Q&A about the Credit CARD Act, H.R. 627

What does the Credit CARD Act do?

It ends unfair, deceptive and anti-competitive practices of credit card companies. That's not just rhetoric—that was the official finding by the Federal Reserve when they passed their credit card rule in December, 2008: unfair, deceptive, and anti-competitive. (When they put their rule out for public comment, they received over 66,000 comments—the most ever!)

Here are the main provisions of the CARD Act (introduced as the Credit Cardholders' Bill of Rights):

--Any rate hike or change in terms must be 'noticed' 45 days in advance.
--Card statements must be sent 21 days in advance of the payment due date.
--Interest rate hikes on existing balances are prohibited—only on purchases going forward.
--Penalty rate increases for those less than 60 days overdue on their payments are banned.
--Over-limit fees are allowed only if companies obtain an affirmative opt-in in advance from the customer—and will be 'reasonable and proportional' to the cost, as set by regulators.
--Charging interest on debts paid on-time (i.e., double-cycle billing) is banned.
--Due-date gimmicks such as setting morning times for payment, before mail is delivered or charging fees for paying a bill by phone or internet.
--Requires promotional rates to last at least six months.
--Consumers under 21 must demonstrate an ability to pay (i.e., some kind of income) or have a parent co-sign for the card.

What's the 'kitchen-table' benefit to consumers??

No longer will credit card companies be allowed to increase interest rates on existing balances at any time for any reason. Only on new purchases going forward, and only with enough notice (45 days) to enable you to accept or reject the rate hike, and shop around for another card.

Card companies have already hiked rates to outrageous levels for many consumers. What can the CARD Act really do for consumers now?

With the rise in default rates of cardholders during the recession, it's true that card companies have increased rates and fees for many. But the CARD Act still has many tangible benefits for consumers.

The biggest? Starting Monday, rate hikes on existing balances are banned under the new law. That's a big impact for those who, in good times and bad, pay just the minimum balance at some times.

The littlest-known benefit is this: consumers can refuse to accept the rate hike and pay off the balance under the old rate. Under the new law, card companies are required to give 45 days' notice—almost two billing cycles—of any rate increases on new purchases. If a consumer receives notice of a rate hike that's out of line, they simply notify the card company that they reject the rate hike and want to close the account—and start shopping around for a new card. That's how markets *should* work, and haven't for far too long in the credit card business.

The Card companies have said they'll have to cut back on credit availability and card perks because of the costs of complying with this new law. Is that a problem?

There's plenty of reason to doubt the doom-and-gloom from card companies, who fought tooth-and-nail to oppose the law. While it's probably true that people with lower credit scores are having more trouble getting cards (just like they always have), just this week a Bloomberg News/Business Week story highlighted a high-score cardholder who received a new iPod using points from his card company: http://www.businessweek.com/news/2010-02-15/rich-getting-richer-rewards-as-credit-card-law-refutes-bankers.html

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