Credit CARD Act of 2009

Here are the new rules enacted by the Credit CARD Act of 2009. The list is taken from www.bankrate.com For more information, visit, http://www.federalreserve.gov/consumerinfo/wyntk_creditcardrules.htm

8 major benefits of new credit card law
By Leslie McFadden • Bankrate.com

On May 22, President Barack Obama signed the Credit Card Accountability, Responsibility and Disclosure, or Credit CARD, Act of 2009 into law. The legislation will improve consumer disclosures and end some egregious practices in the credit card industry but stops short of capping interest rates and fees. Most of the provisions go into effect Feb. 22, 2010, unless otherwise stated.

Here's an overview of the major changes the law will enact.

1. Retroactive rate increases
Issuers can't raise rates on an existing balance unless a promotional rate expired, the variable indexed rate increased or you paid late by 60 days or more. No longer will they be able to punish borrowers for late payments on unrelated accounts under the practice of universal default or due to "anytime, any reason" clauses.
If the cardholder does trigger the default rate because of a 60-day delinquency, the bank must restore the lower rate once the cardholder demonstrates six months of consecutive on-time payments. This provision takes effect in August 2009.

In general, rates can't be raised in the first year after issuance, and promotional rates must last at least six months. Exceptions include expiration of a promotional rate, termination or completion of a workout plan, a change in the index rate or a 60-day delinquency.

Caveat: Issuers can raise rates at any time for any reason on new balances with 45 days' advance notice. Cardholders will still need to read correspondence from their creditors.

2. More advance notice of rate hikes
Consumers get 45 days' notice before key contract changes take effect, including rate increases. Under the current Truth in Lending Act, cardholders only receive a 15-day heads up. This change takes effect Aug. 20, 2009.
Caveat: This provision doesn't apply to credit limit changes. If your issuer slashes your limit, notification isn't necessary unless the reduction would trigger a penalty, such as an overlimit fee.

The new rules also don't cap interest rates. The increased rate can still be triple your existing APR.

3. Fee restrictions
Cardholders will not face overlimit fees unless they elect to allow the creditor to approve overlimit transactions. Issuers can't charge more than one overlimit fee per billing cycle.
In general, banks can't charge consumers a fee to pay their credit card debt, a cost some cardholders encounter for payments made by telephone or Internet. They can impose a fee to expedite a payment.

Payments received by the due date -- or the next business day, if the bank doesn't accept mailed payments on the due date -- won't trigger a late fee. If the cardholder pays at a local branch, the payment must be credited the same day.

The new law limits fees on "fee-harvester" subprime cards as well. In the first year after issuance, nonpenalty fees cannot take up more than 25 percent of the initial credit limit.

4. Restricts card issuance to students
Consumers under age 21 who can't prove an independent means of income or provide the signature of a co-signer aged 21 or older won't get approved for credit cards. The provision protects young people who lack the means or the knowledge to handle credit cards from miring themselves into debt, but could backfire by pushing students to payday lenders and pawnshops, says Greg McBride, senior financial analyst at Bankrate.com.
According to a recent Sallie Mae study, college students carried an average balance of $3,173 on their credit cards last year, a record high since the first analysis in 1998. A whopping 82 percent revolved a balance each month.

5. Ends double-cycle billing
The new law bans double-cycle billing, the practice of basing finance charges on the current and previous balance. Under this method, the issuer could charge interest on debt already paid off the previous month.

6. Fairer payment allocation
A close look at your card agreement will likely reveal a clause that explains that payments will be applied to lower-rate balances first. Not so anymore. The Credit CARD Act requires above-the-minimum payments to be applied first to the credit card balance with the highest interest rate.

7. More time to pay
Card companies must send statements 21 days before a payment is due. Current law requires a mere 14 days' notice. This provision goes into effect Aug. 20, 2009.
8. Gift card protections

The legislation includes protections for gift cardholders. The new law prohibits gift cards from expiring for at least five years. Issuer cannot assess inactivity fees unless the card has gone unused for 12 months.