Unit One A
Take Control of Your Credit

S.A.I.L.
Saving and Investing for Life

Saving And Investing for Life

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LSU AgCenter Research & Extension

Credit Checkup

Most of us use credit. Credit allows us to use goods and services while paying for them. But using too much credit can lead to problems. Which of the following statements apply to you and your family?

		Yes	No
1.	You pay only the minimum amount due on your credit cards each month		
2.	You make so many credit purchases that the amount you owe does not go down from one month to the next		
3.	You take out new loans to pay off old ones		
4.	You have to skip some payments		
5.	You overdraw your checking account		
6.	You charge day-to-day expenses like shampoo instead of paying cash		
7.	You receive past due bill notices		
8.	You rely on extra income from overtime to make ends meet		
9.	You use savings to pay current bills		
10.	Not counting your mortgage or rent, your credit payments are 20% or more of your take-home pay		
11.	You borrow money to pay expected expenses like insurance and taxes		
12.	You are late in making payments each month		
13.	Your emergency fund is less than one month of your take-home pay		
14.	You put off medical and dental visits because you can't afford them		
15.	You are afraid your utilities will be shut off or something you own will be repossessed.		

If you checked the "yes" column for more than two or three of these statements, you may be heading for credit problems.

Adapted by: J. Tucker, (2008) Charting Your Course to Home Ownership. Baton Rouge, La: LSU AgCenter
Originally developed by Dena Wise, Ph.D., University of Tennessee Extension

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Credit Card Comparison Chart

Feature	Card 1	Card 2	Card 3
Issuer:			
Interest Rate :			
Purchases			
Cash Advances			
Balance transfers			
Penalty for late Payment			
Fees:			
Annual			
Late Payment			
Over-limit			
Cash Advance			
Finance Charges :			
One-cycle or two-cycle billing			
Minimum Finance Charge			
Interest Calculated:			
Fixed, variable or tiered basis (Ex. introductory rate)			
Grace period: (no. of days)			
If you carry a balance			
If you pay off the balance monthly			

For cash advances			
Type of Card:			
Secured, regular or premium			
Perks and Rewards:			
Rebates			
Frequent-flier miles			
Insurance			
Points			
Cash Back			
Other			

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Cut Credit Costs

Reduce Credit Costs

More than 1 billion credit cards are in use in America today. Used wisely, they can be valuable tools for consumers, but their use represents a substantial portion of Americans' consumer debt problems. Taking control of one's debt with a systematic plan for debt reduction is the key to success.

Getting Out of Debt Is an Investment

Paying off the balance on a credit card is just about the best investment one can ever make. Not having to pay 18% or 22% is the same as earning 18% or 22%, risk free, tax free.

For someone who carries a balance on a card, life is 20% more expensive than it needs to be. If you charge $1,000 on your credit card and pay just a 2% minimum monthly payment, it could take more than 30 years to pay back that $1,000 – and you will have paid almost $5,000 in interest along the way.

Problems of High Debt

Cost. Many consumers carry consumer debt of more than 20% of take-home pay. This is like working a five-day week and getting paid for four, because an entire day's pay is unavailable to use for current expenses.

Long-term debt. Paid at minimum payment levels, high-cost debt becomes long-term debt.

Emotional distress. Feelings of guilt and shame, quarrels and destructive behavior patterns often emerge when families become financially stressed due to debt.

Life on "the edge." Families that live from paycheck to paycheck are at risk of financial disaster when an emergency or sudden loss of income occurs.

Select Appropriate Credit Card

Credit cards are one of the most expensive ways to borrow money; yet, most consumer debt is money borrowed on plastic. Comparing credit card pricing structure (interest rate, fees) can save money. The key to selecting an appropriate card is for consumers to decide how you will repay their debts. Do you:

- **Carry a balance** most of the time? Look for a card with a low interest rate. The larger your balance, the more important a lower interest rate becomes. With a $10,000 balance, interest would cost $2,000 on a 20% card and $1,200 on a 12% card – an $800-a-year difference.

- **Pay your balance monthly**? Choose a card with no or low annual fee.
- **Charge frequently and pay balance monthly?** Consider an enhancement card. These cards offer rewards based on the dollar amount charged. Typical rewards include cash, airline tickets or free gas. For cardholders who carry a balance, however, enhancement cards can be expensive.

To Reduce Credit Card Costs

1. **Choose lower rate options.** There is no reason to carry a high-rate card when lower-rate options exist. Sources of information about low-rate credit cards include www.cardweb.com and www.bankrate.com.
2. **Shun retail accounts.** Retailers charge some of the highest interest rates (18%-22%), yet they also accept bankcards. Consider closing store accounts.
3. **Pay bills promptly.** Promptly paying credit card bills will reduce their average daily balance and lower interest fees.
4. **Avoid the minimum payment trap.** By making minimum payments on an outstanding balance, you will pay more interest charges. This is especially true if you continue to charge to the account. It would take nine years and six months of 4% minimum payments to repay a $2,000 balance on an 18% credit card. Beginning in 2010, periodic statements must disclose the period of time and total interest it will take to pay off the card balance if only minimum monthly payments are made.
5. **Avoid nuisance fees.** Costly credit card nuisance fees include over-the-limit charges, late fees, transaction fees and cash-advance fees. These fees may cost as much as $25-$49. However the Credit CARD Act of 2009 requires that fees must be reasonable and “proportional to the consumer or violator.” Federal regulators are expected to set these fees.
6. **Negotiate lower cost.** In today’s highly competitive market, credit card issuers may reduce fees and interest rates, upon request, to attract or maintain the business of customers with good credit histories. Gather information, and think through the issues before contacting the lending agency. Calmly and rationally justify your request for a lower rate.
7. **Shun skip-a-month payment.** Usually offered shortly before or immediately after the holiday season or following a natural disaster, these offers give consumers an option to skip or defer payments for a period. Remember that interest charges still continue when payments are missed. Additional charges also may apply.
8. **Repay high-interest debt with low-interest savings.** Consumers with debt, but with more than adequate emergency savings or investments, are advised to rethink their situations. It is unwise to pay high interest on a credit card balance while earning low rates in a savings account. Repaying a 15% debt is equivalent to earning 15% guaranteed and tax fee.
9. **Avoid high interest cash advances.** Credit card cash advances charge interest rates up to 25% or 30%. Few issuers offer grace periods on cash advances. Many credit cards charge a cash advance fee that is based on the amount of the advance.
10. **Be cautious of transferring balances** to cards with low interest rates that are effective for a short period and then jump to much higher rates. Many consumers take advantage of the offer to transfer an existing balance (cash advance) to a lower rate card, but, if the balance is not paid off at the end of the teaser rate, the end result is a much higher cost.

Consider Power Payments

Power payments can reduce debts significantly without changing the total amount being paid monthly to creditors. The first step is to repay one initial debt completely. Next, the money used to repay the initial debt is applied (folded down) to a second debt, in addition to the amount that had previously been paid. All other monthly payments remain the same, as does the total monthly dollar amount allocated to debt repayment. This process continues until all debts are paid.

An online power-pay debt-reduction program is available at www.powerpay.org . This program:

- Computes and summarizes the reduction in pay-off time.
- Calculates savings that can be achieved with a variety of payment schedules.
- Provides a personalized monthly repayment schedule (calendar) for each debt.
- Computes interest savings made possible with:
    - Additional monthly payments.
    - Lump-sum payments.

Debit Counseling

Professional debt-counseling services offer financial counseling to assist households who have or wish to avoid serious debt problems. Consumers who enter a debt-management program agree to commit a specific amount each pay period toward debt repayment. Program participants are required to surrender or destroy their credit cards and incur no further debt while participating in the program. A nominal fee may be required for administrative costs. Select a debt-counseling service associated with the National Foundation for Consumer Credit.

Developed by: Jeanette Tucker, Ph.D. Baton Rouge, La.: LSU AgCenter.

References:

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Get Your Credit Report

The Free File Disclosure Rule of the Fair and Accurate Credit Transactions Act (FACT Act), enables consumers to request a free copy of their credit report from each of the three national consumer reporting agencies – **Equifax**, **Experian**, and **TransUnion** – every 12 months. Consumers may request their free annual credit report online, by phone or mail.

- For **online requests** … go the website www.AnnualCreditReport.com* This site allows you to request a free credit report, once every 12 months from each of the nationwide consumer credit reporting companies: Equifax, Experian and TransUnion
- Or you can **request by calling** toll-free … 1-877-322-8228.
- Or **mail your request** to: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281

How often should I request my free credit report?
It is your choice; you can order a credit report from all three companies at one time. One of advantage of this is you can compare reports. If it is your first time to order your credit report, some advise ordering reports from all three companies (then begin a rotation method). The next method is ordering one credit report every four months (rotation method) from each of the nationwide companies. If you find any errors, be sure to send a letter of dispute to the creditor of record and once resolved have the corrected information sent to all three nationwide reporting agencies. See example below.

Example:

Company	Date Requested	Next Eligible date to request	Comments
Equifax	*1/02/09*	*1/02/10*	*Found mistake on VISA account – sending dispute letter*
Experian	*5/30/09*	*5/30/10*	*Report all clear*
TransUnion	*9/2/09*	*9/2/10*	

My Credit Report Requests:

Company	Date Requested	Next Eligible date to request	Comments

***www.AnnualCreditReport.com is the official site to help consumers to obtain their free credit report.**

Understanding Your Credit Report

What Is a Credit Report?

A credit report is a record of your history of credit-card debt and other loan repayment. It shows how much debt you have and if you pay on or before the due date. Credit reports are compiled by three national credit-reporting agencies often referred to as credit bureaus. These credit bureaus are Equifax, Experian and TransUnion. The typical credit report includes four types of information:

- Personal Identification Information:
  - Name
  - Social Security number
  - Date of birth
  - Present and former address
  - Present and former employer
- Trade Lines or Payment Records:
  - Type of account (bankcard, mortgage, installment, revolving, auto loan, etc.)
  - Account number
  - Date account opened
  - Credit limit and/or loan amount
  - Account balance
  - Payment history
- Public Record and Collection Items:
  - Bankruptcies
  - Foreclosures
  - Law suits
  - Wage attachments
  - Liens
  - Judgments
- Inquiries: a list of creditors who have requested your credit history within the last two years.

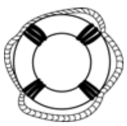
Always remember – a credit bureau is simply an agency that collects and sells payment history about you. They do NOT make lending decisions – lenders do. How do lenders make these decisions? They look at your credit score!

Building a Credit Record

If you have never used credit, you may have no credit history. You can establish a credit history in several ways:

- Work at a part-time or full-time job for 6 to 12 months before applying for credit.

- Open and maintain checking and savings accounts in your own name. Although these accounts aren't considered "credit," many lenders view these accounts as a sign of financial stability. Time will show that you can handle money responsibly, meet your financial obligations and establish a savings habit.
- Apply for a secured loan at a local lender, using your savings as collateral.
- Apply for an account or credit card issued by a local store. Local businesses are sometimes more willing to extend credit to someone with no credit history. Once you establish a pattern of making payments on time, major credit card issuers will be more likely to extend credit to you.
- As a last resort, ask a parent or friend to cosign a loan for you. You still need to make your payments on time because failure to do so will harm your credit as well as your cosigner.



Life Saver: *Reviewing your credit report frequently will help you identify potential identity theft or errors. Consider requesting your credit report every four months from a different credit reporting agency.*

Getting Your Credit Report

Thanks to the federal government, consumers in the United States are entitled to a free credit report each year! The Free File Disclosure Rule of the Fair and Accurate Credit Transactions act (FACT act), enables consumers to request a free copy of your credit report from each of the three national consumer reporting agencies – Equifax, Experian and TransUnion – every 12 months.

Consumers may request their free annual credit report online, by phone or mail.

- For online requests… go to the Web site www.annualcreditreport.com
- To call toll-free… press 1-877-322-8228.
- For mail-in requests, complete the Annual Credit Report Request Form (found online) and mail to

Annual Credit Report Request Service
P.O. Box 105281
Atlanta, GA 30348-5281

Credit reports or **credit scores** may be **purchased** at a low cost from:

Experian
www.experian.com
1-888-EXPERIAN (397-3742)

Equifax
www.equifax.com
1-800-525-6285

Trans-Union
www.transunion.com
1-800-680-7289

What Information Must I Provide?

To receive your credit report, you will need to provide basic information, including:

- Name
- Address (if you have moved in the last two years, you also may have to provide your previous address)
- Social Security number
- Date of birth

To maintain the security of your file, each credit bureau will ask you for personal information that only you will know. (Examples: How much is your monthly mortgage payment? What was your high school mascot? etc.)

What if I Want to Know My Score?

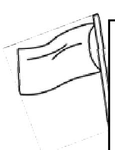
If you have never checked your credit score, consider doing so to have a general idea of how you are doing. Although your credit report is free, you will have to pay a small fee to get your credit score. The fee varies per agency, but it is usually less than $20. This option will appear when you are on the Web site, or you can mail in your fee with your credit report request.

Are There Any Other Authorized Online Sources?

NO! Despite numerous television ads promoting free credit reports, www.annualcreditreport.com is the only source of free credit reports authorized by the federal government.

Is the Web Site Secure?

YES! As the official Web site promoted by the federal government, the Web site is secure.



Red Flag: Neither the annualcreditreport.com Web site nor the individual credit reporting agencies, will call you or e-mail you to ask for personal information. If you get such a phone call or e-mail – or see a pop-up ad – it's a scam. Don't supply any information, or click any link in the message! Instead, forward any e-mail that claims to be from www.annualcreditreport.com to spam@uce.gov, the Federal Trade Commission's database of deceptive scams.

Correcting Your Credit Report

The information in most credit files is correct, but errors and omissions may occur. They may be the result of a computer malfunction or human error. For instance, if two people have similar names, credit information could mistakenly be placed in the wrong credit file.

Omissions also may occur if a creditor chooses not to report information about customers to the credit bureau. Creditors such as utilities and landlords sometimes report only delinquent debts, not timely payments.

Since omissions and errors can occur, it is a good idea to check the accuracy of your credit file periodically. This is especially important for those planning a major purchase such as a house or a car. Avoid last-minute disappointments by checking your report at least three to six months prior to making a major purchase.

If you disagree with any information in your file, the credit bureau must investigate and verify it before it can be added or removed. The process may take 60 to 90 days. To insure that the mistake gets corrected as quickly as possible, contact both the credit bureau and the company that provided the information to the credit bureau. By law, both of these parties are responsible for correcting inaccurate or incomplete information in your report under the Fair Credit Reporting act.

Steps include:

1. **Tell the credit bureau in writing what information you believe is inaccurate.** The credit bureau must investigate the items in question – usually within 30 days, unless they consider your dispute frivolous. You will want to include copies (NOT originals) of documents that support your position. In addition, your letter should:
   - Include your complete name and address.
   - Clearly identify each item you wish to dispute.
   - State the facts and explain why you are disputing this information.
   - Request deletion or correction of the items you are disputing.

   You also may want to include a copy of your credit report with the item or items that you are disputing circled. Send your letter by certified mail, return-receipt requested, so you can document that the credit bureau received your correspondence. **Keep a copy of your dispute letter and all documents or receipts that you enclosed to support your case! (See sample letter 1.)**

2. **Write to the company with whom you have a dispute.** Again, include copies of documents and receipts that support your position. Again, **keep a copy of your dispute letter and all documents or receipts that you enclosed to support your case! (See sample Letter 1.)**

Note that many companies specify a special address for disputes. If the company again reports the same information to a credit bureau, it must include a notice of your dispute. Request that the company copy you on any correspondence they send to the credit bureau. Expect the process to take between 30 to 90 days.

If the credit bureau cannot solve a problem, you are entitled by law to submit a brief letter of explanation (100 words or less) stating your side. Your statement becomes a permanent part of your credit file.

Sample Letter 1

Dispute Letter (Credit Report Errors)

Date
Your Name
Your Address
Your City, State, ZIP Code

Name of Credit Reporting Agency OR Name of Company (with whom you have a dispute)
Complaint Department
Company Address
City, State, ZIP Code

Dear Sir or Madam:

I am writing to dispute information in my file. The items I am disputing are also circled on the enclosed copy of my credit report.

This information (identify specifics of dispute and name of company) is (inaccurate or incomplete) because (describe what is inaccurate or incomplete and why). I am requesting that the above mentioned be investigated and corrected (or request another specific change).

Enclosed are copies of (describe any documents you are enclosing such as payment records, court documents, receipts that support your position). I request that you thoroughly investigate, correct this matter and notify all agencies and companies involved of the results. I also request a copy of any correspondence sent on behalf of this matter.

Respectfully,

Your Name

Enclosures: (List what you are enclosing)

Keep a Good Credit Rating

To keep a good credit rating remember to always use your legal name (no nicknames) when applying for or using credit. A legal name contains the birth-given first name and a surname. There are several legal variations. The variation or form depends on your marital status and your preference. Whichever variation you choose, use it consistently!

Do not overextend your obligations nor attempt to obtain too many credit accounts at the same time. Many creditors have standards concerning the number of credit bureau file inquires that are acceptable over a given period of time. For example, more than three inquires in a 90-day period may cause denial. Having too many credit accounts may also reduce your credit score.

Once you have established a good credit record, guard it. To keep your good credit record, always:

- Read credit contracts thoroughly. Make sure you understand them, and pay back your credit obligations as agreed.
- Contact creditors immediately if you must miss a payment.
- Correct any billing errors promptly.

Developed by: Jeanette Tucker, Ph.D., RFG; Professor and Extension Family Economic Specialist. LSU AgCenter
Reference: J. Tucker. (2008) Charting Your Course to Home Ownership. Baton Rouge, La: LSU AgCenter

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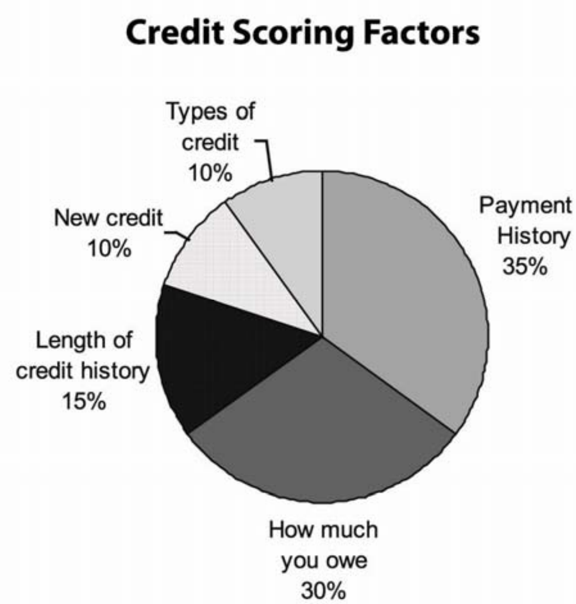
Understanding Your Credit Score

In today's world, most loans are "score driven." This means a creditor makes a decision about whether to give you a loan and the interest rate they will charge based on your credit score. The biggest advantage to credit scoring is that it avoids discrimination. It's all based on a number-your credit score. Although this number is not part of your credit report, the number is generated by data used in your credit report.

What IS in Your Credit Score?



Credit scores are calculated from a variety of credit data in your credit report. Scores are assessed as follows:

Your payment history = 35% of your credit score.

- Pay your bills on time – Late payments or delinquent items lower your credit score. The severity of the delinquency (how long a bill is past due) is also an important factor. A good track record of paying your bills on time will increase your credit score.
- Bankruptcies, collections and adverse public records (example: foreclosures, law suites, wage garnishments, liens and judgments) lower your score.
- Even thought there may be unfavorable data in your credit report, a recent history showing positive change helps to raise your score.

How much you owe = 30% of your credit score. Credit scores look at the amount you owe on each of your accounts, the number of accounts you have with a balance, and how much of your available credit you are using. The more you owe compared to your credit limit, the lower your score will be.

Length of credit history = 15% of your credit score. A longer credit history will increase your score. However; you can still get a high score with a short credit history if the rest of your credit report shows responsible credit management.

New credit = 10% of your credit score. Applying for several new lines of credit within a short period of time can hurt your credit score. Lenders consider this behavior a sign of greater risk of living beyond your means, resulting in possible nonpayment.

Types of credit used = 10% of your credit score. Having a mix of credit types on your credit report-credit cards, installments loans such as mortgage or auto loan and personal lines of credit - is normal for people with longer credit histories and can add slightly to their scores.

***Life Saver**: If you need a loan, do your rate shopping within a focused period of time, such as 30 days to avoid lowering your FICO score*

Building a Credit Record

If you have never used credit, you may have no credit history. There are several ways to establish a credit history.

- Work at a part-time or full-time job for 6 to 12 months before applying for credit.
- Open and maintain checking and savings accounts in your own name. Although these accounts aren't considered "credit," many lenders view these accounts as a sign of financial stability. Time will show that you can handle money responsibly, meet your financial obligations and establish a savings habit.
- Apply for a secured loan at a local lender, using your savings as collateral.
- Apply for an account or credit card issued by a local store. Local businesses are sometimes more willing to extend credit to someone with no credit history. Once you establish a pattern of making payments on time, major credit card issuers will be more likely to extend credit to you.
- As a last resort, ask a parent or friend to co-sign a loan for you. You still need to make your payments on time because failure to do so will harm your credit as well as your co-signer.

Life Saver: Reviewing your credit report frequently will help you identify potential identity theft or errors. Consider requesting your credit report every four months from a different credit reporting agency.

What if I Want to Know My Score?

If you have never checked your credit score, consider doing so to have a general idea of how you are doing. Although your credit report is free, you will have to pay a small fee to get your credit score. The fee varies per agency, but it is usually less than $20. This option will appear when you are on the Web site, or you can mail in your fee with your credit report request.

Credit reports or **credit scores** may be **purchased** at a low cost from:

Experian
www.experian.com
1-888-EXPERIAN (397-3742)

Equifax
www.equifax.com
1-800-525-6285

Trans-Union
www.transunion.com
1-800-680-7289

Fair Isaac Corp.
www.myfico.com

Interpreting Your Score

Credit scores range from 300 to 850. The higher the score, the lower the predicted loss for lenders. Approximate distribution of score ranges are as follows:

Below 600-15%
600-649-12%
650-699-15%
700-749-18%
750-799-27%
800+-13%

Nationally, the average credit score is 693 (August, 2009).

Lenders receive up to four "score reason codes" with each credit score. These reasons explain why your score was not higher. The reasons can be more helpful to consumers than the actual score. They can show consumers the areas where their score may be improved over time. The most frequently given score reasons are:

- Serious delinquency
- Serious delinquency, and public record or collection filed
- Derogatory public record or collection filed
- Time since delinquency is too recent or unknown
- Level of delinquency on accounts
- Number of accounts with delinquency
- Amount owed on accounts
- Length of time accounts have been established
- Too many accounts with balances

Improving your score

To improve your credit score, concentrate on:

- Paying your bills on time
- Paying down outstanding balances
- Keep balances low on credit cards and other revolving credit products
- Apply for and open new accounts only as needed

How do credit scores impact interest rates?

Lenders use credit scores as a component in determining the interest rate they will charge for a loan. However, the actual interest rate for which you qualify will depend on several additional factors including income, down payment, debt-to-income ratios, additional credit related evaluations and other lender specific criteria.

The following table shows examples of the impact of FICO scores on average annual percentage rate (APR) for several credit options in August 2009.

<u>Home Mortgage—30 Year Fixed</u>						
Credit Score	< 619	620-674	675-699	700-719	720-850	
APR	N/A	6.975	5.825	5.228	5.163	
<u>Home Equity Loan</u>						
Credit Score	500-559	560-639	640-659	660-679	680-719	720-850
APR	12.365	11.115	9.615	8.840	8.340	8.040
<u>60-Month New Auto Loan</u>						
Credit Score	500-589	590-624	625-659	660-689	690-719	720-850
APR	16.709	15.567	11.506	8.800	7.403	5.92

Note: These rates represent average by credit score ranges. Each lender determines its own credit score ranges for the interest rate terms they offer.

What happens if I am denied credit because of information on my credit report or credit score?

The Fair Credit Reporting Act requires the lender to provide the name, address, and phone number of the credit reporting agency that supplied the information. Contact that agency to find out what your report said. You can receive a free copy of your credit report if you request it within 60 days of being turned down for credit. The credit reporting agency can tell you what's in your report; however, only the lender can tell you why your application was denied.

If you have been denied credit, or did not get the interest rate or credit terms that you want, inquire if a credit scoring system was used. If so, ask which factors were used in that system and the best way to improve your application. If you were granted credit, ask if you are getting the best terms available, and if not, why. If inaccuracies in your credit report were the causes of higher rates, take action to dispute the inaccurate information in your credit report.

Adapted by: J. Tucker. (2008) Charting Your Course to Home Ownership. Baton Rouge, La: LSU AgCenter

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Understanding the Credit Card Accountability Responsibility and Disclosure (Credit CARD) Act

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. Key provisions of the legislation are discussed in this publication. Most provisions go into effect February 22, 2010.

Restricts all interest rate increases on *existing balances* and during the first year. The new law prohibits credit card issuers from raising interest rates on *existing balances* due to “any time, any reason” or “universal default” terms. Similarly, the laws stop credit card issuers from increasing interest rates in the first year after a credit card is opened. Certain exceptions allow interest rates to be increased:

- When the increase is in the terms of a variable interest rate agreement.
- At the end of a promotional rate period. Firms may continue to offer promotional rates, but these rates must be clearly disclosed and last at least six months.
- If the required minimum payment is 60 days delinquent. If the interest rate increases because of delinquent payments, the rate must revert to the original lower rate if the consumer makes on time payments for six months.

Increases notice for rate increases on *future purchases*. After the account has been opened for one year, the card issuer can raise the rate on *future purchases* at any time, for any reason, with 45 days notice. This makes it especially important for consumers to carefully read all correspondence from creditors.

Safeguards the ability to pay existing balances on old terms. Issuers are prohibited from changing the terms for repaying a balance. The issuer, however, may allow the cardholder either:

- Five years to pay off the existing balance at the old rate, or
- An increased minimum payment that calls for no more than double the contribution to paying down the balance as the old minimum payment.

Limits fees and penalty interest. The legislation targets unfair fee traps and penalties. Specifically, the regulations say:

- Interest rate increases because of late payment will revert to the original lower rate if the cardholder makes on time minimum payments for six months.
- Over-the-limit fees may not be charged unless the consumer has granted permission to process transactions that will place the account over the credit limit. Issuers cannot charge an over-the-limit fee if cardholders go over the limit solely because of interest charges or fees.

- Over-the-limit fees will be limited to one charge per billing cycle if the balance is above the credit limit on the last day of the billing cycle.
- No fees may be charged to make a payment (by mail, electronic transfer, telephone authorization or other means) unless the payment involves an expedited service by a service representative of the creditor.
- Issuers that increase the interest rate must review the account every six months and decrease the rate if indicated by the review.
- Penalty fees (late payment, over-the-limit, etc.) must be reasonable and proportional to the violation. The Federal Reserve Board will work with banking regulators to develop guidelines describing what is reasonable. This provision becomes effective in August 2010.
- Two-cycle or "double-cycle" billing is banned. With two-cycle billing, an issuer not only considers the current balance on the credit card when determining interest charges but also factors in the average daily balance from the previous billing period, even if a portion of that pervious balance was paid. The new law permits interest charges to apply only to outstanding balances and not to previous balances already paid.

Requires issuers to consider cardholder's ability to pay. Card issuers must consider the consumer's ability to make the required payments under the credit card's terms before raising limits or issuing a new card.

Requires fair application of payments. Payments over the minimum required payment automatically will be applied to the portion of the debt with the highest interest rate first, except in the last two months before a deferred interest balance is due. This will enable consumers to pay less interest and to get out of debt faster.

Requires sensible due dates and time to pay. Specifically, regulations say:

- Card issuers are prohibited from setting early or unreasonable deadlines for payments. All payments must be received by 5 p.m. at a location set by the issuer. Cardholders making payments across time zones must adhere to the deadline in the appropriate time zone. Card companies must accept and promptly post payments received by 5 p.m. on the due date.
- Due dates will be on the same date each month. If the due date falls on a holiday or weekend, the deadline must be considered to be the next business day.
- Issuers may not treat a payment as late unless the bill is mailed or delivered at least 21 days before the due date.

Mandates enhanced disclosures. The legislation requires issuers to:

- Disclose the financial consequences of minimum payments, including the period of time and total interest it will take to pay off the card balance if only minimum monthly payments are made.
- Display the total cost, including payment amount and total interest cost to pay off the existing balance in 36 months.
- Disclose in a prominent location, the due date for the next payment as well as the amount of any potential late fee and the date it would be charged. Statements also must include a notice that one or more late payments may

trigger an increase in the interest rate on the account, and they must show the penalty rate.
- Provide a 45-day written notice before key contract changes take effect. The contract changes include interest rates, fees or finance charge increases. The provisions, however, do not apply to credit limit changes or interest rate caps. This means that, if the credit card company reduces your credit limit, notification isn't necessary unless the reduction would trigger a penalty, such as an over-the-limit fee. The new rules also fail to cap interest rates.
- Post standard credit card agreements on the Internet. This is intended to make it easier for consumers to compare the terms of different credit cards and understand the interest rates and fees that are being charged. The Federal Reserve Board must maintain a public Web site providing this information to the public.
- Display terms including due date and late payment penalty in user-friendly boxes on credit card applications, monthly statements and other materials.

Prevents deceptive marketing of credit reports. Advertisements for free credit reports must clearly disclose that free credit reports are available under Federal law at www.annualcreditreport.com . Television and radio ads must disclose "This is not the free credit report provided for by Federal law."

Restricts fee harvester cards. The new regulation restricts issuers from financing fees and charges for opening a credit card that imposes fees and charges that totaling more than 25 percent of the credit limit.

Protects young consumers. Provisions are included in the legislation to protect college students and other young people from amassing significant credit card debt without the financial resources to pay them. Credit card companies will be prohibited from:

- Issuing a credit card to a consumer younger than 21 unless he or she submits a written application that includes the signature of a cosigner over 21 or information indicating that the young consumer has independent means to repay the credit card debt.
- Raising the credit limit on accounts held by a person under the age of 21 who has a cosigner without written permission from the cosigner.
- Sending prescreened credit card offers to people under the age of 21 unless the consumer has consented to receive these offers.
- Providing tangible gifts to students on campus in exchange for filling out a credit card application.
- Failing to disclose marketing or distribution contracts with colleges.

Establishes gift card protections. The legislation imposes limits on fees and expiration dates of retailer gift cards and prepaid general use cards. The law, however, does not address rewards, loyalty, telephone or promotional cards and does not cover paper gift cards or paper gift certificates. These are the specific provisions:

- 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.

- Inactivity fees may not be charged if the card has been used within the past 12 months. If a card remains unused for 12 months, one fee per month may be charged.
- State laws continue to apply to gift card expiration dates and fees.

Although the new law will prohibit certain practices and provide more timely disclosures of account terms and costs, consumers still need to do their part to manage their credit cards. It is critical to understand the terms of a credit card before entering into a card agreement. Also, closely review your credit card bill each month and monitor and understand the disclosures and account changes communicated by your card company.

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