

CREDIT CARDS: THE NEW RULES

Consumers cheer. Banks complain.

Provided by Timothy C. Hucks, CEP, President, Rising Tide, Inc.

With the stroke of a pen on May 22, President Obama authorized major changes to the way American credit card issuers do business. In the President's view, these are "common-sense reforms designed to protect consumers."¹ Consumer advocates are rejoicing, but banks are already contending that the reforms might be bad for cardholders in the long term.

Here is a rundown of the notable changes within the Credit Card Accountability, Responsibility and Disclosure Act (CARD). Some of these changes will happen in 2010; others will occur within 90 days.²

No surprise interest rate increases. If your credit card company wants to hike interest rates, it will now have to inform you at least 45 days beforehand and tell you why in writing.³

New restrictions on retroactive rate increases. Under the new law, the interest rate on an existing balance cannot increase unless the customer is more than 60 days behind on a payment. Get this, though: even if that happens, the credit card company will have to restore the prior, lower interest rate if you pay the minimum balance on time for the six months that follow.³

Statements mailed 21 days in advance. The new rules say that your monthly bill has to be mailed to you by the credit card company at least 21 days prior to the payment due date.²

Pay before 5:00pm EST and you are on time. That's right: all credit card payments made before 5:00pm Eastern Standard Time will be considered paid on that day. If your payment due date falls on a holiday, a weekend, or any day on which the credit card issuer is closed for business, your payment cannot be subject to late fees.²

You can choose to attack the highest interest rates. Do you pay different rates for different kinds of credit card transactions? Under the new law, you will be able to apply any payment above the minimum to your highest-rate balance.²

More protection for teens and young adults. The new legislation bars companies from issuing cards to most people under age 21. Those younger than 21 will only be able to use a credit card under one of the following conditions:

- They can prove they have the means to pay the debt (or their parent or guardian promises to pay it off if they default)
- They are emancipated minors

- They are designated secondary cardholders on a parent or legal guardian's account.^{2,4}

No exploitation of college students. College-age Americans will still be able to get credit, but within reason. Account limits will be either 20% of their annual income or \$500, whichever is greater. So this market will grow less attractive for credit card companies.²

An end to universal default. If you make a late payment to one credit card issuer, other issuers will not be able to hike your rate as a consequence.²

Cardholder permission for over-limit fees. Credit card companies now have to get your OK before they can process a transaction that would put your account over its limit.²

Why are credit card companies crying? Cut out all the nickel-and-diming, and credit card issuers will be left with lower revenues. So where are they going to get the money back? Think reduced rewards for cardholders. Think new and inventive annual fees.

Edward Yingling, president and CEO of the American Bankers Association, fears that now "less credit will be available generally, which means some consumers and small businesses will not be able to obtain credit cards at all, particularly younger people and start-up small businesses." But Sen. Chris Dodd (D-Conn.), the driver behind CARD in Congress, thinks such claims sound "a little like Chicken Little."⁵

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Citations.

¹ cnbc.com/id/30872387 [5/22/09]

² smartmoney.com/personal-finance/debt/tighter-credit-card-rules-pass-senate-milestone/ [5/22/09]

³ latimes.com/business/la-fi-credit-card23-2009may23,0,2309867.story [5/22/09]

⁴ cnbc.com/id/30873054 [5/22/09]

⁵ cnbc.com/id/30872387 [5/22/09]