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New credit card rules take effect

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The final phase of the landmark federal legislation that placed new restrictions on credit card interest rates and fees takes effect Sunday. Though the bulk of the law's provisions were enacted earlier this year, there are still a few important changes you need to be aware of:

Penalty fees

New protection: Fees for late payments and other transgressions will be capped to the amount of the violation, up to $25. Previously, these fees were often between $35 and $39 regardless of how much was owed. Also, a single violation can no longer result in more than one fee.

Gaps to watch: Technically, there isn't an outright ban on penalty fees higher than $25. Banks that want to impose a higher fee simply need to give regulators justification for doing so.

For example, a bank might provide an analysis showing that the costs associated with late payments average out to $30 per violation, said Lauren Bowne, an attorney with Consumers Union in San Francisco. It's too early to tell whether banks will pursue this route, but the door is open.

Another exception to the $25 cap is if a customer repeats the violation within six months. Then the cap rises to $35.

Also keep in mind that the rule applies specifically to penalty fees. There aren't any caps on other charges.

Rate hikes

New protection: Banks must review a rate hike every six months to decide whether the increase is still warranted. If the factors that prompted the hike are no longer applicable, the rate must be lowered. This rule applies to hikes dating back to Jan. 1, 2009, when banks began raising rates in anticipation of the new regulations.

Gaps to watch: Even if a bank finds that a rate should be lowered, the reduction doesn't have to restore the prior interest rate. So even if a rate was increased 10 percent, a review could result in a 1 percent scaleback.

Banks also have some wiggle room in the factors they use to conduct reviews. They can either base a review on the original reason for the rate hike, such as market conditions. Or they can determine whether the rate is in line with their current interest rates for new customers.

Inactivity fees

New protection: These fees will be banned regardless of how they're dressed up. For example, an annual fee that's waived if a customer spends a certain amount is still an inactivity fee.

Gap to watch: There's still a reason to keep a card active, even if by making a small purchase here and there: Banks can still close inactive accounts. That could hurt your credit score depending on how long you've had the account and your broader financial standing. This happened to many customers during the credit crunch, as card issuers looked to limit their exposure to risk by closing unprofitable accounts.Expiration dates

New protection: Gift cards issued after Aug. 22 must have expiration dates that are at least five years from their date of purchase.

Gap to watch: The rule doesn't apply to certain gift cards, such as those issued as part of a rewards or loyalty program. So if you redeem your credit card rewards points for a retailer gift card, it could potentially come with a much quicker expiration date. The same is true for rebate cards issued by retailers.

Inactivityand service fees

New protection: Such fees can only be charged if the card hasn't been used for at least one year. After that, only one fee can be charged each month.

Gaps to watch: There's no cap on inactivity or service fees. So even though you can only be assessed one monthly fee, it could quickly eat away at a card's value if it's not used. The rules also don't apply to reloadable, prepaid cards. These cards are sold in drugstores or online and often charge many service fees.
