

## Implementation of New Credit Card Regulations Delayed in Part

Earlier this year, the federal government announced that a number of changes were being proposed to the regulations governing credit cards issued by Canadian banks, with the goal being “to ensure that consumers have access to credit on terms that are fair and transparent”. On September 30, the federal government announced that the new regulations would be implemented, although not exactly as originally announced.

The new regulations focus on two areas. The first relates to disclosure by credit card issuers to consumers of information with respect to their cost of borrowing, interest rates charged, and the length of time that it will take consumers who are making only the minimum payment to actually pay off their balance, and the second area of change deals with how interest is calculated, how payments are allocated, and how and when credit card limits may be increased.

While most of the changes that were originally announced by the federal government will now take effect on January 1, 2010, implementation of the change that could have the greatest effect on consumers’ effective cost of borrowing has been deferred until September 1, 2010. That change relates to the “grace period”. Most credit card users know that, once they make a purchase using their card, there is an interest-free grace period, and if the amount representing the purchase is paid before the end of that grace period (known as the due date), no interest is charged. What many consumers don’t realize, however, is that where a balance is carried over from the previous month, and a new purchase is made, interest may be charged not just on the balance carried forward, but on the new purchase, even if the full amount is paid by the due date – in other words, there is no grace period for new purchases where an existing balance is carried over from the previous month. The new regulations require credit card issuers to provide a minimum 21-day grace period on all new purchases, whether or not there is an existing balance on the card. However, that change will not be effective until September 1, 2010. No information was provided by the Department of Finance with respect to why the implementation of this measure was delayed.

Most of the other regulatory changes, which include the following, will be effective January 1, 2010:

- a summary box on credit contracts and application forms that sets out key features, such as interest rates and fees, will be required;
- consumers will be provided with information on how long it would take to fully repay their balance if they only make a minimum payment every month;
- effective interest costs will be lowered by mandating allocations of payments in favour of the consumer;
- there will be a requirement for express consent by the cardholder for credit limit increases;
- debt collection practices used by financial institutions will be limited;
- over-the-limit fees arising solely from holds placed by merchants will be prohibited.

As part of its original May 2009 announcement of the proposed regulations, the Department of Finance provided a Backgrounder explaining the changes in more detail. That Backgrounder can be found on the Finance Web site at [http://www.fin.gc.ca/n08/data/09-048\\_1-eng.asp](http://www.fin.gc.ca/n08/data/09-048_1-eng.asp), and the announcement of the implementation of the new regulations is available at <http://www.fin.gc.ca/n08/09-089-eng.asp>.