

New Credit Rules on the Horizon

Congress has heard the outcry from consumers about questionable credit card practices and new regulations will take effect in 2010. Many of the approved changes would begin in July 2010, with others taking effect sooner. All of these changes have potential impact on consumer's use of credit and overall financial management. Some of these while seeming minor, will help consumers make better progress on debt reduction. New regulations are also being proposed that Congress will consider in upcoming months that aim to further protect consumers. For more information on credit management contact the Palm Beach County Extension Family and Consumer Sciences at (561) 233-1742.

The following changes will all take effect in July 2010

- **Universal defaults** have been eliminated. Universal Default allowed credit card companies to raise your interest rates if you had a missing or late payment on another unrelated debt. Essentially, universal default allowed lenders of Card B to raise your rate if you had missed or been late on a payment to Card A. Thus you were penalized by other lenders for the mistake made with one. In other words, if you are late on a car payment, a credit card company will no longer be able to increase the interest on your account if it is unrelated to financing your car.
- **Raising Interest Rates on Existing Balances** - Companies can no longer **raise interest rates** on existing credit card balances - While your interest rate may be changed for various reasons such as your risk profile or credit score changes, that new interest rate will only be applied to future purchases. However, if your payment is over 30 days late this new interest charge can be applied retroactively.
- **Applying Payments** - Any payment you make to a credit card company will be applied to the higher-rate balances first to reduce penalties and fees. This will save you money since it prevents the credit card company from applying your payment to the lower interest rate first. This would result in higher charges over time for the consumer. In the past, the practice was to apply payments to balances linked to lower rates such as balance transfers before applying to purchases.
- No more **double-cycle billing** – Previously, lenders could base your finance charge on the average of your two most recent billing cycles. This resulted in higher charges for those individuals who made substantial payments during the most recent billing cycle. For example if you paid off your balance at the beginning of the current cycle, you should have no finance charge under the new regulations. Prior to this, you still would have had a charge if your credit card company used double-cycle billing.
- **Simpler statements** - Any changes to your account will be in bold or listed separately on your credit card statement. The statement will also state the time of day your payment is due. This will help consumers identify changes in their statement or policy.

