
Tips and Tools Series: Understanding The Credit CARD Act of 2009

Introduction

Although millions of households enjoy the convenience of credit cards, others have found themselves in financial trouble because of them. Credit card debt increased 25 percent between 2000 and 2009, with American consumers owing around \$1 trillion.¹



Individuals are responsible for ensuring they do not overextend themselves on their credit cards. They must be aware of the rules and responsibilities of using their cards. President Obama signed the Credit Card Accountability, Responsibility and Disclosures Act of 2009, also known as the Credit CARD Act of 2009, into law in May 2009. The law makes credit lending a fairer and

more transparent practice by providing consumers additional and clearer information and protections. The law amends three other laws:

- ▶ Truth in Lending Act
- ▶ Fair Credit Reporting Act
- ▶ Electronic Funds Transfer Act

This article outlines major provisions of the Credit CARD Act of 2009. AFI grantees can use this information to explain changes in credit card laws to their project participants.

[1] Karen Traver and Z. Byron Wolf, Obama Signs Credit Card Bill, Says Consumers and Lenders Need to Act More Responsibly, May 22, 2009, ABC News.

Major Changes in Credit Card Laws ^{2,3}

The Credit CARD Act of 2009 contains many changes to laws related to credit cards. Below is a summary of key provisions. An exhaustive summary can be found at [by clicking here](#). To read the entire law, click on this link.

1. **Credit card companies must provide consumers 45-day advance notice, in writing, of changes to interest rates.** The current notice period is 15 days. This provision took effect August 22, 2009.
2. **Credit card companies must send bills to consumers 21 days before their due dates.** This gives consumers more time to pay their bills, thereby reducing the potential for late fees and penalty interest rates. This provision took effect August 22, 2009.
3. **The law prohibits credit card companies from using double cycle billing.** That billing method uses the average daily balance of current and previous billing cycles, which produces high finance charges.
4. **The law prohibits credit card companies from changing cards' interest rates during the initial 12 months after the cards are opened.** However, companies may change interest rates if they inform users when cards are first opened.
5. **The law prohibits credit card companies from increasing interest rates on preexisting balances.** If a company increases the rate, the new rate will apply only to new amounts charged on a credit card. The balance prior to the rate increase will continue to accrue finance charges at the old rate.
6. **If a person does not make a payment within 60 days of the due date, then the credit card company may apply a penalty rate increase, although later timely payments**



necessitate a return to the previous (lower) rate. This provision works as follows. If payment is not made within 60 days of the due date, even during the first 12 months of having the account open, then the card holder is subject to a penalty rate increase. However, if the person then makes payments on time for 6 consecutive months, the rate must be returned to the previous rate.

7. **Promotional APRs (annual percentage rates) must be at least 6 months long unless the Federal Reserve identifies exceptions.**
8. **Credit card companies may not apply over-the-limit fees (charges for carrying balances above credit limits) unless customers have "opted-in" to allow banks to process transactions that would take them over their credit limits.** A company may apply only one over-the-limit fee during a billing cycle.

[2] U.S. Senate Committee on Banking, Housing and Urban Affairs Summary of the Credit Card Accountability Responsibility and Disclosure Act, the Credit CARD Act of 2009.

[3] Credit CARD Act of 2009.

- 9. Credit card companies must apply consumers' payments above minimum requirements to balances with the highest interest rates. A consumer carrying a balance may have multiple balances with different interest rates.**
- 10. Credit card payments received by 5 p.m. on the date due are considered on time.**
Currently, credit card companies may consider payments received after 11 a.m. late even if the mail typically arrives in the afternoon. Payments with due dates on weekends or holidays are on time if received the next business day.
- 11. Simplification of credit card disclosures.** The law requires credit card companies to disclose the duration of penalty interest rates; simplify information about variable rates; detail when grace periods do/do not apply; and use tables, bullet point lists, and bold-face type to make the information more accessible to the average consumer.
- 12. Disclosures in billing statements.** Billing statements must be easier to understand. Statements must include this information:
- Year-to-date totals of interest and fees
 - Interest charged by type of transaction
 - Information about the APR being used
 - Effect of minimum-only payments, including total repayment time (“If you continue to make the minimum payment of \$_____ on the existing balance of \$_____ at the effective rate of _____%, it will take you _____ months to repay your debt and cost you a total of _____.”)
 - Monthly payment amount necessary to eliminate the debt within 36 months.
 - Toll-free number where consumers can get information about accessing credit counseling and debt management services.
- 13. Credit card companies must consider a person's ability to pay when issuing credit cards or increasing credit limits.**
- 14. A person under age 21 may only open a credit card if there is a co-signer over age 21 and he/she submits financial information showing sufficient income to pay independently. Increases in credit limits must include co-signer authorization.**
- 15. The law limits prescreened offers to young people and requires transparency and public disclosure of affinity arrangements or contracts between universities and credit card issuers for purposes of marketing credit cards.** In addition, the law prohibits issuers from offering tangible items to induce students to apply for credit cards.

Implementing the Act and Making Changes

AFI project participants can benefit by understanding these new provisions and using the information now available to make positive changes in the way they use credit cards. AFI grantees should look out for information that further clarifies changes in credit card laws as the changes are implemented over time.

Many changes have already occurred—beyond those highlighted above. For example, some credit card companies changed their rates before this provision went into effect. Some

consumers who carried balances or had not used their cards in a long time had their cards closed by the issuer.



In addition, some credit card companies reduced the credit limits of their customers. From the industry's perspective, this cut potential liability as consumers have the right to spend up to their limit at any moment. However, this step could have had negative impacts on customers' credit scores, as lower credit limits decrease the amount of credit available to consumers.

To illustrate, a credit limit of \$10,000 with \$2,500 in credit charges would have a credit usage rate of 25 percent. However, if the issuing company lowered the credit limit to \$5,000, the new credit use rate would be 50 percent, although the consumer had done nothing different.

Conclusion

The Credit CARD Act of 2009 made significant changes to credit card practices. The law ensures that the credit card industry does not subject cards to predatory practices. It also ensures that users have clearer information about their credit cards and how they may use them. AFI grantees must understand the highlighted changes brought about by the law so they can instruct participants about possible impacts on their credit card usage.

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For more information, please contact the Assets for Independence Resource Center

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