

Getting to Know the New Credit Card Rules: Credit CARD Act of 2009

Goal: Participants to learn what to expect from their credit card companies beginning February 22, 2010.

Objective(s): To provide participants with the information and skills that will enable them to manage their credit accounts.

Participants will:

- Understand major provisions of the Credit CARD Act of 2009.
- Apply their knowledge to improve their credit management skills.
- Save money by paying less interest and getting out of debt faster.

Life Skill(s):

- Wise Use of Resources
- Decision-Making
- Responsibility
- Critical Thinking

Character Focus: Responsibility

Justification:

The Credit Card Accountability Responsibility and Disclosure (Credit CARD) Act of 2009 provides sweeping statutory changes in credit card protections. It is intended to protect consumers from abusive fees, penalties, interest rate increases and other unwarranted changes in account terms.

GLE:

- Apply fundamental economic concepts to decisions about personal finance (E-1A-H1).
- Identify factors that drive economic decisions (e.g., incentives, benefits, costs, trade-offs, consequences) (E-1A-H1).
- Analyze an economic choice at the personal, family, or societal level to determine its opportunity cost (E-1A-H1).
- Describe the effects of governmental action or intervention in a market economy (E-1B-H3).

Family and Consumer Sciences: Strand—Management of Resources

Standard:

- 3. Analyze the interrelationship between the economic system and consumer decisions and actions.

- 4. Analyze financial planning to meet the needs of individuals and families across the life span.
- 5. Demonstrate how to develop a long-term financial management plan.

Delivery Mode: Group Meeting

Time Allotted: 20 to 40 minutes

Materials Needed for the Lesson:

- Posters 1-22. These posters can be made for **small groups** by printing the “Getting to Know the New Credit Card Rules” PowerPoint slides that are provided with this lesson.
- For **larger groups**, use the “Getting to Know the New Credit Card Rules” slide presentation. Presenter will need computer, projector, screen, extension cord and projector table or cart.
- *Understanding the Credit Card Accountability Responsibility and Disclosure (Credit CARD) Act* fact sheet; available:
http://isuagcenter.com/en/money_business/personal_finance/saving_investing/sail/cr_edit/Take-Control-of-Your-Credit.htm
- Copies of Poster 8 for all participants

Number & Grade/Age of Participants: 10 to 40 participants, Grades 10 – Adult

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References:

- Board of Governors of the Federal Reserve. (2010). What you Need to Know: New Credit Card Rules.
- Consumer Union. (2009). Upcoming Credit Card Protections.
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- The White House. (May 22, 2009). Fact Sheet: Reforms to Protect American Credit Card Holders. Retrieved 7/2/09 from www.whitehouse.gov/the_press-office/Fact-Sheet-Reforms-to-Protect-American-Credit-Card-Holders .

Teaching the lesson

This lesson is written so that the presenter can use it as a guide for the discussion of various points while following the sequence of posters. The presenter should discuss the information with the participants and encourage them to respond/participate in discussions.

Say: In May 2009, President Obama signed the Credit Card Accountability, Responsibility and Disclosure Act of 2009—also known as the Credit CARD Act. The law is designed to protect consumers from some (unfair and deceptively complicated) practices by credit card companies. Have you heard of this new legislation and are you concerned about its impact on you and your wallet?

Do: Show poster 1. Encourage participants to respond.

Say: Provisions of this act will be phased in from August 2009 through August 2010, with the most sweeping changes becoming effective on February 22, 2010. The purpose of this program is to discuss what consumers can expect from their credit card companies beginning February 22, 2010.

Do: Show poster 2.

Say: Under the provisions of the new rules, your credit card company will have to provide more information to consumers.

Do: Show poster 3.

Say: What must they communicate and when?

They must inform you when they plan to increase your rate or other fees. A major change is that they will have to send you a notice **45 days** before they can:

- Increase your interest rate;
- Change certain fees (such as annual fees, cash advance fees, and late fees) that apply to your account; or
- Make other significant changes to the terms of your contract limitation.

Do: Show poster 4.

Say: Be cautioned that the provision does not apply to credit limit changes or interest rate caps. This means that if the credit card company slashes your credit card limit, notification isn't necessary unless the reduction would trigger a penalty, such as an over-the-limit fee.

The new rules do not cap interest rates. The increased rate can still be triple your existing APR.

Do: Show poster 5.

Say: If your credit card company is going to make changes to the terms of the card, it must give you the option to cancel the card before certain fee increases take effect. If you take that option, however, your credit card company may close your account and increase your monthly payment, subject to certain limitation. For example, they can require you to pay the balance in five years, or they can double the percentage of your

balance used to calculate your minimum payment (which will result in faster repayment than under the terms of your account).

Do: Show poster 6. Be certain that participants understand that cancellation of the card, may result in increased fees and payments (subject to limitations)—that both the top and bottom directional signs are related and are pointing in the same direction.

Say: The credit card company does not have to send you a 45-day advance notice if:

- You have a variable interest rate tied to an index; if the index goes up, the company does not have to provide notice before your rate goes up.
- Your introductory rate expires and reverts to the previously disclosed “go-to” rate
- Your rate increases because you are in a workout agreement and you haven’t made your payments as agreed.

Do: Show poster 7.

Say: Under the new rules, your card company must tell you how long it will take to pay off your balance. Your monthly credit card bill will include information on how long will take you to pay off your balance **if you only make minimum payments**. It will also tell you how much you would need to pay each month in order to **pay off the balance in three years**. For example, supposed you owe \$3,000 and your interest rate is 14.4%-- your bill might look like this illustration.

Do: Show poster 8. Distribute copies of poster 8 to all participants and walk them through the chart to illustrate each major point. Emphasize that this information can help consumers save consumer money by paying more than the minimum payment.

Say: There are a number of new rules regarding rates, fees and limits.

The first is that there can be no interest rate increases for the first year. Your credit card company cannot increase your rate for the first 12 months after you open an account.

Do: Show poster 9.

Say: However, there are some exceptions:

- If your card has a variable interest rate tied to an **index**, your rate can go up whenever the index goes up.
- If there is an **introductory (promotional) rate**, it must be in place for at least 6 months. After that your rate can revert to the “go-to” rate the company disclosed when you got the card.
- If you are more than **60 days late** in paying your bill, your rate can go up.
- If you are in a **work-out agreement** and you don’t make your payments as agreed, your rate can go up.

Do: Show poster 10.

Say: Increased rates apply only to new charges. If your credit card company does not raise your interest rate after the first year, the new rate will apply only to new charges you make. If you have a balance, your old interest rate will apply to that balance.

Do: Show poster 11.

Say: You must tell your credit card company that you want it to allow transactions that will take you over your credit card limit.

Otherwise, if a transaction would take you over your limit, it may be turned down.

If you do not opt-in to over-the-limit transactions and your credit card company allows one to go through, it cannot charge you an over-the-limit fee.

If you opt-in to allowing transactions that take you over-the-limit, your credit card company can impose only one fee per billing cycle. You can revoke your opt-in at any time.

Do: Show poster 12.

Say: The new law puts a cap or limit on high-fee cards. 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.

For example, if your initial credit limit is \$500, the fees for the first year cannot be more than \$125.

This limit does not apply to penalty fees such as penalties for late payments.

Do: Show poster 13.

Say: The new law brings changes to billing and payment protocol. It establishes standard payment dates and times. Your credit card company must mail or deliver your credit card bill at least 21 days before your payment is due. In addition:

- Your due date should be the same date each month; for example, your payment is always due on the 15th or always due on the last day of the month.
- The payment cut-off time cannot be earlier than 5 pm (at a location set by the issuer) on the due date.

If your payment due date is on a weekend or holiday (when the company does not process payments), you will have until the following business day to pay. (For example, if the due date is Sunday the 15th, your payment will be on time if it is received by Monday the 16th before 5 p.m.)

Do: Show poster 14.

Say: Payments must now be directed to highest interest balances first. If you make more than the minimum payment on your credit card bill, your credit card company must apply the excess amount to the balance with the highest interest rate.

There is one exception:

- If you made a purchase under a deferred interest plan (for example, “no interest if paid in full by March 20, 20XX”), the credit card company may let you choose to

apply extra amounts to the deferred interest balance before other balances. Otherwise, for two billing cycles prior to the end of the deferred interest period, the credit card company must apply your entire payment to the deferred interest-rate balance first.

- This will enable consumers to pay less interest and get out of debt faster.

Do: Show poster 15.

Say: The new law bans double-cycle billing (often referred to as the two-cycle average daily balance computation method). Finance charges on outstanding credit card balances would be computed based on purchases made in the current cycle rather than going back to the previous billing to calculate interest charges. Two-cycle or double-cycle billing hurts consumers who pay off their balances in full in one month but not in the next. They are hit with finance charges from the previous cycle even though they have paid the bill in full.

Do: Show poster 16.

Say: The new provisions prevent deceptive marketing of credit reports by requiring that advertisements for credit reports must disclose that fee credit reports are available under Federal law at: www.annualcreditreport.com

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Do: Show poster 18.

Say: Gift cards cannot expire less than **five years** from the date the card was purchased or money was last added to the card, whichever is later. No fees are allowed if the card has been used within the past **12 months**. If a card remains unused for 12 months, then there can be **one fee a month**. Stronger **state laws** continue to apply, including for both expiration dates and fees. The law covers both retailer gift cards and prepaid general use gift cards (the ones that often are branded as Visa, American Express, MasterCard, or Discover.) A limitation to the bill is that it does not cover rewards, loyalty, telephone or promotional cards and/or paper gift cards/certificates.

Do: Show poster 19.

Summary--Say: The Credit CARD Act provides sweeping statutory changes in credit card protections. It is intended to protect consumers from abusive fees, penalties, interest rate increases and other unwarranted changes in account terms. Specific major changes address:

- Communication requirements
- Rate and fee increases
- Balance pay-off data
- Over-the-limit restrictions
- Protections for underage consumers
- Billing and payment structure
- Deceptive marketing of credit reports, and
- Gift card protections

Do: Show poster 20.

Say: Are there any questions?

Do: Distribute copies of “Understanding the Credit Card Accountability Responsibility and Disclosure (Credit CARD) Act.

Inform participants that in-depth information about managing money, credit, saving and investing is available through the LSU AgCenter’s Saving and Investing for Life (SAIL) program. Encourage them to contact their local extension office for details about upcoming SAIL programs.

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	Issued in furtherance of Cooperative Extension work, Acts of Congress of May 8 & June 30, 1914, in cooperation with the United States Department of Agriculture. The Louisiana Cooperative Extension Services provides equal opportunities in programs and employment.