

myFICO Insider's Guide

to 2010 credit card reform and new FHA mortgage rules



2010 credit card reform

The new credit card reform laws were created to protect consumers. The majority of these reforms prohibit credit card issuers from changing the terms of a consumer's credit card. Below is a summary of the changes you can expect as a result of the credit card reform.

The majority of new regulations go into effect Feb. 22, 2010.

- » **Significant changes to the terms of your credit card must be given 45 days prior to the change taking affect.** Under current rules, credit card companies only needed to give 15 days notice prior to making certain term changes.
- » **Over-limit fees will be prohibited unless you consent to pay for the privilege.**
- » **Your credit card bill will now be due on the same calendar day every month.** This means you can schedule payments each month knowing exactly when your bill needs to be paid.
- » **When you open a new account, your interest rate must stay at the opening rate for at least 12 months.** Even if a consumer's rates are raised after 12 months, the increased rate only applies to new purchases – not the balance accrued in the first 12 months. There are a few exceptions that allow a rate increase such as a 60-day delinquency on the account, a variable rate, the completion of a workout plan or temporary hardship arrangement, or an expiration of a specified period of time.
- » **Statements must be mailed at least 21 days ahead of when they are due.** This provides you with more time between when you receive your statement and when your bill is due.
- » **If you're under 21, it will be difficult to open a new credit card account.** You'll need a co-signer or show proof of income.
- » **You can "opt-out" if you don't like the terms your credit card companies send you.** Your card may be closed, but you will have multiple options for paying off your balance, including having up to 5 years to pay the card off – under the terms you had before opting out.
- » **Other accounts can't be used as the basis for raising your interest rate.** This practice known as "universal default", allowed late payment or defaults on other bills (such as utility bills) to be cause for raising your credit card interest rate even though those other accounts are not related to your credit card account.

- » **Restoring good payment history will lower a raised APR.** If you are reported as delinquent on your credit card payments for 60 days your APR can be increased, but it must return to the old rate if you make 6 consecutive payments thereafter.
- » **Payments go towards higher interest rate balances first.** For example, if you have a cash advance balance in addition to a regular purchase balance, it's very likely the cash advance has a higher interest rate associated with it. When you pay more than your minimum, the excess amount goes toward paying off that higher interest rate balance before the rest of your balance.
- » **It may be harder for those with bad credit to get credit.** The Federal Reserve openly recognized that these new rules may make it difficult for those with bad credit or limited credit histories to qualify for a new credit card.
- » **Increased protection for gift card holders.** Gift cards now cannot expire for at least 5 years and no inactivity fees can be assessed unless the gift card goes unused for at least 12 months.

New FHA rules

Getting a home loan or refinancing your existing home will require a better FICO score than before. The Federal Housing Administration is trying to limit its exposure, and our nation's, to bad mortgage debt and therefore, implementing tighter controls for lender approval. Below are the 4 major highlights of the new FHA rules.

It's anticipated that these rules will go into effect in the spring or early summer of 2010.

- » **Higher insurance requirements** – this change requires that an upfront mortgage insurance premium required of a borrower would be raised from 1.75% to 2.25%.
- » **Larger down payment** – only those borrowers with FICO scores about 580 would qualify for the low 3.5% down payment. Those borrowers with a score lower than 580 would need a down payment of at least 10%.
- » **Lower seller concessions** – this is the money returned to a borrower in exchange for agreeing to a higher home sales price. This seller concession would drop from 6% to 3%.
- » **Higher minimum FICO score requirements** – in addition to needing a minimum FICO score to qualify for the lower down payment option, it may be difficult for a borrower to even begin the process with FICO scores below 600. This higher FICO score requirement is not limited to FHA loans, but is being adopted throughout the mortgage industry; what was once a fair FICO score may now only be considered a poor score.