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Credit CARD Act of 2009: The Changes and When They Take Effect

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Credit CARD Act of 2009: The Changes and When They Take Effect

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Beginning in August 2009, there will be changes that affect consumer credit card billings. On May 22, 2009, President Barack Obama signed the Credit Card Accountability, Responsibility and Disclosure Act of 2009 (Credit CARD Act of 2009). The law is designed to protect consumers from some practices by credit card companies. The following is a summary of the changes and when they will take effect:

August 20, 2009

- **More advanced notice of rate hikes**
  - Cardholders will receive a 45-day notice before key contract changes take effect. The contract changes include interest rates, fees, or finance charge increases.
  - What the provision does not do:
    - The provision does not apply to credit limit changes or interest rate caps. This means that, if the credit card company cuts a consumer's credit limit, the consumer could still be charged a penalty, and because South Dakota has no *usury* law, there is no limit on how much interest a company can charge the cardholder.
- **More time to pay**
  - Credit card companies must send statements to consumers 21 days before a payment is due. Current (pre-Credit CARD Act of 2009) laws require only a 14-day notice.

February 22, 2010

- **Retroactive rate increases**
  - Issuers cannot raise rates on existing balances unless the cardholder is 60 days or more past due.
  - Companies cannot raise a consumer's rate just because the consumer was late in paying on an unrelated account (which was previously allowed under a *Universal Default* provision).
  - Rates cannot be raised in the first year after issuance, and teaser promotional rates must remain in effect for at least 6 months.
  - What the provision does not do:
    - If an issuer provides a 45-day notice, the provision does not prevent the raising of rates on new balances at any time for any reason.
- **Fee restrictions**
  - Companies accepting a credit card for payment will have to get the customer's permission to exceed the customer's credit limit. There can be only one *overlimit fee* per billing cycle.
  - Companies are not allowed to charge a fee to customers who elect to pay their bill online or by telephone. However, a fee can be charged to expedite a payment.
  - Payments received by the due date, or the next business day if the bank does not accept

mailed payments on the due date, will not trigger a late fee. If the cardholder pays at a local branch, the payment must be credited on that day.
  - For subprime-rate cards, in the first year, non-penalty fees cannot take up more than 25% of the initial credit limit.
- **Restricts cards to students**
  - Cards will not be issued to consumers ages 18–21 who do not have adequate income or a co-signer.
- **Ends double-cycle billing**
  - The new law bans *double-cycle billing* (often referred to as the *two-cycle average daily balance computation method*), the practice of basing finance charges on both the current and the previous balance.
- **Fairer payment allocation**
  - Payments made over the minimum balance due will automatically be applied to the debt with the highest interest rate first, instead of to the last debt transferred (which will enable you to pay less in interest and get out of debt faster).

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- **Gift card protection**
  - The new law prohibits gift cards from expiring for the first 5 years. The issuer can no longer assess inactivity fees unless the card has not been used for 12 months.
  - What the provision does not do:
    - – There is no 5-year guarantee if the company should go out of business, so it's best to use a gift card as soon as possible.

- **Retroactive rate increases**
  - If the cardholder triggers the default rate because of a 60-day delinquency, the bank must restore the lower rate once the cardholder makes 6 consecutive on-time payments. <u>It may be wise to keep records of the interest rate paid on your credit card bill so that you can verify the previous rate charged</u>.

Because most of the provisions of the Credit CARD Act of 2009 do not take effect for a while, many credit card companies are currently trying to make up for future loss of income. Take a close look at your credit card statement(s): Has your interest rate increased? Are you being charged new, additional fees? Perhaps now is the best time for you to evaluate your credit card use and need.

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