



Obama Signs Credit CARD Act of 2009 Into Law

On May 22, 2009, President Obama signed into law the Credit Card Accountability, Responsibility, and Disclosure Act of 2009 (the "Credit CARD Act," "CCA" or "Act"). The Credit CARD Act amends the Truth in Lending Act (TILA) and provides consumers with new reforms with respect to the issuance and administration of credit cards. For example, under the new law, creditors cannot increase the annual percentage rate (APR) on a card during the first 12 months after account opening. Further, subject to certain exceptions, creditors will be prohibited from charging a finance charge based on debt that was paid on time. Creditors will also be prohibited from implementing arbitrary interest rate increases and universal default on existing credit balances.

Note that the CCA generally provides that it will become effective nine months of the date the bill was enacted. However, certain provisions of the Act will become effective as soon as 90 days following the date of the bill's enactment, which would be August 20, 2009. The 90-day effective dates relate to the timing of payments (in Section 163 of the TILA), and a requirement to give 45 days' advance notice of a rate increase or other significant changes in terms (in TILA Section 127(i)). The Federal Reserve Board of Governors has been given the job of amending Regulation Z to give creditors guidance on complying with the provisions of the CCA.

The Credit CARD Act contains several new notice requirements. For example, the Act requires creditors to provide consumers with 45-days advance notice of changes in rates, as well as other significant contract changes. Further, creditors must provide consumers with 30 days' advance notice before closing an account. Creditors will also be required to send credit card statements to consumers at least 21 days before the due date of an outstanding balance.

The CCA also offers certain reforms with respect to promotional rates. Under the Act, promotional rates must be in effect for at least six months, from the beginning date of the promotion. Creditors will be generally required to provide a grace period for payments, even where the cardholder takes advantage of a promotional rate balance or deferred interest rate balance.

The Act also contains provisions on electronic media and processing. For example, the Act prohibits creditors from charging a fee for telephone and web-based payments. However, creditors may charge a fee for expedited telephone payments made on the payment due date or the day before the payment due date. The Act also requires creditors to post their written credit card agreements on the internet and provide those agreements to the Federal Reserve to post on its own website.

The Act provides several new protections for younger consumers. For example, the Act prohibits creditors from providing credit to consumers under the age of 18 (unless they are emancipated under state law, or the consumer's parent or legal guardian is designated as the primary account holder). The Act also places limits on the maximum amount of credit that may be extended to college students who do not have a cosigner. For these consumers, credit extensions will be limited to 20 percent of the student's annual gross income or \$500 dollars (whichever amount is greater). The Act limits the aggregate amount of credit extended from all of the student's credit cards to 30 percent of the student's annual gross income. Further, creditors are prohibited from opening a credit card account for any college student who does not have any verifiable annual gross income or already maintains a credit card account with that creditor (or any of its affiliates).

Finally the Credit CARD Act also amends the Electronic Fund Transfer Act to impose new restrictions on gift cards and prepaid cards. These amendment to the EFTA will become effective within 15 months of the bill's enactment. The Federal Reserve is required to issue regulations to implement these changes to the EFTA within nine months of the bill's enactment.

Senator Christopher Dodd, who co-authored the Act, applauded Congress and President Obama for adopting the new law. Dodd characterized the Credit CARD Act as a victory for many consumers. In a statement, Dodd explained that the Act "ensures [consumers] are protected from practices that would drive them further into debt, while also making our economy stronger." A copy of the Credit CARD Act may be accessed at: www.thomas.gov/cgi-bin/query/D?c111:6:./temp/~c111nnxN65::