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Credit card industry enters a new era

New rules aimed at reining in some of the worst abuses of the industry take effect between now and February. But rest assured that banks will seek new ways to shake down cardholders for cash.
By David Lazarus

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Consumers will get their first taste of the landmark credit card reform law this month as banks become required to give at least 45 days' notice of any significant change in their card offerings.

But that's just the start. Between now and February, a whole raft of new rules will take effect aimed at leveling the playing field between card issuers and consumers, who all too often have found themselves powerless to challenge onerous and abusive lending practices.

"This is the biggest credit card reform we've had in decades," said Sally Greenberg, executive director of the National Consumers League. "It reins in some of the worst abuses of the credit card industry."

Some, but not all.

For example, the law is silent on mandatory arbitration clauses that have become a routine part of credit card contracts. They require cardholders to relinquish their right to a jury trial or to band together in class-action lawsuits.

But the new law -- the Credit Card Accountability, Responsibility and Disclosure Act -- does offer numerous protections that address a wide range of industry practices. Among the more noteworthy provisions, the law:

* Prevents card issuers from boosting interest rates in the first year after an account is opened, unless the card has a variable rate or a required minimum payment is not received within 60 days of the due date;

* Blocks issuers from raising rates on existing balances, except when that balance is already under a variable rate or when a minimum payment is two months tardy;

* Requires that an increased interest rate return to its former level if the cardholder makes on-time payments for six months after a missed payment;

* Prohibits charging any fees for making payments -- a fee to pay by phone, for example.

A common complaint among cardholders is that banks routinely change the deadlines for payments, causing people to inadvertently miss a due date and get slapped with late fees.

The new law addresses this by requiring card issuers to set due dates on the same day each month and to allow payments up to 5 p.m.

It also requires issuers to make sure that bills are delivered to cardholders' homes at least 21 days before the due date.

To help shield young people from getting trapped in debt, the law requires that an adult co-sign for any account opened by someone under 21.

It also bars issuers from raising credit limits for people under 21 without written permission from the co-signer.

And those ubiquitous solicitations for new plastic can't be sent to anyone under 21 unless they've consented to receive such offers.

There are also important new disclosure requirements. Along with that 45-day notice for significant changes,

banks must make clear how long it will take -- and how much it will cost -- if a cardholder makes only the minimum required payment each month.

Issuers must also post their full contracts online so that consumers can comparison shop for the best terms.

Needless to say, the banking industry fought these reforms every step of the way.

And even as President Obama put his signature to the law in May, industry leaders warned that the changes would result in annual fees being levied, higher rates for many cards and fewer rewards.

"Those who have managed their credit well and currently have very good credit card deals will find that card companies are limited in their ability to distinguish between them and those that have credit problems," the American Bankers Assn. said in a statement.

This has Lake Forest resident Betty Atwell spooked. She has about two dozen

credit cards to her name,

and she dreads the prospect that they'll soon face annual fees.

"Annual fees would force me to start canceling cards, and I worry that this would affect my credit report," she said.

It probably would. But that shouldn't stop anyone with more than four or five cards from closing all additional accounts.

There's just no good reason to have that much plastic, and it's just as likely that holding 10 or more cards would also affect your credit score by raising your risk profile.

"I now read all the inserts that come with my monthly statements," 65-year-old Atwell said. "I used to throw them all out."

That's a good habit to get into. Banks have made a number of changes to their card offerings in recent weeks, and probably will continue doing so until all the reforms are in place.

Bank of America and JPMorgan Chase have already notified millions of customers that their fixed-rate accounts are switching to variable rates. And Chase has boosted its monthly minimum payments to 5% of an outstanding balance from 2%.

Greenberg at the National Consumers League said that even with the new law, card issuers probably will have the upper hand.

"They still write the rules for card agreements, and there's still lots of fine print," she said.

Greenberg said she anticipates a "girdle effect" among card issuers: Some unfair practices will be contained, while others will bulge elsewhere as banks seek new ways to shake down cardholders for cash.

"It's not a fully level playing field," she said. "Not yet."

David Lazarus' column runs Wednesdays and Sundays. Send your tips or feedback to david.lazarus@latimes.com.