2. Avoid "No Interest" Deals. Many retailers, such as electronics or furniture stores, promote "No Interest Until X Date" credit cards. These cards allow you to buy big ticket items, like a sofa or stereo system, without paying interest for a certain period of time.

The catch is that you must pay off the *entire* purchase by the time the promotional period ends. If you don't, the lender will charge you interest retroactively back to the date you bought the item. So if you bought a $2,500 LCD TV on December 22, and only pay off $2,000 by the end of the promotional period, you will be charged interest on the **entire $2,500 dating back** to December 22 when you bought the TV.

3. Think Twice About Co-Signing a Credit Card. Under the Credit CARD Act, a consumer under 21 years of age must show that they have the income or money to pay off a credit card debt, or they must get a co-signer. If your under-21 family member or friend asks you to co-sign a credit card, be careful! Co-signing a credit card makes you responsible for that person's debt if he or she doesn't make the payments. That can hurt your credit record and cost you money.

More importantly, you might be off the hook when the younger person turns 21. Under the terms of the credit card agreement, you could be liable for the life of the credit card – even decades later.

4. New Protections, Old Advice. The Credit CARD Act will protect consumers from some of the abuses by credit card companies, but not all of them. And it won't protect you from your own mistakes. The same advice about being careful with credit card debt still applies, such as:

- **Avoid accepting too many offers.** Too much credit can lead to bad decisions and unmanageable debts. Opening too many new credit card accounts can also lower your credit score.
- **Do not use credit cards to finance an unaffordable lifestyle or to make ends meet.** Finance charges and other fees will add to your debt burden.
- **Don't get hooked on minimum payments.** It will take you a long time, and cost you a lot of money, to pay off credit card debt by paying only the minimum.
- **Don't run up the balance in reliance on a temporary "teaser" interest rate.** Money borrowed during a temporary rate period of 4% is likely to be paid back at a much higher permanent rate of 15% or more.
- **Make your credit card payments on time.** Being late can still cost you plenty in late fees. And if you are over 60 days late, the lender can impose a much higher penalty APR on your existing balance.
- **Avoid the special services, programs, and goods that credit card lenders offer to bill to their cards.** Most of these special services – credit card fraud protection plans, credit record protection, travel clubs, life insurance, and other similar offers - - are bad deals.
- **Don't max out.** Charging your credit card up to your limit is risky behavior. Plus, a credit card account close to its limit will cause a big drop in your credit score.

ADVICE FOR CONSUMERS ON THE NEW CREDIT CARD PROTECTIONS

NCLC
National Consumer Law Center

How the New Credit Card Law Protects Consumers

The new Credit CARD Act protects consumers against some of the worst abuses by credit card lenders. Significant protections include:

1. Protections against rate increases for existing balances. The Credit CARD Act prohibits credit card lenders from increasing the interest rate that applies to the balance you've already incurred on your credit card, a practice known as a "retroactive rate increase." There are several exceptions to this rule, discussed below in #3.

2. Protections against rate increases for future transactions. Lenders can raise your interest rate for future purchases or transactions, but there are certain limitations**:**

- **Notice.** Lenders must give you a written notice before increasing your rate. The increased rate will apply to any purchases or transactions that you make 14 days after the notice is sent . In addition, lenders must wait 45 days from sending the notice before it takes effect. However, no notice is required for increases due to one of the exceptions discussed below in # 3.
- **First-year ban.** Lenders cannot raise interest rates even on future purchases and transactions during the first year of an account, unless one of the exceptions discussed below in #3 applies.
- **Review of rate increases.** A lender that increases the interest rate on an account must review the account every six months and should decrease the rate if indicated by the review. This protection does not take effect until August 2010.

3. Exceptions. The Credit CARD Act has several exceptions to its rules prohibiting retroactive rate increases, rate increases during the first year of an account, and notice requirements. These exceptions include:

- **Variable rates.** If your card carries a variable interest rate, the lender may raise the rate if the increase is solely due to an increase in the "index" rate, *e.g.*, the prime rate.
- **Teaser rates.** A lender may raise the rate after the expiration of a teaser rate, but only to the post-teaser rate previously disclosed. Also, teaser rates must last a minimum of six months.
- **60 days late.** A lender may raise your rate if you fail to make the required minimum payment within 60 days after the due date. Even then, you can get your old rate reinstated if you make the next six months worth of minimum payments on time.

4. Minimum payment protections. When the prohibition against a retroactive rate increase applies, the Credit CARD Act limits how much the lender can increase your minimum payment. The lender may either:

- Use existing minimum payment terms;
- Give you five years to pay off the outstanding balance at the old rate; or
- Increase the minimum payment to no more than twice as much of a contribution to paying down the balance as the old minimum payment.

5. Limits on penalty fees. The Credit CARD Act imposes new limits on penalty fees, such as late payment and over-the-limit fees.

- **Reasonable and proportional penalty fees.** The Federal Reserve Board must issue rules by August 2010 to determine whether a penalty fee is "reasonable and proportional."

- **Over-the-limit opt-in.** No over-the-limit fees may be charged unless you agree that the lender may approve transactions that will exceed your credit limit.

- **Limitations on number of over-the-limit fees.** Lenders may charge only one over-the-limit fee per billing cycle (usually one month). In addition, lenders may only charge the fee in the next two billing cycles unless the consumer uses the card again, or goes below the limit and then exceeds it again.

6. Protections from excessive fees - Some subprime credit card companies issue cards called "fee-harvesters," which come with low credit limits and so many fees that you can't charge purchases to the card because it's already maxed out when you first get it. The Credit CARD Act puts a stop to this practice by restricting fees to 25% of the credit limit.

7. Payment allocation. Any amount that you pay above the minimum payment must be applied to the balance with the highest interest rate, except in the last two months before a deferred interest plan expires. (Deferred interest plans are discussed in the next section, in #2).

8. Prohibits unreasonable due date practices. Previously, lenders would often use tactics to trip consumers into paying late, so that the lender could impose a late payment fee or penalty rate. The Credit CARD Act stops these tactics by:

- Prohibiting credit card lenders from setting payment cutoff times earlier than 5:00pm.
- Requiring payment due dates to be on the same day each month.
- If the due date falls on a weekend or holiday, requiring a payment received on the next business day to be considered timely.
- Requiring lenders to mail your credit card statement at least twenty-one days before the due date or the end of the grace period.

9. Protections for consumers under 21. Before issuing a credit card to a person under the age of 21, a lender must obtain either:
- The signature of a co-signer over the age of 21, or
- Information showing that the under-21 consumer has an independent means of repaying any credit extended.

In addition, if there is a co-signer on an account, the lender may not raise the credit limit for an under-21 consumer without the co-signer's written permission. The Credit CARD Act also includes restrictions on marketing to college students, including a ban on most "freebies" for signing up for a credit card.

Pitfalls To Avoid

1. **Don't sign up for over-the-limit "protection."** The Credit CARD Act prohibits credit card companies from charging you an over-the-limit fee unless you agree that the company can approve your over-the-limit transactions. Credit companies may try to get you to agree or "opt in" to over-the-limit transactions by calling it a "protection" or benefit. They may even offer to lower the over-the-limit fee if you opt in.

   The catch is if you don't opt in, the credit card company can never charge you an over-the-limit fee – the fee will always be $0! The credit card company will probably warn you that it will be forced to reject your transaction if you go over the limit. But would you rather take the risk of being charged a $39 fee if you accidentally go over your credit limit by a few dollars? (Credit card companies won't allow you to go hundreds or thousands of dollars over your credit limit). Just say no to over-the-limit fees.