Syllabus

NOTE: Where it is feasible, a syllabus (headnote) will be released, as is being done in connection with this case, at the time the opinion is issued. The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader. See *United States* v. *Detroit Timber & Lumber Co.*, 200 U. S. 321, 337.

SUPREME COURT OF THE UNITED STATES

Syllabus

HOUSEHOLD CREDIT SERVICES, INC., ET AL. *v.* PFENNIG

CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

No. 02–857. Argued February 23, 2004—Decided April 21, 2004

The Truth in Lending Act (TILA) regulates, *inter alia*, the disclosures that credit card issuers must make to consumers, 15 U. S. C. §1637(a), and provides consumers with a civil remedy for creditors' failure to comply, §1640. Among other things, the creditor's periodic balance statement to the consumer must include "[t]he amount of any finance charge," §1637(b)(4), which is defined as an amount "payable directly or indirectly by the [consumer], and imposed directly or indirectly by the creditor as an incident to the extension of credit." §1605(a). Section §1604(a) expressly gives to the Federal Reserve Board (Board) expansive authority to prescribe regulations containing "such classifications, differentiations, or other provisions," as, in the Board's judgment, "are necessary or proper to effectuate [TILA's] purposes . . . , to prevent circumvention or evasion thereof, or to facilitate compliance therewith." The Board's Regulation Z interprets §1605(a)'s "finance charge" definition to exclude "charges . . . for exceeding a credit limit" (over-limit fees).

Respondent holds a credit card issued by one of the petitioner financial institutions and in which the other holds an interest. Although the parties' agreement set respondent's credit limit at $2,000, she was able to make charges exceeding that limit, subject to a $29 over-limit fee for each month in which her balance exceeded $2,000. While her monthly billing statement disclosed the over-limit fees, the amount was not included as part of the "finance charge," consistent with Regulation Z. Respondent filed suit alleging that petitioners violated TILA by failing to classify over-limit fees as "finance charges," but the District Court granted petitioners' motion to dismiss on the ground that Regulation Z specifically excludes such fees.

The Sixth Circuit reversed, holding that the exclusion conflicts with §1605(a)'s plain language. Noting, first, that, as a remedial statute, TILA must be liberally interpreted in favor of consumers, the court then concluded that the over-limit fees in this case were imposed "incident to an extension of credit" and therefore fell squarely within §1605's language. That conclusion turned on the distinction the court drew between unilateral acts of default, which would not generate a "finance charge," and acts of default resulting from an agreement between the creditor and the consumer, which would.

Held: Regulation Z is not an unreasonable interpretation of §1605. Pp. 4–11.

(a) Because respondent does not challenge the Board's authority under §1604(a) to issue binding regulations, this Court faces only two questions. It asks, first, whether "Congress has directly spoken to the precise question at issue," *Chevron U. S. A. Inc.* v. *Natural Resources Defense Council, Inc.,* 467 U. S. 837, 842, in which case courts, as well as the Board, "must give effect to the unambiguously expressed intent of Congress," *id.,* at 842–843. However, whenever Congress has "explicitly left a gap for the [implementing] agency to fill," the agency's regulation is "given controlling weight unless [it is] arbitrary, capricious, or manifestly contrary to the statute." *Id.,* at 843–844. Pp. 4–5.

(b) TILA itself does not explicitly address whether over-limit fees are included within the "finance charge" definition. The Sixth Circuit did not attempt to clarify the scope of §1605(a)'s critical term "incident to the extension of credit." Because the phrase "incident to" does not make clear whether a substantial (as opposed to a remote) connection is required between an antecedent and its object, cf. *Holly Farms Corp.* v. *NLRB,* 517 U. S. 392, 402, n. 9, it cannot be concluded that the term "finance charge," standing alone, unambiguously includes over-limit fees. Moreover, an examination of TILA's related provisions, as well as the full text of §1605 itself, casts doubt on the Sixth Circuit's interpretation. A consumer holding an open-end credit plan may incur two types of charges—finance charges and "other charges which may be imposed as part of the plan." §§1637(a)(1)–(5). TILA does not make clear which charges fall into each category, but its recognition of at least two categories establishes that Congress did not contemplate that *all* charges made in connection with an open-end credit plan would be considered "finance charges." And where TILA explicitly addresses over-limit fees, it defines them as fees imposed "in connection with an extension of credit," §1637(c)(1)(B)(iii), rather than "incident to an extension of credit," §1605(a). Furthermore, none of §1605's specific examples of charges that fall within the "finance charge" definition includes over-

limit or comparable fees. Thus, 1605(a) is, at best, ambiguous. Pp. 5–8.

(c) Regulation Z's exclusion of over-limit fees from "finance charge[s]" is in no way manifestly contrary to §1605. Regulation Z defines "finance charge" as "the cost of consumer credit," excluding as less relevant to determining such cost a number of specific payments, including over-limit fees, that do not automatically recur or are imposed only when a consumer defaults on a credit agreement. Because over-limit fees are imposed only in the latter circumstance, they can reasonably be characterized as a penalty for defaulting on the credit agreement, and the Board's decision to exclude them from "finance charge[s]" is reasonable. Despite the Board's rational decision to adopt a uniform rule excluding from the term "finance charge" *all* penalties imposed for exceeding the credit limit, the lower court adopted a case-by-case approach contingent on whether an act of default was "unilateral." That approach would prove unworkable to creditors and, more importantly, lead to significant confusion for the consumer, who would be able to decipher if a charge is more properly a "finance charge" or an "other charge" only by recalling the details of the particular transaction that caused him to exceed his credit limit. In most cases, the consumer would not even know the relevant facts, which are contingent on the nature of the authorization given by the creditor to the merchant. Here, the Board accomplished all of the objectives set forth in §1604(a)'s broad delegation of rulemaking authority when it set forth a clear, easy to apply (and easy to enforce) rule that highlights the charges the Board determined to be most relevant to a consumer's credit decisions. Pp. 8–11.

295 F. 3d 522, reversed.

THOMAS, J., delivered the opinion for a unanimous Court.