RESCINDED

321

Office of Thrift Supervision
Department of the Treasury

Timothy T. Ward
Deputy Director, Examinations, Supervision, and Consumer Protection

1700 G Street, N.W., Washington, DC 20552 • (202) 906-5666

Outdated – See OCC 2020-11
For more recent information, refer Comptroller's Handbook, "Credit Card Lending."

September 24, 2009

MEMORANDUM FOR: **CHIEF EXECUTIVE OFFICERS**

FROM: Timothy T. Ward Timothy T Ward
Deputy Director
Examinations, Supervision, and Consumer Protection

SUBJECT: "No Interest, No Payment" Credit Card Programs

On January 8, 2003, the Office of Thrift Supervision, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation jointly issued the "Account Management and Loss Allowance Guidance for Credit Card Lending ("AMG"). That guidance articulated sound account management, risk management, and loss allowance practices for all institutions engaged in credit card lending. This memorandum reminds savings associations of some of the specific requirements of that guidance.

One key tenet of safe and sound retail lending is the monthly minimum payment requirement. Regular monthly payments add structure and discipline to the lending arrangement, provide regular and ongoing contact with the borrower, and allow the borrower to demonstrate and the bank to assess continued willingness and ability to repay the obligation over time. Conversely, the absence of a regular payment stream may result in protracted repayment and mask true portfolio performance and quality.

Recent examinations have identified increasing use of "no interest, no payment" programs that allow borrowers to defer making payments for extended periods. These deferral periods often range from three- to twelve-months or longer, and are most commonly associated with private label marketing agreements for retailers such as electronics and furniture companies.

The AMG states that OTS expects lenders to require minimum payments that will amortize the current balance over a reasonable period of time consistent with the unsecured, consumer-oriented nature of the underlying debt and the borrower's documented creditworthiness. As indicated in the OTS Examination Handbook Section 218, as revised in May 2006, the minimum monthly payment should cover at least a one percent principal balance reduction plus all assessed monthly interest and finance charges. Savings associations are thus reminded they should require a minimum payment from the borrower each month for all credit card programs, including private label arrangements with retailers. While savings associations (or their retail partners) may offer “no interest” promotions, they should have a policy of a minimum monthly payment even during the promotional period. The minimum payment should be consistent with the issuer’s standard principal reduction for the product or program, but in no event less than one percent of the principal balance owed.

In recognition of the time needed to revise marketing campaigns and materials, savings associations will be allowed a reasonable amount of time to comply with the minimum payment expectations described in this memorandum for all new credit transactions. Nonetheless, full compliance should be no later than February 22, 2010, which is also the implementation deadline for most of the new requirements contained in the Credit Card Act of 2009. (See OTS CEO Memorandum #308, issued June 25, 2009, “Credit Card Act of 2009: Effective Dates.”)

For further information, contact William Magrini, Senior Project Manager, Credit Policy, at (202) 906-5744.