



# New Credit Card Law Effective Today

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**Over the past several months, you may have read and heard much about the consumer friendly credit card laws that are going into effect. Well, today is the day and not everyone is going to be happy. If you have been a responsible credit card user, you may be paying new fees to make up for the lost revenue caused by the new laws.**

The best way to enjoy the advantages and convenience of using a credit card is to pay off the balance each month. Unfortunately, not everyone does this and in the past some credit card companies took advantage of the situation. Without notice, credit card companies would raise interest rates and impose other penalties. To curtail practices that seemed unfair to consumers, in May, 2009, Congress created the Credit Card Accountability, Responsibility and Disclosure Act of 2009 or the Credit CARD Act of 2009. A few of the provisions became effective in August of 2009, while the remainder were scheduled to go into effect later this year. However, the credit card companies in an effort to get ahead of the upcoming restrictions created by the new law, moved quickly to raise interest rates and fees on current cardholders. Congress was caught off-guard by this industry wide response and, therefore, decided to accelerate the effective date to today, February 22, 2010.

## **Benefits of New Law**

The Credit CARD Act does provide appropriate consumer protections. It requires credit card companies to provide timely notifications of changes and to clearly communicate with cardholders. Some of these beneficial

provisions include:

- No retroactive interest rate increases. A 45-day notice is required before increasing interest rates and cardholders can reject this increase if they agree to pay off their current balance within five years.
- Credit card bills must be received at least 21 days before the due date and billing dates must remain the same each month.
- No late payment fee can be assessed if the delay is due to the card company changes.
- Partial payments made against outstanding balances must be applied to the highest interest rate balance first.
- No fee can be applied if the card's credit limit is exceeded, instead the purchase must be rejected. If the cardholder requests the ability to exceed their credit limit, a fee can be charged.
- No additional fees can be charged for paying a credit card bill on-line, by phone, or by automatic transfer unless the cardholder requests an expedited payment to avoid the payment being late.

In addition to the above, limitations have also been placed on the ability of youth to receive credit cards. Anyone under age 21 years cannot secure a credit card without an adult co-signing for the card. By co-signing the parent or other adult is agreeing to accept financial responsibility. One exception: if an individual under age 21 can prove he/she has the ability to make payments, a card can be granted.

Any parent who has taken their child to college can attest to the full-bore marketing by credit card companies to students. The new law puts restrictions on where and how such marketing can be done in the future.

## Negative Impact of New Law

While the new law provides much needed consumer protections, a surprise may be in store for cardholders who always payoff their credit card balances and, therefore, are not paying either interest or penalties to the credit card companies. Given the revenue lost as a result of the new legislation, credit card companies are turning to those who use the card as a spending convenience rather than a source for borrowing with new fees. Some of the fee changes being considered include:

- Charging an annual fee for the first time or increasing an existing annual fee.
- Increasing currency conversion fees.
- Applying fees for transactions generated outside the country even if no currency conversion is required. This can occur while traveling when a vendor converts your purchase and then charges U.S. dollars on your credit card, thus avoiding the credit card's currency conversion fee. Or, you may be sitting in your living room purchasing items on the internet from a company processing your transaction anywhere outside the U.S.
- Decreasing rewards earned on the card to reduce credit card company costs. Or, applying different annual fees based on reward levels.
- Charging redemption fees for using reward points or incorporating blackout periods.

The impact may also be felt by consumers if the fees charged to the retailers increase. When a consumer uses a credit card to purchase goods or services, the retailer pays a transaction fee that ranges from approximately 1.5% to 3%. If these charges are increased, the retailers

will pass the additional cost onto the consumer. Just another unintended consequence.

## **Summary**

Even if you pay off your balance each month, the new credit card laws meant to protect consumers will ultimately end up costing consumers. The best advice is to read your notices from the credit card companies; assess your need for a credit card; and choose a card that is the most cost effective for you. Unfortunately, in today's world it is difficult to get along without a credit card, but with a little planning you may be able to restrict its use and save some fees.

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