

New credit card rules coming in 2010

The Federal Reserve adopted long-awaited rules to limit some of the most egregious credit card industry practices. Unfortunately, the changes won't go into effect for about 18 months, on July 1, 2010.

The new rules will protect consumers by:

- Prohibiting credit card companies from raising interest rates on money already borrowed unless it was borrowed on a variable rate card, or the minimum payment is made more than 30 days late.
- Protecting new cardholders by prohibiting interest rate hikes in the first year of an account. The only way interest rates can go up in the first year is if the card issuer disclosed a future rate hike at a preset time when the account was opened.
- Imposing a new rule that "zero interest" really means zero, ending the practice of so-called deferred interest.
- Prohibiting credit card companies from charging a late fee if the cardholder's bill was mailed out less than 21 days before the due date.
- Requiring that payments be allocated fairly among credit card balances with different interest rates. Payments must either be allocated to the highest interest balance or prorated.
- Prohibiting credit card companies from charging interest on amounts already repaid, through two-cycle billing.
- Restricting the financing of fees on credit cards where the fees or deposits use up the majority of the available credit on the account.

Though the changes should be a good thing for consumers, credit card companies have warned that since it will be more difficult for them to raise rates on existing customers, new customers applying for a card may be subject to higher interest rates and fewer low introductory offers.

The American Bankers Association's statement about the regulations today said: "they may result in increased costs for most card users and reduced credit availability, particularly for consumers with lower credit scores or limited credit history."

Bear in mind that cardholders' terms could be altered before the rules go into effect. So keep a close eye on your accounts in the meantime.