

Consumer Alert: New Protections for Credit Card Users

The Credit Card Accountability Responsibility and Disclosure Act of 2009 creates important new protections for credit card users. The new law requires that credit card companies provide cardholders with clear and understandable forms and statements; establishes rules regarding rate increases; and provides special protections for students and young people. While most of the bill's provisions go into effect February 22, 2010, a few key provisions are effective now.

Changes as of August 20, 2009

- **Reasonable time to make payments:** Credit card companies now must mail or deliver your credit card bill to you at least 21 days before your payment is due. Credit card companies cannot treat payments as late unless statements are sent out 21 days before the due date. Also, a finance charge (interest on your account balance) cannot be charged during grace periods, or time periods when you don't have to pay interest on the balance from the current billing cycle, unless statements are mailed or delivered 21 days before the finance charge is scheduled to be imposed. You should check the postmark date on the envelope to make sure you have been given enough time and save the postmarked envelopes for any bills about which you have questions.
- **45-day notice before changing interest rates:** Before credit card companies may change the interest rate on future balances or make significant changes to the terms of your credit card agreement, they must provide you with written notice. Significant changes in terms could include increasing the fees, such as imposing an annual fee; increasing key penalty fees; altering the grace period; or changing the method used to compute your balance. The credit card company must mail the notice to you 45 days before the changes take effect, unless the interest rate is changing because of any one of the following: a variable rate, the expiration of a promotional rate, the minimum payment is more than 60 days late, or you failed to comply with the terms of a "workout" or "hardship" agreement you reached with the company.
- **Right to reject changes in interest rate and terms:** If you do not want to pay the new interest rates or abide by changes to the terms or conditions, you can cancel your card and pay off the balance on your old terms. To reject the new terms:
 1. Contact your credit card company, on the phone or in writing, and tell the company that you are rejecting the changes. This generally means you are cancelling your account and will no longer be able to use your card.

2. The credit card company must give you sufficient time to pay off your existing balance. Credit card companies can require customers to pay off the balance using one of the following two methods:
 - Pay off the balance over five years OR
 - Make monthly payments of up to twice the current minimum payment (i.e., if you currently have to pay 2% of the outstanding balance, or \$2 on a \$100 balance, you'd have to repay 4% of the balance, or \$4 on a \$100 balance, each month).
3. Shop around for other cards with better rates. When shopping for a new card, make sure to look at balance transfer rates, and find out what the rate will be when any promotional rates expire. You may be able to pay lower interest if you transfer your balance to a new card.

Changes starting February 22, 2010

- **Interest rate increases:** The new law strengthens cardholder protections by setting rules for when a credit card company can change customers' interest rates. This applies to purchases you have made already (existing balances) and to the interest rates that will apply to future purchases (future balances). Credit card companies have to reevaluate the reason for the increase every six months. Contact your credit card company to see if you are eligible for an interest rate reduction.
 - **Existing balances:** Credit card companies will be prohibited from raising interest rates on existing balances. This means that the interest rates on purchases you have made already cannot increase.
 - **Future purchases:** Credit card companies cannot raise the rates for future purchases for the first year that you have the card. After that point, they can change the rates only if they give you at least 45 days notice.
 - **Exceptions:** There are a few important exceptions to these rules:
 - *Default:* If your minimum payment is 60 days late, companies can increase the interest rate to a "default" or "penalty" rate. This rate must be disclosed in the credit card agreement, and can be much higher than the typical purchase rate. Default rates can last no more than six months if you make your minimum payments on time during that period, and your credit card company must inform you that they are increasing your rates because your bill is 60 days past due.
 - *Promotional rate:* A credit card company is allowed to offer "promotional" or "sale" rates that are lower than typical purchase interest rates but only last for a specific period of time. The new law requires that they last at least six months.
 - *Variable rate:* Credit card rates can be tied to indexes that track overall national average cost of credit. If your credit card has a variable rate, the company can increase or decrease your interest rate as national indices change, without notifying you, as long as the margin (or amount above the index) does not change.

- *Failure to comply with a “workout” or “hardship” agreement:* If you have a payment plan or temporary hardship arrangement and fail to pay, the company is not required to notify you if they increase the interest rate.
- **Fees:** While most fees are not limited by the new law, certain restrictions are imposed:
 - **Over-the-limit fees:** No fees for going over the card limit may be charged unless you agree to allow the company to authorize transactions above your card’s limit.
 - **Upfront fees:** Credit card issuers are limited in how they can charge upfront fees, placing restrictions on cards often referred to as “subprime cards” or “fee-harvesters.” In the first year, annual or usage fees (other than late fees, over-the-limit fees, or fees for returned payments) totaling more than 25% of the credit limit cannot be financed from the available credit. This means that account opening, enrollment, activation, or other fees cannot use up more than one-quarter of your credit line. However, secured credit cards, where you make a cash deposit that guarantees your credit line, are generally not covered.
 - **Fees for making payments:** The credit card company cannot charge you a separate fee for making payments via mail, electronic transfer, telephone authorization, or other means, unless the payment involves an expedited service by a representative of the creditor, such as same-day service.
- **Payments:** The new law requires that payments reduce your balance as much as possible, and prevents companies from charging late fees for unfair billing practices.
 - **Applying payments to high-interest balances:** Credit card companies will be required to apply payments greater than the minimum to the highest-interest balance first. The only exception will be in the two statement cycles before a promotional rate expires. This is to help you pay off items purchased under promotional rates before their interest rate increases.
 - **Reasonable payment dates:** The new law prohibits weekend due dates, due dates that change each month, and payment deadlines that fall in the middle of the day.
- **Improved disclosures:** Credit card companies will be required to give cardholders clearer disclosures of account terms on statements each month, when you open a new account.
 - **New accounts:** Effective July 1, 2010, credit card offers must show you the interest rates, minimum charges, annual fees, transaction fees, and penalty fees in an easy-to-read box to help you compare across cards. Credit card companies also will be required to post credit card agreements online.
 - **Due date:** Your statement must disclose the late payment deadline and penalty interest rates that would apply if you are 60 days late paying your bill.

- **Time to Repay:** Your statement must tell you how long it will take to pay off your balance and the total interest you would pay if you only make minimum payments each month and do not take any other advances. The statement will also tell you how much you would have to pay each month to pay off your balance in three years (36 months).
- **Ability to repay:** Card issuers must consider your ability to repay when issuing a card or increasing your credit limit. The Federal Reserve Board will set rules to determine how credit card issuers will actually have to evaluate this.
- **Credit card protections for young adults:**
 - Credit card companies will not be allowed to extend credit to a person under the age of 21 unless he or she demonstrates an independent source of income that can be used to repay the debt or has a cosigner over the age of 21.
 - Young people should not receive prescreened offers. Credit bureaus are prohibited from providing credit card companies with young people's credit reports unless they have expressly consented.
 - Credit card companies cannot offer tangible items (like Frisbees or T-shirts) on college campuses or at events sponsored by colleges to induce students to apply for credit cards.
 - Credit card companies and universities must disclose agreements with respect to the marketing and distribution of credit cards to students.
- **Increased penalties for credit card issuers:** Card issuers that violate these new restrictions will face significantly higher penalties than under current law.

Consumer Beware: Items not covered by the new credit card law

While the new credit card law improves consumer protections, it does not prevent credit card companies from some practices that can be risky or damaging to consumers. Beware of the following:

Debit cards: The new law does not apply to debit cards, which are provided by banks and linked to your bank account. The new law does not change existing laws regarding overdraft fees or identity theft protections associated with debit cards.

Cancellation of credit cards: Credit card issuers are still allowed to cancel credit cards without providing prior notice.

Interest rates: The new law does not place restrictions on the maximum interest rate a credit card issuer can charge or limit the amount the issuer can raise your interest rate.

Tips for avoiding credit card fees

- **Pay on time:** Make sure to mark your calendar and always pay your credit card bills on time. Don't let yourself fall 60 days or more behind because many of the protections afforded by this new law will not apply. If you can't make a payment, call your credit card company and ask for a hardship arrangement.

- **Review time needed to repay:** Each month, review your statements for the amount of time it will take to pay off your balance making the minimum payment and the payment amount needed to repay in three years. If you realize that you're not going to be able to pay down the debt and make ends meet, call 311 and ask about the City's Financial Empowerment Centers which provide no-cost counseling.
- **Keep copies of bills and statements:** Check your credit card statement every month to make sure you are aware of the interest rate you are being charged, and keep copies in a file in case there is a discrepancy later.
- If you are notified about an **increase in your interest rate**, don't ignore it.
 - Call the credit card company to determine the reason why they are changing your rate. Try negotiating with your lender to maintain your current rate.
 - If negotiating fails, start shopping around for other cards that provide lower rates. Beware of promotional rates that may appear lower but increase later.
 - If you find a better rate, reject the new terms and cancel your card. You have the right to pay off your balance at your current rate.
- **Try to get your interest rate decreased.** If your rate has been changed already, call your credit card company to see if it can be lowered. As of August 2010, credit card issuers must reevaluate interest rate increases due to changes in your credit risk or market condition every six months.
- **Keep a record of contacts with your credit card company.** Whenever you speak to a customer representative on the phone, keep a record of the date and time of the call, the issue discussed, the name of the person to whom you spoke, and the resolution.
- Check your credit report on www.annualcreditreport.com to view what creditors see about your credit history.
- If you think that your credit card company is breaking any of the laws or mistreating you, you can **file a complaint** with the Federal Trade Commission (FTC) at 1-877-FTC-HELP (1-877-382-4357) or online at www.ftc.gov
- For **free, one-on-one advice or counseling**, call 311 to find a Financial Empowerment Center near you!

For more information about the NYC Department of Consumer Affairs Office of Financial Empowerment (OFE), visit nyc.gov/ofe