# CONSUMER ALERT

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# NEW PROTECTIONS FOR CREDIT CARD HOLDERS

In May 2009, the Federal Government passed the Credit Card Accountability, Responsibility, and Disclosure Act of 2009, also known as the Credit CARD Act of 2009. This new law is intended to help protect consumers from abusive fees, penalties, interest rate increases, and other unwarranted changes in credit card account terms.

While most of the provisions of the Credit CARD Act of 2009 won't take effect until February 22, 2010, some of the changes have already taken effect. Below is a summary of the key provisions of the Credit CARD Act of 2009.

**PROVISIONS THAT BECAME EFFECTIVE AUGUST 22, 2009:**

**45-day notice of rate increases:** Credit card companies must provide 45-day advance written notice of any rate increase. The written notice must also inform consumers of their right to cancel their card before the rate increase takes effect. Consumers who do cancel their cards will be able to repay the cards at the lower rate, and cannot be required to immediately repay the outstanding card balance.

**More time to make payments:** Monthly statements must be mailed or delivered at least 21 days before the payment due date.

## PROVISIONS THAT WILL BECOME EFFECTIVE FEBRUARY 22, 2010

**Restrictions on rate increases:** Credit card companies can't increase rates on existing balances unless one of the following applies:

> (1) A promotional rate has expired and the credit card company previously disclosed, in a clear and conspicuous manner, when the rate would expire and the rate that would apply after expiration of the promotional rate.
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> (2) The rate for a variable-rate card changes due to increases in a published index that is outside the credit card company's control, such as rates on U.S. Treasury securities.
>
> (3) The rate increases as a result of the consumer completing or failing to complete a workout or temporary hardship arrangement with the credit card company. The new rate after completion or failure to complete the arrangement cannot be higher than the rate that applied before the arrangement.
>
> (4) The rate increases due to the consumer not making the required minimum payment within 60 days. If the consumer triggers a default rate because of a 60-day delinquency, the credit card company must restore the lower rate once the consumer makes six months of consecutive minimum on-time payments.

Further, credit card companies won't be able to increase the rate on existing balances or for new transactions on credit card accounts for one year after the account is opened, unless one of the exceptions mentioned above applies.

After the first year of the account, the card issuer can raise a consumer's interest rate for new transactions, but it cannot exceed the potential interest rate increase previously disclosed to the consumer.

**Promotional rates must last at least 6 months:** Low introductory or promotional rates must be disclosed in a clear and conspicuous manner and cannot increase until at least six months after the promotional rate takes effect for the consumer.

**Excess payments will be applied to highest balance first:** Credit card issuers must apply the portion of the credit card payment in excess of the minimum payment amount to the highest-rate balances first. For example, if your credit card balance includes a low rate on a balance transferred from another credit card and a higher rate for new transactions, any money you pay above the minimum amount due will be applied to the higher-interest new transaction balance.

**No more costly double-cycle billing:** Double-cycle billing – a practice by credit card companies that considers not only the current balance on the credit card when determining interest charges but also factors in the average daily balance from the previous billing period, even if a portion of that previous balance was paid – is prohibited.

An example of double-cycle billing is as follows: Joan has a $500 balance due in December. She pays off half the balance in December, leaving a balance of only $250. She might expect that she would only have to pay interest on $250 during the next billing cycle. With double-cycle billing, however, she will be charged interest for the entire $500, not just the $250 balance remaining after her December payment.

**Improved disclosures:** Credit card statements must include a box showing consumers how much they have paid in interest and fees during the current year. Statements will also contain a warning to consumers about the high costs of making only the minimum payment. Further, statements will disclose the number of months it would take to pay off the credit card balance if only minimum payments are made, and the total cost (payments and interest) if the balance is paid off by making minimum payments. Additionally, statements will show the monthly payment amount required to pay off the existing balance in 36 months, and the total cost for doing so.

**Fair deadlines for credit card payments:** The due date for card payments must be the same day each month. If the due date falls on a holiday or weekend, the deadline is considered to be the next business day. Also, credit card companies must accept and promptly post payments received by 5 p.m. (local time) on the due date.

**Restrictions on penalties for going over the credit limit:** No fees may be imposed for making a purchase or other transaction that would put the account over its credit limit unless the consumer expressly elected for the credit card company to process over-the-limit transactions and charge a fee. Additionally, an over-the-limit fee may be imposed only one time during the billing cycle when the limit is exceeded, not for each transaction that exceeds the credit limit. If the consumer remains over the limit but conducts no additional transactions, another fee can be imposed only once during each of the next two billing cycles.

**Protections for young consumers:** Companies will be prohibited from issuing a credit card to a consumer younger than 21 unless the young consumer submits a written application that includes the signature of a co-signer over 21 or information indicating the consumer has independent means to repay the card debt.

**CONTACT THE ATTORNEY GENERAL'S CONSUMER PROTECTION DIVISION**

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