	1102	7532540..........	PAYMENT - THANK YOU................	500.30-
		FINANCE CHARGE *PURCHASES	$12.14 *CASH ADVANCE $0.00	12.14

PREVIOUS BALANCE	PAYMENTS	CREDITS	PURCHASES AND ADVANCES	DEBT ADJUSTMENT	FINANCE CHARGE	LATE CHARGE	NEW BALANCE
685.30	500.30	0.00	0.00	0.00	12.14	0.00	197.14

AN AMOUNT FOLLOWED BY A MINUS SIGN (-) IS A CREDIT OR A CREDIT BALANCE UNLESS OTHERWISE INDICATED

Send Inquiries To: ....

	ADVANCES	PURCHASES
ANNUAL PERCENTAGE RATES	18.00 %	18.00 %
PERIODIC RATES (MONTHLY)	1.500 %	1.500 %

1. Average Daily Balance of Credit Purchases	2. Average Daily Balance of Advances
810.00	0.00

MasterCard 7R

To avoid additional finance charges on Credit Purchases, you must pay the "New Balance" in full by the "Payment Due Date". Finance charges on Advances will accrue until the Advances have been paid in full.

NOTICE: See reverse side for important information.

Source: Consumer complaint files of Virginia's State Office of Consumer Affairs.

Table C.3

Calculation of Average Daily Balances by Three Banks

Date of Posting	Item	Balance Bank A	Balance Bank B	Balance Bank C
9.19		$ 0	$0	$ 0
9.20		0	0	0
9.21		0	0	0
9.22		0	0	0
9.23		0	0	0
9.24		0	0	0
9.25		0	0	0
9.26	Purchase $267.88	267.88	0	267.88
9.27	Purchase 27.56	295.44	0	295.44
9.28		295.44	0	295.44
9.29		295.44	0	295.44
9.30		295.44	0	295.44
10.1		295.44	0	295.44
10.2	Purchase 213.16	508.60	0	508.60
10.3		508.60	0	508.60
10.4	Purchase 47.84			
	Annual fee 11.25	567.69	0	556.44
10.5		567.69	0	556.44
10.6		567.69	0	556.44
10.7		567.69	0	556.44
10.8		567.69	0	556.44
10.9		567.69	0	556.44
10.10		567.69	0	556.44
10.11		567.69	0	556.44
10.12		567.69	0	556.44
10.13		567.69	0	556.44
10.14		567.69	0	556.44
10.15	Purchase 36.39	604.08	0	592.83
10.16		604.08	0	592.83
10.17		604.08	0	592.83
10.18	Purchase 81.22	685.30	0	674.05
End of October billing cycle				
Total		$11,504.41	$0	$11,335.66
Average		383.48	0	377.86

Date of Posting	Item	Balance Bank A	Balance Bank B	Balance Bank C
10.19		$ 685.30	$ 674.05	$ 674.05
10.20		685.30	674.05	674.05
10.21		685.30	674.05	674.05
10.22		685.30	674.05	674.05
10.23		685.30	674.05	674.05
10.24		685.30	674.05	674.05
10.25		685.30	674.05	674.05
10.26		685.30	674.05	674.05
10.27		685.30	674.05	674.05
10.28		685.30	674.05	674.05
10.29		685.30	674.05	674.05
10.30		685.30	674.05	674.05
10.31		685.30	674.05	674.05
11.1		685.30	674.05	674.05
11.2	Payment $500.30	185.00	674.05	190.67
11.3		185.00	185.00	190.67
11.4		185.00	185.00	190.67
11.5		185.00	185.00	190.67
11.6		185.00	185.00	190.67
11.7		185.00	185.00	190.67
11.8		185.00	185.00	190.67
11.9		185.00	185.00	190.67
11.10		185.00	185.00	190.67
11.11		185.00	185.00	190.67
11.12		185.00	185.00	190.67
11.13		185.00	185.00	190.67
11.14		185.00	185.00	190.67
11.15		185.00	185.00	190.67
11.16		185.00	185.00	190.67
End of November billing cycle				
Total		$12,369.20	$12,700.75	$12,296.75
Average		426.52	437.96	424.03

Bank A: Average daily balance for the November billing period obtained using the steps listed in Exhibit C.1. The results are as follows: Step 1, $0; Step 2, $685.30; Step 3, $12,369.20; Step 4, $426.52; Step 5, $11,504.41; Step 6, $383.48; and Step 7, $810.00.

Bank B: Average daily balance for the November billing period is $437.96.

Bank C: Average daily balance for the November billing peri[illegible] $424.03.

Table C.4

Finance Charges of Nonrevolving and Revolving

Accounts Compared: An Example

Month	Balance for Days 1-9	Balance for Days 10-31	Average Daily Balance	Finance Charge @ 18% APR
Jan	$ 0	$300	$212.90	$ 3.19
Feb	100	400	303.57	4.55
Mar	100	400	312.90	4.69
Apr	100	400	310.00	4.65
May	100	400	312.90	4.69
June	100	400	310.00	4.65
July	100	400	312.90	4.69
Aug	100	400	312.90	4.69
Sept	100	400	310.00	4.65
Oct	100	400	312.90	4.69
Nov	100	400	310.00	4.65
Dec	100	400	312.90	4.69
			Total	$54.48

Summary: The nonrevolver pays no finance charge and has an average daily balance in each of the twelve months of $212.90. The revolver pays $54.48 in finance charges and has an average daily balance monthly between $303.57 and $312.90.

Note: In this example, the consumer made a $300.00 purchase on January 10th. The account had a balance of $300.00 until February 1st when a $200.00 payment was made. The balance was $100.00 until February 10th, when the consumer made another $300.00 purchase. On March 1st, a $300.00 payment was made, returning the balance to $100.00. The consumer made another purchase of $300.00 on the 10th of March. This process continued through to December. In essence, the consumer revolved $100.00 for 12 months. The consumer paid a total of $54.48 on finance charges over the period in order to borrow $100.00. Although the APR was 18 percent, the real rate to the consumer was over 54 percent.

Table C.5

Monthly Payment Patterns of Credit Card Users

by Family Income in 1977 and 1983[a]

United States	Use any credit cards 1977	Use any credit cards 1983	Always pay in full 1977	Always pay in full 1983	Sometimes pay in full 1977	Sometimes pay in full 1983	Hardly ever pay in full 1977	Hardly ever pay in full 1983
	Percent of all families		Percent of bank or store card users					
All families	60%	62%	49%	47%	28%	26%	23%	27%
Family income (constant 1983 dollars)								
Less than 5,000	21	18	54	43	28	19	18	38
5,000 - 7,499	24	29	52	49	18	25	30	27
7,500 - 9,999	27	33	45	51	29	27	27	22
10,000 - 14,999	41	49	44	48	31	23	26	28
15,000 - 19,999	56	64	41	43	31	27	28	31
20,000 - 24,999	66	71	42	41	31	28	27	31
25,000 - 29,999	72	78	55	45	27	23	18	32
30,000 - 39,999	78	87	56	46	26	29	18	25
40,000 - 49,999	87	88	61	43	25	31	13	26
50,000 and more	91	95	78	60	16	24	6	16

[a]The 1977 survey included 2,563 families of whom 1,444 had bank or store cards. The 1983 survey included 3,824 families of whom 2,087 had bank or store cards.

Sources: Tom Durkin and Gregory Elliehausen, 1977 Consumer Credit Survey; Avery and others, 1983 Survey of Consumer Finances; and Glenn B. Canner and Anthony W. Cyrnak, Recent Developments in Credit Card Holding and Use Patterns Among U. S. Families, Board of Governors of the Federal Reserve System.

Table C.6

Unpaid Balance on Credit Cards in 1978 and 1983

	Bank		National Chain Retail[a]		Other Retail	
Balance[b]	1978	1983	1978	1983	1978	1983
	Percent of bank or store card users					
0	48%	46%	42%	51%	53%	60%
$ 1- 99	9	5	13	9	19	12
100-249	8	9	11	14	12	12
250-499	14	11	17	11	9	8
500-999	9	14	11	9	5	5
$1000 and more	12	15	5	6	2	2
Total	100%	100%	100%	100%	100%	100%

[a]National chain retail includes Sears, J. C. Penney, and Montgomery Ward.

[b]Outstanding balance owed following last payment. Figures are in 1983 dollars; that is, 1978 figures have been adjusted for inflation during the 1978-1983 period.

Source: Glenn B. Canner and Anthony W. Cyrnak, Recent Developments in Credit Card Holding and Use Patterns Among U.S. Families, Board of Governors of the Federal Reserve System.

Table C.7

Use of Bank and Retail Cards by Income Level

	Bank		National Chain Retail		Other Retail	
United States	1977[a]	1983	1978	1983	1978	1983
			Percent of all families			
All families	35%	40%	41%	44%	22%	34%
Family income (constant 1983 dollars)						
Less than $5,000	8	4	13	10	12	6
5,000-7,499	4	12	13	18	12	16
7,500-9,999	7	19	25	19	13	16
10,000-14,999	15	26	27	31	13	23
15,000-19,999	26	36	35	44	18	33
20,000-24,999	31	40	39	50	19	33
25,000-29,999	41	49	51	56	19	41
30,000-39,999	53	63	57	64	30	44
40,000-49,999	58	70	64	72	41	58
$50,000 and more	73	80	n.a.	68	n.a.	68

n.a. refers to not available.

[a]Bank card figures for 1978 are not available; therefore, 1977 figures are shown.

Source: See Table C.6.

Table C.8

Virginia Bank Card Holders

	1985	1984	1983	1982
		as of March 31		
Number of accounts				
Total (in thousands)	2,559	2,373	2,052	2,131
Active (in thousands)	2,071	1,852	1,621	1,492
Percent active	81%	78%	79%	70%
Outstanding balances owed--				
Total (million dollars)	$1,896	$1,475	$1,099	$893
Active account balance (dollars)	740	621	535	419

Note: Data are for Virginia's credit card-issuing commercial banks. Total number of accounts refers to those on file at end of quarter; active accounts to those billed during final month of quarter.

Source: Virginia Bankers Association.

Appendix D
Credit Card Statutes of Other States

Explanatory Notes

The following table is a summary of consumer credit card law in the 50 states and the District of Columbia. It is an interpretation of the limitations that state statutes have placed on consumer creditors beyond those required under the federal Truth in Lending Act. It is not a complete statement of the statutes. Readers who would like more detail should refer to the listed citations for the appropriate statutes.

For the purposes of this summary, a one-month billing cycle has been assumed. Except as otherwise noted, however, a monthly billing cycle is not required. The cycle may be any regular period of time. For any other time period, the finance charge must be adjusted to correspond to the appropriate proportion of the one-month charge.

The fees and charges specified are upper limits. A specified minimum charge is the maximum allowed by law when charges computed in the standard way fall below the minimum. A creditor always has the option to charge the debtor less than that allowed by statute.

The column marked "Method of Computation" refers to computation of the balance on which a finance charge may be assessed. A creditor generally may use any method that would not cause a greater finance charge than that determined by the methods prescribed. Except as otherwise noted, payments are applied to the unpaid balance under the actuarial method, with payments going towards extensions of credit in their chronological order.

Under the columns headed "Fees and Fines" and "Time Constraints" are included requirements with respect to annual fees, delinquency charges, free periods, and statement deadlines. Penalties under the laws and additional noteworthy information are included under the "Other" column. Although efforts were made to give complete information, omission of an item from a state's summary should not be taken as proof that a state does not have provisions regarding that item.

This table was compiled first by soliciting the attorney general of each state for information on the topic and searching the statutes for each state. Once a state's summary was complete, it was returned to the appropriate state agency for verification. All but five states' summaries were verified; the five exceptions were California, Michigan, New York, Pennsylvania, and Texas.

Definitions for unexplained terms used in the table are in a glossary immediately following the table. Also, a list of the states constituting each region is given on page D-35.

Credit Card Statutes of Other States

SOUTH ATLANTIC REGION

Delaware

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Retailer credit card	No maximum specified. Minimum $1 per month.	Outstanding balance may be computed by any method which does not exceed the average daily balance.	None specified.	None specified.	None.
Lender credit card	Rates may be variable or formula. Minimum allowed, but not specified.	Same as above.	Periodic, transaction delinquency, and collection charges are all allowed.	With respect to delinquency charges, payments are applied to payments due in the order in which they become due.	Cash advances may be made under different terms than credit for purchase of goods or services.

Del. Code Ann. tit. 5, §§ 941 thru 954: tit. 6, § 4337 (1974 & Supp. 1984)

District of Columbia

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
All credit cards	Maximum: 2% per month No minimum specified.	Outstanding balance OR average daily balance. Schedule of credit service charges in ranges ≤ $10 can be used. Unpaid balances of principal.	Attorney's fees shall not exceed 15% of the unpaid balance of the obligation.	None specified.	If a creditor is in violation of these provisions, a consumer may collect transaction costs and finance charges for a twelve month period. At the court's discretion, the consumer may also collect the greater of 10% of the transaction total or $100.

D.C. Code Ann. §§ 28-3308, 28-3702, 28-3806, 28-3813 (1981 & Supp. 1984)

Florida

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Seller credit card	Maximum: 1.5% per month Minimum: $1 on unpaid balance	Based on unpaid balance from period to period. Schedule of credit service charges in ranges ≤ $10 can be used.	Delinquency charge: lesser of 5% of the payment due or $5. Collection charges are allowed.	Delinquency period: 10 days.	If creditor willfully violates provisions or does not correct errors within 30 days of notification, buyer may recover any finance, delinquency, and collection charges.
Lender credit card	Maximum: 1.5% per month.	Based on unpaid balance on a monthly cycle.	None specified.	None specified.	No special provisions for cash advances.

Fla. Stat. §§. 520.35, 520.37, 520.39, 658.50 (1983 & Supp. 1985)

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER

Georgia

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Retailer credit card	Maximum: 1.75% per month Minimum: $1 on unpaid balance	Based on unpaid balance from month to month or other regular period. Schedule of credit service charges in ranges ≤ $10 can be used.	Delinquency charges: lesser of 5% of the payment due or $5. Returned check fee: $12.00 maximum.	Delinquency period: 10 days. Returned check fee may be imposed only if payment is not made good within 10 days of seller's notification to buyer that check was returned. No free period specified.	None
Lender credit card	Maximum: 1½ per month. No minimum given.	Average daily balance OR unpaid balance on the same day of the billing cycle.	Cash advance fee: greater of $5 or 5% of the advance, maximum of $25. Delinquency charges: greater of $1 or 5% of the minimum payment due, maximum $5. Annual card fee is $12.00. Collection charges allowed.	Delinquency period: 5 days. No free period specified.	No specific recoveries specified by statute in the event of a creditor's breach of of these terms.

GA. Code nn. §§ 7-5-3 thru 7-5-5, 10-1-2 thru 10-1-7 (1982 & Supp. 1984)

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER

Maryland

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Seller credit card	Maximum: 2% per month. The periodic percentage rate may be variable in accordance with an index beyond the control of the creditor.	Outstanding balance from time to time OR average daily balance. Schedule of credit service charges with ranges ≤ $10 can be used, but only if contract was made under old code.	Attorney's fees allowed if required by terms of a suit or by contract. May have one of the following three fees: Annual fee, transaction fee, minimum monthly maintenance fee.	Periodic statement must be mailed at least 15 days before the end of the next billing cycle. Free period: 25 days. If there is a zero purchase balance at the beginning of a billing cycle any purchase made during the cycle will have a free period until the end of the cycle.	In the event of a billing error, the creditor is liable for any damages incurred by the borrower, unless he corrects the error within 10 days of its discovery.
Lender credit card	Same as above.	Any method which does not exceed average daily balance method.	Delinquency and collection charges allowed. Annual fee allowed. Transaction and mininum monthly maintenance fee allowed. No cash advance fees specified.	Free period: 25 days for purchases. If there is a zero purchase balance at the beginning of a billing cycle any purchase made during the cycle will have a free period until the end of the cycle. No free period required for cash advances. Creditor must notify borrower of changes in account terms at least 15 days prior to effective date of the changes.	A creditor who violates these provisions forfeits all charges and fees. If the creditor makes a willful violation, he is subject to *treble damages. Purchases and cash advances may be treated under different terms.

* three times the amount of interest and charges collected in excess of that authorized by this subtitle.
Md. Com. Law Code Ann. §§ 12-506, 12-508, 12-511, 12-903, to 12-906, 12-910, to 12-912, 12-918 (1983 replacement volume & Supp. 1985).

North Carolina

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
All credit cards	Maximum: 1½% per month. No minimum required.	Average daily balance OR unpaid balance at the beginning of the billing cycle less payments or credits made during the billing cycle.	Annual charge: ≤$20. No other charges permitted.	Free period: 25 days. No free period required on cash advances.	No security interest permitted if finance charges exceed 1 1/4% per month.

N.C. Gen. Stat. §24-11 (1983)

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER

South Carolina

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Seller credit card	**Maximum:** The greater of any amount posted or 1½% **Minimum:** 50 cents on an unpaid balance.	Unpaid balance on the same day of the billing cycle OR average daily balance. Schedule of credit service charges where ranges meet the 8% rule can be used.	Annual fee allowed if the card is honored by at least 100 persons not related to the issuer. Collection fees: $\leq$ 15% of the payment due.	A creditor must give a debtor at least 30 days' notice of a change in account terms. No provision for a free period.	The dollar amounts in these provisions are indexed for inflation and are subject to periodic revision. Except when a minimum finance charge is paid, at least 40% of any minimum payment for a billing cycle must be applied to principal reduction in that billing cycle.
Lender credit card	Maximum: unsupervised lender. 1½% per month; supervised lender, the greater of any amount posted by the lender or 1½%. No minimum	Average daily balance. Schedule of credit service charges where the ranges meet the 8% rule can be used.	Same as above. For a supervised loan with a principal $\leq$ \$1000 and finance charges $\geq$ 18% per year, no attorneys fees may be collected.	Same as above.	The dollar amounts in these provisions are indexed for inflation and are subject to periodic revision. No special provisions for cash advances.

S.C. Code ANN. §§ 37-1-109; 37-1-201, 202, 207, 305, 413; 37-3-201, 202, 305, 404, 408, 514 (Law Co-op 1984)

Virginia

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Seller credit card	No **maximum** specified. **Minimum:** 50 cents on an unpaid balance.	Average daily balance OR outstanding balance on billing date OR any other balance which does not result in a charge greater than what would be charged in the other two ways.	Delinquency charges: $\leq$ 5% of the payment due.	Free period: 25 days. Periodic statements must be mailed within 8 business days of billing date. Delinquency period: 7 days. A creditor must give debtor at least 30 days notice of any changes in account terms.	A creditor shall forfeit any usurious interest which he tries to collect. A debtor may recover twice the amount of any usurious interest paid.
Lender credit card	No **maximum** specified. No **minimum** specified.	Same as above.	Same as above. No annual fee specified.	Same as above except no free period required on cash advances.	Same as above.

Citation Va. Code §§ 6.1-330.19, .20, .26, .45, .46 (1983 & Supp. 1984)

West Virginia

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
All credit cards	**Maximum:** on that part of the balance ≤ $750, 1½% per month; > $750, 1%. **Minimum:** 50 cents on an unpaid balance	Average daily balance OR beginning balance less all payments and credits made during the billing cycle. Schedule of credit service charges where the ranges meet the 8% rule can be used.	Deliquency charges: lesser of 5% of the payment due or $5, minimum $1. No provisions for collection fees nor an annual charge.	Delinquency period: 10 days. Creditor must give debtor notice of changes in credit terms at least 15 days before changes become effective. A debtor has 4 years to bring an action against creditor who violates any of these provisions.	A creditor is liable for actual damages for a violation of these provisions, plus a penalty from $100 to $1000 unless the creditor discovers and corrects the error within 15 days. No special provisions for cash advances.

W VA Code §§46A-3-103,106,113,116;46A-5-101 (1980 & Supp. 1984)

NEW ENGLAND REGION
Connecticut

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
All credit cards	**Maximum:** 1.50% per month for sales during period July 1, 1981 - October 1, 1987; 1.25% per month for sales on or after October 1, 1987.	Average daily balance OR unpaid balance outstanding at the end of the current billing cycle.	Annual fee not prohibited.	None specified.	None specified.

Conn. Gen. Stat. Ann. §§ 36-407, 42-133c (West 1981 & Supp. 1984)

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER

Maine

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Seller credit card	**Maximum**: 1½ per month **Minimum**: 50 cents on unpaid balance.	Average daily balance OR unpaid balance at the beginning of the first day of the billing cycle less all payments and credits applied during the first 25 days of the billing cycle which relate to the beginning balance.	Annual fee allowed after the first year if card honored by at least 100 persons not related to issuer. Collection fees are not allowed. No delinquency fees specified.	Free period: 25 days. The term of a sale commences with the date credit is granted unless services or delivery occur 10 or more days after the purchase, in which case the term begins at the date of the service or delivery. A creditor must give 30 days' written notice of changes in account terms. 15 days notice if the changes only affect debt incurred after the effective date of change.	Dollar amounts will be indexed to inflation and revised periodically. If a creditor willfully violates any or these provisions, a debtor/plaintiff may collect actual damages, or not less than $250 nor more than $1000, and attorney fees.
Lender credit card	Maximum 1½% per month. No minimum given.	Same as above.	Annual fee: ≤ $12 may be assessed each year after the first year. Collection fees are not allowed. No provisions for delinquency or cash advance fees.	Same as above. Closing date of billing cycle may vary by 5 days and still be regular cycle. No free period for cash advances.	Same as above.

Me. Rev. Stat. Ann. tit. 9-A, §§ 1-106, 2-202, 2-402, 2-501, 2-507, 3-204, 5-201 (1964 & Supp. 1984)

Massachusetts

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
All credit cards	**Maximum: 1½% per month; or 50 cents for billing period; or quarterly rate set by the Banking Commissioner equal to twice the auction average on a discount basis for 91-day maturity U.S. Treasury bills.**	Excluding any new purchases reflected for the first time: 1) the balance at the beginning of the billing cycle less any payments OR credits associated with the beginning balance OR 2) the average daily balance; OR 3) daily balances.	May contract for annual fees. No delinquency fees allowed.	**Periodic statement must be mailed to debtor at least 9 days prior to the earlier of the payment due date or the closing date of the next billing cycle.** **Creditor must notify debtor of changes in terms at least 15 days prior to the effective date of the changes.** **No free period specified.**	No special provisions for cash advances.

Mass. Gen. Laws Ann. ch. 140c, §§ 6, 6A, 6B, 114B, (West 1974 & Supp 1985).

New Hampshire

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
*All credit cards	Maximum: on that part of the principal ≤$600, 2% per month; $600-$1,500, 1½% per month; $1,500-$10,000, charges on the entire principal of the loan at rates agreed to in writing by the borrower and licensee.	Actuarial method in effect for transactions entered into after June 30, 1985.	None specified.	No free period specified.	Interest shall be collected only as earned, and no interest shall be paid, deducted, or added to principal in advance. Any person who willfully violates any provision of this chapter shall be guilty of a misdemeanor.

N.H. RSA 358-K:2, 358-K:3, 358-K:4, 358-K:5, 399-A:3

* No statutory guides on open-end credit. However, in practice the provisions for closed-end credit apply to open-end credit. Therefore, the provisions for closed-end credit are shown.

Rhode Island

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Seller credit card	Maximum: 1.75% per month Minimum: 50 cents on an unpaid balance.	Periodic balance.	No provisions for annual, delinquency, cash advance, or collection fees.	Free period: 21 days. No free period required on cash advances.	A creditor who violates these provisions forfeits all charges and fees. If the violation is willful, the creditor is liable for the greater of $100 or twice the finance charge billed, not to exceed $2,000.
Lender credit card	No statutory provisions in this area.				

R. I. Gen. Laws §§ 6-27-4, 6-27-7 (Supp. 1984)

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Vermont					
Seller credit card	**Maximum:** 1.75% per month **Minimum:** 50 cents on an unpaid balance.	None specified.	Collection fees allowed. No provisions for delinquency fees.	No finance charge if previous balance was ≤ 0.	A creditor who violates these provisions forfeits all charges and fees and is liable for attorneys' fees. Double damages if the violation is willful. **Minimum payment:** 1/48 of balance due.
Lender credit card.	**Maximum:** 1½% per month. No minimum specified.	Average daily balance to be used for cash advances. None specified for other extensions of credit.	Annual fee allowed. No provisions for delinquency or collection fees.	Free period: 25 days. No free period on cash advances.	Minimum payment: 1/48 of balance due. A creditor who violates these provisions forfeits all charges and is liable for attorney's fee. Half of the principal is also forfeited if the violation is willful.

Vt. Stat. Ann. tit. 8, §§ 1302 thru 1306; tit. 9, §§ 41a, 50, 2406, 2409 (1984)

MIDDLE ATLANTIC REGION
New Jersey

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
All credit cards	No maximum specified Minimum: 50 cents on an unpaid balance.	Average daily balance. Schedule of credit service charges where the ranges meet the 8% rule can be used.	Collection fees: ≤20% of the first $500 and ≤10% on any excess of the amount due. Delinquency charges shall not exceed the lesser of 5% of the payment due or $5.	Unless expressly forbidden by the agreement, its terms may be changed by notifying the debtor at least 90 days prior to the effective date of the first change and at least 30 days prior to any subsequent changes. No free period specified.	A creditor who knowingly violates any of these provisions forfeits all charges and fees.
Cash advances under lender credit cards	Rates as agreed to by lender and borrower.	Daily principal balance outstanding.	Annual fee: ≤$15. Delinquency charges shall not exceed the lesser of 5% of the payment due or $5. Collection fees: 15% on the first $750: 10% on any excess of the amount due to a maximum of $500. Service charge shall not exceed the greater of (a) the number of advances during the billing cycle multiplied by 25¢ or (b) the number of advance loan contracts multiplied by 50¢.	Same as above. Delinquency period: 15 days.	The minimum payment due will be at least 1/72nd of the outstanding balance, and not less than the lesser of the outstanding balance or $10. Twice the amount of interest paid for violation of provision security interest.

N.J. Stat. Ann. §§ 17:9A-59.1 thru 17:94-59.16, 17:16C-42, 17:16C-44.1, 17:16C-54 (West 1984)

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER

New York

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
All credit cards	No maximum specified. Minimum: 70 cents on an unpaid balance. Creditor may contract for variable rates which are based on a published index. Rates shall not vary more than once in a three month period.	Outstanding balance at the beginning of the billing cycle less all credits pertaining to that balance and payments made during the billing cycle OR any method which does not exceed the average daily balance. Schedule of credit service charges with ranges ± $5 can be used.	Annual fee allowed. Collection fees: ≤ 20% of the amount due. No provision for delinquency charges. Surcharges are prohibited.	Periodic statement must be mailed at least 15 days before a payment due date. Creditor must notify debtor of changes in account terms at least 30 days prior to the effective date of the change. There will be zero finance charges imposed if the balance at the beginning of the balance period ≤ 0.	A creditor who violates these provisions forfeits all charges and fees unless the creditor corrects an honest error within 10 days of its discovery. No special provisions for cash advances.

N.Y. PERS. PROP. LAW § 413, 414 (McKinney 1976 & Supp. 1984)

Pennsylvania

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Seller credit card	Maximum: 1½% per month. For gasoline credit cards 1¼% per month Minimum: 70 cents on unpaid balance	On outstanding balance from month to month. Schedule of credit service charges in range ≤ $5 can be used.	No delinquency collection, or other fees specified. No annual fee specified.	Minimum finance charge may be collected for a minimum of 6 months. No free period given.	If creditor fails to comply with these provisions, the debtor is entitled to all finance charges paid, triple damages for willful violation.
Lender credit card	Maximum: 2% per month. No minimum given.	Same as above.	Creditor entitled to collection costs. No delinquency or other such fees specified. No annual fee specified.	No free period given.	Outstanding balance cannot exceed $5,000.

1966 Pa. Laws 55, No.7,§§904, 906, 1202, 1204 (rev'd. 1982); 1937 Pa. Laws 262, No.66,§§2, 13, 17.1 (rev'd. 1985)

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER

EAST NORTH CENTRAL REGION

Illinois

Licensed lender credit card	Any amount contracted for.	Any method agreed upon, by parties to the contract.	No monthly fee allowed. No other fees specified.	Lender has 30 days to answer an inquiry about a billing error posted within 60 days of the bill date. Lender must give 30 day notification of any changes in contracted provisions. No free period specified.	If a lender fails to answer an inquiry within the specified time, the lender may not collect finance or other charges on the error for the 30 day period and until problem is resolved. No specific allowances for cash advances.
Any other lender credit card	Maximum: 1½% per month. No minimum.	Average daily balance OR the unpaid balance on the same day of the billing cycle.	Same as above.	Same as above.	Same as above.
Seller credit card	No special requirements.				

Ill. Rev. Stat. ch. 17 ¶ 6405 thru 6408 (1984)

Indiana

Seller credit card	Maximum: 1.75% per month Minimum: 50 cents on unpaid balance.	Average daily balance OR unpaid balance on same day of the billing cycle.	No delinquency charges allowed Collection costs may be recovered.	Seller must notify buyer of any significant changes in terms of the account six months prior to the effective date of the change and twice more before the change unless buyer acknowledges the changes. No free period specified.	
Lender credit card (covers all credit cards with rate in excess of 10%)	The greater of the two choices above OR for that part of the unpaid balance which falls within: $0-720, 3% per month; $720-2,400, 1.75% per month; $\geq$ $2,400, 1.25% per month. The dollar amounts in these provisions are indexed for inflation and reviewed periodically.	Same as above	Same as above Annual fee if card is honored by at least 100 persons not related to the issuer of the card. No additional fee for cash advances. Attorneys' fees may not be collected for loans $\leq$ $2400.	Any action for usurious charge must be brought within 2 years of the violation.	Debtor may recover excess charges. If creditor refuses to pay, debtor may recover the greater of 10 times the excess or the total finance charges. No liability if creditor corrects error within 15 days of discovery and before action by debtor begins.

Ind. Code tit. 24; art. 4.5; ch. 1, 2, 3, 5 (UCCC 1985)

Michigan

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Seller credit card	Maximum: 1.7% per month Minimum: 70 cents on an unpaid balance.	Unpaid balance from time to time. Schedule of credit service charges with ranges ≤$10 can be used.	Attorney's fees and collection costs may be contracted for. No delinquency fees specified.	Charges to be posted upon delivery of goods or services. No free period specified.	A creditor who violates these provisions forfeits all finance charges and fees.
Lender credit card	Maximum: 1.5% per month. No minimum specified.	Same as above.	Same as above. No annual fee or cash advance fee specified.	Same as above.	Same as above. No special provisions for cash advances.

Mich. Comp. Laws Ann. §§ 445.863, 445.868, 487.491 (West 1985)

Ohio

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
All credit cards	Maximum: 1½% per month Minimum: $1 on an unpaid balance.	The unpaid balance (including unpaid finance charges) at either the beginning or the end of the billing cycle OR average daily balance.	No delinquency charges allowed. No provisions for an annual fee.	A billing cycle may not exceed 31 days. A creditor must notify a debtor of changes in account terms at least 30 days prior to the effective date of the change. No provision for a free period.	No special provisions for cash advances.

Ohio Rev. Code Ann. §§ 1317.11 (Page 1979 & Supp. 1984)

Wisconsin

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
All credit cards	**Maximum:** 1½% per month, or a variable rate tied to the T-bill rate. No maximum from 8/1/85 to 10/31/87 **Minimum:** 50 cents on an unpaid balance. No minimum from 8/1/85 to 10/31/87.	Average daily balance OR outstanding balance on the last day of the billing cycle. Schedule of credit service charges where the ranges meet the 8% rule can be used.	Delinquency charge: $2. Lender cash advance fee: $2 per advance. Neither of the above fees may be imposed from 8/1/85 to 10/31/87. No provisions for collection nor annual fees.	The average of 12 consecutive monthly billing cycles must be not less than 30 days nor more than 32 days. No time limit for delinquency period. No provisions for a free period. A creditor must notify a debtor of a change in the variable rate at least 15 days before the effective date of the new change. The new rate will remain in effect at least 6 months. (Please refer to the statutes for a more complete handling of this topic.) Except with respect to variable rates, no creditor may make any changes in credit terms that will adversely affect the debtor unless required by legislation. In which case, the creditor shall give notice of the change at least 3 months prior to its effective date.	None.

Wisc. Stat. Ann. §§ 422.201, 422.202, 422.415 (West 1974 & Supp. 1984)

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
WEST NORTH CENTRAL REGION **Iowa**					
Seller credit card	Maximum: 1.65% Minimum 50 cents on unpaid balance.	Average daily balance OR balance at beginning of first day of billing cycle less all payments and credits made during the cycle, except credits for purchases made during the cycle. Schedule of credit service charges where the ranges meet the 8% rule can be used.	No delinquency, deferral, or attorneys' fees allowed.	Must notify debtor of changes in credit terms twice before effective date of change, the first time being three months prior to the change. Must have at least one periodic statement every six months.	No special provisions.
Lender credit card (honored by at least 100 people not related to the issuer.)	Any amount contracted for. (If differential treatment found unconstitutional: 22% per year.)	Same as above.	Same as above. Annual fee allowed.	No free period specified. Same as above.	Cash advances not distinguished from purchases.
Lender credit card (Other)	Maximum: on that part of the unpaid balance ≤ $500, 1.5% per month; > $500, 1.25% per month Minimum: 50 cents on unpaid balance.	Same as above. Schedule of credit service charges where the range meets the 8% rule can be used.	No delinquency or other fees allowed.	Same as above.	Dollar amounts in statutues will be periodically adjusted for inflation.

Iowa Code §§ 537.2202, 537.2402, 537.2507, 537.3205 (1985)

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Kansas					
Seller credit card	Maximum: On that part of the unpaid balance ≤$300, 1.75% per month; $300 to $1,000, 1.5%; >$1,000, 1.2%, or (until 7/1/87) 1.75% on outstanding balance Minimum: 50 cents on unpaid balance.	Average daily balance OR unpaid balance on last day of billing cycle. Schedule of credit service charges where the range meets the 8% rule can be used.	No provisions for delinquency, deferral, collection, or other fees.	A creditor must give at least 30 days written notice of any changes in account terms.	Debtor may recover two times any excess charges made knowingly by the creditor.
Lender credit card	Maximum: On that part of the balance ≤$1,000, 1.5% per month: >$1,000, 1.204% per month; or (until 7/1/87) 1.75% per month on an outstanding balance For licensed loan: ≤$570, 3% per month; <$570 to <$1900, 1.75% per month; >$1900, 1.204% per month; or 1.5% per month on outstanding balance Minimum: 50 cents on unpaid balance.	Same as above.	Same as above, except annual fee allowed.	Same as above.	Same as above. No special provisions for cash advances. Dollar amounts will be periodically adjusted for inflation.

Kan. U.C.C.C. ch. 2,3,5 (1983 & Supp. 1985); 1985 Senate Bill no. 123.

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER

Minnesota

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Seller credit card	**Maximum:** 1½% per month (If seller's Minnesota annual gross sales exceed $25 million or the issuer of a gasoline credit card has gross national sales in excess of $10 billion, the maximum finance charge is 1 1/3% per month.) Minimum: 50 cents on unpaid balance.	An amount no greater than the average daily balance.	No provisions for attorney's collection fees, delinquency charges, or any other such charges.	Free period until payment due date for all purchases made with the most recent billing cycle (not included in the computation of the average daily balance). Retailers must give adequate notice of increases in finance charges.	None.
Lender credit card	Maximum: 1½% per month with no annual fee, or 1% per month plus an annual fee. No provision for a minimum.	Same as above.	Same as above. Annual fee: ≤ $15.	Free period until payment due date for all purchases made within the most recent billing cycle. Average length of 12 successive billing cycles must be between 30 and 32 days.	If a lender collects the 1½% finance charge, he must also offer the 1% plus annual fee plan. No special provisions for cash advances.

Minn. Stat. §§ 48.185, 334.16 (1984 & Supp. 1985)

Missouri

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Seller credit card	**Maximum:** 1.5% per month until 9/28/85, then 1.67% **Minimum:** cannot charge above computed finance charge.	Average daily balance OR unpaid balance on the last day of billing cycle after deducting for payments. Schedule of credit service charges in ranges ≤ $10 can be used.	Delinquency charges: lesser of 5% of the payment due or $5; minimum: $1. Collection charges: no more than 15% of the payment due.	Delinquency period: 10 days. A creditor has 10 days from the discovery of an error to correct it without penalty. No free period specified.	A creditor who violates these provisions forfeits all fees and charges (subject to §§ 408.550 - 408.562)
Lender credit card	**Maximum:** on that part of the outstanding balance ≤ $1000, 1-5/6% per month; > $1000, 5/6%. **Minimum:** cannot charge above computed finance charge.	Same as above.	No annual fee allowed. Delinquency charges: lesser of 5% of the payment due or $15; minimum $1.	Delinquency period: 15 days. No free period specified.	Same as above. No special considerations for cash advances.

Mo. Ann. Stat. §§ 408.200, 408.300, 408.330, 408.370 (Vernon 1979 & Supp. 1985)

Nebraska

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Seller credit card	Maximum: on that part of the unpaid balance ≤$500, 1 3/4% per month; >$500, 1½%. No minimum specified.	On the unpaid balance from month to month.	No delinquency, collection, or other such fees allowed. Annual fee allowed if account offers other services besides revolving charge.	All extentions of credit have a free period until the end of the billing cycle.	**A willful violation of these provisions will cause the creditor to forfeit all finance charges and cancel the outstanding indebtedness. Class II misdemeanor.**
Lender credit card (regulated)	Maximum: any amount agreed to by contract. No minimum specified.	On the unpaid balances for the number of days elapsed in the billing cycle.	Annual fee: if credit limit ≤$1500, the fee ≤$20; if >$1500, any reasonable fee may be ageed to by contract. Delinquency charges: lesser of 5% of the payment due or $5. No collection charges specified.	No free period specified. No delinquency date specified.	**If creditor violates any provisions, he forfeits all charges and fees. Class V misdemeanor. No special provisions for cash advances.**

Neb. Rev. Stat. §§ 45-205, 45-207, 45-208, 8-820 thru 8-822, 8-829 (1984)

North Dakota

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
All credit cards	Maximum: 1½% per month. No minimum specified.	Outstanding balance from month to month.	No delinquency, collection, annual, or other such fees mentioned.	No free period specified.	A creditor who violates these provisions will forfeit all charges and fees. If the violation is willful, the creditor may forfeit the principal as well. No special considerations for cash advances.

N.D. Cent. Code §§ 51-14-01 thru 51-14.1-02 (1983)

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER

South Dakota

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Seller credit card	No maximum Minimum: 50 cents on unpaid balance.	Any method which does not exceed: 1) average daily balance OR 2) unpaid balance on the same day of the billing cycle Schedule of credit service charges where the ranges meets the 8% rule can be used.	No delinquency, annual, collection, or cash advance fees specified.	Changes in account terms will automatically become effective 25 days after notice has been given, unless the debtor notifies the creditor of his rejection of the new terms in that time. No provision for a free period.	None.
Lender credit card	None specified.	None specified.	Same as above.	No provisions for a free period.	No provisions for cash advances.

S.D. Codified Laws Ann. §§ 51-24-12; 54-11-6.2, 6.3, 6.4, 8.10 (1980 and Supp. 1984)

EAST SOUTH CENTRAL REGION
Alabama

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Seller credit card	Maximum: 1½% per month Minimum: 50 cents on unpaid balance.	From time to time on an outstanding unpaid balance.	Delinquency charges: 5% of scheduled payment, minimum 50 cents. May charge annual fee and free period allowed if account is honored by at least 25 persons or cash advances may be obtained.	Delinquency period: 10 days.	None.
Lender credit card	Same as above.	Same as above.	Same as above. Annual fee $\leq$ $15.	Delinquency period: 10 days. 15 day free period. For cash advances, 15 day free period only if balance on previous statement is paid in full.	None.

Ala. Code §§5-19-3,4, 5-20-1 (1983 & Supp. 1984)

Kentucky

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Seller credit card	None specified.	None specified.	None specified.	Actions for usurious interest charges must commence within two years of the violation. No free period specified.	Creditor forfeits all finance charges if charging a usurious rate. If debtor has already paid charges, he may recover double the finance charges.
Lender credit card	Maximum: 1.75% per month. No minimum given.	Average daily balance OR the unpaid balance on the same day of the billing cycle.	Collection fees: ≤$20 annually. Delinquency charges: <$5 each month.	Same as above. Delinquency period: 0 days.	Same as above. No special provisions for cash advances. Partial payment on a debt bearing interest shall be first applied to the interest when due.

Ky. Rev. Stat. §§ 287.770, 360.020, 371.210 thru 371.330 (1970 & Supp. 1984); §287.740-.750.

Mississippi

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
All credit cards	Maximum: on that portion of the unpaid balance ≤$800, before 6/30/86: 1-3/4% per month (after 6/30/86: 1 1/2%); $800 to $1,200, 1¼%; >$1,200, 1% Minimum: 50 cents on unpaid balance.	Average daily balance OR unpaid balance on the first day of the billing cycle OR any method which will yield a charge ≤ that determined by either of the two methods given above.	Delinquency charges: lesser of $5 or 4% of the payment due. No special fee for cash advances specified. No annual fee specified.	Free period: one month from billing date. If balance not paid, finance charge computed from billing date. Delinquency period: 15 days.	Payments applied first to finance charges, then to cash advances, finally to purchases in chronological order. If usurious interest charged, all finance charges forfeited. If charges exceed those allowed by law by more than 100%, principal payments may be recovered also.

Miss. Code Ann. §75-17-1(5),(10) (1972 & Supp. 1985)

Tennessee

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Seller credit card	Maximum: 1.75% per month Minimum: 70 cents on an unpaid balance.	Unpaid balance from month to month. Schedule of credit service charges in ranges ≤ $10 can be used.	No provisions for delinquency, collection, cash advance, or annual fees.	No provision for a free period.	None.
Lender credit card	No statutory provisions.				

Tenn. Code Ann. § 47-11-104 (1984)

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER

WEST SOUTH CENTRAL REGION
Arkansas

All credit cards	*5% over Federal Reserve Board discount rate, but not over 17% per year.	——— No statutory guidelines. ———			

Arkansas Constitution Amendment 60
* This law does not explicitly state that it applies to open-end credit, but has been made applicable through litigation in a 1983 Arkansas Supreme Court case.

Louisiana

Seller credit card	Maximum: 1½% per month Minimum: 50 cents on unpaid balance.	Average daily balance OR balance of account on the first day of each billing period OR any method which would not yield a greater finance charge than allowed by those methods prescribed above.	No delinquency, annual, or other such fees given. Attorney fees: ≤25% of debt in default. Cash advance fee: ≤4% of the advance received.	No credit service charge may be collected unless the bill is mailed within 10 working days of the billing date. 25 day free period for debtor to pay entire balance before charge may be imposed.	If creditor intentionally violates these provisions, debtor may recover all service charges and attorneys' fees. If creditor fails to refund overcharge, debtor may recover up to $100 out-of-pocket expenses.
Lender credit card	Maximum: 1½% per month No minimum given.	Average daily balance OR any method which would yield an equivalent or lesser charge.	Returned check fee: lesser of 5% of the amount of the check or $15. No delinquency fees or annual fee specified.		Same as above.

La. Rev. Stat. Ann. §§ 9:3523, 9:3524, 9:3526.1, 9:3530, 9:3552 (West 1983 & Supp. 1984)

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Oklahoma					
Seller credit card	Maximum: 1.75 per month Minimum: 50 cents on paid balance.	Average daily balance OR unpaid balance on same day of billing cycle. Schedule of credit service charges where the ranges meet the 8% rule can be used	$10 returned check fee maximum. No delinquency, deferral or other such charges. Collection fees: ≤15% of any unpaid debt are recoverable. However, no fees are collectible if the debt is ≤$2,200 and the service charge ≤10% per year, unless otherwise allowed by other statutes.	Three notices of changes in account terms required, the first at least six months prior to effective date of change. No free period specified.	All dollar amounts in statutes to be indexed to the inflation rate and periodically reviewed. If finance charges are usurious, debtor need not pay or may recover triple for any paid. If creditor refuses to refund excessive charges, debtor may recover the greater of the total charges or ten times the excess charges.
Lender credit card (unsupervised)	Maximum: 5/6% per month Minimum: 50 cents on unpaid balance.	Same as above.	Annual fee if card honored by at least 100 persons not related to issuer. No delinquency, deferral, or other such fees. Collection fees ≤15% of balance in default	Three notices of changes in account terms required with the first at least 4 months prior to effective date of change. No free period specified.	Same as above.
Lender credit card (supervised)	Maximum: on that part of the unpaid balance ≤660, 2½% per month. $660-$2,200, 1.75%; ≥$2,200, 1.25% on the unpaid balance over $2,200 or 1.75% on entire unpaid balance.	Same as above.	For each range of cash advance, the lender may make the given charges in place of a finance charge: ≤$65.98, $2 per $10 advanced; $65.98-$77, 10% of advance and up to $6.60 per month; $77-$154,10% plus $7.70 $154-$220, 10% plus $8.80 $220-$330, 10% plus ≤$9.90; $330-440, 10% plus ≤$11.00. No provision for attorney's fees if debt ≤$2,000. Annual fee allowed.	Maximum term of cash advances: 1 month for every $10 of cash advance up to 10 months. Up to three notices required for change in account terms with the first at least 4 months prior to the effective date of the change. No free period specified.	Same as above. Also if creditor does not have the authority to make supervised loans, debtor need not repay the principal or any charges, and may recover any payments previously made.

Okla. Stat. tit. 1, § 106; tit. 2; tit. 3; tit. 5 § 202 (1982 & Supp. 1984)

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Texas					
Seller credit card	Maximum: on that part of the unpaid balance ≤ $500, 1.5% per month; > $500, 1% Minimum: 75 cents on unpaid balance.	Unpaid balance from month to month. Schedule of credit service charges in ranges ≤$10 can be used.	Attorneys' collection fees allowed. No provisions for delinquency fees. Surcharges are prohibited.	No provision for a free period.	Dollar amounts subject to adjustment for inflation. Double damages for usurious charges, plus court costs. A creditor may correct an error within 60 days of its discovery without penalty. Past 60 days, the creditor will still be liable for the lesser of the charges and fees or $2000.
Lender credit card	Maximum: on that part of the unpaid balance ≤ $1500, 1.5% per month; $1500 to $2500, 1%; > $2500, 5/6 % OR 1.2% on the entire balance.	Average daily balance.	Court cost and attorneys' fees allowed. No provisions for delinquency fees. No provisions for annual fees.	Implied free period of one billing cycle.	Triple damages for willful usurious interest, but not less than the lesser of 20% of the principal or $2000. If twice the maximum interest is charged the principal will be forfeited as well. No special conditions for cash advances.

TX Rev. Civ. Stat. Ann. art. 5069 (Vernon 1971 and Supp. 1985)

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER

MOUNTAIN REGION

Arizona

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Seller credit card	No provisions for maximum or minimum rates. May use a schedule of charges in ranges ≤ $10.	Average daily balance OR balance in account at beginning of billing cycle less credits or payments made during cycle.	Collection charges allowed. Delinquency charges: lesser of 5% of payment due or $10.	Delinquency period: 10 days. Periodic statement to be delivered to buyer within fifteen days of end of billing cycle.	Seller forfeits any finance charges or other fees upon violation of these provisions.
Lender credit card	Same as above.	Unpaid balances in account as of regular monthly billing date OR actual daily balances outstanding.	Same as above.	Delinquency period: 10 days	Same as above. No special provisions for cash advances.

Ariz. Rev. Stat. Ann. §§ 44-6002. 44-1205 (1967 & Supp. 1984).

Colorado

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Seller credit card	Maximum: 1.75% per month Minimum: 50 cents on unpaid balance.	Balance may be computed by any method which would not exceed the average daily balance.	No delinquency or other fees specified. Surcharges are prohibited.	None specified.	In a civil action, a creditor who willfully violates these maximum charges is subject to double damages plus court costs and attorneys' fees. A creditor has no liability if through his own acts he discovers and corrects any errors within 60 days of their occurence. Damages will be no less than $100, nor more than $1,000.
Lender credit card from a supervised lender	Maximum: For purchases 1.75% per month if free period given. 1½% if no free period. Minimum: 50 cents on unpaid balance.	Actuarial method.	Annual fee allowed for privilege of account if honored by 100 persons not related to issuer. Surcharges are prohibited.	25 day free period from statement closing date, or the lower interest rate.	No specific regulation of cash advances.
Lender credit card from a non-supervised lender	Maximum: 1% per month Minimum: 50 cents if no annual fee.	Average daily balance OR unpaid balance on the same day of the billing cycle. Schedule of credit service charges where ranges meet the 8% rule can be used.	Same as above	None specified.	Same as above.

Colo. Rev. Stat. tit. 5; art. 2,3,5 (1984)

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER

Idaho

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
All credit cards	No maximum or minimum rate specified.	On amount financed. May use a schedule of charges in ranges which meet the 8% rule.	Delinquency charges not allowed. No provision for an annual fee.	None specified.	No special provisions for cash advances.

Idaho Code §§ 28-41-301; 28-42-201, 28-42-301 (1980 & Supp. 1984).

Montana

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Seller and nonregulated lender credit cards	Maximum: Any amount contracted for so long as the effective annual rate does not exceed the prime rate by more than 5 percentage points Minimum: 50 cents on an unpaid balance.	From month to month, using the ending balance of the account on the last day of the billing cycle less any purchases made during the billing cycle.	Delinquency fees: lesser of 5% of the payment due or $5; payment of attorneys' fees $\leq$15% pf the amount due. No other fees specified.	Creditor must notify debtor of changes at least two billing cycles before the effective date of the change. Delinquency period: 10 days. No free period specified.	Double damages for usurious interest. No special provisions for cash advances. Creditor forfeits all charges and fees in the event of a billing error unless it was a bona fide error.
Regulated lender credit card	Maximum: Any amount contracted for Minimum: 50 cents on an unpaid balance.	Same as above.	Same as above. No annual fee specified.	Same as above.	Same as above.

Mont. Code Ann. §§ 31-1-107, 31-1-108, 31-1-203, 31-1-235, 31-1-241 (1983)

Nevada

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
All credit cards	Any amounts agreed upon by contract.	Outstanding balance to be computed as agreed upon.	Delinquency charges: greater of 8% of the payment due or $2; maximum $15. Collection fees allowed. Any other charges or fees may be agreed to by contract.	Delinquency period: 10 days. No provisions for a free period.	Any creditor who violates the agreement forfeits all charges and fees. No special considerations for cash advances.

Nev. Rev. Stat. §§ 97.195, 97.245, 97.305 (1984)

New Mexico

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Seller credit card	No maximum or minimum specified. Charge may be applied according to a schedule of charges, with ranges ≤$10.	On unpaid balance from month to month at the beginning of the billing cycle.	Attorney's fees, court costs and disbursements allowed. No other fees specified.	Implied free period: 1 cycle. No other time constraints.	Any creditor who violates these provisions forfeits all charges and fees.
Lender credit card	No maximum or minimum specified.	No method specified.	Delinquency charges: lesser of 5% of payment due or $10. No provision for an annual fee.	Delinquency period: 10 days. No provision for a free period.	A creditor who violates these provisions forfeits all charges or fees. A debtor may recover double any charges or fees already paid.

N.M. Stat. Ann. §§ 56-1-3, 56-1-9, 56-8-11.1, 58-7-6, 58-7-8 (1978 & Supp. 1984)

Utah

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
All credit cards	Maximum: Whatever contracted for. Minimum: 1 dollar on an unpaid balance.	Average daily balance OR unpaid balance on the last day of the billing cycle after deducting payments and credits received during the same cycle.	Delinquency fees: greater of $15 or 5% of the payment due. Attorney's fees allowed.	Delinquency period: 10 days. No provisions for a free period.	Terms of contract may be changed and new terms applied to unpaid balance of the account if advance written notice of not less than 15 days is given, and if contract provides that the creditor may change terms. No special provisions for cash advances.

Utah Code Ann. §§ 70C-1-201, 70C-2-102, 70C-2-105, 70C-4-101, 70C-4-102, 70C-4-103 (1985)

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Wyoming					
Seller credit card	Maximum: 1.75% per month Minimum: 50 cents on unpaid balance.	Average daily balance OR unpaid balance on the same day of the billing cycle. Schedule of credit service charges where the ranges meet the 8% rule can be used.	Collection fees may be recovered. No provisions for delinquency or other such fees.	Notice of changes in terms of account must be given 3 times, the first at least 6 months before the effective date of the change. No free period specified.	Debtor may recover 3 times usurious interest paid. If creditor refuses to give a refund of excess charges paid, debtor entitled to the greater of the total service charges paid or 10 times the excess.
Lender credit card (unsupervised)	Maximum: 5/6% per month Minimum: 50 cents on unpaid balance.	Same as above.	Same as above. Annual fee if card honored by at least 100 persons not related to the issuer.	Same as above.	Same as above. No special provisions for cash advances.
Lender credit card (supervised)	**Maximum: On that part of the unpaid balance ≤ $1,000, 3%; > $1,000, 1.75% per month No minimum specified.**	Same as above.	No provision for collection fees unless balance in default >$1,000.	Same as above.	Same as above. If unsupervised creditor makes supervised loan, debtor need not pay principal nor charges and may collect any payments previously made.

Wyo. Stat. §40-14-218, 247, 250, 310, 311, 335, 348, 353, 521 (UCCC 1985)

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER

PACIFIC REGION

Alaska

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Seller credit card	Maximum: balance \$0-\$1000, 1½% per month. Balance >\$1000, 1/12 annual allowed rate on excess. Allowed annual rate is 5 percentage points above the Federal reserve discount rate Minimum: \$1.	Outstanding balance from month to month. Schedule of credit service charges in ranges ≤ \$10 can be used.	None specified.	Monthly statements must be prompt.	Double recovery for usurious interest paid. Usurious rate forfeits all interest payments.
Lender credit	Same as above.	Same as above.	Annual fee allowed. For cash advances: set up charge of 3% of funds advanced; minimum \$3; maximum \$12.		Banks are not prohibited from issuing unsolicited credit cards, but customer not liable until written statement of acceptance.

Alaska Stat. §§ 06.05.208, 06.05.209, 45.10.120, 45.45.010, (1978, 1980, & Supp. 1984)

California

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
All credit card transactions	Before 1/1/86/ Maximum: 1.6% on balance up to \$3,000. 1% on balance in excess of \$3,000 Minimum: \$1 on unpaid balance. As of 1/1/86/ Maximum: 1.5% on balance up to \$1,000.00. 1.0% on balance in excess of \$1,000 Minimum: \$1 on unpaid balance.	Computed on the outstanding balance at some point in time consistent from period to period. Schedule of credit service charges in ranges ± \$5 can be used.	Maximum \$15 annual fee allowed. Maximum \$5 fee for returned checks. Delinquency fees: lesser of \$5 or 5% of the unpaid balance, \$1 minimum. Collection charges allowed.	Delinquency period: 10 days.	No special provisions for cash advances. Any creditor who willfully violates these sections is subject to triple damages on all incorrect charges and fees.

Cal. Civ. Code §§ 1747, 1810, 1812.9 (West 1985)

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Hawaii					
All credit cards	Maximum: 2% per month. No minimum given.	Daily OR average daily balance.	Annual fee may be collected. Delinquency fees: lesser of 5% of the balance due or $50. Collection charges are recoverable.	Creditor must notify borrower of any changes in credit terms at least 15 days prior to effective date of changes. Creditor shall have 10 days after notification in which to correct any procedural billing errors. No free period specified. Delinquency period: 10 days.	If usurious interest is charged, only the excessive interest is recoverable. No special considerations for cash advances.

Hawaii Rev. Stat. §§408, 476 (1976 & Supp. 1984)

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Oregon					
Seller credit card	None specified.	None specified	Delinquency and collection fees must be specified in the agreement.	No provision for a free period.	Any creditor who violates these provisions forfeits all fees and charges.
Lender credit card	None specified.	Unpaid balance from time to time.	Collection fees allowed. No provision for an annual fee. Delinquency fees: lesser of 5% of payment due or $5.	No provision for a free period. No provision for delinquency period.	No special provisions for cash advances.

Or. Rev. Stat. §§ 83-010 thru 83.190, 708.480, 725.345 (1983)

TYPE OF CREDIT	FINANCE CHARGES	METHOD OF COMPUTATION	FEES AND FINES	TIME CONSTRAINTS	OTHER
Washington					
Seller credit card	Maximum: 1½% per month. Minimum: $1 on an unpaid balance.	Outstanding unpaid balance. Schedule of credit service charges for ranges ≤$10 can be used.	Delinquency, collection, and court fees must be specified in the account agreement.	No provision for a free period.	A creditor who violates these provisions forfeits all charges and fees. If the violation is willful, the creditor is also liable for twice the service charges collected and attorneys' fees.
Lender credit card	Maximum: the greater of 1% per month or the monthly equivalent of 4% over the 6 month T-bill rate. No minimum specified.	No provision.	Annual fee: ≤ $15. No provisions for delinquency, collection, or cash advance fees.	No provision for a free period.	Same as above.

Wash. Rev. Code Ann. §§ 19.52.010, .020, .030, .115; 63.14.090, .130, .165, .180 (1978 & Sup. 1984)

Actuarial method:	a method of applying payments on a debt, first, to any unpaid finance charges and, then, to the unpaid principal.
Annual fee:	a charge that a creditor is allowed to collect from the debtor once a year for the privilege of having the account. This charge is in no way related to any extensions of credit.
Average daily balance:	the sum of the account balances for each day of the billing cycle divided by the number of days in the billing cycle.
Balance in default:	the minimum amount due on an outstanding balance when it is not paid within a specified period of time. This assumes that both a minimum amount and a due date are specified.
Billing cycle:	any regular period of time at the end of which accounts are reviewed, charges assessed, and statements mailed, if necessary. For purposes of this summary, the place of a date of the calendar month in one billing cycle need only be within four days of the place of the respective date of the previous calendar month in the previous billing cycle.
Change in terms:	refers to any modifications to the credit card agreement, especially with respect to any changes in determining fees and charges that would increase the cost of credit.
Collection fee (or charge):	attorneys' fees, court costs, and other out-of-pocket expenses incurred by a card issuer who must refer a delinquent account to someone not in his employ in order to collect the balance due.
Delinquency fee (or charge):	where a delinquency period is specified and the payment is not made by that date, the creditor may collect a one-time charge on the delinquent balance.
Delinquency period:	a given number of days past a payment due date after which a delinquency fee may be charged.

Free period:	some states require a period of time during which the debtor may pay his outstanding balance before a finance charge may be imposed. Some states require a free period for all purchases from the time of purchase until the end of the billing period. Other states imply a free period by basing the finance charges on the beginning account balance for the billing cycle.
Lender credit card:	a credit card issued by an organization such as a bank or a savings and loan institution whose primary business is lending and borrowing money.
Returned check fee:	some states allow a creditor to charge a fee for a payment made by check when the check is returned for insufficient funds. The returned check may also cause the payment to become delinquent.
Schedule of charges:	many states allow one finance charge to be applied to a range of unpaid balances. The account balance subject to a finance charge is determined as usual. The finance charge is applied for the particular range into which the balance falls. The finance charges are computed as specified for a given balance in each range.
Ranges: "$\leq$ \$10":	the balances in each range can differ by no more than \$10 and the finance charge is to be computed on a balance no greater than the median balance for the range.
"$\leq$\$5":	the lower end of the range must be within \$5 of the balance due on which the finance charge is computed and the upper end must be at least as distant from that balance as is the lower end.
"the 8%" rule:	the finance charge computed on the median balance for the range must be within 8% of that which could be computed for the balance at the lower end of the range.
Seller credit card:	the issuer of the credit card account is related to a retail seller (e.g., a department store or gasoline company).
Service charge:	the same meaning as finance charge.

Supervised lender: a lender whose business is regularly checked by a government agency and who may therefore charge a higher rate of interest for many types of loans than is otherwise allowed by law.

Symbols: $\leq$ is a symbol for less than or equal to.

States Constituting Each Region

SOUTH ATLANTIC REGION
Delaware
District of Columbia
Florida
Georgia
Maryland
North Carolina
South Carolina
Virginia
West Virginia

NEW ENGLAND REGION
Connecticut
Maine
Massachusetts
New Hampshire
Rhode Island
Vermont

MIDDLE ATLANTIC REGION
New Jersey
New York
Pennsylvania

EAST NORTH CENTRAL REGION
Illinois
Indiana
Michigan
Ohio
Wisconsin

WEST NORTH CENTRAL REGION
Iowa
Kansas
Minnesota
Missouri
Nebraska
North Dakota
South Dakota

EAST SOUTH CENTRAL REGION
Alabama
Kentucky
Mississippi
Tennessee

WEST SOUTH CENTRAL REGION
Arkansas
Louisiana
Oklahoma
Texas

MOUNTAIN REGION
Arizona
Colorado
Idaho
Montana
Nevada
New Mexico
Utah
Wyoming

PACIFIC REGION
Alaska
California
Hawaii
Oregon
Washington