

**HIGHLIGHTS OF NEW CREDIT CARD LAWS**  
**INFORMATION PROVIDED BY CONSUMER ACTION**  
**SEPTEMBER 2009**

**Credit Card Accountability Responsibility and Disclosure (CARD) Act takes effect Feb 22, 2010.**

**“Anytime, an reason”** Card issuers frequently include language in their cardholder agreements that allow them to change rates and terms at anytime, for any reason. Currently, some changes in rates and terms require 15 days notice.

Survey issuers that state they use this practice: Amalgamated, American Express Blue Cash, Bank of America, Capital One, Chase, Citi, Discover, Everbank, First Command, HSBC< Iberia, Pentago FCU.

**Under the new law:** No rate increase will be imposed on existing balances but rates can rise on future balances following 45 days notice to the cardholder.

**Exceptions:** If the cardholder does not make required minimum payments for 60 or more days, a teaser rate expires, or the index tied to a variable rate card changes.

Additionally, interest rates cannot rise for the first year after an account is open, except as specifically stated at account opening. An example would be the expiration of an introductory rate after 6 months.

**Universal Default** Some issuers use your credit score or your payment record with other creditors – not just your performance on the card- as a reason to increase interest rates. When the rate increases, the higher rate applies to your existing balance. Currently, no notice of such change is required.

Consumer Action defines universal default as a rate increase made to a cardholder’s account because of his or her record with another creditor. We found language in the disclosures of two banks that indicate they would raise cardholder’s rates because of negative credit history with an unrelated creditor.

**Under new law:** No rate increase will be permitted for the first year that an account is open. Additionally, no rate increase is allowed on existing balances because of a problem with another, unrelated creditor, but issuers may still increase the rate on future purchases with 45 days advance notice.

**Penalty/default rates** Issuers will increase your interest rate if you are late making a payment.

All surveyed issuers, except First Command, impose a penalty rate ranging from 12.75% to 31.99%

**Under new law:** Issuers still can impose any rate they choose but will have to provide 45 days notice, and will have to terminate the rate increase in six months, if subsequent payments are on time.

**Penalty Fees:** Issuers charge fees, both flat fees and tiered fees tied to the cardholder's balance, for late payments and for exceeding the credit limit.

Surveyed issuers using this practice: All but American Express Clear card and First Command Bank Platinum card charge late fees. Late fees on surveyed cards ranged from \$15 to \$39. Over limit fees ranged from \$10 to \$39

**Under new law:** Penalty fees must be reasonable and proportional to the omission or violation. The Federal Reserve will issue rules interpreting the mandate. Over limit fees will be prohibited unless you choose to allow the issuer to approve transactions that exceed your credit limit.

**Payment Allocation** Issuers apply your full payment to your lowest rate balance until it is paid off, regardless of any higher interest rate debt you carry on the card.

Surveyed issuers using this practice: We did not specifically ask this question, however, this provision is very common on cards which have different rates on different types of balances on the same card, such as purchase rates, cash advance rates and introductory promotional rates. Some issuers disclose in fine print that payments will be applied to the lowest rate balance first.

**Examples:** We apply your payment to the low APR balances first. You cannot pay off higher APR balances until you pay off lower APR balances.

If your account has balances with different APR's, payments are applied to the balance with the lowest APR before any payments are applied to balances with higher APRs. This means, that balances with higher APRs are not reduced until balances with lower APRs have been paid off.

First Command is the only card surveyed that states it will apply your payment in a consumer friendly manner, without being required to. It applies your payment to cash advance charges before purchases.

**Under New Law** After meeting the minimum payment, the rest of your payment will be applied to your highest rate balance first, saving you money in the long run as you pay off your balance.

**Payment cut off times** It is very common among issuers to require payments to be received by a certain time on the due date that is earlier than the end of the day.

**Under the new law:** Payment must be considered on time if received by 5pm on the due date. Lenders may decide if Central, Eastern or Pacific time zones apply.

**Fixed rates** Depending on the card and the issuer, credit cards may be fixed rate, which means they don't change unless you are notified of a change, and variable rate, which vary with a designated index such as the prime rate.

**Issuers:** Bank of America and Chase are switching cardholders from fixed to variable interest rates. While for now the rate remains the same, the interest rate is tied to the Prime Rate, which is at a historic low. So these card holders will see their rates rise when prevailing interest rates rise as the economy improves.

**Under new law:** Upon account opening issuers must disclose how long the rate is fixed and honor the fixed rate on existing balances. The Federal Reserve will decide whether future balances may be switched to a variable rate with 45 days notice.