

THE SODERQUIST CENTER

Credit Card Reforms Not Coming Soon Enough

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Fourteen of the nation's largest banks, including J.P. Morgan Chase, Bank of America, and Citigroup, account for 90 percent of the nation's credit card industry.

U.S. credit cardholders –meaning most of us- owe \$960 billion in credit card debt to issuing banks. For many cardholders their debt is financially crippling.

Undisciplined consumer spending causes much of the debt. Some of the growing credit card debt, however, results from legal but unethical practices by credit card issuers.

Policies in question

The following practices making paying off credit card debt difficult for many cardholders:

Banks offer introductory low interest rates of 12 percent or less to lure new credit cardholders. Within months banks raise new cardholders' interest rates to 17 percent or more. Banks apply the higher rates to cardholders' old debts and new debts. Cardholders receive little or no notice before rate increases. Confusing language in credit card agreements keep many new cardholders unaware that banks can raise interest rates for little or no reason.

Credit card agreements contain triggers letting banks raise interest rates to as high as 32 percent if cardholders pay late, regardless of the reasons for late payments. Banks make it more difficult to avoid late payments by constantly changing the due dates on monthly payments.

Banks further punish cardholders with penalty fees for late. Penalties for late payments rose by 160 percent between 1995 and 2005 to an average of \$36 for every late payment.

Double-cycle billing forces cardholders to pay interest on previously paid off debts. Assume a cardholder charges \$1,000 on a credit card. A month after charging the \$1,000, the cardholder pays \$750 on the debt and carries the remaining \$250 into the next month. Since the cardholder did not payoff the entire \$1,000 in the first billing cycle, the bank charges the debtor interest on \$1,000 in debt instead of the \$250 owed.

Convenience fees are the latest means devised by banks to get more money from credit cardholders. Some banks make it possible to pay credit card debts online or by telephone. Banks then charge cardholders a convenience fee of \$5 to \$15 for so doing.

Reforms on the way

Amassed high interest rates and fees keep some cardholders unendingly indebted to banks issuing credit cards.

For years, Congressional members heard angry complaints from cardholders about the banks' unethical practices. They promised legislative relief, but did nothing because of effective lobbying by the powerful banking industry.

After Congress approved billions in bailout funds for many banks guilty of unethical practices public anger intensified. Cardholders resented giving billions in tax money to the banks they believed abused them.

Responding to the anger and fear of loss of votes, in April 2009 Congress passed the Credit Card Accountability, Responsibility and Disclosure Act. The Act bans many of the abusive practices used by banks to squeeze more money out of cardholders.

The Act changes significantly credit card interest rates. It prevents banks from raising interest rates during the first year accounts are opened, unless cards carry variable interest rates. Interest rates cannot be raised without giving cardholders forty-five days notice before any raises. This gives cardholders time to opt out of cards rather than paying higher interest rates. Banks cannot raise interest rates on existing balances unless cardholders are two months late on required monthly minimum payments.

Banks cannot routinely change due dates on payments. Also, banks can no longer use the odious practice of double-cycle billing.

Unfortunately for cardholders, the Act does not become effective until February. Until the Act becomes effective banks remain determined to continue with the unethical practices that gave Congress an excuse to pass the Act. The continued squeezing of cardholders for profits until February 2009 invites more legislation. A move in Congress exists already to move the Act's effective date to December 2009.

The banks' continued unethical conduct raises the concern of whether banks will follow the Act in good faith when it becomes effective. The Act relies on the Federal Reserve passing new regulations to clarify some of the Act's terms. For example, the Act orders banks to charge debtors reasonable fees but does not define reasonable fees. The Act bans unfair and deceptive bank practices without defining unfair or deceptive. Some banks may try to take advantage of the Act's lack of precise terms.

If the Federal Reserve cannot define those terms in a manner that stops future unethical bank practices, more federal legislation may follow. The Obama administration and Congress look for reasons to interfere in business. Unethical bank practices make it easy for them to take action.

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