

Credit Card Tip Sheet: Understanding the New Rules



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Basics

In 2010, rules from the Credit Card Accountability Responsibility and Disclosure Act (Credit Card Act), as well as additional Federal Reserve regulations, went into effect to create new credit card consumer protections and disclosure requirements. These rules were further strengthened by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Financial Reform Act). There have also been changes to how gift cards and bank account overdraft programs work. There is a wide range of rules for how cards work and the information banks and creditors must share with you, and you can find the basics for each type of card below.

Credit Cards

The new rules affect what your credit card company has to tell you, how you are billed, and your interest rates. Your credit card company must tell you when they plan to increase your rate or other fees (at least 45 days in advance), and they must give you the option to cancel the card before certain fee increases take effect. They also must tell you how long it will take to pay off your balance (e.g., how long if you only make minimum payments, as well as how much you would need to pay each month in order to pay off your balance in three years).

The new rules also specify that your credit card company cannot increase your rate for the first 12 months after you open an account (with some exceptions – see the “cautions” section below). If your interest rate is increased (at any time), the new rate will apply only to charges you make after the rate goes into effect. If your credit card company increases your APR, it must reevaluate that rate increase every six months and, if appropriate, reduce your rate within 45 days after the evaluation.

You now have the option to “opt in” to allowing transactions that take you over your credit limit. If you don’t tell your credit card company to allow these transactions, the charges may be turned down. If your credit card company requires you to pay fees (such as an annual fee or application fee), those fees cannot total more than 25% of the initial credit limit. This limit does not apply to penalty fees, such as penalties for late payments. Plus, the company can’t charge you inactivity fees or more than one fee for a single event or transaction.

Changes to billing and payments include a requirement that your credit card company must mail or deliver your credit card bill at least 21 days before your payment is due. Your due date should be the same date each month, and the payment cut-off time cannot be earlier than 5 p.m. on the due date. When you make payments, they are to be directed to highest interest balances first, and credit card companies can only impose interest charges on balances in the current billing cycle (i.e., no two-cycle billing).

Finally, those under age 21 will need to show that they are able to make payments, or will need a cosigner, in order to open a credit card account.

Gift Cards

Gift cards that are covered include store gift cards (e.g., from a particular store or group of stores) and gift cards with a MasterCard, Visa, American Express, or Discover brand logo. Protections include limits on expiration dates (i.e., the money on your gift card will be good for at least five years), the ability to get replacement cards (e.g., if your card expires and there is unspent money, you can request a replacement card at no charge), and limits on fees (i.e., all fees must be clearly disclosed and, generally, fees can only be charged if you haven't used your card for at least one year; and you are only charged one fee per month).

Bank Account Overdraft Programs

Overdraft "protection" is when a bank or credit union covers overdrafts on a checking or share draft account. Banks should ask you before enrolling you in an overdraft "protection" program, and banks can no longer automatically enroll customers in overdraft protection plans for debit and ATM transactions. However, banks can still automatically charge fees for overdrafts from checks or automatic bill payments. For more information on overdraft programs, please consult MU Extension's *Overdraft Tip Sheet*.

Cautions

Financial organizations will have to be more creative to make a profit, so you may find new services created to generate fees.

Some types of gift cards are not covered by the new rules, such as reloadable prepaid cards that are not intended for gift-giving purposes, or cards that are given as a reward or as part of a promotion.

Banks can still automatically charge fees for checks or automatic bill payments that overdraft an account, regardless of whether or not customers opt in to the "protection."

Credit card companies can raise your rate (and do not have to send you a 45-day advance notice) if you have a variable interest rate tied to an index, your introductory rate expires and reverts to the previously disclosed "go-to" rate, or your rate increases because you are in a workout agreement and you haven't made your payments as agreed.

Regulators

If your credit card was issued by a nationally chartered bank (as most are), contact:

Comptroller of the Currency

Customer Assistance Group

1301 McKinney Street, Suite 3450

Houston, TX 77010

Phone: (800) 613-6743 Fax: (713) 658-0340

<http://helpwithmybank.gov/>

If the financial organization is state-chartered:

Missouri Division of Finance

301 W. High St., Room 630, PO Box 716,

Jefferson City, MO 65102

Phone: (573) 751-3242 Fax: (573) 751-9192

Email: finance@dof.mo.gov

If the bank is a member of the Federal Reserve System, contact:

Federal Reserve Consumer Help

PO Box 1200, Minneapolis, MN 55480

Phone: (888) 851-1920 Fax: (877) 888-2520

Email: ConsumerHelp@FederalReserve.gov

If the bank is *not* a member of the Federal Reserve System, contact:

Federal Deposit Insurance Corporation

Consumer Response Center

2345 Grand Blvd, Ste 100, Kansas City, MO

64108

Phone: 1-877-275-3342

TIPS

- Pay attention to the details of financial transactions; ask questions, and comparison shop. You can no longer assume that the accounts you currently have will work the same or cost the same.
- You may have received, or will soon be receiving, letters from your financial institutions. It's a good idea to make sure you understand the changes and to contact the financial institutions if you do not.
- With gift cards, you may still be charged a fee to purchase the card or other fees, such as a fee to replace a lost or stolen card. Make sure you read the card disclosure carefully to know what fees your card may have.
- To avoid overdrafts, keep track of how much money you have in your checking account by keeping your account register up-to-date. If you need help learning how, ask someone at the bank or credit union to show you. Also, if you have access to a computer, consider reviewing your account online.

Consumer Financial Protection Bureau

In addition to the regulators, another resource may be the Consumer Financial Protection Bureau (CFPB), which was created by the Financial Reform Act. The CFPB will actively enforce the Credit Card Act, and will have a consumer complaint hotline. Although it is still being setup, watch for the CFPB hotline or visit the website to file financial consumer complaints.

Sources

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