February 12, 2009

The Honorable Christopher Dodd
Chairman, Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Dodd:

We the undersigned consumer, civil rights and labor organizations offer our strong support for the Credit Card Accountability, Responsibility and Reform Act. 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 make it difficult if not impossible to manage their household incomes, 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 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. 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 because of a late payment or over-limit transactions 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 without 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 will go far in restoring fairness to the credit card marketplace and eliminate the most abusive practices burdening cardholders today. We applaud your leadership and look forward to working with you to see the Credit CARD Act enacted into law.

Sincerely,

Center for Responsible Lending
Connecticut Public Interest Research Group
Consumer Action
Consumers Union
Leadership Conference on Civil Rights
National Association of Consumer Advocates
National Council of LaRaza
Service Employees International Union

Connecticut Association for Human Services
Connecticut Voices for Children
Consumer Federation of America
Demos: A Network for Ideas & Action
NAACP
National Consumer Law Center,
on behalf of its low-income clients
U.S. Public Interest Research Group