March 13, 2008

The Honorable Carolyn Maloney
Chairwoman
Financial Institutions and Consumer
Credit Subcommittee
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Barney Frank
Chairman
Financial Services Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Frank and Chairwoman Maloney:

We offer our strong support for H.R. 5244, the Credit Cardholders' Bill of Rights Act. H.R. 5244 rests on the basic rules of fair dealing that Americans expect everyone to play by. It curbs some of the most arbitrary, abusive, and unfair credit card lending practices that trap consumers in an unending cycle of costly debt. These tricks and traps have always been unfair, but now, at a time when consumers can least afford it, these practices produce devastating financial repercussions. Working families are particularly hard hit, paying more each year in unreasonable fees and credit card interest. Signs that credit card defaults may be on the rise strongly suggest that the cumulative burdens of these abuses cannot be sustained. The sub-prime meltdown demonstrates the importance of ending abusive lending practices when warning signs arise. Congress should take steps now to rein in these practices to forestall an even greater economic crisis.

Among the key improvements made by the "Credit Cardholders' Bill of Rights Act" that help restore fairness to the credit card marketplace are provisions:

Ending Bait & Switch Contract Clauses

Many credit card companies reserve the right to change the terms of their credit card contract at any time and for any, *or no*, reason. This allows credit card companies to arbitrarily raise interest rates even for card holders in good standing and with perfect credit histories. Media reports of recent rate hikes by Bank of America demonstrate the unfairness of any-time/any-reason changes: some consumers saw their interest rates triple without explanation. The result of these unfair clauses is that no consumer can ever depend on the interest rate promised to them. H.R. 5244 merely invokes the basic tenet of fair dealing by prohibiting credit card companies from changing the rules in the middle of the game. Instead, they must disclose, up front, the specific reasons for which they will unilaterally change contract terms.

Prohibiting Unfair & Hidden Interest Rate Charges on Balances Repaid During the Grace Period

H.R. 5244 prohibits credit card companies from charging interest on balances repaid during the grace period—so-called double-cycle billing. That practice allows credit card issuers to sap unwarranted finance charges from the wallets of consumers who usually do not carry balances. Although some credit card issuers have disavowed this practice, some still engage in it. This legislation makes clear that a grace period is a grace period.

Preventing Credit Card Companies from Gaming Consumer Payments

H.R. 5244 prevents card companies from playing costly games with consumer payments by requiring them to apply payments proportionately to card balances with different interest rates. When consumers accept card offers for short-term teaser rates for balance transfers and cash advances and higher rates for other balances, credit card companies apply payments *first* to the lower-rate balance, preventing consumers from paying off higher interest balances and imposing unwarranted and costly finance charges. Issuers refuse to apply *any* portion of a consumer's payment to the higher interest rate balance, preventing consumers from paying down *any* portion of the high-cost balance until the lower interest rate balance is repaid. As a result, balances build up at the much costlier rate and finance charges accrue. H.R. 5244 restores an element of fairness by requiring at least proportional allocation of payments.

Limiting Retroactive Application of Rate Hikes for Consumers in Good Standing

H.R. 5244 prohibits card issuers from applying rate hikes retroactively to prior balances borrowed at a lower rate when that increase resulted from unrelated credit information, such as a drop in a consumer's credit score—known as universal default. While consumers with a perfect payment history with their credit card company are understandably outraged when their interest rate rises for these reasons, the devastating consequences of retroactive application of these increases is equally egregious. The consequences can be devastating: minimum monthly payments will rise, sometimes dramatically; the time to pay-off the balance increases, sometimes by many years; and the total cost of the debt skyrockets. H.R. 5244 limits these impacts by prohibiting retroactive application of universal default rate hikes.

Ending Unfair Late Fees for On-Time Payments

H.R. 5244 ends the classic late-fee gotcha. Consumers who mail their payments well in advance are often socked with a late fee of up to $40 because of card companies' own processing delays or arbitrary deadlines. The abuse has been exacerbated as credit card companies have shortened the time period in which consumers can make an on-time payment. Other consumers make electronic payments on the due-date, only to be hit with a late fee because they posted their payment five minutes after the issuer's arbitrary deadline on that day. 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 of no earlier than 5 p.m. Eastern 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.

We appreciate and applaud your leadership in proposing, and working toward adoption of, this important and common sense legislation that represents a strong step forward by targeting the most indefensible abuses. Additional provisions that would enhance consumer protection not yet addressed by the bill include: a ban on universal default rate hikes; 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; and protections against low-credit, high-fee cards.

We look forward to working with you toward final passage of this important legislation.

Sincerely,

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