

# Get Smart About Credit... And Get Out of Credit Card Debt

**H**igher credit card interest rates, involuntary closed accounts, and reduced credit limits are negatively impacting consumers and their credit reports. There has never been a more demanding time than now for American consumers to GET SMART ABOUT CREDIT™ and develop a SMART Debt Management Plan™ to get out of credit card debt.

So, here are some of the major provisions under **Credit CARD Act of 2009**<sup>1|2|3|4|</sup>:

- 1. Increase in Rates or Other Fees.** Credit card issuers must send consumers a written notice 45 days prior to a change in interest rate or other fees. However, notice is not required if you have a variable interest rate tied to an index. Consumers have the option to cancel the card before the new fee(s) or rate become effective.
- 2. Interest Rate on Preexisting Balances.** Card issuers are prohibited from increasing interest rates on preexisting balances. A higher interest rate may be charged on new transactions.
- 3. Promotional APR (Annual Percentage Rate).** The promotional period for APRs must be for a minimum of 6 months.
- 4. Interest rate on a new Card Account.** Credit card issuers may not change the interest rate during the first 12 months of a new card, unless the cardholder was informed when the card was first opened.
- 5. Double-Cycle Billing Has Ended.** Consumers may only be charged interest on balances in the current billing cycle.
- 6. Due Date & Time.** The payment due date must be the same each month and is considered on time if received by 5:00 PM. A due date which falls on a weekend or holiday is considered on time if received by 5:00 PM on the next business day.
- 7. Late Payment Penalty.** A penalty interest rate may be applied if a consumer fails to make a payment within 60 days after the due date. However, the penalty rate must be returned to the previous rate if the consumer makes 6 consecutive on-time monthly payments.
- 8. Over-the-Limit-Fee.** If you "opted-in" to allow transactions to exceed your credit limit you can be charged one over-the-limit fee per billing cycle.
- 9. Applying Payments.** Payments made by consumers over the minimum amount due shall be applied to the balance with the highest interest rate first.
- 10. Minimum Payment Warning.** If you only

make the minimum payment your statement will tell you how long it will take you to pay off the balance and how much you would need to pay each month in order to pay off the balance in 3 years.

- 11. Billing Statement.** Statements must be sent to consumers at least 21 days before their due date.
- 12. Billing Statement Disclosures.** Billing statements must be made easier to read and understand, and include such disclosures as: year-to-date totals of interest and fees; interest charged by the type of transaction; and information about the APR.
- 13. Credit Card Disclosures.** The law requires credit card companies to simplify and make the information about interest rates, fees, and grace periods easier to understand.
- 14. Credit Card Agreements.** Requires credit card companies to post their credit card agreements on the internet.
- 15. Protection for Young Consumers (Under the age of 21).** Applicants under the age of 21 must have a co-signer or show sufficient income to pay independently.

Now that you are smart about credit, use the following **10 step SMART Debt Management Plan™** to eliminate credit card debt and achieve financial freedom:

- 1. Go Green.** Put away the credit cards and pay with cash.
- 2. Develop a Spending (budget) Plan.** Review your financial situation and decide which expenses you will cut to free up cash to make more than the minimum payment due each month.
- 3. Be SPECIFIC about the amount of CC debt you owe.** Develop a list of your outstanding credit card debt—balances, interest rate and minimum payment due for each card.
- 4. Contact Creditors.** Contact the credit card issuer to find out if they have a program available to help you pay off the debt. Inquire about their guidelines and the impact on your credit report.
- 5. Consider the services of a Credit Counseling Agency.** Before making a decision, read Choosing a Credit Counseling Agency at [www.creditworthyinc.org](http://www.creditworthyinc.org)
- 6. MEASURE your results.** Pay off cards with small balances – less than \$1,000 – first. Double the minimum payment or pay the

minimum payment due plus the interest you were charged. Review every 3 months to keep yourself on track.

- 7. Make sure your plan is ATTAINABLE.** Add the amount you were paying on the cards with the smaller balances to the cards with the larger balances and keep paying until you are out of credit card debt.
- 8. Make a REALISTIC Plan.** Avoid entering into agreements or developing a plan that is not realistic and which adds undue financial pressure and stress.
- 9. Determine TIME needed to pay off the debt.** Use the credit card repayment calculator at [www.creditworthyinc.org](http://www.creditworthyinc.org) or [www.federalreserve.gov/creditcardcalculator/](http://www.federalreserve.gov/creditcardcalculator/) to develop a time frame to get out of debt.
- 10. Achieve Financial Freedom.** After the credit card debt is paid off, start and keep paying yourself first to achieve financial freedom. ■

*Wanda P. Hardy is a Financial Education Consultant and Instructor with CreditWorthy, Inc. Credit Worthy, Inc. is a non-profit financial education organization, FDIC Money Smart Alliance Member and a Member of the New Jersey Coalition for Financial Education. For your copy of Get Smart About Credit™ the Credit CARD Act of 2009, visit the New Jersey Coalition for Financial Education website at [www.njcfce.org](http://www.njcfce.org).*

- 1. Credit Card Act of 2009;*
- 2. Federal Reserve;*
- 3. Consumers Union;*
- 4. Assets for Independence (AFI)*

