Credit Card Program Implementation

Fact Sheet

BACKGROUND

In December 2008, the Board adopted two final rules pertaining to open-end (not home-secured) credit. The first rule involved Regulation Z revisions and made comprehensive changes applicable to several disclosures required for: applications and solicitations, new accounts, periodic statements, change in terms notifications, and advertisements. The second was a rule published under the Federal Trade Commission (FTC) Act and was issued jointly with the Office of Thrift Supervision and the National Credit Union Administration. It sought to protect consumers from unfair acts or practices with respect to consumer credit card accounts. Before these rules became effective, however, the Credit Card Accountability Responsibility and Disclosure Act of 2009 (Credit CARD Act) amended the TILA and established a number of new requirements for open-end consumer credit plans. Several provisions of the Credit CARD Act are similar to provisions in the Board's December 2008 TILA revisions and the joint FTC Act rule, but other portions of the Credit CARD Act address practices or mandate disclosures that were not addressed in these rules. In light of the Credit CARD Act, the Board, NCUA, and OTS withdrew the substantive requirements of the joint FTC Act rule. On July 1, 2010, compliance with the provisions of the Board's rule that were not impacted by the Credit CARD Act became effective.

The Credit CARD Act provisions became effective in three stages. The provisions effective first (August 20, 2009) required creditors to increase the amount of notice consumers receive before the rate on a credit card account is increased or a significant change is made to the account's terms. These amendments also allowed consumers to reject such increases and changes by informing the creditor before the increase or change goes into effect. The provisions effective next (February 22, 2010) involved rules regarding interest rate increases, over-the-limit transactions, and student cards. Finally, the provisions effective last (August 22, 2010) addressed the reasonableness and proportionality of penalty fees and charges and re-evaluation of rate increases.

Credit CARD Act Highlights

Limited interest rate hikes: Interest rate hikes on existing balances are allowed only under limited conditions, such as when a promotional rate ends, there is a variable rate, or if the cardholder makes a late payment. Interest rates on new transactions can increase only after the first year. Significant changes in terms on accounts cannot occur without 45 days' advance notice of the change.

Limited universal default: "Universal default," the practice of raising interest rates on customers based on their payment records with other unrelated credit issuers (such as utility companies and other creditors), has ended for existing credit card balances. Card issuers are still allowed to use universal default on future credit card balances if they give at least 45 days' notice of the change.

The right to opt out: Consumers have the right to opt out of, or reject, certain significant changes in terms on their accounts. Opting out means cardholders agree to close their accounts and pay off the balance under the old terms. They have at least five years to pay the balance.

Limited credit to young adults: Credit card issuers are banned from issuing credit cards to anyone under 21, unless they have adult co-signers on the accounts or can show proof they have enough income to repay the card debt. Credit card companies must stay at least 1,000 feet from college campuses if they are offering free pizza or other gifts to entice students to apply for credit cards.

Clearer due dates, times: Issuers have to give card account holders "a reasonable amount of time" to pay monthly bills. That means payments are due at least 21 days after they are mailed or delivered. Credit card issuers are no longer able to set early morning or other arbitrary deadlines for payments. Cutoff times set before 5 p.m. on the payment due dates are illegal. Payments due at those times or on weekends, holidays or when the card issuer is closed for business are not subject to late fees. Due dates must be the same each month.

Highest interest balances paid first: When consumers have accounts that carry different interest rates for different types of purchases (i.e., cash advances, regular purchases, balance transfers or ATM withdrawals), payments in excess of the minimum amount due must go to balances with higher interest rates first. A common practice in the industry had been to apply all amounts over the minimum monthly payments to the lowest-interest balances first -- thus extending the time it takes to pay off higher-interest rate balances.

Limits on over-limit fees: Consumers must "opt in" to over-limit fees. Those who opt out will have their transactions rejected if they exceed their credit limits, thus avoiding over-limit fees. Fees cannot exceed the amount of overspending. For example, going $20 over the limit cannot have a fee of more than $20.

No more double-cycle billing: Finance charges on outstanding credit card balances must now be computed based on purchases made in the current cycle rather than going back to the previous billing cycle to calculate interest charges. So-called two-cycle or double-cycle billing hurts consumers who pay off their balances, because they are hit with finance charges from the previous cycle even though they have paid the bill in full.

Subprime cards rules set: People who get subprime credit cards and are charged account-opening fees that eat up their available balances get some relief under the law. These upfront fees cannot exceed 25% of the available credit limit in the first year of the card.

Minimum payments disclosure: Each monthly statement must include:

How long it will take to pay off the bill and the total cost to the consumer as a result of paying only the minimum amount due.

How much the consumer should pay each month to pay the bill off in three years, the total cost to the consumer in doing so, and the savings compared to paying only the minimum payment.

The tot.al amount of interest charged year to date, and a similar disclosure relating to the total amount of fees.

Late fee restrictions: Late fees are capped at $28 for occasional late payments; however, the fee for a second occurrence can be $39 if cardholders are late more than once in a six-month period. **Late fees cannot exceed the minimum payment due.**