

# New Credit Card Law: What It Means for Consumers

In May 2009, President Obama signed the Credit Card Accountability Responsibility and Disclosure Act of 2009, sweeping credit card reform legislation that marks the most significant changes in industry history. This new law will change card practices and business models, reshaping the way consumers have access to and use their credit cards.

## Changes in Interest Rates

- Prevents interest rate increases and universal default on existing balances – the repricing of interest rates on previously borrowed money has essentially been eliminated;
- Prevents rate increases within the first year after a card has been opened and requires promotional rates to last at least six months – this locks in the terms on card borrowing for a longer period of time;
- Prohibits double-cycle billing, a practice that involved charging interest on a loan taken during prior billing cycles under certain circumstances; and
- Requires payments above the minimum to be applied first to balance with the highest interest rate. This arises, for example, where a consumer has transferred a balance from another card that is subject to a low rate and has made new charges on the new account that are subject to a higher rate of interest.

## Changes in Fees

- Prohibits over-the-limit fees unless the cardholder elects to allow the issuer to complete over-limit transactions, offering consumers more control over such fees, but raising the possibility that such over-the-limit transactions will be denied;
- Prevents issuers from charging a fee to accept a payment except in expedited circumstances; and
- Requires gift cards to have a minimum life span of five years, while placing limits on certain fees.

## Changes in Disclosure

- Requires full disclosure of late payment penalties and for card agreements to be posted on the Internet. When coupled with the complete re-write of card disclosures mandated by federal regulators, this will result in greater transparency and customer awareness over the terms of their credit card contract;
- Requires 45 days notice of interest rate, fee and finance charge increases;
- Requires issuers to provide individual consumers with account information that discloses the period of time and total interest it will take to pay off the card balance if only minimum monthly payments are made; and
- Requires bills to be mailed at least three weeks before payment is due.

## Changes for Young Adults

- Requires issuers extending credit to young consumers under the age of 21 to obtain a co-signer or proof that the applicant can make the payments.

As the industry works to enact these changes, it is important to understand the full scope of the modifications and the effect they will have on consumers. While consumers will benefit from improved

transparency, there are also some unintended consequences that affect the availability and cost of credit. For example:

### **Higher Interest Rates for All**

The new legislation restricts the ability of credit card companies to price based on the individual risk of the customer. As a result, the system becomes a one-size-fits-all model, meaning that interest rates will likely increase for nearly everyone, including those with a good credit history, as those who successfully manage their credit will be subsidizing those who have not.

### **Limiting Credit, Lower Limits**

With this new one-size-fits-all approach, card limits will be lowered since lenders will be limited in managing risk going forward. Even customers that have a good credit score or have never missed a payment will likely see less credit available to them.

### **Annual Fees Will Be More Commonplace, Limiting Perks**

Customers will likely see annual fees become more common, while reward programs such as airline miles or cash back rewards may be limited. Also, since promotional offers will both be paid back differently and be required to last at least six months, cardholders will see fewer offers with introductory low interest rates.

### **Limiting Customer Flexibility**

Many customers may also have less flexibility in how and for what they can use cards (e.g. limits will be lower for many, so credit cards can't be used for large purchases or unexpected medical and other expenses) and have fewer options in how they repay.

### **Restricted Credit Availability for Students**

Since credit card companies will be prohibited from issuing cards to customers under 21 without a co-signer or proof of ability to repay, credit for students will be drastically limited. This will inconvenience millions of young adults who use their cards responsibly, while making it take longer for many to build up a credit history that is necessary later in life.

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