



## New Credit Card Rules Have Gone Into Effect: What You Need To Know

### UNFAIR INTEREST CALCULATION

Eighty percent of Americans use credit cards. Of that 80%, very few realize that credit card companies have often charged arbitrary rate increases. Credit card rate increases would occur at any time and for any reason. And, of course, credit card companies have taken advantage of this right and have taken it for granted that the majority of consumers won't or don't take note of these increases.

The Act prohibits arbitrary and immediate interest rate increases. Under the guidelines found in the Act, an interest rate increase must be disclosed to the consumer 45 days before it goes into effect. This gives the consumer more time to use reward points, which must remain as they are for the 45 days. Credit card companies have been able to retract or reduce reward points at will. With the passage of the Act, a consumer now has the added opportunity to formulate a new plan to pay off the debt before the interest rate increase goes into effect. For example, a consumer may want to increase his monthly

payment on the specific credit card that he knows is going to be raising interest rates and decrease payment on accounts offering lower interest rates.

The Act, which addresses varying interest rates on partial balances which comprise the total balance, offers clear advantage to the consumer in that the credit card company must now apply excess payment to that balance with the highest interest rate.

In the past, even though the consumer has expected the credit card companies to apply payments to the balances with the highest interest rates, the issuer routinely applied the payment to the charges on the lowest interest rate. To illustrate this point: a credit card company may have offered a promotional rate of only 3%, but it may have only applied to the first \$500 charged; on an additional \$500 charge, an issuer was able to charge a cash advance rate of a whopping 28%; the next \$500 charged may have been a regular purchase rate of interest.

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## You're Not In Kansas Any More

In the current economic climate it is easy to feel that your life has been hit by a tornado and you are left with only the splinters and debris. This is, of course, after you have experienced the torrential downpour and the incredibly strong gales that blow everything you own to who knows where. Many people feel like Dorothy in the Wizard of Oz, watching their splintered lives whisk by them in broken pieces.

Well, it's true—you're not in Kansas anymore; that is if Kansas is like it was for Dorothy, a stable and safe place. With new legislation, a consumer's credit card is one financial area with which he can exercise some control and put a stop to the gale-force winds blowing his life to pieces around him.

A consumer will more easily spot added penalty fees, service fees, and increases in interest. Credit counselors, having a knowledge of the new legislation, can help a consumer gain control of his credit card debt. With the aid of the new legislation, a credit counselor can assure a consumer both control and optimum advantage in paying his overdue credit card debt. ■

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This provided the issuer with a higher assessed interest for a greater amount of time. To further use the previous illustration, historically, credit card payments would first be applied to the \$500 balance on which the 3% interest has incurred. The last balance to be paid off would have been the additional \$500 or the balance with the highest interest rate of 28%.

#### FAIR NOTICE OF CHANGES!

A credit card issuer must inform the consumer 45 days before a change in interest rate or other fees take place. Promotional rates must be plainly disclosed and must remain as stated for 6 months.

In knowing how the total balance of a credit card is typically broken up, a credit counselor will be able to correctly assess if payments are now credited appropriate to the Act; that is, consumer payments are credited to the balance with the highest interest rate first. The Act will serve to shorten the length of time in paying off the total balance owed which lowers the overall interest paid by the consumer. It will also ensure that promotional interest rates must stay in place for 6 months.

Another hidden charge associated with credit card interest rates has been the calculation of interest utilizing the balance in a previous month to calculate interest on the current statement.

This unfair practice is called “double-cycle” billing and it is no longer permitted under the Act. In this type of billing, the payment applied to a previous month’s balance is not considered or subtracted from the amount owed. A trained credit counselor has

the ability to assure that “double-cycling” isn’t presently occurring and can accurately calculate what the interest rate should be in subtracting the previous month’s payment from the balance and using that amount in calculating the assessed interest.

A credit card issuer was able to raise interest rates if it can see that your credit report has somehow suffered a set-back. The new found credit report information could be on another account entirely, but these new and negative aspects of your credit report were enough impetus for the credit card issuer to raise interest rates on your activity with their company.

The fact that the issuer can raise interest rates based on your lowered credit report status has not fundamentally changed with the Act, but what has changed is that, unless the consumer has a delinquency of 60 days on his account, the new interest rate can only be attached to new balances. The interest on the old balance must be assessed at the old rate.

A credit card issuer cannot raise interest rates for the first 12 months after you open an account. This new requirement for charging additional interest gives reason for the credit counselor to offer more encouragement to the consumer to pay off credit card debt, and that between the consumer and his credit counselor, more control over credit card debt can be realized.

#### UNFAIR LATE FEE PRACTICES

The Act frees the consumer from late fee traps which are incurred with weekend and holiday deadlines and due dates that change periodically. Oftentimes a consumer will not compare a previous statement with a present one and therefore doesn’t

realize he has been charged a late fee for passed due dates. He also does not take into account the mailing time if the due date falls on a weekend or holiday. This has been a significant way for credit card companies to increase their revenue—to merely make the due date on a weekend or holiday. Following the guidelines of the Act, the credit card company will be in clear violation should the due date fall on a holiday or weekend.

#### CREDIT LIMIT INCREASES WITHOUT CONSUMER KNOWLEDGE

Most credit card companies have allowed consumers to go over their credit limit without communication between the consumer and the company. Credit card companies have made a tremendous amount of money due to this allowance.

The credit card company would then slap on an extra fee, typically at least \$39. As a result of the Act, a credit card company will have to get permission from the consumer to process those transactions that would put the consumer’s account over the credit limit. If a credit card company pays charges that have exceeded a consumer’s credit limit, it cannot charge an over-the-limit fee.

Under the Act extra fees will be greatly restricted for a consumer who has a credit card with a low credit limit, largely because that consumer does not qualify for a card with a higher credit limit.

#### PLAYING HIDE AND SEEK WITH CREDIT CARD STATEMENTS

Credit card companies, due to the passing of this Act, will be required to be more transparent in their dealings with the consumer. What have been hidden fees assessed to the unknowing and uninformed consumer, are now appearing in a more straight forward and obvious manner. In the past, a credit card company could assess a hidden fee or a number of hidden fees at will and with little

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or “hidden” notice to the consumer. The issuer could even make these increased hidden rates retroactive so that the fees could be assessed a couple of months before the consumer was even notified of the change. A credit card company must now notify the consumer 45 days in advance of assessing any rate changes.

These hidden fees must now be clearly shown on the credit card statement so as to discern exactly what fees are being charged to the consumer and the purpose of such fees. The passage of the Act has actually increased the importance of having a credit counselor because of his ability to determine that the credit card company has or hasn't maintained its previous “hidden fee policy” and that the company has followed the Act and provided clarity of fees on the statements.

A consumer can then decide what credit cards need immediate attention due to frivolity of shown charges. A credit counselor is very useful in detecting unnecessary and frivolous charges. With the enactment of the new legislation, the credit counselor

can provide even more information on the purposes of fees that previously were hidden or frivolous.

A credit counselor can also look at the spectrum of a consumer's debt and advise him which accounts to pay off in the quickest manner and which credit card companies more often charge unnecessary fees.

With the Act, a credit counselor can now bolster his negotiation with a credit card company to waive certain fees by pointing out the frivolity of such fees. Credit counselors are in a unique position to negotiate that certain fees are taken off of a statement.

### **CREDIT CARD PAYMENT: CAUSE & EFFECT**

Credit card issuers will now be required to show, on a consumer's statement, the varying consequences of a consumer's finances if he pays the minimum payment on his debt, and the extra interest incurred in doing so. Issuers have to illustrate on the monthly statements, calculation of interest if the consumer pays off the entire debt in 36 months as opposed to lengthening or shortening the time it takes to pay the debt in full.

Showing the various scenarios on the statements provides the credit counselor with important information to even better serve the consumer in paying off his credit card debt intelligently and efficiently. In a credit card company's mandated clarity, much more information can be gleaned for the benefit of the consumer.

With more information, more interpretation and deciphering is necessary, and a credit counselor can best assess and discuss with the consumer the benefits of paying off one credit card over another.

### **WAS THAT IN MY CONTRACT?**

Contracts between credit card companies and consumers have traditionally only been received in hard copy, which means if a consumer had not kept a copy of the contract he had to request a hard copy from the issuer. This is another way that consumers have “skipped over” exactly what benefits and restrictions a credit card had to offer and more importantly, what that company typically charged in comparison to another credit card issuer.

A credit counselor did not, therefore, have ready access to the contracts between the consumer and issuer. As a result of the Act, credit card companies are now required to put contracts on the internet. This type of readily obtainable documentation helps the credit counselor to further analyze and compare the various credit card services available to meet his client's financial responsibilities.

A credit counselor can greatly help the consumer in monitoring changes in the contract to better advocate for the consumer. He can inform the consumer if current disclosures and/or protections and terms listed on the contract adequately serve him. The appearance of a consumer-credit card company contract on the internet makes clear the assurances a consumer has or does not have in using that particular credit card.

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## **New Legislation Is Consumer Friendly**

The new legislation, that went into effect February 22, 2010, is highly consumer friendly. The new legislation is known as the Credit CARD Act or the Credit Card Accountability, Responsibility, and Disclosure Act (hereafter referred to as the “Act”).

The Act addresses aspects of credit card expenditure that are most probably unknown to the majority of consumers, such as: making random interest rate changes which are often inadequately shown on credit card statements; applying the consumer's payment to the balance with the lowest interest rate first; and shortening the pay cycle less than 21 days to facilitate adding additional late fees if the payment is not received on time; and, charges that are incurred in extending increased credit in order to charge exorbitant fees.

The new Act addresses and seeks to remedy unfair practices associated with random interest rate changes and calculation of interest, the way consumer payments are applied to credit card debt, the charging of fees for late payments, clarity of activity on monthly statements and fees charged for over-the-limit transactions.

# TIPS & TRICKS

## New Credit Card Rules *(Continued from page 3)*

### TIGHTER REINS ON THE HORSE THAT GAVE AWAY CREDIT CARDS

In the past, anyone over the age of 18 could obtain a credit card, particularly if he was a college graduate or preparing to graduate from college. A pre-graduating college senior often found himself literally inundated with credit card applications and requests. With the passage of the Act, a co-signer will be required for anyone under the age of 21.

The exception to this would be if a person under the age of 21 has a lucrative job with an obvious ability to make the monthly payments. The advantage for consumers with this new clause of the Act, is that there won't be nearly as many delinquent accounts among credit card holder; therefore, the credit card company would be less inclined to tack on extra fees in order to counteract their client delinquency.

#### NEW CONSUMER-FRIENDLY CONCEPTS:

- Protections for consumers can be relied on
- All charges listed in straight forward manner
- Consumers can freely select any credit card knowing that strict guidelines are enforced for all credit cards
- Deceptive practices are much more easily discovered and remedies taken
- More accountability so that consumers can target those companies who hurt consumers

### THE LAST DITCH EFFORT

Between May 22, 2009 and February 22, 2010, credit card companies have enjoyed a "last ditch" opportunity to raise interest and collect what fees they could get before the fateful February 22nd deadline. You can bet these extra fees have been lavishly added in a credit card company's panicked reaction to the Act. One consumer has reported that the interest rate on her credit card went from 9% to 19% after the Act was presented. A credit counselor can be successful in negotiations for lowering interest rates and fees associated with the last desperate attempts by the credit card companies to make significant profit on the backs of in-debt consumers.

### I CAN READ MY STATEMENT!

Upon the implementation of the Act, it has become more important, not less, that the consumer reads every item on his monthly statement. It can be assumed that the Act will cause credit card companies to treat consumers more fairly and that they will work to a consumer's advantage. It is possible and maybe even probable, that companies will continue to stealthily add interest and fees that they are strictly precluded from in the Act.

By being familiar with the new legislation, a credit counselor can affirm to the consumer that a credit card company has done what is requisite in following the precepts of the new Act. The credit counselor actually has a responsibility to hold the credit card companies accountable for non-implementation of the Act. They can and will monitor/evaluate to determine that the protections for consumers are adequate and commensurate with the Act.

### CREDIT COUNSELORS: A BRIGHT SPOT

When new policies come into effect in any program, it is imperative that the people working in that industry acquaint themselves with that new policy and credit counselors are well-versed in the new Act. As more information becomes available to the public and transparency comes into effect, it becomes more imperative that a consumer seek to interpret, by study of his credit card statement, advantages that have been realized by the passage of the Act.

Careful analysis of monthly statements and credit card contracts is required to ascertain that lawful consumer protection is in place. The passage of the Act necessitates that a consumer in debt is knowledgeable enough to take full advantage of the new legislation and use it to his benefit. A credit counselor can be a bright spot in enlightening the consumer as to the advantages he now has as a result of the Act.

The new Act has helped to provide optimism about the consumer's financial future. The Act, with help of the credit counselor, is the proverbial calming of the wind and sweeping of the splinters commonly found as a result of today's financial tornado. Perhaps you can go back to Kansas after all. ■

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