



A Summary of The Credit CARD Act of 2009

In May 2009, President Obama signed a new law designed to protect credit cardholders with more transparent credit card terms. Union Privilege was a proud member of the coalition of labor, consumer, civil rights and community organizations that worked actively to support this legislation for the benefit of all consumers.

The law, known as the Credit CARD Act of 2009, will reduce or eliminate certain fees and arbitrary rate hikes so that consumers better understand what they are paying for their credit cards. Following is a summary of the provisions of the new law, most of which go into effect February 22, 2010.

Interest Rates

- Credit card issuers cannot raise interest rates on existing balances unless:
 - The account has a variable interest rate
 - A special promotional rate period has ended
 - The required minimum payment is not received within 60 days after the due date.
- Credit card companies may still raise interest rates for future transactions
- If the issuer has raised rates due to market conditions or the account holder's creditworthiness, the issuer must review the accounts every six months and lower rates if indicated by the review
- Issuers may not raise rates during the first year after an account is opened
- Promotional rates must last at least six months

Notice for Changes in Account Terms

- Credit card companies must provide written notice to consumers at least 45 days in advance of significant changes in the terms of the credit card agreement
- Issuers must give cardholders the option to cancel the card before any adverse changes go into effect
- If the cardholder opts out, the issuer cannot change the terms for repaying a balance, except that the issuer may give the cardholder either:
 - Five years to pay off the outstanding balance at the old rate; or
 - An increased minimum payment that has no more than twice as much of a contribution to paying down the balance as the old minimum payment
- These provisions became effective Aug. 20, 2009

Fees

- Over limit fees will be eliminated unless the cardholder authorizes the bank to allow the account to go over limit
- Over limit fees (if authorized by the cardholder) may be charged only once per billing cycle
- Payment fees. Fees for payments made over the phone, by wire transfer, or on-line will be eliminated, except for last minute payments by phone with a live customer service representative.
- The new law calls for penalty fees (such as late fees) to be "reasonable and proportional." The Federal Reserve Board is expected to issue guidelines in February about what a reasonable fee is, with implementation of those guidelines occurring later in the year
- Credit card companies cannot charge financing fees or fees for opening an account that are more than 25% of the credit limit (the so-called "fee-harvester" or sub-prime credit card accounts)

Billing

- Payment due dates must be on the same date every month. If that date falls on a weekend or holiday, payments must be credited the next business day and no late penalties apply.
- Billing statements must be mailed or delivered at least 21 days before the due date (became effective Aug. 2009)
- Payment deadline cut-offs cannot be earlier than 5 pm
- Payments received at local branches must be credited the same day
- Payments above the monthly minimum will be applied to the highest-priced balance first instead of the lowest-priced balance
- Issuers are prohibited from applying finance charges for previous billing cycles (doing away with "double-cycle" billing)
- Credit card companies cannot increase credit card interest rates based on the card holder's payments on unrelated accounts (no more universal default)

Disclosures

- Billing statements will have to disclose the period of time and total interest it will take to pay off the card balance if only minimum monthly payments are made
- Statements must also disclose the payment amount needed if the cardholder would like to pay the balance in 36 months
- The billing statements must clearly state the required due date and late payment penalty
- Credit card agreements will be posted online and the Federal Reserve Board must keep a public website
- Billing statements must provide toll-free phone numbers for credit counseling and debt management services

Young Customers

- Credit Card applicants under the age of 21 must have a co-signor or provide financial information that demonstrates they are financially independent and are able to make their own payments
- Card issuers may not raise the credit limit on accounts held by a person under the age of 21 who has a cosigner without written permission from the cosigner
- Companies cannot make prescreened credit card offers to people under the age of 21 unless the consumer has consented to receive prescreened offers
- Card issuers are prohibited from giving tangible gifts to students on campus in exchange for filling out a credit card application
- Card issuers must disclose affinity marketing contracts made with colleges

Additional Provisions

Credit Report Advertising

- Advertisements for free credit reports must notify the consumer that free credit reports are available under Federal law and that AnnualCreditReport.com is the only official web site to get those reports
- Radio and TV ads must include the following statement in audio and video: "This is not the free credit report provided for by federal law."

Gift Cards

- Gift cards cannot expire less than five years from the date the card was purchased or money was last added to the card, whichever is later
- The issuer cannot impose a fee if the card has been used within the past 12 months. If a card remains unused for 12 months, then there can be one fee a month
- Stronger state laws continue to apply, including for both expiration dates and fees.
- The bill covers both retailer gift cards and prepaid general use gift cards (the ones that often are branded as Visa, American Express, MasterCard, or Discover.)
- The law does not cover rewards, loyalty, telephone or promotional cards and does not cover paper gift cards or paper gift certificates
- These provisions became effective Aug. 20, 2009