

# Common Sense Financial System Reform & Consumer Protection: A New Direction for the American Economy

## Key Points:

- It is time to rebuild our economy in a way that's consistent with our values – an economy that rewards hard work and responsibility, not high-flying finance schemes; an economy that's built on a strong foundation, not one that's propelled by overheated housing markets and maxed-out credit cards. We want to build an economy that offers prosperity for the long run.

We've worked to get banks lending money again. Now it's time to stand up for American consumers struggling through this recession, with a bipartisan Credit Cardholders' Bill of Rights.

We will provide tough new protections for consumers facing excessive credit card fees, sky-high interest rates, and unfair, incomprehensible agreements that credit card companies revise at will.

- As every American faces reality in budgeting, the lending industry that has found new ways to make profits around old regulations, and faced little oversight, needs a reality check too.
- In 2008, credit-card issuers imposed \$19 billion in penalty fees on families with credit cards and this year, card companies will break all records for late fees, over-limit charges, and other penalties, pulling in more than \$20.5 billion. **[Industry consultant R.K. Hammer, Consumer Reports, 3/17/09]**
- Credit-card debt in the U.S. has reached a record high —nearly \$1 trillion -- and almost half of American families currently carry a balance, and for those families the average balance was \$7,300 in 2007. One-fifth of those carrying credit-card debt pay an interest rate above 20 percent. **[GAO 2006]**
- The legislation would level the playing field between card issuers and cardholders by applying common-sense regulations that would ban retroactive interest rate hikes on existing balances, double-cycle billing, and due-date gimmicks. It would also increase the advance notice of impending rate hikes, giving cardholders the

information and rights they need to make decisions about their financial lives.

The bill puts into law recently proposed Federal Reserve Board regulations and goes beyond that, outlawing credit cards to minors under age 18, banning credit card companies from imposing fees when customers pay their bill, and letting customers set a lower credit card limit.

- Our economic recovery depends on a shared prosperity--and we must put an end to these abusive practices that continue to drive so many Americans deeper and deeper into debt.
- Because it is time for common sense regulations of the financial services industries on behalf of American consumers, the bill is supported by consumer organizations (Consumers Union, Consumer Federation of America, Center for Responsible Lending, National Consumer Law Center, Consumer Action, National Community Reinvestment Coalition), civil rights groups (Leadership Conference on Civil Rights, National Council of La Raza, NAACP), public interest groups (Public Citizen, U.S. PIRG), and labor unions (AFL-CIO, SEIU) and National Small Business Association.

## **Summary of the Credit Cardholders' Bill of Rights**

*The "Credit Cardholders' Bill of Rights," provides crucial protections against unfair, but unfortunately common, credit card practices.*

### **Ends Unfair, Arbitrary Interest Rate Increases**

- Prevents card companies from unfairly increasing interest rates on existing card balances – retroactive increases are permitted only if a cardholder is more than 30 days late, if a promotional rate expires, if the rate adjusts as part of a variable rate, or if the cardholder fails to comply with a workout agreement.
- Requires card companies to give 45 days notice of *all* interest rate increases or significant contract changes (e.g. fees) .

### **Lets Consumers Set Hard Credit Limits, Stops Excessive "Over-the-Limit" Fees**

- Requires companies to let consumers set their own fixed credit limit that cannot be exceeded.
- Prevents companies from charging "over-the-limit" fees when a cardholder has set a limit, or when a preauthorized credit "hold" pushes a consumer over their limit.
- Limits (to 3) the number of over-the-limit fees companies can charge for the same transaction – some issuers now charge virtually unlimited fees for a single violation.

### **Ends Unfair Penalties for Cardholders Who Pay on Time**

- Ends unfair "double cycle" billing – card companies couldn't charge interest on debt consumers have already paid on time.

- If a cardholder pays on time and in full, the bill prevents card companies from piling additional fees on balances consisting solely of left-over interest.
- Prohibits card companies from charging a fee when customers pay their bill.

#### **Requires Fair Allocation of Consumer Payments**

- Many companies credit payments to a cardholder's lowest interest rate balances first, making it impossible for the consumer to pay off high-rate debt. The bill bans this practice, requiring payments made in excess of the minimum to be allocated proportionally or to the balance with the highest interest rate.

#### **Protects Cardholders from Due Date Gimmicks**

- Requires card companies to mail billing statements 21 calendar days before the due date (up from the current 14 days), and to credit as "on time" payments made before 5 p.m. local time on the due date.
- Extends due date to next business day for mailed payments when the due date falls on a day a card company does not accept or receive mail (i.e. Sundays and holidays).

#### **Prevents Companies from Using Misleading Terms and Damaging Consumers'**

##### **Credit Ratings**

- Establishes standard definitions of terms like "fixed rate" and "prime rate" so companies can't mislead or deceive consumers in marketing and advertising.
- Gives consumers who are pre-approved for a card the right to reject that card prior to activation without negatively affecting their credit scores.

#### **Protects Vulnerable Consumers From High-Fee Subprime Credit Cards**

- Prohibits issuers of subprime cards (where total yearly fixed fees exceed 25 percent of the credit limit) from charging those fees to the card itself. These cards are generally targeted to low-income consumers with weak credit histories.

#### **Bars Issuing Credit Cards to Vulnerable Minors**

- Prohibits card companies from knowingly issuing cards to individuals under 18 who are not emancipated.

#### **Requires Better Data Collection from Credit Card Industry**

- Requires reports to Congress by the Federal Reserve on credit card industry practices to enhance congressional oversight.

#### **Swift Implementation of 45-Day Notice Requirement**

- Requires card companies to send out 45-day notice of interest rate increases 90-days after the bill is signed into law; the remainder of the bill takes effect 12 months after enactment.