

New Credit Card Regulations and What They Mean For YOU!

State Treasurer Velda Jones-Potter

The first phase of the Credit Card Accountability, Responsibility, and Disclosure Act of 2009 (Credit CARD Act), the result of a joint legislative effort involving the Federal Reserve, the Office of Thrift Supervision, and the National Credit Union Administration, went into effect last Thursday. This new bill has been hailed by many consumer rights advocates as among the most sweeping reforms the credit card industry has ever seen.

Some of the simpler aspects of the Act that became final on Thursday include giving consumers the right to a 45-day notice before interest rates are raised or other significant changes are made to account terms. Previously card companies had to provide only 15 days' notice.

As simple as this new rule sounds, it has the potential to greatly strengthen consumer rights. With 45 days to shop around for a better credit card deal, consumers have much more power in their hands to refuse unreasonable rate hikes. Second, credit card companies must mail or deliver account statements at least 21 days before payment is due.

The next phase is scheduled to go into effect in February 2010. That's when the real strength of the law will be felt.

In the second phase, interest rates on existing balances will not be allowed to rise on any account unless payment has been more than 60 days late or the consumer signed up for a variable indexed interest rate account. Promotional periods of lower interest are allowed, as long as proper disclosures are made to the consumer about when they will end and they last at least six months.

Interest rates may rise on future balances if 45 days' notice is given and the account is more than a year old.

Also starting in February 2010:

- No over-limit fees may be charged unless the cardholder has given permission for transactions that exceed the credit limit, and the over-limit fee may be imposed only once per billing cycle.
- No fees can be charged for payments made online, by telephone, mail or other means, except for an expedited payment made through a representative.
- Amounts in excess of the minimum payment must be applied to the balance with the highest interest rate, except during the last two billing statements before a deferred interest balance is due, where excess payments must be applied to the deferred balance.
- Due dates must be on the same day each month. If the payment due date falls on nonbusiness days, such as weekends or holidays, then the creditor cannot consider payments received on the following business day as late.
- Creditors must disclose on the billing statement the period of time and total interest it will take to pay off a card balance if only minimum monthly payments are made, the monthly payment amount that would be required to pay off the card balance in 36 months, and a toll free number for the consumer to call for credit counseling and debt management services.

- In instances where fees account for more than 25 percent of an available credit line, they cannot be deducted from the available line. For instance, a credit card has a limit of \$500, and fees total \$126, or over 25 percent of the available balance. A creditor cannot reduce the available balance by \$126 to get its fees.

These new regulations also prohibit:

- Unfairly computing balances with two-cycle billing. Right now creditors calculate interest based on more than one cycle of charges. That will no longer be allowed.
- Unfairly adding security deposits and fees for issuing credit or making it available.
- Excessive fees for subprime cards. The fee will be capped at 50% of the credit limit and allow cardholders to pay off initial balance over a year. Fees exceeding 25% must be spread over no less than six months rather than charged as a lump sum.

Banks believe they'll lose a lot of money, and are likely to make adjustments to their own business models in evaluating how to operate under these new regulations, so pay careful attention to any communications you receive from your bank that seeks to modify the terms and conditions of your current credit cards.

Expect banks and financial institutions to respond by reducing the availability of credit. It will now be much more difficult for those with poor credit to open new credit card accounts. Also look for banks to limit their exposure to risk by reducing credit limits and raising interest rates.

Please always remember use credit cards responsibly. Only YOU hold the key to your financial independence.