

The New Consumer Protections on Credit Cards: An Overview
by Sandra Harmon, Harmon and Associates

Prohibitions and Restrictions on Interest Rate Increases: Card issuers generally can't increase the interest rate on a credit card for one year after an account is opened, and after that, the rate can generally only rise on transactions. However, there are several exceptions that allow for rate increases during the first year and on existing balances. For example, card companies can increase the interest rate on an existing balance when the advertised, market-based "index" (such as the prime rate) that a variable-rate card is tied to goes up, a promotional rate expires or the consumer is more than 60 days late on payments.

Card issuers also must generally provide a 45-day notice before applying an interest rate increase to new transactions (those made more than 14 days after the date of the notice). For example, if customers receive a notice from their card company stating that the Annual Percentage Rate will increase to 24.9 percent, and the notice is provided July 1, that higher rate would apply to transaction made on or after July 16. However, interest on new transactions would only be charged at the higher rate if there is still a balance due after August 15 (the close of the 45-day notice period). As always, if you pay the balance in full by the due date, you can avoid interest charges.

Restrictions on Fees: As with a rate increase on new balances, card issuers also must generally provide a 45-day advance notice of other significant changes, such as new fees or increases in existing fees. However, in addition, cardholders must be notified that they now have special rights when they reject a change in fees. Those who say they want to cancel the account because of the change cannot be required to immediately repay the outstanding balance. The card company can either continue offering the existing payment method on the outstanding balance, give the consumer five years (or more) to pay the balance, or increase the minimum payment up to double the current level.

In addition, consumers will no longer be charged a fee when a transaction causes an account to exceed its credit limit unless the consumer has agreed in advance.

And, initial fees are significantly limited for subprime cards (for consumers with a limited credit history or a bad credit record). In the first year, and with the exception of three types of fees – those for late payments, going over the credit limit or returned payments due to insufficient funds – total fees cannot exceed 25 percent of the card's initial credit limit.

Note: Proposed rules governing fees are pending at the Federal Reserve Board. One proposed rule would prohibit credit card issuers from charging penalty fees (including late payment fees and over-the-limit fees) that exceed the dollar amount associated with the consumer's violation of the account terms. Another proposed rule would ban inactivity fees. Final rules took effect on August 22, 2010. For updated information, visit www.federalreserve.gov.

Better Billing Practices: Periodic statements must be mailed or delivered at least 21 days before the payment due date.

The law also requires that payments be allocated a certain way to minimize finance charges. For cards with multiple interest rates, payments over the minimum must be applied first to the balances with the highest rate.

In addition, payment due dates must fall on the same numerical day each month.

Protection for Young Adults: The marketing of credit cards on college campuses is restricted. Also, consumers under 21 must have a qualified co-signer or must prove they have the ability to make the required payments for the account.