Published Aug 20, 2009
Published Thursday August 20, 2009

New credit card rules ‘good start'

By Roger Buddenberg
WORLD-HERALD STAFF WRITER

Todd Sites calls himself “a credit card deadbeat,” which means no one makes money off of him when he uses his Chase card.

He pays the statement in full every month. He prefers writing checks to using plastic. He's old school.

“I'm not a penny pincher. When I want something, I go buy it.” But early on in his 60-plus years he learned to be leery of the card.

That doesn't mean he's been untouched by the Creditcard Accountability, Responsibility and Disclosure Act, or CARD. The first phase of the landmark law, which President Barack Obama signed in May, takes effect today.

Sites said the interest rate that he never incurs recently jumped from 6.9 percent to 14.9 percent. He said a friend who carries a balance of thousands of dollars on her card saw a similar rate hike and watched her minimum monthly payment leap from $400 to $800.

“It's going to put so many people in a jam,” said Sites, who helps such unfortunates in his job at an Omaha credit-advice group.

Although the CARD law is intended to give consumers more information and more say in their dealings with credit card firms, many have already seen dramatic, unwelcome effects — such as higher interest rates, higher fees, reduced reward programs, canceled cards — as banks anticipate the changes and as the recession wears on.

Industry analysts predict more drama when the rest of the law's rules take hold next February through August. Some expect less credit to be available and borrowing limits to be tighter — alongside the greater clarity for consumers that the law was meant to achieve.

The strongest rules don't take effect until next year, but those starting today are significant:

Ÿ Card issuers now must give customers 45 days' notice — previously it was 15 — before raising their interest rates or making other major changes. But that doesn't apply to cards whose rates vary based on an index.

Ÿ Don't want to accept a proposed higher rate? You can choose to pay off what you owe at the original rate within five years, but you must close the account.

Ÿ Card issuers must mail your bill at least 21 days — instead of the customary 14 — before its due date.

Will this help a card user who's in over his head?

Credit advisers, whose mission is to help the over-indebted, say the law's emphasis on more notice and clearer explanations will help but isn't a cure-all.

“Common sense is still the best policy for the consumer,” said Donald Leu, CEO of Consumer Credit Counseling Service of Nebraska, a nonprofit founded in Omaha in 1976.

The rules of greatest benefit to his clients don't take force till next year, he said: One will reverse the “hierarchy of payments,” requiring a card company to apply a customer's payments to the highest-rate balances first, instead of the lowest. Another will ban “universal default,” a practice in which a late payment on one card triggers rate hikes on all a consumer's cards.

Yet another, Leu said, will forbid issuing a credit card to anyone under 21 unless an older adult co-signs. Currently the age limit is 18.

These rules would have been better if imposed sooner, he said, but “it's a step in the right direction.”

Lisa Cameron of Credit Advisors Foundation — “helping people get out of debt since 1958,” the Omaha nonprofit boasts on its Web site — said the breadth of the new rules, and especially the changes companies are imposing now in anticipation, make knowing your card's terms even more important.

The law's thrust is good, she said, though it contains no single provision “that makes us want to go out in the street and wave a flag celebrating our victory.”

Credit card firms mostly lobbied against CARD earlier this year, saying the bill would reduce available credit just as the sagging economy needed more consumer spending and would increase their costs, which would have to be passed on to customers.

Card interest rates are now about 20 percent higher than in December, reports the Pew Charitable Trusts. The lowest median advertised rates are 11.99 percent now, compared with 9.99 percent in December.

The new law alone won't tame Americans' love affair with plastic, but the recession might, said David Volkman, a finance professor at the University of Nebraska at Omaha. One of his specialties is behavioral finance, a branch of research that explores why people make economic decisions, even irrational ones.

“I don't think it's going to change behavior as much as officials want it to change,” he said of the law.

“It's going to restrict credit card companies from some of the tricks,” he said, but permanent change in consumer behavior is more likely to result from being pinched.

Credit card companies, meanwhile, are braced for customer reaction.

“It's a pretty big deal for the industry,” said Stephen Eulie, head of the credit card division at First National Bank of Omaha.

Preparation for the new rules began soon after the law passed in May, he said. A notice going to First National's 3 million card holders next month outlines the initial changes as well as the “other exciting improvements” coming next year.

“There's a lot to it. We may get questions,” he said.

Helping card issuers implement the changes has created 135 jobs at First Data Corp.'s operations center in Omaha, where about 5,000 people altogether process card transactions, print cards and mail out bills to card holders, said spokeswoman Christa Goeson.

The latest clarification of the rules taking effect today arrived from the government only July 22, said Matt Kardell, a First Data senior vice president.

“It's very complex,” he said.

Contact the writer:

444-1140, roger.buddenberg@owh.com