

Understanding Your Credit Card Rights

The Credit Card Accountability Responsibility Disclosure Act of 2009



Wanda P. Hardy, EMBA

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Introduction

As household incomes have declined during this economic downturn, American consumers are facing financial distress due to high credit card debt. As of 2009, American consumers owed close to \$1 Trillion in credit card debt, with the average household carrying approximately \$10,700 in credit card debt¹.

Knowing that the major provisions of the Credit Card Accountability, Responsibility Disclosure Act of 2009, also known as the Credit CARD Act of 2009, would go into effect on February 22, 2010 and impact the credit card industry, many credit card issuers rushed to make changes. Credit card companies increased consumers' interest rates, customers' accounts were closed for carrying balances or for being dormant and some credit card issuers reduced credit limits negatively impacting consumers, their credit reports and scores.

There has never been a more demanding time than now for American consumers to **GET SMART ABOUT CREDIT™**. Consumers must become more aware of the rules and responsibilities of using their credit cards as they are responsible for managing their use of credit to ensure that they do not overextend themselves on credit.

The purpose of the Credit CARD Act of 2009 intends to make credit lending more transparent by providing consumers additional and clearer information and protection.²

The Credit CARD Act amends the following:

- ▶ Truth in Lending Act (TILA) is amended to include additional protection for consumers, enhanced consumer disclosures, and special protection for young adults under the age of 21.
- ▶ Fair Credit Reporting Act amendment is aimed at the deceptive marketing of credit reports and provides protection for young consumers.
- ▶ Electronic Funds Transfer Act provisions targets gift cards.

This paper outlines major provisions of the Credit CARD Act of 2009 which went into effect on February 22, 2010 and provides provisions that become effective August 22, 2010. This paper may be used to explain some of the changes in credit laws.



¹ CreditCards.com

² AFI Tips & Tools Series: Understanding The CARD Act of 2009

Major Provisions under the Credit CARD Act of 2009³ /⁴ /⁵ /⁶ /⁷

Effective February 22, 2010

Increase in Rates or Other Fees. A credit card company must send consumers a written notice 45 days prior to a change in interest rate or other certain fees (such as annual fees, cash advance fees, and late fees) that may apply to their account. If the credit card company is going to change the fees or terms of the card, it must give the consumer the option to cancel the card before the new fee(s) become effective.

Interest Rate on Pre-existing Balances. Card issuers are prohibited from increasing interest rates on pre-existing balances. If the rate is increased, the new rate will apply only to the new transactions charged on the card. The old balance will continue to accrue finance charges at the old rate.

New Card Accounts – Interest Rate. Credit card issuers may not change the APR during the first 12 months of a new card, unless the cardholder was previously informed when the card was first opened and/or if the card has a variable interest rate tied to an index.

Promotional APR (Annual Percentage Rate). The promotional period for APRs must be for a minimum of 6 months.

Over-the-Limit-Fee. No over-the-limit fees may be charged unless the consumer has “opted-in” for the account to be setup to allow transactions which will exceed the credit limit. If the credit limit is exceeded, consumers may only be charged once in a billing cycle in which the credit limit on the account is exceeded



Double-Cycle Billing Has Ended. Consumers may only be charged interest on balances in the current billing cycle.

Billing Statements. Statements must be sent to consumers at least 21 days before their due date.

Billing Statement Disclosures. Monthly statements must be easier to understand and include: interest charged by type of transaction; information about the APRs; and, year-to-date totals of interest and fees: Example YTD:

2010 Totals Year-to-Date	
Total fees charged in 2010	\$ 0.00
Total interest charged in 2010	\$ 0.00

Payment Due Date. The due date must be the same each month and payments received by 5:00 PM on the due date are considered on time. A due date which falls on a weekend or holiday is considered on time if received by 5:00 PM on the next business day.

Late Payment Penalty. A credit card company may apply a penalty rate interest if a consumer fails to make a payment within 60 days after the due date. However, the penalty rate must be returned to the previous rate if the consumer makes 6 consecutive on-time monthly payments.

Applying Payments. When 2 or more interest rates apply to an account, payments made by consumers over the minimum amount due shall be applied to the balance with the highest interest rate first, then to each successive balance until the payment is exhausted.

³ Credit Card Act of 2009

⁴ Federal Reserve www.federalreserve.com

⁵ Consumers Union www.consumerunion.org

⁶ AFI Tips & Tools Series: Understanding The CARD Act of 2009

⁷ Jones Day

Minimum Payment Warning. Your monthly statement will tell you how long it will take to pay off the balance, if you only make the minimum payment.

New Balance	\$ 3,000	
Payment Due Date	4/20/12	
Minimum Payment Due	\$ 90	
Late Payment Warning: If we do not receive your minimum payment by the date listed above, your APRs will be subject to increase to a maximum Penalty APR of 28.99%		
Minimum Payment Warning: If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance. For example:		
If you make no additional charges using this card and each month you pay...	You will pay off the balance shown on this statement in about....	And you will end up paying an estimated total of ...
Only the minimum payment	11 Years	\$ 4,745

Simplified Credit Card Disclosure Statements. The law requires credit card companies to simplify information about the terms of the credit card to make the information more accessible and easier to understand to the average consumer.

Credit Card Agreements. The Act requires credit card companies to maintain their own internet sites where they will post their written consumer credit card agreements.

Protection for Young Consumers (Under the age of 21). Applicants under the age of 21 are required to have a co-signer and/or must show sufficient income to pay independently. Requests for credit line increases must include the co-signer authorization. Credit card issuers are prohibited from offering tangible items to induce students to open credit a card account. The Act requires colleges to publicly disclose any marketing contracts made with a credit card issuer for purposes of marketing credit cards.

Effective August 22, 2010

Free Credit Reports. Advertising for free credit reports must disclose that under Federal Law, free credit reports are available at www.annualcreditreport.com.

Prepaid & Gift Card Protection. The Act increases disclosures on terms of retailer and prepaid gift cards. It prohibits fees for dormancy and inactivity unless the card was dormant or inactive within the 12 month period before the fee is imposed. No more than one fee may be charged in any one month. Expiration dates are prohibited unless both the terms are clearly stated and the date is at least 5 years from the date of purchase or when money was added, whichever is later.

Conclusion

The Credit CARD Act of 2009 provides for more transparency in the credit card industry and ensures that consumers have more simplified information about the terms and conditions of their credit cards. The Act provides consumers with the opportunity to **GET SMART ABOUT CREDIT™** and to become more aware of the rules and responsibilities of using their credit cards.

⁸ www.federalreserve.gov/consumerinformation

About the Author

Wanda P. Hardy, EMBA, lecturer, financial education consultant, FDIC Money Smart Trainer & Instructor, and Money Coach is President and Founder of CreditWorthy, Inc., a nonprofit financial education organization. Ms. Hardy teaches Consumer Economics at Saint Joseph's University, Philadelphia, PA and Personal Finance at Cumberland County College, Vineland, NJ respectively.

She has conducted classes, workshops and seminars in New Jersey and Pennsylvania instructing individuals and families in making informed financial decisions. In addition, she has trained the staff of banks, social services agencies, non profit organizations and governmental agencies to deliver financial education classes.

Ms. Hardy's articles, including "Contact Lenders Fast Over Mortgage Problems" and "Credit Advice", have been published in the regional newspaper The Courier Post. "Get Smart About Credit...Get Out of Credit Card Debt" has appeared in Burlington & Camden County Woman Newspaper.

Wanda P. Hardy has been recognized for her work on behalf of financial literacy. She is the receipt of the:

- 2009 "American Association University Women - Eleanor Roosevelt Award"
- 2009 "Government Proclamation"
- 2009 New Jersey Coalition for Financial Education "In the Community Award"

CreditWorthy, Inc. has been recognized for its work for promoting and teaching financial literacy. The organization is the recipient of:

- 2008 FDIC "Leadership in Promoting and Facilitating Youth Financial Education"
- 2007 FDIC "2004 – 2006 Longitudinal Evaluation Impact Study."

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