

CMF publishes for consultation regulation on minimum credit card payment formula and its exceptions

The proposal adds a new Number to Chapter 8-41 of the RAN.

It aims to set a standard for minimum payment on credit cards, including an amortization percentage to reduce over-indebtedness.

October 25, 2024 – The Financial Market Commission (CMF) published for consultation today a regulatory proposal to establish the formula and components of minimum payment on credit cards, as well as exceptions for entities to exempt debtors from such payment.

The minimum payment on a credit card is the minimum amount a debtor must pay during the billing period to keep their account in good standing and avoid incurring late charges. Although making minimum payments on credit cards can offer flexibility during difficult economic times and unexpected financial situations, it's important to note that this option often means paying more interest and extending debt terms.

For example, by amortizing only 1 percent of the balance each period, it could take a borrower almost 180 months to pay off their debt in full, accumulating 160 percent in interest. In contrast, amortizing 5 percent of the outstanding balance would reduce payment time to 60 months with an interest accrual of only 40 percent.

On the other hand, when setting a minimum payment below the amount of installments payable in the billing month, the unpaid balance generates higher interest than what was initially considered in the installment financing. For example, when making a purchase using the "three installments, interest-free" mode and making the minimum payment during those three consecutive months, estimations are that customers would end up paying an annual interest of 13.5 percent.

In this regard, Law No. 21,673 of 2024, which amended several legal texts with the purpose of adopting measures to combat over-indebtedness, granted the CMF authority to determine the formulation and components of minimum payments on credit cards, as well as regulating exceptional

situations in which institutions may exempt debtors from the obligation of such minimum payments.

The objective is establishing a standard for determining minimum payments on credit cards which contributes to decreasing long-term over-indebtedness by including an amortization percentage. The regulatory proposal proposes the incorporation of a new Numeral to Chapter 8-41 of the Updated Compilation of Rules for Banks, which covers Payment Cards. It states that minimum payments are the sum of a non-financeable amount (NFA) plus 5 percent of the financeable amount (FA).

The NFA considers installments payable in the billing period (with or without interest), interest, commissions, and other charges such as taxes, fees or insurance premiums, among others. The FA corresponds mainly to the unpaid principal.

The proposal also sets forth that card issuers may exempt cardholders from making such minimum payments in accordance with their internal policies, and provided that the definitions of such payment contemplate full amortization of the debt exempted from payment within a maximum timeframe of 24 months. In addition, such exceptions may be granted for a maximum of two straight months.

Accordingly, Circular Letter No. 1 for Non-Banking Card Issuers will be amended to refer to Chapter 8-41 of the RAN, applying the new regulation to all institutions supervised by the Commission in accordance with Article 2 of the General Banking Act.

Interested parties can access the [Draft Rules and Norms section](#) of the CMF website until December 26, 2024 to check the regulatory proposal and submit their feedback. The Commission also makes available the corresponding [Regulatory Report](#) with its key elements and an impact assessment.

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