Q&A Session for Webinar #22
Credit Card Act Of 2009: How Will It Impact the Profitability of Your Credit Card Portfolio?

Q: We have many share secured credit cards on our books made to university students under 21. Is it safe to assume that pledge of shares is an independent means to repay? We believe that it is since the shares can be transferred to pay off in full.

A: If the loan is secured for those under 21, the marketing rules of the Credit Card Act do not apply. The rules apply strictly to unsecured programs as far as eligibility.

Q: Regarding variable rates vs. fixed rates, it sounds like the data you've provided address the argument in the context of maintaining a profitable portfolio based on TODAY's challenges (CARD act and related income opportunity losses, etc.). What about the value variable rates may provide from interest risk, potential inflationary pressure for years to come since the government has printed trillions and trillions of dollars; unprecedented levels?

A: Your argument for variable rates certainly is one that is brought up a lot. What you are suggesting about rates going up could become a reality. Having said that the economy is in the tank and everyone knows that home sales and car sales need to increase and that is not going to happen with higher rates. Here is what I would like for you to think about. Less than 1% of the credit unions offer variable rate car loans and they are guaranteeing these rates for 60, 72, or 84 months. That is a far bigger risk than credit cards. The maximum maturity anyone is going to offer on a credit card will probably be 3 years. It is my understanding that when the card comes up for reissue, it will be up to you whether you reissue it or not and at what rate. Finally, I think you are taking very minimal interest rate risk but I do believe that you put yourself in a wonderful position to capture huge market share because the American public is afraid of variable rate loans.

Q: What is the blog address again? i missed it

A: The blog address is http://cardanalysis.blogspot.com/

Q: Suze Orman could join Frankenmuth CU by simply joining the American Red Cross of Saginaw County (Michigan) and we have the fixed rate, no fee etc

A: Thanks for the info! The conversations with Suze will be continuing in the coming weeks. I will make a note of Frankenmuth Credit Union! Stay tuned!

Q: If our cards expire every two years and we pull a credit report and reevaluate each VISA is this a situation where if we raise the rate we must then review it in 6 months?

A: For the February 2010 compliance, a revaluation of payment history applies to only those accounts in which the interest rate was increased due to the 60+ days of consecutive non-payment and in which a penalty rate was applied.

The review of accounts to lower rates does not apply to those cardholders whose credit scores have deteriorated for other reasons. But this MAY become part of the Act in 15 more months after the enactment of the act (see response below)

Q: We offer pay by phone for same day payment on our credit cards and we do currently charge a fee. Isn't this considered an expedited service?

A: No, that would be considered a convenience service. Expedited Service would be defined as the payment <u>needing</u> to make it before the payment deadline in order to avoid a late fee. The Credit Card Act states there can be no fees for any payment services (ACH, Internet, Phone, etc). I often recommend turning this service off with the processor anyway, even before the card act takes effect, since the member can either call the credit union directly or make via the online banking option offered and utilized by most credit unions (eZcard with FIS or Infolink with PSCU).

Q: Did you state that if we keep our fixed rate cards, that we could still change the rate on the expiration date of the card?

A: Yes, welcome to Section 171, Subsection “b” and number “1”. This is classified under the “exception” category. In a nutshell, the rate can be changed at account expiration providing it has been disclosed to the consumer at the onset of card issuance and any increases cannot exceed the rates within that disclosure. This could be accomplished by listing the rate ranges within the credit card disclosure as well as amending to state the rates may change at account expiration dependent on the cardholders risk score/credit risk. And remember a 45 day notice is required before the rate change takes effect and the new rate is applied to FUTURE transactions. The existing balance must stay at the previous rate. This is a different section from the Introductory Rate Section!

‘‘SEC. 171. LIMITS ON INTEREST RATE, FEE, AND FINANCE CHARGE INCREASES APPLICABLE TO OUTSTANDING BALANCES.
‘‘(a) IN GENERAL.—In the case of any credit card account under an open end consumer credit plan, no creditor may increase any annual percentage rate, fee, or finance charge applicable to any outstanding balance, except as permitted under subsection (b).
‘‘(b) EXCEPTIONS.—The prohibition under subsection (a) shall not apply to—
‘‘(1) an increase in an annual percentage rate upon the expiration of a specified period of time, provided that—
‘‘(A) prior to commencement of that period, **the creditor disclosed to the consumer, in a clear and conspicuous manner, the length of the period and the annual percentage rate that would apply after expiration of the period;**
‘‘(B) the increased annual percentage rate does not exceed the rate disclosed pursuant to subparagraph (A); and
‘‘(C) the increased annual percentage rate is not applied to transactions that occurred prior to commencement of the period;
‘‘(2) an increase in a variable annual percentage rate in accordance with a credit card agreement that provides for changes in the rate according to operation of an index that is not under the control of the creditor and is available to the general public;
‘‘(3) an increase due to the completion of a workout or temporary hardship arrangement by the obligor or the failure of the obligor to comply with the terms of a workout or temporary hardship arrangement, provided that—
‘‘(4) an increase due solely to the fact that a minimum payment by the obligor has not been received by the creditor within 60 days after the due date for such payment, provided that the creditor shall—

Q: I felt we were in compliance with the card act, however, do we have to have the same due date every month on our plastics? I understand the 21 day compliance factor for billing.

A: Section 106, Article “a” of The Credit Card Act states:

SEC. 106. RULES REGARDING PERIODIC STATEMENTS.
(a) IN GENERAL.—Section 127 of the Truth in Lending Act
(15 U.S.C. 1637) is amended by adding at the end the following:
‘‘(o) DUE DATES FOR CREDIT CARD ACCOUNTS.—
‘‘(1) IN GENERAL.—The payment due date for a credit card account under an open end consumer credit plan shall be the same day each month.

With regards to the question about rates needing to be reviewed (**for anyone which has a rate change**) every 6 months, you brought up a good point and further research reveals you were on the right track, but this is NOT YET part of the Credit Card Act to be in compliance February 2010.

Check the caveat in Article D below. The final ruling will be made by the board 9 months after enactment and if enacted will be effective 15 months after that enactment.

And as a side note, why the politicians cannot write these rules in PLAIN English, is beyond me…but explains why the tax filing process and forms with the IRS is so convoluted as well!

‘‘SEC. 148. INTEREST RATE REDUCTION ON OPEN END CONSUMER CREDIT PLANS.
‘‘(a) IN GENERAL.—If a creditor increases the annual percentage rate applicable to a credit card account under an open end consumer credit plan, based on factors including the credit risk of the obligor, market conditions, or other factors, the creditor shall consider changes in such factors in subsequently determining whether to **reduce** the annual percentage rate for such obligor.
‘‘(b) REQUIREMENTS.—With respect to any credit card account under an open end consumer credit plan, the creditor shall—
‘‘(1) maintain reasonable methodologies for assessing the factors described in subsection (a);
‘‘(2) not less frequently than once every 6 months, review accounts as to which the annual percentage rate has been increased since January 1, 2009, to assess whether such factors have changed (including whether any risk has declined);
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‘‘(3) reduce the annual percentage rate previously increased when a reduction is indicated by the review; and
‘‘(4) in the event of an increase in the annual percentage

rate, provide in the written notice required under section 127(i) a statement of the reasons for the increase.

''(c) RULE OF CONSTRUCTION.—This section shall not be construed to require a reduction in any specific amount.

''(d) RULEMAKING.—The Board shall issue final rules not later than 9 months after the date of enactment of this section to implement the requirements of and evaluate compliance with this section, and subsections (a), (b), and (c) shall become effective 15 months after that date of enactment.''.