CreditCards.com

A Guide to the Credit CARD Act of 2009

Congress has enacted sweeping reforms; learn what they mean to you

Wondering what that new credit card act covers? Find out in this section-by-section review of the Credit CARD Act of 2009.

Signed into law May 22, 2009 by President Obama, the Credit CARD Act limits when issuers of consumer credit cards can increase interest rates and bans billing and payment practices that the Federal Reserve calls "unfair or deceptive". For consumers, the most significant provision of the credit card act limits when credit card issuers can increase interest rates on existing card balances (called retroactive rate increases). Consumers whose interest rates are increased may get rate reductions after six months if they pay their bills on time and don't exceed their credit limits. This guide gives a comprehensive look at the act, including the text of the law, explanations and plain-English translations of its key points. The package also includes a glossary of key terms.

Rates, terms and fees

The sections of the Credit CARD Act likely to affect the most consumers are those limiting when interest rates on consumer credit card accounts can be increased on existing balances (called retroactive interest rate hikes). The law also requires that fees for paying late or going over the credit limit are reasonable and related to the infraction.

Interest rate increases

Retroactive interest rate hikes on existing balances are banned, except when:

- An introductory or "teaser" period ends.
- The interest rate is tied to an index and is variable.
- The card user completes the terms of a workout plan for debt repayment or fails to comply with terms of a workout plan.
- The card user is more than 60 days late making a monthly payment. The card issuer must give the reason for the increase and must restore the interest rate to the previous, lower level after six months if the cardholder has made on-time payments during that six-month period.

Interest rates cannot increase during the first year on new accounts except under the four exceptions listed above. Promotional or "teaser" rates must last for at least six months.

Every six months, the card issuer must conduct reviews of accounts in which interest rates have been increased based on market conditions, the creditworthiness of the card user or other factors. If those factors have changed, card issuers must, if warranted, reduce the interest rate.

Universal default -- the practice of increasing card users' interest rates based on their payment records with unrelated accounts, such as utilities or other credit cards -- is banned.

Terms

Annual percentage rate- APR stands for annual percentage rate and it is the interest rate charged on credit card balances expressed in a standardized, annualized way. The APR is applied each month that an outstanding balance is present on a credit card.

Delinquent account- A delinquent account is a credit card account that the cardholder has not made at least a minimum payment more than 30 days past due.

Index- An index is a benchmark rate, such as the prime rate or LIBOR, to which a margin is applied to calculate a variable interest rate. For example, if your credit card agreement says your interest rate is prime plus 10 percent, and the prime rate is at 5 percent, your credit card's interest rate will be 15 percent.

Introductory period- In credit cards, the introductory period is the length of time during which the introductory annual percentage rate is in effect. The APR will usually go up after the end of the introductory period.

Issuer - A credit card issuer is any financial institution that issues, or causes to be issued, credit cards. Consumers often think that their credit cards are issued by MasterCard or Visa; they're not. Those companies are credit card transaction processors, not card issuers.

Universal default - Universal default is a common practice among credit card issuers that allows them to increase cardholders' interest rates for any change in risk profile with any lender. Under universal default, credit cardholders who fail to make timely payments to other creditors -- such as other credit card issuers, utilities, car lenders, landlords or mortgage lenders -- can see their rates raised by other creditors, even if they were never late in paying those other creditors.

Double-cycle billing

No finance charges for previous billing cycles unless there was an adjustment due to a disputed purchase or because a payment was returned for insufficient funds.

Terms

Billing cycle - The billing cycle is the time between billing statements. With credit card statements, the time between billing statements may vary.

Billing statement - A billing statement is a written record prepared by a financial institution, usually once a month, listing all transactions for an account, including deposits, withdrawals, checks, electronic transfers, fees and other charges, and interest credited or earned. The statement is usually mailed to the customer. Also simply called a statement or monthly statement.

Double-cycle billing - Double-cycle billing is the balance computation method used by some issuers that allows them to apply interest charges to two full cycles of card balances, rather than the most recent billing cycle's balances. Two-cycle billing effectively eliminates the grace period for people who paid off a balance in the previous month. Double-cycle billing was heavily criticized by consumers and federal regulators banned the practice, beginning in July 2010. Also called two-cycle billing.

Timely payments

Monthly statements must be mailed or delivered to credit card users at least 21 days before the due dates. If the account has a grace period, the finance charges for the month cannot be assessed unless the user receives the monthly statement at least 21 days before finance charges are to begin.

Subprime cards

Credit card issuers cannot charge upfront fees that exceed 25 percent of the available credit limit during the first year of subprime or 'fee harvesting' credit cards. The fee restrictions do not include late or over-limit fees or fees for insufficient funds.

Terms

Available credit - Available credit is the amount that is available to be charged to a credit card amount; the difference between the credit limit and outstanding charges on the account.

Bad credit - A term used to describe poor credit rating. Common practices that can damage a credit rating include making late payments, skipping payments, exceeding card limits or declaring bankruptcy. "Bad Credit" can result in being denied future credit.

Over limit - Being over-limit, or over the limit, refers to a cardholder account that has surpassed its credit limit with a transaction. When cardholders attempt to make purchases that will put them over their credit limit, the card issuer may decline the transactions or, as has become more common in recent years, may charge consumers hefty over-limit fees.

Over-limit fee - A fee charged when your balance goes over your credit limit (also known as over the limit fee).

Terms and conditions - Terms and conditions is the common name for the document in which credit card issuers describe in detail their practices. After a consumer applies for a credit card and receives it in the mail, the first use of the card turns the terms and conditions into a legal contract.

Allocating payments

Any monthly payment amounts that exceed the minimum payment due must be applied to balances with the highest interest rate first, then to balances with the next highest rate, and so on. For deferred interest programs, the card issuer must allocate the entire amount in excess of minimum during the last two months before the deferred-interest period ends.

Terms

Balance transfer- A balance transfer occurs when the outstanding balance of one credit card (or several credit cards) is moved to another credit card account. This is often done by consumers looking for a lower interest rate. Many credit card issuers offer introductory balance transfer APRs that are lower than the standard rates. Balance transfers usually have fees. - When consumers take out cash advances, they are usually charged a higher rate. The cash advance rate is higher because these loans are viewed as riskier for banks. The interest rate is typically charged from the moment of the cash advance.

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Convenience checks - Convenience checks are checks linked to your credit line that can be used just like checks linked to your checking account. Convenience checks can be made in any amount, as long as it does not surpass your credit limit. They are treated like a cash advance, meaning there is no grace period and interest is charged from the moment the check is used. They also tend to have higher interest rates than that charged for purchases.

Minimum payment - The minimum payment is the lowest amount of money that you are required to pay on your credit card statement each month. See your credit card "terms and conditions" document to see how your credit card's minimum payment is calculated.

Due dates and times

Due dates for monthly payments must be the same day each month. If due dates fall on weekends or holidays, payments must be credited to the account on the next business day without late penalties. If the card issuer changes its mailing address or payment processing procedures and the changes cause delays in crediting cardholders' accounts, the issuer cannot charge late fees during the 60 days following those changes.

Terms

Billing statement- A billing statement is a written record prepared by a financial institution, usually once a month, listing all transactions for an account, including deposits, withdrawals, checks, electronic transfers, fees and other charges, and interest credited or earned. The statement is usually mailed to the customer. Also simply called a statement or monthly statement.

Grace period - A grace period is the time during which you are allowed to pay your credit card bill without having to pay interest. It varies by credit card issuer. In recent years, grace periods have been shortening; 28 days used to be common, 21 days is common now. The grace period usually applies only to new purchases. Most credit cards do not give a grace period for cash advances and balance transfers; instead, interest charges start right away.

Late payment fee - A late payment fee is charged to a borrower who misses paying at least their minimum payment by the payment deadline. In order to avoid late fees, ensure that you pay at least the minimum amount by the due date. Late payments may affect your credit history negatively, even if your entire outstanding balance is later paid in full.

Payment due date - The payment due date is the monthly date when at least a minimum payment is due to be paid on a credit card account. It may not fall on the same date each month.

Over-limit fees

Under the Credit CARD Act, consumers must be given the option to opt in to over-limit fees. Otherwise, if they attempt to make purchases that exceed their credit limits, the transactions will be rejected. Consumers who choose to have over-limit fees must be informed of the amount of the fees and have the right to revoke their option at any time. Over-limit fees can be assessed to an account only once during each billing cycle. Consumers can opt in orally, electronically or in writing. The Federal Reserve Board must set up guidelines for selecting or rejecting the fee option and for the required notice to consumers.

Terms

Available credit - Available credit is the amount that is available to be charged to a credit card amount; the difference between the credit limit and outstanding charges on the account.

Overdraft protection - Overdraft protection is a service that automatically transfers funds from one bank account to another in order to avoid overdraft fees when insufficient funds are available. It can apply to savings accounts, checking accounts, lines of credit or credit cards. Overdraft protection carries its own fees.

Over limit - Being over-limit, or over the limit, refers to a cardholder account that has surpassed its credit limit with a transaction. When cardholders attempt to make purchases that will put them over their credit limit, the card issuer may decline the transactions or, as has become more common in recent years, may charge consumers hefty over-limit fees.

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No Pay to pay

Credit card issuers may not charge customers additional fees to pay their bills by mail, electronic transfer, telephone or other methods, unless customers request expedited payment (such as a last-minute payment to avoid late fees).

Terms

Payment due date - The payment due date is the monthly date when at least a minimum payment is due to be paid on a credit card account. It may not fall on the same date each month.

Youth and credit

The act places strict limitations on marketing and issuing credit cards to young people. Consumers younger than 21 who are not authorized users on their parents' credit card accounts must show proof of income to repay card loans or have an adult co-signer if they want accounts in their own names.

Offering free gifts (such as pizzas, T-shirts or hats) as inducements for college students to sign up for credit cards on or near campus is banned.

Credit for young consumers

Bans credit cards for people under the age of 21 unless they have adult co-signers or show proof that they have the means to repay the debts. Prescreened credit card offers must not be sent to consumers who are younger than 21.

Terms

Additional cardholder - When you have a credit card, it is often possible to add an additional card to the account for use by someone else. The main cardholder remains responsible for making payments on all charges made, whether by the original cardholder or the additional cardholder.

Authorized user - An authorized user is any person who has permission to use a credit card account, but is not responsible for paying the bill. In that way, it differs from joint credit, in which both parties are obliged to pay. In some cases, the user will receive a credit card in his or her name, even though it is linked to someone else's account.

Co-signer - A co-signer is a person who signs an agreement to pay off a loan for someone else if that someone else defaults. Co-signing is a technique often used among family and friends to allow a person with good credit to vouch for a person with new credit or bad credit to get a loan. The presence of a co-signer makes lenders more willing to approve loans for high-risk borrowers.

Joint account - A joint account is a bank account equally shared by two or more individuals. Parties involved all share the associated rights and liabilities of the account and are regarded by law as co-owners of the account. This means that if anything happens to the account, such as defaults or fraud, all parties are affected.

Piggybacking - Piggybacking is the act of improving your credit score or rating by becoming an authorized user on someone else's credit card. By doing this, you receive all the benefits of having good credit without actually having built any of the credit yourself. It is most often used by parents with their children or with spouses.

Under-21 college students

Anyone younger than 21 must get permission from parents, guardians or spouses to increase credit limits on joint accounts they hold with those adults. The law bans offers of freebies (pizzas and T-shirts, for example) if students sign up for credit cards on or near campus or at college-sponsored events. The law does not specify what “near” means. Congress urges colleges to adopt policies limiting the number of campus locations where card marketing events take place, requiring credit card marketers to alert the school when they are conducting on-campus marketing events and requiring that students receive credit and debt management courses as a routine part of new student orientation.

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Marketing contracts with colleges

Colleges, universities and alumni associations would have to disclose the existence and details of contracts they sign with credit card marketers allowing access to student and alumni contact information. Credit card issuers are required to file annual reports with the Federal Reserve Board detailing the terms and conditions of all business, marketing and promotional deals with colleges and universities, including the amount of any payments made to the schools. A report analyzing this data -- which is due nine months after enactment of the law (or by Feb. 22, 2010) -- must include a school-by-school breakdown. The Comptroller General of the United States must conduct periodic reviews of the annual reports filed by credit card issuers to determine the impact college card marketing programs may have on student credit card debt and recommend possible regulations.

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Disclosures

Credit card issuers must clearly disclose terms of consumer credit card accounts, including fees, penalties and terms. The most significant disclosure requirement is that credit card issuers must give 45 days' advance notice of significant changes in terms of credit card agreements. There are also requirements for disclosing payment due dates and how long it would take consumers to pay off their credit card debt if they make only minimum payments each month.

45 days' notice

Advance notice of changes to card agreements: Credit card issuers must give account holders at least 45 days' advance notice of significant changes in terms of the account, including interest rates and fees. Issuers must include a notice informing the card user of the right to cancel the account. Closing or canceling the account won't require the card user to immediately pay off the entire balance.

Terms

Card member agreement - The card member agreement provides the terms and conditions of a credit card account. This agreement is required by federal law as a consumer disclosure. It also represents a binding agreement between card issuers and their customers. It must include the annual percentage rate, the monthly minimum payment formula, annual fees and dispute resolution processes.

Issuer - A credit card issuer is any financial institution that issues, or causes to be issued, credit cards. Consumers often think that their credit cards are issued by MasterCard or Visa; they're not. Those companies are credit card transaction processors, not card issuers.

Terms and conditions - Terms and conditions is the common name for the document in which credit card issuers describe in detail their practices. After a consumer applies for a credit card and receives it in the mail, the first use of the card turns the terms and conditions into a legal contract.

Free credit reports

Companies that advertise offers of ”free” credit reports must include statements in those ads that consumers are entitled by law to receive a free credit report each year from each credit bureau. The ads must also state that the only official Web site for obtaining those free reports is AnnualCreditReport.com. Radio and television ads must include the following statement in audio and video: “This is not the free credit report provided for by federal law”

Terms

Credit report - A credit report is a compilation of the credit history of an individual or business. It is compiled by one or more of the credit bureaus and contains the detailed history of borrowing, payment behavior and credit inquiries.

Late payments

Monthly credit card bills must disclose the dates by which payments must be received to avoid late penalties and the dates that the late fees will be charged to the accounts.

Terms

Billing statement - A billing statement is a written record prepared by a financial institution, usually once a month, listing all transactions for an account, including deposits, withdrawals, checks, electronic transfers, fees and other charges, and interest credited or earned. The statement is usually mailed to the customer. Also simply called a statement or monthly statement.

Due date - Credit card bills have a due date. If your credit card payment does not arrive -- and get posted -- by the due date, you will be charged a late fee. It's important for credit cardholders to watch their payment due dates, since they sometimes change. Some credit card issuers allow their customers to set their own due dates.

Online agreements

Creditors must post credit card agreements on the Internet and submit electronic copies to the Federal Reserve Board. The Fed will act as a central repository for consumer credit card agreements.

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Payoff time

Card issuers must include a warning in monthly statements that indicates consumers who make only minimum payments increase the amount of time it will take to pay off their debts in full and the amount of interest they will pay. Issuers must also disclose the amount of time it will take card users to pay their balances off in full if they make only minimum monthly payments, the total amount they will pay, including interest, if they make minimum payments and how much they would have to pay each month if they wish to pay off the balance in 36 months. Card issuers must set up toll-free telephone numbers for consumers to get information about nonprofit credit counseling and debt management assistance. The Federal Reserve must issue guidelines for setting up the toll-free numbers to card issuers within six months of enactment (or by Nov. 22, 2009)

Terms

Balance - On a credit card account or credit line, the balance is the amount owed.

Billing statement - A billing statement is a written record prepared by a financial institution, usually once a month, listing all transactions for an account, including deposits, withdrawals, checks, electronic transfers, fees and other charges, and interest credited or earned. The statement is usually mailed to the customer. Also simply called a statement or monthly statement.

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Minimum payment - The minimum payment is the lowest amount of money that you are required to pay on your credit card statement each month. See your credit card “terms and conditions” document to see how your credit card's minimum payment is calculated.

Penalty interest rates

Card issuers must disclose whether interest rates will increase if one or more payments are not received on time and what the penalty interest rate will be. This notice must appear on the monthly statement near the payment due date.

Terms

Default APR - If you are late in making payments, your standard APR may increase to a default APR. Default APRs may be applied to all outstanding balances on your credit card. Also called penalty rate.

Right to cancel

Summary

Consumers will have a right to opt out of significant changes in terms to their accounts, including interest rate hikes and increases in fees and other charges. Until the law's passage, opting out of interest rate increases was only granted at the card issuers' discretion and was not a consumer right.

Opting out means the consumer can no longer make purchases with the card. Instead, the old, lower interest rate will be applied while the consumer repays the balance. There are three methods for repaying the balances on accounts that have been closed by consumers choosing to reject changes. Issuers can do one of the following:

- Collect the balance over at least five years.
- Charge a minimum payment amount that is up to twice the percentage charged before the change in terms.
- Use the same repayment plan used on the account at the time consumer rejects the change in terms.

Credit card issuers must inform card users of the right to cancel when they mail the 45-day advance notice of the change in terms. The notice must explain the steps cardholders can take to exercise their rights to cancel, including a toll-free number to call and the deadline for opting out.

Consumers who decide to opt out of the changes must not be penalized by card issuers. Opting out is not considered defaulting on the account. Issuers cannot demand payment in full of the outstanding balance or charge monthly maintenance fees on closed accounts if consumers reject the changes in terms.

Card issuers can begin charging the new, higher interest rates on accounts beginning 14 days after notice of changes in terms is mailed. But that new, higher interest rate can only be charged to transactions processed after the 14th day. According to the Fed, this is to prevent card users from abusing the system by going on shopping sprees before the higher APRs take effect.

There are exceptions to the opt-out rule. Consumers cannot opt out of increases in minimum payment amounts. The Federal Reserve Board has ruled that when card issuers increase minimum payments -- for example, by requiring card users to pay 5 percent instead of 2 percent of the outstanding balance each month -- account holders do not have the right to cancel their accounts based on this change. Why? Fed regulators reason this act, while often painful, is actually good for consumers. Higher minimum payments mean consumers will pay off their balances faster and pay less in finance charges.

Card issuers who increase minimum payments are not required to give 45 days' advance notice of this change in terms. Instead, the Fed gives issuers the option of providing 45 days notice or informing consumers at times when they are likely to notice the disclosure.

In addition, consumers who are more than 60 days late making payments do not have the right to reject APR increases.

Terms

Default APR - If you are late in making payments, your standard APR may increase to a default APR. Default APRs may be applied to all outstanding balances on your credit card. Also called penalty rate.

Balance - On a credit card account or credit line, the balance is the amount owed.

Opt out - Most large credit card issuers have policies that allow their cardholders to opt out of interest rate increases. Commonly, the issuers require cardholders who want to opt out to write a formal request within a limited period of time. If they do so, cardholders can keep their old rates until the debt is paid. However, they typically lose the use of the card and the account is closed once the balance is paid off.

Other

The law addresses the need for financial literacy education in schools, ability to repay debt, penalties for violators, timely settlement of credit card bills of deceased cardholders and studying how credit card insurance plans may be marketed to consumers.

The Credit CARD Act has two provisions that are unrelated to credit cards: Carrying guns at U.S. National Parks and banning predatory mortgage lending practices for homeowners seeking foreclosure and loan modification relief.

Estate settlement

When a credit cardholder dies and his or her estate administrator must resolve unpaid credit card debt, the Credit CARD Act requires that card issuers settle with administrators in a “timely manner”. People responsible for settling estates have complained of difficulty closing accounts and getting final payoff amounts from card issuers. The Federal Reserve Board, Federal Trade Commission and other regulators must develop procedures for card issuers to follow.

Ability to repay debt

Credit card issuers must not open a new account or increase the credit limit on an existing account unless the issuer has considered the borrower's ability to make the required payments on the account.

Terms

Billing statement - A billing statement is a written record prepared by a financial institution, usually once a month, listing all transactions for an account, including deposits, withdrawals, checks, electronic transfers, fees and other charges, and interest credited or earned. The statement is usually mailed to the customer. Also simply called a statement or monthly statement.

Grace period - A grace period is the time during which you are allowed to pay your credit card bill without having to pay interest. It varies by credit card issuer. In recent years, grace periods have been shortening; 28 days used to be common, 21 days is common now. The grace period usually applies only to new purchases. Most credit cards do not give a grace period for cash advances and balance transfers; instead, interest charges start right away.

Delinquent account - A delinquent account is a credit card account that the cardholder has not made at least a minimum payment more than 30 days past due.

Late payment fee - A late payment fee is charged to a borrower who misses paying at least their minimum payment by the payment deadline. In order to avoid late fees, ensure that you pay at least the minimum amount by the due date. Late payments may affect your credit history negatively, even if your entire outstanding balance is later paid in full.

Payment due date - The payment due date is the monthly date when at least a minimum payment is due to be paid on a credit card account. It may not fall on the same date each month.

Credit insurance polices

The Comptroller General of the United States must study products marketed with credit cards (namely, credit insurance programs and debt cancellation and debt suspension agreements). Credit card insurance programs charge monthly fees (that are typically added to the credit card bill) and promise to pay the consumer's monthly credit card bill should the consumer be unable to make the payment. However, there are typically numerous exclusions to payouts. The programs are often advertised in fliers included with a card user's monthly credit card bill or are offered in telephone solicitations from card issuers. The study will look at whether it is suitable to offer these products to certain customers, if the services are predatory, and the loss rates of the programs compared to traditional insurance products.

Terms

Credit life insurance - Credit life insurance is a type of insurance sold by affiliates of credit card issuers. Those who purchase credit life insurance may, under limited circumstances, have the insurance to repay outstanding card balances in the event of the death of the primary cardholder.

Penalties for violators

Violators of any of the provisions of the Credit CARD Act of 2009 can be fined between $500 and $5,000 per incidence.