

[What's new with credit cards?]

Assistant Attorney General
Jessica Whitney

[Disclaimer]

- The opinions expressed today are those of the speaker and only the speaker. They do not necessarily represent the opinions of the Attorney General.

- 1) The CARD Act: Overview and key provisions
- 2) What students should know about consumer credit and credit cards

[Overview]

Credit CARD Act

Credit Card Accountability, Responsibility
and Disclosure Act



- H.R. 627
- Signed May 22, 2009
- Effective Feb. 22, 2010

Bipartisan support

House (357-7)



Senate (90-5)



*Charts used pursuant to open-content license at Govtrack.us

Implemented by Federal Reserve Bank Rules



Chairman Bernanke

Rules Promulgated:

- Feb. 22, 2010
- Aug. 22, 2010



Fed. Board Room

*Official U.S. Government photos.

[What does the Act do?]

- Puts limits and restrictions on interest rates and fees
- Adds more protection for young consumers
- Increases role of Federal Reserve Board in regulating consumer credit
- Makes miscellaneous regulatory changes

[Interest Rate Restrictions]

No interest rate increases in first year of card unless...

- a) Rate is variable and tied to an index
- b) The rate is introductory and reverts to a previously-disclosed "go to" rate
- c) Consumer payment is more than 60 days late, or
- d) Consumer is not complying with workout agreement

Six month minimum on promotional rates

Requires creditors offering a promotional rate to market to and gain consumers keep that rate available for at least six months after opening the account.

No more "Universal Default" Rate Increases

Ends practice of creditors increasing interest rates based on late payments to different creditors.

Increased rates only apply to new charges

Prevents creditors from applying new interest rates to old charges that were already on the cardholder's account before the rate increase.

45 Day Notice

Forces creditors to disclose any significant contract changes or interest rate increases 45 days before the changes will take effect.

"Why?!"

Creditors have to give consumers a written explanation for why their interest rate is being increased.

If consumers don't like the new terms, they can cancel

Allows most consumers to close out accounts before increases take effect, subject to conditions on ability to close out account and agreement to continue making minimum monthly payments.

Even if cardholders accept higher interest rates, creditors must re-evaluate

Requires creditors re-evaluate rate increases every six months. If a rate reduction is appropriate based on that evaluation, the creditor must reduce the rate within 45 days.



Grace Period

Minimum grace period of at least 21 days after bill is mailed before new finance charges may accrue – stops creditors from creating impossible due dates.

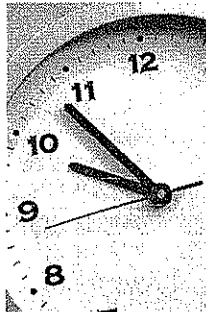
No more

“double-cycle billing”

Ends practice of creditors calculating finance charges and fees based solely on previous month's balance or leftover interest.

Standardized payment due date/times

- Requires payment cut-off times be no earlier than 5 p.m. on day payment is due.
- Requires payments be accepted any time before 5:00 p.m. the first business day following a due date that falls on a holiday or weekend.



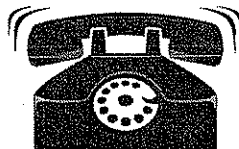
Application of excess payments

Requires creditors to apply excess payments to consumers' highest outstanding interest balance first, unless the consumer has a deferred interest plan.



Manner of payment

Prohibits fees based on manner of payment, except for expedited phone transactions.



“Reasonable and proportional”

Requires all fees to be reasonable and proportional to violations. For late fees, the rules:

- Limit late fees to \$25 unless one of the consumer's last six payments was late or the high fee is cost-justified.
- Prohibit inactivity fees.
- Impose limit of one fee per event or transaction.

[Over-the-limit Fee Restrictions]

Opt-In

- Requires consumers to opt-in before being charged fees for over the limit transactions.
- Limits these fees to once per cycle.
- Allows consumers to opt-out at any time.

[Protection for Young Consumers]

21+ Only

Generally prohibits extension of credit to consumers under age 21 unless co-signed by an individual over 21 or if the consumer has proof of ability to repay obligations.

Campus restrictions

- Requires colleges to disclose any relationships with creditors.
- Makes it illegal to induce students to apply for cards with tangible items on campus, near campus or at campus-sponsored events.

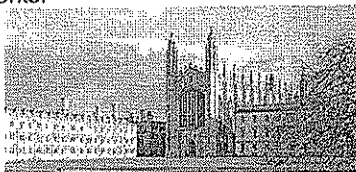


Image: Paul Martin Eldridge / FreeDigitalPhotos.net

[Increased role for federal regulators]

Federal Reserve Board

- Directs Fed to prescribe standards and rules for implementing Act.
- Directs Fed to report to Congress on how the Act is working.
- Requires OCC and FTC to report to Fed about enforcement actions.

Small Business Information Security Task Force

Creates task force to address small business security needs and prevent loss of credit card data.

Miscellaneous New Regulations

Gift Cards

Prohibits dormancy, inactivity or service fees with respect to gift cards unless 12 months have passed and disclosure requirements are met.

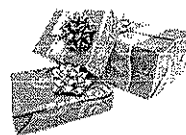


Image: Florence Scalise / FreeDigitalPhotos.net

Credit Reports

- Private advertisements of free credit reports must include disclosures that reports are available under federal law at www.annualcreditreport.com
- TV and radio advertisements must include statement that advertised product is not the report available under federal law.

25%

Limits the up-front fees for sub-prime/"fee harvester cards" to 25% of credit available in first year of card.

Ability to Repay

Requires creditors consider a consumer's ability to repay current and future obligations before issuing new lines of credit.

Claiming to have a money tree probably isn't proof of ability to pay...

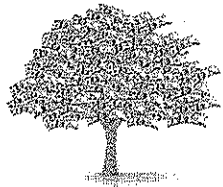


Image: Francesco Marino / FreeDigitalPhotos.net

Mandatory minimums disclosure

Creditors must tell consumers:

- The number of months it would take to pay off a balance, paying only the minimum monthly payment.
- The total cost to the consumer of paying the balance in full.
- The monthly payment amount that would be required to eliminate the outstanding balance at intervals like 12, 24 and 36 months.

[What students should know]

Topics worth discussing

- 1) The power and dangers of interest
- 2) What happens when you don't pay your credit card bill on time
- 3) How to be a "smart" credit consumer

[The power (and dangers) of interest]

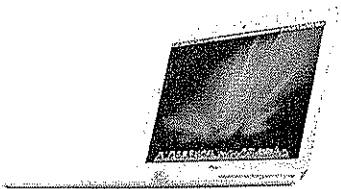


Image courtesy of Apple.

Retail price of new Macbook: **\$999.99**

National average
credit card APR
as of 7/7/10*:

14.43%

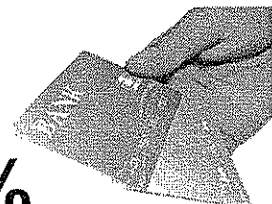
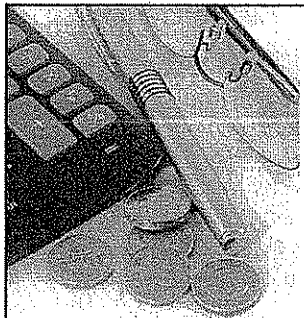


Image: Salvatore Vuono / FreeDigitalPhotos.net

* Source: <http://www.creditcards.com>



Assumptions

Principal	\$999.99
APR	14.43%
Average minimum monthly payment	\$20

Image: Grame Weatherston / FreeDigitalPhotos.net

Time to pay off debt if consumer only pays minimum monthly payment:

Six (6) years

Interest paid by consumer:

\$539.00

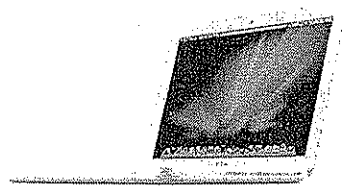


Image courtesy of Apple.

Actual cost to consumer for Macbook:

\$1539

Students should learn to make their own calculations

<http://www.federalreserve.gov/creditcardcalculator>




Image: Arvind Bafareman / FreeDigitalPhotos.net

[What happens when you don't pay your credit card bills?]

Overdue notices and demands will begin arriving in the mail...

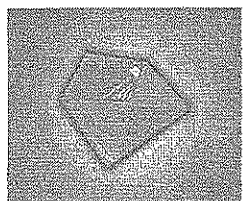


Image: Francesco Marivo / FreeDigitalPhotos.net

Creditors and collectors may begin calling... and calling... and calling you at home...



Image: jscrealities / FreeDigitalPhotos.net

Your credit score can be affected, leading to problems getting an apartment, additional credit, insurance, and even a job...

Interest rates will increase...

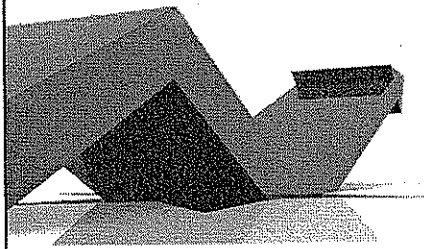


Image: rojith krishnan / FreeDigitalPhotos.net

Late fees and other finance charges will be assessed...

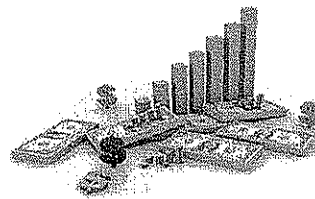


Image: jscrealities / FreeDigitalPhotos.net

Creditors and collectors may file legal actions to garnish wages and compel payment...

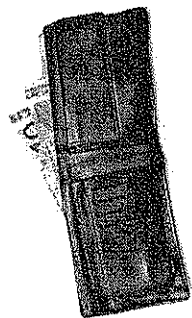


Image: djpodrn / FreeDigitalPhotos.net

You may even eventually be forced into bankruptcy...



Image: Daniel StPierre / FreeDigitalPhotos.net

[How to be a "smart" credit consumer]

Comparison Shop

Choose the best card based on your usage and the card's features:

- Affinity Cards v. Reward Cards v. Secured Cards
- Debit v. Credit Cards
- Look at the "go to" rate if the card carries a promotional rate
- Bargain for a better rate if you have competing offers

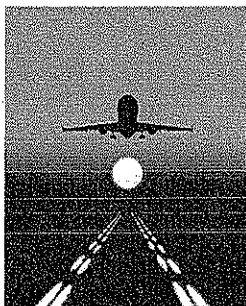
Rewards programs

Read the fine print!

Some reward programs:

- Have hidden fees.
- Include charges after the promotional rate expires.
- Have extremely burdensome restrictions.

Image: Salvatore Vuono / FreeDigitalPhotos.net



Debit v. Debit as Credit

Know what the cashier is asking when he says, "Debit or credit?"

- More "protection" for purchases made by credit
- Merchants may pay less in fees when you pay debit
- If you use your pin it's debit

How to opt out of credit card solicitations

www.optoutprescreen.com

- Any consumer can opt out of pre-screened offers for five years electronically via the website
- Or, consumers can opt out permanently by mailing in a form

How to use your free credit reports most effectively

- Consumers can receive one free credit report per year from each of the three major credit bureaus: TransUnion, Equifax and Experian
- So, consumers can stagger them and receive a credit report every four months

National Banks v. Credit Unions v. State Banks

Differences include:

- Who regulates the institutions
- Size of institution
- Products
- Rates, fees and returns
- Laws governing

Positive aspects of credit cards

Used wisely, credit cards can:

- Help consumers build credit and improve credit scores.
- Provide safety in making certain purchases.
- Be used to shop online securely.

[Questions?]