

March 27, 2009

Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

Dear Senator:

The undersigned national and state consumer, civil rights, community and labor organizations strongly urge you to support the Credit Card Accountability, Responsibility and Disclosure Act when it is marked-up by the Banking Committee on March 31st. The abusive credit card lending practices that would be reined in by this important legislation have always been unfair, but, as the U.S. economy tightens, financially vulnerable families need the protections of the Credit CARD Act more than ever.

Credit card solicitations have increased five-fold since 1990. In the last decade, credit card issuers have increased the amount of credit they offer more than twice as fast as consumers have taken on debt. Still, revolving credit (most of which is credit card debt) ballooned from \$214 billion in January 1990 to \$964 billion currently. As family debt increases, debt service payments on items such as interest and late fees take an ever-increasing piece of the household budget. For some families, the added costs of credit makes it difficult if not impossible to manage their household income, especially if they experience an unexpected financial calamity, such as the loss of a job. At the same time, a growing number of American families have turned to credit cards not for unnecessary expenditures, but to meet basic living expenses as wages have stagnated and the costs of necessities like housing, education, gasoline, and health care have risen sharply.

We estimate that the average amount of debt held by households that revolve credit card balances exceeds \$17,000. While even consumers who usually pay off their balances monthly are hit by unfair credit card lending practices, card issuers employ predatory tactics that are primarily targeted at the “revolvers”—those cardholders who carry a balance.

The Credit CARD Act of 2009 targets the most abusive practices used by credit card issuers. Many of these practices are not addressed at all or in full by recent credit card rules finalized by federal regulators. Importantly, this legislation:

- **Eliminates unjustified interest rate hikes and unfair "any-time/any-reason" contract clauses.** Card issuers would be required to adhere to the basic principle of fair dealing—a deal is a deal. The Credit CARD Act prevents card issuers from hiking interest rates retroactively on existing balances except for adjustments to variable rates or teaser rates that expire. This will require issuers to be honest about the price of a card up front, rather than using bait and switch tactics and hair trigger penalty rates to double or even triple the rate on debt already incurred. The bill also eliminates the widely-decried practice of "universal default"—raising rates for cardholder behavior unrelated to the card—and card issuer use of "any-time/any-reason" fine-print clauses to impose arbitrary rate hikes.
- **Requires honest, fair penalty rates.** Under the Act, if the issuer does impose a penalty rate, it must tell the consumer exactly why and limit the penalty to six months if the consumer commits no further violations. Issuers must tell consumers in the card agreement the specific actions, such as

paying late twice in a year, that will trigger a penalty rate. Currently, issuers often impose penalty rates for minor transgressions or for no reason the consumer can even discern.

- **Limits excessive and growing penalty fees.** The Government Accountability Office reports that penalty fees have increased sharply in the past ten years, faster than the cost of living (late fees now approach \$40). The Credit CARD Act would require that penalty fees be reasonably related to the costs that credit card issuers incur due to the infraction and would appropriately prohibit card issuers from charging interest on penalty fees.
- **Prohibits late fees for on time payments.** The Act would prohibit late fees upon proof of mailing seven days prior to the due date and rein in the trend toward ever-shrinking repayment periods that have led to increased imposition of late fees by requiring card issuers to mail cardholders' statements at least 21 days before the due date.
- **Gives cardholders greater choice.** First, the Act would allow consumers to instruct the issuer to deny any transaction that would trigger an over limit fee. Today, consumers are charged over-limit fees even when the card issuer approves the transaction that triggers the fee. Second, the Act would require card companies to provide consumers with at least 45 days notice before increasing their interest rate, giving the consumer time to find an alternative credit card provider. Third, it would give consumers the absolute right to cancel the card when the interest rate is increased and prohibit the application of the interest rate hike when the account has been closed. And fourth, consumers would have the right to reject a card before the account is added to their credit report. Currently, when consumers respond to card solicitations based on a favorable promotional rate but then receive a card with far less favorable terms, the account appears on their credit report before they have the right to reject the modified terms.
- **Eliminates abusive and hidden finance charges.** First, the Credit CARD Act prohibits card issuers from imposing finance charges on balances repaid during the grace period. This so-called practice of "double-cycle" billing is both hidden from consumers and difficult to understand even when consumers are aware of it. Second, when consumers hold balances at different interest rates on the same card, card issuers would be required to allocate any payments made to the highest rate balance first. Currently, card issuers often prohibit consumers from paying off high-interest rate balances until the lowest-rate balance is reduced to zero—a practice that is almost never in the cardholder's best interest because it imposes excessive finance charges and causes higher APR balances to compound without any reduction in the higher rate portion of the balance.
- **Limits aggressive marketing, and irresponsible lending, to young consumers who do not have the ability to repay debt.** Credit card issuers would be unable to provide credit cards to consumers under age 21 unless the consumer has a responsible cosigner, can demonstrate ability to repay, or takes a certified financial literacy or financial education course. In addition, consumers under the age of 21 would be allowed to choose whether to allow credit reporting agencies to sell their name to an issuer sending credit card solicitations. Card issuers could only send credit offers to young consumers prescreened by a credit reporting agency if they receive express, advance consent.

These and other key provisions of the Credit CARD Act restore fairness to the credit card marketplace and will do significantly more than rules finalized recently by federal regulators to eliminate the most abusive practices burdening cardholders today. We look forward to working with you to see the Credit CARD Act enacted into law.

Sincerely,

NATIONAL

ACORN National
American Federation of Labor and Congress of Industrial Organizations (AFL-CIO)
Americans for Fairness in Lending
Center for Responsible Lending
Community Action Partnership
Consumer Action
Consumer Federation of America
Consumers for Auto Reliability and Safety
Consumers Union
Demos: A Network for Ideas & Action
International Union, United Automobile, Aerospace & Agricultural Implement Workers of America (UAW)
Leadership Conference on Civil Rights
NAACP
National Association of Consumer Advocates
National Consumer Law Center, on behalf of its low-income clients
National Council of La Raza
Privacy Rights Clearinghouse
Public Citizen
Sargent Shriver National Center on Poverty Law
Service Employees International Union
U.S. Public Interest Research Group

STATE

Alabama Appleseed Center for Law & Justice, Inc.
Alabama Arise/Arise Citizens' Policy Project
Arizona Consumers Council
Arizona PIRG (Arizona Public Interest Research Group)
Consumer Federation of California
Public Interest Law Firm, Law Foundation of Silicon Valley, California
Connecticut Association for Human Services
Connecticut Citizen Action Group
Connecticut Public Interest Research Group
Connecticut Voices for Children
Consumer Federation of the Southeast
Florida PIRG (Public Interest Research Group)
Jacksonville Area Legal Aid, Inc., Florida
Chicago Consumer Coalition, Illinois
Citizen Action/Illinois
Sunflower Community Action, Kansas
Kentucky Asset Building Coalition
Maryland Consumer Rights Coalition
Public Justice Center, Maryland
Mid Minnesota Legal Assistance

Montana Business and Professional Women
Montana Women's Lobby
Legal Aid Center of Southern Nevada, Inc.
Empire Justice Center, New York
Miami Valley Fair Housing Center, Inc., Ohio
South Carolina Appleseed Legal Justice Center
Memphis Responsible Lending Collaborative, Tennessee
Coalition of Religious Communities, Utah
Virginia Citizens Council
Virginia Organizing Project
Washington ACORN
La Casa De Esperanza, Wisconsin