

Credit CARD Act: One Year Later, How's It Going?

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During the battle over Credit CARD Act, much talk focused on what the legislation would -- and wouldn't -- do. A year after the two-phase law was rolled out, what's the word now?



Mostly, it's been a mixed bag.

Some of the significant changes under the law included:

- 45-day notice if the terms of your card change.
- No rate increases in the first year.
- Payment dates must be the same every month.
- Statements must be delivered at least 21 days before the due date, and the statement must be explicit about late fees and other consequences of late payment.
- Fees cannot exceed 25% of the initial credit limit on the card, and over-limit fees aren't allowed.

"The Credit CARD Act was designed to protect consumers from unfair credit card practices, eliminate predatory credit card lending tactics and increase transparency," says Barbara Stark of the nonprofit American Debt Counseling. Before this law was passed, she notes, "Banks could charge usurious fees to cardholders who went over their limits, apply payments to balances with lower interest rates first, put forth credit card offers with hidden fees and interest rate information and extend credit to individuals under the age of 21," she adds.

Before the act was passed, banks said that as a result of its provisions, they would have to raise rates or tighten credit, recalls Howard Dworkin, founder of Consolidated Credit Counseling Service.

New Fees, Higher Rates

So, now how is credit card landscape shaping up? "New fees have emerged as a way to make up revenue, including foreign transaction fees, inactivity fees and minimum finance charges," says Ken Lin, CEO of Credit Karma, which offers free credit scores. Alliance Data Systems, which issues private-label cards for retailers, started charging customers \$1 per month to receive statements by mail.

Interest rates have risen, from an average of just above 13% to 14.7% now, says Dworkin. However, a recent study from [CardHub.com](#) revealed that the increases result from the economic environment, not the CARD Act. Card issuers are cutting back on the amount of credit they extend to borrowers. The average credit line on a new card is \$3,900 compared to more than \$4,400 a year ago -- an 11% drop, he adds.

Then, too, the CARD Act aimed to protect students from credit card dangers by requiring those under 21 to have a co-signer on the account and prohibiting credit card companies from sending pre-approved offers to those under 21 in the mail. According to a recent study from the University of Houston, 76% of undergraduate students received standard credit card offers in the mail over the past year.

While it's still legal for companies to send such offers (the pre-approved offers are illegal), "the study shows how willing credit card companies are to find any and all loopholes," says Scott Gamm, founder of [HelpSaveMyDollars.com](#). "Credit card offers sent in the mail are usually littered with high fees and interest rates," he adds.

Getting Vital Information

So who's the winner in this credit battle royal? "The affluent still have affordable access to credit cards and lucrative reward programs. The demographic the act was to protect finds it very difficult to receive credit, and when they do, it's expensive. Overall, there has been a negative impact on consumers," says Tim Smith, senior vice president at Firstsource Solutions, a business processor outsourcing company.

But knowledge is power. Says Stark of American Debt Counseling: "Consumers now know the real cost of making purchases with credit cards, as well as the consequences of making only the minimum monthly payment."

According to a survey conducted by *Consumer Reports* this past summer, 23% of those who participated said they're now making payments greater than the minimum as a result of the warning on the credit card bill. Having information like how long it will take to pay off a bill if only minimum payments are made can help

consumers more effectively manage their cards, says Mary Ann Campbell, spokesperson for [IndexCreditCards.com](#).

Consolidated Credit Counseling Service's Dworkin estimates that \$12.1 billion in previously obscure yearly charges are now stated more clearly in credit card offers.

"When the CARD Act went into effect, many people feared it wouldn't help alleviate debt because they would be hit with new credit card fees. We are thrilled to see that in actuality, people have been freed up to pay off more debt and that interest rate increases have been negligible," says Schwark Satyavolu, CEO and co-founder of [BillShrink.com](#).

Hidden Gotchas

Perhaps the biggest losers are those with less-than-stellar credit. "There's been a double whammy as issuers have cut credit lines. This has lowered credit scores [line utilization is an important factor in credit scores], further worsening their condition," points out Scott Crawford, founder of DebtGoal, an online service that helps people get out of debt.

While you'll find plenty of opinions about the CARD Act's results, it's still early. Issuers aren't through playing their hands. "Be wary of any late payments. Many credit card companies are sending out rate-adjustment notices immediately if a payment is late, increasing the interest rate on the card. If you're late, not only are you assessed late charges, but often receiving notice of an immediate interest rate increase at the same time," warns Kevin Gallegos, a vice president at Freedom Debt Relief.

He contends there will be more fees down the road. "CARD limits utilization fees [disallows inactivity fees], but now card issuers are offering lower interest rates to customers who are using their cards. This is just another way of penalizing customers who are not using their cards," he adds.

In May, Bank of America (BAC) will begin applying new \$59 "membership fees" to about 5% of its credit card customers. "From a regulatory perspective, membership fees are considered finance charges," says Odysseas Papadimitiou, CEO of [CardHub.com](#). "Therefore, increasing membership fees is equivalent to increasing interest rates."

Finally, says Dworkin, "The CARD Act was a win in terms of more transparency and disclosure. It's up to people to make sure they aren't getting blindsided by credit card companies." Then again, he says, "The best option is to use cash. If you don't have the money, don't buy. This way, you don't have to worry about what credit card companies do, and you'll never accrue credit card debt."

Easier said than done for most us, however.