Not All Credit Cards Have CARD Act Protections

October 17, 2013 - When congress passed the CARD Act, it gave consumers a wide variety of new protective tools to stop abusive lending practices. But the act doesn't extend to all credit cards. Specifically, business credit cards are excluded. Consumers need to know the difference between the two types of agreements and should keep in mind that there are advantages and disadvantages to both types of cards.

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Prior to the CARD Act, credit card issuers commonly used a variety of tactics that are no longer legal to increase the fees that they collect from consumers. These included things like letting their mail sit in PO Boxes overnight in the hope that this delay would make some consumer payments come in late. Or they might schedule payments that were due on Sundays or holidays. Or my personal favorite, cards that carried separate balances at different interest rates. On these balances, lenders would often force the consumer to pay off the lowest interest charges first; allowing the higher interest charges to accumulate more debt and extending the amount of time needed to completely repay the amount borrowed.

Consumers who got caught up in these types of schemes frequently found late fees tacked onto their and, of course, lenders would then increase the interest rate they were paying on remaining balances. The CARD Act put an end to many of these practices. At least, it did on consumer credit cards.

No longer can lenders arbitrarily increase the interest rate on an existing balance. They can't schedule payment due dates on days where the mail isn't delivered or on days that nobody is in their offices to process the payments. And they now have to apply payments to cards in such a way that the consumer receives the fastest payoff; not the longest and most expensive.

The downside to the CARD Act is that fixed interest consumer credit cards have almost completely disappeared. Additionally, the act made it more difficult for lenders to issue cards to people with marginal credit because holding interest rates and fees in check meant that some borrowers were simply no longer profitable from a lender perspective.

You may think that those with marginal credit probably shouldn't have a credit card in the first place. But over the past decade, millions of people have lost homes and employment at some point. Anyone who has gone through that is likely to find that reestablishing good credit is more difficult than it used to be. And one of the reasons for that is the CARD Act.

As previously mentioned though, the CARD Act doesn't cover business credit cards. Issuers of these cards are still free to change interest rates, change payment schedules and charge fees as they see fit. While that may sound bad, it also provides savvy consumers with some options.

Most banks are not going to give business card holders any trouble if they make their payments on time. But these cards can be risky for anyone that doesn't have reliable cash flow.

The benefits to having a business card may outweigh the risk for some borrowers. Business card balances may not show up on a business owner's credit report. This may be a real help in some borrowing situations. Business cards may also qualify for fixed interest rates on their cards. This will be a real benefit if interest rates start to rise again anytime soon.

Another benefit is that some business cards have good reward and rebate programs. If you own a small business that has several authorized card holders, these types of programs can provide some real financial benefit to you.

It is probably not a good idea carry large balances on business credit cards since lenders can change the interest rate being charged with little notice. But if you own a small business, business credit cards may be able to provide you with another tool to maximize your annual profits. As with any tool, success will be measured in how responsible you are when you use it.
byJim Malmberg
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