



PLEASE ASK NBFS HOW CREDIT CARD REFORM MAY IMPACT YOUR LIFE.

Credit card companies need to rewrite or close out as many accounts as possible before the new legislation impacts their ability to do so. Many consumers will feel the impact of the new legislation. It will come in the form of rate hikes, closed accounts, limit reductions, new or increased annual fees, etc.

The credit card companies are losing a large portion of their profits; profits they counted on to cover their recurring losses. For better or for worse the major credit card issues will need to compress. The compression will come in the form of strict lending guidelines, lower limits, fewer products and fewer if any reward programs. Being part of the mortgage industry we have seen the effects of compression in our market place.

Card Reform Measure Signed into Law

Meeting his Memorial Day goal, President Obama signed sweeping credit card reform into law Friday May, 22nd.

Highlights:

It bans double-cycle billing and clamps down significantly on the ability of card companies to raise interest rates. The law requires bankers to consider borrowers' ability to repay, and it adds additional protections for borrowers under 21.

It requires consumers to opt in for over-the-limit fee protection, and it limits the number of over-the-limit fees issuers can charge for a single event of exceeding a credit limit.

The statute requires several disclosures designed to caution cardholders about the consequences of making only minimum payments by highlighting how long it would take to pay off balances and showing how much interest would get tacked on.

It allows card companies to increase rates on existing balances only when a payment is 60 days or more late, a promotional rate expires, the rate is tied to a variable rate or the cardholder has entered a workout agreement. Promotional rates must be in place for at least six months, and payments must be applied to highest-rate balances first.

Pitfalls:

In reaction to legislation, credit card issuers are expected to retool their operations in a host of ways. Clearly the legislation shook the industry's foundations, and issuers now must find some way to make up for the revenue they will no longer be collecting.

Industry participants said they expect issuers to change their internal systems and billing operations and introduce replacement products.

Issuers said last week that they will also adjust to the new reality with more familiar strategies: higher interest rates, tighter credit, fewer reward programs and possibly more annual fees.

Chris McWilton, the president of U.S. markets for MasterCard Inc., told analysts last week that the legislation will "radically impact the way credit card companies operate, how they price, how they manage for risk, how they market."

The impact:

It appears the perfect storm will cause a slowdown in lending in the marketplace. Unsecured consumer credit, mainly in cards, is where we will feel the teeth of this slowdown. Ultimately, much rests on the final impact of the new law to control credit card practices. If lenders decide that they're not going to be able to reprice people effectively ... they'll slam on the brakes.

When will it go into effect?

Most of the card standards will go into effect in nine months, but one that will go into effect in 90 days requires issuers to give customers 45 days' notice before increasing rates, giving consumers time to close the account and pay off balances at the current rate.

These trying times are already impacting our small business customers.

Advanta Says Cutoff Date Now May 30

Advanta Corp. said it will stop lending to its cardholders this week — 11 days earlier than it had initially announced. The Spring House, Pa., issuer, which specializes in small-business cards, said Friday that it would stop its lending operations May 30.

On May 30 "you should cut up your credit card," the site said.