



# Credit Card Reform — What Does It Mean?

In May 2009, President Barack Obama signed the Credit Card Accountability, Responsibility and Disclosure Act (CCARD Act), which mandate specific reforms to the credit card industry. President Obama and Congress are attempting to curb the widespread abuses by certain credit card companies without undermining financial institutions' ability to price credit against risk. Unfortunately, the CCARD Act only applies to consumer credit cards and does not address the problems associated with small business cards. This article will provide a brief overview of the CCARD Act and discuss its potential impact on businesses in New Jersey.

The CCARD Act prevents credit card companies from raising interest rates arbitrarily and limits the fees it can charge consumers. Among the more notable restrictions contained in the CCARD Act are the following:

- Credit card issuers can no longer raise interest rates on existing balances unless a card holder is 60 days past due. If a payment is 60 days late, there is no cap on how much the credit card company can increase the interest rate.
- If a card holder pays a minimum balance on time for six consecutive months, the credit card company is required to restore the interest rate to the lower rate.
- Credit card companies cannot raise interest rates for the first year after an account is open. This provision is designed to protect against the teaser rates followed by a substantial increase in the base interest rate.
- A card holder must receive 45 days notice if an interest rate is to be increased.
- Consumers under the age of 21 would only be eligible to obtain a card with a co-signor or proof they can pay their bills. Similar to the requirements for new home loans, the CCARD Act requires credit card companies to verify that the credit card holder can actually re-pay the debt.
- Credit card companies cannot charge over-the-limit fees, except for cardholders who sign up for programs allowing transactions that would put them over the credit card limit.

There are many other restrictions and notices required

to be provided under the CCARD Act, which are beyond the scope of this article. However, as is evident from the restrictions above, the most notorious abuses are being addressed. Also, it is important to note that the CCARD Act will not take effect until February 2010, nine months after the law was enacted.

Certain skeptics believe the nine-month delay in implementing the CCARD Act will cause significant harm to consumers. Although the restrictions on changing interest rates may help some people, the overall effect of the CCARD Act may result in a reduction in the amount of credit available to consumers as credit card companies become more restrictive in issuing new cards and setting credit limits. It is too early to determine whether the overall effect of



the CCARD Act will be an increase or decrease in available consumer credit.

The CCARD Act will not provide any meaningful assistance to individuals who have maxed out their credit cards and do not have the ability to make the minimum monthly payments. Many of these individuals are already 60 days past due, so the credit card companies do not have to reduce the default rate of interest. Also, a reduction in interest rates does little if the cardholder does not have a job.

Among the more notable problems with the CCARD Act is its failure to include small business credit cards within the scope of the act. Small business credit cards are often guaranteed by the business owner or taken an indi-

vidual's name. The restrictions noted above will not apply to small business credit cards despite the similarity between small business cards and standard consumer credit cards. There does not seem to be a legitimate reason for not including small business credit cards under the parameters of the CCARD Act.

The CCARD Act should have been adopted in 2005 when Congress overhauled the United States Bankruptcy Code, which attempted to force more consumer debtors to repay a portion of their unsecured debts, including credit card debt. However, as predicted by many consumer advocates, actual payments to unsecured creditors have not increased since the majority of the debtors filing for bankruptcy protection earn less than the applicable state's median income and are not impacted by the infamous means test. It has taken several years to determine the impact of the 2005 bankruptcy amendments on consumers. Likewise, I anticipate it will take a year or two to determine the impact of the CCARD Act on consumers in general, and the availability of credit.

In the short term, the CCARD Act may bolster consumer confidence since it appears Congress is taking an aggressive posture with the credit card companies. However, any slight boost of consumer confidence may be offset by the continued decrease in availability of consumer credit if the credit card companies make it more difficult to obtain unsecured credit and continue to reduce credit limits. Continued restrictions on consumer credit will work against the recovery efforts as consumers find themselves unable to make purchases that, in the past, were made using credit cards. Congress must continue to be sensitive to competing interests of the credit card companies and credit card holders, and strive to reach a balance of reasonable reform without a significant reduction in consumer credit availability.

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