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LEVIN HEARING EXPOSES WIDESPREAD CREDIT CARD ABUSES

Consumer Groups Call for Congressional Action on Unjustifiable Fees, Outrageous Interest Rates and Questionable Lending Practices

National consumer organizations today called on Congress to enact legislation to curb abusive credit card lending practices highlighted in a hearing this morning by the Senate Permanent Subcommittee on Investigations. The hearing was convened by Subcommittee Chairman Senator Carl Levin and focused on how credit card issuers assess interest rates and fees.

“We applaud Chairman Levin for holding this crucial hearing to shine a light on the traps and tricks that some credit card issuers use to pump up their profits,” said Travis Plunkett, Legislative Director of the Consumer Federation of America. “The next step is for Congress to stop credit card issuers from charging unjustifiable fees and outrageous interest rates that push consumer to the financial brink.”

The hearing was based in part on a September 2006 report by the United States Governmental Accountability Office (GAO.) The report detailed several questionable finance charges, fees and disclosure practices associated with 28 popular credit cards. The report found that large numbers of consumers were being charged fees, the number of new fees was increasing and that the amount of the fees had risen much faster than inflation. For example, the report found that the six largest credit card issuers charged 35 percent of their card holders late fees averaging \$33.64 in 2005, up from \$12.83 in 1995. The report also found that current fee disclosures are difficult to understand, important information is often buried, and that issuers often fail to tell consumers the specific reasons and timing for charging late fees and higher “penalty” interest rates.

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“When special fees are imposed on 35 percent of all card holders, this shows that something is seriously wrong with credit card pricing,” said Norma Garcia, Senior Attorney at Consumers Union. “Credit card companies and the policymakers who oversee them need to look at simplifying the pricing by reducing the types of fees, so that consumers can make informed choices based on the real price of using a particular credit card.”

“What we need is better – not more – disclosure,” said Linda Sherry, Director of National Priorities for Consumer Action. “Getting accurate information from credit card companies is difficult and exasperating. Without clear information on all important fees and interest rates, consumers can’t steer safely around the fine print of cardholder statements.”

“Credit card companies can charge whatever fees and interest they want, and change the rules at any time, for any reason, including no reason,” said Ed Mierzwinski, U.S. PIRG Consumer Program Director. “All that’s got to stop and Senator Levin’s GAO report and his hearing today will help us make that case to protect consumers.”

“Credit card companies push debt on people without caring about whether folks can afford to pay it back,” said Alys Cohen, Staff Attorney with the National Consumer Law Center and a witness at today’s hearing. “The companies profit either way, but many Americans are being buried under a mountain of debt. Policymakers must stop destructive lending and make lending fair again. People have the right to expect that.”

The groups called on Congress to adopt legislation that would:

- **Eliminate reckless and abusive lending by credit card companies**, basing each loan on the actual ability of consumers to repay the loan. This is particularly important for loans to college students, other young people and low income borrowers.
- **End deceptive and unjust terms, interest rates and fees**, including changes in terms without the affirmative permission of the consumer and higher interest rates because of an alleged misstep with another creditor.
- **Empower consumers with better information** by prohibiting deceptive credit card offers, simplifying pricing and updating the 1983 law requiring disclosure of key credit card terms.
- **Give consumers strong protections to deter illegal acts** by prohibiting mandatory arbitration, increasing penalties under the Truth in Lending Act and giving consumers the ability to enforce federal protections in court.

A detailed platform for credit card reform is attached.

Joint Recommendations of Consumer Groups on Credit Card Reform

Eliminate reckless and abusive lending by credit card companies

No unsound loans: Make issuers offer credit the old fashioned way, using sound underwriting principles based on the ability of consumers to pay and that ensure the cardholder is not overextending financially by taking on more debt.

Restrict lending to youth without conditions. Young people deserve credit, but only if they qualify. Yet right now, young people are the only group that can obtain a credit card without either a positive credit report, a job, or other evidence of ability to pay, or, barring any of these, a co-signer. No other adult can get a credit card without meeting at least one of these conditions. Young people should have the same safeguards.

No abuse of consumers in bankruptcy. Credit card issuers drive consumers into bankruptcy with abusive terms and collection practices. Stop issuers from collecting on these abusive loans in bankruptcy.

End deceptive and unjust terms, interest rates and fees

Ban retroactive rate increases. Stop issuers from changing the rules in the middle of the game by raising interest rates on past purchases.

No unilateral adverse changes in terms for no reason: Credit card company contracts currently claim the right to change terms for any reason, including no reason. Any change in terms during the course of the contract should require knowing affirmative consumer consent and reasonable notice.

Ban universal default in all its forms. Prohibit punitive “universal default” interest rates based on alleged missteps with another issuer but involving no missed payments to the credit card company itself. It is unfair to impose a penalty rate on a consumer who has not made a late payment to that creditor. Stop card companies from using a change in terms clause to impose penalty rates.

Stop late fees for payments mailed on time. Require credit card companies to follow the Internal Revenue Service (IRS) and accept the postmarked date as proof of on-time payments. This will also eliminate the tawdry practice of assessing late payment fees when payment is received on the due date, because it did not arrive by a specific time (such as 11 a.m.).

Relate fees to cost. Ensure that all fees and other charges closely match the true cost borne by the card issuer.

End roll-over or repeat late and over-limit fees. Ban fees that are charged in consecutive months based on a previous late or over the limit transaction, not on a new or additional transaction offense, even if the consumer remains over the previous limit.

No fees for creditor approved transactions. Don't let the credit card company charge a fee for a transaction it has approved. Ban over-limit fees when the issuer approves the over limit transaction.

Empower consumers with more detailed information.

Ban deceptive credit card offers. Solicitations and “invitation to apply” solicitations that do not make a truly firm offer of credit are deceptive because they lead consumers to believe that they are pre-approved for or have a good chance of getting certain interest rates. Most consumers instead receive cards at much less favorable interest rates and terms.

Simplify pricing. Reduce the number and types of fees so consumers can compare cards and understand the real cost of using the card.

Real minimum payment warning. Give each consumer a personalized warning on his or her monthly statement calculating the length of time—in months and years—and the total interest costs that will accrue, if the consumer makes only the requested minimum payment.

Ban unfair teasers. Stop issuers from downplaying permanent interest rates in advertisements and solicitations and from trumpeting temporary rates as “fixed rates.”

Enhance ‘Schumer Box’ disclosures. Include a “Schumer box” disclosure table in all cardholder agreements containing personalized information about the terms of the card granted. The box should include the APR, the credit limit, and the amount of all fees, such as late charges, cash advance fees, over limit fees and any other applicable miscellaneous fees.

Give consumers strong protections to deter illegal acts

Ban pre-dispute binding mandatory arbitration. No consumer should be forced to waive his or her right to a court trial as a condition of using a credit card. Prohibit binding mandatory arbitration for consumers' claims *and* for collection actions against consumers.

Toughen Truth In Lending Act (TILA) penalties. TILA penalties have stagnated since 1968.

Give aggrieved consumers a private right of action to enforce the Federal Trade Commission Act to challenge unfair or deceptive practices by businesses, including banks.