

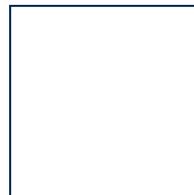
NEW CREDIT CARD RULES: What They Mean For You

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Community Affairs



THE FEDERAL RESERVE BANK OF RICHMOND
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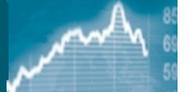
Overview

The Credit Card Accountability and Disclosure Act (CARD Act)

- Changes in interest rates
- Billing and payments
- Disclosures
- Fees

The analysis and conclusions set forth in this presentation represent the work of the author and do not indicate concurrence of the Federal Reserve Board, the Federal Reserve Banks, or their staff.





Rate Increases

- Card issuers can change rates
 1. If contract specifies a variable rate
 2. If card holder makes a late payment
 3. If promotional period ends
- After the rate is increased, the rate is higher for
 1. New purchases,
 2. Cash advances/withdrawals
 3. Balance transfers





Rate Increases

- Card issuers can NOT change rates
 1. If card holder is late/behind for another creditor
 2. Before the end of the first year of a newly opened account
 3. Without providing 45 days advanced notice (after the first year)
 4. On a purchase made within 14 days of that notice
 5. On pre-existing balances *except....*





Rate Increases

- Card issuers can NOT change rates on pre-existing balances *except when*
 1. A minimum six-month promotional period ends
 2. The card has a variable rate
 3. The card is already delinquent
 4. It is part of a work-out agreement





Rate Increases

- Card issuers can still charge floating rates
 1. Tied to an index
 2. Minimum floating rate if interest rates go very low





Payments

- When payments are due:
 - Payment due date must be same day each month
- What you pay for
 - Two months after a new interest rate starts, payments are first applied to the deferred interest balance, then the new
 - Transactions with the highest rate get paid down first





Payments

Type of Balance	Rate charged	Amount of Balance
Cash Advance	25%	\$1000
Purchases	20%	\$10
Penalty fees	15%	\$200
Balance Transfer	0%	\$500
Total balance		\$1720



Minimum payment due = \$5
Actual payment made = \$500

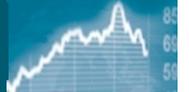




Disclosures - The Impact of Payments

- How long it will take to pay off your balance if you make a minimum payment
- How much you must pay each month in order to pay off the current balance over the next 12, 24 or 36 months
- How much money you spend on interest if you pay off the current balance over the next 12, 24 or 36 months





Disclosures – Important Dates/Times

- Disclosures occur at
 - Solicitations/promotions
 - Account opening
 - Monthly periodic statement
 - Change in terms
- Must state the same due day every month
- Must allow at least 21 days to elapse between bill mailing date and due date





Fees

- During the first year of a new contract, total fees (*minus penalty fees*) cannot exceed 25% of the initial credit limit
- Only one over-the-limit fee per billing cycle
- The same transaction can only generate fees
 - Once per billing cycle
 - For three billing cycles

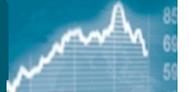




Fees

- Card holders can choose between over-the-limit fees or denial of credit.
- Late fees can only be applied if:
 - The 21 day billing period has passed
 - The payment is received after 5 p.m. on the due date
- No more inactivity fees allowed
 - But the account can still be closed due to inactivity





Fees

- Fee should be proportionate to the violation
- First violation no more than \$25
- Repeat of similar violation in next 6 months no more than \$35
- Higher fees can be charged only with a cost justification methodology



Tips: CARD ACT Rules of Interest to Seniors

- Timely settlement of estates
 - Card issuer must ensure that an administrator of an estate can determine the amount of and pay the outstanding balance of a deceased accountholder in a timely manner
 - If administrator requests account balance, card issuer must
 - Provide balance in timely manner,
 - Cease imposing fees, and
 - Waive or rebate interest accrued after request if balance paid in full within 30 days



Tips: CARD Act Rules of Interest to Seniors

- Must evaluate ability to pay – *must have income and/or assets*
 - Income, assets, current obligations
 - Debt-to-income ratio, debt-to-asset ratio, or residual income
- Online posting of agreements



Tips: For Everyone Every Day

- Know your due date - pay on time
- Stay below your credit limit
- Avoid unnecessary fees
- Pay more than the minimum payment
- Watch for changes in the terms of your account
- Compare offers: rates, fees, penalties
- Watch out for fraud – ask for help if you are uncertain





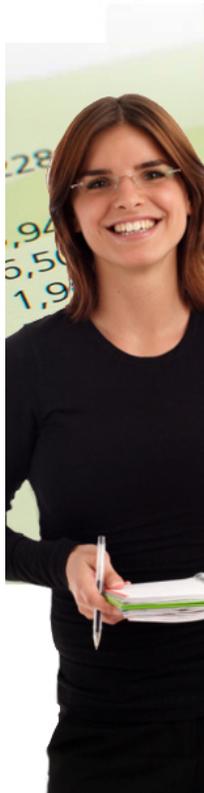
www.federalreserve.gov/consumerinfo/wyntk/creditcardrules.htm

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WHAT YOU NEED TO KNOW: New Credit Card Rules



The Federal Reserve's new rules for credit card companies mean new credit card protections for you. Here are some key changes you should expect from your credit card company beginning on February 22, 2010.

What your credit card company has to tell you

- **When they plan to increase your rate or other fees.** Your credit card company must send you a notice 45 days before they can
 - increase your interest rate;
 - change certain fees (such as annual fees, cash advance fees, and late fees) that apply to your account; or
 - make other significant changes to the terms of your card.

If your credit card company is going to make changes to the terms of your card, it must give you the option to cancel the card before certain fee increases take effect. If you take that option, however, your credit card company may close your account and increase your monthly payment, subject to certain limitations.

For example, they can require you to pay the balance off in five years, or they can double the percentage of your balance used to calculate your minimum payment (which will result in faster repayment than under the terms of your account).

The company does **not** have to send you a 45-day advance notice if

- you have a variable interest rate tied to an index; if the index goes up, the company does not have to provide notice before your rate goes up;
- your introductory rate expires and reverts to the previously disclosed "go-to" rate;
- your rate increases because you are in a workout agreement and you haven't made your payments as agreed.

- **How long it will take to pay off your balance.** Your monthly credit card bill will include information on how long it will take you to pay off your balance if you only make minimum payments. It will also tell you how much you would need to pay each month in order to pay off your balance in three years. For example, suppose you owe \$3,000 and your interest rate is 14.4%—your bill might look like this:

New balance	\$3,000.00
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Useful terms...

"go-to" rate
interest rate you are charged after the introductory rate

index
an economic indicator used to calculate interest-rate adjustments (e.g. the [Cost of Funds Index](#) 71KB PDF)

opt-in
giving your credit card company permission to include you in a particular service

workout agreement
a type of debt management plan

[Download 2MB PDF](#)

Other resources...

- [Bank Accounts and Services](#)
- [Consumer Credit](#)
- [Identity Theft](#)
- [Leasing](#)
- [Mortgages](#)
- [Personal Finance](#)
- [Federal Agency Contacts](#)

Need more direction...

To learn more about how these new rules



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Tips: Consumer Complaints

- **Federal Reserve Consumer Help**
 - Toll Free: 1-888-851-1920
 - Email – ConsumerHelp@FederalReserve.gov
 - www.FederalReserveConsumerHelp.gov
- **Office of the Comptroller of Currency (OCC)**
 - Toll Free: 1-800-613-6743
 - www.HelpWithMyBank.gov
- **Federal Deposit Insurance Corporation (FDIC)**
 - Toll Free: 1-877-275-3342
 - Email – Comsumeralerts@FDIC.gov
 - www.fdic.gov/consumers/consumer/cc
- www.consumercomplianceoutlook.org

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