STANDARD & POOR'S

The Credit Card Act of 2009: A Victory for Consumers?

"We expect consumers to live within their means and pay what they owe. But we also expect financial institutions to act with the same sense of responsibility that the American people aspire to in their own lives."

- Pres. Obama

The Credit Card Accountability, Responsibility, and Disclosure Act signed into law in late May 2009 offers strong consumer protections and restricts or bans common industry practices that lawmakers assert have contributed to Americans' financial difficulties for decades and that may have exacerbated problems during the current recession.

Key provisions of the new law, which will be rolled out over coming months, include the following:

- **Limits on interest rate increases.** Interest rates on existing credit card balances will be allowed only under certain conditions - i.e., the cardholder has fallen 60 days behind in minimum payments, a promotional rate expires, or the card carries a variable rate. Interest rates on new cards cannot be raised for the first year, and cardholders must be given 45 days notice of any significant change in contract terms, including a rate increase.

- **Elimination of "universal default" and "double-billing" practices.** Universal default, the practice of raising interest rates on cardholders based on payment records with other creditors, and "double billing," the practice of computing finance charges based in part on balances from previous billing cycles, will no longer be allowed.

- **More time to pay bills.** Card issuers must mail statements at least 21 days before they are due.

- **Highest interest balances paid first.** When cardholders have accounts with varying interest rates - for purchases versus balance transfers, for instance - any payment above the minimum amount due must be applied first to the balance with the highest interest rate. Current industry practice is to do the opposite, thus extending the debt pay-off time.

- **Limits on over-limit fees.** Cardholders must give permission to process transactions that would place their account over the limit.

- **Plain language disclosures.** Card companies must spell out clearly how long it will take cardholders to pay off an existing balance - and the total interest cost - if the consumer paid only the minimum due.

- **Restricts credit to minors.** Card issuers cannot offer credit to consumers under age 21 without first verifying their ability to repay the debt or obtaining the signature of a parent or other adult.

The Impact on Consumers

Lawmakers and consumer advocacy groups applaud the new legislation as a victory for all credit cardholders. Certainly the Credit Card Act's focus on controlling added costs to consumers in the form of indiscriminate interest rate hikes and penalty fees should benefit the millions of Americans who carry a balance on their credit cards from month to month.

Yet throughout the debate over the bill, opponents argued that the new law would make credit cards less available and more costly for all users. Credit card issuers have warned that by imposing restrictions on their ability to raise interest rates as a means of managing risk, they will be forced to make it more difficult for some consumers to obtain credit cards at all - and more costly for those who do obtain them.

While the bill has officially been signed into law, most of its consumer protections will not take effect for several months, leaving credit card companies a window of opportunity to cut credit limits, eliminate rewards programs, raise fees for cash advances, and otherwise prepare for the impending loss of revenue.

Action Steps

Much can change in the months before the new law takes effect, however credit cardholders can take steps now to ensure that their access to affordable credit is preserved.

- **Research a better deal.** For individuals who are unhappy with the terms of their current credit card contract, now may be an opportune time to shop around for a better deal. Cardholders can start by negotiating with their current card issuer and/or by researching other offers. Some card companies are already taking steps to comply with the new law, by allowing more time to make monthly payments or eliminating universal default policies. Users can track which cards are in compliance with the new rules at www.billshrink.com/credit-cards/bill-of-rights.

- **Know your credit score.** The higher your credit score, the more negotiating power you will have with creditors. Before launching a campaign to find a better card, obtain a copy of your credit report and credit score at www.annualcreditreport.com. Credit reports are free, while credit scores can be purchased for a nominal fee (less than $10).

- **Pay off debt before investing.** Given current market conditions, paying off credit cards before investing is a sound financial decision. Even if the market were performing in an historically average range, with gains of 8% to 9% annually, paying off debt would still be your better bet.