Consumer Federation of America

Consumers Union
Nonprofit Publisher of Consumer Reports

FOR IMMEDIATE RELEASE:
July 28, 2008

CONTACT:
Travis Plunkett, CFA, 202-387-6121
Jen Fuson, Consumers Union, 202-462-6262

HOUSE COMMITTTEE TO CONSIDER LANDMARK CREDIT CARD LEGISLATION

—Consumer Groups Urge Support for Bill to Curb Unfair Credit Card Practices—

As a Congressional committee prepared for the first time ever to consider legislation that would curb predatory credit card lending practices, national consumer organizations today called on members of the House Financial Services Committee to support the bill and to send it to the House Floor for passage. The Consumer Federation of America and Consumers Union said that the Credit Card Bill of Rights Act (H.R. 5244), introduced by Representative Carolyn Maloney (D-NY), would end credit card issuers' abusive lending practices at a time when the American economy is being pummeled by the collapse of another industry based on unsavory lending: the sub-prime housing market.

The "Credit Card Bill of Rights Act" requires credit card companies to stop:

- Applying unfair interest rate hikes retroactively to balances incurred under the old rate;
- Assessing hidden and unjustified interest charges on balances already paid off;
- Piling on the debt that consumers owe by requiring them to pay off balances with lower interest rates before those with higher rates; and
- Charging late fees even though consumers mail their payments seven days in advance of the due date.

"The fact that a House committee will be considering this legislation shows that Congress is taking a strong stand against the traps and tricks that many credit card companies use to increase their profits at the expense of financially vulnerable consumers," said Travis B. Plunkett, of the Consumer Federation of America. "We applaud Representative Maloney for introducing this important bill and urge the members of the House Financial Services Committee to vote for it."

Curbing Retroactive Application of Unfair Interest Rate Hikes

"Consumers in perfectly good standing with their credit card company are understandably outraged when that company hikes their interest rate based on information unrelated to the card," said Pamela Banks of Consumers Union. "But it's even more outrageous to apply this type of rate increase to credit card debt already borrowed at the lower rate."

Although some credit card companies have disavowed the practice of increasing interest rates for consumers in good standing based on other unrelated credit behavior, such as a drop in their credit score, many still engage in it. The practice, known as universal default, dramatically increases the cost of purchases made when the lower rate was in effect, and leads to higher minimum payments and longer payoff periods even if the consumer makes no further charges. The legislation prohibits retroactive application of any interest rate hike based on behavior unrelated to the credit card or to actions related to the card, unless the consumer is more than 30 days late.

Limiting Hidden and Unfair Interest Charges

The legislation prohibits two types of unfair and hidden interest rate charges. First, it prohibits credit card companies from using "double cycle billing" to charge interest on balances repaid during the grace period.

Second, the legislation requires issuers to apply payments proportionately to card balances with different interest rates. When consumers accept card offers or cash advances with short-term teaser rates and higher rates for other balances, credit card companies apply payments *first* to the lower-rate balance, allowing other balances to build up at the much higher interest rate. The practice creates a far higher effective interest rate than consumers expect.

Ending Unfair Late Fees for On-Time Payments

The legislation provides that consumers demonstrating payment 7 days before the due date are presumed to have paid on time and cannot be charged a late fee. It also sets a single uniform time by which payments must be received on the due date to prevent companies from setting earlier and arbitrary deadlines that result in late fees. Issuers must also mail credit card bills 25 days before the bill is due, instead of the current rule requiring only 14 days, to help ensure that consumers will have enough time to pay.

-30-

Attachment Below

The Consumer Federation of America is a nonprofit association of over 280 pro-consumer groups, with a combined membership of 50 million people. CFA was founded in 1968 to advance consumers' interests through advocacy and education.

Consumers Union is a nonprofit membership organization chartered in 1936 under the laws of the state of New York to provide consumers with information, education and counsel about good, services, health and personal finance, and to initiate and cooperate with individual and group efforts to maintain and enhance the quality of life for consumers. Consumers Union's income is solely derived from the sale of Consumer Reports, its other publications and from noncommercial contributions, grants and fees. In addition to reports on Consumers Union's own product testing, Consumer Reports with more than 5 million paid circulation, regularly, carries articles on health, product safety, marketplace economics and legislative, judicial and regulatory actions which affect consumer welfare. Consumers Union's publications carry no advertising and receive no commercial support.

CREDIT CARD FACTS

- **Credit Cards in the U.S.: 1.22 billion.** (663 million bank cards, 555 million retail/gasoline cards.) *Source: CardTrack.com.*

- **Revolving Consumer Credit Outstanding in the U.S.: $943.5 billion**, as of year end 2007. *Source: Federal Reserve Statistical Release, Consumer Credit Outstanding, Table G. 19, February 7, 2008.*

- **Credit Card Debt Held by Consumers in the U.S.: about $850 billion**, as of year end 2007. *Source: CFA calculation[1], based on the data above reported by the Federal Reserve Board.*

- **Average Credit Card Debit per Household: $7,430.** *Source: 114.4 million households; U.S. Census Bureau, "American Families and Living Arrangements 2006."*

- **Average Credit Card Debt per Card-Holding Household that Carries a Balance: $17,103.** *Source: 74.9 percent of households (about 85.7million) have a credit card. 58 percent of households with a credit card[2] (about 49.7 million) do not pay their balance in full every month; Federal Reserve Board, "2004 Survey of Consumer Finances."*

- **Credit Card Solicitations mailed in 2007: 5.2 billion.** *Source: Synovate Mail Monitor, "US credit card mail volume declined in 4th quarter 2007 as troubled issuers pull back," February 2008.*

- **Credit Card Solicitations per Household: 36**.

- **Credit Card Accounts that Pay a Late Fee: 35 percent**, representing about 242 million cards.[3]

- **Income from Penalty Fees for Six Largest Credit Card Issuers: $7.4 billion.[4]**

---

[1] Revolving credit outstanding is often used as a proxy for credit card debt, but most experts believe that outstanding credit card debt is slightly less. Approximately 5 percent of consumer revolving credit is not on credit cards. Between 4 to 9 percent of the debt does not truly revolve. It is repaid to the credit card issuer before the next billing cycle starts. Taking these two factors into account, outstanding credit card debt is likely to be between $811.4 and $858.6 billion.

[2] This means that about 43 percent of all households carry all of the credit card debt that is outstanding.

[3] "Credit Cards: Increased Complexity in Rates and Fees Heightens Need for More Effective Disclosures to Consumers," U.S. Government Accountability Office, September 2006, pg. 5. Thirty-five percent of the credit card accounts from the six largest issuers that the GAO examined had at least one late fee in 2005

[4] "Credit Cards: Increased Complexity in Rates and Fees Heightens Need for More Effective Disclosures to Consumers," U.S. Government Accountability Office, September 2006, pg. 72. This figure is for 2005.