March 12, 2008

The Honorable Robert Menendez
United States Senate
Washington, DC 20510

Dear Senator Menendez:

The undersigned consumer, civil rights and labor organizations write to commend you for introducing the Credit Card Reform Act of 2008. **As the U.S. economy balances precariously on the brink of recession, this important legislation will protect financially vulnerable families from many harmful practices that credit card companies use to unjustifiably increase fees and interest rates.**

Undisputed evidence links the rise in bankruptcy in recent years to the increase in consumer credit outstanding. These numbers have moved in lockstep for more than 20 years. For example, revolving credit (most of which is credit card debt) ballooned from $214 billion in January 1990 to $943.5 billion currently. As family debt increases, debt service payments on items such as interest and late fees take an ever-increasing piece of their budget. For some families this contributes to the collapse of their budget, especially if they experience an unexpected financial calamity, like the loss of a job.

Aggressive and even reckless lending by credit card companies has fueled this rise in credit card debt to record levels. Credit card solicitations have increased five-fold since 1990. Card issuers often aggressively market credit cards to college students. 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. 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 remained stagnant while the cost of necessities like housing, education, gasoline, and health care have risen sharply.

An estimated 50 million households do not pay their credit card bills in full every month. The average amount of debt held by these households is over $17,000. Many card issuers employ predatory tactics targeted at these "revolvers," such as retroactively applying high interest rate increases to borrowers whose credit scores decline because of a single late payment to another creditor, a practice known as universal default. Federal legislation is needed to protect consumers from these types of abuses.

The Financial Consumer Protection Act of 2008 would target a number of the most abusive practices used by credit card issuers:

- **Aggressive marketing to young consumers**. Consumers under the age of 21 would be allowed to choose whether to receive credit card solicitations. Card issuers could only solicit young consumers if they receive affirmative consent in advance.
- **Retroactive interest charges**. Card issuers could not use the widespread practice of charging higher interest rates on balances incurred before a rate increase went into effect.
- **Unilateral changes in terms**. Credit card issuers could not alter credit card agreements while they are in force without specific written consent from the cardholder. This will stop issuers from giving themselves the right in cardholder agreements to increase interest rates and fees "at any time, for any reason."
- **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 regularly approach $40). The bill would require that penalty fees be reasonably related to the costs that credit card issuers incur because of a late or over-limit transgression.
- **Universal default**. Credit card issuers could not increase a cardholder's interest rate based on adverse information relating to other creditors they find on the consumer's credit report.
- **Unjustified interest rate hikes**. Card issuers would be required to limit "penalty" interest rate increases to 7 percent above the previous rate if a consumer fails, for instance, to make a payment on time.
- **Unwarranted late fees.** The Act would prohibit late fees on payments that have been postmarked by a designated date.
- **Reckless lending**. The bill prevents issuers from offering credit or raising credit limits to consumers unless they determine that the consumer will actually be able to make the scheduled payments based on their current income, obligations, and employment status.
- **Deceptive offers of credit**. The bill requires lenders to make a firm offer of credit that includes specific -- not deceptively low -- terms, including the interest rate, fees, and credit line.

We look forward to working with you to rein in credit card abuses. For more information, please contact Travis Plunkett at the Consumer Federation of America at 202-387-6121.

Sincerely,

Center for Responsible Lending
Consumer Action
Consumer Federation of America
Consumers Union
Demos: A Network for Ideas & Action
National Association of Consumer Advocates
National Consumer Law Center, on behalf of its low-income clients
National Council of LaRaza
New Jersey Public Interest Research Group
Service Employees International Union
U.S. Public Interest Research Group