Eliminating harmful practices and increasing transparency

The gist behind the rules was to ban “several harmful practices and requires greater transparency in the disclosure of the terms and conditions of credit card accounts," according to Federal Reserve Governor Elizabeth A. Duke in a press release announcing the rule approval. The final rule represents the second stage of the Federal Reserve's implementation of the Credit Card Act. Among other things, the rule:

- Generally prohibits increases in a rate during the first year after an account is opened and increases in a rate that applies to an existing credit card balance
- Prohibits creditors from issuing a credit card to a consumer who is younger than the age of 21 unless the consumer has the ability to make the required payments or obtains the signature of a parent or other cosigner with the ability to do so
- Requires creditors to obtain a consumer's consent before charging fees for transactions that exceed the credit limit
- Limits the high fees associated with subprime credit cards
- Prohibits creditors from using the "two-cycle" billing method to impose interest charges
- Prohibits creditors from allocating payments in ways that maximize interest charges.

Card Act – Stage III – August 2010

In March 2010, the Federal Reserve proposed new rules for the third stage of the CARD Act. These provisions went into effect on August 22, 2010.

Disproportionate penalties and rate increase reevaluation

The gist behind this set of rules was to ban “prevent credit card issuers from charging large penalty fees for small missteps by consumers and would require issuers to reevaluate rate increases imposed since the beginning of last year," according to Federal Reserve Governor Elizabeth A. Duke in a press release announcing the rule proposal. The provisions of the Credit Card Act addressed in this proposal go into effect on August 22, 2010.

Table 5-1
Unemployment and GDP Forecast, 2010-2012

	2010	2011	2012

Source: U.S. Federal Reserve, June 22-23, 2010
Note: Data above reflects the central tendency, which excludes the three highest and three lowest projections for each variable in each year submitted by the five members of the Board of Governors and the 12 presidents of the Federal Reserve Banks.

Consumer Wealth on the Mend

For consumers, most of the first decade of the 21st century was a boon—at least on paper—fuelled by spiraling home prices and healthy stock market gains. This allowed consumers to collectively borrow billions in the form of credit card and home equity loans. With a puncturing of these two balloons, consumers could hear the air whooshing out, as the wealth effect these gains helped bring about shriveled in the face of a withering stock market and plummeting home prices.

Household wealth repair

Household net worth—the difference between the value of assets and liabilities—was an estimated $XX xxxx at the end of Q2 2010, up XX% from Q1 2009 (just after the financial markets meltdown), but still XX% below its 2006 high of $XX xxxx (see chart below).