

Understanding the Credit Card Accountability Responsibility and Disclosure Act

Advance Notice of Rate Increase and Other Changes

Credit card issuers must notify you of a rate increase — or any other significant change in terms to your credit card account — at least 45 days in advance of the effective date. (The Board will develop rules that address what a "significant change" means.) This notice must be clear and conspicuous, and will give you the opportunity to close the account. (This requirement goes into effect in August 2009.)

If you decide to close your account to avoid the new terms, issuers won't be able to charge a penalty fee for closing your account, place you in default just because you close your account while you still owe a balance, or require you to pay your balance in full immediately. But if your card issuer does raise your rate (or tells you it is going to) and you close your account, your card issuer can require you to pay back your balance over five years, or double your previous minimum monthly payment.

Retroactive Rate Increases and Universal Default Prohibited

Issuers cannot increase the annual percentage rate, fee or finance charge on your existing (outstanding) credit card balance except in certain circumstances.

- Your rate can go up if the rate you were given was clearly disclosed as lasting for a certain period of time. For example, your card issuer could offer an introductory rate if you were told what the new rate would be after the introductory period expired. Promotional rates must last for at least six months unless the Board comes up with other rules that allow for shorter promotional periods.
- Variable rate cards (which change as the underlying index changes) are still permitted. For example, if your interest rate is based on the prime rate plus 5.99%, adjusted annually, your rate will change if the prime rate changes.
- A credit card issuer may raise your rate on your outstanding balance if it had been temporarily lowered during a "workout" or temporary hardship arrangement that you either completed, or dropped out of.
- If you are sixty days late on a credit card payment, then your issuer can raise your interest rate retroactively, but you must be given the opportunity to earn back your previous rate if you make your minimum payments on time for six months.

An issuer cannot raise your rate on your credit card in the first year except in the circumstances above (such as an introductory interest rate, or if you fall 60 days or more behind.)

Interest Rate Reductions

If a credit card issuer increases your annual percentage rate based on factors such as your credit risk as a borrower, or market conditions, the creditor shall consider changes in those factors in subsequently determining whether to reduce your annual percentage rate.

Every six months (at a minimum), issuers must review accounts on which they raised the interest rate since January 1, 2009, to assess whether the facts they used to raise the interest rate have changed. If so, they must lower your rate. For example, let's say your card issuer raised your rate due to a decline in your credit score. If, a year later, your



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credit score is back to where it was when they first raised your rate, the card issuer would likely be required to lower your rate. This section of the law can clearly get complicated, so the Board must issue final rules describing how this will work no later than 9 months after enactment, and this section will go into effect 15 months after the date of enactment.

Double-Cycle Billing

Two-cycle, or "double-cycle," billing is banned.

Over-the-Limit Fees: Issuers cannot charge you a fee if you go over the limit on your credit card unless you have given them permission to authorize purchases that put you over your limit. Issuers cannot charge an over-the-limit fee if you go over the limit solely due to interest charges or fees.

If the issuer does authorize a purchase that puts you over your limit, you cannot be charged an over-the-limit fee unless you had opted-in to be allowed to go over the limit. (This does not require card issuers to allow you go to over your limit. They are still free to decline purchases above your credit limit.)

When over-the-limit fees are permitted, an issuer cannot charge an over-limit fee more than once per billing cycle. If you only go over the limit that one time (and don't continue making purchases that put you over your limit), you cannot be charged over-the-limit fees for more than three months in a row, even if your required minimum payments don't bring you back under the limit.

Payment Fees: Issuers can't charge fees for accepting payment by mail, electronic transfer, telephone authorization, or other means, unless the payment involves an expedited service by a service representative of the creditor.

Reasonable Fees: Late payment fees, over-the-limit fees, or any other penalty fees or charges, must be reasonable and proportional to the violation. The Board will work with banking regulators to develop guidelines describing what is reasonable here. (This provision becomes effective 15 months from enactment.)

Fixed Rate Means Fixed

If a credit card company offers a 'fixed' interest rate, the rate must not change or vary for any reason over the period specified clearly and conspicuously in the terms of the account.

Payment Allocation

If portions of your balance are at different interest rates, any payment in excess of the minimum payment must be credited first to the balance with the highest interest rate, then to each successive balance bearing the next highest rate of interest, until the payment is exhausted.



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If you have a deferred interest arrangement ("buy now, pay later" or "interest-free for six months" for example), the creditor must allocate the entire amount you've paid above the minimum payment to the balance on which interest is deferred during the last two billing cycles immediately preceding the expiration of the period during which interest is deferred. (Essentially this gives you the opportunity to pay off your deferred interest balance without having to pay off your entire balance if you have other outstanding balances at different rates.)

Changes by Card Issuer: If a card issuer makes a material change in the mailing address, office, or procedures for handling cardholder payments, and such change causes a material delay in crediting your payment during the 60-day period following the date on which that change took effect, the card issuer may not impose any late fee or finance charge for a late payment on the credit card account.

Subprime, or "Fee Harvester" Credit Cards

Fees on a credit card (not including late fees, over-the-limit fees, or returned check fees) cannot exceed 25% of the credit limit when the account is opened.

Statement Delivery and Due Dates

Statements must be mailed or delivered to a consumer at least twenty-one days before the due date. Tip: If you did not receive your statement, there is a federal law that protects you, but make sure you know and [follow the rules](#).

If a due date falls on a holiday or weekend when payments are not received or accepted by mail, the creditor cannot count a payment late if it is received the next business day. Payments received by 5 pm must be credited the same day.

If a card issuer accepts payments at branch locations, they must be credited the day they are received at the branch.

If your credit card carries a grace period, your statement must be mailed or delivered to you at least 21 days before the due date.

Floating due dates — due dates that change from time to time — are no longer allowed.

This section goes into effect 90 days after date of enactment.

Credit Card Issuance

Credit card issuers cannot extend credit, or increase a credit limit, without considering the borrower's ability to repay the debt.

Payoff Timing Disclosures

Credit cards must now contain a warning: 'Minimum Payment Warning: Making only the minimum payment will increase the amount of interest you pay and the time it takes to repay your balance.', or a similar statement the Board develops.



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The card issuer will also be required to tell you how long it will take and how much it will cost to repay your balance if you only make minimum payments. They must also tell you how much you must pay in order to pay off your balance in three years or less, and supply a toll-free number where you can get information about credit counseling and debt management services.

Late Payment Deadlines and Penalties

If the issuer imposes a late fee, it must be clearly disclosed on your statement. And if the card issuer will raise your interest rate because you make a payment late, the new interest rate must also be clearly disclosed on the statement.

Internet Posting of Credit Card Agreements

Creditors will be required to create and maintain an Internet site on which they post copies of their cardholder agreements. Copies must also be given to the Federal Reserve Board, which will maintain a central repository of consumer credit card agreements, and make them easily accessible and retrievable by the public.

Prevention of Deceptive Marketing of Credit Reports

Advertisements for free credit reports must clearly disclose that free credit reports are available under Federal law at: 'AnnualCreditReport.com.' Television and radio ads must disclose 'This is not the free credit report provided for by Federal law'. The Board will develop rules that detail the requirements in this section.

Procedure For Timely Settlement Of Estates Of Decedent Obligors

The Board, in consultation with the Federal Trade Commission and other agencies will develop regulations to require credit card issuers to establish procedures to ensure that any administrator of an estate of a deceased debtor can resolve outstanding credit balances in a timely manner.

Protection Of Young Consumers

No credit card may be issued to a consumer under the age of 21, unless he or she has submitted a written application to the card issuer that meets the following requirements:

- The signature of a cosigner, including the parent, legal guardian, spouse, or any other individual who has attained the age of 21 who has the means to repay debts incurred by the consumer in connection with the account, or
- Financial information indicating that the person under the age of 21 has the ability to independently repay the debt.

If a parent or other adult has cosigned a credit card to someone under the age of 21, the card issuer may not increase the credit limit on the account without the cosigner's written approval.

Prescreened credit offers may not be sent to those under the age of 21 unless they have opted in with the credit reporting agencies to receive such offers.



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Colleges and universities must publicly disclose contracts or agreements made with a card issuer or creditor for the purpose of marketing a credit card.

Card issuers and creditors may not offer a student at an institution of higher education any tangible item to get them to apply for a credit card if the offer is made on or near campus, or at an event sponsored by or related to the college or university.

Colleges and universities will also be encouraged to limit on-campus marketing of credit cards, and offer credit card and debt education, and counseling sessions, as a regular part of new student orientations.

In addition, creditors will be required to submit a report to the Board describing the terms and conditions of all business, marketing, and promotional agreements and college affinity card agreements with colleges and universities, alumni organizations or foundations affiliated with or related to such institutions, with respect to any college student credit card issued to a college student at such institution.

The Comptroller General of the United States shall, from time to time, review these reports and periodically submit a report to Congress on the impact of these arrangements have on credit card debt. The Comptroller General will make legislative or administrative recommendations it determines to be appropriate.

Gift Cards

Generally, issuers cannot impose a dormancy fee, inactivity charge or fee, or a service fee with respect to a gift certificate, store gift card, or general-use prepaid card unless there has been no activity with the previous twelve months, required disclosures (that describe these fees) have been made, and no more than one fee is charged per month.

Also, it is generally illegal to sell or issue a gift certificate, store gift card, or general-use prepaid card that is subject to an expiration date unless the expiration date is at least five years in the future, and the terms of expiration are clearly and conspicuously stated.

Further Study Required

Several issues were not directly addressed in this legislation. Instead, Congress ordered further study on these topics before deciding on a course of action.

Study and Report On Interchange Fees

The Comptroller will conduct a study on use of credit by consumers, interchange fees, and their effects on consumers and merchants. (The interchange fee is the fee merchants pay to credit card companies when they accept credit cards for payment.)

By 180 days after the date of enactment of this Act, the Comptroller shall submit a report to two Congressional committees containing a detailed summary of the findings and conclusions of the study required by this section, together with recommendations for legislative or administrative actions.



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Board Review Of Consumer Credit Plans And Regulations.

Not later than two years after the effective date of this Act and every two years thereafter, except as provided in subsection (c)(2), the Board shall conduct a review, within the limits of its existing resources available for reporting purposes, of the consumer credit card market, including:

- the terms of credit card agreements and the practices of credit card issuers;
- the effectiveness of disclosure of terms, fees, and other expenses of credit card plans;
- the adequacy of protections against unfair or deceptive acts or practices relating to credit card plans; and
- whether or not, and to what extent, the implementation of this Act and the amendments made by this Act has affected cost and availability of credit, (particularly with respect to non-prime borrowers); the safety and soundness of credit card issuers; the use of risk-based pricing; or credit card product innovation.

Comments will be solicited from consumers, credit card issuers, and other interested parties, such as through hearings or written comments. A summary of this review will be published and the Board will either propose new or revised regulations or interpretations to update or revise disclosures and protections for consumer credit cards, as appropriate; or state the reason for the determination of the Board that new or revised regulations are not necessary.

Report To Congress On Reductions Of Consumer Credit Card Limits

Before May 22, 2010, the Board, in consultation with other banking regulators, must submit a report to Congressional Committees that describes the extent to which, during the 3-year period ending on such date of enactment, creditors have reduced credit limits or raised interest rates applicable to credit card accounts under open end consumer credit plans based on:

- the geographic location where a credit transaction with the consumer took place, or the identity of the merchant involved in the transaction;
- the credit transactions of the consumer, including the type of credit transaction, the type of items purchased in such transaction, the price of items purchased in such transaction, any change in the type or price of items purchased in such transactions, and other data pertaining to the use of such credit card account by the consumer; and
- the identity of the mortgage creditor which extended or holds the mortgage loan secured by the primary residence of the consumer.

This report will also take a look at how these practices have affected low income or minority consumers, and will include suggested regulatory changes.

Board Review Of Small Business Credit Plans And Recommendations

The Board will conduct a review of small business credit cards (those used by businesses with fewer than 50 employees), and the credit card market for small businesses, including:

- the terms of credit card agreements for small businesses and the practices of credit card issuers relating to small businesses;



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- the adequacy of disclosures of terms, fees, and other expenses of credit card plans for small businesses;
- the adequacy of protections against unfair or deceptive acts or practices relating to credit card plans for small businesses;
- the cost and availability of credit for small businesses, particularly with respect to non-prime borrowers;
- the use of risk-based pricing for small businesses;
- credit card product innovation relating to small businesses; and
- the extent to which small business owners use personal credit cards to fund their business operations.

By May 22, 2010, the Board must provide a report to Congress that summarizes the review and other evidence gathered by the Board, such as through consumer testing or other research, and make recommendations for administrative or legislative initiatives to provide protections for credit card plans for small businesses.



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