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BANKING REGULATORS TARGET CREDIT CARD ABUSES

Rules Take Positive First Step to Rein in Unjust Interest Rate Hikes and Billing Practices; Groups Call on Congress to Provide Additional Consumer Protections

Representatives of national consumer organizations today applauded federal banking regulators for proposing initial rules to curb some abusive credit card lending practices. The groups also called on Congress to provide additional consumer protections not proposed by the regulators. The proposal was offered today by the Federal Reserve Board, the Office of Thrift Supervision and the National Credit Union Administration. Among other things, the regulators would stop many unjustified interest rate hikes on existing balances, prohibit the charging of interest on debt already paid off and require issuers to allocate cardholder payments more fairly.

"We commend federal regulators for taking an important first step to stop credit card companies from pumping up their profits by using hidden traps and tricks that drive up the amount of debt consumers owe," said Travis B. Plunkett, legislative director of the Consumer Federation of America. "We urge Congress to focus on enacting a permanent law that curbs abusive practices not addressed in this proposal."

"Card companies have been playing costly games with the economic well-being of consumers for too long," said Jeannine Kenney, policy analyst with Consumers Union. "This proposal at least begins to give cardholders a fair shake."

The proposal would prohibit or restrict a number of abusive credit card practices:

- **Costly and unjustified retroactive interest rate increases**. The proposal would prohibit the widespread practice of charging higher interest rates on balances incurred before a rate increase went into effect, unless the cardholder is more than 30 days late in paying his or her credit card bill. Although the proposal would not prohibit card issuers from raising rates because of a supposed problem with another creditor or a drop in cardholders' credit scores (a practice often called "universal default"), forbidding issuers from applying higher rates to existing charges should discourage credit card companies from unjustifiably increasing cardholders' interest rates in many cases.

"This proposal will make the rules of play fairer by making it harder for the credit card companies to raise rates on existing balances," said Kathleen Keest, senior policy counsel for the Center for Responsible Lending.

- **Hidden payment allocation methods that cause debts to escalate**. Credit card issuers would be required to more fairly apply the payments that cardholders make to balances with different interest rates. When consumers transfer balances with low, short-term "teaser" rates (that have higher rates for new purchases), issuers would be required to apply payments first to higher rate debt. For consumers who take out cash advances that have higher interest rates, credit card companies would have to apply part, but not all, of a payment above the minimum amount to the higher rate debt.

"The rules should put a crimp on the bait-and-switch deceptions that turn low introductory rates into high rate balances," said Lauren Saunders, managing attorney of the Washington office of the National Consumer Law Center. "However, the rules do less to protect consumers who use the cash advance checks pushed on them and are then socked with a 20 percent rate on a balance they are not allowed to pay off, even when they make more than the minimum payment."

- **Interest charges on debts that have already been paid**. The proposal would forbid "double cycle billing," which results in cardholders paying interest on debts paid off the previous month during the grace period.

- **Excessive fees for low-credit cards**. The proposal would forbid credit card companies that target consumers with poor credit histories from charging fees that amount to more than half of the credit being offered. If the fees being charged to use the card amount to more than one-quarter of the credit line, cardholders would be allowed to pay these fees off over a one-year period.

"The federal regulators have gotten the message from consumers that the banks are using unfair practices to make bad money on top of good money," said U.S. PIRG consumer program director Ed Mierzwinski. "These rules will ban some of the unfair tactics that hurt American families."

"The proposed regulations are a clear effort to correct some of the most harmful and costly credit card practices such as retroactive rate hikes," said Ruth Susswein, deputy director of national priorities for Consumer Action. "We look forward to encouraging regulators to dig deeper to protect consumers from penalty rate increases across the board."

"These rules begin to undo the damage done by decades of deregulation in the credit card market and will help to rectify the balance of power between borrower and lender," said Caleb A. Gibson, advocacy and legislative coordinator at Dēmos.

Congress is considering a number of reforms that would address practices not targeted by these proposed rules:

- **Aggressive lending to young consumers**. Requiring credit card companies to consider the ability of consumers under the age of 21 to repay the loans they are offered and allowing them to affirmatively choose whether to receive credit card solicitations.

- **Excessive and growing penalty fees**. Requiring that penalty fees be reasonably related to the costs that credit card issuers incur because of a late or over-limit transgression.

- **Outrageous interest rate hikes**. Limiting "penalty" interest rate increases to 7 percent above the previous rate if the consumer fails, for instance, to make a payment on time, or imposing penalty rate increases only on future purchases.

- **Repeat over-limit fees**. Allowing over-limit fees to be charged only once, unless additional charges increase balances above the account limit.

- **Fees for paying a bill.** Prohibiting card issuers from charging a fee to allow consumers to pay a bill by telephone, on the internet or by mail.

- **Unilateral changes in terms**. Prohibiting card issuers from altering credit card agreements while they are in force without specific written consent from the cardholder.

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