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MALONEY BILL TARGETS CREDIT CARD ABUSES

Legislation Reining in Unfair Interest Rate Hikes and Unjust Fees a Strong Step Forward

New legislation introduced today by House Financial Institutions and Consumer Credit Subcommittee Chairwoman Rep. Carolyn Maloney (D-NY) and Financial Services Committee Chairman Barney Frank (D-MA) curbs some of the most abusive credit card lending practices, consumer groups said.

“This legislation is an important step forward in eliminating the worst credit card tricks and traps that sap billions of dollars from Americans' wallets every year and illegitimately pump up issuers' profits,” said Travis B. Plunkett, legislative director of the Consumer Federation of America. “We commend Chairwoman Maloney for recognizing that these abuses contribute to the rising rate of card delinquencies and the need to rein in unfair practices to forestall an even greater crisis. The sub-prime meltdown demonstrates the importance of ending abusive lending practices when warning signs arise."

Among the key provisions of the “Credit Cardholders’ Bill of Rights Act” are prohibitions on:

- Bait-and-switch interest rate and fee hikes for any *or no* reason at all during the life of the card;
- Assessing hidden and unfair interest rate charges by charging interest on balances already paid off;
- Unjustifiably maximizing interest charges by requiring consumers to pay off balances with lower interest rates before those with higher rates;
- Charging late fees when consumers mail their payments seven days in advance of the due date; and
- Applying certain unfair interest rate hikes retroactively to balances incurred under the old rate.

"Working families are the favorite targets of big banks and credit card issuers, paying more each year in unreasonable fees and credit card interest," said Stephen Lerner, assistant to the President and director of the Private Equity Project for Service Employees International Union. "SEIU will fight alongside Congress and Reps. Frank and Maloney to put a stop to the big banks' worst abuses."

REINING IN EGREGIOUS PRACTICES

Consumer groups commented on provisions addressing some of the worst credit card abuses:

Attacking Bait & Switch Contract Changes

“This bill rests on the basic principle of fair dealing that every American expects—a deal is a deal,” said Jeannine Kenney, senior policy analyst for Consumers Union. "It ends 'bait-and-switch' tactics by preventing credit card companies from increasing interest rates and fees during the term of the card for reasons they haven't told you about up front. They can't simply reserve the right to arbitrarily change these terms."

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 charging interest on balances repaid during the grace period.

"Unfortunately, with credit card interest charges, what you see is *not* what you get," said Linda Sherry, Consumer Action's director of national priorities. "This legislation says simply: a grace period should be a 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.

"We applaud Congresswoman Maloney for working to end the widespread but hidden practice of gaming consumers' payments that creates a costly spiral into burdensome debt," said Mike Calhoun, president of the Center for Responsible Lending.

Ending Unfair Late Fees for On-Time Payments

"This legislation ends the classic late-fee gotcha," said Ed Mierzwinski, consumer program director at U.S. Public Interest Research Group. "Consumers mail their payments well in advance, then get socked with a late fee of up to $40 because of card companies' own processing delays or arbitrary deadlines."

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.

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," noted Kenney 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. It also gives consumers the absolute right to cancel any fixed-rate card whenever the rate increases and to pay off the balance over time at the old rate.

ADDITIONAL PROTECTIONS NEEDED TO END ABUSIVE PRACTICES

"While this legislation appropriately targets the most indefensible practices that fly in the face of fairness," CFA's Plunkett said, "consumers need additional protections." Among the improvements the groups advocate are:

- A ban on future rate hikes based on consumer behavior unrelated to the card (universal default) and a prohibition on retroactive application of *any* rate hike to prior balances;
- A ban on over-limit fees when the transaction exceeding the limit is approved by the issuer;
- A requirement that the size of penalties charged by issuers be directly related to actual costs incurred;
- A limit on disproportionate penalty interest rate hikes; and
- Protections against low-credit, high-fee cards—known as sub-prime or "fee-harvester" cards.