New Credit Card Law Protects Consumers

Key Provisions in the New Law

The Credit Card Accountability, Responsibility, and Disclosure Act of 2009 (CARD) was signed into law on May 22. This new federal legislation is intended to protect consumers from certain practices in the credit card industry. With a few exceptions, the CARD changes are slated to take effect on February 22, 2010. Here is a roundup of several key provisions in the new law.

This article describes how new legislation is intended to protect consumers from certain credit card practices.

Rate Increases

Effective as of August 20, 2009, a credit card issuer cannot raise the interest rate on an existing balance unless the payment is late by 60 days or more. If the cardholder misses the 60 day deadline, the issuer must restore the lower rate once he or she provides six consecutive on-time payments.

Also, rates cannot be raised in the first year after a credit card is issued (six months for promotional rates). But rates may be increased for any reason on a new balance if the cardholder receives advance notice of 45 days. Currently, the advance notice requirement is only 15 days. Caution: There is still no cap on the interest rate increases.

Extra Fees

Cardholders will not face fees for exceeding their personal limit unless they allow the issuer to approve "over-the-limit transactions." Issuers cannot charge more than one such fee per billing cycle. Also, consumers generally cannot be charged a fee to pay their credit card debt by telephone or through the Internet (although fees for expediting payment are allowed). Payment received by the due date (or the next business day if the credit card company is not accepting payments that day) will not trigger a late fee. Finally, the new law restricts introductory fees on subprime cards.

Student Cards

College students and other individuals under the age of 21 generally will not be able to obtain a credit card unless they have a cosigner or they can demonstrate an ability to pay.

Double-Cycle Billing

The new law ends the practice of double-cycle billing. In other words, credit card companies will no longer be allowed to go back to the previous billing cycle to calculate interest charges.

Payment Allocation

The current practice in the credit card industry is to apply amounts above the minimum monthly amount to low-interest balances first. This effectively extends the time it takes to pay off high-interest rate balances. Under the new law, payment must first be applied to the balance with the highest interest rate charge.

Payment Deadlines

Card companies must send statements to debtors at least 21 days before payment is due. Currently, notice of only 14 days is required. This provision went into effect August 20, 2009.

Gift Cards

The law prohibits gift cards from expiring for at least five years. Issuers cannot assess inactivity fees unless the card goes unused for one year. The new gift card rules take effect on August 22, 2010.

Disclosures

Credit card contracts must contain language that is easily understood by consumers. This includes full disclosure of terms before a consumer opens an account and statements must display all monthly and year-to-date fees. ■

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