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What Will the New Credit Card Legislation Do For You?

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On May 22, 2009, President Obama signed into law the Credit Card Accountability, Responsibility, and Disclosure Act. As noted in our blog article on July 28, 2009, certain provisions of that act go into effect in 2010 concerning the disclosures that must be made on credit card statements. Other provisions that regulate how credit card issuers can increase rates, charge certain fees, and calculate interest charges are also included in the legislation. Among those changes:

- Rate increases on existing balances due to “any time, any reason” or “universal default” are banned, and retroactive rate increases due to late payments are severely restricted.
- Contract terms must be clearly spelled out and must remain stable for the first year. Promotional rates may still be offered with new accounts or during the life of an account, but these rates must be clearly disclosed and last at least six months.
- Card issuers must give consumers a reasonable time to pay the monthly bill — at least 21 days from the time of mailing. This provision ends late fee traps such as weekend deadlines, due dates that change each month, and deadlines that fall in the middle of the day.
- Credit card companies will be required to apply excess payments to the highest-interest balance first and end the use of the balance in a previous month to calculate interest charges on the current month, so-called “double-cycle” billing.

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- Customer approval must be obtained to process transactions that would place the account over the limit.
- Fees on subprime, low-limit cards will be substantially restricted.
- Enhanced disclosure requirements regarding fees for gift and stored value cards, and restriction of inactivity fees unless the card has been inactive for at least 12 months.
- Conspicuous display on statements of how long it would take to pay off the existing balance and the total interest cost if consumers pay only minimum payments, and display of the payment amount and total interest cost to pay off the existing balance in 36 months.
- Contracts must be available on the internet and be in plain language.

The act also has new provisions concerning the marketing of credit cards to college students and young adults, including a requirement that card issuers and universities disclose agreements with respect to the marketing or distribution of credit cards to students.

Card issuers who violate the new provisions will also face significantly higher penalties than under current law, and regulators are given greater powers and responsibilities. For a more in-depth discussion of the goals and key elements of the new legislation, visit the website of the Office of the Press Secretary to the White House.

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