

Reforms to Protect American Credit Card Holders

A Summary of the Credit Card Accountability, Responsibility, and Disclosure Act

President Obama signed the Credit Card Accountability, Responsibility, and Disclosure Act into law on May 22, 2009, noting that "With this new law, consumers will have the strong and reliable protections they deserve. We will continue to press for reform that is built on transparency, accountability, and mutual responsibility – values fundamental to the new foundation we seek to build for our economy." To help explain the changes to the regulations, the White House issued a fact sheet that outlined the major provisions in the Credit CARD Act of 2009.¹ This fact sheet is reprinted below.

Principles for Long-term Credit Card Reform

First, there have to be strong and reliable protections for consumers. Second, all the forms and statements that credit card companies send out have to have plain language that is in plain sight. Third, we have to make sure that people can shop for a credit card that meets their needs without fear of being taken advantage of. Finally, we need more accountability in the system, so that we can hold those responsible who do engage in deceptive practices that hurt families and consumers.

Key Elements of the Credit CARD Act of 2009

Bans Unfair Rate Increases

- Financial institutions will no longer raise rates unfairly, and consumers will have confidence that the interest rates on their existing balances will not be hiked.

- **Bans Retroactive Rate Increases:** Bans rate increases on existing balances due to "any time, any reason" or "universal default" and severely restricts retroactive rate increases due to late payment.
- **First Year Protection:** Contract terms must be clearly spelled out and stable for the entirety of the first year. Firms may continue to offer promotional rates with new accounts or during the life of an account, but these rates must be clearly disclosed and last at least 6 months.

Bans Unfair Fee Traps

- **Ends Late Fee Traps:** Institutions will have to give card holders a reasonable time to pay the monthly bill – at least 21 calendar days from time of mailing. The act also ends late fee traps such as weekend deadlines, due dates that change each month, and deadlines that fall in the middle of the day.

- **Enforces Fair Interest Calculation:** Credit card companies will be required to apply excess payments to the highest interest balance first, as consumers expect them to do. The act also ends the confusing and unfair practice by which issuers use the balance in a previous month to calculate interest charges on the current month, so called "double-cycle" billing.
- **Requires Opt-In to Over-Limit Fees:** Consumers will find it easier to avoid over-limit fees because institutions will have to obtain a consumer's permission to process transactions that would place the account over the limit.
- **Restrains Unfair Sub-Prime Fees:** Fees on subprime, low-limit credit cards will be substantially restricted.
- **Limits Fees on Gift and Stored Value Cards:** The act enhances disclosure on fees for gift and stored value cards and restricts inactivity fees unless the card has been inactive for at least 12 months.

Plain Sight /Plain Language Disclosures

Credit card contract terms will be disclosed in language that consumers can see and understand so they can avoid unnecessary costs and manage their finances.

- **Plain Language in Plain Sight:** Creditors will give consumers clear disclosures of account terms before consumers open an account, and clear statements of the activity on consumers' accounts afterwards. For example, pre-opening disclosures will highlight fees consumers may be charged and periodic statements will conspicuously display fees they have paid in the current month and the year to date as well as the reasons for those fees. These disclosures will help consumers make informed choices about using the right financial products and managing their own financial needs. Model disclosures will be updated regularly based on reviews of the market, empirical research, and testing with consumers to ensure that disclosures remain clear, useful, and relevant.
- **Real Information about the Financial Consequences of Decisions:** Issuers will be required to show the consequences to consumers of their credit decisions.

Issuers will need to display on periodic statements

how long it would take to pay off the existing balance—and the total interest cost—if the consumer paid only the minimum due.

Issuers will also have to display the payment amount and total interest cost to pay off the existing balance in 36 months.

Accountability

The act will help ensure accountability from both credit card issuers and regulators who are responsible for preventing unfair practices and enforcing protections.

- **Public posting of credit card contracts:** Today credit card contracts are usually available only in hard copy and not in plain language. Now issuers will be required to make contracts available on the Internet in a usable format. Regulators and consumer advocates will be better able to monitor changes in credit card terms and evaluate whether current disclosures and protections are adequate.
- **Holds regulators accountable to enforce the law:** Regulators will be required to report annually to the Congress on their enforcement of credit card protections
- **Holds regulators accountable to keep protections current:**
 - Regulators will be required to request public input on trends in the credit card market and potential consumer protection issues on a biennial basis to determine what new regulations or disclosures might be needed.
 - Regulators will be required either to update the applicable rules, or to publish findings if they deem further regulation unnecessary.
- **Increases penalties:** Card issuers that violate these new restrictions will face significantly higher penalties than under current law, which should make violations less likely in the first place.

Cleans Up Credit Card Practices For Young People at Universities

The act contains new protections for college students and young adults, including a requirement that card issuers and universities disclose agreements with respect to the marketing or distribution of credit cards to students. **CI**