



Consumer Credit Counseling Service
of Maryland and Delaware, Inc.

Helping people help themselves through Education, Financial Counseling and Debt Repayment

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How Do the New Federal Reserve Credit Card Regulations Affect You?

BALTIMORE, MD – The Credit Card Accountability, Responsibility, and Disclosure Act (CARD) that was signed into law last summer took effect on February 22, 2010. This law was developed to provide citizens with additional consumer protection. Here are some of the ways that credit card companies are now required to deal with you:

▪ **Information That Your Credit Card Company Has to Provide to You**

Advance Notices of Rate or Fee Increases. Credit card companies must now send you a written notice 45 days in advance before they raise your interest rate, change specific account fees (i.e., annual fees, cash advance fees, and late fees), or make other major changes to your credit card terms. If a credit card company plans to make changes to the terms of your account, they must give you the option to cancel your card before fee changes go into effect.

The company does not have to send you a 45-day advance notice before your rate goes up if you have a variable interest rate tied to an index, and the index goes up. Advance notice also isn't required when:

- Your introductory interest rate expires and reverts to the previously disclosed "go to" rate.
- Your rate goes up because you did not make the payments you agreed to make on a workout agreement.

Balance Payment Disclosure. Your monthly credit card bill will now contain information that shows how long it will take to pay off your balance if you only make minimum monthly payments. It will also list how much you need to pay each month in order to pay off your balance in three years.

▪ **Rules Concerning Rates, Fees, and Limits**

No rate increases for first year. A credit card company cannot increase your interest rate for the first 12 months after you open an account. This regulation does not apply if:

- Your card has a variable interest rate tied to an index, and the index goes up.
- You agreed to an introductory rate. However, the introductory rate must be in place at least six months before it reverts to the "go-to" rate disclosed when you obtained the card.
- You are more than 60 days late paying your bill.
- If you are in a workout agreement and do not make the required payments on time.

No applying rate increases to new charges. If a credit card company increases your interest rate, the new rate only applies to new purchases. It cannot be applied to your existing credit card balance.

Constraints on over-the-limit transactions. The credit card company must now decline transactions if they take your card over the limit, unless you have contacted them ahead of time to say that you want them to allow transactions even

if they go over the limit. If you choose this approach, your credit card company is only allowed to impose one fee per billing cycle, and you can revoke your decision to allow automatic over-the-limit charges at any time.

Limitations on high-fee cards. If you're required to pay fees such as annual or application fees, these fees cannot add up to more than 25% of the initial card limit. However, this rule does not apply to penalty fees or late charges.

Under Age Protection. Consumers who are less than 21 years of age now have to show that they can make payments. Otherwise, they will need a cosigner in order to open a credit card account. Once the account is in place, the cosigner must also provide written permission for all credit limit increases.

- **Billing and Payment Changes**

Your credit card company must now mail or deliver your credit card bill at least 21 days before your payment is due. If you pay more than the minimum monthly payment, they must apply the extra amount you send to the balance with the highest interest rate unless you made a purchase under a deferred interest plan (i.e., "no interest if paid in full by April 1, 2010.") Credit card companies are not allowed double-cycle billing; they can only charge interest on balances in the current billing cycle.

- **Possible Negative Effects**

It's very possible that the new credit law may also impact consumers in negative ways. Many experts believe that the new regulations will lead to increased interest rates, fees, and penalties. The new credit environment also may make it harder for consumers to obtain credit. No matter what the new law brings, one thing is clear: Consumers who inform themselves and use credit wisely are more likely to do well. Here are a few basic practices it makes sense to know and utilize:

- **Think before you apply.** Before applying for a credit card, shop around and compare. Don't be tempted by introductory offers that sound too good to be true or enticing rewards that conceal excessive rates.
- **Spend responsibly.** Used properly, credit cards can help you establish good credit. They come in handy on car rentals, online purchases, or when you buy big items, such as computers or kitchen appliances. Avoid using them on impulse or when you know you won't be able to pay off the balance when the bill arrives.
- **Pay your balance in full each month.** If you can't pay the complete balance, pay as much as possible. Making minimum monthly payments leads to trouble -- and lots of interest. For example, if you owe \$1,000 on a credit card with an 18% APR and only make minimum payments of \$30 each month, it could take up to eight years to pay off the balance, and you will pay almost \$700 in interest. If you'd like to know more about the cost of credit, please visit the Financial Tools section CCCS of MD & DE web site at www.cccs-inc.org.
- **Avoid cash advances and credit card checks.** These transactions generally involve a much higher interest rate, and cash advances usually aren't paid off until the rest of your balance is.
- **Review all monthly statements.** Check for and dispute unexplained charges. Also routinely request and review your credit report. To obtain a free, annual credit report from each of the three major credit reporting companies, visit www.AnnualCreditReport.com.
- **Get outside help.** If you know that you're going to be late on a credit card payment, call and alert the creditor. Explain your situation and ask if late fees can be waived. If you need further help, consider seeking advice from a reputable nonprofit credit counselor.

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