How credit card reforms will affect you

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President Obama signed legislation last May that imposed broad new regulations on the industry. Some of the most significant provisions in the bill take effect today.

By Sandra Block, USA TODAY

Americans have a complicated relationship with credit cards. The average household has nine credit cards. Most of us wouldn't dream of going on a vacation or business trip without one. But many consumers believe the issuers of those cards engage in practices that are deeply deceptive and fundamentally unfair.

In response to widespread complaints, President Obama signed legislation last May that imposed broad new regulations on the industry. Some of the most significant provisions in the bill take effect today. The provisions will outlaw some of the industry's most controversial practices, says Austan Goolsbee, economic adviser to President Obama. The law also requires credit card companies to give customers advance notice of significant changes in the terms of their accounts, he says. Customers will have the right to close their accounts if they disagree with the new terms, he says.

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To mark the implementation of the bill's provisions, Obama released a statement Monday in which he said, "For too long, credit card companies have had free rein to employ deceptive, unfair tactics that hit responsible consumers with unreasonable costs. But today, we are shifting the balance of power back to the consumer and we are holding the credit card companies accountable."

Still, the bill doesn't outlaw some practices that are particularly irksome to consumers. Here's a look at how the reforms will affect your credit cards:

Interest rates

What has changed: Credit card issuers can no longer raise interest rates on existing balances. For example, if you're carrying a balance of $5,000 with a 13% interest rate, your credit card issuer can't raise that rate, except under certain circumstances. In addition, if you open a new credit card account, the issuer can't raise the interest rate for 12 months.

This provision is the most significant reform in the legislation and has the potential to save consumers billions of dollars a year, says Nick Bourke, manager of the Pew Charitable Trusts' Safe Credit Cards Project. "Starting now, consumers can no longer experience enormous rate increases on money they've already borrowed."

What hasn't changed: The legislation imposes no limits on the rates credit card issuers can charge new customers. Nor does it limit how much card issuers can raise rates on future purchases, says Josh Frank, senior researcher for the Center for Responsible Lending.

The prohibition on retroactive rate increases means credit card companies "are going to be more aggressive at changing rates on future purchases, and rates in general for new accounts are going to be higher than they were," says Ben Woolsey, director of consumer research for CreditCards.com.

There are also exceptions to the retroactivity rule. Credit cards can raise rates on existing balances if:

•The card has a variable interest rate and the underlying index — such as the prime rate — increases. In anticipation of the reforms, most banks have moved away from fixed-rate cards. In July 2009, less than 1% of bank-issued cards offered fixed rates, down from 31% in December 2008, the Safe Credit Cards Project says.

•The card has an introductory "teaser" rate for a specific period and that period expires.

•You're more than 60 days late on a monthly payment. However, the issuer must restore the old interest rate after six months if you make on-time payments during that period.

Fees

What has changed: Credit card companies are no longer allowed to charge a fee when you exceed your credit limit unless you sign up for this service.

WHAT YOUR STATEMENT WILL LOOK LIKE

1. Summary of account activity
Payments, credits, purchases, balance transfers, cash advances, fees, interest charges and amounts past due. This section will also show your new balance, available credit and the last day of the billing period.

2. Payment information
Your new balance, the minimumpayment amount and the date your payment is due.

3. Late payment warning
Any additional fees and the higher interest rate that may be charged if your payment is late.

4. Minimum payment warning
Estimate of howlong it could take to pay off your balance if you make only the minimumpayment each month, and howmuch you'll have to pay to eliminate your balance in three years.

5. Transactions
All transactions that have occurred since your last statement, including purchases, payments, credits, cash advances and balance transfers.

6. Fees and interest charges
Credit card companies must list the fees and interest charges separately on your monthly bill.

7. Year-to-date totals
The amount you've paid in fees and interest charges for the current year.

8. Interest charge calculation
Interest rates on different types of transactions, the balances subject to each interest rate and the amount of interest charged for each transaction.

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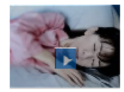

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Card issuers will also be prohibited from charging extra because of the way you pay your bills. For example, you can't be charged a fee for paying your bill by phone unless you request expedited payment or ask for help from a customer service representative, Bourke says.

What hasn't changed: Credit card issuers will still be allowed to charge annual fees, inactivity fees and other types of fees, Woolsey says. And an increase in those types of fees is a certainty, says John Ulzheimer, president of consumer education for Credit.com. Card companies are facing the loss of billions in revenue in over-the-limit fees, he says, "which means higher fees elsewhere and new fees we've never even heard of yet."

Billing practices

What has changed: Many borrowers have several lines of credit with different interest rates on the same credit card. For example, you could have one rate for a cash advance, another rate for purchases and still another rate for a balance transfer. In the past, when borrowers sent in a payment, issuers usually applied the entire amount to the balance with the lowest interest rate first. Now, issuers will be required to apply any amount paid beyond the minimum to the balance with the highest rate, Bourke says. Other changes:

•Credit card issuers must mail or deliver your bill at least 21 days before your payment is due.

•Due dates must be the same every month. If the due date falls on a weekend or holiday, the payment must be credited on the next business day, with no late penalty.

•Banks can no longer use a customer's average daily balance over two months to calculate interest, a practice known as "double-cycle billing."

What hasn't changed: When card holders have credit lines with different interest rates, card issuers are still allowed to apply the minimum payment to the lowest-rate debt. "If you're making just the minimum payment, this won't help you," Bourke says.

Disclosures and notices

What has changed: Card issuers are required to give 45 days' notice before raising interest rates, changing certain fees, such as annual fees or cash advance fees, or making other significant account changes.

Credit card issuers must provide borrowers with more information about the cost of carrying a balance. In monthly statements, you'll receive an explanation of how long it will take to pay off your balance if you make the minimum monthly payment. Your statement also will include an explanation of how much you'll need to pay monthly to eliminate your balance in three years.

Statements also must disclose the dates by which payments must be received to avoid late charges.

What hasn't changed: Card issuers can close your account or lower your credit limit for any reason, without giving you advance notice, Frank says.

In recent months, credit card companies have sharply lowered credit limits for thousands, a trend that's expected to continue, credit card analysts say.

Still, the new provisions will change some of the industry's most egregious practices, Bourke says. Now, "If you use your credit card for purchases, pay your bills and occasionally you're a couple of days late, your card is not going to blow up in your face," he says.

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tamim (0 friends, send message) wrote: 21h 22m ago

In 2009 Jamie Dimon, Chase CEO who made $41.2 million in 2006, stated "We should teach the American people you're supposed to meet your obligations, not run from them...". When I missed one credit card payment in 3 years, my interest rate was jacked to 22.24% and Chase told me I could apply to have a lower rate reinstated after 6 months of on-time payments. Now that I have done that, they tell me there is "no lower APR currently available", despite the fact that I did what they told me AND the prime rate is near the lowest point in years. So I guess you only have to "meet your obligations" if you're a single woman working 50+ hours a week, defaulting only on vacations and new clothes to make sure you get the bills paid? No wonder the American economy is in the shape it's in...I wonder if Mr. Dimon will pay my bill next month? And by the way, Bill T...the only money I owe on that credit card IS from the ONE vacation that I took in 5 years after nearly having a nervous breakdown following my father's death...but I'm sure you don't think I made a good decision by taking that vacation, huh?

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LibsWantYours (82 friends, send message) wrote: 1d 2h ago

Jber (15 friends, send message) wrote: 10m ago
Bulderdash. Mortgage derivatives turned each failure into 50. The defaults themselves were survivable and still are. You're a bit above your pay grade here Skippy.

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As long as people were making the payments, the derivatives had no impact on the housing market. You can be underwater on your house and still comfortably make your payment. Once the payments started to slow down, the derivatives started to lose value. The CDOs should not have been subject to mark to market accounting. That screwed up the valuation of the portfolios. It is not one thing, but a combination of things that caused the mess. How about Obama caps home valuations at 2% a year so nobody thinks a house is an investment. A house is shelter, not a stock.
==
Of course the derivatives didn't start losing value until the defaults kicked it. That is a given. But if each default was just one default our economy would not have collapsed. High interest ARMs, interest only, negative amortizations, blah blah blah. The banks could have handled these losses and they have already learned from them. Government regulation needs to be limited to derivatives. Period. If people still need the government to tell them that a house is not a guaranteed investment after this mess....well then they are relying too much on others to get them through life.

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Jber (15 friends, send message) wrote: 1d 2h ago

Mathesar (39 friends, send message) wrote: 8h 37m ago
The government needs to cap interest rates. Nobody should pay more than 15-20%. Some cards are now charging people, and yes it is their moronic choice, upwards of 79%. Insane. Anything over 20% is just greed. People should just stop using credit cards and paying cash. They wouldn't have a choice but to lower their rates then. It'll never happen though.

____
Hey can I borrow $10,000 from you and I will promise to pay you back at 15% over the course of 65 months. If you do this for 100 buddies, I guarantee some of them won't pay you back. If you don't like your terms, find another company. You aren't being held hostage to your credit card. It is a free market.

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Mathesar (39 friends, send message) wrote: 1d 11h ago

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Bill T. (66 friends, send message) wrote: 1d 11h ago

Everyone is exactly where they decided to be. There is no-one to blame. If you are deep in debt to a credit card at 20% interest, you chose to go there. they told you in the contract that they could raise rates at any time and for any reason. You still took the easy money and spent it...too bad!

We make thousands of decisions veryday that deternibes our life. We have NO-ONE to blame but ourselves for our situation. Some just made smarter decisions than others. Most people are still doing fine.

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STL-MO (9 friends, send message) wrote: 1d 12h ago

Credit card reforms won't affect me..........I cut my cards up a long time ago & stopped using them.

Hopefully the reforms will help the individuals & businesses that depend on them because the consumers getting a fair shake is longgggggggg overdue!!!

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LibsWantYours (82 friends, send message) wrote: 1d 12h ago

CYBERSEAL 75R (0 friends, send message) wrote: 3m ago
mwr133 (0 friends, send message) wrote:1d 1h ago
Hey angry vet, I paid $25 at Outback for a steak and fries today. Those prices are just rediculous. I think the government should step and force Outback and other steakhouses to cut their prices so that everyone can eat there. That way, the consumers can get a fair shake and the big bad restaurant chains cant overcharge their customers.
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Well its more like you sat down and ordered your meal- after you were done eating it they told you they changed the price and you now owed $50 instead of $25. This basically what many of the banks were doing.
== =
No, it was really just $25 but you tell your neighbor it was $50. The price went up because you bounced a check and owe the restaurant for their trouble and the bank for theirs. But you don't tell your neighbor that part and get them all worked up into an anti-restaurant frenzy about how unfair

they have been.

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LibsWantYours (82 friends, send message) wrote: 1d 12h ago

MikeBlack (3 friends, send message) wrote: 57m ago
LibsWantYours (82 friends, send message) wrote: 1h 10m ago
MikeBlack (3 friends, send message) wrote: 1h 3m ago
Jakebpg and DaysRnumbered, it really wasn't deregulation that caused the collaspe of 08. Regulation existed that should have tempered the collaspe if it had been enforced. The real problem was allowing banks to enter non-banking businesses. Banks had been limited since 1933 to the banking business. That and the structure of banking executives pay lead to the collaspe. Make available huge bonuses and executives will figure out a way to earn them.
===
It's hillarious to watch the entitlement crowd try and understand merit pay. Mortgage derivatives caused the collapse, CEO's will always be rich and some will always attack them for it.
========
What's hillarious is to watch people making posts when they have no clue. If you believe mortgage derivatives caused the collapse, you are misinformed. Mortgage derivatives were a sympton of the problem not the cause. The policy of the government with regards to mortgages was the primary cause. A person who makes $40,000 per year can not afford a $400,000 home, period. To make that happen, interest only and ARM mortgages were created, then the policy was changed to ignore credit reports, then the government increased interest rates. People could not afford the new house payment. Then, insurance companies such as AIG had to pay for the martgage insurance they had written, then the mortgage derivatives failed.

Oh yeah, I don't have a mortgage since my home is paid for and I have no debt and I have a good income. Not exactly entitlement.
=== ====
Bulderdash. Mortgage derivatives turned each failure into 50. The defaults themselves were survivable and still are. You're a bit above your pay grade here Skippy.

I highly doubt someone your age and mentality has a free and clear home and no debt. You can claim whatever you want on a blog so just to let you know, I'm Batman.

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