

Office for Financial Success – Financial Tip of the Week
A service of the Personal Financial Planning Department
College of Human Environmental Sciences
University of Missouri-Columbia
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[Credit, Congress, and You](#)

This week, the US Senate passed (by a vote of 90 to 5) sweeping credit reform legislation that will alter consumer credit markets. As I am writing this on Wednesday, the US House just passed the bill (by a vote of 361-64) and President Obama is fully expected to sign the bill into law. What is in the law and what does it mean to you?

The Law:

- Promotional rates of interest must last for six months and increases in the rate charged for new purchases cannot occur until after the contract has existed for a year. Rates can, however, still be increased and credit lines can be withheld from consumers deemed to represent excessive risks.
- Interest rates cannot be raised on existing balances, unless the borrower is at least 60 days delinquent on the account.
- If you are under-21 years old, you will either need you parent’s signature to obtain a credit card, thus making your parents responsible for the payments, or prove that you are able to repay the credit on your own.
- Over limit fees are not allowed, unless the borrower has signed a contract to allow such fees.
- The credit card companies will be required to allow 21 days of notification of the payment due date. Also, the credit card statement must tell the consumer how long it will take to repay the loan and the total interest to be paid, if the consumer only makes the minimum payment. (We always pay more than the minimum, don’t we?)
- If the consumer pays above the minimum payment, the excess payment must first be applied to the balance with the highest interest rate.

What it means to you:

- If you carry a credit card balance – Credit card issuers will be unable to raise the interest rate on your existing balances, unless payments are more than 60 days late. They may, however, raise rates on your future purchases.
- If you don’t carry a credit card balance – Expect annual fees to rise and promotions/rewards to be less valuable, as companies attempt to balance risk and profitability.

· If you don't have a credit card – It will likely be harder to get a credit card, as standards are tightened as a result of the new law. You'll also need to be 21, unless you have your parents cosign the contract.

· If you care – Banks and other credit card issuers will be much more transparent in their practices and people will be better able to understand the costs of their credit use. If Congress is making the correct move, *financial success* should be more easily attainable, as the act should both reduce consumer indebtedness and the abusive practices of lenders.

- Robert O. Weagley, Ph.D., CFP(r)

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